



Artisan High Income Fund

MONTHLY
Commentary

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

Commentary

July marked yet another month of positive returns for non-investment grade markets as yields fell to three-year lows. High yield bonds returned 1.2% in July and are up 6.1% year to date, while leveraged loans advanced 0.8% and are up 2.6% year to date (as measured by the JP Morgan Leveraged Loan Index). Our portfolio performed in line with the BAML Index in July—positive credit selection in our bond holdings helped offset the lesser contribution from our loan exposure.

Solid corporate earnings growth and benign credit fundamentals underpinned the credit markets' positive monthly performance. In addition, technicals were favorable with scant new issuance (largely driven by refinancing rather than M&A) and high yield fund inflows. As oil prices recovered, the energy sector rebounded from prior month weakness to lead all sectors. The retail and financial services sectors trailed, but were still positive. In contrast to Q2 when higher-rated bonds led, CCCs outperformed in July, returning 1.8%, compared to 1.1% for Bs and 1.0% for BBs. Year to date, CCCs gained 8.9%, compared to 5.6% for Bs and 5.7% for BBs.

High yield bonds yields fell 23bps, finishing the month at 5.5%, while spreads narrowed by 17bps to 374bps—only 21bps above the post-crisis lows set in June 2014. Loan yields similarly dropped 18bps to 5.8%, and spreads compressed 14bps to 416bps.

Default activity was negligible—just one company defaulted on \$471 million in loans. Since the beginning of the year, 23 companies have defaulted on \$18.4 billion in debt, relative to 43 defaults totaling \$48.5 billion in the first seven months of 2016. The par-weighted US high yield default rate eased slightly to 1.2% and is down substantially from the 3.6% rate at the start of the year.

We remain committed to our strategy of searching for issuers with high quality business models that have compelling risk-adjusted returns. We believe our high-conviction process will be rewarded over a long term investment horizon.

Portfolio Details	ARTFX	APDFX
Net Asset Value (NAV)	\$10.18	\$10.18
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	4.90%	5.05%
Expense Ratios		
Semi-Annual Report 31 Mar 2017 ¹	1.01%	0.81%
Prospectus 30 Sep 2016 ²	1.03%	0.84%

¹Unaudited, annualized for the six month period. ²See prospectus for more information.

Portfolio Statistics	Fund
Number of Holdings	130
Number of Issuers	79

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

VEREIT Inc	5.9
Charter Communications Inc	4.9
Endeavor Energy Resources LP	3.6
HUB Holdings LLC	3.3
York Risk Services Holding Corp	3.2
Altice SA	2.9
Ardonagh Midco 3 PLC	2.2
Intelsat Jackson Holdings SA	2.1
CF Industries Inc	2.1
First Data Corp	2.1
TOTAL	32.3%

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	71.5
Bank Loans	21.5
Equities	0.6
Cash and Equivalents	6.4
TOTAL	100.0%

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 July 2017	Average Annual Total Returns							
	MTD ¹	QTD ¹	YTD ¹	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	1.16	1.16	6.72	11.17	7.37	—	—	7.07
Advisor Class: APDFX	1.17	1.17	6.84	11.38	7.56	—	—	7.24
BofA Merrill Lynch US High Yield Master II Index	1.15	1.15	6.12	11.24	5.34	—	—	5.20

As of 30 June 2017

Investor Class: ARTFX	0.38	2.35	5.50	12.81	6.68	—	—	6.88
Advisor Class: APDFX	0.39	2.39	5.60	13.03	6.86	—	—	7.05
BofA Merrill Lynch US High Yield Master II Index	0.11	2.14	4.91	12.75	4.48	—	—	4.97

Source: Artisan Partners/BofA Merrill Lynch. ¹Returns 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	7.9
BB	22.7
B	40.8
CCC	27.3
Unrated	1.3
TOTAL	100.0%

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	4.5
3 - <5 years	24.5
5 - <7 years	34.9
7 - <10 years	34.8
10+ years	1.3
TOTAL	100.0%

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.

BofA Merrill Lynch US High Yield Master II (BAML) 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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