



## INVESTMENT ADVISOR BROCHURE

Form ADV Part 2A

March 27, 2020

This brochure, dated March 27, 2020  
provides information about the qualifications and business practices of

### **Mackay Shields LLC**

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New York, NY 10105

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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](http://www.adviserinfo.sec.gov).

## ITEM 2: MATERIAL CHANGES

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This brochure, dated March 27, 2020, makes the following material changes since our last update to our brochure, dated November 7, 2019:

- We have updated our disclosures as it relates to Material Risks. See “Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss”
- Effective November 15, 2019, MacKay Global Derivatives voluntarily withdrew its registrations as a Swap Firm and a Commodity Pool Operator, as well as its membership with the National Futures Association. See “Item 10 – Other Financial Industry Activities and Affiliations”
- We have added an additional signal to the stock selection model for the Large Cap Growth strategy managed by the Systematic Equity team. See “Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss”.

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## ITEM 4: ADVISORY BUSINESS

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### 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.

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

As of August 24, 2016, MacKay Shields became a signatory of the Principles for Responsible Investment, which provides a framework for incorporating environmental, social and governance issues into investment and ownership practices.

On November 1, 2019, MacKay Shields fully integrated the U.S. CLO and European Leveraged Loan Business formerly part of Credit Value Partners, LLC (“CVP”).

As part of the transaction, the U.S. CLO and European leveraged loan teams and accounts were fully integrated on the MacKay Shields investment platform. MacKay Shields also assumed several entities including, one relying adviser through which the U.S. Collateralized Loan Obligation (“CLO”) business that transitioned from CVP to MacKay Shields will continue to operate.

MacKay Shields operates its U.S. CLO advisory business directly and through the following affiliated entity:

- Relying Adviser: MKS CLO Advisors, LLC (“MKS CLO Advisors”).

MKS CLO Advisors provides discretionary investment management services to two collateralized loan obligation vehicles.

MacKay Shields’ advice with respect to the commingled vehicles, including CLOs, is given in accordance with the investment objectives and guidelines set forth in the applicable commingled vehicle or CLO offering documentation, side letter agreement, or advisory agreement, as applicable. Except as otherwise set forth in the commingled vehicle and CLO offering documentation, side letter agreement, or advisory agreement, MacKay Shields does not tailor its advisory services to the individual needs of the commingled vehicles or CLOs’ investors who are generally prohibited from imposing restrictions on investing in certain securities or types of securities.

### 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.

For our clients subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), please be advised that 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 ("ERISA").

As of December 31, 2019, MacKay Shields had approximately \$132.9 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. Please see "Wrap Fee Programs" in Item 12.

## **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 DEBT

(Minimum \$75,000,000)

0.45% annually on all assets

##### GLOBAL HIGH YIELD

(Minimum \$75,000,000)

0.50% on 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)

0.50% 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

### 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 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 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. Factors taken into consideration when tailoring fees may include, but are not limited to: existing contractual commitments with other clients; the client's relationship to MacKay and its subsidiaries; servicing requirements; and investment strategy capacity. 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 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

MacKay Shields receives 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 our 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, European private funds as well as other investment funds. For our services as a sub-adviser, 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.

As a result of the decision to integrate the U.S. CLO investment teams of MacKay Shields and CVP, MacKay Shields operates its CLO advisory business directly and through the following affiliated entity:

- Relying Adviser: MKS CLO Advisors, LLC ("MKS CLO Advisors").

MKS CLO Advisors provides discretionary investment management services to two collateralized loan obligation vehicles.

### **Fees and Expenses Paid by CLO Investors**

CLO investors bear any fees and expenses in connection with the acquisition, management, origination, holding, monitoring, marking to market, enforcement, amendment, default, restructuring, bankruptcy or disposition of the CLO's assets. To the extent permitted under the respective CLO investment management agreements, such fees and expenses include but are not limited to, investment related travel, communications and related expenses, loan processing fees, legal fees and expenses, appraisal costs and expenses and other expenses of professionals retained by MacKay Shields on the CLO's behalf, due diligence costs, fees or other costs in connection with the termination, cancellation or abandonment of a potential acquisition or disposition of any asset that is not consummated and all other reasonable costs and expenses, including any extraordinary expenses of any nature and other unusual matters), taxes and governmental charges that may be incurred or payable by the CLO, insurance premiums or expenses incurred in connection with the CLO's activities, any and all costs, fees and expenses incurred in connection with the rating of the CLO Notes, costs and fees of one or more firms that provide software databases and applications for the purpose of modeling, evaluating and monitoring the CLO assets and Notes pursuant to a licensing or other agreement, any and all expenses incurred to comply with any law or regulation related to the activities of the CLO, fees and expenses of any independent advisor employed to value or consider Collateral Obligations, management fees, and any cost and expenses incurred in connection with the pre-closing warehouse agreement and matters related thereto.

