Artisan High Income Fund

QUARTERLY
Commentary

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

As of 31 March 2020

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 2020	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**-13.78**	**-13.78**	**-7.67**	**0.68**	**3.37**	**—**	**3.64**
Advisor Class: APDFX	**-13.79**	**-13.79**	**-7.64**	**0.80**	**3.53**	**—**	**3.78**
Institutional Class: APHFX	**-13.76**	**-13.76**	**-7.55**	**0.89**	**3.48**	**—**	**3.73**
ICE BofA US High Yield Master II Index	-13.12	-13.12	-7.45	0.55	2.67	—	2.60

Source: Artisan Partners/ICE BofA. 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[1]	0.98	0.82	0.73
Prospectus 30 Sep 2019[2]	0.99	0.84	0.74

[1]Excludes Acquired Fund Fees & Expenses as described in the prospectus. [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 modestly trailed the ICE BofA US High Yield Index in Q1. Our relative underperformance can be largely attributed to asset mix and the portfolio's allocation to out-of-benchmark leveraged loans. During the quarter, our loan book trailed the broader high yield index as our lower-rated loan stake was weighed down by challenging liquidity dynamics and the market's overwhelming preference for high-rated securities. This loan allocation also contributes to our portfolio's limited-duration profile, which was a relative headwind during a period of falling interest rates. Among positive contributors, our bond book returned in excess of the index, helped by our above-benchmark exposure to insurance brokerage holdings, our allocation to investment grade turnaround stories and below-benchmark exposure to areas hardest hit during the selloff—notably, energy and leisure. Despite our relative underperformance in the short term, we remain comfortable with the portfolio's construction and believe we are well-positioned to take advantage of the recovery in risk assets, whenever that may occur.

Investing Environment

Non-investment grade credit markets experienced a historic selloff driven by the aggressive spread of the COVID-19 pandemic and the resulting economic fallout. After a benign first six weeks, volatility quickly picked up in February following news the virus would not be ring-fenced to mainland China. As the pandemic moved west, governments around the world responded with extreme shutdown measures to curtail the virus's spread—actions that would take an equally extreme toll on the global economy.

As the public health crisis morphed into an economic crisis, major central banks and lawmakers acted quickly to contain the fallout. Congress passed a $2.2 trillion stimulus package to shore up both individuals and businesses. Similarly, the Fed returned to its global financial crisis playbook with several emergency credit facilities—including the unprecedented mandate to purchase investment grade debt in both the primary and secondary markets—to support the flow of money to stranded borrowers and avoid a building credit crisis.

Nearly all risk assets experienced multi-standard deviation moves to the downside, but the unraveling of risk across credit was unprecedent in terms of speed and severity. High yield credit spreads moved from sub-400bps to more than 1,000bps in just five weeks, as risk aversion was exacerbated by a lack of liquidity. Declines were also intensified by Saudi Arabia's and Russia's decisions to flood the oil market with supply in a bid to exert maximum pressure on marginal and high-cost producers. This supply shock combined with the negative demand surprise from economic deterioration pushed oil prices down over 60% from late-January highs and resulted in high yield energy valuations violently widening through 2016 extremes. While the energy sector makes up a much smaller portion of the index compared to the 2015-2016 downturn, it contributed close to a third of the broader market's decline in the quarter.

All told, high yield bonds (as measured by the ICE BofA US High Yield) finished the quarter with declines of 13.1%. Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) also endured a similarly historic selloff, declining 13.0%. Both segments benefited from an almost double-digit return rally in the final week of the quarter that pushed high yield spreads from a peak of 1,082bps to 875bps to end the period.

Across ratings, lower-rated risk dramatically underperformed higher-rated risk. In all, BB-rated bonds returned -10.2% compared to -14.1% for Bs and -22.4% for CCCs. Among sectors, energy experienced its worst quarter on record, declining 39.7%. Additionally, entertainment (-28.3%), airlines (-25.3%) and leisure (-25.3%) were also disproportionately impacted by a near-standstill in travel activity. Railroad (-2.3%), food and drug retail (-2.8%) and cable TV (-3.0%) landed among best performing segments.

With stress spreading quickly throughout all asset classes, credit agencies were quick to update their ratings views. The number of ratings actions spiked in March to the second-largest number of downgrades on record: 125. Additionally, there was record volume of fallen angels in late March, led by megacap structures of Ford and Occidental Petroleum. In all, there were 15 global fallen angels totaling $109 billion in March. While much has been written on the risk of formerly IG issuers overwhelming the high yield market, we believe the Fed's intervention in primary and secondary markets is likely to remove some of this tail risk.

The difficult market conditions resulted in a notable pickup for default activity. Thirteen companies defaulted on a total $23.5 billion in bonds and loans, ranking as the seventh worst quarter on record. As a result, the par-weighed default rate jumped to a three-year high of 3.4%—up materially from 1.0% a year ago. It should be noted energy has accounted for nearly half of the total default volume over the last 12 months. When energy is excluded, the high yield default rate is a more modest 2.4%. With the outlook for an economic contraction for at least a couple quarters, we expected bond and loans defaults to increase from current levels for the remainder of 2020.

Portfolio Positioning

We incrementally added to our software and insurance brokerage holdings—more than 20% of the portfolio—during the quarter as valuations became dislocated from fundamentals. Despite their more leveraged profile due to their asset-light makeup, we view these sectors as relatively insulated from the economic threats posed by COVID-19 and believe they should experience relatively limited disruption to operating performance. These holdings were among the portfolio's best performers during the period, and we used broader weakness to incrementally add to our existing positions.

