Artisan High Income Strategy

QUARTERLY
Commentary

As of 31 December 2018

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.

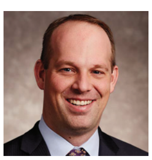
Value Identification

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 2018	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception[1]
			Average Annual Total Returns				
Composite — Gross	**-5.06**	**-0.72**	**-0.72**	**8.08**	—	—	**6.03**
Composite — Net	**-5.23**	**-1.41**	**-1.41**	**7.33**	—	—	**5.28**
ICE BofAML US High Yield Master II Index	-4.67	-2.26	-2.26	7.26	—	—	3.38

Annual Returns (%) 12 months ended 31 December

	2014	2015	2016	2017	2018
Composite — Gross	—	**2.02**	**15.74**	**9.90**	**-0.72**

Source: Artisan Partners/ICE BofA Merrill Lynch. Returns for periods less than one year are not annualized. [1]Composite inception: 1 April 2014.

Past performance does not guarantee and is not a reliable indicator of future results. Current performance may be lower or higher than the performance shown. Unlike the Index, the High Income Composite may hold loans and other security types. At times, this causes material differences in relative performance. Composite performance has been presented in both gross and net of investment management fees.

Investment Risks: Investments will rise and fall with market fluctuations and investor capital is at risk. Investors investing in strategies denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. These risks, among others, are further described on the last page, which should be read in conjunction with this material.

Performance Discussion

Against the backdrop of a swift repricing of risk broadly, our portfolio trailed the ICE BofAML US High Yield Index in Q4. Our relative underperformance during the quarter can be largely be attributed to select weakness in our energy and insurance holdings. This was partially offset by our exposure in leveraged loans—which held up better than both the broader high yield and leveraged loan markets—and strong security selection across our services and transportation holdings. Additionally, the portfolio's more defensive, shorter-duration bias provided relative stability as volatility reemerged during the quarter.

For the year, 2018 was disappointing from an absolute return standpoint, but even considering Q4's underperformance, we were able to maintain our outperformance. As always, our returns tend to be more idiosyncratic than our peers. Strong security selection was the primary contributor to the year's outperformance, particularly among our credit-specific and turnaround opportunities in the retail and services sectors. Elsewhere, our exposure to more leveraged credit, including leveraged loans, was a tailwind to relative returns.

Investing Environment

The final months of 2018 proved difficult for risk assets as heightened investor awareness of tightening financial conditions, global trade worries and the prospect of peaking economic growth sparked an inflection in sentiment. End-of-cycle fears and a raft of macro developments spurred a reemergence of volatility, leading to a 20% peak-to-trough decline for US equity markets in what was the most significant selloff since 2008. The resilience of high yield credit—which had been relatively immune to broader risk-asset turbulence for much of the year—was tested during the period as the dual themes of surging equity volatility and a 40% decline in crude prices sent yield spreads gapping from post-crisis lows in October to multi-year wides in December. In all, the ICE BofAML US High Yield Index ended the quarter down 4.7%, wiping out YTD gains to conclude the year with returns of -2.3%.

Leveraged loans (as measured by the JPMorgan Leveraged Loan Index) were relatively ring-fenced from early quarter volatility, but resetting rate expectations and negative press around underwriting excesses led to record retail outflows in late December. The bout of selling sent loan prices cratering and yields (to three-year takeout) to their highest levels since 2011. The asset class finished the quarter down 3.7% but ended 2018 in positive territory with returns of 1.1%—enough to finish as one of the year's best-performing credit segments.

The turn in sentiment marked a rotation away from lower-rated and economically-sensitive credits. After leading the market higher during the first nine months of the year, CCC-rated risk was most impacted by the fall in oil prices, declining 10.4% to erase 640bps of YTD outperformance relative to BBs. For the year, B-rated bonds were the sweet spot, outpacing both BBs (-2.5%) and CCCs (-4.2%). Among industries, the sharp decline in oil caused drawdowns in energy (-10.0%) reminiscent of the 2015/2016 selloff. Insurance (-5.2%) and transportation (-5.1%) also finished among the weakest-performing segments. Railroads (-0.2%), airlines (-0.4%) and media (-1.0%) finished with negative absolute returns but were among the best-performing industries on a relative basis.

