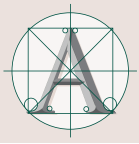

Artisan High Income Fund

QUARTERLY Commentary

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

As of 31 March 2024

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 March 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**1.42**	**1.42**	**11.80**	**3.18**	**5.74**	**5.90**	**5.90**
Advisor Class: APDFX	**1.34**	**1.34**	**11.98**	**3.31**	**5.88**	**6.06**	**6.05**
Institutional Class: APHFX	**1.37**	**1.37**	**12.08**	**3.40**	**5.98**	**6.07**	**6.06**
ICE BofA US High Yield Index	1.51	1.51	11.04	2.21	4.03	4.36	4.38

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 2023	0.94	0.79	0.70
Prospectus 30 Sep 2023[1]	0.96	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 performed in line with the ICE BofA US High Yield Index during the quarter. Our allocation to leveraged loans was a significant positive contributor during a period of rising Treasury rates, helping to offset negative security selection effects in bonds. Over the long term, security selection in bonds remains—by far—the most significant positive contributor to relative performance, consistent with our expectations. From a ratings perspective, both our underweight and selection within BB-rated credit contributed positively to returns. During a period where CCCs broadly outperformed, our overweight in this segment was additive to returns though was offset by security selection within the rating category. Across sectors, our exposures in services and retail contributed to excess returns while security selection in media and telecommunications was the most notable detractor.

Investing Environment

At a headline level, credit market performance during Q1 was "quiet," especially when compared to the prior quarter's immense rate and spread rally. High yield bonds, as measured by the ICE BofA US High Yield Index, returned 1.5%, with substantially all of the positive performance at the index level driven by income rather than price. Underneath the surface, however, there was significant offsetting movements as a rise in interest rates across the curve was met by a continued grind tighter in credit spreads.

Coming into 2024, the market narrative was one of exuberance surrounding the potential for interest rate cuts by the Federal Reserve. At year-end, the federal funds market was pricing between six and seven rate cuts by the end of 2024, resulting in a forward curve that expected the fed funds rate to decline over 150bps and fall below 4% from the existing target of 5.25%–5.50%. As the quarter progressed, markets began to digest the potential for elevated "sticky" inflation readings amid a resilient economy, which continues to surprise on the upside across multiple factors including the labor market. A selloff in Treasury rates ensued, picking up steam in February as the 2-Year and 10-Year Treasury rate rose 37bps and 32bps, respectively, by quarter-end. All told, market expectations for rate cuts in 2024 had been essentially cut in half from the beginning of the year, reminding investors that the market on the whole has historically struggled to accurately predict the path of interest rates in the short term.

While Treasury rates rose, the resilient economy helped propel a continued rally in credit spreads. At the index level, credit spreads declined 24bps to end the quarter at 315bps, with spread declines led by CCC-rated debt, which outperformed the broader market. Relative to history, a spread of 315bps at the index level is 90th percentile dating back to 1996 while the average price of the index has risen to 93.2; clearly, credit dispersion on the whole has declined materially from 2022. However, this is significantly influenced by historically tight spreads at the BB level. At a spread of 190bps, BBs are now at their tightest level since 2019 while CCCs remain nearly 300bps wider than July 2021. This dynamic continues to favor managers like us who seek to exploit embedded inefficiencies in the CCC-rated segment and identify credits where we perceive the potential reward is greater than the potential perceived risk.

In a contrast to the rate volatility seen across fixed rate bond markets, leveraged loans continued to generate "steady" and attractive returns. As measured by the Credit Suisse Leveraged Loan Index, the loan market returned 2.5% during the quarter, aided by both income returns and price gains; discount margins declined by 20bps, and the average price of the index rose from 95.3 to 96.0. In the short term, a "higher for longer" environment benefits investors in leveraged loans as yields stay elevated and the forward curve reprices; despite spreads declining and the index price rising during the quarter, the yield for the index rose roughly 30bps to 9.30%, offering investors the potential to achieve high-single-digit returns from generally senior secured assets.

The primary market was wide open in Q1, as companies began to take advantage of the significant decline in borrowing costs since October. Over $87 billion was priced in high yield bonds—with issuance each month during the quarter higher than any month since 2021—while leveraged loans priced over $317 billion, their largest quarter of issuance since 2017. However, continuing a trend seen in 2023, the majority of issuance continues to be refinancing related. Net new credit creation continues to be limited as index par values (amount of debt outstanding) remain below the recent peaks seen in 2021 for high yield and 2022 for loans. The significant level of refinancing has also helped to extend the maturity wall in credit markets. At the end of Q4, roughly 21% of the high yield market and 22% of the loan market was set to mature by 2026; as of March, these have been reduced to 17% and 18%, respectively.

