

# Marking the One-Year Anniversary Artisan Value Income Fund



Share Classes

Investor: APFWX | Advisor: APDWX

Managed by

Artisan Partners U.S. Value Team

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The Artisan Partners U.S. Value Team launched the Artisan Value Income Fund with a straight-forward goal: providing investors with a specific portfolio security yield outcome, while also providing equity-like upside with reduced volatility and downside risk mitigation relative to the broader US equity market. Our approach utilizes high degrees of freedom and a differentiated portfolio construction to manage a flexible portfolio.

We thought there was an opportunity for a creative approach to equity income investing that could provide an appealing yield to investors. In fact, the median equity income manager's average distribution yield is currently less than 2%. The equity income category<sup>1</sup> has been dominated by two types of offerings: 1) Dividend Growers—companies delivering on capital appreciation but not on yield, and 2) High-Yielders—blue-chip and stable-growth companies paying hefty dividends but offering subpar equity upside potential. We expect our portfolio will look different than our peers. This is by design. Using a differentiated portfolio construction and multi-asset class flexibility, we seek to achieve an attractive yield outcome and a better balance between income and capital appreciation.

*During Artisan Value Income Fund's first year, the portfolio current yield averaged 2X the average current yield for the stocks in the S&P 500® Index, and the portfolio generated 239bps of excess return with less volatility.<sup>2</sup>*

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## Differentiated Portfolio Construction

The portfolio is composed of five buckets: Core Value, Dividend Recovery, Dividend Growth, Bond Proxy, and Capital Structure. Weights of each bucket will vary across time based on the opportunity set.

		Examples
<p><b>Core Value</b> 20%–80%</p>	Investments consistent with the team's value investing approach, while also having an income component.	Comcast EOG Resources nVent Electric
<p><b>Dividened Recovery</b> 0%–20%</p>	Investments where the current yield does not reflect the future payout. Examples include situations where the dividend is temporarily suspended and the business is trading at a high "shadow yield" or the business is likely to institute a favorable dividend policy in the near future.	Airbus Compass Group Safran
<p><b>Dividend Growth</b> 0%–30%</p>	Investments where the dividend payout ratio is low, and company can, and likely will, grow the payout rapidly over a multi-year period.	Medtronic Otis Worldwide Visa
<p><b>Bond Proxy</b> 10%–40%</p>	Investments in businesses which have strong fundamentals, are less economically sensitive, and have steady dividend policies.	Heineken Holding OGE Energy Public Storage
<p><b>Capital Structure</b> 0%–20%</p>	Investments that comprise non-equity parts of the capital structure. Examples include preferred securities, convertibles, and bonds.	Air Lease Angi Group Cable One

Portfolio categorizations are at the team's discretion and securities and security classifications are subject to change.

The five buckets provide flexibility to take advantage of opportunities not available to more formulaic approaches to equity income investing. For example, if a company suspends its dividend, which may be prudent, investors who have rigid yield requirements may be forced to sell. Instead, we analyze the opportunity holistically, focusing on total return potential and the company's ability to reinstitute a dividend payout in the future when business conditions improve. These investments are held in our Dividend Recovery bucket. Likewise, rigid yield requirements may limit ownership of lower-yielding stocks of companies with strong fundamentals, whereas we are not limited by yield. That is, we can invest in low-yielding attractive sustainable growing businesses in our Dividend Growth bucket but still maintain our overall portfolio security yield target by investing in higher-yielding securities in other parts of the portfolio. Our Bond Proxy bucket serves as a store of value for cash accumulation, allowing the portfolio to be more fully invested over time. The Capital Structure bucket includes investments that comprise non-equity parts of the capital structure, which we will discuss further below. Any other investments are categorized in our Core Value bucket, which we expect to have the largest weighting over most time periods. These are names we believe have strong upside potential and exhibit our three margin of safety criteria (attractive business economics, sound

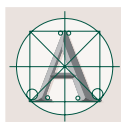
financial condition, attractive valuation), along with a dividend payout we feel is secure.

