Artisan High Income Fund

QUARTERLY
Commentary

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

As of 30 September 2022

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 September 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
			Average Annual Total Returns				
Investor Class: ARTFX	**-0.70**	**-11.43**	**-11.00**	**2.11**	**3.15**	**—**	**4.76**
Advisor Class: APDFX	**-0.81**	**-11.44**	**-10.88**	**2.23**	**3.29**	**—**	**4.91**
Institutional Class: APHFX	**-0.67**	**-11.30**	**-10.81**	**2.33**	**3.41**	**—**	**4.90**
ICE BofA US High Yield Master II Index	-0.68	-14.62	-14.06	-0.67	1.41	—	2.96

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 2022[1]	0.94	0.78	0.69
Prospectus 30 Sep 2021[2]	0.96	0.80	0.71

[1]Unaudited, annualized for the six-month period. [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 performed in line with the ICE BofA US High Yield Index in Q3 to maintain a notable lead over the benchmark YTD. Strong security selection among lower rated and idiosyncratic credit opportunities was the biggest contributor to results. Our lower rated credits tend to be concentrated in less cyclical industries, and this exposure outperformed both CCC-rated peers and the broader high yield index. Offsetting this strength was mark-to-market volatility among some dislocated opportunities in telecom and services and an underweight to the outperforming energy sector. Additionally, our strategic allocation to leveraged loans modestly detracted from results, underperforming the broader high yield index during the period.

Investing Environment

Volatility remained front and center throughout the quarter as investors reacted to a worsening mix of higher inflation, tighter monetary conditions and slowing economic growth. While credit markets opened the quarter with a summer rally powered by expectations of a dovish Fed pivot, a string of hotter-than-expected inflation prints in August led Fed officials to double down on their commitment to taming inflation despite intensifying fears of a global recession. Five-year Treasury yields responded by marching 100bps higher, pulling down valuations across nearly all risk assets. The dual headwinds of higher yields and building risk aversion led high yield markets (as measured by the ICE BofA US High Yield Index) to give back all the summer's gains over the final six weeks of the quarter, finishing with losses of 0.7% for the period. Year to date, high yield's 14.6% loss ranks as the worst opening nine-month stretch on record.

Leveraged loans showed resilience throughout the volatility as floating-rate structures sidestepped much of the duration damage felt across broader equity and fixed income markets. The asset class faded a portion of the gains into quarter end but was able to finish the period with returns of 1.2% (as measured by the Credit Suisse Leveraged Loan Index). For the year, loan's modest loss of 3.3% ranks among the best across both equity and fixed income asset classes.

High yield credit spreads finished the period at 550bps—in line with 2018's peaks but still inside the highs reached in June. Yields also moved decidedly higher, reaching two-year highs of 9.6%. While valuations at the index level were modestly tighter quarter over quarter, there was an uptick in distress across the credit landscape. Concerns of an economic slowdown and higher borrowing costs disproportionately impacted more levered capital structures. Bonds trading below $70 increased to 9% of the market. More than half of this exposure is concentrated in CCC-rated credits, where yields are now approaching 17%. Nonetheless, lower rated segments managed to outperform as the extreme moves in interest rates weighed on higher rated and rate-sensitive segments. Overall, CCCs held up best with returns of -0.2%, followed by Bs (-0.6%) and BBs (-0.9%).

With rising rates and widespread risk aversion, primary market activity reached a near standstill. The third quarter's new issuance volumes were the lightest since 2010, as access to capital markets was largely shut to only the most familiar and highest quality borrowers. Financing costs for high yield issuers have nearly tripled from levels at the start of the year, making re-leveraging transactions across the M&A and leveraged buyout spaces increasingly difficult. For previously committed buyout financings, tepid demand has either required significant concessions and deep discounts to be completed or led companies to pull the deals altogether.

Default activity experienced a modest pickup during the quarter with eight defaults across $16 billion in bonds and loans. While elevated relative to the cyclical lows of the last 12 months, default rates of 1.1% are still well below long-term averages. Fortunately, fundamentals remain in a place of strength, and the health of corporate borrowers is at one of the best starting points in years heading into this period of uncertainty. So far, the effects of rising rates on corporate fundamentals have been milder than expected. While backward looking, leverage levels remain anchored near post-Global Financial Crisis lows. And despite higher funding costs, coverage ratios are near record highs, with operating gains offsetting incremental impact from rising interest costs thus far. Additionally, the lack of near-term maturities indicates high yield borrowers have a strong liquidity runway that should help limit the risk of default. Just 7% of high yield and 11% of the leveraged loan debt matures over the next two years, giving us confidence that near-term defaults will be materially lower than previous cycles and largely in line with long-term averages.

