



Artisan High Income Fund

QUARTERLY
Commentary

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

As of 31 December 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 December 2024	Average Annual Total Returns						
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	0.83	8.37	8.37	4.18	5.70	6.41	6.12
Advisor Class: APDFX	0.87	8.43	8.43	4.30	5.85	6.58	6.28
Institutional Class: APHFX	0.89	8.53	8.53	4.43	5.96	6.60	6.29
ICE BofA US High Yield Index	0.16	8.20	8.20	2.91	4.04	5.08	4.68

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 2024	0.95	0.79	0.69
Prospectus 30 Sep 2023 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

Our portfolio outperformed the ICE BofA US High Yield Index during the quarter. From an asset class perspective, the most significant positive contributor was security selection in the corporate bond component. In addition, the portfolio's allocation to bank loans was additive in a quarter where Treasury rates generally rose across the yield curve. By rating, security selection in B-rated securities was the largest contributor, although the portfolio benefited from positive attribution effects in all three major rating categories (BB, B, CCC). Across sectors, the most notable contributors included security selection in insurance and retail while security selection in consumer goods and leisure detracted from returns.

Investing Environment

In a stark reversal of Q3, Treasury yields rose significantly across the curve as investors recalibrated interest rate expectations following the US elections, hawkish Federal Reserve commentary and a continued strong economic environment. During the quarter, the 10-year Treasury yield rose 79bps and erased its entire decline from Q3—ending the year close to its peak for 2024. In addition, the yield curve continued to steepen as the 2-10 spread rose 20bps with the yield curve ending the year at its steepest point since May 2022. All told, the 10-year Treasury yield ended the year up 95bps from its low in September, creating a volatile environment for duration-sensitive assets.

Against this backdrop, credit markets generated positive returns in Q4 resulting in high-single-digit returns across bonds and loans for the year. The ICE BofA US High Yield Index gained 0.2% for the quarter to end 2024 with full-year returns of 8.2%. Spreads tightened modestly by 11bps in the quarter, combining with coupon returns to help offset duration-driven price declines. Meanwhile, the S&P UBS Leveraged Loan Index returned 2.3% for the quarter and 9.1% for the year, registering positive returns for each month of 2024 and providing a stable base of return in a year with high rate-driven volatility. The average price of the loan index rose over a full point during the year and coupon spreads declined 22bps on the back of continued positive technicals (low net issuance) and repricings.

Within high yield bond markets, returns in 2024 were led by the CCC segment—in particular, distressed credits. For the year, the ICE BofA US High Yield CCC & Lower Index gained 18.2%, more than doubling the return of both the BB-rated (6.3%) and B-rated (7.5%) parts of the market. This outperformance accelerated in the second half of 2024 as distressed names began to be bid up by the market amid the start of the Fed's new easing cycle and continued strong economic data. The ICE BofA US Distressed Index gained 24.7% for the year with virtually all of its return generated in the 3rd and 4th quarters. In comparison, a universe of non-distressed CCCs maintained by BofA returned 14.5% in 2024—outperforming the full high yield index but lagging behind their distressed brethren. In time periods of “junk rallies” such as the second half of 2024, we continue to advocate an approach centered on business quality and fundamental issuer strength. Over the long

term, we believe outperformance in CCCs is best generated through keen security selection that seeks to identify fundamentally mis-rated securities, which we think gives us the best chance to generate attractive returns while avoiding permanent capital impairment.

As leveraged loans continue to generate consistent coupon income with low volatility, it's worth putting into context their attractive relative and risk-adjusted returns across both recent and longer term periods. On a trailing 1-, 3-, 5- and 10-year basis, the S&P UBS Leveraged Loan Index has outperformed both the ICE BofA US High Yield Index and the ICE BofA US Broad Market Index (a reference for the investment grade bond universe). In each of those periods, the loan index's return per unit of volatility (standard deviation) was significantly higher than its fixed rate counterparts. In addition, the low correlation of the loan index to investment grade bonds during this period provided a valuable complement to traditional asset allocations that may be more heavily dominated by fixed rate assets. It's not often that you can find a diversifying asset with compelling absolute and risk-adjusted return potential, but investors have found these characteristics in loans over the past 10 years. Our portfolio has continued to benefit from exposure in this area as we take a highly selective, fundamentally oriented approach to the market.

One of the most notable themes in credit markets in 2024 was the robustness of capital markets activity. On a gross supply basis, high yield issuance increased more than 60% year-over-year while leveraged loans recorded their highest annual issuance ever, significantly surpassing previous peaks in 2021 and 2017. Many issuers took advantage of more favorable market pricing and positive technicals to refinance and reprice their debt, extending maturities and achieving interest cost savings. Nevertheless, as we have discussed in the past, net issuance—gross supply minus refinancings and repricings—remains low driven by an M&A market that is still depressed relative to 2021. We believe that M&A will likely rebound in 2025 driven by a potentially more pro-business administration and deregulatory environment, which could create more net supply for our market. This dynamic may also result in increased interest from higher credit quality strategic buyers to acquire leveraged companies, introducing opportunities for investors to reap benefits as discounted debt of an acquisition target could reprice to par or above.