### **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 as part of a separate management account relationship, 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 a 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 the consultant 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**

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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.

As a general practice, when creating a fixed income order, we will utilize the firm’s trade order management system in selecting the participating client accounts prior to entering an aggregated order. When determining which accounts will participate in a trade, we will consider various objective criteria which may include but are not limited to: client cash limitations, actual and anticipated or potential account inflows and outflows, duration and/or average maturity, credit ratings and anticipated credit ratings, account size, deal size, trade lots, processing costs, existing exposure to an issuer or industry type, other concentration limits, and specific investment objectives, investment



guidelines and anticipated guidelines changes, borrowing capacity, and other practical limitations. If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the target allocation; if the order is partially filled, it will be allocated pro-rata based on the allocation methodology recorded in the trade order management systems unless that would be impractical.

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.

For all investment teams, 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 judgment or as a result of factors such as investment guideline constraints (e.g., duration limits), minimum trading lots for specific securities, account strategy, or low cash levels, the amount that would then be allocated to an account would not be suitable or be too small to properly manage, that account may 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**

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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**

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### **Introduction**

MacKay Shields offers 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. Below is 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 investment 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 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 and issuer information that is obtained from external data providers and/or internal sources. We rely on the accuracy of the information obtained from the external data providers and our investment teams. For new issues,



we initially rely on the accuracy of the information provided by the issuer and 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 that offer a variety of fixed income and equity investment strategies and solutions. The fixed income teams are: Convertibles, Global Fixed Income, High Yield, MacKay Municipal Managers™, and Leveraged Loans. 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.

Each of our investment teams, other than Passive Equity, incorporates Environmental, Social and Governance (“ESG”) considerations into their investment process.

### **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.

#### **U.S. Leveraged Loan Team**

The U.S. Leveraged Loan Team manages vehicles known as "Collateralized Loan Obligations" or "CLOs". The principal investment objectives of the CLOs are to provide contractually-agreed interest payments to their debt holders and provide attractive returns to their equity holders through the operation of structured investment vehicles.

In evaluating the creditworthiness of a potential investment, CLO analysts focus on, among other things, a company's business model, industry conditions, historical and prospective operating performance, liquidity position, management team and asset quality.

The core tenets of CLO portfolio construction include:

- Seek to provide investors with the targeted returns via careful portfolio construction and investment selection.
- Thoughtful sizing of individual credits and industry concentrations.
- Careful consideration of expected liquidity of the loan in the secondary market.

CLO investment selection typically includes the following steps. Investment selection begins with a metrics check. Key metrics reviewed by analysts include seniority, security, spread, original issue discount (OID), ratings, maturity, covenants and industry concentrations. These metrics are compared against current weighted average status of requirements and targets of the CLO. The analysts then perform an initial analysis on the investment, which includes reviewing leverage ratios, capital structure, business model, management and sponsors, deal size and liquidity and relative value vs. other investment candidates. Modeling of historical and projected financial and operating performance is completed, with a focus on cash/liquidity position, asset coverage, quality of assets and downside protection. Full diligence is then completed, with the creation of an in-depth investment memo and formulation of an investment thesis. The CLO analysts may have calls with industry analysts and company management and may have an in-depth documentation review of

the credit agreement completed. The CLO analysts then present their diligence to the investment team for consideration. If approved, a target size and price is established based on overall credit assessment, attractiveness vis-à-vis CLO metrics and expected deal liquidity.

The CLO portfolios are regularly monitored for risk and maintenance of investment discipline. CLO analysts update models and re-evaluate creditworthiness of owned assets on a quarterly basis or as events warrant. In addition, there is constant surveillance of portfolio metrics versus indenture requirements and tests. The CLO analysts utilize third-party software to assess the impact of prospective trades.

## **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 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.
- Such other sources the investment team deems appropriate from time to time.

