Artisan High Income Fund

QUARTERLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 31 December 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 31 December 2016	QTD[1]	YTD[1]	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[2]
Investor Class: ARTFX	**1.95**	**14.52**	**14.52**	—	—	—	**6.10**
Advisor Class: APDFX	**2.00**	**14.72**	**14.72**	—	—	—	**6.26**
BofA Merrill Lynch US High Yield Master II Index	1.88	17.49	17.49	—	—	—	4.08

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
Annual Report 30 Sep 2016	1.03	0.84
Prospectus 30 Sep 2015	1.09	0.93

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

Non-investment grade markets capped off a strong year with solid gains in Q4, with particular strength in December, as high yield bond spreads continued to compress. Market optimism in December was reflected in the largest monthly inflows into the high yield and leveraged loan asset classes since March 2016 and August 2013, respectively. In Q4, high yield bonds were up 1.88% (BAML Index), while leveraged loans (JP Morgan Leveraged Loan Index) gained 2.17%. For the full year, high yield bonds returned 17.49%—their best calendar year return since 2009. Leveraged loans also performed well, returning 9.78%. As comparison, the S&P 500® Index returned 11.95%.

Our portfolio performed just ahead of the BAML Index in Q4, but trailed modestly for the full year. Most of the one-year performance shortfall stems from a volatile Q1 as investors had to contend with wider bid-ask spreads and periodic illiquidity to which the indices are immune. We are pleased with our strong absolute return in an environment led by commodity-oriented and lower-rated credits, albeit we trailed the index in 2016. In 2015, we materially outperformed on a relative basis, and our holdings held up better in the dislocation. However, as markets rebounded we experienced less uplift compared to the index during 2016's rally.

Compared to our peer group (the Morningstar High Yield Bond category) we outperformed in Q4 and 2016.[1] High yield managers in general had difficulty keeping pace with the benchmark index in 2016. Indeed, the BAML Index's one-year return equated to the 5th percentile for the Morningstar High Yield Bond category (i.e., 95% of high yield funds lagged the BAML Index in 2016). In contrast, in 2015 which was a down year, nearly two out of three high yield funds outperformed the index. Likewise, there was a strong tendency for funds that performed well in the 2015 down year to lag in the 2016 up year. In fact, peers ranked in the top quintile in 2015 ranked a median 84th percentile in 2016. Conversely, managers ranking in the bottom quintile in 2015 ranked a median 16th percentile in 2016.

The US presidential election was the fourth quarter's pivotal event. The outcome, which caught many off guard, led markets to rapidly reprice stronger US economic growth and higher inflation expectations. Risk assets rallied on growing expectations of pro-growth policies (tax reform, deregulation, infrastructure spending), and Treasuries experienced a massive selloff. The yield on the 10-year Treasury note jumped 75bps from November 8—the date of the election—to its high of 2.60% in mid-December—125bps above its all-time low set in July 2016. For high yield, spreads cushioned some of the impact of rising rates.

Q4 saw a continuation in performance trends by rating and sector. CCCs returned 5.94% in Q4, whereas the highest-rated non-investment grade credits (BBs) were up 0.68%. For the year, CCCs were up 36.46%, compared to about 16.94% for Bs and 13.22% for BBs. The metals & mining and energy sectors remained areas of strength in Q4. The health care and banking sectors were laggards in both Q4 and 2016.

Since mid-February, high yield bond yields are nearly 4 percentage points lower and spreads are roughly 450bps tighter. There was no bigger driver this year for credit markets than improving fundamentals in the commodity sectors. In Q4, the energy sector received an additional boost from OPEC's agreement to curtail production. As such, the yield in the energy sector finished the year 6.44%, a tremendous decline from its 20.99% peak in February.

Default activity trended lower over the course of 2016 as commodity sectors continued healing. Indeed, more than half of default volume for 2016 occurred in Q1. For the year, $60 billion in high yield bonds and loans defaulted, which was 57% higher than 2015's $38 billion. However, excluding the commodity sectors, default rates were extraordinarily benign and below historical averages.

High yield bond new issuance totaled $286 billion in 2016—a small 2% decline from 2015's $293 billion. This represents the third consecutive yearly decrease in high yield new issue volume since 2013's record of $399 billion. Leveraged loan new issuance, on the other hand, increased 49% year over year to $485 billion—its second-highest total on record. Issuance was driven by refinancing and repricing activity, with acquisition-related financing accounting for only 16% and 29% of high yield bond and loan new-issue volume.

