



# Artisan High Income Fund

MONTHLY  
Commentary

Investor Class: ARTFX | Advisor Class: APDFX As of 30 November 2016

## Commentary

The non-investment grade credit market held up well in November, despite one of the worst routs in years for fixed income markets, as a steepening in the US yield curve accelerated. High yield bonds incurred their first monthly decline since January, albeit a modest one—while leveraged loans were slightly positive. Our portfolio was lower on the month but held up better than the BAML Index, due largely to favorable credit selection.

A surprise outcome in the US presidential election led markets to rapidly reprice stronger US economic growth and higher inflation expectations. The yield on the 10-year Treasury note rose 56bps to 2.38%—more than 100bps above its all-time low set in July of this year. For high yield bonds, spreads cushioned some of the impact of rising rates—the yield on the BAML Index rose 24bps to 6.57%, whereas spreads tightened 22bps. For leveraged loans, the floating-rate component of their coupons helped insulate them from interest rate risk, evidenced by their monthly outperformance.

November saw a continuation in performance trends by rating and sector. CCCs outperformed for a ninth consecutive month. Year to date, CCCs are up more than 30%, compared to about 15% for Bs and 12% for BBs. The metals/mining and energy sectors remained areas of strength. The energy sector was boosted by OPEC's agreement to pare production causing oil prices to rally on the last day of the month.

Default activity picked up this month—seven companies totaling \$3.3bn in debt defaulted—but remains relatively light compared to earlier in the year amid dislocation in commodity markets. Excluding the commodity sectors, the par-weighted default rates in high yield bonds and loans are quite minimal at 0.55% and 0.38%, respectively.

In an environment characterized most notably by extraordinarily low yields, it has been our view that the non-investment grade market offers a better risk/reward proposition than most areas of fixed income. This month exemplified the substantial interest rate risk that resides in some of the lowest-yielding parts of the market. We will continue to take advantage of market dislocations and invest in issuers with high-quality business models that have compelling risk-adjusted return characteristics.

Portfolio Details	ARTFX	APDFX
Net Asset Value (NAV)	\$9.77	\$9.77
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	5.99%	6.18%
Expense Ratios		
Annual Report 30 Sep 2016	1.03%	0.84%
Prospectus 30 Sep 2015	1.09%	0.93%

Portfolio Statistics	Fund
Number of Holdings	116
Number of Issuers	75

Source: Artisan Partners.

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

USI Inc	5.9
VEREIT Inc	4.8
Williams Cos Inc	4.4
Endeavor Energy Resources LP	3.3
Kronos Inc	3.2
HUB Holdings LLC	3.2
Opal Acquisition Inc	3.2
York Risk Services Holding Corp	3.2
Altice SA	2.9
First Data Corp	2.8
<b>TOTAL</b>	<b>36.9%</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	75.2
Bank Loans	19.7
Equities	0.6
Cash and Equivalents	4.5
<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.

## Investment Results (%)

As of 30 November 2016	Average Annual Total Returns							
	MTD <sup>1</sup>	QTD <sup>1</sup>	YTD <sup>1</sup>	1 Yr	3 Yr	5 Yr	10 Yr	Inception
<b>Investor Class: ARTFX</b>	<b>-0.25</b>	<b>0.49</b>	<b>12.88</b>	<b>11.14</b>	—	—	—	<b>5.73</b>
<b>Advisor Class: APDFX</b>	<b>-0.13</b>	<b>0.52</b>	<b>13.07</b>	<b>11.34</b>	—	—	—	<b>5.89</b>
BofA Merrill Lynch US High Yield Master II Index	-0.39	-0.08	15.22	12.25	—	—	—	3.46
As of 30 September 2016								
<b>Investor Class: ARTFX</b>	<b>0.60</b>	<b>4.88</b>	<b>12.33</b>	<b>11.40</b>	—	—	—	<b>5.92</b>
<b>Advisor Class: APDFX</b>	<b>0.62</b>	<b>4.94</b>	<b>12.48</b>	<b>11.61</b>	—	—	—	<b>6.07</b>
BofA Merrill Lynch US High Yield Master II Index	0.65	5.49	15.32	12.82	—	—	—	3.73

Source: Artisan Partners/BofA Merrill Lynch. <sup>1</sup>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. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect. Unlike the Index, the High Income Fund may hold loans and other security types. At times, this causes material differences in relative performance.

## Credit Quality (%)

BBB	11.6
BB	15.8
B	40.2
CCC	30.4
CC	0.6
Unrated	1.4
<b>TOTAL</b>	<b>100.0%</b>

Source: S&P/Moody's.

## Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	4.8
3 - <5 years	23.7
5 - <7 years	36.0
7 - <10 years	34.6
10+ years	0.9
<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	16

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.

Fixed income investments entail credit and interest rate risk. In general, when interest rates rise, fixed income portfolio values fall and investors may lose principal value. High income securities (junk bonds) are fixed income instruments rated below investment grade. High income securities are speculative, have a higher degree of default risk than higher-rated bonds and may increase the Portfolio's volatility. The Portfolio typically invests a significant portion of its assets in lower-rated high income securities (e.g., CCC). Loans carry risks including the insolvency of the borrower, lending bank or other intermediary. Loans may be secured, unsecured, or not fully collateralized, and may infrequently trade, experience delayed settlement, and be subject to restrictions on resale. Private placement and restricted securities are subject to strict restrictions on resale and may not be able to be easily sold and are more difficult to value. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. The use of derivatives may create investment leverage and increase the likelihood of volatility and risk of loss in excess of the amount invested.

BofA Merrill Lynch US High Yield Master II Index measures the performance of below investment grade \$US-denominated corporate bonds publicly issued in the US market. J.P. Morgan Leveraged Loan Index is designed to mirror the investable universe of the USD-denominated institutional leveraged loan market. S&P 500® Index measures the performance of 500 US large-cap companies. 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.

All information in this report includes all classes of shares, except performance and expense ratio information and as otherwise indicated, and is as of the date shown in the upper right hand corner unless otherwise indicated. Artisan Partners may exclude outliers when calculating portfolio statistics. If certain information is unavailable for a particular security Artisan Partners may use data from a related security to calculate portfolio characteristics. Portfolio statistics include accrued interest unless otherwise stated and may vary from the official books and records of the Fund. Totals may not sum due to rounding.

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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. **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.

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