



INVESTMENT ADVISOR BROCHURE

Form ADV Part 2A
January 1, 2018

This brochure, dated January 1, 2018
provides information about the qualifications and business practices of

Mackay Shields LLC

1345 Avenue of the Americas
New York, NY 10105
<http://www.mackayshields.com>

If you have any questions about the contents of this brochure, please contact:

RENE A. BUSTAMANTE

Senior Managing Director and Chief Compliance Officer

T: 212-758-5400

E: rene.bustamante@mackayshields.com

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. In addition, registration with the SEC does not imply a certain level of skill or training.

Additional information about Mackay Shields LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 2: MATERIAL CHANGES

This brochure, dated January 1, 2018, makes the following material changes since our last annual update to our brochure, dated March 30, 2017:

- We have updated our ADV to disclose that we have completed the addition of three equity teams. Please see “Item 4 – Advisory Business – History.”
- Our brochure has been updated to disclose that we act as an index consultant for an affiliated entity. Please see “Item 4 – Advisory Business – Clients and Investment Services and Item 10 – Other Financial Industry Activities and Affiliations – Other Arrangements with Affiliates.”
- We have updated the Fees and Compensation section to disclose the fees and minimum account size related to the equity strategies and solutions offered. Please see “Item 5 – Fees and Compensation.”
- We have also updated the minimum account size for certain of our Municipal strategies. Please see “Item 5 – Fees and Compensation.”
- We have updated the disclosure related to our trade allocation policy. Please see “Item 6 – Performance-Based Fees and Side-by-Side Management” and “Item 12 – Brokerage Practices – Aggregating and Allocating Trades.”
- Our brochure has been updated to disclose the equity strategies and solutions offered. Please see “Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss – Equity Investment Teams.”
- We have updated our summary of material risks that may apply to one or more of the investment strategies managed by our investment teams. In addition, a separate section has been created specifically for material risks that are applicable to the Systematic Equity strategies. Please see “Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss – Material Risk Factors.”
- Our brochure has been update to disclose that certain compliance support functions will be performed by our affiliated entities. Please see “Item 10 – Other Financial Industry Activities and Affiliations – Ownership, Management and Compensation.”
- We have updated our brochure to disclose the concurrent trading of active and passive strategies; and that the equity teams share one trading desk. “Item 10 – Other Financial Industry Activities and Affiliations – Investment Management Relationships Involving Affiliates.”
- We have updated our personal trading policy to clarify certain pre-clearance requirements. Please see “Item 11- Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – Code of Ethics”
- We have updated our brochure to disclose our policy on soft dollars. Please see “Item 12 – Brokerage Practices – Soft Dollar Benefits, Mixed-Use Services, Proprietary Research.”
- We have updated our disclosure related to the factors considered for the selection and compensation of broker-dealers. Please see “Item 12 – Brokerage Practices – Selection and Compensation of Broker-Dealers.”

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ITEM 4: ADVISORY BUSINESS

History

The original predecessor to MacKay Shields LLC (“MacKay Shields”), MacKay-Shields Economics, was founded in 1938 as an economic consulting firm. In 1969, MacKay-Shields Economics became MacKay Shields Financial Corporation, a Delaware corporation, and registered with the SEC as an investment adviser.

In 1984, MacKay Shields Financial Corporation was purchased by New York Life Insurance Company (“NYLIC”). New York Life Insurance Company established New York Life Investment Management Holdings LLC (“NYLIM Holdings”) in 1999, and transferred ownership of MacKay Shields Financial Corporation to NYLIM Holdings. In 1999, MacKay Shields Financial Corporation was converted to MacKay Shields LLC, a Delaware limited liability company. The ownership, control and management of MacKay Shields did not change as a result of this conversion.

On January 1, 2018, the Systematic Equity, Fundamental Equity, and Passive Equity investment teams that were formerly with Cornerstone Capital Management Holdings LLC (“Cornerstone”) joined MacKay Shields.

MacKay Shields is 100% owned by NYLIM Holdings, which is wholly owned by New York Life Insurance Company.

Clients and Investment Services

MacKay Shields is a fixed income and equity investment management firm. We offer a variety of investment strategies and solutions that clients can select depending on their investment objectives. Our clients can impose reasonable restrictions on how we manage their accounts. These restrictions generally appear either in the client’s investment management agreement, investment guidelines, or other agreed upon documents. Clients and prospects are advised to carefully review the proposed guidelines for any investment strategy and to review the securities and instruments generally used by MacKay Shields when implementing that strategy. Additional information about the management of client accounts can be found under “Investment Discretion” while additional information about MacKay Shields’ investment strategies is found under “Methods of Analysis, Investment Strategies and Risk of Loss.”

MacKay Shields provides discretionary investment management services primarily to institutions such as SEC registered investment companies and other collective investment vehicles, insurance companies, corporate pension funds, endowments, foundations, Taft-Hartley plans, public funds, investment funds not registered with the SEC, wrap fee programs, non-U.S. collective investment vehicles, non-U.S. clients and high net worth clients.

Clients that choose to engage MacKay Shields for a non-discretionary relationship generally will not achieve the same results as discretionary accounts.

MacKay Shields also acts as an index consultant for an affiliate to assist with the development, calculation and maintenance of the affiliate’s indices.

MacKay Shields is a signatory of the Principles for Responsible Investment, which provides a framework for incorporating environmental, social and governance issues into investment and ownership practices.

MacKay Shields meets the definition of a Qualified Professional Asset Manager as defined in Part IV of Prohibited Transaction Exemption 84-14 “Plan Asset Transactions Determined by Independent Qualified Professional Asset Managers” for purposes of the Employee Retirement Income Security Act of 1974 (“ERISA”).

As of November 30, 2017, MacKay Shields has approximately \$97.1 billion of assets under management on a discretionary basis.

Wrap Fee Programs

We participate in wrap fee programs by providing portfolio management services. In these arrangements, we act as a sub-adviser when our affiliate New York Life Investment Management LLC (“NYL Investments”) is the adviser. In wrap fee programs, clients typically pay a single wrap fee to the sponsor firm that covers advisory fees as well as trade and execution services, including commission costs. Our fee is paid out of that single wrap fee. We receive our fee from NYL Investments as we are hired by NYL Investments as a sub-adviser. Please see “Brokerage Practices,” below, for more detailed information about our brokerage practices.

MacKay Shields is not responsible for determining whether a particular wrap fee program or a specific strategy is suitable or advisable for any particular wrap program client. Such determinations are generally the responsibility of the wrap fee program sponsor and we are responsible only for managing the account in accordance with the selected investment strategy and any “reasonable restrictions” imposed by the wrap fee program client. Termination procedures and information regarding the refund of prepaid fees for any wrap fee program are described in the wrap fee program sponsor’s brochure.

ITEM 5: FEES AND COMPENSATION

We receive fees for our services based on a percentage of the value of the assets in the client’s account. These are referred to as “asset-based fees.” Certain clients also have performance-based fees, as more fully described under “Performance-Based Fees and Side-by-Side Management,” below. All advisory fees, including any performance fees, are set forth in the investment management agreement between each client and us.

Standard Fee Schedule for Separately Managed Accounts

Below is our current standard fee schedule for separately managed accounts including the minimum amount for opening a separately managed account. Where we agree to waive the minimum amount size, we reserve the right to impose a minimum fee.

FIXED INCOME INVESTMENT TEAMS

Convertibles Investment Team

CONVERTIBLE

(Minimum \$10,000,000)

0.50% annually on assets up to \$100,000,000

0.40% annually on assets thereafter

Global Fixed Income Investment Team

BANK DEBT

(Minimum \$75,000,000)

0.50% annually on all assets

CORE INVESTMENT GRADE

(Minimum \$75,000,000)

0.30% annually on assets up to \$75,000,000

0.25% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.20% annually on assets in excess of \$150,000,000

CORE PLUS

(Minimum \$75,000,000)

0.35% annually on assets up to \$75,000,000

0.30% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.25% annually on assets in excess of \$150,000,000

CORE PLUS OPPORTUNITIES

(Minimum \$75,000,000)

0.40% annually on assets up to \$75,000,000

0.35% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.30% annually on assets in excess of \$150,000,000

CREDIT FIXED INCOME

(Minimum \$75,000,000)

0.35% annually on assets up to \$75,000,000

0.30% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.25% annually on assets in excess of \$150,000,000

DEFENSIVE BOND ARBITRAGE

Minimum investment and fee schedule to be determined on a case-by-case basis

EMERGING MARKETS CREDIT

(Minimum \$75,000,000)

0.50% annually on all assets

EMERGING MARKETS DEBT

(Minimum \$75,000,000)

0.45% annually on all assets

GLOBAL HIGH YIELD

(Minimum \$75,000,000)

0.50% annually on all assets

GOVERNMENT/CREDIT

(Minimum \$75,000,000)

0.30% annually on assets up to \$75,000,000

0.25% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.20% annually on assets in excess of \$150,000,000

HIGH YIELD ACTIVE CORE

(Minimum \$75,000,000)

0.50% annually on all assets

HIGH YIELD ACTIVE CORE LOW DURATION/SHORT DURATION

(Minimum \$75,000,000)

0.45% annually on all assets

HIGH YIELD OPPORTUNITIES

(Minimum \$75,000,000)

0.65% annually on all assets

INTERMEDIATE

(Minimum \$75,000,000)

0.25% annually on assets up to \$75,000,000

0.20% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.15% annually on assets in excess of \$150,000,000

LONG DURATION

(Minimum \$75,000,000)

0.30% annually on assets up to \$75,000,000

0.25% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.20% annually on assets in excess of \$150,000,000

SHORT DURATION HIGH YIELD

(Minimum \$75,000,000)

0.45% annually on all assets

SHORT-TERM

(Minimum \$75,000,000)

0.25% annually on assets up to \$150,000,000

0.20% annually on assets in excess of \$150,000,000

UNCONSTRAINED BOND

(Minimum \$100,000,000)

0.60% annually on all assets

High Yield Investment Team

FLOATING RATE HIGH YIELD

(Minimum investment to be determined on a case-by-case basis)

0.60% annually on all assets

HIGH YIELD

(Minimum \$50,000,000)

0.50% annually on all assets

LOW VOLATILITY HIGH YIELD

(Minimum \$30,000,000)

0.50% annually on all assets

SELECT HIGH YIELD

(Minimum \$30,000,000)

0.75% annually on all assets

Mackay Municipal Managers™ Investment Team

MUNICIPAL HIGH YIELD

(Minimum \$100,000,000)

0.75% annually on assets up to \$100 million

0.70% annually on assets on the next \$100 million

0.65% annually on assets over \$200 million

MUNICIPAL INTERMEDIATE

(Minimum \$40,000,000)

0.25% annually on assets up to \$100 million

0.20% annually on assets on the next \$400 million

0.15% annually on assets on the next \$500 million

0.10% annually on assets over \$1 billion

MUNICIPAL INVESTMENT GRADE

(Minimum \$50,000,000)

0.25% annually on assets up to \$100 million

0.20% annually on assets on the next \$400 million

0.15% annually on assets on the next \$500 million

0.125% annually on assets over \$1 billion

MUNICIPAL LONG-TERM

(Minimum \$40,000,000)

0.25% annually on assets up to \$100 million

0.20% annually on assets on the next \$400 million

0.15% annually on assets on the next \$500 million

0.125% annually on assets over \$1 billion

MUNICIPAL SHORT-TERM

(Minimum \$50,000,000)

0.25% annually on assets up to \$100 million

0.20% annually on assets on the next \$400 million

0.15% annually on assets on the next \$500 million

0.125% annually on assets over \$1 billion

MUNICIPAL TAXABLE

(Minimum \$50,000,000)

0.25% annually on assets up to \$100 million

0.20% annually on assets on the next \$400 million

0.15% annually on assets on the next \$500 million

0.125% annually on assets over \$1 billion

MUNICIPAL TOTAL RETURN

Minimum investment and fee schedule to be determined on a case-by-case basis

MUNICIPAL ULTRA SHORT

(Minimum \$40,000,000)

0.25% annually on assets up to \$100 million

0.20% annually on assets on the next \$400 million

0.15% annually on assets on the next \$500 million

0.125% annually on assets over \$1 billion

EQUITY INVESTMENT TEAMS

Fundamental Equity Team

FUNDAMENTAL INTERNATIONAL EQUITY

(Minimum \$25,000,000)

0.75% annually on assets up to \$25,000,000

0.65% annually on the next \$25,000,000 of assets

0.55% annually on the next \$50,000,000 of assets

0.45% annually on assets in excess of \$100,000,000

FUNDAMENTAL INTERNATIONAL EQUITY (ALL COUNTRY)

(Minimum \$25,000,000)

0.75% annually on assets up to \$25,000,000

0.65% annually on the next \$25,000,000 of assets

0.55% annually on the next \$50,000,000 of assets

0.45% annually on assets in excess of \$100,000,000

Systematic Equity Team

GLOBAL EQUITY MARKET NEUTRAL

(Minimum \$25,000,000)

Management Fee: 1.00% per annum plus

Performance Fee: 20% of net profits subject to a high-water mark

INTERNATIONAL OPPORTUNITIES

(Minimum \$25,000,000)

- 0.70% annually on assets up to \$25,000,000
- 0.60% annually on the next \$25,000,000 of assets
- 0.50% annually on the next \$50,000,000 of assets
- 0.40% annually on assets in excess of \$100,000,000

LARGE-CAP ENHANCED

(Minimum \$25,000,000)

- 0.40% annually on assets up to \$25,000,000
- 0.30% annually on the next \$25,000,000 of assets
- 0.20% annually on the next \$50,000,000 of assets
- 0.15% annually on assets in excess of \$100,000,000

MID-CAP CORE

(Minimum \$25,000,000)

- 0.50% annually on assets up to \$25,000,000
- 0.40% annually on the next \$25,000,000 of assets
- 0.30% annually on the next \$50,000,000 of assets
- 0.20% annually on assets in excess of \$100,000,000

SMALL-CAP CORE

(Minimum \$25,000,000)

- 0.60% annually on assets up to \$25,000,000
- 0.50% annually on the next \$25,000,000 of assets
- 0.40% annually on the next \$50,000,000 of assets
- 0.30% annually on assets in excess of \$100,000,000

SYSTEMATIC EMERGING MARKETS

(Minimum \$25,000,000)

- 0.75% annually on assets up to \$25,000,000
- 0.65% annually on the next \$25,000,000 of assets
- 0.55% annually on the next \$50,000,000 of assets
- 0.45% annually on assets in excess of \$100,000,000

SYSTEMATIC GLOBAL EQUITY

(Minimum \$25,000,000)

- 0.50% annually on assets up to \$25,000,000
- 0.40% annually on the next \$25,000,000 of assets
- 0.30% annually on the next \$50,000,000 of assets
- 0.25% annually on assets in excess of \$100,000,000

SYSTEMATIC INTERNATIONAL EQUITY

(Minimum \$25,000,000)

- 0.50% annually on assets up to \$25,000,000
- 0.40% annually on the next \$25,000,000 of assets
- 0.30% annually on the next \$50,000,000 of assets
- 0.25% annually on assets in excess of \$100,000,000

U.S. EQUITY MARKET NEUTRAL

(Minimum \$25,000,000)

- Management Fee: 1.00% per annum plus
- Performance Fee: 20% of net profits subject to a high-water mark

U.S. EQUITY OPPORTUNITIES

(Minimum \$25,000,000)

- 0.60% annually on assets up to \$25,000,000
- 0.50% annually on the next \$25,000,000 of assets
- 0.40% annually on the next \$50,000,000 of assets
- 0.25% annually on assets in excess of \$100,000,000

MULTIPLE INVESTMENT TEAMS

CROSSOVER HIGH YIELD

(Minimum \$50,000,000)

0.90% annually on all assets

CROSSOVER INVESTMENT GRADE WITH MUNICIPAL SECURITIES

(Minimum \$75,000,000)

0.35% annually on assets up to \$75,000,000

0.25% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.20% annually on assets in excess of \$150,000,000

In our sole discretion, we may change any of the above fee schedules at any time, negotiate a performance-based fee, agree to a fee schedule other than our standard fee schedule and/or waive the minimum size for opening any account. Any increase to our standard fee schedule will not affect fees charged to clients that have retained our services for a strategy already being managed prior to the effective date of the change. If in the future a subsequent version of this brochure reflects a standard fee schedule for a strategy that would be more beneficial to a client in the exact strategy (as determined by MacKay Shields in its sole discretion), such client will be provided an opportunity to adopt the more beneficial fee schedule; provided, however, that the foregoing shall not apply where the more beneficial standard fee schedule was not printed in error or is otherwise qualified by MacKay Shields whether in the brochure or elsewhere. In certain instances, we may waive, rebate, or reduce fees for clients.

