Hotchkis & Wiley
High Yield Webinar Replay

October 2017

Hotchkis & Wiley

The Advantage of Active Investing in High Yield

Listen in to a recent conference call featuring Portfolio Manager Mark Hudoff as he discusses the current high yield market and the pitfalls associated with investing in high yield ETFs.

Audio Replay **Presentation**

Hotchkis & Wiley High Yield Fund - Average Annual Returns as of September 30, 2017

	Class I	Class A	(w/ sales charge) Class A	Class C	(w/ cdsc) Class C	BofAML BB-B US HY Constrained Index
1 Year	9.56%	9.31%	5.23%	8.47%	7.47%	7.91%
3 Year	5.33	5.06	3.73	4.31	4.31	5.79
5 Year	6.27	6.01	5.20	5.20	5.20	6.15
Since 3/31/09	11.38	11.01	10.51	10.26	10.26	11.26

The Fund's total annual operating gross expense ratio as of the most current prospectus is 0.74% for I Shares, 0.99% for A Shares and 1.74% for C Shares. The net expense ratio is 0.70% for I Shares, 0.95% for A Shares and 1.70% for C Shares. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through October 31, 2018. *The performance shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment results and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month-end, access our website at www.hwcm.com.*

Transcript

Operator: Greetings and welcome to the Hotchkis & Wiley third quarter 2017 High Yield Webinar for investment professionals. At this time, all participants are in a listen-only mode. An interactive question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press (*0) on your telephone keypad. As a reminder, this conference is being recorded. I'd now like to turn the conference over to your host, Ms. Mary Papamarkou. Thank you. You may begin.

Mary Papamarkou: Thank you, operator. Good afternoon and welcome to the Hotchkis & Wiley High Yield Webinar for investment professionals. My name is Mary Papamarkou, and on behalf of Hotchkis & Wiley, thank you for joining us today. I'm joined by Mark Hudoff, Portfolio Manager of the high yield strategy. And, today, we will be conducting a review of the Hotchkis & Wiley High Yield strategy, our third quarter performance, market outlook, and strategy positioning. We'll also spend some time talking about the pitfalls of high yield ETF investing. All lines have been muted for today's call. We will take operator-assisted questions at the end of our call, and I'm now going to go over some key updates about our firm and the High Yield strategy.

Earlier this year, the team was one of the finalists for Morningstar's fixed income manager of the year. That is the second time that Ray and Mark have been nominated since they joined Hotchkis & Wiley. As of September 30th, 2017, our firm's assets totaled over $30 billion. The High Yield strategy had approximately $4 billion in total assets of which $2.7 billion are in the fund and the remainder in separate institutional accounts. We'll go ahead and get started. I'll start with a quick background of our team before turning the call over the Mark.

So, normally, when we start the call, we talked about additions to staff, and we haven't had one in several years. And I am pleased to announce that, in August, Doug Campbell joined our firm. He joined us as a full-time analyst in August, working in the energy sector team covering chemicals. As you're aware, the research analysts at Hotchkis & Wiley are organized by industry and support both our equity and income strategies. The average tenure of a Hotchkis & Wiley analyst is 14 years with the firm. And, with that, I will turn this over to Mark.

Mark Hudoff: Okay. Thanks, Mary, and thanks, everyone, for taking the time. I'm going to kind of try to go through this pretty quickly. I think it's pretty straightforward.

If you go down in the presentation to Page 3 you can see the results of performance, I mean, the scale makes it hard to see, kind of, roughly speaking, upper-mid-teen outperformance versus the BB-B index for the fund. So, thus far, the year-to-date has been pretty good - knock wood. But, you can see that it's been additive over the longer period of time. That three-year number that incorporates, incorporates kind of a difficult slog back in mid-2014, '15 is kind of getting the benefit of some of these better numbers later on down the road.

If you turn the page to Page 4, you can kind of see by, attribution by rating, pretty much driven by, kind of, our sweet spot, that being single Bs. You can see over on the far left column, the rating category, then the columns kind of break down according to what our weights are, what the contribution was, etc., and then you can see that versus the index and then the attribution.

So, investment grade, we're underweight, and that's partly because of the way we look at ratings, but nonetheless, a little bit of a drag in the portfolio. BBs, you can see that, even though we're considerably underweight relative to the broader BB-B index, constrained index, not bad, a little bit of a drag. Single Bs obviously carried a lot of the water. And even the lower-quality stuff was repricing, I'll talk about that a little bit in E&P or in the energy discussion.

