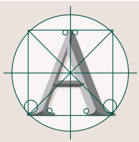


Artisan High Income Fund

QUARTERLY Commentary

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

As of 30 June 2019

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.

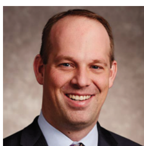
Value Identification

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 (%)

			Average Annual Total Returns				
As of 30 June 2019	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	**2.25**	**8.85**	**5.37**	**7.60**	**6.04**	—	**6.20**
Advisor Class: APDFX	**2.29**	**8.94**	**5.54**	**7.78**	**6.21**	—	**6.37**
Institutional Class: APHFX	**2.31**	**8.99**	**5.74**	**7.76**	**6.13**	—	**6.29**
ICE BofAML US High Yield Master II Index	2.57	10.16	7.58	7.54	4.70	—	4.99

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 2019[1]	0.98	0.83	0.74
Prospectus 30 Sep 2018[2]	1.00	0.83	0.75

[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 participated in the quarter's advance but modestly trailed the ICE BofAML US High Yield Index. Given the fairly dramatic outperformance of longer-duration assets year to date, our short-dated, more credit-sensitive posturing has been a headwind. Much of our relative underperformance can be attributed to our strategic allocation to leveraged loans, which have lagged high yield bonds amid resetting interest rate expectations. Nonetheless, we remain comfortable with the portfolio's makeup, believing we are well-positioned to navigate the range of outcomes that may develop over the coming quarters.

Investing Environment

Credit markets finished the period with strong absolute returns despite a notable but short-lived May correction. Accommodative Fed rhetoric and de-escalating trade tensions supported a turnaround in sentiment that sent risk assets rallying into the quarter's close. High yield bonds (as measured by the ICE BofAML US High Yield Index) returned 2.6% to push YTD returns in excess of 10%—the strongest first-half start for credit markets in a decade. The quarter's returns were largely the function of falling interest rates as 5-year Treasury yields dipped 55bps to 1.76%. High yield credit spreads finished the quarter largely unchanged at 420bps despite more than 100bps of decompression in May. Still, spreads stand 50bps wide of the year-to-date lows set in April and about 100bps wide of the cyclical lows set in October 2018.

Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) lagged bonds with a coupon-like return of 1.6% to push YTD returns to 5.6%. Despite the risk-on backdrop, the demand for floating-rate products remains challenged given the Fed's dovish tone. Similar to bonds, loan spreads were largely unchanged during the quarter, finishing at 471bps.

Across the credit spectrum, the divergence between ratings continued. Helped by the deep bid for Treasurys, higher-rated, more rate-sensitive segments notably outperformed lower-rated, less rate-sensitive risk. BB-rated bonds led with returns of 2.8%—1.5% more than CCC-rated risk. Support for riskier, beta-driven credits has become understandably challenged as we move further into the economic cycle. For context, distressed credits—those with yields 1,000bps over Treasurys—returned 0.9% for the quarter relative to non-distressed gains of 2.5%.

The favorable backdrop helped almost every segment finish the quarter higher. Transportation (4.6%), gaming (4.3%) and hotels & leisure (3.9%) were among the best performing sectors, while technology (2.0%), health care (1.8%) and energy (-0.8%) were the weakest performing.

The environment remains broadly supportive of credit fundamentals with the number of stressed situations in the market limited—currently 3% of the index trades at a price below $70. Even so, there is evidence of growing aversion to some of the most challenged capital structures, particularly among commodities-oriented issuers. Accordingly, the number and volume of defaults increased in the quarter, with 10 companies defaulting on a total of $11.5 billion of bonds and loans. The high yield default increased to 1.5% in response—up 37bps from the start of the year, but 52bps below last June's levels. Nonetheless, default activity is expected to trend below 2.0% throughout the remainder of 2019 and into 2020.

Portfolio Positioning

We used the quarter's rate-driven strength to make incremental changes to our portfolio composition. As always, we attach ourselves to the part of the capital structure with the best risk-adjusted potential. With weaker technicals in the loan market improving the asset class's relative value, our loan exposure increased incrementally to 26.1% from 22.5%, while our bond weighting decreased slightly to 72.3% from 73.2%. From a sector perspective, the biggest changes were increased weightings in insurance and basic industry and pared exposure in health care and energy. Across credit ratings, we added to our single-B exposure—mostly in the form of loans—while trimming our higher-rated exposure in BBB and BB-rated risk with rate-driven outperformance. As BB-rated bonds have tightened to relatively unattractive levels, we view the incremental yield and capital structure seniority of leveraged loans as a good substitute for high-quality credit risk.

Changes to the top-10 issuers included the additions of Ardonagh Midco, AssuredPartners, TKC Holdings and WS Packaging. Of the four issuers, only WS Packaging is a new position to the portfolio.

