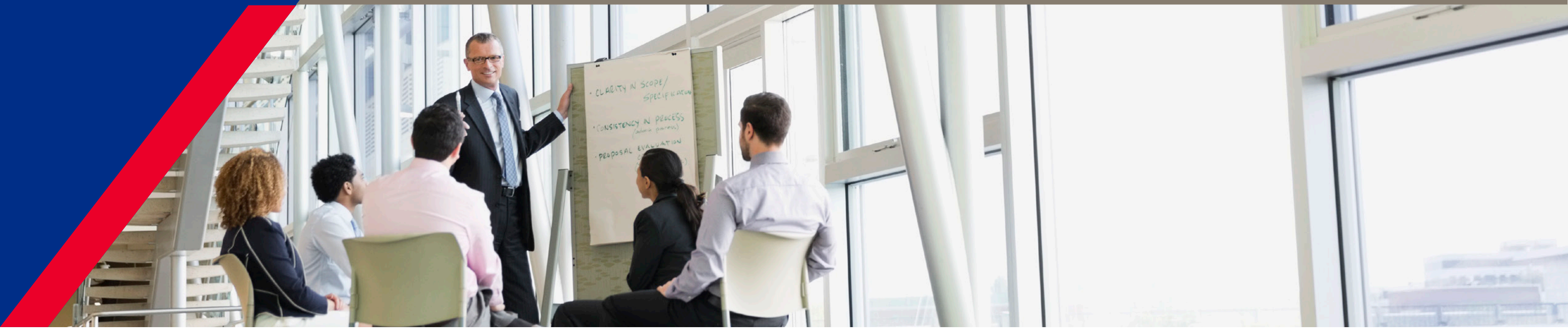
Investing in U.S. High Yield
A Conversation with AXA Investment Managers



What are your thoughts on the U.S. high yield market?

The U.S. high yield market has experienced a significant rally, which began in February of 2016 and has persisted through the first two months of 2017. This rally has been driven by the stabilization and rebound of commodity prices, an improved outlook for economic growth, supportive monetary policy and constructive technical conditions. Following the result of the U.S. presidential election, the U.S. high yield market benefited with other asset classes from the anticipation of fiscal stimulus and expectations of tax reform and reduced regulation. The U.S. high yield market is currently benefiting from continued economic growth, a low default rate and still attractive relative value as compared to other global fixed income asset classes in this low yield environment.

Why should an investor consider U.S. high yield?

We remain constructive regarding the medium to longer term outlook and the risk adjusted return potential of the U.S. high yield asset class. While the average yield, the income return on an investment, and spread, the difference of the yields, of the U.S. high yield market have declined significantly from early 2016 levels, we believe that current yield and spread levels are still relatively attractive given our outlook for the U.S. economy and U.S. high yield specifically.

Historically, U.S. high yield has outperformed relative to most other fixed income asset classes during periods of rising interest rates for a number of reasons including U.S. high yield's lower duration in conjunction with its higher yields and spreads. Also periods of rising interest rates tend to correspond with stronger economic growth which is supportive of the underlying fundamentals of U.S. high yield issuers and can drive spread compression.

What are your return expectations for 2017?

Coming into 2017, we expected a total return of approximately +5-7% for the U.S. high yield asset class (defined as the BofA Merrill Lynch U.S. High Yield Index) for the full year of 2017. This total return estimate takes into account a large number of factors including our expectation of continued slow to moderate growth for the U.S. economy, 2-3 increases in the U.S. Federal Funds rate during 2017 and a default rate of 2-3% in 2017 which is below the long term average. While our +5-7% total return expectation is significantly lower than the +17.49% total return that the BofA Merrill Lynch U.S. High Yield Index posted for the full year of 2016, we believe that this 2017 forecast is still attractive as compared to many other fixed income asset classes.

How is your strategy differentiated from other U.S. high yield fund offerings in the marketplace in 2017?

The strategy continues to have an overweight position to the more equity-like, higher yielding portion of the market, given our positive views regarding the risk adjusted return potential of the strategy's higher yielding holdings. We continue to replenish short duration holdings as securities are redeemed, which should help to minimize the volatility of the strategy. We still plan to maintain an underweight position within the highest quality, more interest rate sensitive portion of the high yield market. The average duration of the strategy remains lower than the index. We expect to be active in the primary market and will continue to look to invest in new issues with attractive risk-adjusted return potential.

Q&A with Carl “Pepper” Whitbeck, CFA, Head of U.S. high yield, AXA Investment Managers

Pepper Whitbeck joined AXA Investment Managers, Inc. in 2002 as a U.S. high yield credit analyst. Prior to joining AXA IM, Pepper was an analyst in the investment banking division of Lehman Brothers, where he performed financial analysis on companies in the consumer and retail sectors, and worked on a variety of mergers and acquisitions and high yield transactions.

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BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody’s, S&P and Fitch). In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $100 million.

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