Artisan High Income Fund

MONTHLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 29 February 2020

Commentary

Credit markets came under heavy pressure following a late-month, double-digit decline in equity markets. By the end of February, it became clear the aggressive spread of COVID-19 would not be ring-fenced in mainland China, as pockets of infection appeared in Italy, South Korea and Iran. Investors moved aggressively to price in the growing economic risk of the COVID-19 outbreak, resulting in the worst week for US equities since 2008. The risk-off tone was felt across most risk assets, but capitulation in non-investment grade credit markets failed to reach the level seen in equities. High yield bonds (as measured by the ICE BofAML US High Yield Index) and leveraged loans (as measured by the JPMorgan Leveraged Loan Index) easily outperformed equities during the month, declining 1.6% and 1.5%, respectively. Our portfolio held up well during the month's volatility, outperforming the ICE BofAML US High Yield Index. Excess returns were driven by relative strength in our loan book and positive performance from our lower rated holdings.

High yield credit spreads reacted to increased volatility by widening more than 100bps to finish at 524bps—the widest level since December 2018. All credit qualities declined, even higher-rated, which uncharacteristically failed to withstand the sell-off due to extremely tight valuations. In all, BBs returned -1.4%, Bs -1.5% and CCCs -2.4%. Among sectors, energy (-7.5%) experienced the most selling, contributing close to 40bps of the broad market's 100bps widening. Airlines (-4.8%) and leisure (-4.9%) were most impacted by COVID-19 fears. Telecom was the only sector to finish with positive returns.

There was modest default activity in the month, with four defaults totaling $2.0 billion in bonds and loans. The par-weighted high yield default rate declined to a seven-month low of 2.3% but is 113bps higher from levels a year ago. Excluding the effects of energy, the high yield default rate is a much more benign 0.8%. Looking ahead, we expect a similar default outcome as 2019, with bond defaults somewhere between 2%-3% for 2020.

As investor risk tolerance wanes and bouts of volatility become more frequent, we will use the growing dispersion as an opportunity to strategically invest in credits with attractive risk-reward profiles. A key differentiator of our approach is our ability to migrate up and down the credit spectrum and across the capital structure as opportunities warrant. Given our historical track record of navigating different market environments, we believe our portfolio is well-tailored to this environment, where disciplined underwriting is required and deep credit work is essential.

Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	$9.65	$9.64
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	6.91%	7.04%
Expense Ratios		
Annual Report 30 Sep 2019[1,2]	0.98%	0.82%
Prospectus 30 Sep 2019[2]	0.99%	0.84%

[1]Excludes Acquired Fund Fees & Expenses as described in the prospectus. [2]See prospectus for further details.

Portfolio Statistics

Number of Holdings	125
Number of Issuers	86

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

General Electric Co	7.2
Ardonagh Midco 3 PLC	5.0
NFP Corp	3.6
Vertafore Inc	3.6
TKC Holdings Inc	3.1
Charter Communications Inc	2.9
Acrisure LLC	2.7
Laredo Petroleum Inc	2.4
Realogy Group LLC	2.3
USI Inc	2.2
TOTAL	**35.0%**

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	69.5
Bank Loans	27.0
Equities	0.0
Cash and Cash Equivalents	3.5
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 -7.80% of net assets.

Investment Results (%)

				Average Annual Total Returns				
As of 29 February 2020	MTD	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	**-1.33**	**-0.51**	**-0.51**	**6.79**	**5.66**	**6.39**	—	**6.22**
Advisor Class: APDFX	**-1.32**	**-0.49**	**-0.49**	**6.88**	**5.84**	**6.56**	—	**6.37**
ICE BofAML US High Yield Master II Index	-1.55	-1.55	-1.55	5.91	4.76	5.16	—	4.81
As of 31 December 2019								
Investor Class: ARTFX	**2.41**	**3.03**	**14.00**	**14.00**	**6.86**	**7.13**	—	**6.49**
Advisor Class: APDFX	**2.32**	**2.99**	**14.10**	**14.10**	**7.01**	**7.30**	—	**6.65**
ICE BofAML US High Yield Master II Index	2.09	2.61	14.41	14.41	6.32	6.13	—	5.24

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	0.9
BBB	8.6
BB	13.3
B	51.3
CCC	24.0
CC	0.9
C	0.2
D	0.6
Unrated	0.2
TOTAL	**100.0%**

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 year	0.3
1 - <3 years	15.4
3 - <5 years	21.2
5 - <7 years	40.1
7 - <10 years	13.3
10+ years	9.7
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. **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. **Non-Investment Grade** refers to fixed income securities with lower credit quality.

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