



# Artisan High Income Fund

MONTHLY  
Commentary

Investor Class: ARTFX | Advisor Class: APDFX As of 31 December 2017

## Commentary

Non-investment grade markets capped off a strong year with modest gains in December. High yield bonds advanced 0.3% (ICE BofAML US High Yield Index), while leveraged loans (JP Morgan Leveraged Loan Index) gained 0.4%. Credit markets were helped by a combination of supportive fundamentals and the passage of the GOP's long-awaited tax reform bill. Our portfolio finished with strong relative returns in December and for the year. As was the case for much of 2017, returns during December were driven by strong performances from the portfolio's lower rated debt holdings and strong security selection across the portfolio's book of energy holdings.

Trading activity was unusually quiet to finish the year. Yields and spreads for both bonds and loans barely budged, finishing within 10bps from levels a month ago. This stability was an overwhelming theme for the year, as limited risk asset volatility and an accommodative interest rate environment helped spreads grind tighter through the year. With the exception of a few short-lived selloffs, spreads were able to move to multi-year lows largely uninterrupted.

December saw a continuation in performance trends by credit rating, with lower rated segments leading the market higher. CCC-rated bonds returned 0.9% while the highest rated, non-investment grade credits (BB) were up 0.1%. Among sectors, energy (0.9%) and autos (0.7%) were notable outperformers while consumer products (-0.7%) and utilities (-0.6%) were the biggest laggards.

Default activity remained muted during the month, as only four companies defaulted totaling \$2.2 billion in bonds and loans. The default activity was down for the year, with total default volume of \$34 billion—the quietest annual period since 2013. Despite the historically long current credit cycle, we see few signs current default trends will turn in 2018.

With spreads particularly tight, we remain focused on idiosyncratic and credit-specific relative value opportunities. And we believe our idiosyncratic and high-conviction approach will serve our investors well in an environment marked by steadfast complacency. As always, we will look to take advantage of market dislocation and invest in issuers with high-quality business models that have compelling risk-adjusted return characteristics.

Portfolio Details	ARTFX	APDFX
Net Asset Value (NAV)	\$9.94	\$9.93
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	5.47%	5.62%
Expense Ratios		
Annual Report 30 Sep 2017	1.00%	0.82%
Prospectus 30 Sep 2016 <sup>1</sup>	1.03%	0.84%

<sup>1</sup>See prospectus for more information.

Portfolio Statistics	Fund
Number of Holdings	116
Number of Issuers	72

Source: Artisan Partners.

## Top 10 Holdings (% of total portfolio)

Charter Communications Inc	5.9
VEREIT Inc	5.6
Altice SA	5.4
HUB Holdings LLC	4.8
Endeavor Energy Resources LP	4.1
Seven Generations Energy Ltd	3.9
York Risk Services Holding Corp	2.9
Ardonagh Midco 3 PLC	2.3
Carrizo Oil & Gas Inc	2.2
NFP Corp	2.1
<b>TOTAL</b>	<b>39.2%</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	77.5
Bank Loans	18.9
Equities	0.3
Cash and Cash Equivalents	3.3
<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. Treasury futures represented net notional exposure of -0.88% of net assets.

## Investment Results (%)

As of 31 December 2017	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
Investor Class: ARTFX	0.69	0.85	8.89	8.89	7.99	—	—	6.83
Advisor Class: APDFX	0.60	0.79	8.96	8.96	8.15	—	—	6.97
ICE BofAML US High Yield Master II Index	0.29	0.41	7.48	7.48	6.39	—	—	4.97

Source: Artisan Partners/ICE 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. Unlike the Index, the High Income Fund may hold loans and other security types. At times, this causes material differences in relative performance.

## Ratings Distribution (%)

BBB	5.8
BB	24.5
B	38.3
CCC	30.9
Unrated	0.5
<b>TOTAL</b>	<b>100.0%</b>

Source: S&P/Moody's.

## Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	5.2
3 - <5 years	23.8
5 - <7 years	31.3
7 - <10 years	34.5
10+ years	5.2
<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	17

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 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. The use of derivatives in a portfolio 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 markets.

ICE BofAML 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. 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.

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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.

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