



Artisan High Income Fund

MONTHLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX | As of 30 June 2017

Commentary

Non-investment grade markets were flattish in the month—high yield bonds and loans each returned about 0.1% amid a modest rise in yields. Our portfolio outpaced the BAML High Yield Master II Index in June, and is ahead for Q2.

Re-emerging volatility in the oil market weighed on energy credits. Oil hit YTD lows in June as rising US oil production has complicated efforts by OPEC to rebalance the market with production cuts. Aside from energy, all high yield sectors produced positive returns in June, with insurance, financial services and banking the top performers.

By rating, higher rated bonds led in June and Q2—Q2 returns were 2.6% for BBs, 1.8% for Bs and 1.7% for CCCs. Conversely, lower-rated credits remain ahead year-to-date due to strong Q1 outperformance—CCCs returned 7.0% YTD, compared to 4.7% for BBs and 4.5% for Bs.

High yield bond yields rose and spreads widened fractionally in June but remain below levels seen at the start of the quarter and year. The BAML Index's yield increased 15bps to finish the month at 5.7%, while spreads expanded 3bps to 391bps—only 38bps above the June 2014 cycle lows. Similarly, loan yields rose 16bps to 6.0% and spreads moved out 6bps to 430bps.

Default activity, though up for the fourth consecutive month, remains minimal with six companies defaulting on \$4.4bn in bonds and loans. Year to date, 22 companies have defaulted on \$18.0bn in debt, relative to 38 defaults totaling \$43.4bn in the first half of 2016 and 26 defaults totaling \$15.8bn in the second half of 2016. The par-weighted US high yield default rate ticked up to 1.5%, but is still substantially lower than the 3.6% rate at the start of the year.

The portfolio composition between bonds and loan was little changed from May. Our bond exposure marginally increased to 74.2% from 73.4%, and our loan exposure increased to 22.8% from 22.1%. As a result, our cash position fell to 2.5% from 3.8%. We identified new opportunities in the insurance, health care and services sectors, contributing to increased weightings in these areas. We will continue to focus on company, industry and market dislocations to invest in issuers with high quality business models that have compelling risk-adjusted return characteristics.

Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	\$10.11	\$10.11
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	4.94%	5.07%
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	123
Number of Issuers	77

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

VEREIT Inc	6.0
Charter Communications Inc	5.0
Endeavor Energy Resources LP	3.7
HUB Holdings LLC	3.4
York Risk Services Holding Corp	3.2
Altice SA	2.9
First Data Corp	2.7
Williams Cos Inc	2.5
KIRS Midco 3 PLC	2.2
Intelsat Jackson Holdings SA	2.2
TOTAL	33.8%

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	74.2
Bank Loans	22.8
Equities	0.5
Cash and Equivalents	2.5
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 30 June 2017	Average Annual Total Returns							
	MTD ¹	QTD ¹	YTD ¹	1 Yr	3 Yr	5 Yr	10 Yr	Inception
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.

Credit Quality (%)

BBB	9.2
BB	23.8
B	38.4
CCC	27.0
CC	0.4
Unrated	1.2
TOTAL	100.0%

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	5.7
3 - <5 years	19.5
5 - <7 years	40.5
7 - <10 years	33.1
10+ years	1.2
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	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 \$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.

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.

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