Some of the non-rated things in the portfolio, that includes some things that either--well, in effect, were restructured. And so, there's been, in a couple cases, the restructured securities have continued to kind of follow either a little bit of a challenge or otherwise, there's been a little bit of repricing there. And then there's been some securities in that bucket that just have not been doing as well as we had expected. So, that, that ended up being a modest bit of drag on the portfolio, as you can see the net effect.

If I go and dig a little deeper into the attribution without really turning the slide--I guess you could turn to Page 5 now to get a little bit more detail. If I break down the attribution itself, I can see that the top-performing sector of the portfolio was energy with 15 basis points of a total outperformance. I mean, it really was name-specific, Calumet had a very strong contribution, accounting for about half of that. American Midstream—I saw they were in the news today, or yesterday--also was an actual adder to the portfolio. When I get down into energy, the E&P specifically, I mentioned I was going to talk about some repricing. Kind of what we've seen over the past couple years is basically the first leg of financing, rescue financing in some cases, was for the guys that fell out of investment-grade into high yield. You think of names like Murphy, for instance. That was the first round of financing. Then we saw from behind that another round of financing for--I don't know if they'd want to be called this, but we would characterize them as maybe not first-tier but kind of on the edge of in between first and second-tier.

The net of my point was that, actually, we've seen kind of a spade of issuance in September to October--well, mainly in September, but into October of kind of the bottom part of the second tier coming to market. There's still some names out there that are having some tough times, and actually, they ended up being, kind of, drags in the portfolio, come to think of - like Fieldwood, that's offshore, kind of, E&P, still a very difficult, given the cost position there, still a difficult place.

But, if you get into the higher-quality stuff where it was pretty clear from the issuance patterns that they had access to markets, liquidity and things like that, those names, whether it's Sanchez or names like Unit Corp., which is in the news today on a corporate action, those were all actually relatively solid performers. If I get down into the, kind of the last tier of the outperformers in the portfolio, the one thing that you'll see on Page 5 is that perennial underweight of telecom in--I mean, that translates into being short telecom, not explicitly short, but just not long versus the index, and that short worked across most names in the rural telecom area, it didn't really help us versus in some of the wireless spaces. But, generally speaking, being underweight telecoms was a good thing in the third quarter, it added about eight basis points of outperformance to the portfolio.

And finish up the notable performers, in media, nearly all of the six basis points of outperformance in the quarter came from Harland Clarke. Sometimes, you own debt and you scratch your head as to when they're going to fulfill the promise of their possibilities; and finally, Harland put a reasonable a quarter under their belt and was a pretty solid performer, that ended up being about five basis points.

Now, if I get down into the negatives, I start with basic industry - in particular, metals and mining - kind of a tale of, really, operational, more operational things than anything else. And in that case, Rain Carbon, a little bit--well, I wouldn't say that it was a big detractor, but metals and mining was nine basis points of drag on the overall portfolio. It really was--it was centered in some of the names that are kind of cuspy. Real Alloy was a bit of a drag on the portfolio. All the restructured securities that we went through last year and have ended up with stub paper have been a bit of a drag on the portfolio.

I'd say that beyond that, cash was a modest drag on the portfolio, and actually, it was about ten basis points. We've been probably overly cautious in regard to liquidity, just given the kind of dearth of signs that suggest comfort in the current, kind of, valuation environment, both tight spreads and credit markets and equity multiples that just keep to seem expanding against backdrop of a lot of, kind of, global uncertainties.

If I go to page 5 and dig into that a little bit more, you can see the top ten. That has moved around. Some of it's been--some of the names have popped up on the chart, like Jonah Energy. That's actually a refi. We don't--we are not exposed to, well, 1.3% of Jonah Energy, which is kind of a 3+ times levered, E&P company, kind of a gassy company out of Colorado and Wyoming. That's not a statement credit, it's just, it went through a refinancing where we went from bank debt into bonds.

Pinnacle is a considerable position, but that's part of a restructuring--not a restructuring, but essentially an exchange that we went through last year. Staples, that's bank debt and bonds - so, that's just the kind of a combination that we like. If I go down the list, there's not really anything else on that list that jumps out as particularly concentrated. Most of these things are straight bonds after Staples.

