



Artisan High Income Fund

MONTHLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX As of 31 May 2019

Commentary

The positive sentiment that pushed risk assets to new heights earlier in the quarter inflected in May as collapsing trade rhetoric and deteriorating economic data pushed down credit markets and sent Treasuries rallying. High yield bonds (as measured by the ICE BofAML US High Yield Index) finished the month 1.3% lower, while leveraged loans weathered May's volatility better, declining 0.2% during the period. Despite the pullback, year-to-date total returns for bonds and loans remain historically strong at 7.5% and 5.3%, respectively. During the month, our portfolio outperformed the ICE BofAML US High Yield Index, with relative returns helped by our off-benchmark positions in leveraged loans and BBB-rated bonds.

Helped by a 37bp fall in 5-year Treasury yields, high yield credit spreads steadily decompressed throughout the month, widening 117bps to finish at 473bps. The move for leveraged loans was directionally similar but less severe, with spreads (to 3-year takeout) widening 26bps to 463bps.

Support for lower rated risk was limited in May as CCC-rated bonds resumed their YTD underperformance relative to BB and B-rated peers. In all, BBs held up best, returning -0.8%, followed by Bs (-1.5%) and CCCs (-2.9%). Across sectors, the tentative signs of a rotation toward cyclically exposed issuers seen in April came to a halt in May. Telecom (0.7%) and media (0.5%) were the only segments to finish the period higher, while more economically sensitive segments like energy (-3.9%), automotive (-2.3%) and materials (-1.6%) were the biggest underperformers.

Default activity remained relatively benign in May, with monthly volumes falling to their lowest levels since January. In total, there were two defaults equaling \$2.4 billion in bonds and loans. Nonetheless, the 12-month par-weighted default rate ticked up to 1.4%, which is more than 80bps lower than levels a year ago. Default activity is expected to trend below 2.0% for the remainder of 2019 and into 2020.

As we move into the latter stages of this historically long economic cycle, strong fundamentals and positive technicals leave us with a constructive view of high yield credit. Nonetheless, we're aware tail risks are rising as investors contend with slowing global growth and uncertain macroeconomic conditions that could result in bouts of volatility and mispricings. With this in mind, we believe our ability to capitalize on market inefficiencies by way of individual security selection is increasingly critical and should serve our investors well over a full credit cycle.

Portfolio Details	ARTFX	APDFX
Net Asset Value (NAV)	\$9.56	\$9.56
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	6.89%	7.06%
Expense Ratios		
Semi-Annual Report 31 Mar 2019 ¹	0.98%	0.83%
Prospectus 30 Sep 2018 ²	1.00%	0.83%

¹Unaudited, annualized for the six-month period. ²See prospectus for further details.

Portfolio Statistics	Fund
Number of Holdings	134
Number of Issuers	90

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

General Electric Co	6.1
Charter Communications Inc	4.5
Vertafore	3.3
Ardonagh Midco 3 PLC	3.1
AssuredPartners Inc	3.0
Ferrellgas LP	2.6
T-Mobile USA Inc	2.5
TKC Holdings Inc	2.4
Acrisure LLC	2.1
NFP Corp	2.0
TOTAL	31.6%

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	70.6
Bank Loans	27.2
Equities	0.1
Cash and Cash Equivalents	2.1
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 -5.00% of net assets.

Investment Results (%)

As of 31 May 2019	Average Annual Total Returns							
	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	-0.88	0.79	7.29	4.24	7.46	5.91	—	6.01
Advisor Class: APDFX	-0.87	0.81	7.36	4.41	7.65	6.08	—	6.18
ICE BofAML US High Yield Master II Index	-1.27	0.11	7.52	5.37	7.06	4.37	—	4.59
As of 31 March 2019								
Investor Class: ARTFX	0.24	6.46	6.46	4.28	8.84	6.07	—	6.05
Advisor Class: APDFX	0.25	6.50	6.50	4.57	9.07	6.24	—	6.22
ICE BofAML US High Yield Master II Index	0.98	7.40	7.40	5.94	8.69	4.70	—	4.72

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 (%)

A	1.2
BBB	8.9
BB	17.8
B	48.4
CCC	20.5
CC	3.1
Unrated	0.1
TOTAL	100.0%

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 Year	0.1
1 - <3 years	14.2
3 - <5 years	20.5
5 - <7 years	42.0
7 - <10 years	15.4
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. 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. **Three-year takeout** refers to the point at which a current loan is refinanced or otherwise paid off. **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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