Artisan High Income Fund

MONTHLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 30 September 2019

Commentary

Credit markets clocked in modest gains in Q3, despite ongoing retaliatory trade rhetoric and global growth concerns. High yield bonds (as measured by the ICE BofAML US High Yield Index) returned 1.2% in the quarter to push YTD gains to 11.5%. Deconstructing performance, much of the quarter's gains were a result of rallying interest rates—5-year and 10-year Treasury yields declined 25bps and 35bps, respectively, for the quarter. The rate environment continues to pressure the outlook for floating-rate sectors. Leveraged loans (as measured by the JPMorgan Leveraged Loan Index), which snapped a streak of 43 straight weeks of withdrawals in September, provided a below-coupon return of 1.0% in Q3 for YTD gains of 6.7%. Our portfolio outpaced the ICE BofAML US High Yield, helped by strength from our insurance brokerage issuers and relative underweight to energy sector weakness.

High yield credit spreads reacted to increased trade tensions and heightened volatility by widening more than 60bps in August before returning to more normalized levels in September. In all, the roundtrip in spreads left them unchanged at 420bps. Bond yields touched and rose off a 19-month low, falling 20bps lower in the period to finish at 5.9%. To date, spreads and yields have declined 117bps and 208bps, respectively.

Across the credit quality spectrum, the decoupling between higher and lower rated credit risk accelerated in the quarter as investors rotated toward relative safety. In all, BB-rated bonds (2.1%) materially outperformed CCC-rated bonds (-2.3%), underscoring the market's risk aversion. The lack of investor support was even more apparent in distressed securities, which declined 11.3% in Q3. Across sectors, top performers included real estate (3.2%), financials (3.1%) and gaming (2.7%). Energy was the only sector to finish lower, declining 4.6%.

Default activity was particularly acute with $15.7 billion in defaulted bonds and loans—the 13th-busiest quarter on record. There was also a noticeable increase in downgrades, with a number of rating actions concentrated in already weak energy and retail issuers. As a result, the 12-month par-weighted high yield default rate ticked higher to 2.5%—up 100bps from last quarter. Excluding energy, however, the high yield default rate is much more benign at 1.0%.

In our view, the landscape continues to be broadly favorable to high yield credit investors. Fundamentals for our opportunity set remain supportive, but uncertainty regarding the direction of the global economy remains, leaving the market vulnerable to bouts of volatility, as is typical at this point in the cycle. We will continue to use these opportunities to take advantage of mispricing across companies and capital structures and believe our high-conviction approach will be rewarded over a long investment horizon.

Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	$9.66	$9.66
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	6.12%	6.31%
Expense Ratios		
Semi-Annual Report 31 Mar 2019[1]	0.98%	0.83%
Prospectus 30 Sep 2018[2]	1.00%	0.83%

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

Portfolio Statistics

	Fund
Number of Holdings	126
Number of Issuers	87

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

General Electric Co	6.7
Ardonagh Midco 3 PLC	4.2
Vertafore Inc	3.6
TKC Holdings Inc	3.0
Charter Communications Inc	3.0
Acrisure LLC	2.7
NFP Corp	2.3
Ferrellgas LP	2.3
AssuredPartners Inc	2.3
W/S Packaging Holdings Inc	2.2
TOTAL	**32.3%**

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	65.3
Bank Loans	28.8
Equities	0.0
Cash and Cash Equivalents	5.9
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 -6.05% of net assets.

Investment Results (%)

				Average Annual Total Returns				
As of 30 September 2019	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
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	1.3
BBB	8.5
BB	13.2
B	53.8
CCC	21.9
CC	1.2
Unrated	0.1
TOTAL	**100.0%**

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 Year	0.6
1 - <3 years	13.1
3 - <5 years	24.0
5 - <7 years	42.2
7 - <10 years	11.3
10+ years	8.8
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	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.

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.

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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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