Artisan High Income Fund

QUARTERLY
Commentary

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

As of 31 March 2021

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 2021	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**2.19**	**2.19**	**30.34**	**7.86**	**9.18**	—	**7.07**
Advisor Class: APDFX	**2.24**	**2.24**	**30.69**	**8.07**	**9.39**	—	**7.24**
Institutional Class: APHFX	**2.37**	**2.37**	**30.81**	**8.17**	**9.38**	—	**7.21**
ICE BofA US High Yield Master II Index	0.90	0.90	23.31	6.53	7.94	—	5.31

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 2020[1]	0.96	0.82	0.72
Prospectus 30 Sep 2020[1]	0.97	0.83	0.73

[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 solidly outpaced the ICE BofAML US High Yield Index during the quarter, providing attractive absolute and relative returns. Strong credit selection contributed to our outperformance, but the portfolio's relative underweight to more rate-sensitive BB bonds had the most pronounced impact on relative returns. Momentum behind the market's reflation theme led to higher interest rates that caused headwinds for higher-rated credit risk, while supportive capital markets and the general reach-for-yield theme benefited a down-in-quality approach. In this context, our preference for lower-rated and idiosyncratic credit opportunities—particularly in energy and COVID-disrupted sectors—was a key driver of the portfolio's excess returns. In the same way, our out-of-benchmark exposure to leveraged loans outperformed the broader high yield index as higher interest rates and a steeper yield curve led to growing demand for floating-rate assets.

Investing Environment

High yield credit proved resilient, with positive returns during the quarter despite pressures from higher interest rates and a record three-month period of new supply. High yield bonds absorbed most of the move, tightening into higher rates to return 0.9%. The Fed may have maintained its commitment to accommodative policy for the foreseeable future, but investors rushed to price in their expectations for booming global growth and inflation, pushing 10-year Treasury yields 85bps higher. As a result, there was a clear bifurcation between rate-induced risk aversion and investors' reach for yield across the credit landscape. This divergence meant 2020's areas of strength—high quality and long duration—were clear laggards with negative returns in Q1. Across the credit quality spectrum, rate pressures resulted in the worst quarter of performance since the financial crisis for high grade credit, wiping out close to 9 months' worth of gains. At the other end of the spectrum, busy capital markets and a reach for yield provided support for discounted capital structures, leading to gains of 17.8% for distressed credit. In between these extremes, CCCs provided equity-like gains of 5.2%, followed by 0.5% for Bs and -0.4% for BBs.

Across the capital structure, rising rate pressures led to steady inflows for leveraged loans. The asset class saw more than $11 billion in retail inflows as investors sought floating-rate assets to protect against rising interest rate pressures. Leveraged loans continue to offer a yield advantage relative to bonds, though positive technicals for the asset class have made the differential more balanced. All told, leveraged loans beat high yield bonds during the quarter, with the JPMorgan Leveraged Loan Index returning 1.9%.

Supporting the market was record new issuance and extensive refinancing activity. A record $160 billion in bonds and $300 billion in loans were issued as corporate borrowers moved to lock in record low borrowing costs before economic growth and inflation cause rates to rise further. Many issuers that came to market in early 2020 to raise liquidity to bridge the pandemic have used the issuer-friendly backdrop to refinance high coupon, secured debt with cheaper, unsecured issuance.

With capital widely available, the COVID-19 default cycle has seemingly concluded. Wide open primary markets and rich equity valuations have provided less creditworthy borrowers a number of options to address their liquidity needs—either from at-the-market equity raises or through record low borrowing costs. Market stress has all but disappeared with less than 2% of constituents in the ICE BofA US High Yield Index trading with spreads more than 1,000bps. The quarter saw just five defaults totaling $3.2 billion in bonds and loans. Subsequently, the par-weighted default rate declined to 4.8% from 6.2% at the beginning of the year as more than $16 billion of defaults from March 2020 dropped from the default rate calculation. Excluding the effects of energy, the default rate is an even more benign 3.1%.

Portfolio Positioning

Changes to portfolio positioning were marginal for the quarter, with the most notable shifts occurring with the portfolio's asset mix. As we often discuss, our approach provides broad flexibility to invest across the capital structure to select the debt instrument that offers the most attractive risk-adjusted return potential. Following last year's outsized returns for high quality and rate-sensitive risk, we selectively pared some of this exposure in favor of leveraged loans. In our view, leveraged loans offer a more attractive return profile relative to higher-rated bonds given the latter's narrower credit spreads and greater interest rate sensitivity. Yields for BB-rated bonds are not only at cyclical, but record lows, making the limited rate sensitivity and capital structure seniority of loans a good substitute for high-quality credit risk. Our loan stake increased to 29% of the portfolio while our bond allocation fell to 66%. These moves also led to our BBB and BB-rated stakes modestly declining about 2.5 percentage points, while our B-rated exposure increased 4 percentage points.

There were minimal changes to the portfolio's top holdings during the quarter, with only one new entry. Our portfolio remains focused on our highest conviction names, with 29.7% of the portfolio in the top 10 issuers.

