Artisan High Income Fund

QUARTERLY
Commentary

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

As of 31 December 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 31 December 2019	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**3.03**	**14.00**	**14.00**	**6.86**	**7.13**	—	**6.49**
Advisor Class: APDFX	**2.99**	**14.10**	**14.10**	**7.01**	**7.30**	—	**6.65**
Institutional Class: APHFX	**3.02**	**14.20**	**14.20**	**7.06**	**7.24**	—	**6.59**
ICE BofAML US High Yield Master II Index	2.61	14.41	14.41	6.32	6.13	—	5.24

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 2019	0.98	0.82	0.73
Prospectus 30 Sep 2018[1]	1.00	0.83	0.75

[1]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 in Q4. Consistent with our approach, our returns tend to be more idiosyncratic than our peers', with strong security selection as the primary driver of outperformance. Our credit-specific and turnaround opportunities in the insurance and industrial sectors were areas of relative strength. Additionally, our allocation to higher-quality CCC-rated credits was a notable contributor with the late-year rally. Our bond book in Q4 outpaced the broader benchmark but was slightly offset by our exposure to leveraged loans, which trailed bonds during the period.

While our portfolio provided returns in line with the benchmark for the year, we are pleased with our performance, given the areas that contributed to the year's double-digit gains. A defining feature of the market environment in 2019 was the market's advance despite growing risk aversion. The central bank-driven rally benefited long-duration and higher-rated credit assets—areas we were consistently underweight throughout the year.

While our bond book returned well in excess of the broader index, our off-benchmark allocation to leveraged loans failed to keep pace with the index during the year due to its lower-beta profile and limited sensitivity to rallying interest rates. Further, our idiosyncratic credit-selection approach—the primary reason for our outperformance since inception—was overshadowed by investors' preference for high quality credit risk. Nonetheless, with market risk premiums approaching cyclical lows and limited prospects for broad price appreciation, we believe our portfolio's idiosyncratic and unconstrained nature positions it well for the range of outcomes that could unfold in the coming quarters.

Investing Environment

Non-investment grade credit markets clocked another strong quarter in Q4, helped by a near-term pause in trade tensions and better-than-expected economic data. The turn in sentiment was beneficial for most risk assets—high yield notwithstanding. The ICE BofAML US High Yield Index returned 2.6% in Q4 to finish the year up 14.4%. Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) also posted strong gains, returning 1.9% for an annual return of 8.6%. A trade-tension reprieve reignited risk sentiment into quarter end, reversing investors' aversion toward higher-beta segments. Easing trade concerns combined with growing yield scarcity drove investors to look for value in double-digit yields in CCC and energy debt—with both segments posting 5.0%+ gains in December and mitigating YTD relative underperformance. The rally brought average credit spreads for the year near cycle lows and all-in yields well below 5.5%.

For the year, high yield's double-digit return was largely the result of accommodative central bank policy that pushed down interest rates and encouraged the global reach for yield: More than a third of the year's gains can be attributed to lower government yields—5- and 10-year Treasury yields declined 82bps and 77bps, respectively.

Additionally, recessionary concerns combined with the heavy bid for yield drove a rotation toward high quality, less cyclical segments and away from lower-rated, more leveraged credits. Heightened risk aversion resulted in significant performance dispersion across the credit quality spectrum. The YTD performance dispersion between BB- and CCC-rated debt approached 10.0% in November, before December's seasonally driven illiquidity helped close the gap. Nonetheless, BB-rated risk (15.7%) finished the year materially ahead of CCCs (9.1%), marking the first year in 30 in which the index returned more than 10.0% and BBs outperformed CCCs.

Default activity moderated in Q4, with $13.7 billion in defaulted bonds and loans. As a result, the 12-month par-weighted high yield default rate finished the year at 2.6%—up 80bps for the year but well below long-term averages. Default activity was higher than expected in 2019, but much of this was attributed to acute weakness in commodities-dependent sectors, with close to half of the year's default activity from the energy and metals/mining sectors. Excluding energy, the high yield default rate is much more modest at 1.2%, suggesting stress is largely limited to a small pocket of the high yield universe. Looking forward, default activity is expected to remain benign in 2020, with bond and loan defaults at 3.0% and 2.0%.

Portfolio Positioning

The up-in-quality approach resulted in outsized returns in 2019 but appears increasingly constrained at current valuations. Close to two-thirds of the constituents in the BB index trade with yields inside 4%, while 88% of the callable BB constituents trade at or near their call prices. We believe the preference for "safe yield" has left this segment the most vulnerable to downside risks at current valuations. With BB spreads at cycle lows and 66bps from investment-grade yields, we continue to trim our BB-rated stake in favor of single-B and idiosyncratic CCC opportunities.