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 believes a systematic investment approach is the most effective way to identify and exploit market inefficiencies, capturing the most attractive trade-off between risk and return. Proprietary, multi-factor models systematically strive to identify positions based on a relative-value-with-a-catalyst approach. This systematic investment approach allows the team to analyze thousands of securities, providing a strong foundation to identify security mispricings and construct a broadly diversified portfolio across sector, industry, geography, and market-capitalization. The team seeks to maximize alpha generation through the interaction of an optimal number of signals that are highly predictive and lowly correlated to one another. Furthermore, the team believes that risk management is paramount to consistently generating attractive risk-adjusted returns, and thus complements the systematic evaluation of securities with the systematic application of prudent risk management. The multi-dimensional risk management process allows for continuous interaction with the model to better and more efficiently manage potential model risk.

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) Signal Selection
- 2) Stock Selection
- 3) Portfolio Construction
- 4) Portfolio Management



## 1. SIGNAL SELECTION

The investment process begins with researching the long-term company-specific fundamental attributes that drive stock returns, commonly referred to as signals or factors. The investment team seeks to identify intuitive, highly predictive signals with low correlation to each other over long-term investment horizons.

## 2. STOCK SELECTION

The stock selection model uses an optimal number of highly predictive signals that are lowly correlated to one another to evaluate securities within a respective investment universe. The signals implemented across all of the team's strategies fall into four main categories: valuation, momentum, sentiment, and quality. Additionally, the Large Cap Growth Strategy includes capital use as a fifth signal in the selection model. Each stock in the investment universe is scored across these measures and then combined to derive a final expected return or alpha for each security.

Stock selection models are always subject to revision as market conditions change and research provides new opportunities for enhancements. Members of the Systematic Equity investment team conduct research which are subject to peer review and, based on the level of significance, would require additional approval by the head of the Systematic Equity investment 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 portfolios that generate the highest expected returns, while simultaneously managing risk. The team takes a multi-layered approach to risk management, incorporated within the portfolio construction process, 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. All risk constraints are satisfied at the time of initial investment and at the time of any subsequent portfolio rebalances.

The investment team also has the ability to apply a secondary layer of risk management in the form of tactical risk constraints. The purpose of tactical constraints is to minimize any uncompensated risks that may seep into the portfolio in certain market environments.

Lastly, the team applies a third layer of risk management referred to as "blind spot management." Blind spots are individual securities that do not appear to trade based on their fundamental attributes or do not have appropriate peer groups. 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).

Importantly, both tactical constraints and blind spots are applied systematically on a temporary basis to mitigate uncompensated risks.

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 subject to review and potential modification by the portfolio management team.

#### 4. RISK MANAGEMENT

To construct portfolios, the team utilizes large-scale commercial optimization software as well as proprietary tools built internally. The portfolio construction framework is systematic, customizable, and allows for flexibility when implementing core and tactical risk constraints during the portfolio construction process. In addition, proprietary tools are utilized to review the stock selection model's performance and provide added insight. The team regularly evaluates the ongoing efficacy of the signals used in the model to provide an in-depth understanding of the drivers of model returns. Attribution analysis, stress testing, and scenario analysis are also performed through a variety of standard or customizable dimensions and scenarios to manage portfolio risk.

The investment team monitors strategy performance and exposures in real time. These analyses are used as a starting point 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 investment team.

#### Material Risk Factors

Below is a summary of material risks that may apply to 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 that may apply to the strategies employed by one or more of our investment teams; the securities and other instruments in which one or more of our investment teams may invest; and our business generally.

**Auction Rate Securities Risk.** Auction rate securities usually permit the holder to sell the securities in an auction at par value at specified intervals. The dividend is reset by "Dutch" auction in which bids are made by broker-dealers and other institutions for a certain amount of securities at a specified minimum yield. The dividend rate set by the auction is the lowest interest or dividend rate that covers all securities offered for sale. While this process is designed to permit auction rate securities to be traded at par value, there is the risk that an auction will fail due to insufficient demand for the securities.

**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.

**Business Interruptions Risk.** Our investment advisory activities or operations could be interrupted or adversely affected by extraordinary events, emergency situations or circumstances beyond our control, including, without limitation, outbreaks of infectious diseases, pandemics or other serious



public health concerns, war, terrorism, failure of technology, accidents, disasters, government macroeconomic policies or social instability. In order to mitigate the effects of these types of events, we may activate our business continuity and disaster recovery plans. These plans are designed to ensure that we provide our advisory and other services to our clients without interruption and may require, among other things that our employees work and access our information technology, communications or other systems from their homes or other remote locations. However, our business continuity and disaster recovery plans may not be successful, or we could be delayed in implementing or recovering our investment advisory activities or operations. For example, depending on scope, severity and/or duration, issues or delays in accessing our information technology, communications or other systems, could have a material adverse effect on our business.