I guess the one example, or exception to that would be when you get down into PetSmart, where we have the majority of our position is in first-lane loans, we do have a little bit of an unsecured bit there. That's had some operational setbacks, but we think that's still levered, but not really--or shouldn't be treated like a traditional retail, as it were.

With that, I'm going to stop and just kind of pause and then think about moving to Page 6. We can kind of talk about the outlook. I mean, if I think about it quarter-on-quarter, if anything, the fundamentals continue to surprise us in terms of the resilience of the economy and the improvement. Politicians like to take credit for improvement. I think it's--there's maybe a second order of influence. But, certainly, at the regulatory level, there probably has been some freeing up of some animal spirits. I think the broader context is that it does appear that we're seeing kind of a global--I don't know if it's synchronized, but at least there's kind of a global momentum building, whether it's your upper-Asia kind of improving. And so, as the tide comes in, all boats are risen or rise.

I would say that that just really supports the fundamentals in the U.S. credit markets, particularly in the high yield markets, for U.S. centric kind of, companies that we like to invest in. Defaults are running at 1%, we don't see a lot of reason to get paranoid about that; inflation, relatively benign.

Negative real rates as a result of where Fed funds are probably is pushing the Feds to maybe a little bit more tightening, and we will see a change in the Federal Reserve at the top. But--and we think that we're not going to see a stanch kind of hawk probably inserted into that mix. And even if we did, there's not going to be a lot of evidence for a hawk to go crazy, given their mandate. And I think even most hawks would be much more skewed towards the inflation mandate than the full employment mandate. We just don't see too many influences that are particularly negative on the fundamental front.

I think if you turn to technicals, again, that's pretty balanced. We use the word mixed, the six in one and half a dozen in the other. Market liquidity is certainly being improved over time. It's back to that relaxing of some of the restrictions and regulatory aspects that a government can influence. That seems to probably be improving liquidity in the core of the financial system.

I don't know, whatever your favorite indicator is, we like to look at swap spreads two years out. They've retreated, which is indicating that the health of the system, in terms of the liquidity of the system, is certainly not flashing yellow, if anything else, it's flashing green.

We will have to deal ultimately with the dots and what the Fed does. But, as long as they're measured and just kind of plot along, and are data-dependent, I just don't think that we're going to see a real shocking move from that front. I will say that, whereas, not too long ago a near-zero LIBOR made bank debt an extremely cheap proposition. It's still a cheap proposition, and the CDOs are big consumers of that paper, and so we're still seeing a lot of defeasing of bond, potential bond supply into the bank debt market. But, at some point, we are going to see kind of a crossover in that space where the competition is just--the LIBOR formula just essentially pushes the bonds--I mean bank debt into kind of a less-attractive area.

From our own perspective, when we look at LIBOR plus 350 kind of bank debt, it's actually not that horrible on a 12-month horizon in terms of looking back or even a current yield going forward. We haven't really--and the reason I even bring it up is that we haven't really done a lot in bank debt, I mentioned the Staples. And we--the thing that is gating us, to tell you the truth, is that it's just the rapidity and the aggressiveness of the refinancing that is in--that takes place in that bank market, is just really extraordinary. You may get soft call protection for a year, six months, but there's just absolutely no total return in that instrument whatsoever.

And so, given the fact of we kind of participate in the slightly off the rent part of the marketplace, we still have kind of the luxury of being able to pick and choose what names we want to underwrite. I think the thing, at the end of the day, that gives us pause is this valuation characteristic, it just is unambiguously--not cheap.

Now, I can--we can internally and have internally spun all sorts of scenarios. If you look back in the '80s and '90s--well, maybe the '90s is a better example, and prior to the global financial crisis, we--end of cycles, at least previous ends of cycles, have--visit the, this kind of really tight level in terms of spreads. Usually, it's done through treasuries, so treasuries are moving up and compressing the spread. It's not so much that the top-line yield is pulling down the spread towards the staple treasury.

But, there's a good chance that we're going to visit new tights in the market in high yield over the next twelve months. I mean if the fundamentals remain the way they are, that's entirely plausible, it's entirely consistent with what we've experienced historically. And so, you spin a pretty constructive argument for high yield, even if the Fed gets really aggressive and starts backing up rates, that's another way that you get to visiting the tights.