Performance-Based Fees

We receive performance-based fees designed to comply with Rule 205-3 under the Advisers Act in connection with the advisory services we provide to certain separately managed account clients. We further receive performance-based fees in connection with the advisory services we provide to certain investment funds not registered with the SEC, as set forth in such funds' offering documents. See "Performance-Based Fees and Side-by-Side Management," below for more information about policy regarding performance-based fees.

Wrap Fee Programs

In wrap fee programs, clients typically pay a single wrap fee to the sponsor firm that covers custody, investment management and trading and execution costs, including commission costs. As a result, the sponsor and client typically request that transactions for clients' accounts be executed by the sponsor of the wrap fee program (or its affiliate) or a broker-dealer designated by the sponsor firm. In the event that the sponsor or designated broker-dealer cannot provide "best execution" for a given transaction, we, as sub-adviser for the wrap fee program, have the discretion to trade away (that is, trade with a different broker-dealer), and the client may incur a commission cost. As the majority of transactions in the wrap fee programs are fixed income securities that trade over-the-counter, there are no additional mark-ups or commissions on these transactions beyond the customary structure of the bid/offer prices and we believe these transactions are executed on behalf of these clients in such a manner that the client's total cost or proceeds in each transaction was the most favorable under the circumstances. Please see your sponsor's wrap fee program brochure for fee information and additional disclosures.

Collective Investment Vehicles

We also act as investment adviser or sub-adviser to U.S. registered open- and closed-end funds, collective investment trusts, as well as other investment funds. For these services, we receive a portion of the advisory fees received by the affiliated investment adviser or manager of such funds.

The fees payable by investors in these investment funds, of which we receive all or a portion thereof, are described in each investment fund's offering materials, side letters and/or fee agreements. From time to time, arrangements may be entered into with investors or other parties that provide for terms that are different than those offered to other investors in certain investment funds, including with respect to fees and expenses payable to us or the fund. Such arrangements are entered into only where not otherwise prohibited by the applicable investment fund's operating documents or by applicable law.

Payment of Fees for Separately Managed Accounts

We bill clients for advisory services according to the fee schedule contained in their investment management agreement or other written document. As agreed to with our clients, fees may be payable in advance based on the value of assets under management at the beginning of the quarter, or may be payable in arrears based on the value of assets under management at the end of the quarter. Fees also may be calculated using average asset values during the billing period, calculated at agreed upon intervals. Clients may choose to have the calculation of their fees be based upon their custodian or MacKay Shields' valuation of their assets. Generally, we may make adjustments in the fee calculation in the event of significant withdrawals from, or deposits into, a client's account during a calculation period, in accordance with our policy then in effect or as otherwise agreed to with a client. We generally bill our clients for our advisory services, but clients may elect for MacKay Shields, subject to our consent, to deduct fees from their assets.

Other Expenses

Our separately managed account clients incur other fees associated with the management of client accounts in addition to the advisory fees described above. For example, the account's custodian charges a custodial fee and may also charge transaction or other fees for services it provides. In addition, the broker-dealers that we select or recommend to execute transactions in your account charge a spread, commission or transaction fee, as the case may be, that your account pays. Investment funds incur operating and other expenses that are disclosed in an investment fund's prospectus or offering documents, which are in addition to our fees.

More detailed information about our brokerage practices is found under "Brokerage Practices," below, including the factors that we consider when selecting or recommending broker-dealers for client transactions, including the use of client commissions to acquire research and brokerage services.

If clients' investment guidelines permit, we may invest all or a portion of their assets in one or more investment funds. Such clients bear their proportionate share of fund expenses in connection with such investments. With respect to investments in investment funds not registered with the SEC that we manage, we do not receive a management fee from the investment funds with respect to those clients' investments. Instead, such clients pay us a single fee that is based on all the assets being managed, including the amounts invested in the investment funds. With respect to investments in investment funds that we do not manage, the management fee paid to the third party investment manager of such investment fund is in addition to the management fee payable to MacKay Shields.

If clients' investment guidelines permit, we may add leverage to a client's portfolio in the form of borrowing. In doing so, a client's portfolio will incur interest expense on the borrowings used to leverage its positions.

To the extent that a client's account engages in derivatives transactions that require variation margin, interest expense may be required to be paid on variation margin posted in the account's favor.

From time to time we engage outside counsel and financial advisors with regards to matters relating to particular securities held in client portfolios (such as, among others, a workout situation). Certain clients are contractually obligated to pay a pro rata portion of the fees of such counsel and financial advisors. We pay the balance of such fees not borne by those clients, which results in a benefit to our clients who are not contractually obligated to pay their portion of such fees.

From time to time, certain clients or consultants request that we pay certain costs and expenses relating to analytical services that they provide to us or client accounts. Such clients do not incur any additional fees or expenses in instances where we agree to pay such consultants. See "Client Referrals And Other Compensation."

Termination for Separately Managed Accounts

Unless otherwise specified in a client's investment management agreement, our clients have the right to terminate our services any time without penalty. In the event of termination, we will prorate any fees to the date of termination and we will refund any unearned fees for those clients who paid in advance.

Sale of Investment Products by Supervised Persons

Registered representatives of our affiliated broker-dealer NYLIFE Distributors LLC ("NYLIFE Distributors"), who may be employees of our firm or our affiliates, receive compensation when they are responsible for the sale of interests in collective investment vehicles that we or our affiliates sponsor. See "Other Financial Industry Activities and Affiliations," below. With respect to investment funds not registered with the SEC that we or our affiliates sponsor, there is not an additional charge to such investment funds or their investors, and such registered representative receives a portion of the management fee that we receive. This practice presents a conflict of interest and gives the employee an incentive to recommend these investment funds based on the compensation received rather than a client's needs. There are policies and procedures in place that we believe are reasonably designed to address these conflicts of interest. For example, our employees who are registered representatives of NYLIFE Distributors may only recommend investments in these investment funds if they believe they are suitable for the investor. In some instances, investors have the option to purchase these funds through unaffiliated brokers.

Some of our employees receive compensation from us for referring client accounts to us or our affiliates. See "Client Referrals and Other Compensation" below. The compensation paid to those employees comes out of the fee paid by such accounts and is not an additional charge to the account.

ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

We receive performance-based fees designed to comply with Rule 205-3 under the Advisers Act in connection with the advisory services we provide to certain separately managed account clients. In addition, we receive performance-based fees in connection with the advisory services we provide to certain collective investment vehicles. Managing accounts that have a performance-based fee at the same time that we manage accounts that only have an asset-based fee is commonly referred to as "side-by-side management." This creates a conflict of interest by giving us an incentive to favor those accounts for which we receive a performance-based fee because we will receive a higher fee if their performance exceeds a designated target or benchmark.

It is our policy not to favor the interest of one client over another. We address the conflicts of interest created by “side-by-side-management” by having a trade allocation policy designed so that all client accounts will be treated fairly and equitably and no one client account will receive, over time, preferential treatment over another. In addition, it is our policy that we will not permit cross trades between clients unless the portfolio manager instructing the trade deems it in the best interest of both clients at the time and obtains compliance approval of the transaction. Furthermore, we have short sale procedures that require pre-approval of certain short sales and restrict certain short sales.

Regardless of their fee arrangements, when we manage accounts according to the same investment strategy, we anticipate that those accounts will generally have the same investment opportunities and be invested in the same or similar securities with the same or similar weighting. However, there may be often differences in the nature or amount of securities that we buy or sell for client accounts. We allocate securities among client accounts based on the below:

- Specific client investment objectives;
- Cash available in the account for investment;
- Client-imposed investment restrictions;
- Investment guidelines and anticipated guideline changes;
- Initial investment periods for new accounts;
- Investment restrictions that laws or regulations impose;
- Actual and anticipated or potential cash inflows and outflows in client accounts;
- Duration and/or average maturity of the client account;
- Credit ratings and anticipated credit ratings;
- Size of client account;
- Deal size and trade lots;
- Processing costs;
- Current industry or issuer exposure in the client account;
- Other concentration limits;
- Borrowing capacity; and
- Other practical limitations.

In those situations in which there is a limited supply of a security (e.g. initial public offerings, secondary offerings), it is our general policy to make a pro rata allocation based on the original amounts targeted for the accounts. However, if in our portfolio managers and/or traders’ judgment, or as a result of the factors identified above, the amount that would then be allocated to an account would be too small to properly manage, that account could be excluded from the pro rata allocation. We cannot assure that in every instance an investment will be allocated on a pro rata basis, and differences may occur due to the factors mentioned above.

There can be no assurance that the application of the firm’s allocation policies will result in the allocation of a specific investment opportunity to a client or that a client will participate in all investment opportunities falling within its investment objective; and that such considerations may

also result in allocations of certain investments among clients' accounts on other than a *pari passu* basis.

More detailed information about our allocation and aggregation practice is found under "Brokerage Practices," below.

ITEM 7: TYPES OF CLIENTS

We provide discretionary investment management services primarily to institutions such as SEC registered investment companies and other collective investment vehicles, insurance companies, corporate pension funds, endowments and foundations, Taft-Hartley plans, public funds, investment funds not registered with the SEC, wrap fee programs, non-U.S. collective investment vehicles, non-U.S. clients and high net worth clients. We also manage accounts for our affiliates. See "Fees and Compensation," above, and "Other Financial Industry Activities and Affiliations," below.

As shown on our schedule of fees (see "Fees and Compensation," above), there is a minimum account size for opening an account, depending on the investment strategy. We reserve the right, in our sole discretion, to adjust or waive the account size minimum with respect to any client.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Introduction

We offer a variety of fixed income and equity strategies and solutions that clients can select depending on their investment objectives. Each of our firm's investment teams has their own distinct investment process. We provide below a general summary of the investment strategies and the investment process of each of the teams.

Investment strategies may be available through separately managed accounts and/or collective investment vehicles. Clients for whom we provide separately managed account services may adopt investment guidelines, subject to our approval, that combine elements of the different investment strategies we offer. To the extent that the information in this brochure conflicts with an investment management agreement or investment guidelines governing a separately managed account, the investment management agreement and investment guidelines will control.

Investors or potential investors in collective investment vehicles should refer to the offering memorandum or prospectus for those funds for a description of the investment strategies and risks associated with those funds. The information contained in this brochure is subject in its entirety to and superseded by the disclosure in such offering memoranda or prospectuses. Collective investment vehicles may be subject to restrictions on the types of investors who may invest. Nothing in this brochure is intended as an offer to sell securities.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. The investment performance and the success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a client's investments will fluctuate due to market conditions and other factors. The investment decisions made and the actions taken will be subject to various market, liquidity, currency, economic, political and other risks and investments may lose value. Material risks will vary based on the types of investments purchased for the relevant strategy. Please see "Material Risk Factors" below.

Methods of Analysis and Sources of Information

Our methods of security analysis include economic and industry analysis, fundamental research concerning specific companies, securities and issuers, quantitative analysis, technical analysis including computerized screening, evaluation and optimization techniques, and any other method that one or more of our investment personnel may deem appropriate from time to time. We may not utilize each of the described methods in connection with each investment strategy or with respect to particular portfolios. Our investment professionals obtain information from a variety of sources, including:

- Meetings and discussions with securities industry analysts and issuers;
- Discussion of publicly available information with issuers and company personnel, on-site inspections and issuer sponsored meetings;
- Discussion with a company's customers, competitors and suppliers;
- Computerized screening, evaluation, optimization studies and reports trade journals and services, governmental publications, statistical summaries and analysis;
- With respect to private placements, the issuer and the intermediary;
- Rating agencies, analysts' reports and various news and industry sources, on-line sources and periodicals; and
- Such other sources as one or more of our investment personnel deem appropriate from time to time.

The investment guidelines for portfolios are monitored using security information that is obtained from external data providers. We rely on the accuracy of the information obtained from the external data providers. For new issues, we initially rely on the accuracy of the information provided by the underwriter of the new issue.

Unless a client specifies in writing a particular approach to calculating emerging markets and foreign country exposures, our determination of whether an issuer of a security is deemed to be a United States, emerging markets or other non-US issuer shall be conclusive and final. Our determination may include consideration of the countries in which the issuer has significant business exposure in addition to the jurisdiction of incorporation of the issuer.

Investment Strategies

Our firm has several investment teams in both fixed income and equity strategies and solutions. The fixed income teams are: Convertibles, Global Fixed Income, High Yield, and MacKay Municipal Managers™. The equity teams are: Fundamental Equity, Passive Equity, and Systematic Equity. Certain of our investment strategies are managed cooperatively by more than one investment team.

FIXED INCOME INVESTMENT TEAMS

Convertible Investment Team

The Convertible investment team seeks to maximize total return while protecting against downside risk. The team uses a bottom-up approach to identify the merits of convertible securities relative to the underlying common stocks. Analysis of convertible securities includes scrutinizing a bond's put and call features, the bond's maturity date, and the debt structure, asset value, cash flow and fixed obligations of the issuer. The investment team also analyzes the underlying stock volatility, and the value of the securities without the convertibility feature. The combination of evaluating downside and upside potential for each convertible, in conjunction with convertible valuation models and

fundamental analysis of equity securities, is a hallmark of the investment team's investment approach.

The Convertible investment team may take into account a convertible valuation model, which is a bond and option valuation model that determines the theoretical values of the convertibles based on the price movement of the underlying common stock. It may also utilize third party models.

Buy and sell decisions are based on both quantitative factors and fundamental judgment. If in the judgment of the Convertible investment team a convertible no longer has an attractive risk/reward profile, or if the investment team believes that company fundamentals are deteriorating, the security may be sold.

Global Fixed Income Investment Team

The Global Fixed Income investment team offers a broad range of investment strategies across asset classes, regions, and the risk spectrum. The Global Fixed Income investment team's investment process seeks to accomplish two important goals when investing in any security: 1) to quantify the downside risk and 2) to quantify the upside potential. The team's basic tenet is that bonds have limited upside (mature at par), but significant downside potential (default with no recovery). The team seeks to limit or reduce downside risk in an effort to increase the probability of generating higher returns while decreasing the volatility of the client's portfolio.

The Global Fixed income investment team's investment process marries a fundamental bottom-up investment approach with a top-down macroeconomic overlay, while risk assessment informs the process. The risk assessment incorporates four critical dimensions: 1) credit risk, 2) interest rate risk, 3) structure risk and 4) liquidity risk. The marginal risk in each category is analyzed in order to quantify the potential downside risk from investments eligible for a client portfolio.

The investment team's philosophy and process are rooted in longer-term market trends where themes play out, with less emphasis on daily, weekly, monthly and even quarterly performance.

The top-down element of the investment team's investment process incorporates an analysis of the important economic underpinnings of the market's risk cycle. The investment team believes that monetary policy, as dictated by central bank actions, is the single largest contributor to credit creation and an important driver of the inflection points in the market cycle. By seeking to understand monetary policy, the investment team attempts to identify credit excesses and cross sector developments more clearly, thus allowing it to position portfolios during these turning points in the cycle.

The bottom-up component of the investment team's investment process feeds into its macro analysis to help identify significant changes in financial market conditions, real economic developments and areas of credit excess. For credit investments, which historically have been the largest driver of returns in the portfolios, individual credits are run through a multi-factor screen or progression of both quantitative and qualitative characteristics seeking to identify gross indicators of inappropriate or uncompensated risk. These risks include basic financial and liquidity risk, political risk, regulatory risk, litigation or liability risk, technology risk and other risks that can be identified and measured. In the case of securitized assets, the investment team uses prepayment analysis and risk modeling to understand the structure risk.

If permitted by a client's investment guidelines and subject to appropriate accounts being opened with third parties, certain of the investment strategies managed by the Global Fixed Income

investment team may use derivatives, including Treasury futures, currency forwards, credit default swaps and forward mortgage-backed securities.

High Yield Investment Team

The High Yield investment team's strategy employs a bottom-up, value oriented approach to investing in the high yield market. The investment team's goal is to generate superior returns over a market cycle with less volatility than the broad high yield market. The investment team's approach to this objective involves seeking to maximize the default adjusted yield and spread of a diversified portfolio.

The most important part of the High Yield investment team's investment process is "margin-of-safety" analysis. The investment team's process focuses on high yield securities that, in the judgment of the investment team, have a large margin-of-safety represented by excess asset coverage (i.e., the value of the company relative to debt) and the ability to generate significant free cash flow.

The High Yield investment team assesses the credit risk of each potential investment based on the strength of its asset coverage, its cash flow generating profile, and its risk of default. The investment team performs fundamental research on potential investments, including modeling a company's cash flows, analyzing its financials and bond indentures, engaging in discussions with the company's management, reading industry research, and searching for company news. The investment team categorizes every security in its portfolios into one of four risk groups. These risk groups are delineated by the strength of the asset coverage, volatility of cash flows and the resultant potential for default. When assessing relative value of securities in the various risk groups for purchase or sale for client portfolios, the investment team focuses on the appropriate yield and spread differences among risk groups, which depends on the market environment.

The High Yield investment team will generally sell a security for one of three reasons: 1) when the security's price or spread makes its relative value unattractive; 2) when a company's fundamentals worsen to a point that, in the judgment of the investment team, asset coverage becomes insufficient; and 3) for diversification purposes.