### Multi-Asset Class Flexibility

In contrast to many other dividend-oriented approaches, we have the flexibility to invest in various security types, including preferred securities; investment grade, high yield and convertible debt securities; and derivatives for covered call writing. Fewer than 4% of managers in the Lipper Equity Income category utilize the same multi-asset class flexibility—allocating to convertibles, preferreds and traditional bonds.<sup>3</sup> This flexibility enables us to take advantage of mispriced opportunities across the capital structure. An additional potential benefit is we can invest in low-yielding or non-yielding equities that have attractive business economics or valuations because we can supplement their low yields with higher yielding debt securities to pursue our portfolio security yield objective. We may also use derivatives, primarily covered calls to enhance overall income generation potential.

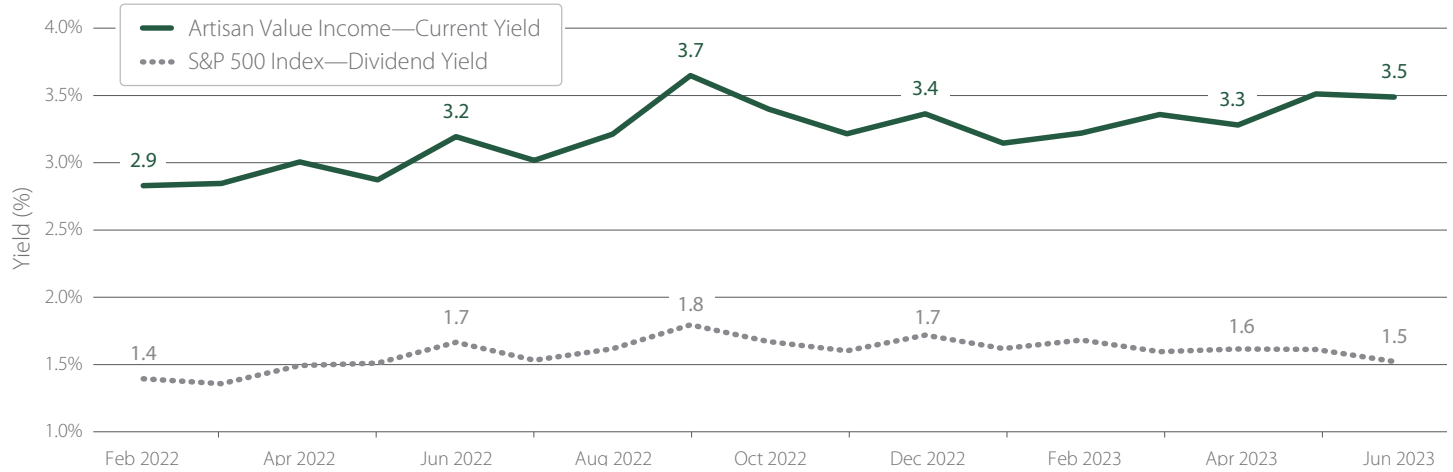
### Our "2X" Yield Outcome Strategy

We seek to generate a portfolio current yield that is greater than or equal to two times the average current yield for stocks in the S&P 500® Index.<sup>2</sup>



As shown in Exhibit 1, the current yield of the portfolio holdings averaged 2X that of the S&P 500 Index's dividend yield during the portfolio's first year, and this 2X relationship held fairly steady. The current yield includes the yield on the portfolio's fixed income securities in addition to the dividend yield on the equities.

**Exhibit 1: Yield Spread Since Inception—Artisan Value Income vs S&P 500**



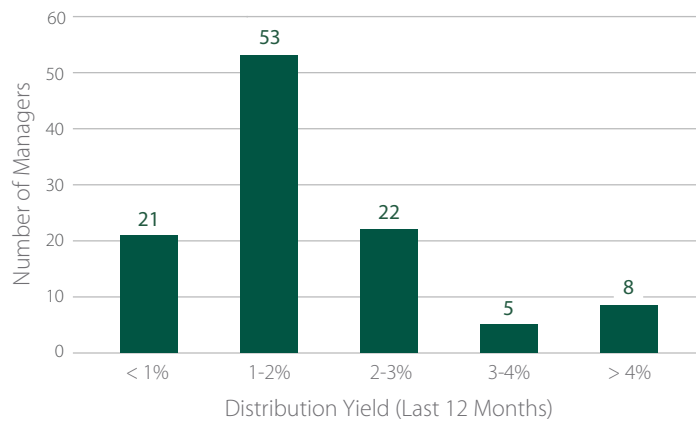
Source: Artisan Partners/S&P/FactSet. As of 1 July 2023. Past performance does not guarantee and is not a reliable indicator of future results. Current Yield illustrates the yield of the portfolio's securities by calculating the weighted average of its combined equity dividend yields and fixed income current yields (the security's coupon divided by its price), is not representative of actual income received from portfolio holdings (which may be higher or lower than the current yield) and will fluctuate as the portfolio changes over time.