**Closed-End Fund 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 or loans include (without limitation): (i) credit risk – the issuer may not repay the loan created by the issuance of that debt instrument; (ii) maturity and duration risk – a debt instrument 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 instruments 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 instruments that we select may underperform the market or other instruments 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 the 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.

**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 Investment Risk.** Investments in foreign securities or loans 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 or loans may be more difficult to sell than U.S. securities or loans. 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 or loans 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 or loans 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 an account will fluctuate as interest rates go up and down. For example, when interest rates go up, the market value of bonds owned by an account 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 an account 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 (“NRSRO”)) 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.

**LIBOR Discontinuance Risk.** The London Interbank Offering Rate (“LIBOR”) is intended to represent the rate at which contributing banks may obtain short-term borrowings from each other in the London interbank market. The terms of floating rate loans, financings or other transactions in the U.S. and globally have been historically tied to LIBOR, which functions as a reference rate or benchmark for various commercial and financial contracts. The regulatory authority that oversees financial services firms and financial markets in the United Kingdom has announced that, after the end of 2021, it would no longer compel contributing banks to make rate submissions for purposes of determining LIBOR. As a result, it is possible that commencing in 2022, LIBOR may no longer be available or no longer deemed an appropriate reference rate upon which to determine the interest rate on or impacting certain loans, notes, derivatives and other instruments or investments comprising some or all of a client account’s portfolio.

Various financial industry groups have begun planning for that transition and certain regulators and industry groups have taken actions to establish alternative reference rates (e.g., the Secured Overnight Financing Rate, which measures the cost of overnight borrowings through repurchase agreement transactions collateralized with U.S. Treasury securities and is intended to replace U.S. dollar LIBOR with certain adjustments). However, there are challenges to converting certain contracts and transactions to a new benchmark and neither the full effects of the transition process nor its ultimate outcome is known. The transition process might lead to increased volatility and illiquidity in markets for instruments with terms tied to LIBOR.

These developments could negatively impact financial markets in general and present heightened risks, and, a result of this uncertainty and developments relating to the transition process, investments may be adversely affected.

**Liquidity Risk.** The value of illiquid instruments may reflect a discount from the market price of comparable securities and loans for which a liquid market exists, and accordingly may have a negative effect on the value of a strategy’s assets. Securities and loans that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the instruments, market events, economic conditions or investor perceptions. To meet client requests to withdraw assets, a strategy may be forced to sell securities or loans 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 instruments or unwinding derivative positions at desirable prices. Holding less liquid instruments 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.

**Municipal Market Data (“MMD”) Rate Locks.** When a portfolio enters into MMD rate locks, it is subject to the risks of OTC derivatives discussed herein, including counterparty credit risk and liquidity risk. In addition, when the Investment Manager makes a decision to invest in MMD rate locks, there is a risk that municipal yields will move in the opposite direction than anticipated by the Investment Manager, which would result in a loss to the portfolio in the form of payments to its counterparty.

**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.

**Public Health Crisis Risks.** A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent outbreak of Coronavirus (or COVID-19) in China, the United States, Europe and other countries, could have an adverse impact on global, national and local economies, which in turn could negatively impact our investments and strategies. Disruptions to commercial activity resulting from the imposition of quarantines, travel restrictions or other measures, or a failure of containment efforts, may adversely affect our investments in various ways, including but not limited to, decreased demand, supply chain delays, disruptions or staffing shortages. The outbreak of Coronavirus has contributed to, and may continue to contribute to, volatility in financial markets, including market liquidity and changes in interest rates. A continued outbreak may have a material

and adverse impact on our investment returns. The impact of a public health crisis such as the Coronavirus (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to the performance of our investments and strategies.

**Ratings-Related Risks.** Ratings assigned by Moody's, S&P, Fitch and/or other nationally recognized statistical rating organizations ("NRSROs") to securities are only the views of those NRSROs and are not a guarantee of quality. NRSROs attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Also, NRSROs 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, Fitch, or other NRSROs circumstances so warrant. Many issuers do not have their securities rated by the NRSROs 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.