There was a pickup in default activity in the quarter, with 10 companies defaulting on a total of $8.8 billion in bonds and loans. Despite the increased volume, the high yield default rate remained anchored at 1.8%. On a year-over-year basis, the default rate ticked slightly higher, with much of the increase attributed to one large default in iHeart Communications. Nonetheless, defaults remain well below long-term averages of 3.5%. The favorable environment is expected to continue into 2019 with high yield bond and loan default rates to remain modest, declining from currently low levels.

Portfolio Positioning

Given the meaningful spread-widening to finish the year, we looked to take advantage of dislocations where we could. We found the relative value of high yield bonds more attractive and incrementally increased our bond exposure on weakness. As always, we attach ourselves to the level of the capital structure with the best risk-adjusted potential. Accordingly, our bond allocation increased quarter over quarter to 78% from 73% as our bottom-up fundamental research led us to mispriced opportunities in a variety of sectors, including capital goods, energy and real estate. Conversely, our weighting in loans declined to 20% from 23%. Across the portfolio, we continue to favor a more defensive posture as we anticipate further bouts of market volatility. Our duration sits at 3.4 years—almost a full year shorter than the ICE BofAML US High Yield Index. As well, our credit exposure inched up the credit-quality tiers as we increased our allocation to BBB bonds while incrementally lightening up on B- and CCC-rated risk. Despite a more conservative construct, the portfolio carries a compelling opportunity set.

Our portfolio became modestly more concentrated, with our weight to top-10 issuers increasing to 34%, from 32% in Q3. Changes to the top-10 issuers included the addition of General Electric, Endeavour Energy Resources and Beacon Roofing Supply. Endeavour Energy and Beacon Roofing were existing positions; General Electric is new to the portfolio.

We entered the senior unsecured debt and preferred stock of General Electric after the company was uniformly downgraded two notches by the ratings agencies to BBB+ during the quarter. Despite an investment-grade rating, fears of further ratings cuts pushed the company's debt to all-time lows and in line with BB peers. GE's market cap is at its lowest level in decades as weaker-than-expected performance in its power business and a dark web of potential liabilities in GE Capital means the need to raise capital and shore up its $115 billion debt burden has become universally accepted by management and financial markets. Years of value-erasing M&A and aggressive, shareholder-friendly actions finally forced the company's hand in undergoing a significant transformation that we believe will be materially positive to the company's credit. Fortunately, the company has plenty of levers to pull to increase financial flexibility and pay down debt. Management has largely eliminated its

$4.2 billion annual dividend and has announced it will reshape its portfolio by selling off key assets—most notably a spinout of its health care business and remaining stake in Baker Hughes. In our view, there is enough equity in these assets that a successful divestiture—combined with the dividend cut—should allow the company to better deal with contingent liabilities that could materialize and help ease financial constraints as it works to de-lever. Of course, we recognize there are still material risks to our thesis. The black box that is GE Capital creates significant "known unknown" liabilities related to its legacy long-term care and mortgage businesses, and the current DOJ and SEC investigations into the company's accounting practices could delay asset sales or weigh on valuations. Nonetheless, we believe many of the company's biggest risks are more than priced into the debt at current levels. Should the company execute on its planned asset divestitures, we would expect its credit spreads to narrow closer to single-A levels and its discounted preferred stock to trade closer to par.

Appreciation in our position of Endeavor Energy Resources, an oil producer with assets in the Permian Basin, helped it move into the top 10. Endeavour owns drilling rights to more than 300,000 acres of mostly undeveloped land in the Midland Basin of the Permian, making it one of the largest operators in some of the US's most productive acreage. From a credit standpoint, Endeavour has made significant strides in improving its leverage profile and cash-flow metrics despite substantially accelerating its production. Long term, the company's credit profile is expected to continue improving as it gains scale and ramps up production. Despite downward repricing across the industry in the quarter, our positions in the senior unsecured debt rallied as chatter about a potential acquisition from oil super-majors sent the company's debt price higher.

Another notable add was to our position in the bonds of roofing-materials distributor Beacon Roofing Supply. As discussed last quarter, Beacon enjoys a strong market position in a consolidating building-products category, giving the company strong pricing power with both manufacturers and end users. Importantly, the company remains relatively insulated to a housing slowdown as more than 90% of its sales come from roofing replacements to existing homes. Temporary integration risks with its recent acquisition of Allied Building Supply and concerns around housing-related weakness weighed on the company's capital structure. We used the quarter's volatility to add to our position in the senior unsecured notes at a notable discount, with a conservative thesis that free cash flow growth and merger synergies will allow the company to materially deleverage in the next 12-24 months.

