



Artisan High Income Fund

MONTHLY Commentary

Investor Class: ARTFX | Advisor Class: APDFX

As of 31 December 2016

Commentary

Non-investment grade markets capped off a strong year with solid gains in December as high yield bond spreads continued to compress. High yield bonds were up 1.97% (BAML Index), while leveraged loans (JP Morgan Leveraged Loan Index) gained 1.15%. Following the US election, risk assets further rallied on growing expectations for action on tax reform and deregulation. Market optimism was reflected in the largest inflows into the high yield asset class since mid-July. Our portfolio trailed the BAML Index in December, but modestly outperformed in Q4.

High yield bond yields and spreads compressed approximately 40bps in December. Since the mid-February peak in spreads, high yield bond yields are nearly 4 percentage points lower and spreads are roughly 450bps tighter. There was no bigger driver this year for credit markets than improving fundamentals in the commodity sectors. In December, the energy sector received an additional boost from OPEC's agreement to curtail production.

December saw a continuation in performance trends by rating and sector. Lower-rated credits outperformed, and the energy sector led by a wide margin, adding to its strong year-to-date performance. CCCs returned 3.75%, whereas the highest-rated non-investment grade credits (BBs) were up 1.43%. For the year, CCCs were up 36%, compared to about 17% for Bs and 13% for BBs.

Default activity was muted during the month as only four companies defaulted totaling \$1.6 billion in bonds and loans. Defaults have trended lower over the course of 2016 as commodity sectors continued healing. Indeed, more than half of default volume for the year occurred in Q1. For the year, \$60 billion in high yield bonds and loans defaulted, which was 57% higher than 2015's \$38 billion. However, excluding the commodity sectors, default rates were extraordinarily benign and below historical averages.

Non-investment grade credit is clearly richer than it was coming into 2016 given the robust returns and degree of spread tightening that occurred. However, we believe the risk/reward opportunity in the asset class is still superior to most other areas of fixed income where yields remain quite low and possess greater interest rate risk. In that type of environment, we believe the idiosyncratic and focused nature of our portfolio is well positioned.

Portfolio Details

	ARTFX	APDFX
Net Asset Value (NAV)	\$9.86	\$9.86
Inception	19 Mar 2014	19 Mar 2014
30-Day SEC Yield	5.41%	5.62%
Expense Ratios		
Annual Report 30 Sep 2016	1.03%	0.84%
Prospectus 30 Sep 2015	1.09%	0.93%

Portfolio Statistics

	Fund
Number of Holdings	116
Number of Issuers	76

Source: Artisan Partners.

Top 10 Holdings (% of total portfolio)

VEREIT Inc	6.0
USI Inc	5.4
Williams Cos Inc	4.0
Charter Communications Inc	3.6
Kronos Inc	3.3
Opal Acquisition Inc	3.2
HUB Holdings LLC	3.2
Endeavor Energy Resources LP	3.2
York Risk Services Holding Corp	3.1
Altice SA	3.1
TOTAL	38.1%

Source: Artisan Partners/Bloomberg. For the purpose of determining the Portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Portfolio.

Portfolio Composition (% of total portfolio)

Corporate Bonds	74.9
Bank Loans	20.0
Equities	0.6
Cash and Equivalents	4.5
TOTAL	100.0%

Source: Artisan Partners/Bloomberg. Negative cash weightings and portfolio composition greater than 100% may be due to unsettled transactions or investment in derivative instruments.

Investment Results (%)

As of 31 December 2016	MTD ¹	QTD ¹	YTD ¹	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTFX	1.45	1.95	14.52	14.52	—	—	—	6.10
Advisor Class: APDFX	1.47	2.00	14.72	14.72	—	—	—	6.26
BofA Merrill Lynch US High Yield Master II Index	1.97	1.88	17.49	17.49	—	—	—	4.08

Source: Artisan Partners/BofA Merrill Lynch. ¹Returns for periods less than one year are not annualized.

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 888.454.1770 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. Performance may reflect agreements to limit a Fund's expenses, which would reduce performance if not in effect. Unlike the Index, the High Income Fund may hold loans and other security types. At times, this causes material differences in relative performance.

Credit Quality (%)

BBB	12.8
BB	19.0
B	36.8
CCC	29.4
CC	0.6
Unrated	1.4
TOTAL	100.0%

Source: S&P/Moody's.

Maturity Distribution (%)

< 1 Year	0.5
1 - <3 years	5.0
3 - <5 years	24.7
5 - <7 years	32.7
7 - <10 years	36.1
10+ years	1.0
TOTAL	100.0%

Source: Artisan Partners/Bloomberg. Percentages shown are of total fixed income securities in the portfolio.

Portfolio Construction

The team generally determines the amount of assets invested in each issuer based on conviction, valuation and availability of supply. Based on the team's analysis it divides the portfolio into three parts. Core investments are generally positions with stable to improving credit profiles and lower loan to value ratios. Spread investments are those where the team has an out-of-consensus view about a company's credit improvement potential. Opportunistic investments are driven by market dislocations that have created a unique investment opportunity. Allocations to each group will vary over time based on market conditions.

Team Leadership



Portfolio Manager	Years of Investment Experience
Bryan C. Krug, CFA	16

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 888.454.1770. Read carefully before investing.

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.

BofA Merrill Lynch 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.

For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The discussion of portfolio holdings does not constitute a recommendation of any individual security. Securities named in the Commentary, but not listed as a Top Ten Holding or not listed here are not held in the Fund as of the date of this report. The portfolio managers' views and portfolio holdings are subject to change and the Fund disclaims any obligation to advise investors of such changes.

All information in this report includes all classes of shares, except performance and expense ratio information and as otherwise indicated, and is as of the date shown in the upper right hand corner unless otherwise indicated. Artisan Partners may exclude outliers when calculating portfolio statistics. If certain information is unavailable for a particular security Artisan Partners may use data from a related security to calculate portfolio characteristics. Portfolio statistics include accrued interest unless otherwise stated and may vary from the official books and records of the Fund. Totals may not sum due to rounding.

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30-Day SEC Yield is based on a formula specified by the SEC that calculates a fund's hypothetical annualized income, as a percentage of its assets. This hypothetical yield will differ from the fund's actual experience and as a result, income distributions from the fund may be higher or lower. **Credit Quality** ratings are from S&P and/or Moody's. 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. If securities are rated by both agencies, the higher rating was used. Securities not rated by S&P or Moody's are categorized as Unrated/Not Rated. **Maturity Distribution** represents the weighted average of the maturity dates of the securities held in the Portfolio.

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