Excluding distressed exchanges, default rates in high yield and loans have been declining since early 2023 and are well below long-term averages. The most significant increase in headline defaults in 2024 came in the form of liability management exercises, or LMEs. While the frequency of mentions of “creditor-on-creditor violence” in the financial press seems to imply that LMEs are ubiquitous, in reality they continue to represent a very small part of the market. For example, according to JP Morgan data, there were 48 companies that completed a distressed exchange in 2024; in total, there are estimated to be over 1,800 companies across leveraged credit markets. We continue to monitor this space and selectively participate across our platform. Often, the threat of an LME results in downward pressure on

asset prices through secondary market selling. Our team has experience spanning the gamut from performing to distressed, enabling us to dig in deep on heavily discounted assets to potentially find value.

Portfolio Positioning

Throughout 2024, we increased our allocation to leveraged loans as we identified several attractive opportunities in single names. In particular, in the second half of the year, we purchased loans of two issuers in the primary market that were discounted at issuance. In each circumstance, the syndicate banks assigned to market the deal struggled to clear the deal near par, forcing them to offload the debt at material original issue discounts (OID) as well as requiring the company and its sponsor to offer more creditor-friendly documentation. After conducting deep due diligence—including an analysis of product profitability at the individual stock keeping unit (SKU) level—we elected to participate in the deals and allocate in size.

Insurance and leisure continue to represent our largest exposures by sector. Within insurance, we continue to favor the insurance brokerage segment of the market, which we believe offers compelling risk-adjusted yields from quality companies with high recurring revenue and low capex needs—characteristics we believe are highly valuable, particularly in an environment of tighter spreads. The leisure segment retains its focus on the cruise lines, which continue their strong operating performance. As a reminder, while we believe this exposure offers attractive risk-adjusted return potential at current levels, the cap structures for these names are deep and liquid—giving us the ability to monetize our exposure and deploy elsewhere if/when a market dislocation occurs.

Given the performance of CCCs and distressed in 2024, it's worth reminding investors about our fundamental approach to the asset class and emphasis on business quality. While our CCC-rated exposure overall outperformed the benchmark and was additive from an allocation perspective, our CCCs lagged the CCC component of the index. A significant portion of our CCC exposure is the aforementioned insurance broker market segment, which tends to have less volatility than the broader CCC market but also trades at tighter spreads. As our process is predicated on identifying businesses that—first and foremost—are quality companies, the bulk of our CCC-rated exposure was invested in sectors like insurance brokers rather than the more distressed companies that participated in the “junk rally” in the second half of the year.

Perspective

Credit markets performed well in 2024, with elevated all-in yields and modest spread tightening helping to produce high-single-digit returns. Loans outperformed bonds during the year aided by their lack of interest rate sensitivity as well as higher coupon income. The high yield market continues to trade at tighter spread levels, but absent an exogenous shock we believe spreads will likely be rangebound in the near term. In addition, current yield levels across bonds and loans

offer what we believe to be compelling risk-adjusted total return potential and a valuable complement to asset allocations.

As we look forward to 2025, there remains pockets of idiosyncratic value in credit which we seek to take advantage of in our portfolio. We continue to believe that an investment approach centered on business quality, fundamental issuer strength and high-conviction portfolio construction is of utmost importance in today's market. As our investors know, we will never sacrifice credit discipline for the sake of chasing yields and returns.

ARTISAN CANVAS

Timely insights and updates from our investment teams and firm leadership

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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 dollar-denominated corporate bonds publicly issued in the US market. ICE BofA CCC & Lower US High Yield Index is a subset of ICE BofA US High Yield Index including all securities rated CCC1 or lower. ICE BofA US Broad Market Index tracks the performance of US dollar-denominated investment grade debt publicly issued in the US domestic market, including US Treasury, quasi-government, corporate, securitized and collateralized securities. With the exception of local currency sovereign debt, qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). ICE BofA US Distressed High Yield Index (Distressed Index) is a subset of ICE BofA US High Yield Index including all securities with an option-adjusted spread greater than or equal to 1,000 basis points. S&P UBS Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the US dollar-denominated leveraged loan market. Loan facilities must be rated "BB" or lower by S&P, Moody's or Fitch; 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.

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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** represents the level a security trades at when its yield equals its coupon. **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. **Investment Grade** indicates above-average credit quality and lower default risk and is defined as a rating of BBB or higher by Standard and Poor's and Fitch rating services and Baa or higher by Moody's ratings service. **Leveraged Loans** are extended to companies or individuals that already have considerable amounts of debt. **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. **Average Price** is the aggregate market value of the fixed income securities in the portfolio. **Capital Expenditures (capex)** to either purchase fixed assets or to upgrade existing fixed assets having a useful life longer than the taxable year. **Standard Deviation** defines how widely returns varied from an average over a given period of time. Higher deviation represents higher volatility.

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