Artisan High Income Fund

MONTHLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 30 November 2019

Commentary

Credit markets generated modest gains in November, helped by positive sentiment from improved trade rhetoric and better-than-expected macroeconomic data. High yield bonds (as measured by the ICE BofAML US High Yield Index) provided a below-coupon return of 0.3% during the month to push YTD gains to 12.1%. Returns, however, remain bifurcated across credit qualities with the ongoing reach for yield that has concentrated demand toward higher rated segments.

Elsewhere, the Fed's near-term pause on further rate cuts helped provide a bid to floating-rate segments. Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) outpaced bonds during the month with returns of 0.6% for YTD gains of 6.9%. Despite a better outlook for the asset class, loans continue to face headwinds from retail redemptions and slowing CLO creation.

Our portfolio outperformed the ICE BofAML US High Yield Index during the month, with significant contributions from idiosyncratic recovery stories in select insurance and capital goods issuers. Year to date, our portfolio modestly trails the index with relative underperformance largely attributed to our strategic allocation to leveraged loans.

The positive backdrop for risk assets pushed high yield credit spreads 15bps tighter during the month, offsetting a 10bps rise in Treasury yields. The move tighter was driven primarily by strength in higher rated segments. BB spreads rallied 20bps—25bps from cycle tights—while the limited support for more leveraged capital structures resulted in CCC spreads widening 55bps. In all, BB-rated bonds returned 0.6% while CCC-rated bonds declined 2.2%, pushing the YTD return differential between the two segments to 1,100bps. As discussed in previous commentaries, this recession-like relative performance for CCCs is all the more unusual considering the strength of the high yield rally this year.

There was modest default activity in the month, with four companies defaulting on $4.5 billion in defaulted bonds and loans. The par-weighted high yield default rate ticked higher to 2.6%—up 80bps from levels to start the year but well below the long-term average of 3.2%. Default activity has been higher than expected in 2019, but much of this can be attributed to acute weakness in commodity-dependent sectors. Excluding the effects of energy, the high yield default rate is a much more modest 1.2%.

We remain constructive on our opportunity set given the expectations for limited defaults, strong technicals and a favorable monetary backdrop in the near term. While valuations for credit markets in aggregate are at the tight end of their historical range, overarching uncertainty has resulted in a pronounced decoupling of risk across industries, credit quality and capital structures, creating vast opportunities for disciplined credit pickers.

Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	$9.62	$9.62
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	6.44%	6.71%
Expense Ratios		
Annual Report 30 Sep 2019	0.98%	0.82%
Prospectus 30 Sep 2018[1]	1.00%	0.83%

[1]See prospectus for further details.

Portfolio Statistics

Number of Holdings	121
Number of Issuers	83

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

General Electric Co	7.2
Ardonagh Midco 3 PLC	5.2
Vertafore Inc	3.7
Charter Communications Inc	3.1
TKC Holdings Inc	3.0
NFP Corp	3.0
Acrisure LLC	2.6
Ferrellgas LP	2.3
W/S Packaging Holdings Inc	2.3
Realogy Group LLC	2.0
TOTAL	**34.4%**

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	68.5
Bank Loans	29.7
Equities	0.0
Cash and Cash Equivalents	1.8
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 -6.82% of net assets.

Investment Results (%)

				Average Annual Total Returns				
As of 30 November 2019	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	**0.82**	**0.61**	**11.32**	**8.51**	**6.52**	**6.25**	—	**6.15**
Advisor Class: APDFX	**0.85**	**0.66**	**11.51**	**8.82**	**6.71**	**6.44**	—	**6.32**
ICE BofAML US High Yield Master II Index	0.27	0.51	12.07	9.61	6.28	5.38	—	4.93
As of 30 September 2019								
Investor Class: ARTFX	**0.81**	**1.65**	**10.65**	**4.81**	**6.48**	**6.47**	—	**6.22**
Advisor Class: APDFX	**0.83**	**1.70**	**10.78**	**4.98**	**6.66**	**6.65**	—	**6.39**
ICE BofAML US High Yield Master II Index	0.32	1.22	11.50	6.30	6.07	5.36	—	4.99

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	0.8
BBB	9.2
BB	11.4
B	54.6
CCC	22.0
CC	0.7
C	0.4
D	0.8
Unrated	0.1
TOTAL	**100.0%**

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 Year	0.5
1 - <3 years	15.1
3 - <5 years	22.8
5 - <7 years	40.3
7 - <10 years	12.6
10+ years	8.7
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	19

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. **Collateralized Loan Obligation (CLO)** is a security backed by a pool of debt. A **coupon payment** on a bond is the annual interest payment that the bondholder receives from the bond's issue date until it matures. **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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