



# Artisan High Income Fund

MONTHLY  
Commentary

Investor Class: ARTFX | Advisor Class: APDFX As of 31 March 2019

## Commentary

The year-to-date rally in credit continued through March to mark the strongest quarterly stretch for high yield markets since 1992. Credit markets continued to be aided by the rapid improvement in risk sentiment amid the Fed's dovish pivot and reflating equity markets. High yield bonds (as measured by the ICE BofAML US High Yield Index) returned 1.0% in March to push year-to-date returns to 7.4%. Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) declined 0.2% to finish the quarter at 3.9%. Loan returns continue to struggle under the weight of steady outflows as the Fed's more dovish outlook has limited the asset class's return expectations. During the month, our portfolio lagged the ICE BofAML US High Yield Index, with relative returns hurt by our strategic allocation to leveraged loans and weakness in select energy holdings.

High yield risk premiums were rangebound for much of March before ending 16bps wider at 415bps. Leveraged loans followed a similar path, widening 25bps to finish at 474bps. Year to date, bond spreads have recaptured close to 60% of the spread-widening that has occurred since touching cyclical lows in October 2018. Bond and loan yields were largely unchanged, finishing at 6.6% and 7.0%, respectively.

There continues to be notable divergence between overall risk appetite and investors' willingness to reach for yield. Despite the more favorable backdrop for risk assets, higher rated credit outperformed lower rated, indicating investors have become more discerning of riskier, beta-driven credits. Overall, BBs—helped by a rally in rates—led with gains of 5.5%, comfortably outpacing Bs (0.8%) and CCCs (0.0%). Among sectors, the transportation (3.1%), real estate (1.8%) and utilities (1.6%) sectors were the month's best performers, while autos (0.0%), media (0.0%) and telecom (0.0%) were the weakest.

Default activity was mixed in March, with volume declining materially month over month but the number of companies defaulting increasing. In total, there were five defaults equaling \$2.5 billion in bonds and loans. Nonetheless, the 12-month par-weighted default rate decreased to 0.9%—the lowest level since March 2014. Default activity is expected to trend well below 2.0% for the remainder of 2019.

This month marks the five-year anniversary of the Artisan High Income Fund, and we are pleased to have outperformed the ICE BofAML US High Yield Index and the Morningstar High Yield Bond Category. Since its launch on March 19, 2014, the Artisan High Income Fund (ARTFX) is among the best-performing funds in its peer group, ranking in the first percentile out of 518 within the Morningstar High Yield Bond Category\*. Importantly, these returns have been generated with an emphasis toward capital protection, resulting in a lower volatility profile, as measured by standard deviation, than the benchmark and the peer group average.

## Investment Results (%)

As of 31 March 2019	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	0.24	6.46	6.46	4.28	8.84	6.07	—	6.05
Advisor Class: APDFX	0.25	6.50	6.50	4.57	9.07	6.24	—	6.22
ICE BofAML US High Yield Master II Index	0.98	7.40	7.40	5.94	8.69	4.70	—	4.72

Source: Artisan Partners/ICE BofA Merrill Lynch. Returns for periods less than one year are not annualized.

\*Morningstar rankings are based on total return, are historical and do not represent future results. Artisan High Income Fund (ARTFX) is ranked 59th or 401 out of 700 funds for 1-Yr, ranked 1st or 3 out of 519 funds for 5-Yr and 1st or 3 out of 518 funds since inception in the Morningstar High Yield Bond category for the period ended 31 March 2019. Investor Class represents the oldest share class in the Fund and generally has higher expenses and lower minimum investments. The category may include several share classes of the same mutual fund which may have a material impact on the fund's ranking.

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. The performance information shown does not reflect the deduction of a 2% redemption fee on shares held by an investor for 90 days or less and, if reflected, the fee would reduce the performance quoted. Unlike the Index, the High Income Fund may hold loans and other security types. At times, this causes material differences in relative performance.

Portfolio Details	ARTFX	APDFX
Net Asset Value (NAV)	\$9.59	\$9.59
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	6.54%	6.68%
Expense Ratios		
Annual Report 30 Sep 2018	0.99%	0.82%
Prospectus 30 Sep 2018 <sup>1</sup>	1.00%	0.83%

<sup>1</sup>See prospectus for further details.

Portfolio Statistics	Fund
Number of Holdings	133
Number of Issuers	86

Source: Artisan Partners.

