Artisan High Income Fund

QUARTERLY
Commentary

Investor Class: ARTFX | Advisor Class: APDFX | Institutional Class: APHFX

As of 30 September 2017

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 2017	QTD[1]	YTD[1]	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception[2]
Investor Class: ARTFX	**2.34**	**7.97**	**10.07**	**7.65**	—	—	**7.07**
Advisor Class: APDFX	**2.37**	**8.11**	**10.27**	**7.83**	—	—	**7.24**
Institutional Class: APHFX	**2.39**	**7.94**	**9.99**	**7.62**	—	—	**7.05**
BofA Merrill Lynch US High Yield Master II Index	2.04	7.05	9.06	5.87	—	—	5.21

Source: Artisan Partners/BofA Merrill Lynch. [1]Returns for periods less than one year are not annualized. [2]Investor Class inception: 19 March 2014. Advisor Class inception: 19 March 2014. Institutional Class performance is that of the Investor Class from 19 March 2014 through the inception of the Institutional Class on 3 October 2016, and actual Institutional Class performance thereafter. Performance has not been adjusted to reflect the expenses of the Institutional Class for the period prior to the Class's inception, and Institutional Class performance results would differ if such expenses were reflected.

Expense Ratios	ARTFX	APDFX	APHFX
Semi-Annual Report 31 Mar 2017	1.01[1]	0.81[1]	1.11[2]
Prospectus 30 Sep 2016[3]	1.03	0.84	0.79[4]

[1]Unaudited, annualized for the six month period. [2]Unaudited, annualized for the period from commencement of operations 3 Oct 2016 through 31 Mar 2017. Expense Ratio from 3 Oct 2016 through 30 Jun 2017 is 0.80% (annualized), unaudited. [3]See prospectus for more information. [4]Includes estimated expenses for the current fiscal year.

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.

Investing Environment

We are pleased to have outperformed the BofA Merrill Lynch High Yield Index this quarter and YTD by 30bps and 92bps, respectively (based on our Investor share class). Although we had positive contribution from almost every name in the portfolio, our relative performance for Q3 was substantially driven by a handful of our idiosyncratic, high-conviction names across our book of bonds and loans. Given the dispersion of returns between high yield bonds and leveraged loans this year—bonds have outperformed by more than 400bps YTD at a time when we have significant exposure to loans—we view our outperformance as all the more noteworthy.

The non-investment grade markets continued their quiet ascent higher in Q3 with returns of 2.0% (as measured by the BofA Merrill Lynch High Yield Index), marking the seventh straight quarter of positive returns through September. Despite periodic geopolitical flare-ups, the period was marked by subdued volatility complemented by steadily improving corporate fundamentals—dual themes that helped propel risk-assets to new highs. Credit markets responded by pushing high yield spreads toward the post-crisis low after absorbing the effects of higher Treasury yields. Spreads now stand 24bps tighter to 367bps—just 13bps above the low reached in 2014—while yields approached the multi-year low of 5.5%. After returning 1.1% for the quarter, leveraged loans (as measured by the JPMorgan Leveraged Loan Index) are similarly tight, but were largerly unchanged at 432bps. However, loan yields inched higher as reflationary pricing pressure pushed the yield-to-three-year-takeout up 12bps to 6.1%.

The risk-on environment for credit helped lower-rated bonds outpace higher-rated segments of the market, as CCC bonds returned 2.7%, compared to 2.1% for BBs and 1.8% for Bs. Among sectors, energy—buoyed by a six-month high in crude oil—was the top performer after lagging in Q2. Despite the outsized returns during Q3, the energy sector continues to trail the broader high yield market by more than 150bps YTD. The food-and-drug retail sector was the clear laggard after declining 4.4% as increased price competition has led to margin erosion across the grocery industry.

High yield new issuance totaled $79 billion, bringing year-to-date issuance total to $255 billion—a material pickup from the $234 billion priced over the first nine months of last year. The majority of new-issue activity, as it has been over much of the current credit cycle, was the result of refinancing—acquisition-related issuance was just 21% of the quarterly total. At $155 billion, loan market new issuance was quieter than the rapid pace set earlier this year. Still, year-to-date loan issuance amounts to a record-high $723 billion, outpacing 2013's previous record of $670 billion.

