Artisan High Income Fund

QUARTERLY
Commentary

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

As of 30 June 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 30 June 2020	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**12.13**	**-3.33**	**1.25**	**3.79**	**5.56**	**—**	**5.40**
Advisor Class: APDFX	**12.18**	**-3.29**	**1.30**	**3.92**	**5.72**	**—**	**5.54**
Institutional Class: APHFX	**12.21**	**-3.23**	**1.40**	**4.05**	**5.69**	**—**	**5.50**
ICE BofA US High Yield Master II Index	9.61	-4.78	-1.10	2.94	4.58	—	4.00

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
Semi-Annual Report 31 Mar 2020[1,2]	0.99	0.83	0.72
Prospectus 30 Sep 2019[3]	0.99	0.84	0.74

[1]Unaudited, annualized for the six-month period. [2]Excludes Acquired Fund Fees & Expenses as described in the prospectus. [3]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 solidly outpaced the ICE BofA US High Yield Index in Q2 to push YTD returns ahead of the index. Our relative outperformance can be attributed to strong security selection across our book of bonds and loans, with notable outperformance from the portfolio's lower-rated holdings. Our CCC-rated exposure has historically behaved in an uncorrelated fashion with the broader CCC portion of the index—that has been particularly true in Q2 and YTD. Despite broad investor risk aversion to lower-rated risk, our CCC-rated holdings are outpacing the broader index by more than 400bps YTD, highlighting our idiosyncratic approach to credit selection and our unique ability to assess credit risk independent of ratings agencies.

Investing Environment

Following one of the worst drawdowns in more than a decade, credit markets rallied meaningfully as supportive monetary conditions and optimism around the economy's reopening helped fuel a turn in market sentiment. The improved outlook was met by a period of record inflows for the asset class as the Fed's explicit support for corporate borrowers gave the green light to investors to reenter the market. A two-month stretch of sharp reflation gave way to a month of sideways performance, as accelerating virus cases raised questions about whether optimistic expectations for a V-shaped recovery were premature. Despite concerns, high yield bonds still had their best quarter since 2009, returning 9.6% in Q2 to push YTD returns to -4.7% (as measured by the ICE BofA US High Yield Index). Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) followed a path similar to high yield bonds', returning 9.8% in Q2, but remain down 4.5% YTD.

An important element of the quarter's rally was a record pace of new issuance in May and June. The Fed backstop reopened primary markets to high yield borrowers, allowing companies to raise enough liquidity to avoid default and bridge a sustained period of cash-flow shortfalls. While issuance was largely concentrated in high-rated, secured deals early in the quarter, investors became more willing to lend down the capital structure and to COVID-disrupted sectors later in the quarter. All told, there was a quarterly record of $75 billion in net new issuance, easily exceeding Q2 2014's prior high of $53 billion.

Valuations have improved markedly since the depths of the crisis in late Q1. Credit risk premiums collapsed from late-March wides of 1,082bps to 647bps at the end of June. As the market stabilized in April, investors had a clear preference for higher-rated risk as fundamental issues remained front of mind, but sentiment shifted dramatically in May when investors were willing to reach down to capture yield among lower-rated bonds. In all, BB-rated bonds returned 10.8%, followed by Bs and CCCs with 9.7% gains. Despite an improved outlook for lower-rated risk, CCCs trail BBs by more than 1,350bps YTD. Across sectors, all but airlines and entertainment posted positive returns in Q2, with energy, hotels and autos strongly outperforming. Despite a 34% gain in the quarter, energy remains down nearly 20% YTD.

Default activity remained elevated in Q2 with record numbers of defaults and distressed transactions. Close to 50 companies defaulted or engaged in distressed exchanges on $82 billion in bonds and loans, surpassing Q1 2009's previous record of a combined total of $80 billion. Defaults have also been met with record-low recovery rates, with an average recovery of 17% for bonds and 47% for first lien loans over the last 12 months. With the increased activity, the par-weighed default rate jumped to a 10-year high of 6.2%—up more than 3.5% from the start of the year. Close to 30% of the year's defaults have been concentrated in energy. When energy is excluded, the high yield default rate is 4.2%.

Portfolio Positioning

As in Q1, we looked to exploit broad risk aversion early in the quarter by adding to existing exposure or initiating new positions in select COVID-disrupted companies—many of which contributed to our outperformance in Q2. We remained focused on directing our portfolio toward companies and industries with sufficient access to capital and enough flexibility to make it to the other side of this crisis intact. Across sectors, the biggest change occurred in leisure. Appreciation from our Q1 investments in several lodging and gaming-related companies along with new Q2 investments in recreation and travel pushed our leisure exposure from 4.0% in Q1 to 11.0% in Q2. Roughly 40% of this exposure is in investment grade issuers that trade at high yield valuations.

