Artisan High Income Fund

QUARTERLY
Commentary

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

As of 31 December 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 December 2021	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**0.49**	**6.10**	**6.10**	**9.98**	**7.32**	**—**	**6.88**
Advisor Class: APDFX	**0.63**	**6.29**	**6.29**	**10.15**	**7.49**	**—**	**7.05**
Institutional Class: APHFX	**0.55**	**6.39**	**6.39**	**10.22**	**7.55**	**—**	**7.02**
ICE BofA US High Yield Master II Index	0.66	5.36	5.36	8.57	6.10	—	5.37

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 2021	0.95	0.79	0.70
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 modestly trailed the ICE BofA US High Yield Index during the quarter. While the strong demand for floating-rate instruments amid stronger inflation and higher interest rates resulted in material outperformance for the portfolio's leveraged loan allocation, our preference for more credit-sensitive risk weighed on results as BB and B-rated bonds outperformed in Q4.

For the year, the portfolio outperformed once again with attractive absolute and relative returns. As we often note, our returns tend to be more idiosyncratic than our peers, and our performance this year best reflects this. Our preference for lower rated and idiosyncratic credit opportunities—particularly among more cyclical segments—drove strong relative returns through the first half of the year. In the same way, our flexibility to pivot across the capital structure based on relative value benefited returns in the second half of the year. Since the Fed's more hawkish pivot in mid-June, our allocation to leveraged loans provided a notable tailwind to returns, materially outperforming the broader benchmark. Overall, our results for the year reflect the success of our flexible approach and our ability to generate strong relative and risk-adjusted returns against a constantly changing investment backdrop.

Investing Environment

The introduction of a new COVID-19 variant, along with increased interest rate volatility and ongoing inflationary pressures, translated into increased uncertainty for credit markets in Q4. News of the omicron variant initially induced a risk-off tone that sent high yield spreads wider through November, but clarity emerged on the medical front and risk-sentiment recovered into year end. The risk-off tone saw spreads widen to levels not seen since February, but that gap was closed in December as spreads rallied back toward the year's tights on lighter issuance and trading volume. The strong close helped push high yield bonds (as measured by the ICE BofA US High Yield Index) to finish with a 0.7% gain for the quarter and close out the year with a 5.4% return.

Price action for leveraged loans was relatively muted compared to high yield bonds in Q4, but performance for the two asset classes was nearly identical. With broad consensus for Fed tightening in the coming months, the loan market benefited from a seemingly endless bid for floating-rate products, with investors ready to take advantage of any prolonged weakness. In all, leveraged loans (as measured by the JPMorgan Leveraged Loan Index) advanced 0.8% in Q4 and 5.5% for the year. Both high yield bonds and leveraged loans were among the best performing fixed income segments for the year.

By rating, bonds across the credit spectrum experienced relatively little dispersion in Q4 with CCCs the exception. Despite strong performance into year-end, CCC-rated risk continued to lag its BB and B peers, extending a trend that started in mid-June. But the outperformance for both high beta and high carry bonds through the first six months of the year was enough for CCCs to maintain their advantage over higher quality segments for the year—CCCs led with returns of 10.4%, followed by Bs (4.9%) and BBs (4.5%).

The quarter saw just three companies default on $3.2 billion in bonds and loans, closing out the quietest year of defaults since 2007. The par-weighted default rate continued to tick lower, falling to 0.3%. The quiet quarter wrapped up a year void of credit stress—one that was characterized by wide open capital markets and rapidly improving credit fundamentals. While today's current lack of distress doesn't necessarily portend tomorrow's default levels, we expect this favorable credit backdrop to continue well into 2022. Bond and loan defaults are forecasted to trend below 1% for the year ahead.

Portfolio Positioning

We made incremental steps to prepare the portfolio for an environment of increased volatility in the year ahead. At this point, the pace and frequency of Fed interest rate hikes remain unknown, but the path for policy rates is undoubtedly higher. We know these types of environments lead to incrementally more volatility across asset prices and credit spreads. Higher rated bonds, in particular, are likely to exhibit increasingly asymmetric outcomes in an environment of elevated interest rate volatility. We've positioned the portfolio accordingly, incrementally adding to loan exposure based on the superior tradeoff between carry and rate sensitivity. Our loan allocation increased 2.5 percentage points to 37.9%, shortening the portfolio's duration profile to 2.2 years—1.8 years shorter than the ICE BofA US High Yield Index. This allocation was funded by proceeds from higher rated issuers constrained by valuations. By rating, our BBB-rated exposure decreased 4.2 percentage points, while our CCC exposure increased by a similar amount. As we look to the environment ahead, we selectively prefer lower rated credits, given higher yield potential and limited near-term default risk.

