Artisan High Income Fund

QUARTERLY
Commentary

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

As of 30 September 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 (%)

As of 30 September 2019	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**1.65**	**10.65**	**4.81**	**6.48**	**6.47**	—	**6.22**
Advisor Class: APDFX	**1.70**	**10.78**	**4.98**	**6.66**	**6.65**	—	**6.39**
Institutional Class: APHFX	**1.72**	**10.86**	**5.08**	**6.67**	**6.58**	—	**6.32**
ICE BofAML US High Yield Master II Index	1.22	11.50	6.30	6.07	5.36	—	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 outpaced the ICE BofAML US High Yield Index during the quarter. Strong credit selection contributed to our outperformance, though our relative underweight to the energy sector and overweight to the insurance sector were notable contributors. Our bond book in Q3 and YTD has materially outpaced the broader benchmark, but this has been offset by our exposure to leveraged loans. While our portfolio modestly lags the index year to date, all our underperformance can be attributed to our asset allocation, given the return divergence between bonds and loans. As value-oriented investors, we remain comfortable with the portfolio's construction and believe we are well-positioned to navigate the range of outcomes that may develop over the coming quarters.

Investing Environment

Non-investment grade credit markets clocked in modest gains in Q3 as markets oscillated between China trade hopes and late-cycle pessimism. High yield bonds (as measured by the ICE BofAML US High Yield Index) returned 1.2% in the quarter to push YTD returns further into double-digit territory. Deconstructing performance, much of the quarter's gains were a result of rallying interest rates—5-year and 10-year Treasury yields declined 25bps and 36bps, respectively, on worries of a pervasive global slowdown. The rate environment continues to pressure the outlook for floating-rate sectors. Leveraged loans (as measured by the JPMorgan Leveraged Loan Index), which snapped a streak of 43 straight weeks of retail withdrawals in September, provided a below-coupon return of 1.0% in Q3 for YTD gains of 6.7%.

High yield credit spreads reacted to increased trade tensions and heightened volatility by widening more than 60bps in August before returning to more normalized levels in September. In all, the roundtrip left spreads unchanged at 420bps. Bond yields touched and rose off a 19-month low, falling 20bps lower in the period to finish at 5.9%. To date, spreads and yields have declined 117bps and 208bps, respectively.

Across the credit quality spectrum, the decoupling between higher and lower-rated credit risk that has persisted through the year accelerated in the quarter. Increased risk aversion resulted in a rotation toward more creditworthy borrowers and away from more levered, cyclical capital structures. In all, BB-rated bonds (2.1%) materially outperformed CCC-rated bonds (-2.3%) to push YTD outperformance to almost 700bps. The lack of investor support for more challenged credits was even more apparent in distressed securities, which declined 11.3% in Q3. Increased bifurcation was apparent at the sector level as well. The performance differential between energy (-4.6%) and top performing sectors like real estate (3.2%), financials (3.1%) and gaming (2.7%) also continued to grow.

Default activity saw a pickup in the quarter with $15.7 billion in defaulted bonds and loans. As a result, the 12-month par-weighted high yield default rate ticked higher to 2.5%—up 100bps from last quarter and 71bps from levels to start the year. Excluding energy, however, the high yield default rate is much more benign at 1.0%, suggesting stress is largely limited to a small pocket of the high yield universe. Still, divergence across credit ratings resulted in the number of distressed situations in the market ticking higher, underscoring waning investor sentiment for more fragile capital structures. The high yield distress ratio, which measures issuers with spreads in excess of 1,000bps, moved to 10.0%. The increase was mostly attributed to weakness among marginal borrowers in energy, food and telecom.

Portfolio Positioning

The persistent flight to quality has been a notable theme across most asset classes—high yield notwithstanding. Higher-rated credits have rallied as waning confidence in the cycle's durability has pushed global interest rates to new lows and spreads near cyclical tights. As it stands today, one third of the constituents in the ICE BofAML US High Yield Index trade with a yield to worst less than 4.0% (or about 165bps less than the index average), making it increasingly difficult to justify the valuations for some of the highest quality bond segments. At the same time, extreme investor caution has resulted in an almost wholesale flight of capital away from lower-rated segments. The return differential between BB and CCC-rated bonds—14.5% over the last twelve months—is the most pronounced it's been since the depths of the oil collapse in 2015/2016. Because periods of outsized returns for high yield credit are consistent with the typical reach-for-yield behavior, this year's divergence between high- and low-quality risk is truly unique. For context, it has been over 30 years since high yield bonds have returned more than 7% and CCCs have lagged the broader index.

