



# Artisan High Income Fund

MONTHLY  
Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 31 January 2018

## Commentary

The momentum that pushed risk assets to new highs in 2017 showed no signs of slowing in January. US equity markets clocked their best opening month since 1997, while non-investment grade markets had their best month of excess returns since December 2016. Despite headwinds from higher interest rates and a pickup in outflows, high yield bonds (ICE BofAML US High Yield Index) returned 0.6%, only to be outdone by leveraged loan (JPMorgan Leveraged Loan Index) returns of 1.1%. Our portfolio strongly outpaced the benchmark, driven by our relative overweight to lower rated debt and strong security selection across our book of leveraged loans.

High yield and leveraged loan spreads continued to tighten during the month, absorbing a multi-year high in Treasury yields. High yield spreads moved to new post-GFC tights, compressing 33bps to finish at 340bps. Leveraged loans experienced a similar move, tightening 36bps to finish at 382bps. Yields for bonds and loans were largely unchanged from levels a month ago.

Across the credit spectrum, lower rated segments sharply outperformed higher rated segments—CCCs returned 1.9% versus the B-rated returns of 0.8% and BB-rated returns of 1.0%. At the sector level, energy, retail and health care led on the up side while leisure and automotive were the only sectors to finish in negative territory.

Default activity remained muted during the month with three defaulted companies totaling \$3.0 billion in bonds and loans—a slight increase from monthly averages of \$2.5 billion in 2017. Despite the increase, the bond default rate decreased 29bps to 1.2%—well below the recent peak of 4.9% in May 2016.

Our process seeks to exploit dislocations in the market, whether cyclical, industry or company-specific. Today, there is a general lack of dislocation with benign default rates and relatively healthy corporate fundamentals. In a market environment characterized by complacency and limited compensation for additional risk taking, we believe it is important to remain true to our investment process—focusing on business quality and remaining disciplined about the prices we pay for the risk we take.

## Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	\$10.01	\$10.01
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	5.25%	5.40%
Expense Ratios		
Annual Report 30 Sep 2017	1.00%	0.82%
Prospectus 30 Sep 2017 <sup>1</sup>	1.00%	0.82%

<sup>1</sup>See prospectus for further details.

## Portfolio Statistics

	Fund
Number of Holdings	120
Number of Issuers	73

Source: Artisan Partners.

## Top 10 Holdings (% of total portfolio)

Charter Communications Inc	6.1
Altice SA	5.5
VEREIT Inc	5.3
HUB Holdings LLC	4.5
Seven Generations Energy Ltd	3.7
J Crew Group Inc	2.9
York Risk Services Holding Corp	2.8
EPEnergy LLC	2.8
Weight Watchers International Inc	2.3
Endeavor Energy Resources LP	2.2
<b>TOTAL</b>	<b>38.1%</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	77.4
Bank Loans	18.7
Equities	0.3
Cash and Cash Equivalents	3.6
<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 -0.25% of net assets.

## Investment Results (%)

	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>1.18</b>	<b>1.18</b>	<b>1.18</b>	<b>8.44</b>	<b>8.15</b>	—	—	<b>7.00</b>
<b>Advisor Class: APDFX</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>8.61</b>	<b>8.34</b>	—	—	<b>7.17</b>
ICE BofAML US High Yield Master II Index	0.64	0.64	0.64	6.74	6.37	—	—	5.03

As of 31 December 2017

<b>Investor Class: ARTFX</b>	<b>0.69</b>	<b>0.85</b>	<b>8.89</b>	<b>8.89</b>	<b>7.99</b>	—	—	<b>6.83</b>
<b>Advisor Class: APDFX</b>	<b>0.60</b>	<b>0.79</b>	<b>8.96</b>	<b>8.96</b>	<b>8.15</b>	—	—	<b>6.97</b>
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	5.6
BB	22.5
B	40.5
CCC	31.1
Unrated	0.3
<b>TOTAL</b>	<b>100.0%</b>

Source: S&P/Moody's.

## Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	4.9
3 - <5 years	25.3
5 - <7 years	27.2
7 - <10 years	42.1
10+ years	0.5
<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

Bryan C. Krug, CFA

### Years of Investment Experience

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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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