We also aim to construct a portfolio of securities to produce a differentiated yield outcome relative to our peer group. Based on 12-month distribution yields, most peer equity income funds produced yields of 2% or less (Exhibit 2).

**Diversified Yield Generation**

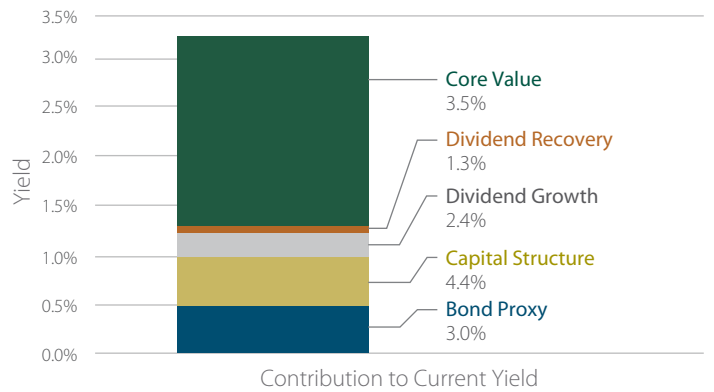
Yield generation is diversified across the five buckets and not reliant on a single category. Three of the five buckets have current yields north of 3% (Exhibit 3). The Capital Structure bucket, which includes our investments comprising fixed income securities has the highest current yield. Conversely, the Dividend Recovery bucket has the lowest current yield. Due to its larger weighting in the portfolio, the Core Value provides the largest contribution to current yield.

**Exhibit 2: Lipper Equity Income Category: Distribution Yield Breakdown**

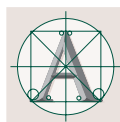


Source: Artisan Partners/Lipper/Simfund. As of 28 Feb 2023. Distribution Yield sums the trailing four-quarter's income distributions from a fund and divides by the last month's ending Net Asset Value (NAV), excluding any capital gains distributed. For illustrative purposes only against a comparable peer group.

**Exhibit 3: Yield Contribution by Bucket**



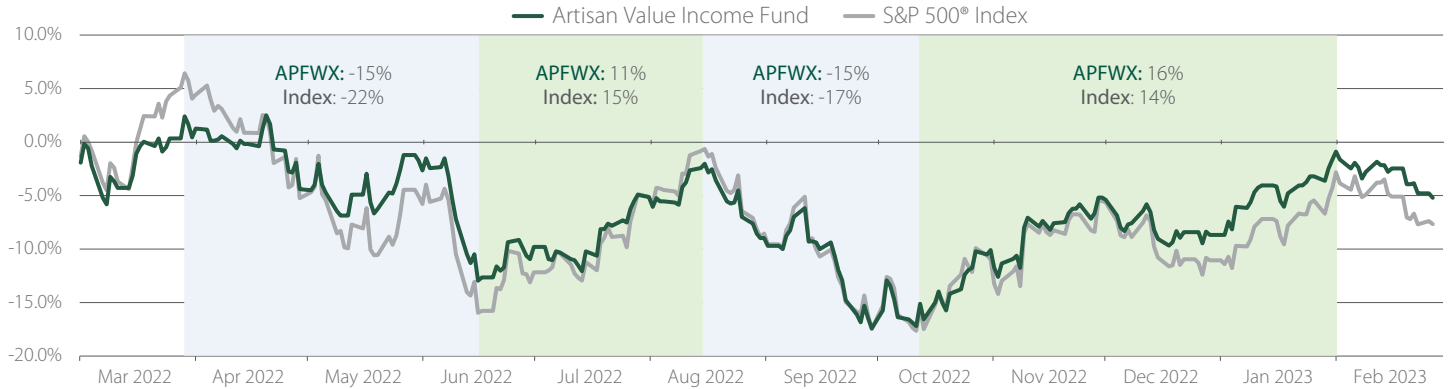
Source: Artisan Partners/FactSet. As of 28 Feb 2023. The legend shows the weighted average current yield of each bucket. Current Yield illustrates the yield of the portfolio's securities by calculating the weighted average of its combined equity dividend yields and fixed income current yields (the security's coupon divided by its price), is not representative of actual income received from portfolio holdings (which may be higher or lower than the current yield), and will fluctuate as the portfolio changes over time.



