



Artisan High Income Fund

MONTHLY Commentary

Investor Class: ARTFX | Advisor Class: APDFX As of 31 December 2018

Commentary

The closing month of 2018 proved difficult for credit investors as risk assets faced some of their worst declines since 2008. Heightened investor awareness to policy developments and the potential for peak economic conditions helped exaggerate the recent turn in sentiment. High yield bonds (as measured by the ICE BofAML US High Yield Index) declined 2.2% as the one-two punch of surging equity volatility and sliding energy prices sent yield spreads to their widest levels since late 2016. Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) underperformed high yield bonds, falling 2.3% after contending with record retail outflows in late December amid resetting rate expectations and negative press of underwriting excesses. Our portfolio underperformed the ICE BofAML US High Yield Index in December with relative weakness concentrated in select issuers in the insurance and industrial sectors.

With the month's losses, high yield risk premiums widened 101bps to finish at 537bps. For context, spreads put in cyclical lows of 326bps in early October. Bond yields finished 69bps higher to finish at 8.0%—the highest levels since April 2016. Leveraged loans followed similar price action with spreads (to three-year takeout) increasing 108bps to 559bps and loan yields increasing 71bps to 8.1%.

Divergence between higher rated and lower rated credit risk was a notable feature of the month. CCC-rated bonds came under significant pressure, returning -4.4% compared to BB-rated returns of -1.4%. Spreads of CCC-rated risk are now averaging distressed levels (1,102bps) with the move in energy accounting for much of the segment's weakness. Across sectors, all had negative returns in December. Energy was the worst performing sector with an outsized decline of 4.0%, followed by telecom (-2.7%) and retail (-2.6%) while utilities (-0.7%) and automotive (-1.0%) held up best.

Default activity remained quiet in December, with two companies defaulting on a total of \$1.5 billion in bonds and loans. The light volume pushed the high yield default rate to below 1.9%. On a year-over-year basis, the default rate ticked slightly higher, but much of the increase can be attributed to one large default in iHeart Communications. The favorable environment is expected to continue into 2019 with high yield bond and loan default rates to remain modest, declining from currently low levels.

We recognize the recent volatility has been significant, but overall repricing has been relatively benign given the move from cyclically compressed levels. We anticipate the current volatility regime to continue into 2019 as investors attempt to price in the end of the cycle. But in our view, the reemergence of volatility will create a number of opportunities favorable to our approach. We have positioned the portfolio to take advantage of flare-ups in volatility and view these events as opportunities to add value from mispriced securities. As always, we'll continue to focus on attractive idiosyncratic and catalyst-driven opportunities while being selective about the risks we take, believing this high-conviction process will be rewarded over our long-term investment horizon.

Investment Results (%)

As of 31 December 2018	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	-2.53	-5.27	-1.70	-1.70	7.02	—	—	4.99
Advisor Class: APDFX	-2.41	-5.24	-1.44	-1.44	7.20	—	—	5.15
ICE BofAML US High Yield Master II Index	-2.19	-4.67	-2.26	-2.26	7.27	—	—	3.41

Source: Artisan Partners/ICE BofA Merrill Lynch. 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.

Portfolio Details	ARTFX	APDFX
Net Asset Value (NAV)	\$9.15	\$9.15
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	7.19%	7.34%
Expense Ratios		
Annual Report 30 Sep 2018	0.99%	0.82%
Prospectus 30 Sep 2017 ¹	1.00%	0.82%

¹See prospectus for further details.

Portfolio Statistics	Fund
Number of Holdings	130
Number of Issuers	82

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

Charter Communications Inc	6.4
General Electric Co	4.6
Vertafore	3.6
Beacon Roofing Supply Inc	3.1
Ferrellgas LP	3.0
Endeavor Energy Resources LP	2.7
T-Mobile USA Inc	2.7
J Crew Group Inc	2.5
Seven Generations Energy Ltd	2.5
Altice USA Inc	2.5
TOTAL	33.6%

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	77.6
Bank Loans	20.4
Equities	0.1
Cash and Cash Equivalents	1.9
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. Treasury futures represented net notional exposure of -1.86% of net assets.

Average Annual Total Returns

As of 31 December 2018	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	-2.53	-5.27	-1.70	-1.70	7.02	—	—	4.99
Advisor Class: APDFX	-2.41	-5.24	-1.44	-1.44	7.20	—	—	5.15
ICE BofAML US High Yield Master II Index	-2.19	-4.67	-2.26	-2.26	7.27	—	—	3.41

Source: Artisan Partners/ICE BofA Merrill Lynch. Returns for periods less than one year are not annualized.

Ratings Distribution (%)

BBB	8.1
BB	25.6
B	45.8
CCC	19.6
CC	0.8
Unrated	0.1
TOTAL	100.0%

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	10.1
3 - <5 years	19.0
5 - <7 years	35.0
7 - <10 years	30.1
10+ years	5.8
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	18

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. S&P 500[®] Index measures the performance of 500 US companies focused on the large-cap sector of the 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.

This material is provided for informational purposes without regard to your particular investment needs. This material shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Source ICE Data Indices, LLC, used with permission. ICE Data Indices, LLC permits use of the ICE BofAML indices and related data on an "as is" basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML indices or any data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing, and does not sponsor, endorse, or recommend Artisan Partners or any of its products or services.

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. **Three-year takeout** refers to the point at which a current loan is refinanced or otherwise paid off.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

© 2019 Artisan Partners. All rights reserved.