The portfolio's top holdings included three new issuers during the quarter: UKG Inc, Callon Petroleum and Surgery Center Holdings. Exiting the top 10 were Charter Communications, Delta Air Lines and NCL Corp.

The most notable new addition came from our new position comprising of first and second lien loans of human capital management solutions provider UKG Inc. The company, formerly known as Ultimate Software Group, was formed by the merger of Ultimate Software and Kronos in April 2020. Prior to the tie up, the companies had nearly equal revenues and strong market shares in the workforce management segment. The combined entity was created to increase growth and cross-selling potential across a larger portfolio of solutions for the human capital management and payroll processing software applications. As a larger company, UKG benefits from a leading market position in the human capital management software segment, and it is supported by a subscription-based model that leads to high recurring revenues, solid free cash flow growth and good earnings visibility. While the company is somewhat constrained by higher leverage, its capital structure is supported by double-digit

revenue growth and an improving margin profile from scale efficiencies. We think our position offers attractive risk-adjusted potential in today's market with mid-single digit yields and a conservative loan-to-value below 40%.

We added to our existing position in the senior unsecured debt of Callon Petroleum—a name we believe best expresses our constructive view on the energy environment. Callon has one of the higher leverage profiles among independent E&P peers but is expected to be a key beneficiary of the strong macro environment for oil. While most major independent energy E&P companies were able to take advantage of the favorable refinancing environment over the last 18 months, Callon's lower-rated credit profile has kept it from undergoing a significant capital structure transformation. But the company's oil-biased production concentrated in attractive, low-cost Permian acreage combined with the past year's strong pricing environment has helped to dramatically improve the company's credit metrics. The company was able to build on this momentum last fall by using its elevated equity to fund the acquisition of Permian peer Primexx—an asset that provided immediate production and quality acreage to Callon's portfolio. We believe the acquisition, along with the continued strength in commodity prices, should translate into a substantial boost to free cash flow growth that will allow the company to aggressively pay down debt and refinance key maturities over the next year, benefiting our position.

Finally, Surgery Center Holdings—which does business as Surgery Partners—made its way into the top 10 through appreciation and changes elsewhere in the portfolio. The company operates short-stay surgical facilities throughout the US that specialize in non-emergency procedures, offering a relatively cost-effective option for outpatient surgical procedures compared to hospitals. We initiated our position in Surgery Center Holdings back in early April 2020 when we used COVID-related weakness to build a sizable position in the company's unsecured debt and term loan. Since then, volumes, revenue and operating earnings have all rebounded significantly, helped by a notable pickup in high-margin surgeries throughout 2021. The strong pickup in cash flow has allowed the company to better optimize its more expensive capital structure. Management retired its convertible preferred stock and refinanced its term loan facilities last year. And we expect the company will look to further reduce costs by retiring its 10% coupon unsecured bond—a position we hold—when it becomes callable in April.

On the other side of the ledger, we trimmed our position in legacy carrier Delta Air Lines based on valuation. Despite disruption from increased COVID cases, Delta's structure continues to tighten due to a strong outlook for credit fundamentals in 2022. Management remains committed to a major deleveraging plan with a goal of attaining its IG status again in the next two to three years. With continued tightness, we chose to trim our position in favor of more attractive relative value opportunities elsewhere. Similarly, we trimmed our position in cable provider Charter Communications. While 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, we chose to trim our longer-dated bond exposure due to rate sensitivity and relative value. Finally, our position in NCL only fell out of the top 10 due to appreciation and portfolio management moves elsewhere in the portfolio.

Perspective

As we look ahead, we expect an environment of changing regimes—on both the monetary and volatility fronts—will likely lead to incrementally more uncertainty and price dispersion. Complacency has largely characterized the market environment over the last year, but rate-driven volatility is likely to lead to more differentiation across industries and capital structures. That said, we welcome the reemergence of volatility and look forward to being a liquidity provider during these periods of uncertainty. Ultimately, we believe the idiosyncratic and focused nature of our portfolio is well-positioned for 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 Dec 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 Dec 2021: Ultimate Software Group Inc 2.8%, Callon Petroleum Co 2.1%, Surgery Center Holdings Inc 2.1%; Delta Air Lines Inc 1.2%; NCL Corp Ltd 2.1%, Charter Communications Inc 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.

This material is provided for informational purposes without regard to your particular investment needs and 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. **Beta** is a measure of the volatility of a security or a portfolio in comparison to the market as a whole. **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. **Yield carry** refers to the cash return from holding an investment minus the cost of financing. **Duration** estimates the sensitivity of underlying fixed income securities to changes in interest rates—the longer the duration, the greater the sensitivity to changes in interest rates. **Loan to Value Ratio** compares the size of a loan to the value of an asset that is purchased using the proceeds of the loan.

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