



Mackay Shields Global Fixed Income Team

Environmental, Social and Governance Policy

Introduction

The GFI team incorporates a process which includes a comprehensive evaluation of a list of risk factors, a number of which can be classified as Environmental, Social and Governance (ESG) factors. We are keenly aware of these ESG risks and their impact on the credit worthiness of borrowers and bond issuers.

It is clear to us that ESG factors have a greater impact on businesses around the world and that no credit analysis is complete without considering these factors. As such, ESG risk assessment is incorporated in the process and the responsibility of each member of the investment team.

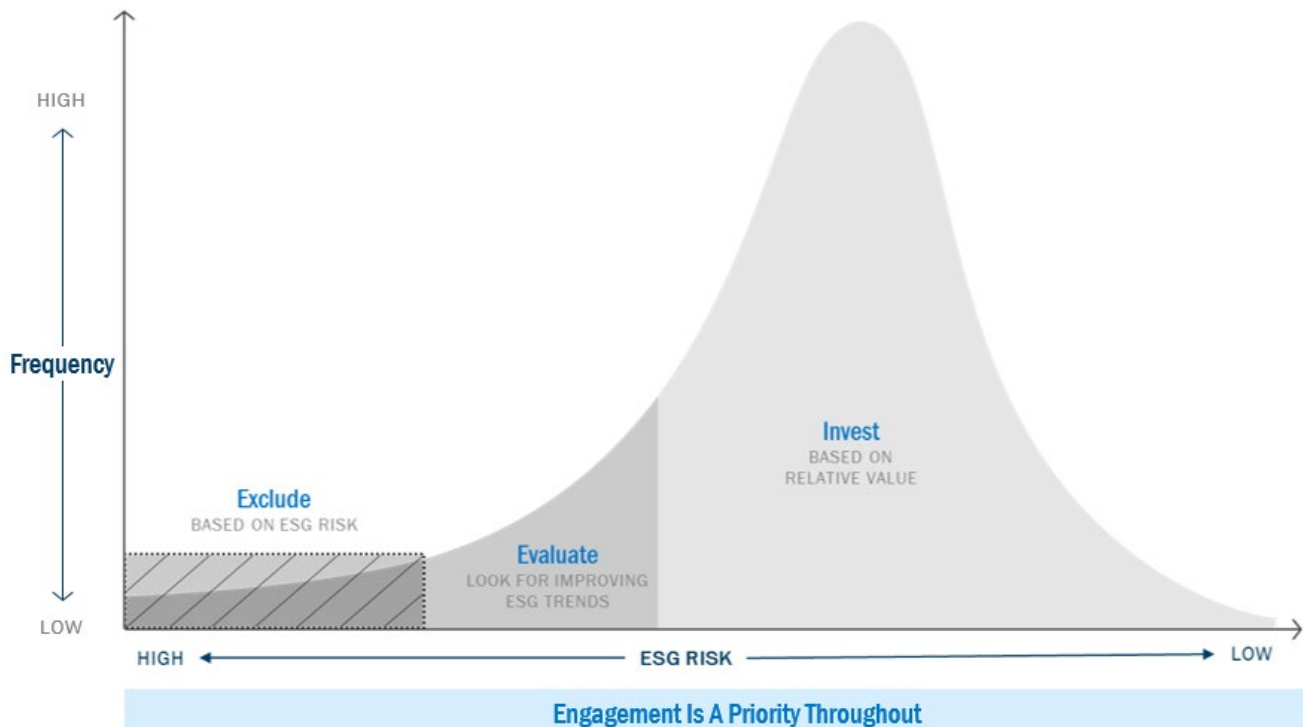
ESG Approach

Our approach to ESG investing is consistent with our general philosophical approach - eliminate uncompensated risk by cutting off the tails of the return distribution. ESG considerations are particularly pertinent to left tail management, as ESG risks can be exceptionally high without commensurate compensation.

