Artisan High Income Fund

QUARTERLY
Commentary

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

As of 30 June 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 30 June 2021	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**2.49**	**4.73**	**19.13**	**8.32**	**8.48**	—	**7.18**
Advisor Class: APDFX	**2.43**	**4.72**	**19.33**	**8.45**	**8.64**	—	**7.34**
Institutional Class: APHFX	**2.45**	**4.87**	**19.43**	**8.59**	**8.67**	—	**7.31**
ICE BofA US High Yield Master II Index	2.77	3.70	15.62	7.15	7.30	—	5.52

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 2021[1,2]	0.96	0.79	0.70
Prospectus 30 Sep 2020[3]	0.97	0.83	0.73

[1]Unaudited, annualized for the six-month period. [2]Excludes Acquired Fund Fees and 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 modestly trailed the ICE BofA US High Yield Index during the quarter but maintains a notable lead over the benchmark YTD. A sharp decline in Treasury yields had the most pronounced impact on the portfolio's asset mix. The entirety of our Q2 underperformance can be attributed to our out-of-benchmark exposure to leveraged loans, which failed to keep pace with the index's duration-driven rally. Among the portfolio's contributors was strong credit selection across its outperforming bond book. Our preference for lower-rated and idiosyncratic credit opportunities—particularly among more cyclical segments—continued to drive strong relative returns. Additionally, lower interest rates and the strong bid for yield translated into relative outperformance of our investment grade exposure.

Investing Environment

Credit markets continued their slow grind higher, locking in the fourth straight quarter of gains. While higher Treasury rates have been a defining characteristic of the market environment this year, a more hawkish Fed outlook combined with slowing reflation momentum led to a notable decline in Treasury yields during the quarter. High yield bonds (as measured by the ICE BofA US High Yield Index) benefited from the move lower in rates, advancing 2.5% in Q2 and 3.7% YTD. The impact of lower interest rates created a goldilocks environment for credit investors with both rate-sensitive and credit-sensitive segments exhibiting strong relative performance. The duration-led rally propelled higher-rated and more rate-sensitive segments of the market, while the deep bid for yield and benign credit backdrop translated into continued strength for lower-rated and distressed credits. For both areas, the degree of spread tightening has slowed as valuations across the entire credit spectrum have narrowed to post-crisis lows. Spreads have compressed across all corners of the market, with only a couple of sectors still above their pre-COVID levels. As it stands today, the high yield market is exhibiting the lowest level of pricing dispersion since 2007, characterized by the proportion of bonds trading within 100bps from the index level.

Leveraged loans were among the clear beneficiaries of higher interest rates in Q1, but receding inflation expectations and heavy new issuance resulted in the asset class's Q2 underperformance. Loans gained 1.5% in Q2 to extend YTD returns to 3.5%. Despite the relative underperformance, there are no signs of slowing demand for the asset class. The focus on rising rates remains a central theme for investors, which has driven more than $25bn of retail flows into leveraged loans YTD.

High yield and leveraged loans technicals continue to be broadly supportive of prices. Issuance trends remain firmly in favor of corporate borrowers, with the current pace of gross issuance continuing its near record pace. Close to $140bn of bonds and $300bn in loans were issued or repriced during the quarter as borrowers moved to take advantage of record low borrowing costs—often paying expensive call premiums to refinance higher cost debt. Given historically low costs of capital, a new trend of sponsor-led LBO financing is beginning to emerge. Close to 20% of new bond and loan issuance in Q2 was used to fund buyout activity. Sponsors still hold record levels of dry powder, suggesting current LBO debt issuance trends are likely to continue.

We can now say with certainty the COVID-19 default cycle has long since concluded as widespread access to capital has provided borrowers plenty of options to address their liquidity needs. The low dispersion that has characterized the environment means the number of distressed capital structures continues to decline. Today there are just 20 CUSIPs in the ICE BofA US High Yield Index that trade below $75. And with little distress in the marketplace, the quarter saw just three companies default on their obligations affecting $5.1bn in bonds and loans. Notably, 2021 marks the most modest default activity in the first half of a calendar year since 2011. The quiet activity meant the par-weighted default rate declined to 1.9% as large COVID-related volumes fell out of the 12-month calculation.