Under both those scenarios, kind of more of a stable moving higher with the Fed or even an aggressive Fed, it actually affects just the timing. But, we could visit new tights, tights comparable to those we saw in 20-- late 2006, early 2007. And that wouldn't necessarily mean that yields are going to fall that much. And that ends up meaning that high yield could produce some pretty good kind of returns.

We think that the valuation metric that you think about is--I used to work with a guy who had this great saying - the least dirty shirt in the closet. The valuation from our sense, the valuation in high yield, the way you characterize it is, it's the least dirty shirt because, if you think about the risks, the risk to inflation picking up, the Fed really getting revved up, the higher quality part of the fixed income universe, longer duration, 100% correlation, that's going to get killed in that scenario, high yield not so much.

Given these fundamentals, you don't see a lot of downside, at least in the 12 to 24-month horizon. So, carry and short-duration is kind of the formula that explains why high yield probably should be a good fixed income performer over the next 12 to 24 months, even against the backdrop of tepid valuations.

So, with that, I'm going to stop, and I'll get ready to zip into our little missive that we--our quarterly missive. I think that in regards to this thing, we didn't want to write something controversial. We just really wanted to make a point that we're seeing, from a fundamental--from an industry-wide, you see this kind of competition between ETFs and mutual funds.

And our view and the intent of the quarterly piece was kind of to explain that, okay, we kind of get it where you have an ETF that can do one of two things. And really, probably the reasons they're so attractive in some segments in the market is either they can, with laser focus, target a specific part of a marketplace, and they could replicate it well, and they can do both those things relatively cheaply. We get that.

And the real nut of our argument is that ETFs and high yield have a difficult time addressing the broader market. And to do so, it's pretty expensive. And so, at the end of the day, I use these terms internally that is kind of objected to, but, it's an expensive dirty hedge to high yield. And that's really the conclusion.

I think if you turn to Page 7, you can see the kind of the growth in ETFs on the left-hand chart. On the right-hand side, you can see kind of the growth in two of the most popular dominant high yield proxies and ETFs. And, frankly, if you do the math, from kind of mid--call it mid-2012 to now, so the last five years, the participation of these two ETFs in the market has not grown at all. It still represents something like just less than 3% over that period of time – it may ebbs and flows, but hasn't. And so, I guess people that believe that the market has a lot of information and chooses rationally would suggest that this actually supports our argument that high yield's a tough market for this kind of instrument to participate in.

And if you turn the page to Page 8, you can see the, the kind of, performance difference between our index, which is not the ETF index, whether it's HYG or JNK, is the performance--they have individually different indexes, but the broad market we think is proxied pretty well by the Bank of America Merrill Lynch High Yield Index. And that comparison leaves those ETFs left wanting.

These numbers, by the way are presented both in grossed up and net of fees. That's another aspect of the ETF mechanism. The fee structure is--it's not two or three basis points, which is what you might see in some of the broader equity market where you have very liquid kinds of market. As we all know, high yield is not--you can't characterize it as uniformly liquid, I mean, there's pockets of a lot of liquidity, and there's pockets of illiquidity. And in order to proxy that broad space, there's just bits that you aren't going to get to, and if you want to get to them, you're going to have to really distort prices.

And it costs to run a strategy like that. I think that on the next page--well, it's not in the presentation, I don't think, per se, but we looked at those fee structures and it's, call it, average of, call it 46 basis points for the two strategies, maybe it's 45, maybe it's even a little less than that. But, that's not too far off what at least the management fee on real money mutual funds that have in many cases a much better shot at getting the beta, the essentially real beta participation in the high yield market and some kind of hook on achieving alpha on top of that beta.

ETF Performance: Average Annual Returns as of September 30, 2017

	1 Yr	5 Yr	10 Yr	Since 4/4/07
iShares iBoxx $ HY ETF (HYG)	7.02%	4.92%	5.61%	5.72% *(Market Price)*
	7.39	4.92	5.88	5.75 *(NAV)*
Markit iBoxx Liquid HY Index	7.67	5.38	6.43	6.22
BofA Merrill Lynch US HY Index	9.06	6.38	7.72	n/a

	1 Yr	5 Yr	Since 11/28/07
SPDR Bloomberg Barclays HY ETF (JNK)	7.65%	4.60%	5.83% *(Market Price)*
	8.05	4.60	5.81 *(NAV)*
Bloomberg Barclays US HY Very Liquid Index	8.34	5.83	8.01

Past performance is not a guarantee of future results and current performance may be higher or lower than the performance shown. Investment results and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance shown is not indicative of fund performance. An investment cannot be made directly in an index. To obtain Hotchkis & Wiley High Yield Fund performance current to the most recent month end please visit www.hwcm.com or call 800-796-5606. To obtain performance current to most recent month end for JNK please call 866-787-2257 or for HYG please call 800-474-2737. The gross expense ratio of HYG is 0.49% while the gross expense ratio of JNK is 0.40%.