Lower-rated debt's dramatic underperformance in 2019 has increased the relative value of several CCC-rated opportunities. Our base case for a slower-but-stable economic environment provides a supportive backdrop for select CCC segments, and at current valuations, pockets of CCC-rated issues provide enough margin of safety for the wide range of economic scenarios that could unfold over the coming quarters. Yields for CCC-rated debt are now three times those of BBs (11.8% vs. 3.9%), meaning CCCs would have to experience a few hundred basis points' relative spread-widening from already elevated levels to continue underperforming. That's not to say we want to take broad CCC exposure at this point in the cycle. Instead, we prefer to lean on our deep credit diligence to uncover CCC issuers that have full-cycle business models and an ability to organically deleverage—a combination that we believe should lead to outsized performance in the near term.

While loans struggled to keep pace with bonds in 2019, the loan outlook looks increasingly favorable. As bonds have rallied, loans' relative weakness has caused the two asset classes' yields to diverge, driving loan yields above bonds', despite loans' marginally better

credit profile—a historically rare occurrence. This dislocation is unlikely to persist, however. While an imperfect exercise due to notable compositional differences between bond and loan indices, historically speaking, when loan yields exceed bond yields, loans have historically tended to outperform over the ensuing 12 months. For this reason, our loan allocation (29.2% of the portfolio) is the largest it's been since early 2015. In our view, leveraged 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.

Changes to our top-10 issuers were limited to the addition of real estate brokerage company Realogy, which delivers services through several well-known brands like Coldwell Banker, Century 21 and Sotheby's. The company has been a holding since late 2018, making its way in and out of our top 10 based on valuation. Realogy has faced increased competitive pressures from private equity-backed brokerage solutions, which have sought to poach Realogy's top-performing salespeople. To limit turnover, Realogy has increased sales compensation, pressuring margins. Similarly, the traditional brokerage model continues to face pressures from technology-enabled solutions like Zillow and Redfin. To counter these near-term challenges, management has made several creditor-friendly moves that have increased the relative value of Realogy's debt. These include the discontinuation of its common dividend, the sale of its non-core relocation business, continued progress on its cost savings program, and a pivot to a more creditor-friendly financial policy that restricts the company's ability to buy back equity. In all, we believe these actions will materially improve its credit profile, providing a near-term lift as management remains focused on deleveraging and reducing borrowing costs. With leverage likely to decrease over the next 12-18 months, we believe our senior unsecured positions offer attractive total return potential.

Among issuers falling out of the top 10 was insurance brokerage holding AssuredPartners. Due to the company's portable capital structure—which keeps current financing in place with a change of control—the bonds sold off aggressively in early 2019 after its current sponsor sold the company to a new investor group. We were able to accumulate our position in the unsecured debt in the low 90s in Q2. With the bonds currently trading above par, we chose to trim our position based on valuations.

Perspective

In our view, today's elevated dispersion is more about investors' indiscriminately buying "safer" high yield rather than an aversion to lower-rated risk. Fundamentals ultimately drive returns, and the ability to assess credit risk independently of ratings agencies can create meaningful opportunities for outperformance when opinions of market direction diverge. For active managers today, diversity in bond pricing reflects a more robust opportunity for credit selection. Skillful credit analysis can uncover total return opportunities in credits whose prices are disconnected from fundamentals or in those that have been disproportionately impacted by negative market conditions.

One of the key differentiators of our approach is our ability to migrate up and down the credit spectrum and across the capital structure as opportunities warrant. Given our proven track record of navigating different market environments, we believe our portfolio is well-tailored to succeed in this environment, where disciplined underwriting is required and deep credit work is essential.

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. ICE BofAML BB US High Yield Index is a subset of ICE BofAML US High Yield Index including all securities rated BB1 through BB3, inclusive. 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 Dec 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 31 Dec 2019: Realogy Group LLC 2.2%; AssuredPartners Inc 1.6%. 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.

Source ICE Data Indices, LLC, used with permission. ICE Data Indices, LLC permits use of the ICE BofAML indices and related data on an "as is" basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML indices or any data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing, and does not sponsor, endorse, or recommend Artisan Partners or any of its products or services.

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.

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. **Beta** is a measure of the volatility of a security or a portfolio in comparison to the market as a whole. **Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value.

Artisan Partners Funds offered through Artisan Partners Distributors LLC (APDLLC), member FINRA. APDLLC is a wholly owned broker/dealer subsidiary of Artisan Partners Holdings LP. Artisan Partners Limited Partnership, an investment advisory firm and adviser to Artisan Partners Funds, is wholly owned by Artisan Partners Holdings LP.

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

1/22/2020 A19869L_vR