The Case for A Different Kind of Credit

Securitized credit can offer three important benefits to fixed income investors, including

Diversification Benefits | **Downside Risk Mitigation** | **Portfolio Efficiency**

We believe the current market environment for securitized credit is attractive. Today's low mortgage rates and limited housing inventory have contributed to robust home sales and rising prices, while historically high savings rates and low debt servicing costs have bolstered consumer balance sheets. Office re-openings and strong travel activity have further supported a recovery in commercial real estate.

Securitized credit, which involves the packaging of cash flows from different sources including mortgages, credit cards, auto loans and other types of receivables into marketable securities, offers many potential benefits to fixed income investors who are seeking to diversify their traditional unsecured credit risk exposure and source alternative forms of income and total return. Investors may also reap potential benefit from improved underwriting standards over the last decade.

The US securitized market today is approximately $7.5 trillion (source: Bloomberg) in size and is comprised of residential mortgage backed securities (RMBS), asset backed securities (ABS) and commercial mortgage backed securities (CMBS). Residential mortgage credit, which is comprised of legacy RMBS (subprime, Option ARM, Alt-A) Prime, Credit Risk Transfers (CRT) and Jumbo mortgages, historically offers very attractive diversification benefits given it's low-to-negative correlation with most traditional liquid fixed income assets (see table below).

THE HISTORICALLY LOW TO NEGATIVE CORRELATIONS OF RESIDENTIAL MORTGAGE CREDIT OFFER A COMPELLING DIVERSIFICATION BENEFIT TO TRADITIONAL FIXED INCOME INVESTORS

	Non-Agency RMBS	IG Corporate	HY Corporate	CMBS	ABS	Agency RMBS	US Treasury	Agency Debenture	Emerging Market Debt	Bloomberg Universal
NON-AGENCY RMBS	**1.00**	**-0.12**	**0.45**	**-0.33**	**-0.45**	**-0.19**	**-0.46**	**-0.35**	**0.14**	**-0.23**
IG CORPORATE			0.49	0.94	0.83	0.88	0.85	0.87	0.93	0.98
HY CORPORATE				0.21	0.02	0.09	-0.04	0.04	0.68	0.31
CMBS					0.91	0.91	0.94	0.96	0.8	0.97
ABS						0.89	0.96	0.98	0.61	0.91
AGENCY RMBS							0.94	0.95	0.75	0.95
US TREASURY								0.98	0.64	0.94
AGENCY DEBENTURE									0.68	0.95
EMERGING MARKET DEBT										0.86
BLOOMBERG UNIVERSAL										1.00

Source: Bloomberg, J.P. Morgan. Index return data for the 96 month period ending August 31, 2021.
IG Corporate: Bloomberg U.S. Corporate Investment Grade Index; HY Corporate: Bloomberg U.S. Corporate High Yield Index; CMBS, ABS, AGENCY RMBS: Bloomberg U.S. Securitized MBS/ABS/CMBS Index; US Treasury: Bloomberg US Treasury Index; Agency Debenture: Bloomberg US Government Bond Index; Emerging Market Debt: Bloomberg Emerging Markets Ex U.S. Aggregate Index; Bloomberg Universal: Bloomberg U.S. Universal Index. It is not possible to invest directly into an index. Please see index descriptions at the end of this document. **Past performance is not indicative of future results.**

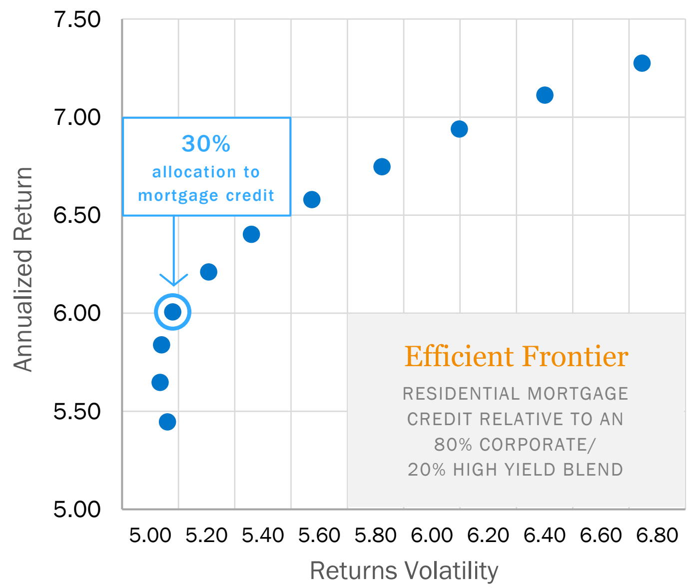
When compared to most corporate credit portfolios, residential mortgage credit has historically exhibited less downside risk while producing a higher Sharpe ratio. This is particularly true when compared to both investment grade and high yield corporate bonds.

