



Artisan High Income Fund

MONTHLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 31 January 2022

Commentary

Volatility returned to markets in January as uncertainty related to the Fed's future policy path led to drawdowns across most risk assets. Compared to equities, the risk-off tone was relatively muted in credit markets, as investors preferred to look through the noise to focus on the continued strength of issuer fundamentals. Still, high yield bonds (as measured by the ICE BofA US High Yield Index) fell 2.8% for the worst opening month in the index's 35-year history. With the pickup in interest rate volatility, five-year Treasury yields moved back to pre-COVID levels, meaning high yield losses were most acute among higher rated and duration-sensitive segments. Across the capital structure, leveraged loans showed notable resilience, outperforming all other fixed income segments. The asset class gained 0.4% (as measured by the Credit Suisse Leveraged Loan Index) as rising rates drove record retail flows into floating-rate products—a trend that is likely to persist as interest rates move higher.

Our portfolio traded lower alongside other risk assets, but it held up well throughout the volatility and materially outpaced the ICE BofA US High Yield Index for the month. Our leveraged loan stake was the biggest contributor to excess returns, acting as ballast amid the volatility. Similarly, our material underweight to rate-sensitive BB-rated bonds in favor of more credit-sensitive risk also contributed to relative returns.

Credit valuations modestly cheapened during the month—spreads increased 50bps to 382bps while yields moved 100bps higher to 5.1%. Across the quality spectrum, down in quality outperformed—CCCs returned -1.9%, followed by Bs (-2.2%) and BBs (-3.3%).

Default activity remained quiet with no defaults, keeping the high yield default rate pinned at 0.3%. Notably, despite the volatility across risk markets, the number of distressed candidates in the markets is largely unchanged from a month ago. Moving forward, we expect improving credit fundamentals and wide-open capital markets should keep defaults well below average for the near future.

As we look ahead, we expect valuation constraints and an environment of changing regimes—on both the monetary and volatility fronts—will lead to incrementally more price dispersion across industries and capital structures. We welcome the reemergence of volatility and look forward to being a liquidity provider during these periods of uncertainty.

Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	\$9.85	\$9.84
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	4.21%	4.37%
Expense Ratios		
Annual Report 30 Sep 2021	0.95%	0.79%
Prospectus 30 Sep 2021 ¹	0.96%	0.80%

¹See prospectus for further details.

Portfolio Statistics

Number of Holdings	208
Number of Issuers	130

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

Carnival Corp	3.5
Acrisure LLC	3.5
NFP Corp	3.3
Ultimate Software Group Inc	2.8
Medline Industries Inc	2.6
Altice USA Inc	2.4
TKC Holdings Inc	2.3
Nordstrom Inc	2.2
AssuredPartners Inc	2.2
Callon Petroleum Co	2.1
TOTAL	26.9%

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	59.7
Bank Loans	31.7
Equities	0.3
Cash and Cash Equivalents	8.3
TOTAL	100.0%

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 -1.28% of net assets.

Investment Results (%)

As of 31 January 2022	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	-0.86	-0.86	-0.86	4.49	8.07	6.80	—	6.69
Advisor Class: APDFX	-0.95	-0.95	-0.95	4.66	8.24	6.95	—	6.84
ICE BofA US High Yield Master II Index	-2.75	-2.75	-2.75	2.08	5.97	5.23	—	4.94
As of 31 December 2021								
Investor Class: ARTFX	1.42	0.49	6.10	6.10	9.98	7.32	—	6.88
Advisor Class: APDFX	1.44	0.63	6.29	6.29	10.15	7.49	—	7.05
ICE BofA US High Yield Master II Index	1.88	0.66	5.36	5.36	8.57	6.10	—	5.37

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.

Ratings Distribution (%)

BBB	3.0
BB	13.9
B	54.0
CCC	26.9
Unrated	2.2
TOTAL	100.0%

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 year	0.9
1 - <3 years	4.2
3 - <5 years	22.2
5 - <7 years	46.3
7 - <10 years	22.8
10+ years	3.6
TOTAL	100.0%

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

21

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. 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.

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