New to the top 10 this quarter is our long-time holding in UK-insurance broker Ardonagh Group—one of the portfolio's most successful investments since the portfolio's inception. The company has made its way in and out of the top issuers as it has undergone a multiyear transformation process, with its most recent return to the top 10 helped by additional purchases in the senior unsecured notes during the quarter. Ardonagh has made substantial progress since we began building a sizeable position in the company at stressed levels in early 2018. Over the last couple years, the company has positioned itself to recognize long-expected run-rate savings in the coming quarters. Legacy technology and integration issues—and the exceptional costs related to these events—are now behind it, and the company is well-positioned to leverage its solid market position and product diversity into positive free cash flow. While the company

carries a bit more leverage, it successfully refinanced its credit facilities last summer, improving liquidity and its financial flexibility. As a result, we anticipate the combination of positive free cash flow and organic growth should allow it to successfully delever over the near term, further benefiting our position.

Outside of the top 10 are two notable issuers we incrementally added to during the period. Both Delta Air Lines and Norwegian Cruise Lines are companies we began purchasing in the early recovery days of the COVID-19 crisis. Our investment in Delta Air Lines began in late Q1 2020 at distressed levels after liquidity concerns plagued its capital structure and led to its debt's downgrade to high yield last April. Delta was quick to react to the pandemic by raising liquidity early and taking out costs that will benefit the business more permanently as it recovers. The company maintains a healthy liquidity runway and a distinct brand premium that should allow its balance sheet to return to more normalized levels in the near term. Despite a strong recovery for its entire debt stack, we believe Delta Air Lines offers an attractive premium relative to other BB high yield issuers. We expect to see Delta's structure tighten as demand trends become more visible over the coming quarters and as efforts to restore its balance sheet gain momentum over the next year.

Our analysis of Norwegian Cruise Lines mirrors that of our high conviction holding in Carnival Cruise Lines: that the company's sprawling portfolio of assets would be sufficient to limit impairment risk to credit investors. The company's credit profile is constrained by the length of time cruise operations remain suspended, but it has adequate liquidity to make it through the remainder of the year. Supportive equity and high yield markets have provided the company plenty of options in addressing its cash burn while operations remain at a standstill. The company's credit-friendly equity dilution has been meaningful with a share count now nearly 75% higher than pre-pandemic levels, benefiting its balance sheet. Even with the pause in sailings, current booking trends show significant pent-up demand, with booking volumes well ahead of pre-COVID levels for the back half of 2021 and into 2022. With the progress of broad vaccinations, we anticipate pricing and demand will return over the next two years, allowing the company to repair its balance sheet.

Falling just out of the top 10 is natural gas producer Comstock Resources. We initiated our position in the unsecured debt beginning in March 2020 at mid-$50s prices and steadily added to the position throughout Q2 2020. We viewed Comstock Resources as one of the best positioned beneficiaries of the recovery in natural gas prices following the COVID-19 drawdown. The company is among the lowest cost natural gas producers given its basin concentration and proximity to Henry Hub that makes for favorable marketing and transportation dynamics. The company also benefits from a significant equity commitment from its largest shareholder, Jerry Jones. Aided by a better macro backdrop and a rally in natural gas prices in 2020, the company's entire capital structure rallied back through par. The rebound allowed Comstock to issue new debt that was directed toward paying down its revolver, dramatically improving its liquidity profile. Again, this year, the company refinanced and is extending another slate of maturities, taking out a piece of our unsecured holdings with it. We continue to hold other unsecured risk in Comstock, expecting the company will generate significant positive free cash flow that will support debt reduction and production growth.

Perspective

Just a year after the start of the COVID crisis, high yield bonds have completed their round trip. Spreads are back to pre-COVID levels and are approaching post-global financial crisis tights, while all-in yields are at top decile lows. There is less diversity in pricing today with single-security dispersion at its lowest level since 2014. Still, the fundamental and technical outlook for high yield credit remains compelling. In the near term, proactive refinancing and liquidity raising accomplished over the past year should provide a floor to credit markets. At the same time, we expect gradually improving credit fundamentals will be met with more capital from yield-seeking investors, keeping valuations tight.

That said, having managed through these environments before, we know now is not the time to reach for yield or abandon our discipline in underwriting. These periods of prolonged calm and tight spreads inevitably tend to be disrupted by acute but short-lived bouts of volatility. We welcome the reemergence of volatility and will use dislocations to add risk in areas with supportive fundamentals. Ultimately, we believe the idiosyncratic and focused nature of our portfolio is well-positioned in the current environment. In situations where investors must be discriminating and diligent in their efforts to find the right balance of risk and reward, we are confident in our high-conviction approach.

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 31 Mar 2021. 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 2021: Ardonagh Midco 3 PLC 1.8%; Delta Air Lines Inc 1.7%; NCL Corp 1.6%; Carnival Corp 3.9%; Comstock Resources 1.4%. 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.

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.

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