Artisan High Income Fund

QUARTERLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 30 September 2016

Investment Process

We seek to invest in issuers with high-quality business models that have compelling risk-adjusted return characteristics. Our research process has four primary pillars:

Business Quality

We use a variety of sources to understand an issuer's business model resiliency. We analyze the general health of the industry in which an issuer operates, the issuer's competitive position, the dynamics of industry participants and the decision-making history of the issuer's management.

Financial Strength and Flexibility

We believe that analyzing the history and trend of free cash flow generation is critical to understanding an issuer's financial health. Our financial analysis also considers an issuer's capital structure, refinancing options, financial covenants, amortization schedules and overall financial transparency.

Downside Analysis

We believe that credit instruments by their nature have an asymmetric risk profile. The risk of loss is often greater than the potential for gain, particularly when looking at below investment grade issuers. We seek to manage this risk with what we believe to be conservative financial projections that account for industry position, competitive dynamics and positioning within the capital structure.

Value Identification

We use multiple metrics to determine the value of an investment opportunity. We look for credit improvement potential, relative value within an issuer's capital structure, catalysts for business improvement and potential value stemming from market or industry dislocations.

Team Overview

Our team brings together a group of experienced credit analysts who are dedicated to a single investment philosophy and process. All team members conduct deep fundamental credit research as generalists with sector tendencies to identify issuers with high quality business models that have compelling risk-adjusted return characteristics.

Portfolio Management

Bryan C. Krug, CFA
Portfolio Manager

Investment Results (%)

As of 30 September 2016	QTD[1]	YTD[1]	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[2]
Investor Class: ARTFX	**4.88**	**12.33**	**11.40**	—	—	—	**5.92**
Advisor Class: APDFX	**4.94**	**12.48**	**11.61**	—	—	—	**6.07**
BofA Merrill Lynch US High Yield Master II Index	5.49	15.32	12.82	—	—	—	3.73

Source: Artisan Partners/BofA Merrill Lynch. [1]Returns for periods less than one year are not annualized. [2]Fund inception: 19 March 2014.

Expense Ratios	ARTFX	APDFX
Semi-Annual Report 31 Mar 2016[1]	1.03	0.85
Prospectus 30 Sep 2015	1.09	0.93

[1]Unaudited, annualized for the six month period.

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. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect. Unlike the Index, the High Income Fund may hold loans and other security types. At times, this causes material differences in relative performance.

Investing Environment

During the third quarter, the High Income Fund participated in ongoing positive momentum in non-investment grade credit, with a return of 4.88%, bringing year-to-date performance to 12.33%. While the Fund's return was, as always, quite idiosyncratic, in the broader market the quest for yield was the driving dynamic, as high yield bond yields and spreads declined to their lowest levels in 15 months.

Though the High Income Fund finished the quarter with a substantial absolute return, it trailed the BAML Index. Much of the relative performance shortfall to the index in Q3 and year to date was driven by our portfolio's select CCC holdings, which have historically behaved in an uncorrelated fashion with the broader CCC portion of the index. In 2015, a down year for high yield, dislocation in the commodity markets caused lower-rated debt to suffer disproportionately. During that period, our CCC holdings substantially outperformed those in the index, resulting in strong relative down-market performance. We attribute this to what we view as the higher business quality of our CCC-rated exposure. As a direct consequence, however, in the subsequent low-quality led rally in 2016, our CCC holdings did not have as far to rebound. That said, though our portfolio lags the index year to date, it has participated strongly on the upside over the one-year period and has meaningfully outperformed since inception of the strategy.

The index is an imperfect benchmark for our strategy, not only because we also invest in loans, but also due to underlying technical differences that exist. Actively-managed fixed income portfolios have to contend with bid-ask spreads and periodic illiquidity—factors that do not affect the index. Moreover, the index is not replicable as an investment portfolio in the real world. For these reasons, we believe it is more relevant to compare our results to those of other active managers in the credit space. In Q3, we modestly outperformed our peer group, the Morningstar High Yield Bond category, which had a 4.61% average return.[1]

From a broader market perspective, in Q3 risk assets benefited from continued accommodative central bank policies and further improvement in the energy, metals and mining sectors, as commodity prices steadied and issuer default activity subsided. Despite jawboning by Fed officials in an attempt to ready the market for a potential hike, the FOMC chose to leave its benchmark rate unchanged, while setting the stage for a potential December hike. The Bank of Japan announced a shift in its policy, stating its intention to target a yield of zero on the country's 10-year government bonds, adjusting the pace of asset purchases as needed to achieve that rate objective.

