

Integration Approach

INVESTMENT TEAM AUTONOMY

For actively managed strategies, each of MacKay Shields' investment teams applies its own distinct process and experience to add value across capital markets. Accordingly, each investment team may consider material sustainability-related risks and opportunities alongside traditional factors that reflect the character of each asset class, investment style, and client goals, to enhance their understanding of the risk-reward profile of an investment. For that reason, sustainability-related risk assessments are conducted directly by the investment teams and incorporated into each team's investment process.

From time to time, MacKay Shields may manage accounts in line with a passive investment strategy. The processes and procedures described in this document may not apply to low-activity or non-actively managed strategies, such as accounts that substantially track an index or seek to maintain a low tracking error. Some of the holdings in such accounts may nevertheless be subject to engagement based on exposure to those issuers in actively managed portfolios. Additionally, there may be positions in actively managed accounts that would not be subject to some or all of the sustainability assessments described herein, such as cash equivalent instruments, currency hedges, or securities that have resulted from corporate actions or client transfers.

ESG RISK SCORING

The firm has developed a scoring scale to assess sustainability-related risks and opportunities. This is applied by each of MacKay Shields' investment teams according to its own distinct process and experience, with the goal of adding value across capital markets. Accordingly, each investment team considers sustainability-related factors alongside traditional factors that reflect the character of each asset class and investment style.

Our teams assess the scope and materiality of those sustainability-related factors, a selection of which are included in the graphic below, and their anticipated impact on the issuer's viability and financial outcomes over the long-term. These assessments provide a signal to the portfolio management team of how much risk and/or opportunity is inherent in any given issue, and may influence not just inclusion into a portfolio, but also the relative sizing of that position.



Illustrative Composite Score for Sample Issuer

Illustrative ESG Risk Group Score for Sample Issuer

| | Environment | Social | Governance | |
|--------------------------------|--|--|---|--|
| CORPORATE | <ul style="list-style-type: none"> ▪ Pollution & Waste ▪ Resource Management ▪ Climate Change (Physical & Transition Risks) | <ul style="list-style-type: none"> ▪ Human Capital Management ▪ Labor Relations ▪ Product Quality & Safety | <ul style="list-style-type: none"> ▪ Business Ethics ▪ Financial Management & Policies ▪ Tax Structure & Taxation Practices ▪ Transparency/Accountability | |
| SUB - SOVEREIGN | <ul style="list-style-type: none"> ▪ Biodiversity & Resource Use ▪ Climate Risk (Physical & Transition) ▪ Pollution & Waste ▪ Water Stress | <ul style="list-style-type: none"> ▪ Access & Affordability ▪ Community Relations ▪ Demographic Shifts ▪ Job Creation ▪ Public Safety | <ul style="list-style-type: none"> ▪ Business Ethics ▪ Financial Management & Policies ▪ Tax Structure & Taxation Practices ▪ Transparency/Accountability | |
| SOVEREIGN | <ul style="list-style-type: none"> ▪ Energy Security ▪ Environmental Health ▪ Ecosystem Vitality | <ul style="list-style-type: none"> ▪ Human Freedom Index ▪ Global Health Security Index ▪ Access to Information & Communication | <ul style="list-style-type: none"> ▪ Political Stability ▪ Regulatory Quality ▪ Corruption Perception Index | |
| SECURITIZED¹ | <ul style="list-style-type: none"> ▪ Asset Energy Efficiency ▪ Climate Risk (Physical and Transition) ▪ Resilient Infrastructure | <ul style="list-style-type: none"> ▪ Access and Affordability ▪ Consumer Protection Practices ▪ Economic Growth | <ul style="list-style-type: none"> ▪ Underwriting Standards ▪ Servicing and Oversight ▪ Transparency and Accountability | |

● **BEST IN CLASS**
 ● **LOW MATERIAL RISK**
 ● **MATERIAL RISK**
 ● **SIGNIFICANT RISK**

The graphic above is for illustrative purposes only and represents a selection, not an exhaustive or complete list, of factors the teams may include. For more detail on the scoring process please visit the respective [team policies](#).

