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Introduction

The MacKay Shields High Yield Team (“the Team”) utilizes a bottom-up, value-oriented approach to investing in the US high yield market. Our objective is to outperform the high yield market over the long-term through superior credit selection while mitigating downside risks. Given the asymmetric risk/return profile of investing in high yield bonds, we believe appropriate risk compensation and a focus on downside protection are required to invest successfully in our market. We have a long-term outlook and do not attempt to time the market.

In line with [MacKay Shields' Responsible Investing Policy](#), we recognize that material environmental, social, and governance (“ESG”) factors can have an impact on long-term investment outcomes and, therefore, are a natural and important component of disciplined investment research and portfolio management process. Each team member is accountable for incorporating ESG considerations into their analysis, ensuring a comprehensive evaluation of potential investments. While the firm policy will detail many aspects of our responsible investing processes, including our treatment of exclusions, approach to climate change, and governance of our responsible investing activities, the below policy is meant to illustrate how these processes are incorporated into and adapted for our Team’s specific investment philosophy and process.

Research Process¹

We believe ESG integration is a critical and natural part of our fundamental research, and therefore that ESG research led by the investment team is the best approach to doing so, as our portfolio managers and analysts have the deepest understanding of companies and strongest relationship with managements. Our ESG research is driven by our bottom-up analysis of issuers, including sustainability reports where available, and through active dialogue with management. While we utilize third-party ESG data providers to complement our findings and understand how the market may perceive a company’s ESG risks and opportunities, our internal ESG risk groups are not based on third-party scores. Material differences between our assessment and market perception may be sources of opportunity.

Our senior team members have significant investment experience and have research responsibilities for specific sectors, each with deep knowledge of their sectors. Most have spent the majority of their careers covering the same industries and all have

¹. The processes and procedures described in this Responsible Investing Policy, including without limitation ESG scoring, is applicable only to actively managed investment strategies. From time-to-time the Team may manage accounts pursuant to non-actively managed investment strategies, including (without limitation) an account with investment strategy or investment objective to substantially track and index or to maintain a low tracking error, and the processes and procedures described herein will not be applied to the management of such accounts.

longstanding relationships with high yield market participants. The senior team members are supported by our generalist high yield analysts and the firm’s dedicated Responsible Investing Team.

The US High Yield market presents challenges regarding ESG:

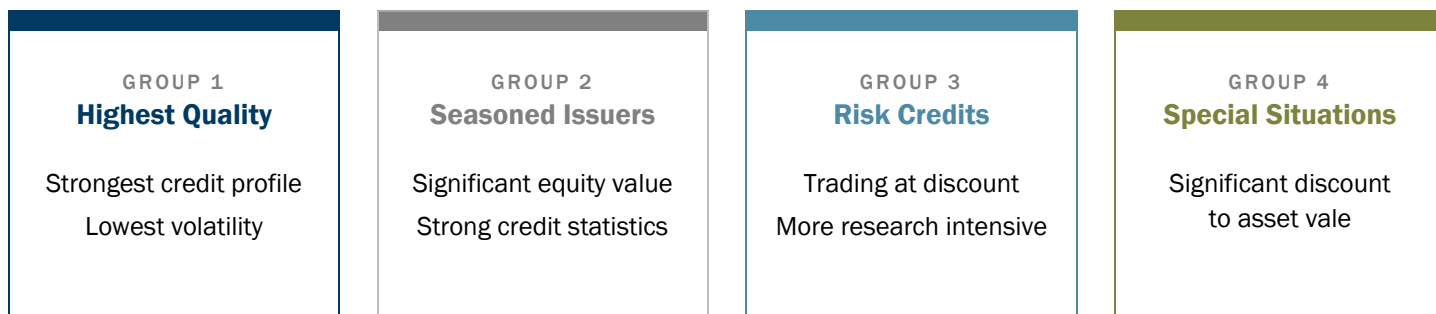
- The market is comprised of many small and/or private companies that are not covered by third party data providers. These companies generally have less ESG-related disclosure and may not have the resources to engage with data providers.
- High Yield companies may operate in niche industries rather than large, broad sectors – requiring more nuanced and company-specific assessments of material ESG risk.
- External data providers tend to view ESG through the lens of a shareholder, rather than a creditor.

HIGH YIELD ESG RISK GROUP FRAMEWORK

The Team, in consultation with our clients, initially developed an ESG Risk Group framework in 2014 to align with our existing Credit Risk Group framework, which we have used since our inception in 1991. We believe this ESG Risk Group framework is beneficial as it formalizes our investment team’s ESG analysis and provides greater transparency on all material risk considerations to our clients.

We categorize securities in our portfolios into one of four Credit Risk Groups that are delineated by the strength of the asset coverage and the potential for default. Risk Group 1 designate the highest quality credits, Risk Group 2 are somewhat weaker, Risk Group 3 are the riskiest credits, and Risk Group 4 are special situations.

HIGH YIELD CREDIT RISK GROUPS



Similarly, ESG risk groups reflect our judgment of the scope and materiality of specific ESG factors and their anticipated impact on the business’s viability and financial outcomes. ESG risk groups are categorized on:

- Scope and scale of a company’s exposure to material ESG risks based on their industry;
- Ability and effectiveness of the company to manage these ESG risks; and
- Potential for the company to benefit or create value in the future.

