



# Artisan High Income Fund

## MONTHLY Commentary

Investor Class: ARTFX

Advisor Class: APDFX

As of 31 October 2023

### Commentary

Our portfolio outperformed the ICE BofA US High Yield Index in October, extending our lead over the benchmark YTD. Similar to September, our allocation to leveraged loans was a significant contributor to outperformance in a period of rising Treasury rates and wider spreads. In addition, in a month where the CCC market significantly underperformed the broader high yield index, our CCC allocation was a positive relative contributor, outperforming the high yield market. Our preference for full-cycle business models that are often misunderstood by rating agencies, such as the insurance brokerage sector, was the primary reason why our CCC allocation held strong in the face of spread widening.

High yield bonds, as measured by the ICE BofA US High Yield Index, lost 1.2% during the month as rising rates and widening spreads weighed on returns. A variety of factors including geopolitical tensions in the Middle East and continued Treasury market volatility contributed to the widening of spreads across all ratings categories. In a reversal of prior months, lower quality credit underperformed as CCCs lost 3.5% while BBs lost 0.7%. Despite this significant monthly underperformance, CCCs continued to outperform BBs by nearly 6% year to date. New issue volume moderated in October, pricing only \$9.4 billion with the bulk of new issuance geared toward refinancing.

Leveraged loans, as measured by the Credit Suisse Leveraged Loan Index, continued their outperformance versus bonds, with the index flat during the month (+3bps). Similar to high yield, loan spreads (discount margins) widened during the month with the index experiencing its first negative principal return since May. The bulk of loan outperformance over bonds was driven by the lack of interest rate duration for loans, as the 5-year Treasury rose roughly 25bps in October. New issuance continued to be strong, pricing over \$31 billion during the month, though the majority (\$23 billion) of issuance was refinancing related.

Default activity picked up across bonds and loans, with nine defaults/distressed exchanges occurring during the month totaling \$8.4 billion in par value. The par-weighted default rate for bonds and loans ended the month at 2.6% and 3.0% respectively. While this is an increase from the start of 2023, it remains in line with long-term averages across both markets. Meanwhile, the upgrade/downgrade skew continues to bias upgrades, registering over \$45 billion in total rising stars during the month, led by Ford's return to investment grade status with its upgrade by S&P. We believe this dynamic is a positive tailwind for the leveraged finance market, contributing toward excess demand versus supply dynamics and indicating that balance sheets on the whole are still recovering from COVID-19 disruptions.

While volatility picked up in October, leveraged finance markets remain resilient overall with generally strong buying demand at lower pricing levels by market participants. We remain focused on underwriting quality businesses with strong credit fundamentals. With increased volatility comes increased opportunity, as our high-conviction and flexible approach allows us to use growing dispersion to lean into attractively priced credits.

### Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	\$8.48	\$8.48
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	9.53%	9.71%
Expense Ratios		
Semi-Annual Report 31 Mar 2023 <sup>1</sup>	0.94%	0.79%
Prospectus 30 Sep 2022 <sup>2</sup>	0.95%	0.80%

<sup>1</sup>Unaudited, annualized for the six-month period. <sup>2</sup>See prospectus for further details.

### Portfolio Statistics

Number of Holdings	216
Number of Issuers	116

Source: Artisan Partners.

### Top 10 Holdings (% of total portfolio)

Charter Communications Inc	4.0
Carnival Corp	3.9
Acrisure LLC	3.5
NFP Corp	3.3
NCL Corp Ltd	3.2
Virgin Media Secured Finance PLC	2.7
Medline Industries Inc	2.7
Altice France	2.6
TKC Holdings Inc	2.6
The Ardonagh Group	2.1
<b>TOTAL</b>	<b>30.6%</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	76.5
Bank Loans	16.1
Equities	0.3
Cash and Cash Equivalents	7.1
<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 31 October 2023	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	-1.08	-1.08	7.29	6.48	3.20	4.32	—	5.17
Advisor Class: APDFX	-0.96	-0.96	7.42	6.77	3.40	4.50	—	5.34
ICE BofA US High Yield Index	-1.24	-1.24	4.66	5.82	1.24	2.88	—	3.53

  

As of 30 September 2023	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	-0.75	1.46	8.46	10.44	3.80	4.27	—	5.34
Advisor Class: APDFX	-0.85	1.50	8.46	10.62	3.92	4.41	—	5.49
ICE BofA US High Yield Index	-1.16	0.53	5.97	10.19	1.82	2.80	—	3.70

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	4.4
BB	22.3
B	44.8
CCC	26.0
Unrated	2.5
<b>TOTAL</b>	<b>100.0%</b>

Source: Artisan Partners.

## Maturity Distribution (%)

< 1 year	0.6
1 - <3 years	9.1
3 - <5 years	41.7
5 - <7 years	39.0
7 - <10 years	7.8
10+ years	1.8
<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	23

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 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 and less developed markets, including frontier markets.

ICE BofA US High Yield 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. **Options-Adjusted Spread (OAS)** measures the portfolio's yield spread for fixed income securities relative to a benchmark, typically a treasury yield curve, adjusted to account for embedded options. **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. **Duration** estimates the sensitivity of underlying fixed income securities to changes in interest rates—the longer the duration, the greater the sensitivity to changes in interest rates. **Discount margin (DM)** is the average expected return of a floating-rate security that's earned in addition to the index underlying, or reference rate of, the security. **Rising Star** is a bond that was once rated below investment grade (BB+ or below) by major rating agencies that is subsequently upgraded to investment grade (BBB- or above).

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