So, the last page you'll turn to is Page 9, just showing growth of $1,000 over time, both in the grossed up versus the--so, high yield mutual fund--I mean, high yield index, broad index, Merrill Lynch, or Bank of America Merrill Lynch, versus JNK and HYG, both before or grossed up for fees and netted for fees. And you can just see that it--because this kind of underscores a lot of the problems. And on Page 10, I've just kind of summarized effectively what I said.

So, at the end of the day, they do provide--ETFs do provide a function. We wish them well. It's--they're done very professionally. I can attest to the fact that, over the past five years, their execution has improved. They've become less obvious. They're--I think that they do just a terrific job. But, I just think that they have a lot of, kind of, local-level headwinds against them in order to be as competitive as you see in some of the other markets. And so with that, I would stop and let Mary return to Q&A.

Mary: Operator, let's go ahead and open up the call to Q&A.

Operator: At this time, we'll be conducting a question and answer session. If you'd like to ask a question, please press (*1) on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press (*2) if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the (*) keys. One moment, please, while we poll for questions. And, once again, that's (*1) if you'd like to ask a question.

And we do have a question from Julie Skye from Mariner Wealth Advisors. Please go ahead.

Julie Skye: Hi there. Thank you so much. Mariner has a values-based investment offering that we--that basically is an environmental, social governance, an ESG offering. And I was wondering whether you have any of the sustainable mandates or how you incorporate ESG information into management of your portfolio. Do you have companies you exclude because they don't meet any social, or governance, or environmental, or that they have additional risks that you're not willing to take? So, can you help us understand where that would fit on my ESG grid that I have built?

Mark: Yeah. I've--by the way, thank you. It's Mark here. And, Mary, chime in at the end, and I'll quickly talk about some specific aspects of the ESG kind of protocol. I mean, look, we're signatures to--I can't remember the name of the--.

Julie: The UNPRI?

Mark: Right.

Julie: Wow, that's amazing.

Mark: Yeah. I mean, for a little firm, it is kind of surprising. But, we--there was a client behind that that encouraged us to engage in that. And so, that was definitely something that's kind of the bedrock of our commitment in that regard.

It--we don't have a formal, like, test within the firm that is some kind of threshold. But, ESG considerations have to be taken into kind of the mosaic assessment of each individual investment. And, frankly, if we see that a management team is doing some things that are just blatantly kind of adverse to what we believe is their long-term best interest against the backdrop of the ESG kind of framework, then the effect of that is it will haircut essentially our appetite, our, kind of, intellectually scoring a value to the company and will essentially raise the threshold and bar for an investment.

And so, that's kind of where it rides. It--there's the top-level commitment, and then each individual research analyst has actually the characterization of the, kind of, ESG protocol within their fundamental analysis. And so, the best way to flush that out is to--you follow up after the call, and we can sit you down with one of the analysts, and they can walk you through a specific example where some dubious behavior just essentially raised the bar way too high for us to essentially participate in the company. So, at the end of the day, that's the way we approach it. I don't know --.

Julie: That's terrific.

Mary: And, Julie, we can certainly set up some time with Kristen, too. I'll let her know that you had that question, and we'll absolutely follow back with you.

Julie: That would be awesome because, recently, I saw an article that Volkswagen, Valeant, and Equifax had all been screened out of ESG portfolios and that the risk side of ESG really came into play with those names. So, I'm very glad to follow up with you guys and hear more about it.

Mary: Great, thank you.

Julie: Thank you.

Operator: Our next question is from Kirsten Stone from BNY Mellon. Please go ahead.

