



# Artisan High Income Fund

MONTHLY  
Commentary

Investor Class: ARTFX | Advisor Class: APDFX As of 30 November 2022

## Commentary

The high yield rally that began in October continued its momentum in November, capping off the strongest two-month stretch of returns since 2020. The combination of better-than-expected inflation data and a series of dovish comments from Fed officials helped push risk assets higher. As a result, high yield bonds (as measured by the ICE BofA US High Yield Index) gained 1.9%, bringing YTD returns to -10.5%. The U-turn in investor sentiment led to a resurging retail bid that directed more than \$13 billion into high yield ETFs over the last two months. Additionally, the lack of new supply, with just \$9 billion in new issuance, also contributed to the rally. Returns across the capital structure were more muted, with leveraged loans gaining 1.1% (as measured by the Credit Suisse Leveraged Loan Index). Despite gains at the index level, lower quality borrowers were largely sidelined from the rally as lower rated loans posted negative returns for the third consecutive month.

Our portfolio underperformed the ICE BofA US High Yield Index during the month. Asset allocation decisions weighed on relative returns as the portfolio's leveraged loan allocation trailed the broader high yield index. Additionally, the portfolio's relative overweight to CCC-rated risk detracted from relative results during the quality-driven rally.

High yield bond spreads and yields both rallied, finishing at 468bps and 8.6%, respectively. Credit spreads now sit near the bottom of their six-month range and in line with 10-year averages. Still, lower rated segments have been mainly left behind throughout the two-month rally as growth concerns weigh on more leveraged structures. As a result, lower rated risk materially underperformed higher rated during the month. In all, BBs led with gains of 2.1%, followed by Bs (2.0%) and CCCs (0.1%).

November saw no new defaults for the second consecutive month, pushing the par-weighted default rate to 0.8%—levels well below long-term historical averages. While distress underneath the surface reflects building macro concerns, aggregate credit fundamentals continue to show resiliency, with the health of corporate borrowers at one of the best starting points in years heading into this period of uncertainty.

Looking to the year ahead, we expect many of the themes that drove markets in 2022 to continue into 2023. As investors jockey to price in risks from decelerating growth, volatility will likely remain a dominant feature of the market environment. We welcome volatility and will use dislocations to add risk in areas with supportive fundamentals. As always, we'll focus on attractive idiosyncratic and catalyst-driven opportunities, believing our high-conviction approach will be rewarded over the long term.

Portfolio Details	ARTFX	APDFX
Net Asset Value (NAV)	\$8.63	\$8.62
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	8.61%	8.81%
Expense Ratios		
Annual Report 30 Sep 2022	0.94%	0.79%
Prospectus 30 Sep 2021 <sup>1</sup>	0.96%	0.80%

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

## Portfolio Statistics

Number of Holdings	199
Number of Issuers	120

Source: Artisan Partners.

## Top 10 Holdings (% of total portfolio)

Acrisure LLC	4.0
Charter Communications Inc	3.8
NFP Corp	3.5
Carnival Corp	3.1
Altice France	3.1
Virgin Media Secured Finance PLC	2.9
Medline Industries Inc	2.8
NCL Corp Ltd	2.7
Altice USA Inc	2.4
The Ardonagh Group	2.4
<b>TOTAL</b>	<b>30.7%</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	77.9
Bank Loans	14.8
Equities	0.4
Cash and Cash Equivalents	6.9
<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 0.00% of net assets.

## Investment Results (%)

As of 30 November 2022	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	1.22	3.84	-8.03	-6.72	3.19	3.90	—	5.12
Advisor Class: APDFX	1.23	3.88	-8.01	-6.69	3.31	4.04	—	5.27
ICE BofA US High Yield Master II Index	1.87	4.77	-10.54	-8.86	0.71	2.33	—	3.46
As of 30 September 2022								
Investor Class: ARTFX	-3.76	-0.70	-11.43	-11.00	2.11	3.15	—	4.76
Advisor Class: APDFX	-3.88	-0.81	-11.44	-10.88	2.23	3.29	—	4.91
ICE BofA US High Yield Master II Index	-4.02	-0.68	-14.62	-14.06	-0.67	1.41	—	2.96

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	3.3
BB	19.0
B	50.0
CCC	24.9
Unrated	2.8
<b>TOTAL</b>	<b>100.0%</b>

Source: S&P/Moody's.

## Maturity Distribution (%)

< 1 year	0.0
1 - <3 years	7.5
3 - <5 years	22.3
5 - <7 years	49.2
7 - <10 years	18.8
10+ years	2.2
<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

22

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. 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. Use of derivatives may create investment leverage and increase the likelihood of volatility and involve risks different from, or greater than, the risks associated with investing in more traditional investments, including 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. Credit Suisse (CS) Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the US dollar-denominated leveraged loan market. New issues are added to the index on their effective date if they qualify according to the following criteria: loan facilities must be rated "BB" or lower; only fully funded term loan facilities are included; and issuers must be domiciled in developed countries. 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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