US default activity remained light during Q3, marking the quietest stretch of quarterly default activity since May 2011. Despite the inactivity, the quarter's biggest surprise default came from retail giant Toys R Us, affecting more than $2.2 billion in bonds and loans. While the Toys R Us bankruptcy filing was a headline-grabber—its imminent default was far from Wall Street's radar—default activity remains near historic lows amid stable economic conditions and healthy corporate fundamentals. With few threats to derail the current non-investment grade rally, we believe benign default activity can continue well into 2018 absent any unforeseen economic shocks.

Portfolio Positioning

It was a fairly quiet quarter in terms of portfolio activity in Q3 with few material changes. Our portfolio weightings in bonds marginally decreased 1.6% to 72.6%, while our loan exposure stood fairly steady at 21.9%, leaving cash at 5.3%. From a sector perspective, we trimmed our services and financials exposure in favor of insurance and energy. From a ratings standpoint, we added to our single-B and CCC exposure while trimming our exposure in BB- and BBB-rated bonds. Given the rich spread environment and the outlook for tighter monetary conditions, we've incrementally reduced the portfolio's interest rate exposure by trimming our duration from 3.0 to 2.6 years.

Our weighting in the top-10 holdings inched slightly higher, finishing at 35.7% from 33.8%—in line with its historical range and consistent with our high-conviction approach. New to the top 10 this period were Seven Generations Energy, Carrizo Oil & Gas and Ancestry.com.

Seven Generations Energy is a Canadian-based exploration and production (E&P) company that has made its way in and out of our top 10 over the last couple years. With Seven Generations Energy, we remain attracted to the company's deep inventory of low-cost, high-quality assets and strong management team—a combination that makes the company one of the premier Canadian operators. Though rated as a high yield credit, we believe the company possesses credit metrics and a balance sheet that are approaching investment grade, representing an attractive value in a tight market.

We used early-quarter weakness in oil to build a meaningful position in US E&P Carrizo Oil & Gas after the bonds underperformed on a relative basis. Our investment thesis is based on the management's underappreciated strategic initiative as the company has made significant strides in divesting from noncore, higher-cost acreage in the Marcellus and Niobrara formations in favor of more attractive, lower-cost assets in the Eagle Ford and Permian basins. Having completed almost all of its planned divestures, we believe the company is on track to significantly delever and become free-cash-flow positive in the near future.

We increased our existing position in the loans of Ancestry.com. The online genealogy research provider has experienced accelerating revenue growth with the success of its family history repository and DNA analysis products, resulting in steadily improving credit metrics and close to 1.5X of leverage improvement over the last 12 months. With the company's current private-equity owners preparing for an eventual exit through IPO in the next few quarters, we believe this investment provides attractive carry with the defensive characteristics of near-dated debt.

Dropping out of the top 10 were First Data, IntelStat and Williams Cos. Our position in Williams Cos was trimmed after one of our issues was refinanced in early July, and we opted not to participate in the new offering due to less compelling risk/reward. With First Data and IntelStat, we trimmed our positions based on less attractive relative value, taking advantage of rich valuations to redeploy to more attractive opportunities. Specifically, we used the strong market to trim our position in payments processor First Data as valuations approached investment-grade levels. Similarly for IntelStat, the loans were purchased at a discount and are now call-constrained.

Perspective

With spreads near multi-year tights and volatility largely nonexistent, we see no obvious areas of significant value. Fundamentals for non-investment grade markets remain supportive, but we're acutely aware market tail risks are rising, and the risk/return profile of credit is becoming increasingly asymmetric. In an environment characterized by a high level of complacency and limited compensation for additional risk-taking, it's imperative that we remain disciplined. Given our process is built on bottom-up security selection, our strength lies in our ability to capitalize on market inefficiencies, both small and large. As always, we'll continue to focus on idiosyncratic and catalyst-driven opportunities while being particularly choosey about the risks we take, believing this high-conviction process will be rewarded over our long-term investment horizon.

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 (BAML) 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.

This summary represents the views of the portfolio managers as of 30 Sep 2017. 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 2017: Seven Generations Energy Ltd 3.7%, Carrizo Oil & Gas 2.9%, Ancestry.com Operations Inc 2.1%, IntelStat Jackson Holdings SA 1.6%, First Data Corp 1.2% and Williams Cos 1.0%. 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.

This material is provided for informational purposes without regard to your particular investment needs. This material shall not be construed as investment or tax advice on which you may rely for your investment decisions. Investors should consult their financial and tax adviser before making investments in order to determine the appropriateness of any investment product discussed herein.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Spread** is the difference in yield between two bonds of similar maturity but different credit quality. **Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. **Non-Investment Grade** refers to fixed income securities with lower credit quality.

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