



Artisan High Income Fund

QUARTERLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX | Institutional Class: APHFX

As of 31 December 2022

Investment Process

We seek to invest in issuers with high-quality business models that have compelling risk-adjusted return characteristics. Our research process has four primary pillars:

Business Quality

We use a variety of sources to understand an issuer's business model resiliency. We analyze the general health of the industry in which an issuer operates, the issuer's competitive position, the dynamics of industry participants and the decision-making history of the issuer's management.

Financial Strength and Flexibility

We believe that analyzing the history and trend of free cash flow generation is critical to understanding an issuer's financial health. Our financial analysis also considers an issuer's capital structure, refinancing options, financial covenants, amortization schedules and overall financial transparency.

Downside Analysis

We believe that credit instruments by their nature have an asymmetric risk profile. The risk of loss is often greater than the potential for gain, particularly when looking at below investment grade issuers. We seek to manage this risk with what we believe to be conservative financial projections that account for industry position, competitive dynamics and positioning within the capital structure.

Value Identification

We use multiple metrics to determine the value of an investment opportunity. We look for credit improvement potential, relative value within an issuer's capital structure, catalysts for business improvement and potential value stemming from market or industry dislocations.

Team Overview

Our team brings together a group of experienced credit analysts who are dedicated to a single investment philosophy and process. All team members conduct deep fundamental credit research as generalists with sector tendencies to identify issuers with high quality business models that have compelling risk-adjusted return characteristics.

Portfolio Management



Bryan C. Krug, CFA
Portfolio Manager

Investment Results (%)

As of 31 December 2022	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	1.82	-9.82	-9.82	1.71	3.35	—	4.83
Advisor Class: APDFX	1.99	-9.68	-9.68	1.89	3.54	—	5.00
Institutional Class: APHFX	2.01	-9.51	-9.51	1.99	3.63	—	4.99
ICE BofA US High Yield Master II Index	3.98	-11.22	-11.22	-0.23	2.12	—	3.34

Source: Artisan Partners/ICE BofA. Returns for periods less than one year are not annualized. Class inception: Investor (19 March 2014); Advisor (19 March 2014); Institutional (3 October 2016). For the period prior to inception, Institutional Class performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Institutional Class and the share class's returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTFX	APDFX	APHFX
Annual Report 30 Sep 2022	0.94	0.79	0.70
Prospectus 30 Sep 2021 ¹	0.96	0.80	0.71

¹See prospectus for further details.

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.



Performance Discussion

While the portfolio outperformed the ICE BofA US High Yield Index for the year, our portfolio trailed in Q4. Consistent with our approach, our returns can look meaningfully different from the benchmark and peers, and our underperformance can be attributed to our differentiated approach to credit selection. While returns at the index level were notably higher in Q4, lower rated segments were largely sidelined from the rally as economic growth concerns persisted. For our portfolio specifically, the relative underweight to outperforming BBs and mark-to-market weakness among smaller sized and idiosyncratic CCC-rated opportunities were primarily to blame for the quarter's relative weakness.

The year was disappointing from an absolute return standpoint, but our ability to allocate across the capital structure was the most significant contributor to the year's excess returns. The portfolio's strategic out-of-benchmark allocation to leveraged loans helped buoy the portfolio throughout the year's rate-driven volatility. Likewise, our preference for less cyclical credit risk—particularly among insurance brokers and enterprise software—positively contributed to returns as higher beta and more economically sensitive segments underperformed with a broader flight to quality.

Investing Environment

Credit markets staged a strong recovery as a combination of better-than-expected inflation data and a series of dovish comments from Fed officials catalyzed a U-turn in sentiment that pushed risk assets higher in the year's final months. High yield investors slowly returned to the asset class, looking to take advantage of positive convexity and nearly double-digit yields. The resurfacing bid came at a time when primary markets were mostly closed to new issuance, creating a positive technical environment that helped push high yield bonds (as measured by the ICE BofA US High Yield Index) 4.0% higher in Q4. Still, high yield markets finished the year with losses of 11.2%—the second-worst year of returns next to only 2008.

Thematically, the year's drawdown was mainly a function of rising interest rates and not repricing credit risk. Spread volatility was elevated throughout the year, but roughly 70% of high yield's loss can be attributed to interest rate sensitivity. These returns stand in stark contrast to leveraged loans, which sidestepped much of the duration damage felt across broader equity and fixed income markets. While loans (as measured by the Credit Suisse Leveraged Loan Index) lagged high yield bonds with gains of 2.3% in Q4, the full-year return of -1.1% ranks among the best across nearly all equity and fixed income asset classes.

High yield bond spreads rallied in Q4, finishing at 491bps—roughly 130bps higher over the year but largely in line with long-term averages and well inside of prior economic contractions. While valuations at the index level ground tighter throughout Q4, the divergence between higher and lower rated risk accelerated. Growing risk aversion to more leveraged borrowers led investors to pull

sponsorship for some of the most stressed capital structures. Nearly half of all CCC-rated bonds now trade at distressed levels, implying investors have less confidence in lower rated borrowers' ability to withstand tighter financial conditions and slower growth. As a result, lower rated risk struggled to keep up during the quarter's rally. BBs and Bs led the market higher with gains of 4.3% in Q4, while CCCs (1.1%) lagged. For the year, BBs and Bs lost 10.6%, and CCCs declined 16.3%.

Default activity remained quiet throughout the quarter, with no defaults but nine distressed exchanges impacting \$5 billion in bonds and loans. The high yield default rate finished the year at 1.5%, which remains well below long-term averages and roughly one percentage point higher than last year's levels. Even with a backdrop of higher interest rate volatility and restrictive capital markets, the year's defaults were mainly concentrated in just a few sectors. 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. While we expect default rates to trend modestly higher, strong fundamentals, reasonable liquidity and the lack of problematic sectors—like energy in past cycles—should keep defaults broadly in line with long-term averages.