Portfolio Positioning

We used the quarter's volatility to make incremental changes to our portfolio composition. As always, we attach ourselves to the part of the capital structure with the best risk-adjusted potential. While our leveraged loan allocation has been a strong contributor to excess returns for the year, it remained a source of funds throughout the quarter. Having outperformed the broader high yield index by nearly 10 percentage points this year, we continued to pare this exposure in favor of more dislocated opportunities across the high yield bond space. We used relative strength to exit or trim names that had achieved our return objectives in favor of low-dollar price opportunities that offer compelling total return potential. Overall, our loan exposure finished the quarter at 15%, down from nearly 40% at the start of the year.

Bond valuations at the index level may sit below June's wides, but an uptick in dispersion and distress underneath the surface has created a more extensive range of mispricings for credit selection. Risk aversion continues to indiscriminately punish select capital structures, creating a mismatch between fundamentals and valuation. With this in mind, we were able to exit positions at an average dollar price of $94 while building positions at materially better valuations. Nearly 65% of the

portfolio's new purchases during the quarter settled at prices below $83. This steep discount provides positive convexity and an opportunity to capture returns well over a bond's coupon once volatility stabilizes.

While we've positioned the portfolio for better convexity, we also upgraded the portfolio across sectors. We've reduced our exposure to areas vulnerable to a weakening economic backdrop while concentrating the portfolio in segments that generate strong free cash flow and have a unique ability to weather future volatility. We ended the quarter with a third of the portfolio concentrated in insurance, media and telecom sectors. These sectors tend to be characterized by strong business quality, higher quality capital structures and more defensive business models.

The portfolio's top 10 holdings included one new entrant with UK insurance broker Ardonagh Group. Exiting the top 10 was oil and gas company Callon Petroleum.

Our long-time holding in UK insurance broker Ardonagh Group is one of the portfolio's top contributors since inception. The company has made its way in and out of the portfolio's top issuers as it has undergone a multiyear transformation process. Most recently, we used volatility to add to our position in the senior unsecured notes with broad market weakness. Ardonagh has made substantial progress since we began building a sizeable position in the company at stressed levels in 2018. Over the last four years, the company has worked through significant challenges of legacy technology and acquisition integration issues and is now recognizing long-expected run-rate savings. These actions have contributed to solid growth in operating margins, which have increased to 30% today from 20% in 2017. Today the company is better positioned to leverage its strong market position and product diversity into free cash flow growth, providing more capacity to deleverage over the near term. Our exposure provides attractive value through low double-digit yields and a resilient, full-cycle business model.

Falling out of the top 10 is our position in E&P Callon Petroleum. Callon made its way into the portfolio's top 10 in late 2021 after we aggressively added based on our constructive view on the oil environment. The company has been a key beneficiary of the strong macro environment for oil. Low-cost oil-biased Permian acreage combined with the supportive pricing environment has helped dramatically improve the company's credit metrics. Overhauling the balance sheet has been a top priority for management, and deleveraging is occurring faster than expected. Over the last year, a substantial boost to free cash flow growth has allowed the company to aggressively pay down debt and refinance key maturities, including our exposure in the unsecured bonds maturing in 2024. Additionally, with pricing for our existing unsecured exposure approaching fair value, we chose to modestly trim our position in favor of better relative value elsewhere.

Perspective

While we recognize elevated inflation and aggressive central bank policy present a challenging environment for credit investors, we continue to maintain a positive outlook for our opportunity set. For credit investors, the fastest and most aggressive hiking cycle we’ve seen in decades is unfolding against a backdrop of fundamental strength for leveraged corporate borrowers. The health of high yield issuers is at one of the best starting points we’ve seen in years heading into this period of uncertainty. The post-pandemic period of ultra-low rates, record issuance and reopening-driven earnings growth have translated into three-decade highs in coverage ratio and leverage levels at pre-pandemic lows. Taken together, we believe the risk of default is much lower than what is being priced into the market today and the odds of a widespread default wave are low.

Fortunately, a worsening macro backdrop has been met with a much better set of valuations for credit selection. Forward returns for the asset class have historically been very compelling when yields approach 10%. And while we expect volatility to remain a dominant feature of the market environment over the near term, we believe these periods play into the strength of our approach. Our value-oriented, research-intensive philosophy allows us to lean into periods when dislocation and liquidity is most severe, and we believe our ability to capitalize on market inefficiencies through individual security selection will be a critical differentiator as we move forward.

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. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. 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. Use of derivatives may create investment leverage and increase the likelihood of volatility and involve risks different from, or greater than, the risks associated with investing in more traditional investments, including 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. Credit Suisse (CS) Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the US dollar-denominated leveraged loan market. New issues are added to the index on their effective date if they qualify according to the following criteria: loan facilities must be rated "BB" or lower; only fully funded term loan facilities are included; and issuers must be domiciled in developed countries. 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 Sep 2022. 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 Sep 2022: Ardonagh Midco 2 PLC 2.4%, Callon Petroleum Co 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.

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.

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. **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. **Leveraged Buyout (LBO)** is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition. **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.

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