The most notable new entrant is UK-based insurance intermediary Ardonagh Midco, which moved into the top 10 after we added to our position in the company's secured debt on weakness in May. The company is a diversified insurance brokerage group operating six business units with a presence across the entire insurance value chain. Ardonagh has experienced solid operating gains over the last few years, helped by a series of bolt-on acquisitions, but has faced headwinds in realizing expected synergies as part of the integration. IT infrastructure and systems upgrades have taken longer than expected to implement but, once complete, should lead to substantial run-rate savings over the coming quarters. The company's bonds rallied 15 points into quarter end after two majority shareholders reached an agreement to purchase shares from an existing minority holder at a valuation that validates our investment thesis and our expectations for significant cost savings over the intermediate term.

AssuredPartners is an insurance brokerage business with strong positions in the property & casualty and employee benefits spaces. The company has been aggressively growing its presence in the US insurance brokerage market through acquisitions, completing more than 40 transactions in 2018 alone. The company's business model is appealing because it allows acquired entities to operate autonomously by maintaining their existing brands while generating cost savings from centralized critical back-office functions. Due to the

company's portable capital structure—which keeps current financing in place with change of control—the bonds sold off aggressively in early 2019 after its current sponsor sold the company to a new investor group. We accumulated a position in the company's unsecured debt in the low 90s. The bonds rallied back toward par into quarter-end to rank among our top contributors for the period.

Our position in the secured and unsecured debt of label and packaging company WS Packaging also made its way into the top 10. The company was purchased by a private equity sponsor in early 2018 with experience in achieving cost savings and operational efficiencies in the packaging industry. We were attracted to the turnaround potential given the company's good customer diversity and its focus on small and mid-sized customers—a competitive advantage in a fragmented industry. Further improving the company's business profile was the sponsor's acquisition of label solutions provider Multi-Color Corp in Q2 2019. The sponsor will merge Multi-Corp with WS Packaging, creating a combined business with improved geographic and operational diversity. The combined entity is expected to materially deleverage over the coming quarters, resulting in an attractive yield for a relatively defensive packaging and label business.

Finally, we added to our position in the first and second lien loans in food and commissary provider TKC Holdings. TKC Holdings is a holding company composed of three separate entities with leading market shares in outsourced services for over 2,000 correction facilities across the US. TKC Holdings benefits from longstanding and stable customer relationships that lead to +90% customer retention, resulting in a fairly predictable revenue stream. The company has experienced predictable and uninterrupted organic growth over the last decade, helped by the trend of outsourcing food and commissary services by state governments. With limited capex needs, we expect recent cost synergies should increase profit margins and drive deleveraging.

On the other side of the ledger, we used the quarter's strength to trim positions that have outperformed, reallocating to more attractive relative value opportunities. Among issuers falling out of the top 10 was real estate investment trust company VEREIT. As the company's high-grade profile rallied on the back of falling interest rates during the quarter, we trimmed our position in the senior unsecured debt based on valuations. Similarly, we used the deep bid for high-rated risk to trim our position in Canadian E&P Seven Generations Energy. Acrisure and Realogy fell out of the top 10 due to positive asset growth and appreciation elsewhere in the portfolio.

Perspective

In our view, the landscape continues to be broadly favorable to high yield credit investors. Fundamentals for our opportunity set remain constructive—cash flows continue to grow modestly as interest coverage levels stand near record highs and leverage levels largely plateaued. Importantly, strong top- and bottom-line performance over the last several years, combined with a record pace of refinancing, has solidified balance sheets for an environment of positive-but-slowing economic growth. The technical picture for credit is even more positive—the dovish tone from central banks should prop up risk sentiment in the near term, while a subdued pipeline of new issuance in an already shrinking market affirms a positive supply and demand imbalance.

Nonetheless, uncertainty regarding the direction of the global economy remains, leaving the market vulnerable to bouts of volatility, as is typical at this point in the cycle. We will continue to view these events as opportunities to strategically invest in credits with attractive risk-reward profiles, believing our approach to identifying mispriced securities will be particularly appealing during periods of market dislocations.

Business Update

We are excited to announce the addition of Lanny Benson as a research analyst on the Artisan Partners Credit Team. As with all members of the team, Lanny is expected to serve as a generalist with sector tendencies. Prior to joining Artisan, Lanny was an investment analyst at Goldentree Asset Management with a focus on high yield, leveraged loans and distressed credit. Before that, he was vice president and investment analyst in the distressed credit group at Deutsche Bank Securities.

We are also announcing that Joanna Booth, research analyst on the Credit team, will be leaving Artisan Partners for personal reasons during Q3 2019. We expect a seamless and thoughtful transition as Joanna's research coverage is assumed by other members of the team.

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 2019. 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 2019: Ardonagh Midco 3 PLC 3.5%; AssuredPartners Inc 3.2%; TKC Holdings Inc 2.5%; WS Packaging Holdings Inc 2.2%; VEREIT Inc 1.1%; Seven Generations Energy Ltd 1.9%; Acrisure LLC 2.1%; Realogy Group LLC 1.9%. 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. **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. **Beta** is a measure of the volatility of a security or a portfolio in comparison to the market as a whole. **Investment Grade** indicates above-average credit quality and lower default risk and is defined as a rating of BBB or higher by Standard and Poor's and Fitch rating services and Baa or higher by Moody's ratings service. **Par** represents the level a security trades at when its yield equals its coupon.

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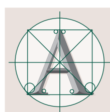
A R T I S A N  P A R T N E R S