Subject to client investment guidelines, the High Yield investment team may invest in a variety of debt obligations, as well as preferred stock and convertible bonds with yields comparable to high yield bonds (so-called "busted" convertibles). Also subject to client investment guidelines, the investment team may invest opportunistically in emerging market debt securities in certain strategies.

Some of the investment strategies managed by the High Yield investment team may use derivatives if permitted by a client's investment guidelines and the client has appropriate accounts in place in place with third parties.

Municipal Investment Team

The MacKay Municipal Managers™ investment team offers a broad range of tax-exempt and taxable municipal investment strategies across the risk spectrum. The investment team uses a fundamental value approach combined with a top-down macro view with bottom-up, credit research-driven security selection in the construction of U.S. tax-exempt and taxable municipal portfolios.

The MacKay Municipal Managers™ investment team's investment philosophy is centered on an actively managed, research-driven relative value approach that incorporates: 1) active management designed to capitalize on market inefficiencies, to seek a yield advantage, and to achieve an attractive after-tax total return; 2) a disciplined investment process, focused on reducing volatility;

and 3) fundamental, bottom-up credit research that takes into consideration the regulatory, political and tax related factors specific to the municipal market.

Where so directed for client portfolios with specific tax sensitivities, the investment team considers tax effects in its decision-making process by incorporating the client's current and expected effective tax rate, and capital gain and loss restrictions.

The MacKay Municipal Managers™ investment team's process seeks to capitalize on opportunities created by the mispricing of securities and information gaps. The investment team evaluates technical trends and analyzes individual issues, while emphasizing risk control. Their value-oriented, fundamental investment approach focuses on research, risk management, and trading, and their process encompasses sector/security allocation, credit selection, yield curve positioning, and buy/sell trade execution.

The MacKay Municipal Managers™ investment team begins by outlining its macro view about the economy, interest rates, inflation, geo-political concerns (including pending legislation that impact taxes and sectors of the municipal market). This top-down component guides the investment team's decisions relating to portfolio weightings for credit ratings, structures, states, yield curve positioning and sectors. The investment team's investment philosophy does not seek to make interest rate calls or duration bets. Instead, the investment team looks to maintain duration neutrality within a certain range of the relevant benchmark.

The MacKay Municipal Managers™ investment team's fundamental bottom-up security selection process includes a review of individual securities, from both a credit perspective and a spread, or relative value, perspective. The investment team's credit review includes examining documentation such as the official statement, financial reports, and/or capital program plans. In addition, the investment team analyzes cash flows, the individual security features of bonds and, when relevant, the demand features of a project. Furthermore, by understanding the political purpose behind a project, the investment team seeks to gain additional insight into the support for the securities should the bonds come under economic pressure (i.e., toll roads, airports, etc.). Depending upon the sector, the investment team reviews collateral such as mortgages, reserve funds, negative pledges and guarantees.

The MacKay Municipal Managers™ investment team incorporates an exit strategy into the evaluation of new prospective holdings. Some reasons to exit a position include (1) realization of the full potential return, (2) a change in outlook for the security or if the security no longer fits the investment guidelines of the portfolio, (3) a change in the issuer's financial position, and (4) a change in credit rating.

Some of the investment strategies managed by the MacKay Municipal Managers™ investment team may use derivatives, including Treasury futures or may involve shorting (such as Treasury securities), if permitted by a client's investment guidelines and the client has appropriate accounts in place with third parties.

EQUITY INVESTMENT TEAMS

Fundamental Equity Investment Team

The investment team employs a bottom-up investment approach, incorporating individual company fundamental analysis, industry competitive dynamics, and macroeconomic analysis. Investment professionals on this team obtain information from a variety of sources, including:

- Meetings and discussions with securities industry analysts.
- Discussion of publicly available information with issuers and company personnel.
- On-site inspections and corporate-sponsored meetings.
- Discussion with a company's customers, competitors and suppliers.
- Computerized screening, evaluation, optimization studies and reports.
- Trade journals and services, governmental publications, statistical summaries and analysis.
- Rating agencies, analysts' reports and various news and industry sources.

The team seeks to invest in what it believes are reasonably priced stocks of companies whose earnings are expected to sustainably grow at above average rates over the next five years. To identify such companies, the team identifies long-term secular trends or forces, and focuses on the companies that the team believes are poised to benefit from these long-term secular forces. Every security that is added to the portfolio must meet the following criteria, all of which are equally important:

- Above-average earnings growth potential over the next five years.
- Secular growth trends or forces that can benefit the company.
- Sustainable competitive advantages.
- Lack of reliance on one product, customer or supplier.
- Reasonable valuations relative to long term earnings.

If the portfolio managers believe the company exhibits strong fundamentals but is not yet at an attractive valuation, they will place the stock on a “watch list.” These stocks are continuously monitored and if the watch list stock eventually becomes attractively valued, the team will buy the stock for its clients' portfolios. Securities are sold when: i) the investment team's investment thesis has been reassessed or has changed; ii) valuation becomes too expensive; or iii) the portfolio manager/analyst loses confidence in the investment. The team believes that it is extremely important to learn from historical buy and sell decisions in order to improve the decision making process. Therefore, one year after a security is sold, the investment team performs a one-year post-sale analysis to assess its sell decision and to further understand the company. Despite the inherent limitations associated with studying sell decisions in hindsight, the team finds this exercise helps them identify sound investment decisions in which stocks were sold at opportune times, and also helps the team identify those stocks sold at inopportune times which may help the team improve its decision-making process going forward.

Passive Equity Investment Team

The Passive Equity investment team manages an index strategy that seeks to provide investment results that correspond to the total return performance (reflecting reinvestment of dividends) of common stocks in the aggregate, as represented by a broad equity market index.

The investment team manages an index strategy which is a passive strategy designed to replicate the performance of a broad-based equity index. The investment team utilizes replication, sampling and optimization dependent on portfolio size and customization requirements. Portfolios are reviewed daily and rebalancing and/or trading occurs around the constituent changes to the index

and/or cash management requirements due to the payment of dividends, contributions or withdrawals. The strategy seeks to match the index performance in all market environments.

The portfolio managers for this strategy are traders within the equity trading desk that also provide execution services to the Systematic Equity and Fundamental Equity investment teams.

Systematic Equity Investment Team

The Systematic Equity investment team's strategies adhere to one common investment philosophy and believe that a quantitative investment approach is the most effective way to build portfolios that provide an attractive trade-off between risk and return.

Proprietary quantitative models systematically identify positions based on a "relative value with a catalyst" approach. This quantitative investment approach allows the team to analyze thousands of securities, providing a strong foundation to construct a broadly diversified portfolio across sector, industry, geography, and market-capitalization.

The investment team also acknowledges potential weaknesses in a purely quantitative model. While portfolios benefit from the systematic evaluation of securities, the team believes they can be better positioned to take advantage of opportunities and generate attractive risk-adjusted returns when combined with the systematic application of prudent risk management that extends beyond core risk constraints in the form of tactical constraints and blind spot management. Supporting this philosophy is an investment process that is consistently deployed across the strategy set utilizing four main steps, with risk management embedded throughout:

- 1) Factor Selection
- 2) Stock Selection
- 3) Portfolio Construction
- 4) Portfolio Management

1. FACTOR SELECTION

Factor selection begins with researching the long-term fundamental drivers of stock returns; what is commonly referred to as factors. Factors are the building blocks for the stock selection model. The investment team seeks to identify intuitive, highly predictive factors with low correlation to each other over long-term investment horizons.

2. STOCK SELECTION

The stock selection model uses a concentrated set of highly predictive factors that are lowly correlated in relationship to each other to evaluate securities within an investment universe. The factors used fall into four main categories: Valuation, Momentum, Sentiment, and Quality. A stock is scored across a combination of these measures to derive a final score of each stock determining their relative attractiveness compared to other stocks within a stated investment universe.

Stock selection models are always subject to revision as market conditions change and research provides new opportunities for enhancements. Members of the Systematic Equity team conduct research which are subject to peer review and, based on the level of significance, would require additional approval by the CIO of the Systematic Equity team or in some cases additional approval through committee structures.

3. PORTFOLIO CONSTRUCTION

Portfolio construction begins with the output from the stock selection model and then uses advanced optimization techniques to construct the portfolio within stated risk parameters. The team seeks to build a portfolio that generates the highest expected return, while also managing risk. The team takes a multi-layered approach to risk management that focuses on: core risk constraints, tactical risk constraints, and blind spot analysis. The core risk constraints are meant to limit style drift, maintain diversification, manage overall portfolio risk, and limit top-down influences, thereby promoting bottom-up stock selection as the main driver of portfolio returns. The investment team also has the ability to apply a secondary layer of risk management in the form of tactical risk constraints. At times, tactical constraints may modify core risk constraints, making them more conservative, or add additional constraints due to unique circumstances. Lastly, the team applies a third layer of risk management, which it refers to as “blind spot management.” Blind spots are companies that we have identified as having stock specific risks not captured by our investment process resulting in poor stock selection forecasts. This typically impacts a small sub-set of stocks within the investment universe and is largely driven by idiosyncratic events (related to corporate action activity, fraud/litigation, profit warnings, news, and short-term/unexpected events to name a few) and anomalies (small or no peer group and suspect/abnormal data).

The output of this process is a recommended list of security purchases and sales. The portfolio optimization software utilized takes into account inputs such as the stock selection scoring output, risk parameters, transaction costs, liquidity, and any client specific investment policy guidelines in order to systematically construct portfolios that meet the stated investment objectives.

Prior to orders being sent to the trade desk for execution, the model’s buy-sell recommendations are also subject to review and potential modification by the portfolio management team.

4. PORTFOLIO MANAGEMENT

The investment team monitors strategies in real time to help identify the drivers of portfolio returns and risks associated with 1) the macroeconomic environment, or top-down influences and 2) the individual securities, or bottom-up considerations, across the suite of strategies managed by the Systematic Equity team. Additionally, the stock selection model’s performance is reviewed using industry and proprietary tools, to provide additional insight. These approaches are used to evaluate the portfolio and its construction and to determine if any changes need to be made either in real time or at the next portfolio rebalancing. This regular review and ongoing portfolio monitoring is a significant aspect of the team’s risk management.

Material Risk Factors

Below is a summary of material risks for the investment strategies managed by our investment teams. The information set forth below cannot disclose every potential risk associated with an investment strategy, or all of the risks applicable to a particular fund or account. Rather, it is a summary of the material risks of the strategies and securities and other instruments in which one or more of our investment teams may invest. The material risks set forth below may or may not relate to the strategies implemented by any of the investment teams.

Build America Bonds Risk. The Build America Bond (“BAB”) market is smaller and less diverse than the broader municipal securities market. BABs are a form of municipal financing. Bonds issued after December 31, 2010 do not qualify as BABs because the BAB enabling legislation expired on

December 31, 2010. It is difficult to predict the extent to which a market for such bonds will develop and there can be no assurance that BABs will be actively traded. BABs may experience greater illiquidity than other types of municipal securities, which may have a negative effect on the value of the bonds.

Closed-End Funds Risk. Closed-end funds are investment companies that generally do not continuously offer their shares for sale. Rather, closed-end funds typically trade on a secondary market, such as the New York Stock Exchange or the NASDAQ Stock Market, Inc. Closed-end funds are subject to management risk because the adviser to the closed-end fund may be unsuccessful in meeting the fund's investment objective. Moreover, investments in a closed-end fund generally reflect the risks of the closed-end fund's underlying portfolio securities. Closed-end funds may also trade at a discount or premium to their NAV and may trade at a larger discount or smaller premium subsequent to purchase by a Fund. Closed-end funds may trade infrequently and with small volume, which may make it difficult for a portfolio to buy and sell shares. Closed-end funds are subject to management fees and other expenses that may increase their cost versus the costs of owning the underlying securities. A Fund may also incur brokerage expenses and commissions when it buys or sells closed-end fund shares.

Convertible Securities Risk. Convertible securities may be subordinate to other securities. In part, the total return for a convertible security depends upon performance of the underlying stock into which it can be converted. Also, issuers of convertible securities are often not as strong financially as those issuing securities with higher credit ratings, are more likely to encounter financial difficulties and typically are more vulnerable to changes in the economy, such as a recession or a sustained period of rising interest rates, which could affect their ability to make interest and principal payments. If an issuer stops making interest and/or principal payments, the strategy could lose its entire investment.

Currency Risk. The value of a client's assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred by clients when a strategy changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

Cyber Security Risk. Due to the increased use of and dependence on technology in the ordinary course of business, investment managers and any third parties may be susceptible to breaches in cyber security. Such incidents may have an adverse impact on MacKay Shields and/or its clients and portfolio companies and may result in regulatory penalties, reputational damage, business interruption, loss of critical personal or business information, misappropriation of assets, additional compliance costs associated with corrective measures, and/or financial loss. While MacKay Shields has implemented a framework to address such cyber security risks, there are inherent limitations in any cyber security program, including the possibility that certain risks have not been identified, and there is no assurance that the framework implemented by MacKay Shields will be effective.

Debt Securities Risk. The risks of investing in debt securities include (without limitation): (i) credit risk – the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity and

duration risk – a debt security with a longer maturity or duration may fluctuate in value more than one with a shorter maturity or duration; (iii) market risk – low demand for debt securities may have a negative impact on their price; (iv) interest rate risk – when interest rates go up, the value of a debt security generally goes down, and when interest rates go down, the value of a debt security generally goes up; (v) selection risk – the securities that we select may underperform the market or other securities selected by other managers; (vi) call risk – during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce a strategy's income, if the proceeds are reinvested at lower interest rates; and (vii) extension risk – during a period of rising interest rates prepayments may decrease, thus effectively lengthening a security's maturity and duration and causing its value to decline even more.

Derivatives Risk. A strategy may lose money using derivatives. The use of derivatives may increase the volatility of the value of a portfolio and may involve a large amount of risk and potential loss relative to a small investment of cash and thus may have a leveraging effect on the client's portfolio. For example, forward commitments pose the risk that the security, currency or other asset subject to the forward commitment may be worth less when it is issued or received than the price agreed to when the commitment was made. Swap agreements may be difficult to value and may be susceptible to liquidity and credit risk. Futures contracts may result in losses in excess of the amount invested in the futures contract, and which may be unlimited. Derivatives may also be subject to counterparty risk, that is, the risk that the other party in the transaction will not fulfill its contractual obligations. Certain derivatives transactions may require the posting of initial and/or variation margin (including, but not limited to, futures, forward settling mortgage transactions, and swaps), which is at risk of loss if the market moves against a portfolio's position. If a portfolio does not provide the required margin within the prescribed time, its position may be liquidated at a loss, and the portfolio will be liable for any resulting deficit in its account which may require it to sell other positions at disadvantageous prices. Derivatives may not perform as intended and, if used for hedging purposes, may not be effective in offsetting losses on the positions being hedged.

Distressed Securities Risk. Investments in distressed securities are subject to substantial risks in addition to the risks of investing in other types of high-yield securities. Distressed securities are speculative and involve substantial risk that principal will not be repaid. Generally, the strategy will not receive interest payments on such securities and may incur costs to protect its investment. In addition, the strategy's ability to sell distressed securities and any securities received in exchange for such securities may be restricted.

Equity Securities Risk. Investments in common stocks, other equity securities and convertible securities are particularly subject to the risk of changing economic, stock market, industry and company conditions and the risks inherent in our ability to anticipate such changes that can adversely affect the value of a strategy's holdings. Opportunity for greater gain often comes with greater risk of loss.

Exchange Traded Fund (ETF) Risk. The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile than the underlying portfolio of securities. Disruptions in the markets for the securities underlying ETFs purchased or sold by the strategy could result in losses on the strategy's investment in ETFs. ETFs also have management fees that increase their costs versus owning the underlying securities directly.

Extension Risk. Extension risk is the risk of a security's expected maturity lengthening in duration due to the deceleration of prepayments. This may magnify the effect of increases in interest rates, as securities may be likely to be prepaid when interest rates rise.

FATCA Risk. The Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act ("FATCA") generally imposes a reporting and 30% withholding tax regime with respect to certain U.S. source income (including dividends and interest) and gross proceeds from the sale or other disposition of property that can produce U.S. source interest or dividends ("withholdable payments"). As a general matter, the rules are designed to require U.S. persons' direct and indirect ownership of non-U.S. accounts and non-U.S. entities to be reported to the IRS, and the 30% withholding tax regime applies if there is a failure to provide any required information. These withholding rules are effective using a phased in approach beginning after June 30, 2014.