#### **Tender Option Bond Trusts (“TOB Trusts”).**

- **Need of Continued Demand for Trust Certificates.** The TOB Trust structure depends upon the ability of the remarketing agent to successfully remarket tendered trust certificates and the remarketing agent's continued willingness and ability to commit capital to such structures. Additionally, trust certificates are typically purchased by tax-exempt money market funds, which are subject to regulatory requirements regarding the types of investments they can make as well as diversification.
- **Duration Risk of TOB Trusts.** The leverage of the TOB Trust residual interests to which the account will have may vary. As a result, the account may be required to directly collateralize, or pay the swap counterparty for collateralizing the TOB Trust in a certain amount of the principal value of the municipal securities held by the Trust to support any margin call should the value of these municipal securities decline.
- **Effect of Interest Rate Changes Generally and on TOB Trust Residual Interests.** All fixed income securities, including Tax Preferred Securities, entail some degree of interest rate risk. An increase in interest rates will generally result in a decrease in the prices of bonds. Interest

rate risk can be measured by the price change of a security given a one basis point move in the yield of the security. This price change, multiplied by the notional amount of the security, equals the dollar amount of the interest rate risk.

- TOB Trust residual interests are “inverse floaters” — their yield is equal principally to the difference between the fixed interest rate on the long-term Tax Preferred Securities held by the TOB Trusts and on the distribution rate on Participations. If municipal short-term rates increase, so will the distribution rate on the short-term floating rate trust certificates, and the yield on the TOB Trust residual interests will be eroded. Without sufficient return on its TOB Trust residual interests to at least defray the account’s interest-rate and duration hedging costs, the portfolio is likely to incur a decline in yield.

**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.

**Unit Investment Trusts.** Unit Investment Trusts (“UITs”) are a type of registered investment company. UITs typically issue redeemable securities that the UIT will buy back from an investor, at the investor’s request, at the unit’s approximate net asset value. The UITs in which an account may invest may have a relatively fixed portfolio of securities consisting of shares of closed-end municipal bond funds or municipal bonds or other Tax Preferred Securities.

**Valuation Risk.** There is no central place or exchange for fixed-income securities trading. Fixed-income securities and loans 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 and loans 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 and loans 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.** MacKay Shields uses third party servers to host data, including its models. The servers on which MacKay Shields' data and models are hosted may be affected by viruses, power outages, or other acts beyond MacKay Shields' control. The companies that own the servers ("Service Provider") may not be able to prevent an employee or third party from stealing or damaging MacKay Shields' data and models. Further, the 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 make the data and models unavailable to MacKay Shields and may disrupt its business. When data is used, whether related to a model or not, is incorrect or incomplete, the output on systems, reports, or calculations may be inaccurate and 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 may not always detect problems with data supplied before the data is used.

The Service Providers maintain redundant data centers in geographically distinct locations, but is not obligated to protect or back-up MacKay Shields' data and models or cooperate with MacKay Shields to return the data and models if its agreement with MacKay Shields is terminated. Further, in the event of loss of or damage to these data and models, 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.** MacKay Shields relies 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, in particular as it relates to some of the equity investment strategies of and recommendations developed by MacKay Shields. 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.



### Additional Material Risks Associated with CLOs

MacKay Shields operates its U.S. CLO advisory business directly and through the following affiliated entity:

- Relying Adviser: MKS CLO Advisors, LLC (“MKS CLO Advisors”).

MKS CLO Advisors provides discretionary investment management services to two collateralized loan obligation vehicles. There are a number of risks associated with the CLOs’ trading objectives and strategies. Each CLO offering memorandum contains detailed descriptions of such risks, which includes the following:

**General Economic Conditions Risk.** Significant risks may exist for the CLO issuer (the “Issuer”) and investors in notes (the “Notes”) as a result of the uncertain general economic conditions. These risks include, among others, (i) the possibility that, on or after the closing date, the prices at which collateral can be sold by the Issuer will have deteriorated from their effective purchase price, (ii) the illiquidity of the Notes, as there may be no secondary trading in the Notes and (iii) possibility of decline in the market value of the Notes. These risks may affect the returns on the Notes to investors and the ability of investors to realize their investment in the Notes prior to their stated maturity, if at all.

**Illiquidity in the Leveraged Finance Market Risk.** The financial markets have experienced substantial fluctuations in prices for leveraged loans and high-yield debt securities and limited liquidity for such instruments. During periods of limited liquidity and higher price volatility, the Issuer’s ability to acquire or dispose of collateral obligations at a price and time that MKS CLO Advisors deem advantageous may be severely impaired, which may impair their ability to dispose of investments in a timely fashion and for a fair price, as well as their ability to take advantage of market opportunities. Furthermore, some collateral obligations will have a limited trading market (or none) under any market conditions. Illiquid debt obligations may trade at a discount from comparable, more liquid investments. The impact of the liquidity crisis on the global credit markets may adversely affect MKS CLO Advisors’ management flexibility in relation to the collateral and, ultimately, the returns on the Notes to investors.

