

Introduction

MacKay Municipal Managers™ (“MMM”) is a fundamental relative value municipal bond investment team, applying both top-down analysis and bottom-up credit research in the construction of municipal portfolios. Our investment philosophy is centered on the belief that strong long-term performance can be achieved with a relative value, research-driven approach.

In alignment with [MacKay Shields’ Responsible Investing Policy](#), MMM believes that Environmental, Social, and Governance (ESG) issues can be material to the risk profile, and therefore return profile, of any municipal bond, and is becoming increasingly so as physical climate-related risk creates greater scrutiny on municipal debt performance. As such, in line with our fiduciary duty to act in the best interest of our clients, these ESG factors are a meaningful part of our credit analysis. In addition to playing an important role in the risk management of our investments, we acknowledge that many municipal bond projects address or finance environmental and social issues, such as conservation projects for water and wastewater systems, non-profit hospitals, public education, infrastructure, public transport, and affordable housing. Due to the natural predisposition of the municipal asset class to potentially generate positive impact on constituencies and communities, we also aim to take impact analysis into consideration in our security analysis, where relevant.

MMM believes the consideration of ESG factors in assessing both risk and return potential at the security and portfolio levels should be an integrated and dynamic part of the research, portfolio construction, and risk management processes.

Approach

In response to the growing interest in the impact of ESG factors in the investment process, the MMM team initiated a process to articulate and expand upon how ESG criteria are integrated into our investment analysis. We believe that ESG scoring is additive to our internal credit research and rating process. Due to the lack of standardization or established norms within municipal ESG analysis, the MMM team created a system to assign ESG scores and rankings to potential investments. Each security ranking is subjective and is assigned by each analyst as part of security specific credit analysis, a process that is overseen and enforced by senior members of the team. The ranking process is grounded in the analysis of ESG risks that are most material to a particular issue based on the type and sector in which that issuer operates. Analysts will assess each E, S, and G factor and, based on a rubric of criteria, will assign each pillar a score indicating low, average, or significant risk. Consideration is also given to the impact that a bond may potentially have on a constituency or community, allowing analysts to reflect positive impact as a counterbalancing force to potentially negative risks in the overall assessment of a bond’s ESG score. Once the pillar scores are determined, an average composite score is calculated for the issuer as a whole, known as the ESG rating.

SECURITY ANALYSIS

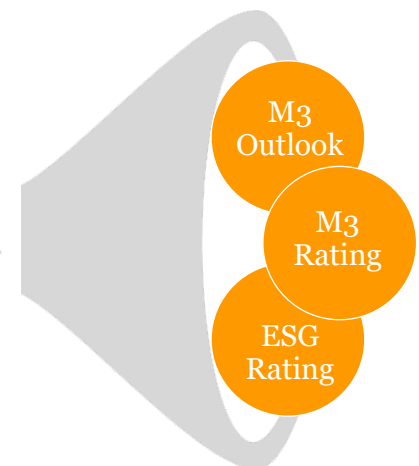
- Structure
- Security Pledge(s)
- Covenants
- Disclosure

CREDIT ANALYSIS

- Issuer Overview & Management
- Historical Operations
- Economic Data & Trends
- Financial Performance
- Audits
- Relevant Metrics
- Forecasts and Budgets

ESG ANALYSIS

ESG risk and impact weights directly into the security and credit analysis process



In making risk and impact assessments, the analysts may consider use of bond proceeds, transparency in reporting practices, relations between the issuer and the general public, community development and diversity, media perception regarding the company or business, risk of increased regulatory scrutiny, and compliance with local standards, as well as other considerations. Certain factors may be not be relevant for certain issuers, sectors, or regions, while quite material for others. When making investment decisions, considerable judgement is required in weighing our clients' interest in return generation against the risk and/or impact factors associated with any possible portfolio investment. As it relates to ESG-related risk factors, our commitment is to properly assess that such factors are taken into consideration within the context of relative value, among other pertinent factors such as mandate suitability and client guidelines.

Engagement

Given the emerging nature of many ESG themes and issues, we find that the way to have the greatest impact is to promote transparency and share best practices that we observe in the market as bond investors. Our research analysts engage with issuers through meetings with management to create a constructive dialogue of information sharing and relationship building. In addition, we engage with public policy makers and government affairs offices regarding government policy and regulations. The knowledge gained during our engagement activities, along with our credit analysis and information received from third parties, help us to better assess the ESG risks facing an issuer and the issuer's awareness and management of such risks. While we prefer to affect change through a productive exchange of ideas, we may employ escalation measures if there is no evidence of demonstrable progress over time. The method of escalation will vary depending on a variety of factors. In certain instances, we may exit a position and monitor for future improvement, while in other instances, we may engage with other constituents, including counsel, with the aim of influencing the outcome of a material ESG related concern. Findings from our engagements are logged in our research credit notes, which are accessible by all MMM team members, and are factored directly into our investment analysis. We believe that collaborative engagement allows us to continue to move the market toward greater awareness, understanding, and best practices in terms of managing ESG risk.

Climate Considerations

As climate-related risks can be material to issuers, it is important that issuers are aware of and consider the long-term impact on their future investment performance. Physical climate risk tends to be of particular concern for the municipal market, where many issuers are faced with having to manage through more severe and frequent extreme weather events. Recognizing the complexity of climate science data, MMM utilizes outside parties to assist in identifying and assessing physical climate risk across the municipal markets and issuers and to promote greater disclosure of metrics that are material to stakeholder value.