Floating and Variable Rate Debt Risk. Floating and variable rate debt, which includes floating rate loans, provide for a periodic adjustment in the interest rate paid. The rate adjustment intervals may be regular and range from daily up to annually, or may be based on an event, such as a change in the prime rate. Although certain floating rate loans are collateralized, there is no guarantee that the value of the collateral will be sufficient to repay the loan. In times of unusual or adverse market, economic or political conditions, floating rate loans may experience higher than normal default rates. Floating and variable rate debt may be subject to greater liquidity risk than other debt instruments, meaning that there may be limitations on the strategy's ability to sell the instruments at any given time. The presence of a floor (which typically is based on LIBOR) in floating rate and variable rate debt instruments may result in coupon payments that remain unchanged when interest rates rise. While floors ensure a minimum yield, they can also act as an anchor until the reference rate of the floating rate and variable rate debt instrument breaches the level established by the floor. So long as the underlying reference stays below the floor, floating rate and variable rate debt instruments with this feature will behave more like conventional bonds in that coupon payments will remain unchanged. Such instruments also may lose value.

Foreign Securities Risk. Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These and other risks may be greater in emerging market countries, the economies of which tend to be more volatile than the economies of developed countries. To the extent a strategy invests to a significant extent in a particular country or region, a strategy's performance may be affected by political, social and economic conditions in that country and/or geographical region or operational risks particular to that country or region.

Investments in foreign securities may also involve higher brokerage and custodian fees and may also incur higher expenses and costs, which could affect a strategy's total return. The risks of investing in foreign securities in emerging market countries are likely to be greater than in foreign countries with developed securities markets and more advanced regulatory regimes. Among other things, emerging market countries may have economic structures that are less mature and political systems that are less stable. Moreover, emerging market countries may have less developed securities markets, high inflation, and rapidly changing interest and currency exchange rates. Exchange rate movements may be large and may endure for extended periods of time, affecting either favorably or unfavorably the value of the strategy's assets.

Additionally, investments in depositary receipts may entail the special risks of foreign investing, including currency exchange fluctuations, government regulations, and the potential for political and economic instability. Furthermore, it may be difficult to invoke legal protections across borders.

Growth Stock Risk: If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that may cushion falling stock prices in market downturns.

High-Yield Securities Risk. Investments in high-yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Interest Rate Risk. Interest rate risk is the risk that the market value of the bonds owned by a fund will fluctuate as interest rates go up and down. For example, when interest rates go up, the market value of bonds owned by a fund generally will go down. Nearly all fixed income strategies are subject to this type of risk, but investment strategies utilizing bonds with longer maturities are more subject to this risk than funds holding bonds with shorter maturities.

Investment funds not registered with the SEC Risk. The investment strategies and risks associated with investment funds not registered with the SEC that certain investment strategies may utilize are described in the offering memoranda for those funds. Investors should carefully review the offering memoranda for additional information about the risks associated with those funds.

Investment Grade Securities Risks. Investment-grade securities (i.e., rated Baa3 or better by Moody's Investors Service, Inc., BBB- or better by Standard & Poor's Ratings Services or comparably rated by another nationally recognized statistical rating organization) are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations and may also be subject to price volatility due to such factors as interest rate sensitivity, the market perception of the creditworthiness of the issuer and general market liquidity.

Leverage and Borrowing Risk. Leverage, including borrowing, will cause the value of an account to be more volatile than if the account did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the account's portfolio securities. Where permitted by a client's investment guidelines, we may engage in transactions or purchase instruments that give rise to forms of leverage. In addition, where permitted by the client's investment guidelines, we may borrow money for the purpose of leveraging the portfolio. The use of leverage may cause an account to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations.

A portfolio will also incur interest expense on the borrowings used to leverage its positions. To the extent that a portfolio's assets have been leveraged through the borrowing of money, the purchase of securities on margin or otherwise, the interest expense and other costs and premiums incurred in relation thereto may not be recovered. If gains earned by the account fail to cover such costs the net asset value of the portfolio may decrease faster than if there had been no borrowings.

In addition, to the extent that futures, swaps and other derivative financial instruments are used, it should be noted that they inherently contain much greater leverage than a non-margined purchase of the underlying security, commodity or instrument. These products are subject to variation or other interim margin requirements which may force premature liquidation of investment positions.

Liquidity Risk. The value of illiquid securities may reflect a discount from the market price of comparable securities for which a liquid market exists, and accordingly may have a negative effect on the value of a strategy's assets. Securities that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the securities, market events, economic conditions or investor perceptions. To meet client requests to withdraw assets, a strategy may be forced to sell securities at an unfavorable time and/or under unfavorable conditions. Low trading volume, lack of a market maker, large position size or legal restrictions (including price fluctuation limits or "circuit breakers," an affiliation with the issuer of a security or possession of material non-public information about the issuer) may limit or prevent the strategy from selling particular securities or unwinding derivative positions at desirable prices. Holding less liquid securities increases the likelihood that the strategy will honor a redemption request in-kind. Legislative and policy developments in the United States and elsewhere are causing dealers in fixed income securities to reduce their inventories, which may make securities less liquid and more volatile and may exacerbate price declines in periods of economic stress.

Loan Interest Risk. In a typical loan syndication, a number of lenders, usually banks (co-lenders), lend a borrower a specified sum pursuant to terms and conditions of a loan agreement. One of the co-lenders generally acts as the agent bank with respect to the loan; where loans are purchased via assignment, the owner becomes a direct lender. A loan assignment is the actual sale of the loan, in whole or in part, where the owner of the portion of the loan assigned is considered a lender under the loan agreement. A loan participation means that the original lender maintains ownership over the loan and that the owner of the loan participation interest does not have a credit relationship with the borrower. As such, the owner of the participation interest generally will not be entitled to enforce its rights against the agent bank or borrower and must rely on the lending institution for that purpose.

The principal credit risk associated with acquiring a loan interest is the credit risk associated with the underlying borrower. Additional credit risk exists with a loan participation interest rather than a loan assignment because of the risk of insolvency of the co-lender from which the loan participation was originally purchased and that of any person interposed between the owner of the loan participation and the co-lender.

There may not be a readily available market for loan interests, which in some cases could result in the strategy disposing of such interests at a substantial discount from face value or holding such interests until maturity. There is also the credit risk of the underlying corporate borrower as well as the lending institution or other participant from whom the owner purchased the loan participation interests.

In addition, the notional exposure of a client's portfolio may exceed the cash value of the portfolio due to the lengthy settlement period typical for loans (which may be 30 days or more). This leverage is the result of the portfolio having an economic interest in a loan it purchases prior to the date that the cash for such loan is actually paid by the client's account.

Loss of Money Risk. Investing in securities involves risk of loss that clients should be prepared to bear. The investment performance and the success of any investment strategy or particular

investment can never be predicted or guaranteed, and the value of a client's investments will fluctuate due to market conditions and other factors.

Management Risk. Our judgments regarding markets and investments may be incorrect, and the investment strategies, practices and risk analysis that we use may not produce the desired results.

Market Changes Risk. The value of the strategy's investments may change because of broad changes in the markets in which the strategy invests, which could cause the strategy to underperform other funds or accounts with similar objectives.

Money Market/Short-Term Securities Risk. To the extent a strategy holds cash or invests in short-term securities, there is no assurance that the strategy will achieve its investment objective.

Mortgage-Backed/Asset-Backed Securities Risk. Prepayment risk is associated with mortgage-backed and asset-backed securities. If interest rates fall, the underlying debt may be repaid ahead of schedule, reducing the value of the strategy's investments. If interest rates rise, there may be fewer prepayments, which would cause the average bond maturity to rise, increasing the potential for the strategy to lose money. The value of these securities may be significantly affected by changes in interest rates, the market's perception of issuers, and the creditworthiness of the parties involved. The ability of a strategy to successfully utilize these instruments may depend on our ability to forecast interest rates and other economic factors correctly. These securities may have a structure that makes their reaction to interest rate changes and other factors difficult to predict, making their value highly volatile.

Mortgage Dollar Roll Transaction Risk. Mortgage dollar roll transactions are subject to certain risks, including the risk that securities delivered at the end of the roll, while substantially similar, may be inferior to what was initially sold to the counterparty or may have a lower value. These transactions may involve leverage, as the client may be exposed to changes in value of its current investments as well as those to be delivered at the end of the roll.

Municipal Securities Risk. Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes that could affect the market for and value of municipal securities. These risks include: (i) General Obligation Bonds Risk – timely payments depend on the issuer's credit quality, ability to raise tax revenues and ability to maintain an adequate tax base; (ii) Revenue Bonds (including Industrial Development Bonds) Risk – these payments depend on the money earned by the particular facility or class of facilities, or the amount of revenues derived from another source, and may be negatively impacted by the general credit of the user of the facility; (iii) Private Activity Bonds Risk – Municipalities and other public authorities issue private activity bonds to finance development of industrial facilities for use by a private enterprise; the private enterprise pays the principal and interest on the bond, and the issuer does not pledge its full faith, credit and taxing power for repayment; (iv) Moral Obligation Bonds Risk – moral obligation bonds are generally issued by special purpose public authorities of a state or municipality; if the issuer is unable to meet its obligations, repayment of these bonds becomes a moral commitment, but not a legal obligation, of the state or municipality; (v) Municipal Notes Risk – municipal notes are shorter-term municipal debt obligations that pay interest that is, in the opinion of bond counsel, generally excludable from gross income for federal income tax purposes (except that the interest may be includable in taxable income for purposes of the federal alternative minimum tax) and that have a maturity that is generally one year or less; if there is a shortfall in the anticipated proceeds, the notes may not be fully repaid and the strategy may lose money; and (vi) Municipal Lease Obligations Risk – in a municipal lease

obligation, the issuer agrees to make payments when due on the lease obligation; although the issuer does not pledge its unlimited taxing power for payment of the lease obligation, the lease obligation is secured by the leased property.

To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. It is possible that interest on a municipal bond may be declared taxable after the issuance of the bond, and this determination may apply retroactively to the date of the issuance of the bond, which could cause a portion of prior distributions made by a strategy to be taxable in the year of receipt. It is also possible that future legislation or court decisions would adversely affect the tax-exempt status, and thus the value, of municipal bonds or certain categories thereof.

Prepayment Risks. Prepayment risk is the risk that the issuers of the bonds will prepay them at a time when interest rates have declined. Because interest rates have declined, we may have to reinvest the proceeds in bonds with lower interest rates, which can reduce returns.

Ratings-Related Risks. Ratings assigned by Moody's, S&P and/or Fitch to securities are only the views of those agencies and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. No assurance can be given that ratings assigned will not be withdrawn or revised downward if, in the view of Moody's, S&P or Fitch, circumstances so warrant. Many issuers do not have their securities rated by the major agencies in order to save costs and investment in such unrated issues poses risks associated with potential lower levels of credit-related information for investors and absence of or more limited third-party surveillance of such issuers.

Real Estate Investment Trust Risk (REITs). Investments in REITs involve risks associated with direct ownership of real estate, including decline in property values, extended vacancies, increases in property taxes and changes in interest rates. Additionally, REITs are dependent upon management skills, may not be diversified, may experience substantial cost in the event of borrower or lessee defaults and are subject to heavy cash flow dependency.

Regional Focus Risk. At times, we may increase the relative emphasis of our investments in a particular region or country. Issuers in a particular region or country might be affected by changes in economic conditions or by changes in government regulations, availability of basic resources or supplies, or other events that affect that region or country more than others. If the strategy has a greater emphasis on investments in a particular region or country, it may be subject to greater risks from adverse events than a strategy that is more geographically diversified.

Regulatory Risk. U.S. and Foreign Government regulation and/or intervention may change the way MacKay Shields is regulated, may affect the value of its investments, and may limit and/or preclude the firm's ability to achieve its investment objectives. Government regulation may change frequently and may have significant adverse consequences. Moreover, government regulation may have unpredictable and unintended effects. In addition to exposing MacKay Shields to potential new costs and expenses, additional regulation or changes to existing regulation may also require changes to the firm's investment practices. For example, many of the changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act could materially impact the value of assets MacKay Shields holds. Certain regulatory authorities may also prohibit or restrict the ability of the firm to engage in certain derivative transactions or short-selling of certain securities. Although there

continues to be uncertainty about the full impact of these and other regulatory changes, it is the case that MacKay Shields may be subject to a more complex regulatory framework, and incur additional costs to comply with new requirements as well as to monitor for compliance with any new requirements going forward. At any time after the date of this Form ADV, legislation may be enacted that could negatively affect the holdings of MacKay Shields and regulation may change the way in which the firm is regulated. MacKay Shields cannot predict the effects of any new governmental regulation that may be implemented, and there can be no assurance that any new governmental regulation will not adversely affect the firm's ability to achieve its investment objectives.

Service Provider and Data Source Risk. MacKay Shields relies on third party service providers to analyze and review information MacKay Shields provides to them and to produce performance and other data reports (the analysis, review, and reports together are "Data"). If Data supplied by these service providers were to be incorrect or incomplete, our analysis and reports may be incorrect or adversely impacted and our strategies may not perform as expected. MacKay Shields seeks to detect whether Data are inaccurate or incomplete and reports these issues to its service providers, but cannot always detect problems with Data supplied to it before the Data are used. If Data are discovered to be incorrect or incomplete, MacKay Shields will take all reasonable steps to correct the Data.

While MacKay Shields seeks to protect itself contractually when it engages services providers, these contractual provisions may be insufficient to protect MacKay Shields. For example, MacKay Shields's service providers may be affected by viruses, power outages, or other acts beyond MacKay Shields's control. They may not be able to prevent an employee or third party from stealing or affecting MacKay Shields's data. Further, any of our service providers could, without notice to MacKay Shields, cease doing business, file for bankruptcy, or sell all or a part of its business to another company. Any of these actions could adversely affect MacKay Shields and may seriously disrupt its business.

Short Selling Risk. If a security sold short increases in price, the strategy may have to cover its short position at a higher price than the short sale price, resulting in a loss. Because losses on short sales arise from increases in the value of the security sold short, such losses are theoretically unlimited. By contrast, a loss on a long position arises from decreases in the value of the security and is limited by the fact that a security's value cannot go below zero.

With respect to our long/short and leveraged strategies, if a security sold short increases in price, the strategy may have to cover its short position at a higher price than the short sale price, resulting in a loss. The strategy will have substantial short positions and must borrow those securities to make delivery to the buyer. The strategy may not be able to borrow a security that it needs to deliver or it may not be able to close out a short position at an acceptable price and may have to sell related long positions before it had intended to do so. Thus, the strategy may not be able to successfully implement its short sale strategy due to limited availability of desired securities or for other reasons.

The strategy also may be required to pay a premium for a security and other transaction costs, which would increase the cost of the security sold short. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the strategy may be required to pay in connection with the short sale.

Until the strategy replaces a borrowed security, it is required to maintain a segregated account of cash or liquid assets with a broker or custodian to cover the strategy's short position. Generally, securities held in a segregated account cannot be sold unless they are replaced with other liquid assets. The strategy's ability to access the pledged collateral may also be impaired in the event the

broker fails to comply with the terms of the contract. In such instances the strategy may not be able to substitute or sell the pledged collateral.

Additionally, the strategy must maintain sufficient liquid assets (less any additional collateral pledged to the broker), marked-to-market daily, to cover the short sale obligations. This may limit the strategy's investment flexibility, as well as its ability to meet redemption requests or other obligations.

Because losses on short sales arise from increases in the value of the security sold short, such losses are theoretically unlimited. By contrast, a loss on a long position arises from decreases in the value of the security and is limited by the fact that a security's value cannot go below zero. By investing the proceeds received from selling securities short, the strategy could be deemed to be employing a form of leverage, which creates special risks. The use of leverage may increase the strategy's exposure to long positions and make any change in the strategy's net asset value greater than it would be without the use of leverage. This could result in increased volatility of returns. There is no guarantee that the strategy will leverage its portfolio, or if it does, that any such leveraging strategy will be successful.

Regulatory authorities in the United States or other countries may prohibit or restrict our ability to fully implement the short-selling strategy, either generally or with respect to certain industries or countries, which may impact our ability to fully implement our investment strategies. Certain foreign countries have adopted, and others may adopt, rules restricting the short-selling of certain stocks. Typically, these restrictions have been focused on financial stocks. The duration and scope of these restrictions have varied from country to country.

Short Term Trading Risk. Some of our strategies may experience a portfolio turnover rate of greater than 100%. Strategies with high turnover rates (over 100%) often have higher transaction costs and may generate short-term capital gains.

Small-Cap and Mid-Cap Stock Risk. Stocks of small-cap and mid-cap companies may be subject to greater price volatility, significantly lower trading volumes, cyclical, static or moderate growth prospects and greater spreads between their bid and ask prices than stocks of larger companies. Because these businesses frequently rely on narrower product lines and niche markets, they can suffer isolated setbacks. Smaller capitalization companies may be more vulnerable to adverse business or market developments.

Synthetic Convertible Securities Risk. The values of a synthetic convertible and a true convertible security may respond differently to market fluctuations. In addition, in purchasing a synthetic convertible security, the strategy may have counterparty (including counterparty credit) risk with respect to the financial institution or investment bank that offers the instrument. Purchasing a synthetic convertible security may provide greater flexibility than purchasing a traditional convertible security.

