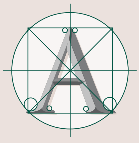


Artisan High Income Fund

QUARTERLY Commentary

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

As of 31 March 2018

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.

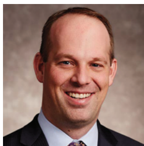
Value Identification

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 March 2018	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	**0.35**	**0.35**	**6.00**	**7.03**	—	—	**6.49**
Advisor Class: APDFX	**0.38**	**0.38**	**6.05**	**7.18**	—	—	**6.63**
Institutional Class: APHFX	**0.40**	**0.40**	**6.13**	**7.04**	—	—	**6.50**
ICE BofAML US High Yield Master II Index	-0.91	-0.91	3.69	5.18	—	—	4.42

Source: Artisan Partners/ICE BofA Merrill Lynch. Returns for periods less than one year are not annualized. Class inception: Investor (19 March 2014); Advisor (19 March 2014); Institutional (3 October 2016). For the period prior to inception, Institutional Class performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Institutional Class and the share class's returns during that period would be different if such expenses were reflected.

Expense Ratios	ARTFX	APDFX	APHFX
Annual Report 30 Sep 2017	1.00	0.82	0.78[1]
Prospectus 30 Sep 2017[2]	1.00	0.82	0.78

[1]For the period from commencement of operations 3 Oct 2016 through 30 Sep 2017. [2]See prospectus for further details.

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.

Performance Discussion

Our portfolio solidly outperformed the ICE BAML Index in Q1 led by strong security selection and outsized returns among select bond holdings in retail, telecom and insurance sectors. We also had solid performances among our loans, including a few standouts in the retail and services sectors. Additionally, our lower-rated debt holdings proved to be a ballast during the period's volatility, as the wider starting spreads provided an interest rate cushion during the quarter's interest-rate-led selloffs.

Investing Environment

The relative calm that marked the 2017 investing environment came to an abrupt end early in 2018 as concerns of stretched valuations, fears of an escalating trade war and pressures from higher Treasury rates led to sharply rising volatility during the quarter. Risk assets started the year higher on tax-reform optimism, but markets stumbled in late January as Treasury yields moved to their highest levels since early 2014. Spiking equity market volatility in February bled into credit markets, leading to spread decompression across most credit segments. After making new post-crisis lows in January, high yield credit spreads inched higher throughout the rest of the quarter to finish at 382bps—largely unchanged from December 2017 levels but 50bps higher from 2018 lows. High yield bonds (per the ICE BAML US High Yield Index) finished the period with a modest decline of 0.9%.

Leveraged loans were the clear standout among non-investment grade segments, weathering the flare-up in volatility to return 1.6% (JPMorgan Leveraged Loan Index) in Q1. Steadily rising LIBOR rates—now at the highest level since 2008—spurred heavy demand for floating-rate structures, helping lead to six straight months of outperformance relative to high yield bonds. Loan yields (to 3-year takeout) ticked 13bps higher helped by rising rate pressures to finish at 6.4% while spreads compressed 35bps to finish at 384bps.

Across the credit spectrum, the low end of the high yield market showed its resilience, as lower-rated debt meaningfully outperformed higher-rated debt on a total return and spread basis—CCC-rated bonds returned 0.4% while Bs declined 0.5% and BBs declined 1.7%. The return disparity can be explained, in part, by higher-rated debt's sensitivity to climbing interest rates. Among sectors, aerospace (1.6%) was the top performer driven by the strength of large benchmark constituent Bombardier. Food and drug retail (0.6%) was also a top performer helped by the rally in the bonds of RiteAid after its recent acquisition. Cable (-2.6%) was the worst performing sector, weighed down in part by a more rate-sensitive capital structure. The auto sector (-2.3%) was also among the laggards, hurt by weakness from automaker Tesla.

Default activity ticked modestly higher during the quarter with 14 companies defaulting on a total of $28.3 billion in bonds and loans, with much of the stress concentrated in the retail sector. The increase pushed the US high yield default rate up 90bps to 2.4%—still lower than levels a year ago. Despite the historically long current credit cycle, we see few signs default trends will be much different throughout the year.

Portfolio Positioning

The portfolio composition between bonds and loans was little changed from Q4 2017. Higher LIBOR rates have been favorable to loan yields, but the move has been offset with significant spread compression that has pushed first-lien loan spreads below 340bps, limiting the relative value between bonds and loans. Accordingly, our bond exposure ticked modestly higher to 79.0% from 77.5% while our loan exposure was largely unchanged. From a sector perspective, the biggest changes were increased weightings in telecom, health care and retail with pared exposure in insurance and automotive. With regard to portfolio distribution by credit ratings, we incrementally traded up the ratings spectrum as we increasingly see less differentiation across credit ratings. As always, our aim is to ensure we're adequately compensated for the amount of risk we take. Consequently, our allocation to lower-rated debt is near the lowest since inception.