Kirsten Stone: Hi. So, about high yield and ETFs, do you think there's a chance that, kind of, a retail investor base in investing in an asset class where there's this kind of liquidity mismatch, is there a chance for that to propagate out of the ETFs where we don't just have a problem with essentially a couple of really big closed-end funds? Could it create bigger problems for high yield or sub investment-grade markets or ETFs in general?

Mark: Well, the--that feat will--by the way, thanks for the questions. It's a--it's something that actually we've talk--we talk about constantly. It's not like every three minutes, but we do talk about it. And it's--I think the way we've--the way we dimension it is that it at you know where's the mismatch is the worst? And we think that the--so, it's --there's a couple dimensions.

The first one is - where the mismatch is, that liquidity mismatch, is the worst, and, it--and the dimensions is not just liquidity, but it's also, kind of, how dirty is the hedge? And so, that's one aspect.

The other aspect is the sophistication of the investor population and their concentration within the--that instrument. So, it's would be okay for a super-sophisticated investor knowing what the limitations of the instrument is, to own 100% of an instrument that's very illiquid and is a super dirty hedge. They get it. They understand. That's what--but, that's the best choice they have, back to the dirty shirt in the closet, the best--the cleanest dirty shirt.

Where you get into a problem is where you get into highly concentrated products where it's relatively uninformed investors and essentially the hook or the proposition, the investment proposition, doesn't necessarily clarify the kind of potential issues. And so, where's the biggest mismatch is we think that, actually, not to bang products or talk down products, but frankly, bank debt, we think has got the worst mismatch between a retail fund as the funder and a mutual fund on the other--on the back side of that with T+7 kinds of liquidity.

Now certainly, they have lines, and they have bonds, and they have all sorts of T+2 kinds of instruments or even T+1, or maybe even just cash-cash. But, the reality is you can cut through that pretty quickly, and we think that that and--that is a source of anxiety and vulnerability in the market, probably greater than the ETF high yield funds.

The other dimension that we think about is how big a participant in the market is it? In the case of bonds, as it--as compares to the broad high yield market, less than 3% of the market, that's not something that is--that you would expect to have massive blowback. Let's say it was 100% ETF, certainly and they're not 100% owned by a retail-retail, but let's say they were 100% owned by retail-retail. First of all, they're not going to blow it out on one day. They're--let's just compress it to a week. Even blowing out over a week, it would certainly be complicated, and it certainly would introduce volatility, but we don't see that as a kind of a fisher in the technical--certainly not the fundamentals, but not the technicals of the marketplace. It certainly would back the market up. But, again, that assumes a very compressed kind of exit of the strategy.

And we also know that there's people that participate in the ETF, high yield ETFs, and they're not just straight investors. There's high yield fund managers that will buy it for a lot of reasons. There's other people that as proxies for high yield--I mean, there's just--there's a ton of other participants in the market that are not going to behave like retail investors, and so you're not going to see all 2.8 or just call it 3% go in one week. Maybe you'd see a 1% over 15 days or something like that. That would be painful, but it would not be too disruptive. It wouldn't be too dissimilar to taking a couple billion dollars maybe over a two-week period of time, a 3 to 5 billion kind of an outflow. And we've seen--and I adjusted for that kind of thing, on the public mutual fund side.

So, I think ETFs, high yield ETFs, we don't see the feedback mechanism as--after looking at the dimensions of the risk, as being too big a threat. I think bank debt, that's a different story. The thing with bank debt that complicates it is that, first of all, resolution on the bank market's a little different than the bond market. It's less exact. The second thing is you this whole swap, maybe 60% of that market is owned by structured products. Structured products don't act like other people. They--they're--and that's why they're called structured product. They have formulas, and they have horizons, and they invest for various reasons. They are very unusual in terms of their behavior.

And without getting really into the weeds, actually, I argue that that makes it relatively--it makes it a somewhat more stable risk even though you have this kind of difference between at the worst a T+7 and T+2 in terms of settlement of a bank loan and settlement of cash trade, which actually probably could be as much as T+1. So, you have six-day kind of asset-liability mismatch. Probably only 50% of the market is really exposed to more economic actors. And of that 50%, there's going to be a lot of hedge funds in there, there's going to be a lot of other kinds of investors that are not necessarily going to follow along with--in some kind of shock event and just panic and hit the door.