To-Be-Announced Securities (TBAs) Risk. The value of the to-be-announced security may decline prior to when the security is received. The Federal Reserve Bank of New York's Treasury Market Practices Groups ("TMPG") recommended that market participants exchange two-way variation margin on a regular basis to mitigate counterparty credit and systemic risks. While the counterparty credit risk is significantly mitigated, margin and documentation requirements increase the cost of TBA trades, including costs associated with wiring of cash to meet variation margin calls and interest expense required to be paid on variation margin posted in your favor.

Turnover/Frequent Trading Risk. Portfolio turnover is a measure of how frequently assets within a portfolio are bought and sold. The turnover rate for a portfolio will vary from year to year and depending on market conditions, turnover could be greater in periods of unusual market movement and volatility. In addition, portfolio turnover rates may vary based on how such rates are calculated. A higher portfolio turnover rate is a result of frequent trading and involves correspondingly greater expenses to the portfolio, including brokerage commissions, dealer mark-ups, or other transactional costs. The use of futures or other forward settling derivatives may result in the appearance of higher portfolio turnover as positions are rolled forward in order to maintain a specific exposure.

Valuation Risk. There is no central place or exchange for fixed-income securities trading. Fixed-income securities generally trade on an “over-the-counter” market, which may be anywhere in the world where the buyer and seller can settle on a price. Due to the lack of centralized information and trading, the valuation of fixed-income securities may carry more risk than that of common stock.

Uncertainties in the conditions of the financial market, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate asset pricing. In addition, other market participants may value securities differently. As a result, when a security or other instrument is sold in the market, the amount that the fund or account receives may be less than the amount at which it was valued.

Valuations of the assets, which will affect the amount of fees (including, to the extent applicable, performance compensation) payable to MacKay Shields may involve uncertainties and judgmental determinations, and if such valuations prove to be incorrect, client portfolio value could be adversely affected. For example, in the case of an overvaluation of a client’s portfolio, MacKay Shields’ compensation would be greater than if the correct lower valuation had been used.

Value Stock Risk. Value stocks may never reach what the portfolio management team believes is their full value or they may go down in value. In addition, different types of stocks tend to shift in and out of favor depending on market and economic conditions, and therefore the strategy’s performance may be lower or higher than the performance of strategies that invest in other types of equity securities.

When-Issued Securities Risk. The principal risk of transactions involving when-issued securities is that the security will be worth less when it is issued or received than the price the strategy agreed to pay when it made the commitment.

Additional Material Risks Associated with Systematic Equity Strategies

Analytical Model Risk. MacKay Shields seeks to achieve its clients’ equity investment objectives primarily in reliance on signals generated by MacKay Shields’ analytical models, whether third party or proprietary. The accuracy of the signals produced by the models is dependent on a number of factors including, without limitation, the analytical and mathematical underpinning of the models, the accurate encapsulation of those principles in a complex computational (including software code) environment, the quality of the data put into the models, changes in market conditions, and the successful deployment of the models’ output into the investment portfolio construction process. Each factor may have subjective elements that present the possibility of human error.

Although MacKay Shields employs controls designed to assure that its models are sound in their development and appropriately adapted, calibrated and configured, analytical error, software development errors, and implementation errors are an inherent risk of complex analytical models and quantitative investment management processes. These errors may be extremely hard to detect

in some cases, and some errors may go undetected for long periods of time, or not be detected at all. MacKay Shields' controls, including our escalation policies, are designed to assure that certain types of errors are subject to review once discovered. However, the effect of errors on our investment process and, where relevant, performance, (which can be either positive or negative) may not be fully apparent even when discovered. For investment process errors that do not give rise to trade errors (i.e. an error has occurred in the process of generating the list of trade recommendations), investment advisers as fiduciaries do not breach their duties merely in the good faith exercise of investment discretion, even if resulting in "poor" investment decisions from a performance perspective.

Rather, a breach of an investment adviser's fiduciary duties relates more to the prudence and propriety of the adviser's conduct. Given these complex processes, the inevitability of error and the difficulty of error detection, determining whether MacKay Shields has met its standard of care in connection with an investment process error will be based both upon (1) how the error relates to MacKay Shields' key investment objectives and attributes (namely, to build portfolios with exposures to stock characteristics that reflect our investment beliefs and philosophy) as well as (2) the nature and design of the controls designed to ensure such objectives and attributes are achieved in the manner intended. Accordingly and in keeping with our long-term investment horizons, we reject notions of "false precision," (either in terms of stock composition or investment performance), that may be implied by a process that relies to a great extent on data and quantitative methods.

Because of the complexity involved and indeterminate nature of the undertaking, MacKay Shields may in good faith and in accordance with its obligations decide not to correct an error if doing so would be imprudent or otherwise than in the client's best interests in light of MacKay Shields' key investment or client-specified considerations or if the cost of the fix greatly outweighs the benefit and/or the error truly represents noise. Also, MacKay Shields in its discretion may determine not to disclose (non-trade) investment process errors not otherwise determined to be compensable or constituting material information to affected clients, MacKay Shields will not be under any obligation to disclose such errors, but may voluntarily do so in its discretion.

Although certain MacKay Shields' investment process partially rely on the models (and is subject to the risks) referred to above, MacKay Shields' process also incorporates the investment judgment of its portfolio managers who exercise such judgment with the aim of capturing the intent of the models and/or ensuring that portfolios are better positioned to adapt to changing market conditions. As such, even if the signals produced by MacKay Shields' models are accurate, the ultimate investment performance still depends on MacKay Shields' ability to interpret the buy and sell signals generated by the models and to then implement these signals through the purchase and sale of securities and other investments. MacKay Shields has established certain systematic rules and processes for generating trading signals, implementing trades and managing risk, but there is no guarantee that these rules or processes will effectively implement the models' buy and sell signals or manage the risk associated with such signals.

Service Provider and Data Source Risk Related to Models. MacKay Shields uses a third party's servers to host its models and data. The servers on which MacKay Shields' models and data are hosted may be affected by viruses, power outages, or other acts beyond MacKay Shields' control. The company that owns the servers ("Service Provider") may not be able to prevent an employee or third party from stealing or damaging MacKay Shields' models and data. Further, the Service Provider could, without notice to MacKay Shields, cease doing business, file for bankruptcy, or sell all or a part of its business to another company. Any of these actions could make the models and data unavailable to MacKay Shields and seriously disrupt its business. When data used in a model is

incorrect or incomplete, models may not perform as expected, as noted above in “Analytical Model Risk.” MacKay Shields seeks to detect whether data is inaccurate or incomplete and reports these issues to its data providers, but cannot always detect problems with data supplied to it before the data is used.

The Service Provider maintains redundant data centers in geographically distinct locations, but is not obligated to protect or back-up MacKay Shields’ models and data or cooperate with MacKay Shields to return the models and data if its agreement with MacKay Shields is terminated. Further, in the event of loss of or damage to these models and data, MacKay Shields’ recovery for loss or damage is limited to its direct damages (and not lost profits or other types of damages) and only up to the cumulative amount of fees it paid to the Service Provider during the twelve months before the event that led to the loss or damage.

Technology and Licensing Risk. Some of the equity investment strategies of and recommendations developed by MacKay Shields rely heavily on the use of proprietary and non-proprietary software, data and intellectual property being licensed to us on a non-exclusive basis by commercial software analytics, research and data supply entities. To the extent that an unforeseeable software or hardware malfunction or problem is caused by a defect, virus or other outside force, MacKay Shields’ business, including its financial condition, and/or client portfolios may be adversely affected. In addition if the licensed material is found to be owned by a third party, and not by the licensing company, as represented, MacKay Shields’ business, including our financial condition, and/or our client’s portfolios could be adversely affected.

ITEM 9: DISCIPLINARY INFORMATION

There are no legal or disciplinary events involving MacKay Shields or any senior officer of our firm that are material to our advisory business.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The following relationships or arrangements with related persons are material to our business and may create potential conflicts of interest:

Affiliated Broker-Dealers

Some of our employees, including some of our senior officers, are registered with the Financial Industry Regulatory Authority (“FINRA”) as representatives and principals of our affiliate NYLIFE Distributors, which, like MacKay Shields, is a wholly-owned subsidiary of NYLIM Holdings. NYLIFE Distributors is registered as a broker-dealer with the SEC.

Registered representatives of NYLIFE Distributors, who may be employees of our firm or our affiliates, may sell interests in collective investment vehicles not registered with the SEC that we manage or sub-advise. If a registered representative of NYLIFE Distributors is responsible for the sale of interests in these collective investment vehicles, the registered representative receives a percentage of the management fee that is attributable to the sale.

Registered representatives of NYLIFE Distributors, who may be employees of our firm or our affiliates, may also:

- Promote the sale of various SEC-registered investment companies, such as The MainStay Funds and the IndexIQ Exchange Traded Funds (“ETFs”) to registered representatives of other broker-dealers, who may recommend that their clients purchase these products;

- Promote the sale of investment funds not registered with the SEC sponsored by one or more of our affiliates; and
- Assist NYL Investments in making presentations to investment consultants with respect to our sub-advisory services for wrap fee programs for which NYL Investments provides advisory services.

We do not use broker-dealers that are affiliated with us in executing securities transactions for our clients.

Regulated Subsidiaries and Financial Industry Activities

MacKay Shields UK LLP (“MacKay UK”) is an indirect wholly-owned subsidiary of MacKay Shields that is authorized and regulated as an investment manager with the United Kingdom Financial Conduct Authority (“UK FCA”). Some of our senior employees are officers of MacKay UK and certain of those employees are designated “approved persons” by the UK FCA. Under an investment management agreement with MacKay UK, we act as sub-adviser for certain clients of MacKay UK. The compensation we receive from MacKay UK will not increase the fees or costs payable by clients of MacKay UK.

MacKay Shields Global Derivatives LLC (“MacKay Global Derivatives”) is a wholly-owned subsidiary of MacKay Shields that is registered as a commodity pool operator with the U.S. Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association. Some of our employees are registered as “associated persons” with the CFTC. MacKay Global Derivatives serves as commodity pool operator with respect to certain investment funds not registered with the SEC sponsored by MacKay Shields.

MacKay Shields LLC claims exemptions to the Commodity Pool Operator and Commodity Trading Advisor registration categories under the Commodity Exchange Act of 1936, as amended. Similarly, certain investment funds not registered with the SEC for which we, our wholly-owned subsidiaries or our affiliates, may act as general partner, claim available exemptions to the Commodity Pool Operator category under the Commodity Exchange Act of 1936, as amended.

Ownership, Management and Compensation

We are a wholly-owned subsidiary of NYLIM Holdings, which in turn is a wholly-owned subsidiary of NYLIC. Our Board of Managers includes certain senior executives of NYLIC and NYL Investments in addition to the Chief Executive Officer and President of MacKay Shields. In addition, certain compliance support functions are supported by the resources and services of NYL Investments and New York Life.

Some of our employees are also officers and/or directors of NYLIC or other affiliated companies, directors of certain investment funds not registered with the SEC that we or our affiliates sponsor, as well as officers (in the case of MacKay UK), “associated persons” (in the case of MacKay Global Derivatives) or “approved persons” (in the case of MacKay UK) of our subsidiaries. In addition, some of our senior employees serve on various committees of NYL Investments.

Employees whose total compensation exceeds a pre-defined threshold may elect to have MacKay Shields allocate up to 50% of their long-term incentive compensation to track the investment returns of one or more investment funds not registered with the SEC for which we act as investment adviser or sub-adviser. Such investments will be made directly by MacKay Shields in its own name, and such employees will not have any ownership interest in such funds in connection with the long-term incentive compensation program. The portion of their long-term incentive compensation that tracks

the investment returns in such investment funds not registered with the SEC is subject to gains and losses based on the performance of those investment funds not registered with the SEC. This creates a conflict of interest as certain employees may have an incentive to favor investment funds not registered with the SEC in which a portion of their long-term incentive compensation has been invested when allocating investment opportunities. If such favoritism were to occur, it might lead to better performance results for such funds to the detriment of other accounts, which may ultimately result in higher compensation for such employees. MacKay Shields has policies and procedures in place, such as its trade allocation policy, that are designed to address these conflicts of interest.

Notwithstanding the above, we exercise independent judgment in the management of our clients' investments.

Investment Management Relationships Involving Affiliates

We act as investment manager, investment adviser or sub-adviser for:

- Accounts as to which NYLIC, NYL Investments, NYL Investors LLC, New York Life Foundation, or its affiliates advise, sponsor, act as trustee, or have a substantial interest (including portions of the general accounts of NYLIC and its affiliated insurance companies);
- Investment funds belonging to the MainStay family of funds that include, The MainStay Funds, MainStay VP Funds Trust, MainStay Funds Trust, as well as open-end registered investment companies for which NYL Investments is the investment adviser and administrator and NYLIFE Distributors LLC acts as principal underwriter and distributor, and MainStay Defined Term Municipal Opportunities Fund, a closed-end registered investment company for which NYL Investments is the investment manager;
- ETF belonging to the IndexIQ ETF Trust, where IndexIQ Advisors LLC acts as the advisor and NYLIFE Distributors LLC provides certain distribution-related services to the Trust.
- Wrap fee programs with respect to which NYL Investments provides advisory services;
- Certain investment funds not registered with the SEC for which we, our wholly-owned subsidiaries, our affiliates, or senior officers of any of the aforementioned may act as general partner, manager, investment advisor, sponsor or otherwise have a substantial interest; and
- Accounts that are investment vehicles for insurance products sponsored by NYLIC or that are subject to contractual insurance arrangements with NYLIC.

Conflicts may arise as to the allocation of investment opportunities among those clients and our other clients, and which provide an incentive for us to favor those clients. Also, where the client is an account that serves as an investment vehicle for an insurance product sponsored by NYLIC or that is contractually insured by NYLIC, we may have an incentive to manage the account in a manner that may mitigate the risk of insuring the account but which reduces its return potential. We have policies and procedures in place to make sure that all of our clients are treated fairly and that no one client account will receive over time preferential treatment over another in the allocation of investment opportunities. See "Performance-Based Fees and Side-by-Side Management," above and "Brokerage Practices," below.

MacKay Shields currently serves as a sub-adviser to an exchange traded fund that employs a "passive management" or indexing investment approach and also sub-advises exchange traded funds that employ "active management strategies. MacKay Shields may, in the future, act as sub-adviser to additional exchange traded funds that employ both "passive management" and "active management" strategies designed to, respectively, track or surpass the yield and price performance

of an index, before fees and expenses. MacKay Shields also manages a passive, non exchange traded fund, investment strategy alongside actively managed, non exchange traded fund, investment strategies. Our receipt of advisory fees from clients, and the compensation that we receive from advisory and sub-advisory activities on behalf of such strategies or exchange traded funds, may give rise to potential conflicts of interest including the incentive to recommend that clients with separately managed accounts invest in an exchange traded fund. Further, the management of exchange traded funds alongside actively managed strategies pose potential conflicts of interests that include, but are not limited to, issues related to side-by-side management and trade allocation.

MacKay Shields may receive information about changes to the composition of an index underlying the passively managed exchange traded fund sub-advised by MacKay Shields prior to such changes being made public, so the exchange traded fund may be positioned accordingly to track or surpass the index. MacKay Shields has implemented internal controls in order to mitigate any such conflicts related to the management of exchange traded funds.

All of the equity investment teams share a single trading desk for execution of orders. Some of the equity traders are dual-hatted employees of NYL Investments as they provide portfolio management and execution services for certain passive strategies and asset allocation mutual funds where NYL Investments acts as the adviser and MacKay Shields the subadviser. These individuals may have investment related discussions with NYL Investments portfolio managers related to portfolio holdings; however, these holdings are limited to broad based exchange traded funds. In addition, these individuals personal trading is monitored daily against the NYLIM Holdings and MacKay Shields' trading blotters.

Other Arrangements with Affiliates

From time to time, we enter into agreements with our affiliated investment advisers, related persons or subsidiaries by which the affiliated investment adviser, related person or subsidiary utilizes the services of one or more of our employees and may pay a fee to us, or we utilize the services of one or more employees of an affiliated investment adviser, related person or subsidiary and may pay a fee to the affiliated investment adviser, related person or subsidiary. In these arrangements, the employee is subject to our supervision and supervision by the affiliated investment adviser, related person or subsidiary.

From time to time, we may enter into arrangements with our affiliated investment advisers to recommend advisory clients to each other. We may also enter into arrangements with our affiliates to introduce clients to us. If we pay a cash fee to anyone for soliciting clients on our behalf or if we receive a cash fee from another investment adviser for recommending clients to it, we will comply with the requirements of the SEC's cash solicitation rule, including the applicable disclosure requirement. Please see "Client Referrals and Other Compensation," below.

