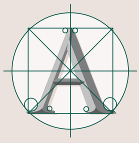


Artisan High Income Fund

QUARTERLY Commentary

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

As of 30 June 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.

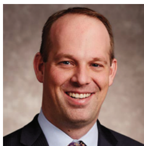
Value Identification

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 30 June 2018	QTD	YTD	Average Annual Total Returns 1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	**1.20**	**1.55**	**4.81**	**7.10**	—	—	**6.40**
Advisor Class: APDFX	**1.35**	**1.74**	**4.97**	**7.29**	—	—	**6.56**
Institutional Class: APHFX	**1.27**	**1.67**	**5.04**	**7.13**	—	—	**6.42**
ICE BofAML US High Yield Master II Index	1.00	0.08	2.53	5.55	—	—	4.40

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
Semi-Annual Report 31 Mar 2018[1]	0.97	0.82	0.74
Prospectus 30 Sep 2017[2]	1.00	0.82	0.78

[1]Unaudited, annualized for the six-month period. [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 finished ahead of the ICE BAML US High Yield Index in Q2, adding to our YTD outperformance. The portfolio's return, as always, was quite idiosyncratic, with notable contributions from select holdings in the retail, energy and insurance sectors. We also had strong contribution from our bank loan allocation, including a few standouts in the retail and health care sectors. While security selection continues to be a key differentiator, performance to date has also been about what we don't own. We remain significantly underweight tighter-spread, more rate-sensitive BBs, which have disproportionately felt the brunt of investor rate-risk aversion, weighing on YTD high yield credit returns.

Investing Environment

Despite escalating trade tensions and growing global macroeconomic uncertainty, non-investment grade markets showed their resilience, advancing 1.0% during the quarter. With the gains, the ICE BofAML US High Yield Index moved into positive territory for the year, materially outperforming higher-rated segments. Still, with a YTD return of 0.1%, the ICE BofAML US High Yield Index finished with its weakest first-half since 2008, pressured by higher interest rates and tight valuations. High yield spreads continued to oscillate in a narrow range, approaching post-crisis lows in April and June before finishing the quarter unchanged at 382bps. Conversely, high yield bond yields moved 18bps higher to 6.5%—the highest levels since late 2016.

Leveraged loans remain one of the few bright spots among non-investment grade segments with Q2 gains of 0.7% and YTD gains of 2.3% (JPMorgan Leveraged Loan Index). Steadily rising LIBOR rates have provided a tailwind to the asset class with coupon returns more than offsetting the price declines during the quarter. Loan yields (to 3-year takeout) ticked 40bps higher, helped by rising rate pressures, to finish at 6.8%, while spreads moved 20bps higher to 404bps.

Across the ratings spectrum, higher-beta and riskiest credit segments continued to lead non-investment grade markets higher. CCC-rated risk returned 3.6% in Q2 while rate-sensitive BBs lagged the broader high yield market, declining 0.1%. With the gains, CCCs have outperformed BBs 9 out of the last 10 quarters, underscoring the favorable backdrop for credit.

Among sectors, returns were driven more by idiosyncratic events rather than broader macro trends. After leading the market lower over the last year, food and drug retail was the clear outperformer with returns of 4.7% in Q2, helped by the rebound in distressed grocer The Fresh Market. Telecom (3.1%) was also a top performer, lifted by the merger of Sprint and T-Mobile. Automotive (-3.4%) was the clear laggard, weighed down by American Tire, whose bonds traded down following the announced wholesale joint venture between tiremakers Goodyear and Bridgestone.

Default activity was particularly absent during the quarter with three companies defaulting on a total of $1.5 billion in bonds and loans—the lowest quarterly total since Q4 2013. The light action pushed the par-weighted default rate down under 2.0%. While we are seeing some signs of companies' exhibiting late-cycle behavior, we expect defaults to remain muted for the remainder of the year, and well below the 3.0%-3.5% long-term average.

Portfolio Positioning

It was a quiet quarter in terms of portfolio activity with few material changes. From a portfolio composition standpoint, we increased our allocation to leveraged loans to 23.2% from 19.0%, while our bond exposure ticked lower to 74.8% from 79%. Notable spread compression across the loan market has limited the asset class's relative value, but we were able to identify a couple of company-specific opportunities with attractive risk/return profiles. The portfolio remains defensively positioned, as we remain in the camp that further monetary tightening is likely to create volatility across risk assets. Accordingly, our duration sits at 3.1 years—a full year shorter than the ICE BofAML US High Yield Index. From a sector perspective, we trimmed our exposure in services and retail, allocating to a handful of new positions in services and media. With regard to portfolio distribution by credit ratings, we've incrementally reduced our allocation to CCC-rated debt with the current streak of relative outperformance. Broad complacency and continued risk appetite in the market have led to a slow collapse of credit spreads, leading to little differentiation across credit segments. 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 Q1—in line with its historical range and consistent with our high-conviction approach. New to the top 10 were Vertafore and Ferrellgas Partners.

We established a position in the term loan of insurance software solutions provider Vertafore. Operating as one of two major players in the property and casualty insurance ERP and CRM software market, Vertafore is supported by high recurring revenue and a diversified, stable customer base with retention rates in the high-90% range. Vertafore's private equity sponsors have taken steps to restructure the company's sales force to improve cross-selling efforts, while implementing a cost-savings program that we believe will lead to expanding top-line revenues and margins. Despite an aggressive capital structure, we anticipate these efforts will generate sufficient free cash flow for leverage reduction.

The other issuer new to the top 10 is propane distributor Ferrellgas Partners. The company has been facing steadily eroding credit metrics since an ill-timed debt-financed acquisition in 2015 pushed leverage to unsustainable levels. At the same time, mild peak-season temperatures in the company's core operating areas led to declining sales volumes. Since then, management has made efforts to right-size the company's balance sheet through a cost-reduction strategy while monetizing non-core ancillary assets. We are constructive on the credit story, believing the company has the ability to extend maturities by issuing more senior debt to satisfy shorter-maturity

bonds and holding-company obligations, supporting our position in the senior unsecured bonds.

Among those issuers dropping out of the top 10 are York Risk Services and Hub Holdings. York Risk Services has moderately underperformed our expectations, so we used momentum from a strong quarter to pare our position for more attractive relative value opportunities. With Hub Holdings, half of our position was refinanced during the quarter. After coming to market with a richly-priced new issue, we chose to trim the rest of our exposure based on valuation.

Perspective

While the current stage of the credit cycle is characterized by uninspiring valuations, strong fundamentals and positive technicals suggest the risk of a major drawdown is unlikely in the near term. Still, we're well aware tail risks are growing as we move into the latter stages of this historically long credit cycle. Against this backdrop, our diligent underwriting process and ability to capitalize on market inefficiencies by way of individual security selection is increasingly critical and should serve us well when the cycle turns. Overall, we believe we're well-positioned to take advantage of flare ups in volatility and swings in credit spreads, viewing these events as opportunities to add value from mispriced securities. As always, we'll continue to focus on attractive idiosyncratic and catalyst-driven opportunities while being selective 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.

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 30 Jun 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 30 Jun 2018: Vertafore 3.8%, Ferrellgas Partners 2.8%, York Risk Services 2.8%, Hub Holdings 0.7%. 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.

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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. **LIBOR** (London Interbank Offered Rate) is the base interest rate paid on deposits traded between banks in London. **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.

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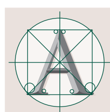
A R T I S A N  P A R T N E R S