With this in mind, we continue to move away from BB-rated risk, which has been the best performing high yield segment but has also been most vulnerable to interest rate and extension risk at current levels. Prices for some higher-rated constituents have rallied to levels that likely limit further price appreciation even if interest rates continued to fall. Instead, we favor B-rated and idiosyncratic CCC-rated opportunities. The indiscriminate selling at the lower rungs of the credit spectrum has increased the relative value of several CCC-rated issuers that are less sensitive to economic swings and have credit metrics that are less volatile than peers. Nonetheless, our CCC-rated exposure (22% of the portfolio) remains near the bottom of its historical range.

Similarly, the persistent return imbalance between bonds and loans YTD has made valuations for floating-rate loans even more compelling. While the downward-sloping Libor forward curve suggests the path for interest rates is lower, we believe this is more than priced into valuations at current levels. And with a growing portion of 8- to 10-year bonds trading below 4%, the yield differential is becoming a nonfactor. For this reason, we increased our loan exposure to 29% from 26%, while paring our bond exposure to 65% from 72%. In our view, higher-quality loans provide additional yield and capital structure seniority relative to BB-rated bonds and are attractive substitutes for high-quality credit risk in this environment.

Among our sector holdings, the biggest changes occurred within media. Year to date, our media names have collectively been our single biggest sector contributor, driven by idiosyncratic strength in several high-quality cable issuers. We trimmed into strength and reallocated to several new and existing opportunities in capital goods, telecom and insurance.

Changes to our top-10 issuers were limited to the addition of insurance broker Acrisure. The company has been a core insurance brokerage holding since late 2017, making its way in and out of our top 10 based on valuation. The company has been aggressively growing its market presence in the US insurance brokerage market through a well-developed acquisition strategy which allows acquired entities to maintain their existing brands while providing operational autonomy by centralizing critical back-office functions. This model has allowed Acrisure to become the biggest independent insurance acquirer in North America during a period of rapid industry consolidation. While leverage has risen in lockstep with its acquisition activity, the company has been able to generate significant organic growth while maintaining strong operating margins to support its credit profile. We added to our position on supply weakness when the company came to the market with a new issue to help fund its M&A strategy. We were able to purchase the debt at yields north of 10%—attractive valuations for what we believe to be high-quality credit risk.

Another notable add, though outside of our top 10, was in insurance broker Hub Holdings. Similar to Acrisure, Hub has developed a solid market position in North America through a strong track record in acquiring small and mid-sized insurance brokers. Over the years, the company has made substantial progress in reducing debt, despite its levered acquisition strategy. Throughout the quarter, weaker sentiment enabled us to accumulate our position in the term loan at a notable discount.

Among issuers falling out of the top 10 was T-Mobile USA. We used the quarter's strength to trim positions that have outperformed. T-Mobile USA continues to perform well, but as yields for the company's 8-year unsecured bonds fell below 3.7% during quarter, we chose to trim and reallocate to more attractive opportunities. Outside of the top 10, we also trimmed our exposure in long-held cable names Charter and Altice, which have been among the portfolio's best performers. To date, Charter has benefited from the flight to quality, while Altice has rallied with management's focus on deleveraging and refinancing its large capital structure.

Perspective

In our opinion, the economic environment remains far sturdier than the extreme pessimism being priced into safe-haven assets. Instead, we remain constructive on our opportunity set given the expectations for limited defaults, strong technicals and a favorable monetary backdrop. Valuations for credit markets in aggregate are at the tight end of their historical range, but overarching uncertainty has resulted in a pronounced decoupling of risk across industries, credit quality and capital structures, creating vast opportunities for disciplined credit pickers. Still, downside risks remain as inflections in earnings and economic data provide negative catalysts for further idiosyncratic collapses across an increasingly bifurcated market. As investor risk tolerance wanes and bouts of volatility become more frequent, we will use the growing dispersion as an opportunity to strategically invest in credits with attractive risk-reward profiles. Because our process is built on intensive, bottom-up security selection, we believe our approach of identifying mispriced securities across the credit spectrum and across capital structures will be a notable differentiator as we move forward in this aging credit cycle.

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 Sep 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 Sep 2019: Acrisure LLC 2.7%, HUB Holdings LLC 1.6%, T-Mobile USA Inc 2.1%; Charter Communications Inc 2.9%; Altice USA Inc 1.7%. 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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Non-Investment Grade refers to fixed income securities with lower credit quality. **Spread** is the difference in yield between two bonds of similar maturity but different credit quality. **Par-weighted Default Rate** represents the total dollar volume of defaulted securities compared to the total face amount of securities outstanding that could have defaulted. **Yield to Worst (YTW)** is the lowest potential yield that can be received on a bond without the issuer actually defaulting.

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