1. The assessment process for the securitized asset class is predicated on the idea that hurdles of sound governance of the issue have to be cleared in order for the security to be investible. If our analysts deem the governance of such securities lacks integrity, MacKay will consider that security uninvestable. For more information on the philosophy and process concerning securitized products, please refer to the [Global Fixed Income RI policy](#).

These four 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 performance indicators that capture how exposed an issuer is to relevant long-term sustainability-related risks and opportunities. Analysts assess the issuer's strategy to manage risks in order to understand the issuer's potential to create value in the future. The risk groups for corporate issuers 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 sustainability-related issues (e.g. energy and transition risk). These risk groups are evaluated on an ongoing basis, with added scrutiny if there is a material change in the issuer.

Typically speaking, if two bonds have similar yields and spreads but are assessed to have different levels of material sustainability-related risk, the teams will tend to prioritize the bond in the lower ESG risk group. In addition, a security's sustainability-related risk profile factors into conviction levels, and the weightings of securities in the portfolio.

ENGAGEMENT

We view engaging with issuers as a natural part of the investment due diligence process. Our analysts engage with issuers to build relationships and create a constructive environment of information sharing. The knowledge gained during our engagement activities, along with our credit analysis and information received from third parties, help us to better assess potential risks an issuer faces and the issuer's awareness and management of such risks. Depending on various factors, including, but not limited to, an issuer's weight in a portfolio or index, the materiality and likelihood of certain risks, and an issuer's risk management compared to its peers, each team determines the most appropriate means of escalation for addressing material risks with issuers. During our engagements, we aim to assess an issuer's awareness and management of what we view to be material sustainability-related issues and promote better disclosure of said issues, where relevant.

Detailed engagements, with objectives and goals for progress on material sustainability-related issues, are typically reserved for issuers where the position is, or has the potential to be, sizable; the issue is significantly material to the investment thesis; and the team feels they are well positioned to make meaningful progress with the issuer. In instances where our position size and/or influence with the issuer afford us less access to decision-makers, we are more likely to seek more information about an issuer's approach through constructive dialogue with issuers. Where access is most severely limited, yet we still consider a material sustainability-related risk to be insufficiently addressed and that risk to be significantly high without commensurate return potential, we may resort to downsizing or divesting from a position. Feedback from our engagements is used to inform each team's risk profile, and therefore return profile, of an issuer.

We believe that while sustainability-related risk 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 scoring tools and can leverage these tools in engagement activity with an issuer when sustainability concerns are significant or closely aligned with a client's specific goals.

LABELLED BONDS

Underlying our approach to labelled securities is the view that effectiveness of any labelled bond in an investment context depends on how the financed activities relate to an issuer's broader business strategy, risk profile, and our clients' objectives, specifically regarding the consideration of impact materiality. We assess labeled securities with the same disciplined research process applied to other instruments, with additional consideration of whether the issuer's sustainable finance framework provides information that helps evaluate potential risks or opportunities and allows us to address our clients' objectives.

To assess the impact materiality of an issuer's sustainability efforts and whether a bond will further them, we generally consider:

- Does the issuer have a well-developed sustainable finance framework that offers clarity on use of proceeds and performance targets?
- Is that framework consistent with the organization's practices?
- Are the projects that are to be funded by the debt well aligned with the issuer's business strategy?

If the impact materiality of the investment is ill-defined or immaterial to the organization's strategic goals, we may conclude that the bond is an opportunistic financing vehicle rather than an instrument of sustainable finance.

EXCLUSIONS

In recognizing the wide variance of client goals and objectives, MacKay Shields does not employ firm-level exclusions, screens, or filters for our investment teams outside of various OFAC, EU, UK, UN, and similar sanctions lists. However, to complement our teams' research processes, a norms-based alert has been implemented across the firm to identify very severe violations of the UN Global Compact¹ for further assessment by investment teams.

In addition, we emphasize working on a case-by-case basis with clients to define investable universes that reflect their objectives. We manage client mandates that are subject to a variety of norms-based screening criteria, or exclusions on certain business practices or sectors. As each client has varying preferences, we work closely with them to determine their goals and objectives and have developed a process for monitoring such guidelines, which is further detailed in the Oversight section of this document.

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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1. MacKay Shields has engaged a third-party research vendor to provide this screening data. Analysis is based upon the availability/coverage of the data provider.