As we seek to exploit dislocation, the most notable changes to our portfolio tend to occur during periods of volatility, and Q1 was no exception. With extreme fear and uncertainty spreading throughout financial markets, we used the swift repricing of risk and indiscriminate selling to upgrade the portfolio and allocate to dislocated investment opportunities as liquidity conditions permitted. In March, we added to select opportunities in industries most impacted by the effects of COVID-19. Hotels, airlines and entertainment are some of the industries at the front lines of the economic disruption given their sensitivity to consumer demand and exposure to travel restrictions. Against this uncertain backdrop, we capitalized on the quarter's selloff to initiate new positions in

investment grade bonds of several large hotel chains and two large airlines at stressed valuations. A key consideration of our analysis is determining if a company has enough liquidity to bridge a period of severe revenue declines. In this case, these companies have sufficient access to capital, limited near-term maturities and enough levers to pull to cut costs and service their debt through a prolonged contraction. With this activity, our BBB-rated stake increased 4.7% to 13.4% of the portfolio.

Among changes to our top-10 issuers were the addition of leading contractor Tutor Perini and insurance brokerage holding AssuredPartners. Tutor Perini is one of the largest general contractors in the US, with a focus on civil infrastructure and non-residential building projects. In our view, Tutor Perini is a secular growth story, leveraged to the rebuild of America's aging infrastructure. The company benefits from a record pipeline of large-scale infrastructure work and is well-positioned as one of the few players remaining in the US with the ability to bid on large, high-margin civil projects. The company's credit profile has faced challenges due to higher working capital needs as it deals with inconsistent free cash flow due to difficulties in collecting payment for completed work. Exacerbating these cash flow issues is the uncertainty surrounding work stoppages related to COVID-19 and an upcoming convertible note maturing in 2021 that has declined along with the company's share price. Despite these near-term headwinds, the company has implemented tighter controls to improve its ability to collect on unbilled receivables, allowing for improved cash flow that can help delever the balance sheet. Similarly, Tutor Perini has sufficient flexibility to address its near-term maturities—actions that will be broadly positive for the company's entire credit curve, including our senior unsecured position.

We also added to our existing position in insurance broker AssuredPartners. The company holds strong positions in the property & casualty and employee benefits spaces and has been aggressively growing its presence in the US insurance brokerage market through acquisitions. The economic environment is likely to have little impact on AssuredPartners' retention rates, but should that occur, it would likely become an attractive target in a highly acquisitive industry. Having trimmed our position in Q4 2019 on valuations as our holdings traded at a premium to par, we used volatility to add to our position in the senior unsecured debt in the low 90s late in the quarter.

Among issuers falling out of the top 10 were propane distributor Ferrellgas and label and packaging company W/S Packaging. Ferrellgas has benefited from its aggressive pursuit of market share helped by its scale and geographic diversity, but a slate of upcoming maturities continues to be the biggest risk to its credit story. Management has been exploring all available options to address its leverage profile and secure a long-term capital structure solution, but there has been little visibility around its progress. While the company is likely to engage in liability management transactions or even outright sale, difficult capital market conditions limit the company's options to deal with near-term debt. We chose to end our campaign in the short-dated senior unsecured debt and reallocate to opportunities with more attractive risk/reward.

Finally, our position in the secured and unsecured debt of W/S Packaging fell just outside of the portfolio's top 10. The company was purchased in early 2018 by a private equity sponsor with experience achieving cost savings and operational efficiencies in the packaging industry. The sponsor subsequently merged W/S Packaging with Multi-Color Corp—another label solutions provider—in 2019 to create a combined entity with leading geographic and operational diversity. While the combined company continues to execute on its deleveraging plan, we chose to trim our position based on valuation.

Perspective

We believe the aggressive repricing has created sufficient compensation for the wide range of outcomes that could unfold over the coming quarters. The number of distressed situations has risen dramatically as uncertainty and risk aversion weigh on the most vulnerable capital structures. In our view, our highly selective approach to security selection and unconstrained portfolio construction position us to take advantage of these dislocations. While defaults will undoubtedly rise, they will likely be concentrated among already weak constituents in cyclical areas.

In our view, valuations for high yield credit overstate the likely level of impairment and provide an attractive entry point for investors with a long-term time horizon. Though past performance is not indicative of future performance, when spreads have exceeded 800bps, the ICE BofA US High Yield Index has generated positive returns in subsequent periods, averaging double-digit returns annually over the subsequent 36 months.

In short, there is a lot of uncertainty, but we believe the opportunity set is the most attractive it has been in several years. Having managed through several cycles before, we know times like these require us to be discriminating and disciplined in our decision making. With an approach consciously designed to exploit market dislocations, we will use volatility to be a selective liquidity-provider during periods of stress. Our experience gives us confidence in our ability to generate successful investment outcomes for our clients, and we believe our portfolio is well-tailored to thrive in this uncertain environment.

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.

Current and future portfolio holdings are subject to risk. 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 BofA 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 BofA BB US High Yield Index is a subset of ICE BofA 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 Mar 2020. 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 2020: Tutor Perini 1.9%; AssuredPartners 1.7% and W/S Packaging 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. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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