Portfolio Positioning

Continuing the broader portfolio shift that began in Q1, we used volatility to better position the portfolio for yield and total return potential. Repricing credit risk and broader duration damage have created severe dislocations across the high yield landscape, leaving opportunities that offer positive convexity and greater total return potential. While much of the portfolio's activity through the first nine months of the year was focused on trimming our floating rate exposure into relative strength, this quarter's actions were primarily focused on shifting our bond exposure in favor of uniquely discounted and dislocated opportunities. This repositioning was funded by trimming or exiting higher coupon and more resilient credits priced near par to reallocate to high yield bonds that offer asymmetric risk/reward outcomes at current valuations. In particular, these purchases have been focused on credits supported by business models that are less sensitive to changes in the economic landscape and in structures that can offer better downside protection.

Throughout the quarter, we exited positions at an average dollar price of \$95 to reallocate to credits with an average price of \$82. This difference allows the portfolio to potentially capture returns well over a bond's coupon once volatility stabilizes. With these shifts, the portfolio ended the year with 77% of the portfolio in corporate bonds and 15% in leveraged loans—a notable change from the 60% bonds and 38% loan positioning at the beginning of the year.

The portfolio's top 10 holdings included one new entrant with medical supply manufacturer Medline Industries. Exiting the top 10 was food services and commissary provider TKC Holdings.

We added to our exposure in the secured and unsecured bonds of Medline Industries, the nation's largest medical supply manufacturer and distributor. The former family-owned business was sold to a consortium of sponsors in late 2021 in one of the largest leveraged buyouts since the Great Financial Crisis. In many aspects, the company's business is comparable to many of its investment-grade peers. Most of its revenues come from its mission-critical, single-use, branded medical supplies, leading to a near recession-proof revenue stream. Also, its expansive private-label offerings and exclusive supply arrangements have allowed it to continually undercut the competition, driving strong market share gains in a relatively concentrated industry. While Medline carries more leverage following its buyout, its debt burden is relatively modest when considering its strong cash flow generation and EBITDA growth, and its absolute cash flow generation gives Medline plenty of flexibility to pursue growth initiatives and pay down debt. Given the company's strong through-cycle business fundamentals, we view Medline as a high-quality holding that offers attractive incremental yield relative to similarly rated risk.

On the other side of the ledger, our long-held position in the secured and unsecured debt of food and commissary provider TKC Holdings fell out of the top 10 due to weakness. The company is a market-leading provider of food and commissary services to over 2,000 correction facilities across the US. Over the last decade, TKC has experienced relatively uninterrupted organic growth, helped by the trend of outsourcing by state and local governments. Multi-year contracts that lead to +90% renewal rates and predictable revenue streams benefit its credit profile, but persistent cost inflation over the last year has disproportionately impacted TKC's operating performance. Given the contracted nature of food service, TKC has struggled to pass through price increases quickly enough to offset building cost pressures. At the same time, inmate spending has slowed from its 2021 peak due to fading COVID-era stimulus and rising prices. While TKC's liquidity situation has declined because of aggressive sponsorship dynamics and declining free cash flow, we remain constructive on its ability to navigate near-term pressures. During the quarter, a new management team was brought in to focus on procurement savings and improve its financial flexibility to allow time for margins and cost pressures to subside. Despite weakness, we believe our exposure continues to be well covered even in the most bearish scenarios.

Perspective

As we look to 2023, we expect volatility to remain as the investing landscape shifts from one of high inflation and higher interest rates to one of decelerating global growth and growing recessionary risks. While we acknowledge credit markets remain vulnerable to shifts in sentiment, we believe strong credit fundamentals should provide an underappreciated level of support to the market that will keep spreads contained and drawdowns limited. Widespread balance sheet repair since the pandemic combined with strong liquidity positions should allow corporate borrowers to navigate economic headwinds

better than prior downturns. At the time, valuations are also undoubtedly better than they were just a year ago. With starting yields of 9%, high yield bonds can absorb significant volatility before wiping out their carry for the year.

Underneath the surface, we also expect the high dispersion regime of 2022 to extend into the year ahead. Broad risk aversion has led to a mismatch between fundamentals and valuations, creating opportunities that can be exploited by deep credit research and a highly active approach. As bouts of volatility increase, we will use growing dispersion as an opportunity to strategically invest in credits with attractive risk-reward profiles. Ultimately, we believe the idiosyncratic and focused nature of our portfolio is well-positioned for the current environment and our ability to capitalize on market inefficiencies through individual security selection will be a critical differentiator in the year ahead.

ARTISAN CANVAS

Timely insights and updates from our investment teams and firm leadership

Visit www.artisancanvas.com

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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 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.

This summary represents the views of the portfolio managers as of 31 Dec 2022. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 31 Dec 2022: Medline Industries Inc 2.8%; TKC Holdings Inc 2.0%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. Portfolio statistics include accrued interest unless otherwise stated and may vary from the official books and records of the Fund. This material does not constitute investment advice.

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Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Contribution to return is calculated by Bloomberg by multiplying a security's daily total return multiplied by the daily weight compounded over the referenced timeframe and does not take into account expenses of the portfolio. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

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Credit Quality 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. **Non-Investment Grade** refers to fixed income securities with lower credit quality. **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. **Leveraged Buyout (LBO)** is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition. **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. **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)** is an indicator of a company's financial performance which is calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation and amortization.

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