## Defensive Performance Patterns

While the track record is only one year, it was a unique year that we believe showcased the portfolio's flexibility and strengths in various environments. As shown in Exhibit 4, between rallies, the US equity market experienced two major drawdowns: 1) April to mid-June, and 2) mid-August to mid-October. During these two drawdowns, the portfolio outperformed the S&P 500® while portfolio holdings consistently offered a current yield premium over the S&P 500® Index's dividend yield. The portfolio also participated well in up markets, a feature that often does not occur with high-dividend-focused portfolios.

Exhibit 4: Cumulative Returns (Since Inception)



Source: Artisan Partners/S&P/FactSet. As of 28 Feb 2023. Past performance does not guarantee and is not a reliable indicator of future results.

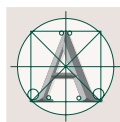
**29 Mar 2022–16 Jun 2022** The S&P fell -22% vs. -15% for Value Income. The highest inflation in four decades led to aggressive monetary tightening. In addition to ongoing supply chain disruptions, the war in Europe drove higher energy and food costs, and the persistence of China's zero-COVID policy worsened supply issues. Capital Structure positions were down only ~7% in the period, serving as a nice buffer. Our Bond Proxy positions fell ~14%, providing additional volatility dampening.

**16 Jun 2022–16 Aug 2022** The S&P rallied 15% vs. 11% for Value Income. US stocks rallied on better-than-feared earnings, strong top-line growth aided by price increases, and hopes of a Federal Reserve pivot due to peak inflation. Our Dividend Recovery and Bond Proxy positions led, each up about 17%. Our Capital Structure positions trailed, up about 8%.

**16 Aug 2022–12 Oct 2022** The S&P fell -17% vs. -15% for Value Income. The bear market resumed due to bond market volatility as it became evident the Fed had more work to do given tight labor markets and strong wage growth. Our Core Value, Capital Structure, and Bond Proxy positions held up best.

**Oct 2022–2 Feb 2023** The S&P rallied 14% vs. 16% for Value Income. Accumulating data showing US inflation peaked, a resultant calmer US bond market and a moderation in the pace of Federal Reserve tightening as the Fed Funds rate neared its projected terminal rate buoyed investor sentiment. Our Dividend Recovery positions led the way with gains of 35%. Our Dividend Growth and Core Value positions also returned over 20%.

*The rotation of leadership across the five buckets in up and down markets in our first year was a theme that demonstrates the potential benefits of our differentiated portfolio construction and multi-asset class flexibility.*



## An Equity Income Alternative

The case for investing in dividend stocks is well known. Dividend income has contributed roughly 40% of the S&P 500® Index's total return since 1930. Dividend stocks have also historically provided attractive risk-adjusted returns, being less volatile and imperfectly correlated to the broader US equity market. However, when we designed our approach, we sought to create a real alternative to other dividend-oriented approaches, which we found were not offering both attractive yield and total return potential.

In contrast to other approaches focused on a subset of opportunities, our degrees of freedom—the flexibility to invest in multiple asset classes and across our five buckets—enable us to take advantage of a broader set of opportunities as they come and go across the span of time. When using an active approach in this space, we believe you want your manager to have the flexibility to take advantage of opportunities where they exist with the goal to deliver better income and total return outcomes over the long term.

For additional insights about our investment approach and the case for equity income investing, please see our prior insights piece [Artisan Value Income Fund: An Equity Income Alternative](#).