US high yield bonds (BAML Index) gained 5.49% and leveraged loans (JP Morgan Leveraged Loan Index) rose 2.58%. The S&P 500® Index rallied 3.85%, while investment grade bonds returned 1.44%. Year to date, high yield bonds (+15.32%), have outgained the S&P 500® Index (+7.84%) and investment grade bonds (+8.97%), whereas the loan index is up 7.45%.

Relative performance favored lower-rated credits. Although there has been a run-up in CCCs since February, notably dominated by the rebound in the energy sector, they had fallen precipitously in 2015, so spreads are still substantial at about 1200bps, which is more than 500bps above their mid-2014 trough. Conversely, at the higher-rated end of the non-investment grade spectrum, spreads for BBs are quite tight at approximately 340bps, which is a mere 100bps wider than they were at that same point in June 2014.

The commodity sectors—energy and metals/mining—continued to lead the rally this quarter. Other areas of strength included the telecom and automotive sectors. On the downside, the health care and banking sectors were laggards.

Q3 new issue volume totaled $77.7bn in high yield bonds and $130.6bn in institutional loans. Issuance continued to be driven by refinancing and repricing activity, with acquisition-related financing accounting for only 10% and 24% of high yield bond and loan new-issue volume. Increased new-issue activity in recent months has helped close the year-over-year gap that had existed—year to date, bond new issuance is down just 7% compared to 2015 ($233.0bn vs $250.9bn), and loan new issuance is running ahead of last year's pace ($291.7bn vs $266.2bn). In terms of use of proceeds, year to date, refinancing accounts for 57% of new issuance for high yield bonds and refinancing/repricing represents about 60% for loans.

Default activity continued its downward trajectory—defaults totaled $9.4bn in Q3, which compares to $13.4bn in Q2 and $30.4bn in Q1. A steady improvement in the commodity environment has been a primary driver. Aside from the energy and metals/mining sectors, only 14 companies totaling $8.0bn have defaulted year to date as 85% of default activity has come from the commodities sectors. The high yield default rate at the end of the quarter was about 4.9%, but only 0.5% excluding commodities, which is historically extraordinarily low.

Portfolio Positioning

As high yield bond yields have shrunk, relative value has become more attractive in leveraged loans. Accordingly, our loan exposure increased quarter over quarter to 21.6% from 17.9% as our bottom-up fundamental research led us to specific opportunities in a variety of industries, including telecom, specialty retail, media and aerospace/defense. Conversely, our weighting in bonds declined to 72.6% from 76.5%.

Our weighting in the top-10 holdings was little changed—finishing at 36.6% from 36.1%—in line with its historical range and consistent with our high-conviction approach. New to the top 10 were Callon Petroleum, Endeavor Energy Resources and HUB Holdings.

Callon and Endeavor are energy exploration and production companies focused on the Permian Basin. Our position in a Callon second lien loan with roughly an 8.5% yield was refinanced during the quarter by the company into a bond paying a 6 1/8 coupon. Due to settlement timing with the loan not yet paid down with the proceeds

from the bond issuance when the quarter came to a close, there was temporary double counting in our exposure. However, this transaction is a good example of the difference in valuations currently in the bond and loan markets. You had the same company able to refinance a loan into a bond at a much lower yield.

We increased our existing position in Endeavor. Like Callon, the company operates in the lowest-cost basin. The company has asset coverage that we believe is in excess of 10X the value of its debt. Management's plan to strengthen the balance sheet, in part through strategic divestitures, while retaining the vast majority of its core high-quality acreage, should allow it to meaningfully deleverage, in our view.

HUB is an insurance broker. The company's plan to increase organic growth by reinvesting heavily to expand its broker headcount led to concerns about profitability, and the bonds sold off on a relative basis. We used that opportunity to build a meaningful position as we believe these issues are transitory and that the company should benefit longer term from these expenses skewing short-term profitability. We are also attracted to the company's strong market position and large scale, opportunistic approach to M&A and its focus on deleveraging its balance sheet.