Certain employees of NYL Investments that are dual-hatted officers of MacKay Shields, or that serve on a MacKay Shields Committee (e.g., Risk Oversight) are subject to the NYLIM Holdings Code of Ethics. In addition, these dual-hatted individuals have their personal trades monitored daily against the NYLIM Holdings and MacKay Shields' trading blotters. Certain NYL Investments portfolio managers that participate in Asset Allocation Committee discussions with MacKay Shields portfolio managers related to mutual funds sub-advised by MacKay Shields also have their have their personal trades monitored daily against the NYLIM Holdings and MacKay Shields' trading blotters.

Certain employees of MacKay Shields are dual-hatted officers of NYL Investments and/or NYLIC and may serve on various NYL Investments and/or NYLIC Committees. These individuals do not have access to the portfolio holdings of accounts owned or managed by NYL Investments or NYLIC. Such employees have their personal trades monitored daily against the MacKay Shields' trading blotter.

In addition, we act as an index consultant to assist an affiliate, IndexIQ LLC, with the development, calculation and maintenance of certain IndexIQ Indices. As an index consultant, we assist IndexIQ LLC with the identification, formulation and construction of potential IndexIQ Indices, the testing of potential IndexIQ Indices, documentation of index methodologies, and ongoing calculation and maintenance of certain IndexIQ Indices.

Additional Information About Our Activities

We may recommend securities or other investments to clients, or engage in transactions on behalf of clients, where a related person has a financial interest and buy and sell the same security or investment between or among clients' accounts. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," below.

Our employees, members of their families, and our affiliates may own and transact in securities that we purchase or sell for our clients, or various classes of the same security. The investors in such issuers could have different rights, for example in the event of a default or restructuring on the part of the issuer, or as a result of a bankruptcy proceeding. These securities include long-term and short-term debt and equity and private securities, and instruments such as bank loans. The investment strategy for certain clients includes transacting in different securities of the same issuer, different tranches of the same issue or the same issue denominated in different currencies, in the client account. We may purchase a security for one client and sell the same security for another client. Potential conflicts between client accounts are addressed through our procedures for allocating portfolio transactions and investment opportunities, as described under "Brokerage Practices," below.

We have a Personal Investment Policy intended to regulate personal transactions in such a manner to satisfy our primary obligation of loyalty to our clients. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," below.

We prohibit the use of material, non-public information ("inside information") and maintain a restricted list of securities that may not be purchased by our employees for their own accounts or for client accounts because of the actual or possible possession of inside information. Our personnel or those of our affiliates may come into possession of inside information concerning various companies. We and our advisory affiliates have established information barrier policies that serve to limit the dissemination of such information and provide with flexibility in managing its clients' portfolios. Nevertheless, if we or our affiliates possess such information, our ability to buy or sell securities of such issuers for our clients may be restricted, although any such restrictions are expected to be infrequent. We may also impose such restrictions in isolated instances to prevent even an appearance that such information has been used in a manner contrary to law. We are not obligated and may not be permitted to communicate any such information to or for the benefit of our clients, disclose that we are restricted from trading in a particular security or otherwise to act on the basis of any such information in providing services to clients. We may also from time to time be subject to limitations on trading in the securities of certain issuers as a result of our clients' holdings or those of our affiliates and their clients.

From time to time our portfolio managers may serve on the board of directors, a creditors' committee or a bondholders' committee of an issuer whose securities are held in client accounts. This is typically the result of the issuer filing bankruptcy or entering into a reorganization proceeding. MacKay Shields, individually as investment adviser or with other investment advisers or bondholders, may also correspond and enter into discussions and negotiations with issuers, trustees and other parties relating to defaults and alleged defaults by issuers and other parties under the indenture agreements or other documents governing securities held by our clients. As a member of such committee or engaging in such discussions or negotiations, or as a result of investing in certain securities or assets, these portfolio managers may acquire material non-public information, which may result in restrictions on trading securities. Investment professionals with material non-public information are prohibited from acting on the basis of any such information in providing services to clients. We may also refrain from receiving material non-public information or from serving on a board of directors, creditors' committee or bondholders' committee or engaging in such discussions or negotiations in order to avoid restrictions on trading in other securities of the same issuer, even if such material non-public information might otherwise be relevant to our investment decisions.

We may take a position for one or more clients in a security or investment instrument contrary to the position held in the same security or investment instrument (for example, a short versus a long position) by our other clients. We may also purchase a security or investment instrument for one or more clients and sell the same security or investment instrument for another client.

The investment management and operations functions at MacKay Shields (including its subsidiaries) and our affiliates are autonomous and operate separately from each other. These functions include all decision-making on what, how and when to buy, sell or hold securities in client portfolios, the trading related to implementation of these decisions and operations. This policy is intended to limit the dissemination of inside information and to permit the investment management, trading and operations functions of each firm to operate without regard to or interference from the other. We believe this separation is in the best interest of clients of the firms as operating independently permits each firm to pursue the investment objectives of clients without reference to limitations resulting from investment activities of the other. To support this policy, we have adopted certain procedures, including a portfolio information barrier between us and these other affiliated investment firms. In the event such information is shared, appropriate controls are placed around the information in order to limit any potential conflicts of interest.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

We have adopted a Code of Ethics ("Code"), pursuant to SEC rule 204A-1, which is designed to set forth the general fiduciary principles governing employees, require compliance with the federal securities laws, and to detect and prevent conflicts of interest.

In addition to the Code's policies regarding personal securities trading, the Code requires our employees to follow related policies. For example, all employees are required to complete an annual Conflict of Interest Questionnaire and to follow additional policies related to the conduct standards of our Code, including:

- Insider Trading Policy and Procedures;
- Information Barrier Policy and Procedures;

- Restricted List Policy;
- Watch List Policies and Procedures;
- Gift and Entertainment Policy;
- Policy on Anti-Corruption in International Business Transactions;
- Personal Political Contributions Policy;
- Information Security and Privacy Policy;
- Policy on Selective Disclosure of Mutual Fund Portfolio Holdings;
- CFA Code of Ethics and Standards of Professional Conduct (with respect to our employees who are Chartered Financial Analysts); and
- New York Life Standards of Business Conduct – Integrity.

We permit our personnel to engage in personal securities transactions, including buying or selling securities that we have recommended to, or purchased or sold on behalf of, clients. These transactions raise potential conflicts of interests, including when they involve securities owned or considered for purchase or sale by or on behalf of a client account. Potential conflicts of interest may arise in connection with an employee's knowledge and timing of transactions, investment opportunities, broker selection, portfolio holdings and investments, including potential conflicts described in "Other Financial Industry Activities and Affiliations," above. We manage these potential conflicts with client transactions by requiring that any transaction be made in compliance with our Code.

The Code imposes specific requirements concerning employees' personal security investments:

- Employees are required to report personal securities transactions in all Covered Securities, which excludes the following:
 - direct obligations of the U.S. Government;
 - shares of mutual funds for which we are not the investment adviser or sub-adviser and none of our affiliates is investment adviser or sub-adviser;
 - commercial paper, certificates of deposit, and high quality short-term investments
 - shares issued by money market funds; and
 - shares issued by unit investment trusts that are invested exclusively in one or more mutual funds, unless those funds are affiliated funds or exchange-traded funds;
- Employees must pre-clear all transactions in affiliated ETFs. In addition, employees must pre-clear all transactions in any non-affiliated ETF which holds less than 30 securities in its portfolio.
- Employees may not trade for their personal accounts while in possession of material, non-public information;
- Employees may not trade for their personal accounts in securities of issuers that appear on our Restricted or Watch List;
- Employees must receive prior written approval before trading in a Covered Security, which is provided through an automated system that provides feedback to an employee as to whether a request is approved or denied; authorization is effective only for the calendar day that the request was submitted and approved, except in limited situations related to foreign markets, where authorization is effective for 24 hours;

- Employees may not engage in short-term trading (the purchase and sale or sale and purchase within 60 days) of any Covered Security;
- Employees may not engage in short-term trading (the purchase and sale or sale and purchase within 30 days) in shares of a mutual fund for which we or our affiliates serve as investment adviser or sub-advisor;
- Employees may not purchase securities in initial public offerings or in connection with private placements without the prior written approval of our General Counsel or Chief Compliance Officer;
- All employees must file quarterly reports and certifications of covered trading activity;
- Subject to certain exceptions, we prohibit employees from personal securities transactions in securities within seven days before or after we make a trade in such securities for a client;
- Employees must report all brokerage related accounts that they or certain family members have a beneficial interest; and
- Employees must report any interest that they or certain family members have in shares of investment companies that we or any affiliate advises or sub-advises.

In addition, our employees:

- Must disclose any interest in any unaffiliated entity that does, or is seeking to do, business with us, or that otherwise presents a potential conflict of interest; and
- May not serve on the Board of Directors of any unaffiliated company without the prior written approval of our General Counsel or Chief Compliance Officer.

In addition, some of our employees are subject to the Code of Ethics and trading restrictions of the registered open- and closed-end funds that we advise or sub-advise.

Our General Counsel or Chief Compliance Officer may grant exceptions to provisions of the Code in circumstances that present special hardship or special situations determined not to present potential harm to clients or conflicts with the spirit and intent of the Code.

Employees who violate our Code can have their personal securities trading privileges suspended, and we can impose severe sanctions for violations of the Code and the related policies listed above, including termination of employment.

Employees of MacKay that were formerly employees of Cornerstone as of December 31, 2017 (the “Former Cornerstone Employees”) will be subject to both the Code of Ethics of NYLIM Holdings and MacKay Shields’ Code of Ethics. Where any conflict may exist between the two Code of Ethics, the stricter application will apply. Unlike other employees of MacKay Shields, the Former Cornerstone Employees’ personal trading activity will be monitored by NYLIC Compliance personnel with supervision by MacKay Shields’ Legal/Compliance Department.

Certain employees of NYL Investments that are dual-hatted officers of MacKay Shields, or that serve on a MacKay Shields Committee (e.g., Risk Oversight) are subject to the NYLIM Holdings Code of Ethics. In addition, these dual-hatted individuals have their personal trades monitored daily against the NYLIM Holdings and MacKay Shields’ trading blotters. Certain NYL Investments portfolio managers that participate in Asset Allocation Committee discussions with MacKay Shields portfolio managers related to mutual funds sub-advised by MacKay Shields also have their have their personal trades monitored daily against the NYLIM Holdings and MacKay Shields’ trading blotters.

Certain employees of MacKay Shields are dual-hatted officers of NYL Investments and/or NYLIC and may serve on various NYL Investments and/or NYLIC Committees. These individuals do not have access to the portfolio holdings of accounts owned or managed by NYL Investments or NYLIC. Such employees have their personal trades monitored daily against the MacKay Shields' trading blotter.

We will provide a copy of our Code to any client or prospective client upon request. To request a copy, contact:

MacKay Shields LLC
1345 Avenue of the Americas
43rd Floor
New York, NY 10105
Attn: Chief Compliance Officer

Interests of Affiliates

In the course of performing investment management services, we may also purchase or sell for our clients' securities or other investment instruments in which our affiliates have a material financial interest. See "Other Financial Industry Activities and Affiliations," above. We may also purchase or sell for our clients securities or investment instruments that clients of our affiliates also own. These practices create conflicts of interest relating to the allocation of limited investment opportunities between affiliated and unaffiliated accounts, allocation of investment opportunities to affiliated accounts that pay a performance fee, using information regarding transactions in affiliated accounts to benefit other accounts and placing trades for affiliated accounts before or after trades for unaffiliated accounts to take advantage of (or avoid) market impact.

It is our policy not to favor the interest of one client over another. We address the conflicts of interest created by management of affiliated and unaffiliated accounts by having a trade allocation policy designed so that trades are allocated among client accounts in a fair and equitable manner and that no one client account will receive over time preferential treatment over another. In addition, it is our policy that we will not permit cross trades between clients and our affiliates unless the portfolio manager instructing the trade deems it in the best interest of both clients at the time and obtains advance approval of the transaction from our Compliance Department. See "Performance-Based Fees and Side-By-Side Management," above and "Brokerage Practices," below.

Regardless of whether they are affiliated or unaffiliated accounts, when we manage accounts according to the same investment strategy, we anticipate that those accounts will generally have the same investment opportunities and be invested in the same or similar securities with the same or similar weighting. However, there are often differences in the nature or amount of securities that we buy or sell for client accounts. See "Brokerage Practices," below.

The investment decision making and trading functions at MacKay Shields and our affiliates are autonomous and operate separately from each other. We have adopted an information barrier policy and procedures to limit the sharing of investment decisions among MacKay Shields and its investment affiliates (other than where MacKay Shields is hired by its affiliates to provide investment services), as well as among MacKay Shields' investment teams. In the event such information is shared, appropriate controls are placed around the information in order to limit any potential conflicts of interest.

The information barrier also limits the dissemination of inside information. See "Other Financial Industry Activities and Affiliations," above.

Cross Transactions

We have adopted a policy to provide guidance and direction when we engage in cross trades for any of our client accounts. All cross transactions (i.e. selling a security from one client account to another client account) will be effected in the best interest of the clients, in accordance with applicable regulations and consistent with our duty to obtain best execution. The appropriateness of a cross transaction will be based on certain factors, particularly the type of accounts involved. In certain instances, prior consent must be obtained from the client in writing.

When entering into cross transactions we require, among other things, that the transaction be a purchase or sale for no consideration other than cash payments against prompt delivery of the security; is effected at the independent market price of the security determined in accordance with applicable methodology; and be effected with no brokerage transaction. We may enter into cross transactions involving one or more ERISA accounts only when prior written consent from the plan fiduciary is received, and then only in accordance with applicable law and our written policies.

We may enter into cross transactions for registered investment companies if the transactions comply with the exemption provided under Rule 17a-7, which sets forth the conditions that must be met.

ITEM 12: BROKERAGE PRACTICES

Selection and Compensation of Broker-Dealers

When we select or recommend a broker-dealer for transactions in our clients' accounts, we weigh a combination of criteria regarding the broker-dealer and the reasonableness of its compensation. The factors we may consider in selecting a broker-dealer and determining the reasonableness of its compensation include:

- The broker-dealer's quality of executions, which includes the accuracy and timeliness of executions, clearance of transactions and error/dispute resolution;
- The broker-dealer's ongoing reliability and speed with which transactions are executed;
- The broker-dealer's integrity to handle transactions and ability to maintain the confidentiality of trading activity and information;
- The broker-dealer's reputation, financial condition, disciplinary history and stability;
- The broker-dealer's compensation, which includes net prices paid or received, negotiated commission rates available and other current transaction costs (for example, its brokerage commission or a mark-up or mark-down). When we evaluate the broker-dealer's compensation, we consider its ability to execute a security transaction in the desired volume, the security price or the spread between the bid and asked prices of the security, and the size of a particular security order;
- The broker-dealer's ability to provide us with access to securities in underwritten offerings and in the secondary market, its willingness to commit its own capital, its trading expertise and market knowledge, and the nature and frequency of its coverage in terms of providing market outlook, quotes on specific securities and sector research;
- The broker-dealer's block trading and block positioning capabilities and ability to execute difficult transactions;
- The broker-dealer's responsiveness to our portfolio managers, traders and investment operations personnel;

- The nature of the research created or developed by the broker-dealer, which is called “proprietary research” – except where the research results in a mark-up or mark-down of a fixed income security;
- The broker-dealer’s access to research that the broker-dealer itself has not created or developed, which is called “third party research”;
- The value and quality of the research and other products and services other than brokerage services that we receive from the broker-dealer or that the broker-dealer pays for (either by cash payments or commission), as more fully described under “Soft Dollar Benefits, Mixed Use Services, Proprietary Research”, below;
- The broker-dealer’s pre-trade and post-trade analysis, and available algorithm performance (only for Equity Teams); and
- Regulatory, legal and macro-economic matters that may affect the broker-dealer.

When selecting broker-dealers to execute transactions, we seek the best overall execution. In our experience, neither the lowest commission rate nor the most expeditious execution necessarily correlates to the best trade for the client.

In foreign markets, including those where we regularly purchase and sell securities for clients, commissions and other transaction costs are often higher than those charged in the United States. In addition, we may not have the ability to negotiate commissions in some of these markets. You should also note that services associated with foreign investing, including custody and administration, generally are more expensive than in the United States.

Certain investment professionals may serve in a dual role and will act in a portfolio manager and/or trader capacity. In these instances, the same individual can make the investment decision, create the order in the trade order management system, and execute the order.

We have separate groups of portfolio managers that may compete with each other for the same or similar investment opportunities. In most instances, the broker-dealer will determine the allocation to each group. Where investment opportunities in certain securities and asset classes are limited, a client may not receive an allocation or as large an allocation in respect of limited investment opportunities as it might otherwise receive in the absence of such competition. This can be particularly acute if the market for the securities is illiquid and the supply limited.

