



# Artisan High Income Fund

MONTHLY  
Commentary

Investor Class: ARTFX | Advisor Class: APDFX As of 30 September 2020

## Commentary

The recovery in credit markets paused in September as weaker-than-expected global economic data and the reduced likelihood of additional US fiscal stimulus weighed on risk sentiment. High yield bonds declined 1.0% (as measured by the ICE BofA US High Yield Index) to push returns back into negative territory for the year. Leveraged loans were able to produce a 0.6% gain in September (as measured by the JPMorgan Leveraged Loan Index), despite losses in high yield bonds and equities. Technicals for the asset class have improved with slowing outflows and higher CLO origination, while valuations relative to bonds have become more balanced. Year to date, loan returns (-0.6%) modestly trail high yield bonds (-0.3%).

Our portfolio held up better than ICE BofA US High Yield Index during the period's selling, extending our YTD relative return advantage. Contributing to outperformance was the portfolio's strategic allocation to bank loans—which produced positive returns in September—as was ongoing deflation among the portfolio's collection of lower rated recovery stories. Additionally, the underweight to increasingly call-constrained BB-rated bonds has been a source of relative strength.

High yield spreads briefly fell below 500bps early in the month before heightened equities volatility and heavy new supply pushed spreads near 550bps to finish the month. Despite the risk-off tone, lower rated segments produced positive returns while higher rated segments declined, continuing a theme of lower rated outperformance that began in early August. In all, BBs returned -1.4% while CCCs gained 0.6%. Across industries, returns were particularly mixed. Among outperforming segments were leisure (1.5%), publishing (1.4%) and aerospace (1.1%), while recovery-reliant industries like energy (-4.3%) and entertainment (-4.9%) were the clear laggards.

Default activity continued to slow from the first half of the year's torrid pace, with two companies defaulting on a total of \$2.9 billion in bonds and loans in September. Still, the total dollar value of defaults and distressed exchanged for the first nine months of the year totals \$123 billion, ranking second only to 2009. The par-weighted high yield default rate was largely unchanged at 5.8%—up more than 300bps from its level to start the year. Energy has accounted for a disproportionate share of the defaults, accounting for roughly a third of the year's total default transactions. When excluding the effects of energy, the high yield default rate is a more modest—but above average—3.8%.

We remain committed to our strategy of searching for issuers with high quality business models that offer compelling risk-adjusted returns. As always, we will look to take advantage of market dislocations, focusing on idiosyncratic and catalyst-driven opportunities, believing this high conviction approach will be rewarded over a long-term investment horizon.

## Investment Results (%)

As of 30 September 2020	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	-0.13	5.56	2.04	5.14	4.87	7.18	—	6.06
Advisor Class: APDFX	-0.12	5.70	2.23	5.29	5.03	7.36	—	6.22
ICE BofA US High Yield Master II Index	-1.04	4.71	-0.30	2.30	3.83	6.61	—	4.58

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

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)	\$9.53	\$9.53
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	5.48%	5.63%
Expense Ratios		
Semi-Annual Report 31 Mar 2020 <sup>1,2</sup>	0.99%	0.83%
Prospectus 30 Sep 2019 <sup>3</sup>	0.99%	0.84%

<sup>1</sup>Unaudited, annualized for the six-month period. <sup>2</sup>Excludes Acquired Fund Fees & Expenses as described in the prospectus. <sup>3</sup>See prospectus for further details.

## Portfolio Statistics

Number of Holdings	179
Number of Issuers	108

Source: Artisan Partners.

## Top 10 Holdings (% of total portfolio)

General Electric Co	5.9
Carnival Corp	3.4
NFP Corp	3.3
Acrisure LLC	2.9
Surgery Center Holdings Inc	2.9
TKC Holdings Inc	2.8
Realogy Group LLC	2.8
VistaJet Ltd	2.6
Comstock Resources Inc	2.6
Nordstrom Inc	2.2
<b>TOTAL</b>	<b>31.4%</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	77.6
Bank Loans	21.4
Equities	0.0
Cash and Cash Equivalents	1.0
<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 -6.18% of net assets.

## Ratings Distribution (%)

BBB	17.8
BB	14.9
B	39.3
CCC	23.5
CC	1.2
D	0.5
Unrated	2.8
<b>TOTAL</b>	<b>100.0%</b>

Source: S&P/Moody's.

## Maturity Distribution (%)

< 1 year	1.7
1 - <3 years	8.8
3 - <5 years	28.4
5 - <7 years	34.3
7 - <10 years	16.9
10+ years	9.9
<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

Bryan C. Krug, CFA

Years of Investment Experience

20

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. 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 BofA 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. S&P 500® Index measures the performance of 500 US companies focused on the large-cap sector of the 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. **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. **Collateralized Loan Obligation (CLO)** is a security backed by a pool of debt.

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