Portfolio Positioning

There were few notable changes to portfolio positioning during the quarter. Our loan exposure decreased to 20.0% from 21.6%, and our weighting in bonds increased to 74.9% from 72.6%. Up until the US election, we were finding relative value more attractive in loans and in turn were adding to select loan positions. Our loan exposure rose to mid 20's percent in October. After the election, the environment changed abruptly, and we responded accordingly by unwinding some of our loan exposure. A few loan positions also naturally rolled off. For example, our second lien in Active Network, a provider of activity and participant management software, was taken out at par. The leveraged loan market began to experience increased rates of refinancings as capital flooded into the market. We took some of that capital and deployed it incrementally into bonds.

Our weighting in the top-10 holdings modestly increased quarter over quarter to 38.1% from 36.6%—in line with its historical range and consistent with our high-conviction approach. New to the top 10 were Charter Communications, Kronos and Altice. Charter and Altice were existing positions in the portfolio; Kronos is brand new to the portfolio. Charter is a provider of cable programming and telecommunications services. We've had some ownership in Charter bonds since our portfolio's inception in March 2014, and view it as a core holding. Since the purchase of Time Warner Cable, the company has continued to benefit from additional size and scale with positive fundamentals, which increase the possibility of an upgrade to investment grade, in our view. We were actually reducing our Charter position in Q3 as valuations had tightened. After the election, the 2026 maturity notes traded down materially from where they were

selling in August, and we saw that as an attractive opportunity to increase our investment.

Kronos is a best-in-class provider of comprehensive workforce management software growing organically by double digits. We believe its business model is quite attractive given its leading market position, sticky customer relationships and high recurring revenue. We purchased both the first and second lien loans as the company recapitalized its balance sheet. While leverage is high today, we are confident the company's value proposition will continue to result in strong growth and material deleveraging and find its yield to be attractive.

Altice is a multinational cable and telecommunications company. We like cable businesses generally due to their steady revenue and cash flow. We added to our Altice position through the Cablevision subsidiary. Cablevision was acquired by Altice in 2015. Since then, the subsidiary has successfully cut costs ahead of our expectations, and we anticipate ongoing synergies will improve credit metrics.

Dropping out of the top 10 were Callon Petroleum, First Data and Gardner Denver. A pure-play exploration and production (E&P) company, operating predominantly in the Permian basin, Callon is a low-cost operator with high-quality acreage. As we explained in our Q3 letter, due to the settlement timing of the refinanced second lien loan, our position in Callon was overstated when Q3 came to a close due to temporary double counting. After settlement, our position dropped out of the top 10. We continue to hold the 6.125% coupon bond maturing in 2024.

First Data is a leading payments processor. It's our 11th largest position, falling just outside the top 10 at quarter end. We continue to like the company due to its high recurring revenues and management's focus on accelerating growth and paying down debt.

Gardner Denver manufactures an array of engineered solutions. While not a constituent of the energy sector itself, Gardner Denver has upstream energy exposure. When the energy sector was selling off in the second half of 2015, we took advantage of the opportunity to initiate our position at attractive prices. Gardner Denver was among our top contributors to return in 2016. We exited our position this quarter on valuation grounds, as we felt a full recovery in the business was priced in.

Perspective

Our investment approach is designed to outperform its benchmark over a full market cycle. While our process may or may not be rewarded over the short term, we strive to outperform over the long term by participating in up markets and holding up better in down markets. The down and up years of 2015 and 2016 serve as recent examples of our ability to hold up well in periods of stress and participate well in periods of strength.

Non-investment grade credit is clearly richer than it was coming into 2016 given the robust returns and the degree of spread tightening that occurred. However, in our view, the risk/reward opportunity in the asset class is still superior to most other areas of fixed income, where yields remain quite low and possess greater interest rate risk. In that type of environment, we believe the idiosyncratic and focused nature of our portfolio is well positioned.

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 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.

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 31 Dec 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 31 Dec 2016: Charter Communications Inc 3.6%; Kronos Inc 3.3%; Altice SA 3.1%; Callon Petroleum Co 1.6%; First Data Corp 2.7%. 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.

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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 December 31, 2016, the Morningstar High Yield Bond Category had an average return of 1.65% for the quarter-to-date period and average annual total returns of 13.12% for the 1-yr period and 2.57% 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.

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