



Artisan High Income Fund

MONTHLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 31 January 2019

Commentary

Following a difficult close to 2018, credit markets staged a sharp recovery, helped by a dovish shift from the Fed and a rapid improvement in risk sentiment. High yield bonds (as measured by the ICE BofAML US High Yield Index) returned 4.6% for their strongest month of gains since October 2011. Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) experienced a similar comeback, gaining 2.4% but significantly trailing high yield's recovery during the latter part of the month. Loan prices recovered 40% of their peak-to-trough decline but remain at their lowest average levels since July 2016. Our portfolio provided returns in line with the ICE BofAML US High Yield Index, helped by strong security selection across our capital goods and media holdings. Relative returns were offset by idiosyncratic weakness in retail, services and our strategic allocation to leveraged loans.

After hitting a multi-year high of 548bps in early January, high yield risk premiums tightened nearly 100bps to finish at 443bps. The move marked the largest month-over-month decline since October 2011. Bond yields followed a similar path, declining 100bps to finish at 6.9%. As for loans, spreads decreased 66bps to 493bps, while yields decreased 70bps to finish at 7.4%.

The risk-on environment helped lower rated and more cyclically exposed segments of the market outperform. CCC-rated risk rallied 5.8%, followed by B-rated bonds (4.6%) and BBs (4.3%). Across sectors, all posted positive returns in January. After leading the market lower in December, energy returned 6.3% helped by a nearly 20% rally in crude prices. Retail (6.1%), health care (5.3%) and financials (4.9%) were also among the month's best performers. Among the laggards were transportation (1.3%), media (2.7%) and utilities (3.3%).

Despite a disorderly Q4 for credit markets, default activity remained benign, with no defaults during the year's opening month. The par-weighted default rate decreased to 1.8% month over month but was up from 1.0% at the end of January last year. Looking forward, default activity is expected to remain quiet in 2019, with bond and loan defaults tracking at a modest 1.5% apiece and well below the long-term averages of 3.0%-3.5%.

Looking at 2019, we remain constructive on high yield credit as the fundamental and technical backdrop looks largely similar to years past. We see little evidence to suggest high yield markets are approaching an inflection point—issuer fundamentals are expected to remain supportive, supply/demand conditions favorable and default activity below long-term averages. Importantly, the Fed's recent dovish shift indicating a more patient approach to further rate hikes suggests monetary conditions are likely to remain reasonably accommodative as well. Putting this together, we believe the end-of-cycle concerns implied by Q4's volatility have been offset by meaningful spread widening, making the risk/reward profile of high yield credit the most attractive it's been in several quarters.

Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	\$9.51	\$9.50
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	6.83%	7.03%
Expense Ratios		
Annual Report 30 Sep 2018	0.99%	0.82%
Prospectus 30 Sep 2018 ¹	1.00%	0.83%

¹See prospectus for further details.

Portfolio Statistics

	Fund
Number of Holdings	127
Number of Issuers	80

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

Charter Communications Inc	6.2
General Electric Co	5.1
Vertafore	3.5
Ferrellgas LP	3.0
T-Mobile USA Inc	2.5
Seven Generations Energy Ltd	2.5
Acrisure LLC	2.4
Altice USA Inc	2.4
J Crew Group Inc	2.3
NFP Corp	2.2
TOTAL	32.1%

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	76.7
Bank Loans	20.2
Equities	0.1
Cash and Cash Equivalents	3.0
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 -6.51% of net assets.

Investment Results (%)

As of 31 January 2019	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	4.49	4.49	4.49	1.51	9.19	—	—	5.85
Advisor Class: APDFX	4.40	4.40	4.40	1.58	9.34	—	—	5.99
ICE BofAML US High Yield Master II Index	4.59	4.59	4.59	1.57	9.46	—	—	4.31
As of 31 December 2018								
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.

Ratings Distribution (%)

BBB	10.0
BB	22.3
B	45.6
CCC	21.2
CC	0.8
Unrated	0.1
TOTAL	100.0%

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 Year	0.0
1 - <3 years	10.7
3 - <5 years	19.6
5 - <7 years	36.1
7 - <10 years	25.8
10+ years	7.8
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.

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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. **Par-weighted Default Rate** represents the total dollar volume of defaulted securities compared to the total face amount of securities outstanding that could have defaulted.

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