Artisan High Income Fund

QUARTERLY Commentary

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

As of 31 March 2023

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 (%)

			Average Annual Total Returns				
As of 31 March 2023	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	**4.95**	**4.95**	**-3.93**	**8.60**	**4.28**	—	**5.26**
Advisor Class: APDFX	**4.86**	**4.86**	**-3.79**	**8.77**	**4.44**	—	**5.41**
Institutional Class: APHFX	**4.88**	**4.88**	**-3.71**	**8.87**	**4.54**	—	**5.41**
ICE BofA US High Yield Master II Index	3.72	3.72	-3.56	5.84	3.06	—	3.66

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 2022[1]	0.95	0.80	0.71

[1]See 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

Our portfolio opened the year by outperforming the ICE BofA US High Yield Index in Q1. The quarter's relative gains were driven by strong security selection across the portfolio's bond and loan allocation, both of which outperformed the broader market during the quarter. Our preference for more credit-sensitive and idiosyncratic opportunities drove relative returns as lower rated risk outperformed with the quarter's broader risk-on price action. Additionally, strong performance among leisure, media and telecom holdings was also notable. In particular, a strong rally from the portfolio's long-held cruise line exposure contributed to roughly a quarter of the portfolio's total returns for the quarter.

Investing Environment

Credit markets shrugged off growing instability across the US regional and European banking sectors to post strong absolute and relative gains in Q1. Leveraged credit markets started the year on solid footing, helped by better-than-expected macro data that helped reopen dormant primary markets and ignited a reflation trade that disproportionately benefited lower rated and floating rate structures. However, the opening-year rally was eventually derailed in March as concerns about banking-sector stress and its implications for growth dominated price action. High yield valuation briefly touched October wides in mid-March as idiosyncratic events (Silicon Valley Bank and Signature Bank) morphed into systemic concerns (Credit Suisse). But swift government and central bank action helped alleviate fears of broader banking contagion and started a rally that pushed risk assets dramatically higher into the quarter's final week. High yield bonds (as measured by the ICE BofA US High Yield Index) finished Q1 with gains of 3.7%—driven mainly by carry and the aggressive move lower in short-term interest rates. For leveraged loans, resetting rate expectations were headwinds for floating rate structures, but the asset class still managed to finish with a coupon-like gain of 3.1% in Q1 (as measured by the Credit Suisse Leveraged Loan Index).

Even with ongoing volatility, high yield bond valuations were largely rangebound and finished the quarter 23bps tighter at 458bps—only slightly above their long-term median. While credit risk cheapened throughout March's volatility, lower rated risk outperformed in Q1 with better-than-expected macro data early in the quarter. As a result, CCC-rated bonds recorded their largest quarterly gains since Q2 2021, thanks to a strong showing in January. BBs played catch-up in March, helped by falling interest rates, but still lagged for the quarter. In all, CCCs led with gains of 4.8%, followed by Bs (3.8%) and BBs (3.4%).

Despite signs of life early in January, primary market activity remained quiet with less than $40 billion priced in the first three months of 2023—the slowest start since 2016. More than 50% of the quarter's supply was issued in January when the high yield index traded with spreads inside 450bps, but capital market activity eventually collapsed in March amid elevated rate and equity volatility. The US leveraged finance market was not an island in this regard as issuance across the credit spectrum and across the globe remained cyclically weak.

Default activity increased in Q1, with 12 companies defaulting on $18 billion in bonds and loans. The high yield default rate finished the period at 1.9%, which remains well below long-term averages but 40bps higher than at the start of the year. As macro concerns gained momentum, distress levels for both bonds and loans approached their summer highs of last year. Nonetheless, aggregate credit fundamentals continue to show resiliency, with the net leverage remaining near eight-year lows. Pockets of earnings weakness are evident, but unsurprisingly most of the deterioration has been concentrated in rate-sensitive and cyclical sectors. Overall, we expect defaults to trend higher throughout the year, but peak defaults are likely only to approach long-term averages of 3%-4%.