On a year-over-year basis relative to Q1 2023, default volumes for the quarter declined. Excluding distressed exchanges, the par-weighted default rate for bonds and loans ended the month at 1.68% and 1.86%, respectively. Given the strength of credit markets year-to-date, the amount of bonds trading at "distressed" levels (spread above 1,000) declined to approximately 6%, while the volume of loans trading at "distressed" levels (priced below $80) fell to approximately 5%. Within the high yield market, there were six rising stars and two fallen angels during the quarter, continuing the trend seen in 2023 with upgrades removing supply from the high yield market at a faster pace than downgrades.

Portfolio Positioning

On the surface, our positioning did not change materially during the quarter. Our allocation to floating rate debt vis-a-vis bank loans increased slightly from 15% to 17%, with cash declining nearly the same amount from 10% to below 9%. However, we have been highly active year-to-date, with trading activity coinciding with the significant repricing and refinancing seen in the primary market. Amid wide open capital markets, we remain disciplined and focused on issuer fundamentals, with our overall issuer count remaining the same

quarter over quarter. With spreads at tight levels, we seek to avoid precarious businesses that are able to refinance in an accommodative new issue market; credit investors are wise to heed the adage of "bad loans are made in good times."

The average price of our portfolio was approximately $90.9 at year-end. Our portfolio remains at an attractive discount to par and more than 2 points below the average price of the high yield index. A discount to par can provide a powerful convexity effect as bonds approach maturity, providing additional return potential in addition to coupon income. Our overall yield-to-worst remained steady during the quarter and is above market comparators, such as the high yield index.

Our flexibility, in particular our allocation to bank loans, helped buoy returns in a period of interest rate volatility by generating consistent income returns that are shielded from the effects of duration, which impacted fixed rate debt more significantly. While high conviction from a name count perspective—we own only 39 issuers of the 1,000+ issuers in the loan market—our loan exposure is spread across industries such as insurance and technology & electronics, where we believe we have identified quality businesses with attractive return potential.

For those who understand our philosophy and process, our continued emphasis and overweight to the insurance brokerage space should be of no surprise. These businesses offer tremendous cash flow generation ability aided by a high degree of recurring revenue; we estimate nearly 90% of revenue is recurring annually across the insurance brokerage space, with renewals often non-discretionary and driven by regulatory requirements. Yet, many of these businesses continue to be rated B or CCC by rating agencies, resulting in what we believe to be attractively mis-priced and mis-rated assets from a risk-adjusted return perspective. As of quarter-end, the portfolio held approximately 18% in the insurance sector overall.

We also retain our high-conviction position in cruise lines as these businesses continue to perform strongly amid a highly resilient economy and labor market. However, while we believe that these issuers will continue to de-lever and make their way back toward investment grade, much of the gains have been priced into the credits already. As such, we view this sector as a potential source of liquidity if and as new opportunities arise. Elsewhere, our allocation to media detracted from returns during the quarter, driven by our holding in Charter Communications. The company is a premier operator of broadband across the US and is currently undergoing a significant capex program to grow its potential customer reach in rural areas. As a result, the company is scaling back on its stock repurchases, which contributed in part to the negative equity performance seen during the quarter, with price declines also extending into the Charter debt complex. We ultimately view the current situation as credit positive, giving us the chance to earn high-single-digit returns on assets that could ultimately be upgraded to investment grade in the future.

Perspective

The exuberance surrounding potential rate cuts at the beginning of the year has been met with the reality of a strong economy, resilient job market and persistent inflation elevated above the Fed's preferred level. Markets appear to be repricing Fed policy moves on a daily basis, contributing to elevated volatility in interest rates as the 10-Year Treasury rate has nearly "round-tripped" from its significant decline in November and December.

Against this backdrop, we continue to view credit as an attractive asset class. The ability to potentially generate high-single-digit returns driven primarily by income—rather than duration or equity market sentiment—offers significant benefits to a diversified portfolio that is heavily allocated to longer duration investment grade bonds and public equity markets. While dispersion has undoubtedly declined from 2022 levels, we continue to find pockets of the market to deploy capital in assets with attractive credit characteristics and risk-adjusted return potential, such as insurance brokers.

As we guide the portfolio through a period of tight spreads and accommodative capital markets, the importance of business quality and credit fundamentals is abundantly clear. We remain intensely focused on allocating to issuers with credit characteristics we favor, maintaining our selectivity as companies take advantage of a wide-open primary market to fund their businesses. Ultimately, the success of generating high-single-digit returns in today's credit market is driven by credit selection and default aversion—or, "winning by not losing."

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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 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 2024. 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 2024: Charter Communications 4.0%. 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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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. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Par** represents the level a security trades at when its yield equals its coupon. **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). **Fallen Angels** are securities that were downgraded from investment grade to non-investment grade. **Average Price** is the aggregate market value of the fixed income securities in the portfolio. **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. **Yield to Worst (YTW)** is the portfolio's weighted-average lowest potential yield that can be received on a bond without the issuer actually defaulting.

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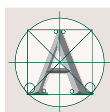
A R T I S A N  P A R T N E R S