Sustainability Risk PAI Statement

Introduction

Responsible investment and responsible citizenship are core to our duty of responsible service. We believe that caring for employees, living and encouraging mindsets of sustainability, and promoting the well-being of local communities are essential to building an enduring business and delivering strong results to our clients. As fiduciaries entrusted to act in our clients' best interest, we believe that consideration of material environmental, social, and governance ("ESG") factors, including sustainability risks, can have an impact on long-term investment performance and, therefore, is a natural and important component of disciplined investment research and management of client portfolios.

Each of MacKay Shields's investment teams utilizes its own distinct process and experience to add value across capital markets, and as such, each investment team considers ESG risks and opportunities, including sustainability risks, alongside traditional factors that reflect the character of each respective asset class and investment style.

Integration of Sustainability Risks

The EU Sustainable Finance Disclosures Regulation (2019/2088) on sustainability-related disclosures in the financial services sector (the "SFDR") defines "sustainability risks" as environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment. Each of MacKay Shields Europe Investment Management Limited, MacKay Shields UK LLP and MacKay Shields LLC (together with any relevant delegate, "MacKay Shields") has integrated sustainability risks, as a sub-set of risks generally that could cause an actual or potential material negative impact on the value of an investment, as part of its investment decision-making process. If appropriate for an investment, MacKay Shields may conduct sustainability risk-related due diligence and/or take steps to mitigate sustainability risks and preserve the value of the investment. Further information on the manner in which sustainability risks are integrated into investment decisions is available upon request.

For further information on the MacKay Shields's strategy-specific Responsible Investing (RI) policies, please click here.

Consideration of Principal Adverse Impact (PAI) Indicators

Pursuant to Article 4 of the SFDR, this document aims to articulate whether and where MacKay Shields considers the principal adverse impacts (PAI) of our investment decisions on sustainability factors. MacKay Shields has carefully evaluated the requirements of the Article 4 SFDR and in the SFDR Level II Regulatory Technical Standards issues via Commission Delegated Regulation (EU) 2022/1288 and has decided not to consider PAIs at an enterprise level at present. Our decision to not consider PAIs at the entity level is based on our not being a financial market participant that is required to do so given that MacKay Shields did not have an average number of employees exceeding 500 during the financial year. More importantly, PAI data availability remains a significant challenge for most of the asset classes in which MacKay Shields invests.

However, MacKay Shields may include consideration of relevant mandatory PAI indicators (i.e., indicators that pertain to the asset class of applicable securities) within in-scope portfolios, subject to the availability and integrity of data. In general, the PAIs to be considered will depend on the needs and guidelines of specific clients and portfolios. However, for in-scope portfolios without specified client preferences, the following PAI indicators may be prioritized based on their potential material financial impact on the issuers in which MacKay Shields invests:

- M1 GHG Emissions

- M2 Carbon Footprint
- M3 GHG Intensity
- M7 Activities Negatively Affecting Biodiversity Sensitive Areas (through a proxy of Environmental Controversies Flags)
- M10 Violations of UN Global Compact Principles
- M14 Exposure to Controversial Weapons

MacKay Shields's investment teams may consider available ESG data inputs, including the above PAI indicators, in their initial, pre-trade analysis and categorization of issuers into proprietary ESG Risk Group Frameworks. This analysis aims to consider these PAIs in the context of financial materiality and a determination of whether MacKay Shields is being commensurately compensated for the risk posed by these issues. The presence of a potential adverse impact from one or more of the above indicated PAI indicators does not preclude investment.

Process

To assist with this process, MacKay Shields has developed a proprietary PAI dashboard utilizing data inputs from an external data provider. The dashboard enables MacKay Shields to observe and monitor relevant mandatory PAI data points, where available, across positions in our in-scope portfolios and, where possible given the availability and integrity of data, compare them to their respective benchmarks.

On a quarterly basis, PAI data is pulled against relevant portfolios and their benchmarks and a preliminary analysis on a subset of indicators for which MacKay Shields believes that there has been enough available data of quality to derive decision-useful information. This analysis seeks to highlight issuers meeting the following criteria:

PAI Indicator	Field Name	Outlier Threshold
M1	GHG Emissions	Bottom quintile of issuers compared to its benchmark
M2	Carbon Footprint	Bottom quintile of issuers compared to its benchmark
M3	GHG Intensity	Bottom quintile of issuers compared to its benchmark
M7	Activities Negatively Affecting Biodiversity Sensitive Areas	Red/Amber/Yellow Flag
M10	Violations of UN Global Compact Principles	Watch List or Fail
M14	Exposure to Controversial Weapons	Yes

This dashboard allows MacKay Shields's investment teams to review in-scope portfolios and their associated relevant mandatory PAIs over time, in order to monitor if this data largely aligns with the views originally held in their proprietary ESG analysis that took place at the initiation of the position. In instances where PAI data indicates a greater adverse impact than originally anticipated, the investment team may choose to continue monitoring the position, engage with the issuer, reduce, or potentially exit the position.

Oversight

MacKay Shields's Compliance Department may review PAI indicators as part of their review of investment teams' ESG process on relevant portfolios. In review meetings with investment teams, compliance professionals may randomly select portfolio positions that trigger outlier thresholds on the MacKay Shields's list of focus PAI indicators in an effort to understand how potential adverse impacts have been considered in the investment process of relevant portfolios, as well as how they are regularly monitored over time.