**Nature of the Obligations Risk.** The Notes are generally limited recourse debt obligations, payable solely from the collateral pursuant to the relevant indenture. The Notes do not represent interests in or obligations of, and are not guaranteed, insured or secured by any rating agency, the underwriter, MKS CLO Advisors, or any other transaction party (other than the Issuer). If distributions on the collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of the Collateral, the obligations of the Issuer to pay any such deficiency will be extinguished.

**Liquidity Considerations Risk.** The Notes are not expected to be readily marketable. In addition, the Notes are subject to certain transfer restrictions (including minimum denominations) that may further limit their liquidity. Furthermore, various regulatory requirements may restrict a potential investor’s ability to purchase Notes or make such an investment unattractive to them. The Notes are designed for long-term investors and should not be considered a vehicle for short-term trading purposes. As a result, investors must be prepared to bear the risk of holding the Notes until their stated maturity. To the extent that any secondary market exists for the Notes, the price (if any) at which Notes may be sold could be at a discount, which in some cases may be substantial. To the extent a secondary market exists for the Notes in the future, significant delays could occur in the actual sale of Notes.

**Below Investment Grade Debt Obligations Risk.** Primarily all of the collateral obligations are expected to be rated below investment grade. Such debt obligations have greater credit and liquidity risk than investment grade obligations. The lower rating of such obligations reflects a greater possibility that

adverse changes in the financial condition of an obligor or in general economic conditions, or both, may impair the ability of the Issuer to make payments on the Notes. In addition, obligors of below investment grade debt obligations may be highly leveraged and may not have available to them more traditional methods of financing. During an economic downturn, a sustained period of rising interest rates, or a period of fluctuating exchange rates (in respect of those obligors with operations located in non-U.S. countries), such obligors may be more likely to experience financial stress and may be unable to meet their debt obligations due to the obligors' inability to achieve sufficient financial results or the unavailability of financing or under certain market conditions may not be able to refinance their debt obligations which may increase their risk of default. Although recently default rates for below investment grade debt obligations have decreased relative to prior years, there can be no assurance that default rates will not increase, perhaps significantly, in the future. All risks associated with the Issuer's investment in such obligation be borne by the owners of the Notes.

**Counterparty Risk.** The CLOs may be subject to counterparty risk, the risk that another party to a transaction cannot fulfill its contractual obligations. For example, a counterparty may not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem (such as a bankruptcy), thus causing the CLOs to potentially suffer a loss. MacKay Shields' internal credit function which evaluates the creditworthiness of its counterparties may prove insufficient. The lack of a complete and foolproof evaluation of the financial capabilities of MacKay's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the CLOs. Counterparties may include, among others, trading counterparties, custodians, prime brokers, trustees and administrators.

## **ITEM 9: DISCIPLINARY INFORMATION**

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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**

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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 Europe Investment Management Limited (“MacKay Europe”) is an indirect wholly-owned subsidiary of MacKay Shields that is authorized and regulated as an investment manager and Alternative Investment Fund Manager (“AIFM”) under the European Union’s Alternative Investment Fund Manager Directive (“AIFMD”) with the Central Bank of Ireland (“CBI”). Some of our senior employees are Directors of MacKay Europe. Under an investment management agreement with MacKay Europe, we act as sub-adviser for the Plainview Funds plc.

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. Effective November 15, 2019, MacKay Global Derivatives voluntarily withdrew its registrations as a Swap Firm and a Commodity Pool Operator, as well as its membership with the National Futures Association.

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.

On November 1, 2019, MacKay Shields fully integrated the domestic and European Leveraged Loan Business formally part of Credit Value Partners, LLC.

As part of the transaction, the leveraged loan team and accounts were fully integrated on the MacKay Shields investment platform. MacKay Shields also assumed several entities including, one relying adviser through which the CLO business that transitioned from CVP to MacKay Shields will continue to operate.

MacKay Shields operates its CLO advisory business directly and through the following affiliated entity:

- Relying Adviser: MKS CLO Advisors, LLC (“MKS CLO Advisors”).



MKS CLO Advisors provides discretionary investment management services to two collateralized loan obligation vehicles.

MacKay Shields' advice with respect to the commingled vehicles, including CLOs, is given in accordance with the investment objectives and guidelines set forth in the applicable commingled vehicle or CLO offering documentation, side letter agreement, or advisory agreement, as applicable. Except as otherwise set forth in the commingled vehicle and CLO offering documentation, side letter agreement, or advisory agreement, MacKay Shields does not tailor its advisory services to the individual needs of the commingled vehicles or CLOs' investors who are generally prohibited from imposing restrictions on investing in certain securities or types of securities.