Pursuant to our “Approval of Broker-Dealer Policies and Procedures,” our traders may only do business with broker-dealers who are listed as currently approved brokers-dealers, except where clients have limited or designated specific broker-dealers by appropriate language and such change has been approved by our firm’s Chief Compliance Officer, the General Counsel, or designee. There may be instances when an investment team may request to transact with a broker-dealer not currently approved. In these instances, the Chief Compliance Officer, the General Counsel or their designee may grant an exception, subject to certain conditions being met.

We may also effect transactions in over-the-counter (“OTC”) securities directly with principals or market makers by paying a mark-up within the spread of the bid and ask prices of the security and without incurring a commission charge. In addition, we may affect transactions in OTC securities on an agency basis when liquidity permits. The purchase price of an OTC security acquired in an agency transaction could include compensation to the broker-dealer in the form of a mark-up, relative to the broker-dealer’s original cost in addition to a commission.

We will effect agency transactions in OTC securities only when we believe that we can obtain best execution on an overall basis.

In selecting a broker for our equity strategies, MacKay Shields may also consider research or brokerage services provided by the broker-dealer, consistent with the requirements of Section 28(e) of the Securities Exchange Act and related interpretative guidance. More information on MacKay Shields' client commission policies and procedures is contained in the section "Use of Client Commissions in Equity Strategies" below.

Another factor MacKay Shields may consider in selecting broker-dealers is when a client directs MacKay Shields in writing to execute a portion of the client's trades through a particular broker-dealer. See the section "Directed Brokerage" below.

MacKay Shields also has policies and procedures in place to limit and monitor gifts and entertainment received from third parties, including broker-dealers that do business with MacKay Shields or wish to do business with MacKay Shields.

MacKay Shields' Brokerage Committee routinely reviews its broker-dealers and its efforts to seek best execution in light of current market circumstances and published statistical studies and other available information.

Soft Dollar Benefits, Mixed-Use Services, Proprietary Research

Use of Client Commissions in Equity Strategies

Subject to the criteria of Section 28(e) of the Securities Exchange Act of 1934, as amended, and regulatory guidance from the SEC, the MacKay Shields' equity investment teams may pay a broker a brokerage commission higher than that which another broker might have charged for effecting the same transaction in recognition of the value of the brokerage and research services provided by the broker. MacKay Shields makes a good faith determination that the amount of the commission is reasonable in relation to the value of the brokerage and research services received.

When MacKay Shields uses client brokerage commissions to obtain research or research services, MacKay Shields receives a benefit because it does not have to produce or pay for the research or research services. As a result, MacKay Shields may have an incentive to select a broker-dealer based on its interest in receiving the research or other products or services, rather than on clients' interest in receiving most favorable execution. Because the use of client commissions to pay for research or research services for which MacKay Shields would otherwise have to pay presents a conflict of interest, MacKay Shields has adopted policies and procedures concerning soft dollars, which address all aspects of its use of client commissions and requires that such use be consistent with Section 28(e), that the research or research service provide lawful and appropriate assistance to MacKay Shields in the investment decision-making process, and that such research or research services help MacKay Shields determine that the value of the research or brokerage service obtained be reasonable in relation to the commissions paid.

To the extent that a certain group of MacKay Shields' equity clients are not available to pay for soft dollar benefits (e.g., clients that direct brokerage commissions), clients who give MacKay Shields brokerage discretion will support a disproportionate share of MacKay Shields soft dollar benefits.

MacKay Shields receives the following types of research and research services for its equity strategies, both as prepared by broker-dealers that execute client transactions ("proprietary research") and as prepared by third parties but for which the executing broker-dealers are obligated

to pay (“third-party research”): information on the economy and global market direction, industries, groups of securities, individual companies (including corporate historical data), technical market information, index holdings and data, earnings and revenue estimates and forecasts, stock quotes, empirical and analytical research on the global economy, global short sale data, issuer-related data and reports, including data and meetings with corporate representatives, and reports from and calls and meetings with securities analysts and industry experts. MacKay Shields also receives analytic and investment risk measurement tools used in constructing client portfolios.

MacKay Shields may consult with paid (or unpaid) industry experts as part of the firm’s research process. Broker-dealers may also arrange for such meetings. Procedures are in place to monitor the conflicts associated with using such services.

To facilitate best execution of trades, MacKay Shields uses order and report processing services offered by brokers who otherwise meet MacKay Shields’ selection criteria. MacKay Shields’ Brokerage Committee is responsible for the firm’s procedures concerning the use of client commissions. The Committee is responsible for reviewing all research and brokerage services quarterly to make a determination as to the reasonableness of the brokerage allocation as well as the price for such services versus the value received. Where necessary, the Brokerage Committee makes the good faith allocation between hard and soft dollars with respect to mixed-use services, as described below.

With respect to directing client transactions to particular broker-dealers in exchange for soft dollar benefits, MacKay Shields first ensures such direction is consistent with its obligation to seek best execution. In connection with third-party benefits, MacKay Shields participates in commission sharing arrangements to receive research services. In commission sharing arrangements, an adviser effects transactions, subject to best execution, through a broker and request that the broker allocate a portion of the commission or commission credits to a segregated “research pool” maintained by the broker. An adviser may then direct such broker to pay for eligible products and services from the “research pool”. MacKay Shields has such arrangements with Instinet LLC. Participating in commission sharing arrangements enables MacKay Shields’ equity investment teams to (1) strengthen its key brokerage relationships; (2) consolidate payments for eligible research and research services; and (3) continue to receive a variety of high quality eligible research services while facilitating best execution in the trading process.

MacKay Shields will not make binding commitments as to the level of the brokerage commissions it will allocate to a broker. Nor does MacKay Shields “backstop” or otherwise guarantee any broker’s financial obligation to a third party for such research or services.

On a very limited basis, MacKay Shields shares certain of the research services it receives using soft dollars with its affiliate NYL Investments. As a result, NYL Investments’ clients may benefit from research services paid for with the commissions generated by MacKay Shields’ equity clients, which include NYL Investments. There is no additional cost or expense related to these shared services that MacKay Shields clients are bearing.

Mixed-use Services in Equity Strategies

At times, a portion of the brokerage and research products and services used is eligible under Section 28(e) while another portion is not eligible. These are referred to as “mixed-use” products and services.

In such cases where MacKay Shields receives both administrative or marketing benefits and research and brokerage services from the services provided by brokers, a good faith allocation between the marketing and administrative benefits and the research and brokerage services will be made and MacKay Shields will pay for any marketing or administrative benefits with hard dollars. In making good faith allocations between marketing or administrative benefits and research and brokerage services, a conflict of interest may exist in allocating the costs of such benefits and services between those that primarily benefit MacKay Shields and those that primarily benefit clients.

Proprietary Research

MacKay Shields receives proprietary research from certain broker-dealers. As such, we receive a benefit because we do not have to produce or pay for the research ourselves. As a result, we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research, rather than on our clients' interest in receiving most favorable execution of trades. The services benefit us by allowing us, at no additional cost to:

- Supplement our own research, analysis and execution activities;
- Receive the views and information of individuals and research staffs of other securities firms; and
- Gain access to persons having special expertise on certain companies, industries, areas of the economy and market factors.

In general, proprietary research furnished by broker-dealers through which we trade are used for the benefit of our clients as a group and not solely or necessarily in all cases for the benefit of the particular client whose trades are handled by the broker-dealer who provides such services. We review the reasonableness of commission and other transaction costs incurred by our clients in light of the facts and circumstances we deem relevant from time to time, including information furnished by our traders. Proprietary research that results in a mark-up or mark-down of a fixed income security will not be a factor considered when seeking to execute a transaction with a broker-dealer.

The nature of the proprietary research we receive from broker-dealers varies from time to time but generally includes among other information: current and historical financial data concerning particular companies and their securities; information and analysis concerning portfolio strategy, securities markets and economic and industry matters; technical and statistical models and studies and data dealing with various investment opportunities, values, risks and trends; analysis and reports concerning the performance of accounts; and advice as to the value of securities, the advisability of investing in or selling securities and the availability of securities or purchasers or sellers of securities. Under no circumstances do we receive research or other benefits that is not produced or prepared by such broker-dealer (i.e., third-party research).

We may pay hard dollars to certain broker-dealers to access their written research, analysts, conferences, etc.

Brokerage for Client Referrals

In selecting or recommending broker-dealers or other counterparties, we do not consider a broker-dealer or counterparty's referral of clients to us or to investment funds that we, our related persons or third parties sponsor or manage. While we may direct brokerage to broker-dealers that have consulting divisions that might refer clients or investors to us, we have no agreements to do so.

Directed Brokerage

At a client's request, we direct trades to broker-dealers or other counterparties, including Futures Commission Merchants. In return for the client's commissions on the transactions, the broker provides services directly to the client or pays for certain expenses of the client. A client may also direct us to execute transactions to a specified broker to generate broker commissions in return for which the broker "refunds" a portion of the commission directly back to the client (i.e., "Commission Recapture").

We will not execute directed brokerage transactions on behalf of any client account without written authorization from the client. We will accept a directed brokerage account provided the arrangement does not materially impact MacKay Shields' ability to obtain best execution for the client.

For all ERISA accounts, these arrangements must be for the "exclusive benefit" of the account directing such brokerage and may not benefit a plan fiduciary. The ERISA plan may be rebated in cash or have the broker pay certain administrative expenses of the plan.

We retain the right to refuse to engage in a directed brokerage arrangement where the personnel involved in the management of such client account(s) have concerns about obtaining best execution.

When we satisfy a client's request to direct brokerage, we may not be able to achieve best execution of transactions for that client. Clients who direct us to execute their trades with certain broker-dealers or counterparties may lose the benefit of more favorable commission rates or more favorable executions that may be obtained, for example, when we bunch or aggregate client orders. In addition, there may be times when trading with a directed broker-dealer or counterparty occurs before or after we have completed the execution of other transactions in that security for other clients. Directing brokerage may cost clients more money.

A directed trade may be executed directly with the broker-dealer or counterparty, or may be "stepped out" to that broker-dealer or counterparty. In a step-out transaction, we bunch client-directed broker accounts with non-directed broker accounts and request that the executing broker allocate a portion of the transaction to the directed broker. In that event, the broker-dealer providing execution services would differ from a particular client's directed broker-dealer or counterparty.

Certain clients may execute trades independently through their broker-dealers or counterparties. Although cost is only one component of best execution analysis, many directed brokerage accounts pay effective rates or fees that are higher than client accounts that do not have directed brokerage arrangements. In these instances, a client may have an arrangement with the broker-dealer or counterparty to receive a benefit that the client believes justifies the higher expenses.

Wrap Fee Programs

For clients that invest through wrap fee programs, the wrap fee charged by the sponsor firm covers trade and execution services. As a result, the sponsor and client typically request that transactions for clients' accounts be executed by the sponsor of the wrap fee program (or its affiliate) or a broker-dealer designated by the sponsor firm. In the event that the sponsor or designated broker-dealer cannot provide "best execution" for a given transaction, we, as sub-adviser for the wrap fee program, have the discretion to trade away (that is, trade with a different broker-dealer), and the client may incur a commission cost. As the majority of transactions in the wrap fee programs are fixed income securities that trade over-the-counter, there are no additional mark-ups or commissions on these transactions beyond the customary structure of the bid/offer prices and we believe these

transactions are executed on behalf of these clients in such a manner that the client's total cost or proceeds in each transaction was the most favorable under the circumstances.

It should be noted that in seeking to maintain best execution on behalf of our clients, we may consider factors beyond simply price, commission rates or spreads, including the full range and quality of a broker's services in placing brokerage. These factors might include, among other things, the value of research provided, execution capability, financial responsibility, and responsiveness.

We may execute trades for other clients with similar strategies prior to placing trades with wrap sponsors. In addition, we may not conduct transactions on behalf of these clients as frequently as we do on behalf of other clients due to minimum size order requirements and other factors.

Derivatives

Certain derivatives transactions (including, but not limited to, futures, forward settling mortgage transactions, and swaps) require that clients have proper agreements in place with counterparties. It is the client's responsibility to ensure that such agreements are in place to allow MacKay Shields to transact in such derivatives. From time to time, however, MacKay Shields may establish master agreements with counterparties pursuant to which transactions in certain derivatives may be placed on behalf of clients who approve such arrangements and satisfy the account opening process of MacKay Shields and the applicable counterparty. For derivative transactions that require the posting of initial and/or variation margin (including, but not limited to, futures, forward settling mortgage transactions, and swaps), clients will be required to wire cash (in some cases as often as daily) to the account specified by such counterparties, which will likely result in your custodian charging you a fee for that service. Margin limits will need to be closely monitored by MacKay Shields to ensure that a transaction does not experience a default and the immediate closing-out of the position by a counterparty. Where margin is posted to your account by a counterparty, interest expense may accrue and in such cases you will be required to pay interest on such margin. In all cases where margin exists with a counterparty in your favor, MacKay Shields will make determinations on your behalf as to whether to draw down any margin, as well as the timing and the amount of such margin to be drawn down. The result is that cash management will be even more of an important aspect of portfolio management and that cash holdings may become a larger part of a client's portfolio in order to meet any initial margin requirements and variation margin calls. Certain counterparties may impose a number of important terms and conditions, such as their ability to apply or transfer funds in your margin account(s) to other accounts that you may maintain with such counterparty or its affiliates to reduce any deficit balance or other obligation that you may owe to such parties. Additionally, you may be required to produce certifications and other materials, such as financial statements, on a regular basis to certain counterparties in order to maintain your account. Other counterparties may impose termination and/or default triggers based on certain conditions or events. Your collateral may be commingled by a counterparty with the collateral of other customers of the counterparty. In the event of insolvency or bankruptcy of a counterparty, the extent to which you may recover your collateral may be governed by specified legislation or local rules.

The appropriate use of derivatives within a portfolio is determined by the respective investment team in the execution of their portfolio construction process. The investment teams assess whether the derivatives can be used effectively and efficiently in comparison with the alternatives available as well as the use of derivatives in relation to the other investments within the portfolio. If permitted by a client's investment guidelines, currency spot and forward contracts may be used in the management of portfolios. Currency hedges will be implemented within a reasonable period of time,

generally within a day or two of any new purchases of securities that are required to be currency hedged. In general, hedge ratios are maintained within a pre-determined range determined by MacKay Shields and rebalanced when this ratio moves beyond that range, unless a client has more specific requirements. In the event a portfolio's hedge ratio exceeds the thresholds, the hedge will be adjusted within a reasonable period of time.

If permitted by a client's investment guidelines and provided that proper agreements are in place with futures commission merchants, Treasury futures (long or short) may be used by certain portfolio management teams as a method to manage the duration of the portfolios.

Other derivatives, such as credit default swaps, interest rate swaps and forward settling mortgage transactions, may be used provided that their use is permitted by a client's investment guidelines and proper agreements are in place.

Aggregating and Allocating Trades

All client accounts will be treated fairly and equitably and no one client account will receive over time preferential treatment over another. Our policy prohibits any MacKay Shields employee from allocating or re-allocating securities to enhance the performance of one account over another or to favor any affiliated account or any other account in which an employee has any interest. MacKay will not receive any additional compensation or remuneration as a result of aggregating or bunching orders. Individual investment advice and treatment will be accorded to each advisory or sub-advisory account.

If we believe that the purchase or sale of the same security is in the best interest of more than one client, we may aggregate the securities to be sold or purchased. We will not aggregate trades (also known as "bunching" trades) unless we believe that doing so is consistent with our duty to seek best execution for our clients. We are not obligated to aggregate trades, but if we desire to do so, we will only aggregate trades for clients whose investment management agreements authorize us to do so. Clients may be adversely affected when we do not aggregate trades, as seeking to place separate, non-simultaneous transactions in the same security for multiple clients may have a negative effect on market price, transaction commissions and/or trade execution.

All orders, whenever possible, will be aggregated or bunched to reduce the costs of the transactions. This bunching technique must be equitable and potentially advantageous for each such account (e.g. for purpose of obtaining a more favorable transaction price). It is the investment team's responsibility to determine whether aggregation is appropriate. When appropriate, it may be beneficial to clients for multiple transactions in the same security to be bunched in order to take advantage of market economies.

These bunched orders may be averaged as to price and allocated to accounts in amounts according to each account's daily purchase or sale orders or on some other equitable basis. When we allocate bunched trades to client accounts, we do not favor the interest of one client over another. However, there may be differences in the amount purchased or sold for accounts.

These differences may occur for a number of reasons, including, among others:

- Specific client investment objectives;
- Cash available in the account for investment;
- Client-imposed investment restrictions;

- Investment guidelines and anticipated guideline changes;
- Initial investment periods for new accounts;
- Investment restrictions that laws or regulations impose;
- Actual and anticipated or potential cash inflows and outflows in client accounts;
- Duration and/or average maturity of the client account;
- Credit ratings and anticipated credit ratings;
- Size of client account;
- Deal size and trade lots;
- Processing costs;
- Current industry or issuer exposure in the client account;
- Other concentration limits;
- Borrowing capacity; and
- Other practical limitations.