So, I think that the bank debt market certainly is more vulnerable, but because of the structural aspects of the demand, I think it's not that big a threat. When you get to a recession, actually, it's interesting, CLOs act very, very, responsible in recessions, it's hedge funds that don't act responsible, they're the ones that rush to the door. And, frankly, the retail guys are usually the last ones to know about a recession, and so they're late to the party or exiting the party.

And so, it ends up bank debt--it could be a real problem just because of the asset-liability mismatch. It's probably not that big a problem. Both, the people that manage those products understand these problems, and the second thing is the structure of their investor base is very different--and then back to high yield--I don't see that.

Now, I don't know that much about the high-grade space. I think the high-grade space is vulnerable more to the Fed, probably, and Fed behavior, and inflation, and the last kind of blow-off of momentum in a credit cycle than the recession part. The treasury --and high-grade product tends to do pretty well as the Fed cuts rates. Spreads may be blowing out but relatively modest component to their overall yield--maybe not modest in BBB space, but okay.

I think where you could see a variation on that is the next recession we think--there's just been absolute shed-loads, I mean shed-loads of investment-grade bonds that have been issued into this market over the last five years, I mean historic. Some of it's recycling of a lot of the central bank, not the U.S. Central Bank, but particularly European Central Bank for shareholder-friendly kind of activity, buying back stock, doing things like that, dividends.

We think that a massive BBB credit migration is likely in the next recession, and so that's a vulnerability. It's more of a structure of the lower-quality part of the investment-grade market. As far as ETFs, I haven't studied it enough to be very clever with an answer there, so, I can't--I apologize--.

Kirsten: Oh, no. It was just in the press this morning, the Chief Risks Officer for the University of California suggested that, should high yield ETFs hit a spot of trouble, like you mentioned, that 1% in 15 days, and it looks bad, that the risk would kind of propagate through all ETFs because they all have ETF in the name and hit the equity markets and then feed back into high yield.

Mark: I don't know. I don't--well, I mean, the equity market, it--the equity market--if the equity market goes down, we have a--we tend to--particularly lower-quality high yield—will have a higher correlation with the equity markets than it does with the interest rate market. So, that's actually true that you will see a strong correlation between high yield and equity markets.

The sell decision, though, it's got to be stimulated by something. And I'm not sure if the premise is that, because high yield sells off, it makes all ETFs sell off, and then it becomes self-reinforcing. I mean, yeah, that's the--that essentially describes a bout of volatility as you get this kind of self-reinforcing tumbling. But, then people come in and say it's overdone. And as long as the fundamentals remain okay, it--and the liquidity of the system can accommodate it, I don't see it.

At the end of the cycle--the thing is, when you look at this ETF growth for high yield exposure, as I said, it's remained constant for the last five years. I mean, it's not exactly constant but relatively constant. There's no bubble in ETF participation in the high yield market. I mean, it's full stop. I guess we--I should probably go back and look at what the high grade equivalent of this is.

But, yeah, I--I'm not sure that, because someone would sell their high yield ETFs, that that would propagate across the market. I'm not sure, maybe, I just didn't read the article.

Kirsten: No, it's fine. Thank you. I really appreciate your thoughtful answer.

Operator: Thank you. It appears there's no further questions in the queue. Do you have any closing comments?

Mary: Great. Thank you, everyone, for joining us today. And a copy of our whitepaper is available on our website, or you can reach out to your relationship manager. As always, we appreciate your support of our firm and the high yield strategy, and I hope you have a great day.

Mark: Thanks, everyone. Bye.

Operator: This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.

Returns shown for A and C Shares for the periods prior to their inception are derived from the historical performance of I Shares of the Fund during such periods and have been adjusted to reflect the higher total annual operating expenses of each specific Share class (Inception date: I Shares-3/31/09, A Shares-5/29/09, C Shares-12/31/12). Returns shown for A Shares and C Shares without sales charge do not reflect the maximum sales load of 3.75% or the Contingent Deferred Sales Charge (CDSC) of 1.00% for the first year; if reflected, performance would be lower than shown. Returns for A and C Shares reflect the deduction of the current maximum initial sales charges of 3.75% and 1.00% CDSC. C Shares convert automatically to A Shares approximately eight years after purchase. A Shares are subject to lower annual expenses than C Shares. I Shares sold to a limited group of investors. Periods over one year are average annual total return. Average annual total returns include reinvestment of dividends and capital gains. Expense limitations may have increased the Fund's total return.

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