## Top 10 Holdings (% of total portfolio)

General Electric Co	5.7
Charter Communications Inc	4.9
Vertafore	3.4
Ferrellgas LP	2.8
T-Mobile USA Inc	2.3
Seven Generations Energy Ltd	2.1
Acrisure LLC	2.1
Realogy Group LLC	2.1
VEREIT Inc	2.1
NFP Corp	2.1
<b>TOTAL</b>	<b>29.6%</b>

Source: Artisan Partners/Bloomberg. For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the portfolio.

## Portfolio Composition (% of total portfolio)

Corporate Bonds	73.2
Bank Loans	22.5
Equities	0.1
Cash and Cash Equivalents	4.2
<b>TOTAL</b>	<b>100.0%</b>

Source: Artisan Partners/Bloomberg. Negative cash weightings and portfolio composition greater than 100% may be due to unsettled transactions or investment in derivative instruments. Treasury futures represented net notional exposure of -5.82% of net assets.

## Ratings Distribution (%)

A	1.3
BBB	10.2
BB	20.3
B	44.3
CCC	22.6
CC	1.3
<b>TOTAL</b>	<b>100.0%</b>

Source: S&P/Moody's.

## Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	10.9
3 - <5 years	21.4
5 - <7 years	37.1
7 - <10 years	22.3
10+ years	8.3
<b>TOTAL</b>	<b>100.0%</b>

Source: Artisan Partners/Bloomberg. Percentages shown are of total fixed income securities in the portfolio.

## Portfolio Construction

The team generally determines the amount of assets invested in each issuer based on conviction, valuation and availability of supply. Based on the team's analysis it divides the portfolio into three parts. Core investments are generally positions with stable to improving credit profiles and lower loan to value ratios. Spread investments are those where the team has an out-of-consensus view about a company's credit improvement potential. Opportunistic investments are driven by market dislocations that have created a unique investment opportunity. Allocations to each group will vary over time based on market conditions.

## Team Leadership



Portfolio Manager	Years of Investment Experience
Bryan C. Krug, CFA	18

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.

Fixed income securities carry interest rate risk and credit risk for both the issuer and counterparty and investors may lose principal value. In general, when interest rates rise, fixed income values fall. High income securities (junk bonds) are speculative, experience greater price volatility and have a higher degree of credit and liquidity risk than bonds with a higher credit rating. The portfolio typically invests a significant portion of its assets in lower-rated high income securities (e.g., CCC). Loans carry risks including insolvency of the borrower, lending bank or other intermediary. Loans may be secured, unsecured, or not fully collateralized, trade infrequently, experience delayed settlement, and be subject to resale restrictions. Private placement and restricted securities may not be easily sold due to resale restrictions and are more difficult to value. The use of derivatives in a portfolio may create investment leverage and increase the likelihood of volatility and risk of loss in excess of the amount invested. 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 markets.

ICE BofAML US High Yield Master II Index measures the performance of below investment grade \$US-denominated corporate bonds publicly issued in the US market. J.P. Morgan Leveraged Loan Index is designed to mirror the investable universe of the USD-denominated institutional leveraged loan market. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

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. Securities named in the Commentary, but not listed as a Top Ten Holding or not listed here are not held in the Fund as of the date of this report. The portfolio managers' views and portfolio holdings are subject to change and the Fund disclaims any obligation to advise investors of such changes.

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**30-Day SEC Yield** is based on a formula specified by the SEC that calculates a fund's hypothetical annualized income, as a percentage of its assets. This hypothetical yield will differ from the fund's actual experience and as a result, income distributions from the fund may be higher or lower. **Credit Quality** ratings are from S&P and/or Moody's. Ratings typically range from AAA (highest) to D (lowest) and are subject to change. The ratings apply to underlying holdings of the portfolio and not the portfolio itself. If securities are rated by both agencies, the higher rating was used. Securities not rated by S&P or Moody's are categorized as Unrated/Not Rated. **Maturity Distribution** represents the weighted average of the maturity dates of the securities held in the portfolio. **Spread** is the difference in yield between two bonds of similar maturity but different credit quality. **Beta** is a measure of the volatility of a security or a portfolio in comparison to the market as a whole. **Standard Deviation** defines how widely returns varied from an average over a given period of time. Higher deviation represents higher volatility. **Par-weighted Default Rate** represents the total dollar volume of defaulted securities compared to the total face amount of securities outstanding that could have defaulted.

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