Through this process of elimination, we are guided by our 35 gross indicators of risk. A number of these 35 gross risk indicators are classified as ESG risks. As examples, our consideration of management (reputation, stability, risk appetite, debt policies among others) would be classified under “governance,” while “environmental” considerations may include climate/transition related risks, carbon intensity and environmentally focused policies/programs, and “social” considerations may include workplace and/or human resource policies and sustainable business practices. The goal of this screening process is to systematically identify potential outliers of uncompensated risk, including applicable ESG risks. However, the process does not end with the initial credit screen as issuers are subject to further scrutiny by our analysts.

As a fiduciary for our clients, we do not blindly screen out sectors or industries from our investment universe. Our approach to ESG investing includes a comprehensive evaluation of the ESG risks involved with an investment, in conjunction with the current pricing of the investment. We apply an industry-relative ESG screen through which we carefully weigh the risk and reward profile of each potential investment we consider. Our proprietary 1-5 ESG scoring system is designed to assess ESG outperformers and underperformers. Each issuer is assigned a separate “E”, “S” and “G” score for sector and company specific material ESG considerations. The SASB (Sustainable Accounting Standards Board) Materiality Map is used as a guide which helps us identify “sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry.” For issuers with considerable ESG risks, we will eliminate these positions from consideration. If ESG trends are improving, the team will further evaluate to determine whether an investment is warranted. For investments that have low ESG risks, the decision to invest is predicated on relative value considerations. A stylized representation of the ESG evaluation process is shown in Figure 1.

Figure 1. Illustrative Example of ESG Risk Evaluation Framework



This graph illustrates a hypothetical, stylized distribution of issuer ESG risk factors and does not represent a distribution within any given time period. The universe of risk factors is assumed to be all issuers for which MacKay Shields assesses an internal ESG rating. For illustrative purposes only.

Engagement and Monitoring

As investors in bonds and loans, we recognize that we do not have the voting right that accompanies an active ownership stake. However, we will actively engage with issuers, through meetings with the management with the following two goals:

- The first is to gather information and promote disclosure of material ESG issues so we can factor them into our analysis and make better investment decisions.
- The second is to show management that we are concerned about ESG issues and that it influences our decision to purchase and maintain positions in debt obligations.

Portfolio managers and analysts engage with issuers on a regular basis and are expected to present the findings of their engagements during the team’s credit review meetings. We believe that environmental factors, most notably pollution and climate change, and governance issues are the most impactful, and therefore these have been of particular focus for us. For issuers with lower internal ESG ratings, we will prioritize key stewardship initiatives with larger issuers, or where we feel that the risks are reflected in the price of the bonds. We are not activists; however if the outcome of an engagement is unsatisfactory, we will escalate the situation. This may include putting the issuer on our focus list for additional ESG analysis, conducting follow-up engagements to assess progress, or simply exiting the position. The outcomes of our engagements are logged and monitored in our proprietary engagement database.

We also actively collaborate with our trading partners, including sell-side and syndicate desks, experts and industry peers in this evolving field to enhance knowledge and share experiences. We believe that as more investors use this approach, issuers will respond favorably over time.

External Supplemental Tools

In addition to our proprietary ESG related research, we use third-party data and rating systems to help identify ESG risk factors which helps round out our knowledge base.

Team members have access to and are encouraged to participate in seminars and presentations focused on ESG and Sustainability issues by organizations like the PRI, CFA Institute, etc. All team analysts have taken ESG investing training.

We continue to seek sources of ESG information through conferences, external research providers, NGO's, universities, and general news services.

Reporting

We are able to produce customized ESG-related reports in response to client requests, which may include:

- A report which compares the ESG score of a portfolio to its index,
- Ad-hoc ESG commentaries on specific issuers, or
- A report which explains factors reviewed as part of our issuer ESG evaluation process, which may include such factors as carbon metrics and product-line exposure to certain ESG risks.