We allocate securities among client accounts based on the above factors. With respect to the fixed income investment teams, we have determined that pre-allocating certain trades based on predetermined allocation amounts may not be feasible or practicable for all product areas given the unique nature of their respective markets and client requirements, or the information limitations specific to a deal. In those cases, an allocation may be made promptly following execution but no later than the end of the trading day. Such orders will be based upon objective predetermined criteria and will not unfairly discriminate against or advantage one account over another over time.

With respect to the equity investment teams, orders are allocated pro-rata based on size of eligible accounts. Within each allocation each account shall receive the average unit price and bear its pro-rata share of transaction costs. With respect to partial fills, if an order is placed for one or more clients on a particular day and that order is not fully completed, then at the end of the trading day the amount that did “fill” should be treated as a completed transaction. The partially filled order will then be allocated pro-rata by the trader to each account.

In those situations in which there is a limited supply of a security (initial public offerings, secondary offerings), it is our general policy to make a pro rata allocation based on the original amounts targeted for the accounts. However, if in our portfolio managers and/or traders’ judgment the or as a result of factors amount that would then be allocated to an account would be too small to properly manage, that account could be excluded from the pro rata allocation. We cannot assure that in every instance an investment will be allocated on a pro rata basis, and differences may occur due to the factors mentioned above.

In our Systematic Equity strategies, the portfolio management team determines aggregation based on considerations of best execution and the team’s view of what is in the best interest of the client account. From example, accounts will generally not be aggregated were doing so would have a negative effect on liquidity or too much market impact. Similarly, where accounts have different prime brokers or are engaging in swap transactions, it may not be possible to aggregate trades. Accounts in certain Systematic Equity strategies are generally traded consistent with a rotational schedule or as cash flows dictate and sometimes in multiple tranches or sleeves. However, more or

less rebalancing in these strategies may occur at the discretion of the Systematic Equity portfolio management team.

All of our accounts are monitored on a regular basis in an effort to ensure that all similarly situated accounts are treated fairly and equitably. This includes reviews by the portfolio management team as well as reviews by Compliance.

There are conditions under which the Trade Allocation Policy permits a portfolio manager and/or trader to deviate from allocating trades based on the methodology outlined above. Those conditions include the following:

- **Odd lots “De Minimis” quantity** - Whenever an allocation would cause an account to receive either an odd lot or an amount that is uneconomical, it need not participate in an allocation. A de minimis amount that does not disadvantage, benefit, nor favor any account over another will be established by each investment area. Amounts that are de minimis will not be allocated to such accounts and may be allocated over the accounts that did initially receive sufficient shares pro-rata. The respective investment area will each maintain the necessary documentation to demonstrate the consistent application of this principle.
- **Cash availability** - The portfolio manager may consider changes in cash flow or cash positions as a basis for deviating from allocating investments pro-rata. If there is an insufficient amount of cash for an account, or if an account is (or shortly will be) experiencing cash outflow, then it may not participate or receive a full pro-rata distribution. Conversely, accounts receiving or expected to receive meaningful inflows may receive greater allocations, particularly in the case of “ramp-up” periods, when a portfolio receives a material sum of cash to invest.
- **Specialized Accounts** - An account with an investment mandate, benchmark, style, or model that emphasizes investment in a particular category of securities may have priority over other client accounts for that category of securities. For example, portfolios focusing on certain mandates may have priority as to investment opportunities over other accounts that do not focus on that category of security (e.g. small cap vs. large cap or capital preservation vs. total return).
- **Investment Restrictions/Guidelines** - Certain accounts may have client restrictions, regulatory restrictions or internal exposure limit constraints that could prohibit or limit their ability to participate in an allocation. The portfolio manager and/or trader takes this into account during the pre-allocation process.
- **Investment Weighting** - Certain accounts may or may not participate in an allocation because of their current weightings in a particular issuer, industry or asset class.
- **Issuer Characteristics** - Certain accounts may or may not participate in an allocation because of the issuer’s duration and/or average maturity, credit ratings and/or anticipated credit ratings and deal size.

We monitor the allocation policy by periodically conducting reviews of trade orders to confirm these have been allocated on an equitable basis and by comparing the performance of accounts that have the same investment strategies to satisfy ourselves that variations in performance are due to investment factors such as those listed above and not attributable to allocation decisions.

We act as sub-adviser to an affiliated ETF that employs a “passive management” or indexing investment approach designed to track the performance of an underlying index. Managing passive ETF products alongside actively managed strategies poses potential conflicts of interests. As such, MacKay has implemented procedures and controls to help manage these potential conflicts.

When placing orders on behalf of the passively managed ETF, the portfolio management team will not aggregate ETF orders in the same security, on the same day, and in the same direction with the orders of accounts that are managed in an active investment strategy. This is because ETF orders are generated as a result of having to track the performance of its underlying index while orders of actively managed investment strategies are generated based on investment decisions and price considerations made by the portfolio management team in an attempt to outperform a specific market index. Additionally, the portfolio management team will generate orders for the ETF using a separate trade order management system from the system used for actively managed strategies, and orders for the ETF will not be aggregated with those for other clients, which could result in less favorable execution for the ETF or other clients. A limited number of the portfolio management team will have access to this separate trade order management system.

When placing orders on behalf of the Passive Equity investment team, the portfolio management team determines aggregation based on considerations of best execution and the team's view of what is in the best interest of the client account. For example, accounts within the index strategy will generally be aggregated for rebalancing and/or trading occurs around the constituent changes to the index. Cash management due to contributions or withdrawals may not be aggregated with other accounts. From time to time, the equity trading desk may aggregate Index ETF or Equity Index Futures orders with accounts from other investment strategies, pursuant to the Aggregation and Allocation Policy set forth by the firm.

There can be no assurance that the application of the firm's allocation policies will result in the allocation of a specific investment opportunity to a client or that a client will participate in all investment opportunities falling within its investment objective; and that such considerations may also result in allocations of certain investments among clients' accounts on other than a *pari passu* basis.

We have independently managed investment teams investing in the same general market that may maintain procedures applied independently of the other. In most instances, the broker-dealer selling securities to these investment teams will determine the allocation to each team. Although transactions in the same security may take place in accounts across different investment teams, controls are in place to prevent members of an investment team from viewing orders entered by other investment teams.

ITEM 13: REVIEW OF ACCOUNTS

We maintain independently managed portfolio management teams, each of which conducts its own research and operates autonomously, with its own portfolio managers and traders. Our portfolio managers and client services groups review client portfolios on a regular basis in light of client objectives and guidelines and in response to market events and the portfolio management team's general policies and strategies. In addition, each investment team meets regularly to consider economic, market and general investment matters not related to specific client accounts. We assign each account a primary portfolio manager and primary service contact. The number of clients assigned to a primary portfolio manager and primary client service contact varies from time to time, depending upon a variety of circumstances. No single account is the sole responsibility of any one portfolio manager or client service contact. Portfolio managers review portfolios at least weekly to monitor consistency among clients with similar objectives and a member of the portfolio management team reviews client portfolio transactions daily.

We have several tools at our disposal to assess and monitor overall compliance of managed portfolios with their stated investment objectives. There are both manual and automated supervisory and compliance review procedures in place to monitor accounts. We have front-end and back-end compliance systems that have automated controls to help review investment transactions to confirm they are made in accordance with client investment mandates. We have also developed exception reports from our portfolio accounting system to assist in performing next day reviews.

Each quarter, all separately managed account clients receive a comprehensive package that includes performance results and comparative benchmark returns, a detailed summary of quarterly purchases and sales, an asset listing and a portfolio manager commentary.

We also report to the boards of the SEC registered investment funds we sub-advise. The boards of the SEC registered investment funds receive a variety of written materials concerning the portfolios, including the materials made available to fund shareholders.

We also conduct telephonic or in-person meetings with clients to discuss their separately managed account portfolios with them. In general, at least one portfolio manager and a client service representative participate in these meetings. The frequency of these meetings is usually included in a client's investment management agreement or guidelines with us.

Separately managed account clients who request monthly reporting receive an asset list providing a market valuation of each security (produced on a trade-date basis and including accrued interest), a transaction journal and performance compared to the clients' respective benchmarks.

We also review client portfolios monthly for the purpose of reconciling our records of our clients' account holdings with those of their custodian banks. In addition, on a daily or weekly basis, we review client accounts for purposes of reconciling cash balances.

We also provide separate specialized reports as requested by separately managed account clients.

We have a policy regarding the correction of trade errors. In the event of an error, we attempt to identify, research and correct the error as soon as practicable. We will make a client whole for any losses resulting from a trade error that we have caused, while any gains realized as a result of a trade error remain in the client's account. We may net gains and losses within a client's account arising from the same or related trade error(s).

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

We enter into solicitation, referral and servicing agreements with affiliates and unaffiliated solicitors under which we pay affiliates or third parties a percentage or portion of the compensation we receive on the accounts they solicit, refer or service. Please see "Other Financial Industry Activities and Affiliations," above, for a description of solicitation, referral and service arrangements we have with our affiliates.

If we pay a cash fee to anyone for soliciting separately managed clients on our behalf or if we receive a cash fee from another investment adviser for recommending clients to it, we comply with the requirements of the SEC's cash solicitation rule. With respect to unaffiliated solicitors, this rule requires a written agreement between the investment adviser and the person soliciting clients on its behalf. The rule also requires that an unaffiliated solicitor provide a disclosure document to the potential client at the time they make the solicitation. As required by the rule, we will not engage another person to solicit clients on our behalf if that person has been subject to securities regulatory

or criminal action within the preceding ten years. In addition, we will not charge any client any other amount for the purpose of offsetting our cost of obtaining an account through a third party referral.

Some of our employees receive compensation from us for referring client accounts to us or our affiliates. The compensation paid to those employees comes out of the fee paid by such accounts and is not an additional charge to the account. This creates a conflict of interest as certain employees may have an incentive to favor the investment services or products of our affiliates when managing client portfolios. We may also pay our affiliates compensation for introducing client accounts to us or providing services relating to our clients, which compensation does not increase the advisory fees or costs payable by the client.

NYLIFE Distributors and unaffiliated third parties may act as placement agent for certain of our investment funds not registered with the SEC for which we act as investment adviser or investment sub-adviser. We pay such placement agents a portion of the compensation we receive from the investment in the private investment fund by the investor referred by the placement agent. In some cases, investors who invest in certain of our investment funds not registered with the SEC through a third party placement agent pay a management fee that is higher than the management fee they would have paid if they had not invested through such placement agent. Where NYLIFE Distributors is the placement agent, our employees who are registered representatives of NYLIFE Distributors and are responsible for the sale of interests in such investment funds not registered with the SEC, we are authorized by NYLIFE Distributors to compensate such registered representatives.

MacKay Shields may not be provided with sufficient information by unaffiliated placement agents to perform an assessment as to the suitability of our investment funds for any investor. We rely on such placement agents for determining the suitability of any investment fund for any investor.

We or our employees may purchase services, products, membership in industry organizations and forums, from, and purchase tickets to events sponsored by, consultants and other parties who may recommend our advisory services to prospective clients. Such payments that we make are not paid in connection with referrals. Nonetheless, as a result of these relationships and arrangements, such payments may create incentives for them to promote us. In order to mitigate potential conflicts for consultants and other parties, we do not purchase such services and products unless we have determined in good faith that they provide MacKay Shields with industry data and/or proper assistance in marketing our services and that the cost is reasonable in light of the data or services being provided.

ITEM 15: CUSTODY

We or an affiliate may, among other things, act as general partner, manager, managing member, sponsor, trustee, director or in a similar capacity, to investment funds not registered with the SEC for which we serve as investment adviser. Such powers may cause us to be deemed to have custody of the private investment fund's assets for purposes of the SEC's custody rule. Accordingly, to meet the requirements of the custody rule, investment funds not registered with the SEC that we sponsor are subject to an annual audit in accordance with generally accepted accounting principles conducted by an independent public accountant registered with the Public Company Accounting Oversight Board and the audited financial statements are distributed to investors in such investment funds not registered with the SEC within 120 days of the end of the funds' fiscal year.

With respect to separate accounts, except where we have the authority to deduct our management fees, we do not have custody of funds or securities. Clients select their own qualified custodians,

such as banks or broker-dealers, to maintain client funds or securities. Clients receive account statements directly from their custodians and/or from their custodian banks' accounting departments. Clients should carefully review those statements. In addition, clients receive account statements from us. When you receive account statements from us, we encourage you to compare them to the account statements you received from your custodian and/or custodian bank accounting department. There may be differences in market values between our account statements and the custodian's account statement for various reasons. For example, we and your custodian may use different pricing sources to value securities held in your portfolio. Other differences can occur because we and the custodian may generate account statements on different dates (such as on a trade date versus settlement date basis) or may be due to the custodian's policies for handling certain assets or changes in the values of certain assets. To the extent you find such discrepancies and would like to obtain an explanation, we encourage you to call us to obtain such information.

ITEM 16: INVESTMENT DISCRETION

The investment agreement between MacKay Shields and our clients describe the level of investment discretion we have and the investment guidelines associated with those investment agreements specify the types of investments permitted for the account and often place limits on the amount of investments in issuers or industries that we can purchase for the account. Clients who have separately managed accounts with us can change these restrictions by amending their investment agreements or investment guidelines, or by other written instructions.

Our portfolio managers, client service and operations representatives, and legal and compliance personnel participate in the review of investment guidelines before we begin managing a client's account, as well as each time that a client proposes amendments thereto.

ITEM 17: VOTING CLIENT SECURITIES

Typically, your investment management agreement will state whether or not you have authorized us to vote the securities in your account. We have adopted policies and procedures for when we have this voting authority.

We currently use Institutional Shareholder Services, Inc. ("ISS") to assist us in voting client securities. Clients who have given us authority to vote their securities also instruct us whether to vote in accordance with their own voting guidelines or in accordance with our standard guidelines for non-union clients or union clients. Clients must furnish any custom voting guidelines to us in writing. Our standard non-union or union guidelines follow ISS voting recommendations. For those clients who have given us voting authority, we instruct the client's custodian to send all ballots to ISS and we instruct ISS which guidelines to follow.

After the appropriate voting guidelines have been established for a client's account, ISS votes the client's securities in accordance with those guidelines unless a client makes a specific request with respect to a particular security held in the client's account or unless the portfolio manager believes in the case of a particular vote that it is in the best interest of the client to vote otherwise.

A client may make a specific request that we vote a proxy with respect to a particular security even if it is in a manner inconsistent with the applicable guidelines for the client's account. Clients who wish to make such a request must send a written request to MacKay sufficiently in advance of the meeting so that there is enough time for us to instruct ISS how to vote.

In the event that a portfolio manager believes, in the case of a particular vote, that it is in the best interest of the client(s) to vote otherwise, the portfolio manager must complete a form describing the reasons for departing from the guidelines and disclosing any facts that might suggest there is a conflict. Conflicts may exist in situations where our firm is called to vote on a proxy involving an issuer or proponent of a proxy proposal regarding the issuer where our firm or our affiliate also: (1) manages the issuer's or the proponent's pension plan; (2) administers the issuer's or proponents' employee benefit plan; (3) provides brokerage, underwriting, insurance or banking services to the issuer or proponent; or (4) manages money for an employee group. Additional conflicts may arise if an executive of our firm or our affiliate has a personal or business relationship with a director or executive officer of the issuer or the proponent, a person who is a candidate to be a director of the issuer, a participant in the proxy contest or a proponent of a proxy proposal. The portfolio manager must submit the form to our Legal/Compliance Department for review. If the Legal/Compliance Department determines that no conflict exists, then we will approve the portfolio manager's voting recommendation and we will inform ISS how to vote. If our General Counsel or Chief Compliance Officer determines that a conflict exists, we will refer the matter to our Compliance Committee for consideration. Then the committee members will consider the matter and resolve the conflict as deemed appropriate under the circumstances.

In addition, for clients participating in securities lending programs, security recall provisions may interfere with, or prohibit, our ability to vote on shareholder matters. In these and similar circumstances, we may not, or may be unable to, act on specific proxy matters.

Voting on shareholder matters in foreign countries, particularly in emerging markets, may be subject to restrictions (including registration procedures that result in a holding being illiquid for a period of time and limitations that impede or make the exercise of shareholder rights impractical).

In the event the standard guidelines or any client's custom guidelines do not address how a security should be voted or state that the vote is to be determined on a "case-by-case" basis, the security is voted in accordance with ISS recommendations. If ISS does not make a recommendation, for example, in the case of privately held securities, we ask the appropriate portfolio manager to make a decision and complete the same form, with a similar review process as described above.

Clients who wish to obtain either a copy of our voting policies and procedures or information as to how ISS voted securities in their account should send a written request to:

MacKay Shields LLC
1345 Avenue of the Americas
New York, NY 10105
43rd Floor
Attention: Head of Client Services

ITEM 18: FINANCIAL INFORMATION

This item requires disclosure of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Currently, there is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.