Weighting in our top-10 holdings was little changed—finishing at 37.3% down from 39.2% in Q4—in line with its historical range and consistent with our high-conviction approach. New to the top 10 were J. Crew, First Data Corp, T-Mobile and EP Energy.

J. Crew is a retailer we've owned in the portfolio since late 2016. The company has made a number of moves to stave off restructuring by right-sizing its cost structure and maneuvering to trim a large debt burden. We added to our position in the most senior part of the capital structure in Q1, encouraged by the significant progress the company has made to reduce costs and put the company on a path for improved profitability. Importantly, accelerating growth and strong momentum in the company's popular Madewell franchise has helped offset continued weakness in its flagship brand, buoying the company's relatively costly but sustainable capital structure.

First Data, a leading payments processor, is a long-term portfolio holding that we trimmed last year on valuations. Given recent weakness at the higher-quality end of the market, we used the selloff to add back to our position in the 2024 maturity at a yield roughly 160bps higher than where we sold—an attractive value given the bonds are one year closer to maturity and have a credit profile approaching investment grade.

We added T-Mobile to the portfolio in Q1 on recent weakness. The company maintains a solid position as the third-largest national wireless carrier in the US helped by strong momentum from its competitive wireless plans and offerings. We're attracted to the company's credit story given its strong earnings growth, solid free cash flow generation and a management team with aspirations for investment-grade status over time. After the bonds sold off on interest-rate and idiosyncratic pressures in early February, we began

building a position as a core holding, given its stable-to-improving credit profile.

The last newcomer to the top 10 is EP Energy, a US-based independent E&P. While we maintain a small relative overweight to the energy space, our exposure is concentrated in high-quality issuers that have credit metrics approaching investment grade levels and have capital structures that can perform with oil below $40. The one exception to this is EP Energy. The company's bonds were among the worst performers in the industry during the quarter as the company remains in the early innings of an operational turnaround. Despite the weakness, we believe the bonds represent strong relative value based on the company's renewed focus on its most efficient and highest returning assets. Led by a new management team, the company is on a path toward cash-flow neutrality through improved well performance and better capital efficiencies, while deleveraging through strategic acquisitions and divestitures.

Among those issuers dropping out of the top 10 are Endeavour Energy Resources, Ardonagh Midco, Carrizo Oil & Gas and NFP Corp. For Endeavour Energy Resources, the company moved to refinance a number of short-dated unsecured maturities, including our position in the 2023 maturity. We continue to hold some of the company's longer-dated debt and are attracted the company's attractive, low-cost acreage and strong liquidity profile. Ardonagh Midco is another top issuer we trimmed on a relative value basis after its senior notes outperformed. Carrizo Oil & Gas redeemed our position in the 2020 maturity using the proceeds from the divestiture of a portion of its Eagle Ford assets. Finally, NFP Corp fell out of the top 10 as result of positive asset growth and portfolio appreciation elsewhere.

Perspective

Despite the recent increase in market volatility, it's important to remember that credit fundamentals are no different than they were a few months ago. Positive economic tailwinds remain supportive of credit conditions, and despite risks posed by select sectors and a few large distressed situations, we expect defaults to remain low and spreads to remain tight. Importantly, we expect the credit environment to remain favorable as the overall credit quality of the market continues to be healthier than past cycles.

However, as we enter into an environment of changing regimes—on both the monetary and volatility fronts—we believe investor sentiment will be the driving force for market trends in the near term. As market expectations shift from overly optimistic to overly pessimistic, short-lived bouts of volatility can create opportunities for diligent credit pickers. With our process built on bottom-up security selection, we believe our approach of identifying mispriced securities across the credit spectrum and across capital structures will be particularly appealing during these periods of market dislocations. Ultimately, our strength lies in our ability to capitalize on market inefficiencies by way of individual security selection—a strength that becomes increasingly important as this historically long credit cycle grows longer.

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.

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.

This summary represents the views of the portfolio managers as of 31 Mar 2018. 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 Mar 2018: J Crew 3.1%, T-Mobile 2.7%, First Data 3.0%, EP Energy 2.7%, Endeavour Energy Resources 2.2%, Ardonagh Midco 2.0%, Carrizo Oil & Gas 2.0% and NFP Corp 2.0%. 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.

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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. **Three-year takeout** refers to the point at which a current loan is refinanced or otherwise paid off.

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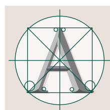
A R T I S A N  P A R T N E R S