RESIDENTIAL MORTGAGE CREDIT HAS HISTORICALLY CAPTURED SIGNIFICANTLY LESS DOWNSIDE RELATIVE TO TRADITIONAL CORPORATE CREDIT[1]

	Residential Mortgage Credit	80/20 IG/HY Corporates
ANNUALIZED RETURN	7.27	5.43
RETURNS VOLATILITY	6.69	5.19
RATIO	1.09	1.05
UPSIDE CAPTURE (VS 80/20 IG/HY)	77%	
DOWNSIDE SIDE CAPTURE (VS 80/20 IG/HY)	**13%**	

MacKay Shields Global Fixed Income Team's philosophy of eliminating uncompensated risk while seeking diversified sources of return makes residential mortgage credit an attractive opportunity set. Even diversifying up to 30% of a corporate allocation (comprised of an 80% investment grade, 20% high yield mix), has shown to produce a better risk-return profile.

RESIDENTIAL MORTGAGE CREDIT MAY HELP IMPROVE PORTFOLIO EFFICIENCY[1]



For more information on MacKay Shields securitized credit capabilities, please reach out to your MacKay Shields contact or John Akkerman (john.akkerman@mackayshields.com).

1. Source: MacKay shields Global Fixed Income Team, Bloomberg, J.P. Morgan. Index return data for the 96 month period ending August 31, 2021. IG Corporate: Bloomberg U.S. Corporate Investment Grade Index; HY Corporate: Bloomberg U.S. Corporate High Yield Index. Residential Mortgage Credit: J.P. Morgan Non-Agency RMBS Credit Index. It is not possible to invest directly into an index. Please see index descriptions at the end of this document. **Hypothetical examples, for illustrative purposes only.** Based on J.P. Morgan data and asset allocation percentages determined by MacKay Shields Global Fixed Income Team. The hypothetical returns shown above do not represent the returns of any client portfolio or strategy actually managed by MacKay Shields and should not be construed as such. The hypothetical returns shown are index-based; MacKay Shields' portfolios are actively managed and would vary from any applicable or benchmarked index. Therefore, these hypothetical returns are not indicative of investment skill. Actual portfolios would be subject to fees and expenses. No fees or expenses were included in the hypothetical results above. No representation is made as to the accuracy and completeness of information contained in this document that has been obtained from third parties. Please see Hypothetical Performance Disclosure page at the end of this document for important additional information related to hypothetical returns. **Past performance is not indicative of future results.**

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The following indices may be referred to in this document:

BLOOMBERG U.S. CORPORATE BOND INDEX
The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The US Corporate Index is a component of the US Credit and US Aggregate Indices, and provided the necessary inclusion rules are met, US Corporate Index securities also contribute to the multi-currency Global Aggregate Index.

BLOOMBERG U.S. SECURITIZED MBS/ABS/CMBS INDEX
The Bloomberg Securitized MBS/ABS/CMBs Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC); investment grade debt asset backed securities; and investment grade commercial mortgage backed securities. The index is constructed by grouping individual pools into aggregates or generics based on program, coupon, and vintage.

BLOOMBERG U.S. CORPORATE HIGH YIELD INDEX
The Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must have at least one year to final maturity regardless of call features. Must have at least $150 million par amount outstanding. Must be rated high-yield (Ba1/BB+ or lower) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule. Must be dollar-denominated and non-convertible. Must be publicly issued.

BLOOMBERG US GOVERNMENT BOND INDEX
Bloomberg US Government Bond Index is comprised of the US Treasury and US Agency Indices. The index includes US dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government).

BLOOMBERG EMERGING MARKETS EX U.S. AGGREGATE INDEX
The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. You cannot invest directly in an index.

BLOOMBERG U.S. UNIVERSAL INDEX
Bloomberg U.S. Universal Bond Index represents the union of the Bloomberg U.S. Aggregate Bond Index, the Bloomberg U.S. Corporate High Yield Bond Index, the Bloomberg 144A Bond Index, the Bloomberg Eurodollar Bond Index, the Bloomberg Emerging Markets Aggregate USD Bond Index, and the non-ERISA portion of the Bloomberg U.S. CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the index. The only constituent of the index that includes floating rate debt is the Bloomberg Emerging Markets Aggregate USD Bond Index.

J.P. MORGAN NON-AGENCY RMBS CREDIT INDEX
J.P. Morgan Non-Agency RMBS Credit Index tracks a combination of sector and vintage level jumbo, CRT (credit risk transfers), and legacy RMBS, reflecting the outstanding debt in the market.