We ended the quarter with 73% of the portfolio in bonds and 26% in leveraged loans. While our bond weighting increased 5% to 73% in Q2, the increase is temporary and largely due to the timing of refinancing activity. Our long-held position in the secured debt of Ardonagh Midco 3 PLC was successfully refinanced in the period, and it was announced that our exposure would be called after the end of the quarter. While we will continue to hold a small position in Ardonagh's unsecured debt, the refinancing marks the conclusion of a successful multi-year investment that puts the position among our top contributors since the Fund's inception.

Our portfolio remains focused on our highest conviction names, with 35.3% of the portfolio in the top 10 holdings. New to the top 10 were surgical care provider Surgery Center Holdings, cruise ship operator Carnival Corp and snack food manufacturer Shearer's Foods.

We used weakness to add to our existing exposure in Surgery Center Holdings—also known as Surgery Partners. The company operates short-stay surgical facilities throughout the US that specialize in non-emergency outpatient procedures. Given the concerns around access to affordable health care services, payors like Medicare and private insurers are increasingly redirecting patients from traditional hospitals toward less expensive surgical facilities for elective procedures. But because Surgery Partners focuses on non-emergency procedures, virus-induced shutdowns caused surgery volumes to drop by as much as 75% in Q2. Liquidity concerns caused the price of its debt to move into distressed territory in early Q2, but the company made several

moves to bridge the current period and support its liquidity profile. It was able to raise funds by drawing down its revolving credit line, raising cash through incremental borrowings and receiving cash infusions from CARES Act grants and advanced Medicare payments. Volume weakness constrains Surgery Partner's credit profile in the near term as surgeries are deferred, but long term the company is well-positioned to capture secular trends associated with the low-cost outpatient setting. We used weakness to incrementally add to our exposure in the first lien loan and senior unsecured risk. The position landed among our portfolio's top contributors in the quarter as prices rallied from distressed levels back toward par as the outlook for COVID pressures eased.

Facing suspended operations and limited liquidity, Carnival Corp came to the market in early April to shore up its balance sheet and raise enough liquidity to bridge a period of prolonged revenue declines and reimburse customers for canceled sailings. Carnival successfully raised more than $6 billion through a combination of debt, convertible bond and equity sales. We participated in the biggest piece of financing, which came from the issuance of a $4 billion senior secured bond offering. Because lending markets were largely closed to all but the best borrowers, the first-priority senior secured debt came with significant concessions, despite Carnival's investment grade rating. The debt was issued with 11.5% coupon at a one-point discount, backed by collateral that includes 86 of its 105 cruise ships and documentation that limits the debt's loan to value at a conservative 25%. While significant questions remain about what the future of cruising will look like coming out of the current crisis, we believe the secured debt will be covered in even the most bearish scenarios for Carnival Corp. We also participated in the convertible note issuance but exited the position based on valuations after it rallied close to 30% shortly after coming to the market.

We also added to our position in the first and second lien loans of snack food manufacturer Shearer's Foods. The company is the leading national private label supplier and contract manufacturer of salty snack foods in North America. While the healthy food trends in the US remain intact, the salty snack category continues growing faster than the market and has been particularly resilient in light of COVID trends. Over the last few years, the company has gone through a period of rapid growth following several bolt-on acquisitions intended to increase its capacity and expand its geographic footprint. But with acquisition costs and integration challenges largely behind it, Shearer's Food is well positioned to grow free cash flow and improve profitability as it leverages its wide-reaching scale.

Among issuers falling out of the top 10 were cable provider Charter Communications, general contractor Tutor Perini Corp and insurance brokerage company AssuredPartners. Charter Communications has been among the beneficiaries of the COVID-19 crisis and various shelter-in-place orders that have followed as the need for bandwidth becomes increasingly important. The company's debt rallied alongside higher-rated structures during the quarter but, with all-in yields below 4%, we believe the unsecured risk offers limited relative value at current levels. We chose to trim our long-held position in the senior unsecured debt and reallocate to opportunities with more attractive risk/reward. With Tutor Perini Corp and AssuredPartners, the names fell out of the top 10 as a result of appreciation and portfolio management moves elsewhere.

Perspective

As we enter July, the landscape across credit markets appears much different from late March's. The record selloff at the beginning of the pandemic was shortly followed by one of the fastest spread-tightening rallies in history, helped by unprecedented intervention by fiscal and monetary authorities. While credit markets have recovered much of their coronavirus-induced losses, we recognize the path forward remains uncertain. The tug of war between an enormous amount of central bank liquidity and economic disruption associated with a surge in new cases means volatility likely remains a dominant feature of the market environment moving forward. We will continue to use volatility as a selective liquidity-provider during periods of stress and will use dislocations to add risk in areas with supportive fundamentals.

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. 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 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 30 Jun 2020: Ardonagh Midco 3 PLC 7.3%; Surgery Center Holdings Inc 2.6%; Carnival Corp 2.4%; Charter Communications Inc 2.0%; Tutor Perini Corp 1.8%; AssuredPartners Inc 1.6%; Shearer's Foods LLC 2.1%. 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 BofA 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 BofA 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. **Free Cash Flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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

7/20/2020 A20664L_vR