Dropping out of the top 10 was EP Energy, VEREIT and HCA Healthcare. EP Energy, a US-based independent E&P, has enviable assets and a unique approach to cost savings and efficiencies, but its more levered credit profile was disproportionately impacted by oil prices' precipitous decline. While we trimmed a small portion of our exposure early in the quarter, the move out of the top 10 was largely attributed to the bonds' underperformance. Conversely, VEREIT and HCA have investment-grade ratings (VEREIT) or IG-like credit metrics (HCA) and held up well during the quarter's weakness. Both positions were used as sources of liquidity to redeploy to more attractive opportunities.

Perspective

Looking at 2019, we remain constructive on high yield credit as the fundamental and technical backdrop looks largely similar to years past. In our opinion, the quarter's downward volatility was driven more by challenging liquidity conditions than a turn in the economic cycle. While we're mindful we're closer to the end of the cycle than the beginning, we see little evidence to suggest high yield markets are approaching an inflection point. Indeed, issuer fundamentals are expected to remain supportive, supply/demand conditions favorable and default activity below long-term averages. Importantly, the Fed's late-quarter dovish shift indicating a more patient approach to further rate hikes suggests monetary conditions are likely to remain reasonably accommodative as well. Putting this together, we believe the end-of-cycle concerns implied by the recent selling have been offset by meaningful spread widening to finish the year, making the risk/reward profile of high yield credit the most attractive it's been in several quarters.

Of course, volatility is expected to be a common theme throughout 2019 as investors jockey to price in risks from decelerating global growth and trade rift rhetoric. Nonetheless, we welcome the reemergence of volatility and will use dislocations to add risk in areas with supportive fundamentals. With our process built on bottom-up security selection, we believe our approach of identifying mispriced securities across the credit spectrum and across capital structures will be particularly appealing during these periods of market dislocations. As always, we'll continue to focus on attractive idiosyncratic and catalyst-driven opportunities while being selective about the risks we take, believing this high-conviction process will be rewarded over our long-term investment horizon.

For more information: Visit www.artisanpartners.com

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Securities of the same issuer are aggregated to determine a holding's weight in the portfolio. Securities referenced may not represent all of the securities in the portfolio. The following holdings comprise the top 25 largest holdings as a percentage of the portfolios's total net assets as of 31 Dec 2018: Charter Communications Inc 6.5%, General Electric Co 4.7%, Vertafore 3.7%, Beacon Roofing Supply Inc 3.2%, Ferrellgas LP 3.1%, Endeavor Energy Resources LP 2.7%, T-Mobile USA Inc 2.7%, J Crew Group Inc 2.6%, Seven Generations Energy Ltd 2.6%, Altice USA Inc 2.5%, VEREIT Inc 2.4%, NFP Corp 2.3%, HCA Inc 2.3%, Springleaf Finance Corp 2.1%, TKC Holdings Inc 2.0%, Virgin Media 2.0%, Ardonagh Midco 3 PLC 1.9%, Sonic Automotive Inc 1.9%, First Data Corp 1.9%, Werner FinCo LP 1.9%, EPEnergy LLC 1.9%, Tutor Perini Corp 1.7%, Acrisure LLC 1.7%, SPX FLOW Inc 1.6%, USI Inc 1.6%. All information in this report is as of the date shown in the upper right hand corner unless otherwise indicated and is subject to change without notice. Portfolio statistics include accrued interest unless otherwise stated. Totals may not sum due to rounding.

Attribution is used to evaluate the investment management decisions which affected the portfolio's performance when compared to a benchmark index. Attribution is not exact, but should be considered an approximation of the relative contribution of each of the factors considered.

Net-of-fees composite returns were calculated using the highest model investment advisory fees applicable to portfolios within the composite. Fees may be higher for certain pooled vehicles and the composite may include accounts with performance-based fees. All performance results are net of commissions and transaction costs, and have been presented gross and net of investment advisory fees. Dividend income is recorded net of foreign withholding taxes on ex-dividend date or as soon after the ex-dividend date as the information becomes available to Artisan Partners. Interest income is recorded on the accrual basis. Performance results for the Index include reinvested dividends and are presented net of foreign withholding taxes but, unlike the portfolio's returns, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the indices.

ICE BofAML 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.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Spread** is the difference in yield between two bonds of similar maturity but different credit quality. **Three-year takeout** refers to the point at which a current loan is refinanced or otherwise paid off. **Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

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