### Investment Results

(% as of 30 June 2023)	Average Annual Total Returns			Expense Ratios (% Gross/Net)*	30-Day SEC Yield (%)*
	QTD	1 Yr	Inception		
<b>Investor Class: APFWX</b>	<b>2.58</b>	<b>6.59</b>	<b>-3.76</b>	<b>13.46/1.20</b>	<b>-4.43/2.55</b>
<b>Advisor Class: APDWX</b>	<b>2.70</b>	<b>6.86</b>	<b>-3.64</b>	<b>9.98/1.10</b>	<b>-0.02/2.66</b>
S&P 500® Index	8.74	19.59	3.03		

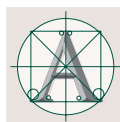
  

(% as of 31 March 2023)					
	QTD	1 Yr	Inception	Expense Ratios (% Gross/Net)*	30-Day SEC Yield (%)*
<b>Investor Class: APFWX</b>	<b>1.41</b>	<b>-7.57</b>	<b>-6.83</b>		
<b>Advisor Class: APDWX</b>	<b>1.42</b>	<b>-7.54</b>	<b>-6.78</b>		
S&P 500® Index	7.50	-7.73	-3.97		

Source: Artisan Partners/S&P. Returns for periods less than one year are not annualized. Class inception: Investor (28 February 2022); Advisor (28 February 2022).

**Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance.**

\*Prospectus 30 Sep 2022. Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2024. See prospectus for further details. \*Unsubsidized/subsidized.



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This material must be preceded or accompanied by a current Artisan Partners Funds prospectus. [View a prospectus or summary prospectus.](#)

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. There is no guarantee that the companies in which the portfolio invests will declare dividends in the future or that dividends, if declared, will remain at current levels or increase over time. The equity, fixed income and derivative security types referenced each contain inherent risks, including the risk of loss like all investments, and capital appreciation and income is not guaranteed. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging and less developed markets, including frontier markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Value securities may underperform other asset types during a given period.

This summary represents the views of the investment team as of 31 Mar 2023. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The discussion of portfolio holdings does not constitute a recommendation of any individual security. These holdings comprise the following percentages of the Fund's total net assets as of 30 June 2023: Comcast Corp 3.6%; EOG Resources Inc 2.5%; nVent Electric PLC 2.5%; Airbus SE 1.5%; Compass Group PLC 2.3%; Safran SA 1.7%; Medtronic PLC 2.8%; Otis Worldwide Corp 2.5%; Visa Inc 2.0%; Heineken Holding NV 2.8%; OGE Energy Corp 2.1%; Public Storage 2.2%; Air Lease Corp 1.4%; Angi Group LLC 1.4%; Cable One Inc 1.1%. The portfolio managers' views and portfolio holdings are subject to change and the Fund disclaims any obligation to advise investors of such changes.

<sup>1</sup>Based on Refinitiv Lipper Equity Income category, which is defined as funds that seek relatively high current income and growth of income through investing 65% or more of their portfolio in equities.

<sup>2</sup>Under normal circumstances, the investment team seeks to generate a portfolio current yield that is greater than or equal to two times the average current yield for stocks in the S&P 500<sup>®</sup> Index, although the portfolio current yield may be less than two times the average current yield for stocks in the S&P 500<sup>®</sup> Index at any given time.

<sup>3</sup>Artisan Value Income Fund is categorized in the Lipper Multi-Cap Value category.

**Correlation** is a statistical measure of how two securities move in relation to each other. A perfect positive correlation is represented by the value +1.00, while 0.00 indicates no correlation and -1.00 indicates a perfect negative correlation. **Standard Deviation** defines how widely returns varied from an average over a given period of time. Higher deviation represents higher volatility. **Current Yield** illustrates the yield of the portfolio's securities by calculating the weighted average of its combined equity dividend yields and fixed income current yields (the security's coupon divided by its price), is not representative of actual income received from portfolio holdings (which may be higher or lower than the current yield), and will fluctuate as the portfolio changes over time. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. **Active Share** is the percentage of a portfolio that differs from its benchmark. Active Share can range from 0% for an index fund to 100% for a portfolio with no overlap with an index. **Upside/Downside Capture** measures a manager's ability to generate excess returns above the benchmark when it's positive—upside greater than 100—and come down less than the benchmark when it's negative—downside less than 100. **Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value.

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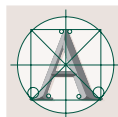
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