



# Artisan High Income Fund

MONTHLY  
Commentary

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

## Commentary

The constructive dynamics of the post-US election rally largely carried over into January, supporting positive returns in the non-investment grade market. Credit markets benefited from solid corporate earnings, stable oil prices and optimism around the new US administration. The BAML Index advanced 1.34% and the JP Morgan Leveraged Loan Index gained 0.42%. January marked the 11th positive month in the last 12 for high yield bonds and 10th in the last 11 months for leveraged loans. Our portfolio outperformed the BAML Index, aided by select holdings in the services, consumer goods and leisure sectors.

High yield bond yields decreased 25bps to 5.92% and spreads tightened 22bps to 417bps—marking multi-year lows. Loan yields similarly dropped by 10bps to 6.13% and spreads compressed 12bps to 446bps. Treasuries, after experiencing a massive selloff in Q4 2016, steadied in January, with little change across the yield curve.

Performance trends in the high yield market continued to favor lower-rated credits, as was true for much of the 2016 rally. By sector, returns were led by energy. The retail sector was weakest and the only sector to produce a negative monthly total return.

New issuance was robust in January as companies took advantage of decreased borrowing costs. High yield new issuance totaled \$26.5 billion, which is on par with the average monthly new issuance of the past couple years, and loan new issue activity surged to a monthly record of \$116.7 billion, driven by repricing.

Default activity increased to a nine-month high of \$7.3 billion—\$5.9 billion of which was due to a single issuer, telecom company, Avaya Partners. (For comparison, an average of \$4.9 billion defaulted per month in 2016.) Avaya's default was the third largest since the start of 2016 and ranks as the 17th largest below-investment grade default since 1998. Overall, default rates remain modest excluding the commodity sectors.

We took advantage of credit-specific opportunities in the services and software sectors—resulting in an increase in our loan exposure. We also added new bond positions in the media, health care and energy sectors. Our high-conviction process remains focused on identifying high quality business models that have compelling risk-adjusted returns.

Portfolio Details	ARTFX	APDFX
Net Asset Value (NAV)	\$9.97	\$9.97
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	5.11%	5.31%
Expense Ratios		
Annual Report 30 Sep 2016	1.03%	0.84%
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	118
Number of Issuers	77

Source: Artisan Partners.

## Top 10 Holdings (% of total portfolio)

VEREIT Inc	6.1
USI Inc	5.0
Endeavor Energy Resources LP	4.3
Williams Cos Inc	3.8
Charter Communications Inc	3.7
York Risk Services Holding Corp	3.2
HUB Holdings LLC	3.2
Kronos Inc	3.1
Altice SA	2.8
Opal Acquisition Inc	2.7
<b>TOTAL</b>	<b>37.9%</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	74.7
Bank Loans	21.3
Equities	0.5
Cash and Equivalents	3.5
<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 31 January 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
<b>Investor Class: ARTFX</b>	<b>1.60</b>	<b>1.60</b>	<b>1.60</b>	<b>18.26</b>	—	—	—	<b>6.50</b>
<b>Advisor Class: APDFX</b>	<b>1.62</b>	<b>1.62</b>	<b>1.62</b>	<b>18.47</b>	—	—	—	<b>6.67</b>
BofA Merrill Lynch US High Yield Master II Index	1.34	1.34	1.34	20.98	—	—	—	4.44
As of 31 December 2016								
<b>Investor Class: ARTFX</b>	<b>1.45</b>	<b>1.95</b>	<b>14.52</b>	<b>14.52</b>	—	—	—	<b>6.10</b>
<b>Advisor Class: APDFX</b>	<b>1.47</b>	<b>2.00</b>	<b>14.72</b>	<b>14.72</b>	—	—	—	<b>6.26</b>
BofA Merrill Lynch US High Yield Master II Index	1.97	1.88	17.49	17.49	—	—	—	4.08

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	12.3
BB	19.6
B	36.0
CCC	29.1
CC	0.7
Unrated	2.3
<b>TOTAL</b>	<b>100.0%</b>

Source: S&P/Moody's.

## Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	4.5
3 - <5 years	23.5
5 - <7 years	33.6
7 - <10 years	37.2
10+ years	1.2
<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	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 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.

BofA Merrill Lynch US High Yield Master II Index measures the performance of below investment grade SUS-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.

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