Given that Callon is only in the top 10 due to this timing anomaly, we should note that the 11th largest position was Altice. Altice is a multinational cable and telecommunications company. We opportunistically purchased the credit when the company announced the acquisition of the Cablevision assets last year. At the time, the market was concerned about the company's financial policy and access to capital. Over time, the market has become more comfortable with the company's health and the bonds have performed well.

Dropping out of the top 10 were Active Network, Renaissance Learning and T-Mobile USA. Active Network and Renaissance Learning are both SaaS (software-as-a-service) providers. Active Network provides activity and participant management software, and Renaissance Learning offers educational software. Both positions are second lien loans. We didn't sell out of these positions, but in the absence of additional purchases, they naturally fell out of the top 10 as a result of positive asset growth and portfolio appreciation elsewhere. Though, at the end of the quarter, both names were still top-15 holdings.

With regard to T-Mobile, a wireless provider, we had a position in the 6.5% coupon bonds maturing in 2026 that we sold, although we continue to hold other T-Mobile bonds. We built our position in the 2026 bonds in Q4 2015 when they were selling close to par. The bond price moved up to about $110 in Q3, so we sold—taking advantage of strong markets and redeploying capital to more attractive opportunities.

Perspective

Since February 2016, there has been a substantial rally in the non-investment grade credit space, particularly in the beleaguered energy and metals/mining sectors. As a result, today there is no obvious area of significant value. However, we believe there are pockets of dislocation in the market in a variety of sectors, including energy and portions of the universe that continue to offer opportunity that is idiosyncratic and credit specific. We hold that this requires considerable caution and a focus on the underlying business quality of each respective business. In addition, with the potential for rising interest rates, we believe the ability to flex into loans and away from bonds will act as a helpful risk mitigant.

For more information: Visit www.artisanpartners.com | Call 800.344.1770

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 investments entail credit and interest rate risk. In general, when interest rates rise, fixed income portfolio values fall and investors may lose principal value. High income securities (junk bonds) are fixed income instruments rated below investment grade. High income securities are speculative, have a higher degree of default risk than higher-rated bonds and may increase the Portfolio's volatility. The Portfolio typically invests a significant portion of its assets in lower-rated high income securities (e.g., CCC). Loans carry risks including the insolvency of the borrower, lending bank or other intermediary. Loans may be secured, unsecured, or not fully collateralized, and may infrequently trade, experience delayed settlement, and be subject to restrictions on resale. Private placement and restricted securities are subject to strict restrictions on resale and may not be able to be easily sold and are more difficult to value. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. The use of derivatives may create investment leverage and increase the likelihood of volatility and risk of loss in excess of the amount invested.

BofA Merrill Lynch 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 large-cap companies. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

This summary represents the views of the portfolio managers as of 30 Sep 2016. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. These holdings comprise the following percentages of the Fund's total net assets (including all classes of shares) as of 30 Sep 2016: Callon Petroleum Co 3.7%; Endeavor Energy Resources LP 2.9%; HUB Holdings LLC 2.9%; Altice SA 2.8%; Active Network Inc 2.5%; Renaissance Learning Inc 2.4%; T-Mobile USA Inc 1.4%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. Portfolio statistics include accrued interest unless otherwise stated and may vary from the official books and records of the Fund. This material does not constitute investment advice.

Source BofA Merrill Lynch, used with permission. BofA Merrill Lynch is licensing the BofA Merrill Lynch indices "as is," makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the BofA Merrill Lynch indices or any data included in, related to, or derived there from, assumes no liability in connection with their use, and does not sponsor, endorse, or recommend Artisan Partners, or any of its products or services.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Contribution to return is calculated by Bloomberg by multiplying a security's daily total return multiplied by the daily weight compounded over the referenced timeframe and does not take into account expenses of the portfolio. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

Credit Quality 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.

[1]**Past performance does not guarantee and is not a reliable indicator of future results.** For the period ended September 30, 2016, the Morningstar High Yield Bond Category had an average annual total return of 9.13% for the 1-yr period, and 2.16% since the inception of Artisan High Income Fund on 19 Mar 2014.The Morningstar High Yield Bond Category consists of portfolios primarily invested in U.S. high-income debt securities where at least 65% or more of the assets are considered non-investment grade.

Non-Investment Grade refers to fixed income securities with lower credit quality. **Bid-ask spread** is the difference between the highest price a buyer is willing to pay for an asset and the lowest price a seller is willing to accept to sell it.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

A R T I S A N  P A R T N E R S

10/21/2016 A16675L_vR