Portfolio Positioning

Changes to the portfolio positioning were minimal during the quarter. Much of the portfolio's repositioning occurred throughout 2022 as we focused on trimming our floating rate exposure into relative strength in favor of uniquely discounted and dislocated opportunities across the high yield landscape. While these decisions caused us to lag in the back half of last year, this repositioning contributed to our outperformance so far in 2023.

The portfolio's mix between bonds (77.3%) and loans (14.5%) remains largely unchanged. Our bond allocation remains concentrated in low-dollar structures that can help cushion against market deterioration while providing greater total return potential through price appreciation, and our loan allocation offers a yield advantage and can act as ballast during periods of elevated volatility. Elsewhere, we slightly increased our cash allocation in anticipation of further volatility throughout the year. While the impact of March's banking crisis remains largely ringfenced, we expect tighter credit conditions and a pullback in the availability of credit to create opportunities for us to provide liquidity to high-quality borrowers that may be shut out from primary markets. Across sectors, we continue to favor market segments characterized by predictable free cash flow and that have a unique ability to weather future volatility. We ended the quarter with more than a third of the portfolio concentrated in insurance, media and telecom. These sectors are defined by strong business quality, higher quality capital structures and more defensive business models.

Changes to the portfolio's largest ten issuers were minor, marked only by the entrance of private jet operator VistaJet, which replaced UK insurance broker Ardonagh Group. Just under a third of the portfolio remains concentrated in our ten largest issuers—consistent with our high-conviction approach.

We added to our existing exposure in the senior unsecured bonds of private jet operator VistaJet. The company has been a main holding since we aggressively added to the name during COVID-era weakness. VistaJet provides outsourced aviation services through a network of leased and owned aircraft in the US and Europe, offering an asset-light alternative to private jet ownership for corporations and high-net-worth individuals. Since the pandemic, the company has focused on growing its fleet size to capitalize on increased demand. In 2022, the company acquired Europe's largest private jet operator and the fifth-largest charter operator globally, in a move that improves VistaJet's geographic footprint while increasing profitability given the structurally high profit margins of the acquired entities. During the quarter, we added to the name on weakness, based on a view that the senior unsecured risk trades materially wider than similarly rated peers and offers attractive incremental value given its modest run-rate leverage and aggressive top-line growth.

Insurance brokerage Ardonagh Group fell out of the portfolio's largest ten issuers due to modest market-to-market weakness. Ardonagh continues to make progress on its turnaround since our significant investment in late 2018. Over the last five years, the company has worked through significant challenges related to legacy technology and acquisition integration issues to now recognize long-expected synergies. These actions have contributed to solid growth in operating margins, which have increased to 32% today from 20% in 2017. The non-discretionary nature of insurance products makes Ardonagh well-positioned to withstand macroeconomic volatility, and we expect the company will continue to leverage its strong market position and product diversity into free cash flow growth. From a credit standpoint, a recent equity injection from the company's sponsors in Q1 helped reduce balance sheet leverage and provided cash to fund additional small-but-accretive bolt-on acquisitions. We maintain sizable exposure in the name and believe the senior unsecured risk provides attractive value with mid-teens yields and a resilient, full-cycle business model.

Perspective

As we move forward, we believe leveraged credit markets continue to provide compelling opportunities for investors. While economic risks remain, strong carry, resilient credit fundamentals and a healthier market structure (50% of the market rated BB) provide an underappreciated level of support to the market that should keep high yield spreads contained. Still, investor sentiment continues to drive price action in the near term, and credit markets remain vulnerable to prevailing macro headlines. The impact of March bank failures has been most acute among high-grade areas of the market, but the aftershocks are likely to materialize through tighter financial conditions that will constrain access to capital and lead to increased volatility for some high yield borrowers. We believe this environment plays into the strength of our approach by allowing us to lean into periods when dislocation and illiquidity is most severe.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

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 Mar 2023. 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 Mar 2023: VistaJet Ltd 2.3%; The Ardonagh Group 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 are determined by Artisan Partners based on ratings from S&P and/or Moody's, which typically range from AAA (highest) to D (lowest). For securities rated by both S&P and Moody's, the higher of the two ratings was used, and those not rated by either agency have been categorized as Unrated/Not Rated. Ratings are applicable to the underlying portfolio securities, but not the portfolio itself, and are subject to change. **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. **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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