### **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 67% 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 and Insider Trading Policies, 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;
- ETFs 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, “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below, 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.

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. Although all of the equity investment teams share a single trading desk for execution of orders, the information received is not shared with individuals not acting in a dual-hatted capacity. 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.

Certain investment personnel in the fixed income teams may participate in Asset Allocation Committee discussions with NYL Investments portfolio managers as it relates to the sleeve of an affiliated mutual fund that is sub-advised by MacKay Shields. In these instances, the MacKay Shields individuals will only have access to the portfolio holdings for the fund sleeve managed by MacKay Shields and not the entire portfolio holdings. The NYL Investments portfolio managers will not direct the investment management of the MacKay Shields portfolio sleeve, except to the extent that the Asset Allocation Committee discusses derivative overlay investments made by MacKay Shields to adjust the mutual fund's equity or fixed income exposures. In addition, the NYL Investments portfolio managers will not have access to individual securities in the MacKay Shields portfolio sleeve prior to their public dissemination. NYL Investments portfolio managers may have access to portfolio level details such as duration, credit, sector exposure and can speak to the respective MacKay Shields portfolio manager on portfolio characteristics. The NYL Investments portfolio managers may also have access to the derivative overlay investments made by MacKay Shields, such as futures, options, forwards and swaps, so long as the underlying reference asset is, for example, a broad based index (defined as 30 or more names) or U.S. Treasuries. The NYL Investments portfolio managers will not have access to derivatives where the underlying is a narrow based index (i.e., less than 30 names) or on single securities. The NYL Investments portfolio managers' personal trading are monitored daily against the NYLIM Holdings and MacKay Shields' trading blotters.

Accounts may have the same, similar or different investment objectives from one another. The fact that an account will pursue many of the same investment and trading strategies as certain other accounts is likely to have beneficial effects on such other accounts. For example, when multiple accounts establish the same or similar positions, the existence of the accounts' positions could have a beneficial impact on pricing and possibly trading in the relevant market. Such benefits are likely to enhance the value and perhaps the liquidity of other accounts and, consequently, increase the compensation earned by MacKay Shields from such other accounts. Thus, there will be conflicts of interest inherent in managing the multiple accounts simultaneously.

### **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 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.

MacKay Shields has an agreement in place whereby it supplies personnel to an Irish domiciled company that acts as the originator of CLOs. Under the agreement, certain MacKay Shields personnel serve as Board members and Investment Committee members of this entity. MacKay Shields receives compensation from this entity for providing access to such personnel.

Each individual serving in this capacity has also entered into an individual service agreement with this entity.

There is the possibility of the MacKay Shields- supplied officers finding themselves in a conflict between their employment or other obligations to MacKay Shields and their fiduciary and/or contractual obligations to this entity. To address that conflict, in the Staffing Agreement, MacKay Shields expressly acknowledges that any such conflict be resolved in favor of the entity.

MacKay Shields has an agreement in place with MKS CLO Advisors to provide staffing and other non-investment related services. The staff and services provided are not exclusive, and the staff and MacKay Shields and/or any of its affiliates may engage in any other business or render similar or different services to others.

#### **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. 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. 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. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," below.

Certain actual and potential conflicts of interest may also arise from the fact that:

- MacKay Shields uses certain of the strategies described herein in certain of its Accounts and MacKay Shields has sole discretion in determining the investment funds' level of participation in the strategies described herein;
- MacKay Shields, its affiliates and certain accounts may acquire investments representing different parts of the capital structure of issuers in which the accounts invest and, in

connection therewith, may take actions that have an adverse effect on the accounts' investments;

- MacKay Shields may enter into side letters and/or other agreements and arrangements with certain accounts or investors pursuant to which those accounts or investors may receive reports and have access to information regarding the accounts' portfolios that might not be generally available to other accounts or investors. Such accounts or investors may be able to base their investment decisions, including, without limitation, a decision to withdraw their capital from certain accounts on information that is not generally available to other accounts or investors. Side letters may also provide more favorable terms relating to liquidity and fees or incentive fees.

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

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### **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. Employees of MacKay are subject to the Code of Ethics of NYLIM Holdings.