Portfolio Positioning

The most notable shifts to positioning occurred with the portfolio's asset mix. As we've often discussed, our unconstrained approach to credit selection provides broad flexibility to invest across the capital structure based on relative value. With the fall in Treasury yields and the outperformance of rate-sensitive credit risk, we incrementally added to our loan exposure. Relative to high yield bonds, we believe loans provide an attractive trade-off between yield and duration—particularly relative to more constrained BB-rated bonds. With a growing portion of 8- to 10-year credits trading well below 4%, prices for many higher-rated constituents have rallied to levels that likely limit further price appreciation. In our view, the limited upside convexity for bonds—on a relative and absolute basis—provides an attractive opportunity for loan outperformance at current valuations. With these moves, our loan stake increased to 36% of the portfolio while our bond allocation fell to 62%. Finally, across sectors, a combination of portfolio management activity and refinancing led to declines in our cyclical exposure. Collectively, our allocation to energy, consumer good and capital goods sectors dropped five percentage points, while media, services and technology increased a similar amount.

There were minimal changes to the portfolio's top holdings during the quarter, with two new entries sliding into the top 10. Our portfolio remains focused on our highest conviction names, with 28.8% of the portfolio in the top 10 issuers.

Changes to our top-10 issuers were limited to the additions of insurance broker AssuredPartners and cable and Internet giant Charter Communications. AssuredPartners is a long-time holding that has made its way in and out of our top 10 based on valuations. The company has a leading position in the property and casualty and the employee benefits spaces, and it's been aggressively growing its market share through an active acquisition strategy. AssuredPartners' business model is appealing because it allows acquired entities to operate autonomously and maintain their existing brands while reducing costs through centralized critical back-office functions. We

incrementally added to our exposure with the purchase of the company's repriced term loan. In our view, the exposure serves as an attractive surrogate for high-quality credit risk without the interest rate sensitivity associated with BB-rated bonds.

Additionally, we added to our long-time exposure in the unsecured debt of Charter Communications. Strong customer demand is driving high single-digit growth in revenues and operating earnings this year. Broadband services remain a core growth and profitability driver, offsetting weakness in its secularly declining video and voice services. The company generates significant free cash flow that provides plenty of flexibility and liquidity, despite actively repurchasing shares. In our view, the company's split-rated capital structure—IG-rated secured debt and high yield unsecured instruments—represents attractive relative value on a risk-adjusted basis. Our new exposure is focused on the company's longer-dated high yield debt, which we think provides attractive incremental yield relative to other high-rated cable and telecom peers.

Our position in Surgery Center Holdings—which does business as Surgery Partners—fell just outside the top 10 after successfully refinancing its first lien loan. The company issued a new term loan in early May to refinance its two tranches of term loans due in 2024. We participated in the new offering but at a level modestly lower than our initial investment. As background, we used COVID-related weakness in early April 2020 to build a sizable position in the company's senior unsecured instruments at distressed prices and its term loan at low teens yields. Since the pandemic, elective surgery volumes have rebounded, and the company has made several maneuvers to optimize its capital structure. So far this year, management has moved to recapitalize by strategically issuing $250mn of equity to redeem outstanding convertible preferred stock, in addition to refinancing its credit facilities. Notably, our investment in the unsecured debt purchased at mid-20% yields at the height of the crisis, now trades at low single-digit yields as investors price in their expectation for early repayment.

Finally, our holding in the unsecured debt of UK insurance broker Ardonagh Group also fell out of the top 10, due to activity elsewhere in the portfolio. The company continues to make progress on its turnaround efforts with organic growth and cost savings driving operating earnings growth. Ardonagh continues to be highly acquisitive, most notably with the announced acquisition of the insurance broking operations of one of the largest privately owned specialty wholesale brokers in the UK. In our view, our position in the unsecured debt remains cheap relative to peers given its strong free cash flow generation and good liquidity position—particularly as extraordinary integration costs slow.

Perspective

We remain broadly constructive on high yield credit but acknowledge that valuations are far less dislocated than they were just six months ago. The benign credit backdrop and the deep bid for yield have pushed spreads to new post-global financial crisis tights. This clearly limits broad price appreciation going forward. However, fundamentals remain supportive, and the sustained low interest rate environment should maintain valuations as investors are pushed further out the risk spectrum in search for yield. Though there are still some compelling total return opportunities for diligent credit pickers, the collapse in dispersion means we are back to an environment with a focus on yield capture instead of total return potential. Incremental spread pickup in the reopening theme has largely been realized as credit spreads are approaching asymmetric levels across several sectors. The prudent strategy right now is to focus on high carry opportunities in leveraged loans and in smaller, more niche capital structures while selectively trimming exposure in outperforming, higher-beta segments. Our flexible mandate and deep focus on credit selection will be critical as the outlook for risk assets becomes increasingly muted. As always, we'll continue to focus on attractive idiosyncratic and catalyst-driven opportunities while being selective about the risks we take. We believe our high-conviction process will be rewarded over a long-term investment horizon.

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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 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 30 Jun 2021: AssuredPartners Inc 2.4%, Charter Communications Inc 2.2%, Surgery Center Holdings Inc 2.1%, Ardonagh Midco 3 PLC 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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