HIGH YIELD ESG RISK GROUPS



ESG RISK AND OPPORTUNITY PERFORMANCE INDICATORS²



ENVIRONMENT

- Biodiversity
- Carbon Emissions
- Climate Change
- Pollution & Waste
- Renewable/Green
- Energy Transition
- Resource Management
- Sustainability
- Water Stress



SOCIAL

- Community Relations
- Employee Well-Being
- Global Norms
- Health and Safety
- Human Rights
- Job Creation
- Labor & Management Relationship
- Product Quality & Safety



GOVERNANCE

- Accounting Practices
- Board Structure & Ownership
- Business Ethics (“Good Actors”)
- Corruption & Instability
- Financial/Capital Structure
- Policy
- Incentive Structure
- Long-term Stakeholder & Customer Focus
- Regulatory Risk

These four ESG risk groups are proactive, forward looking, and predominantly based in qualitative analysis, supplemented with quantitative data, where available and applicable to the respective issue. The risk groups are an aggregate assessment of the ESG factors that capture how exposed an issuer is to long-term ESG risks and opportunities. They are influenced by the controversies a particular issuer has experienced and how it has responded to such incidents, amongst other things. Analysts assess the issuer’s strategy and ability to manage ESG risks in order to understand the issuer’s ability to benefit or create value in the future. ESG risk groups are first compared on a relative basis with peers in similar industries and then compared across industries, given that certain sectors are more exposed to material ESG issues (e.g., energy and transition risk).

Our ESG risk groups are evaluated continuously, with added scrutiny if there is a material change in the issuer. Our credit research process is also structured to capture the most severe violators of global norms through our ESG scoring process. Issuers that experience controversies related to violations of global norms would typically be classified as having Significant Material Risk, and, depending on the nature of the controversy, may require a significant return to compensate for that heightened risk, or be considered uninvestible altogether. MacKay Shields has also implemented a norms-based indicator screen to assist investment teams in proactively identifying and assessing corporate issuers that are classified as very severe violators of the principles of the UN Global Compact.

2. Not an exhaustive list of indicators used for ESG Integration.

Portfolio Construction

We weigh our clients' interest in strong returns against the risk factors associated with the portfolio. Our commitment is to ensure that such factors, both financial and non-financial, are properly assessed and taken into consideration when constructing and managing client portfolios. The determination of whether specific securities warrant inclusion in the portfolio is first based on client mandate suitability. If the security fits client guidelines, then inclusion is based on our assessment of the risk-adjusted return potential versus other investment alternatives as well as the impact on the return and risk profile of the portfolio in aggregate. The manner in which ESG-related factors affect security selection may be qualitative as not all risks are easy to quantify.

The most straightforward case of how ESG risks are implicated in portfolio construction involves two securities that have similar return profile but different ESG characteristics. We will prioritize the security with the better ESG rating because our view is such that an issuer that is more effectively managing all potential business risks, including non-financial risks, is more likely to outperform in the long-term. In addition, a security's ESG profile plays a large factor in our conviction level, and therefore the weighting, of that security in the portfolio. Generally, the largest positions in our portfolios have favorable ESG profiles. Finally, a security having a higher ESG risk is subject to additional scrutiny in our research process. We consider whether we are adequately being compensated for higher ESG risk with higher return potential.

We work with clients on a case-by-case basis to determine whether additional ESG specific considerations should be taken into account in the construction of their respective portfolios (e.g., restricted security or industry list, prohibition of investments with a certain ESG Risk Group rating). We have experience managing customized ESG High Yield portfolios based on client risk, return, and sustainability objectives. Portfolios can be customized on sector exclusions, issuer exclusion lists, and third-party ESG rating guidelines. In addition, customized portfolios can utilize our ESG Risk Groups as part of their ESG guidelines. We can provide customized ESG reporting on ESG Risk Group exposures and third-party ESG data analysis.

Engagement

We view ourselves as lenders to the companies in which we invest and therefore, we develop close relationships with management teams characterized by open, constructive dialogue. We believe engagement is important to improve disclosures and data transparency, enhance our understanding of a company's potential ESG risks and opportunities, and effect positive change over time, where possible. We will typically engage with issuers that have sustainability-related controversies or where we have material concerns. ESG controversies are monitored by the senior investment professional responsible for the underlying credit. We also utilize third party ESG data to monitor sustainability-related controversies. We will trim or sell positions if we believe that these have not been remediated.

We seek to engage with issuers through meetings with company management, investment roadshows, onsite visits, industry conferences, and other interactions. The Team maintains a centralized record of conversations and engagements with companies, which is readily accessible by the entire team and allows for continuous dialogue and information sharing.

Collaboration with the Responsible Investing Team

We believe that while ESG analysis is most effectively conducted directly by investment teams, the rapid evolution of sustainability issues, regulations, and global themes necessitates the provision of additional tools and resources to ensure thorough and responsible analysis. To meet our fiduciary obligations, analysts are equipped with internal ESG scoring tools and can draw on the expertise of the Responsible Investing team in engagement activity with an issuer when sustainability concerns are significant or closely aligned with a client's specific goals. This collaborative approach leverages both the deep asset and sector knowledge of the analysts and the RI team's specialized insights into sustainability trends and regulations. By combining these strengths, we enhance the overall quality of the investment process, aligning financial returns with responsible investment practices and ensuring that our teams remain adaptable and informed in a changing landscape.

ADDITIONAL DISCLAIMER

As all asset classes are not created equal when it comes to ESG data and application, we retain discretion to apply certain aspects of this policy to a greater/lesser extent depending on data availability, investment time horizon, and client objectives. In addition, we believe that there is no conflict between this policy and our responsibilities as an ERISA fiduciary with respect to our ERISA clients.

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