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, but not limited to:

- Insider Trading Policy and Procedures;
- Information Barrier Policy and Procedures;
- Conflicts of Interest Policy
- Gift and Entertainment Policy;
- Policy on Anti-Corruption in International Business Transactions;
- Personal Political Contributions Policy;
- Policy on Selective Disclosure of Mutual Fund Portfolio Holdings;
- 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 covers all MacKay employees, and all employees are considered “Access Persons” under the 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;
  - bankers’ acceptances, bank certificates of deposit, commercial paper, and high quality short-term debt instruments, including repurchase agreements;
  - shares issued by open-end mutual funds, including the MainStay Funds;
  - interests in qualified state college tuition programs (“529 Plans”); and cryptocurrencies or digital currencies, such as Bitcoin or Ether, which are a virtual or digital representations of value. However, a virtual currency token offered in an initial or digital coin offering will be deemed a Covered Security for purposes of the Code and subject to pre-clearance requirements.
- 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 List unless approved in advance in writing by the General Counsel, the Chief Compliance Officer or their designee and subject to any conditions set forth in such approval in accordance with our Restricted List Policy. Employees may also be restricted from trading for their personal accounts in securities of issuers that appear on our Watch List, in accordance with our Watch List Policy, when circumstances dictate;
- 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 ultimately approved;
- Access Persons may not purchase or sell a Covered Security on a day when there is a Buy or Sell Order for a Client;
- Investment Personnel may not purchase or sell a Covered Security if any purchase or sale of such securities has been made for a Client account in the prior seven calendar days or can reasonably be anticipated for a Client account in the next seven calendar days.
- 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. This applies to all affiliated funds, including shares owned through a 401(K) plan or similar account, or through a variable insurance product. It does not apply to purchases that are effected as part of an automatic dividend reinvestment plan, an automatic investment plan, a payroll deduction plan or program, or transactions in money market funds.
- Employees may not directly or indirectly purchase securities in an initial public offering of securities, a private placement, or a virtual currency token offered in an initial or digital coin offering without the prior written approval of our Chief Compliance Officer or designee;
- 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.

Further, we require “Investment Personnel” to adhere to additional provisions in the Code as described below. Investment Personnel are defined as employees who in connection with their regular functions make or participate in making recommendations regarding the purchase or sale of securities for client accounts (i.e., portfolio managers, traders and analysts):

- Investment Personnel are prohibited from trading in options with respect to individual securities covered under the Code. Transactions in index options effected on a broad-based index are permitted.

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.

Our Chief Compliance Officer or his designee 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.

Our Chief Compliance Officer has oversight of the daily monitoring of employee personal trades conducted by designated members of the NYLIM Compliance Department and assists in addressing issues and questions that arise.

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.

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  
43<sup>rd</sup> Floor  
New York, NY 10105  
Attn: Chief Compliance Officer

#### **Material Non-Public Information/Information Barrier**

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.

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.

### **Participation or Interests in Client Transactions**

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.

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. 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 accounts 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 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.

Our employees may invest in SEC registered investment companies and investment funds not registered with the SEC that are managed by the Firm. These investments pose a risk that employees with influence over investment decisions will favor the funds in which they have a personal interest. However, we believe that our Code of Ethics, Trade Allocation Policy, and Insider Trading Policy manage these risks. We also believe that employee investments in the funds align the interests of our Firm and our employees with those of our clients.

### **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**

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### **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 or the General Counsel. 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 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 requests 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 the 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 are 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 brokerage accounts with non-directed brokerage 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.

As a fundamental principle, MacKay Shields will not aggregate transactions unless it believes that such an aggregation is consistent with its duty to seek best price and execution for its clients and is consistent with the terms of MacKay Shields' investment advisory agreement with each client for which trades are being aggregated. 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.

As a general practice, when creating a fixed income order, we will utilize the firm's trade order management systems in selecting the participating client accounts prior to entering an aggregated order. When determining which accounts will participate in a trade, we will consider various objective criteria which may include but are not limited to: client cash limitations, actual and anticipated or potential account inflows and outflows, duration and/or average maturity, credit ratings and anticipated credit ratings, account size, deal size, trade lots, processing costs, existing exposure to an issuer or industry type, other concentration limits, and specific investment objectives, investment



guidelines and anticipated guidelines changes, borrowing capacity, and other practical limitations. If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the target allocation; if the order is partially filled, it will be allocated pro-rata based on the allocation methodology recorded in the trade order management systems unless that would be impractical.

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 as noted above 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 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. For example, accounts will generally not be aggregated where 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 investment 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.

For all investment teams, 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 judgment or as a result of factors such as investment guideline constraints (e.g., duration limits), minimum trading lots for specific securities, account strategy, or low cash levels, the amount that would then be allocated to an account would not be suitable or be too small to properly manage, that account may 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 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, contractual obligations, diversification considerations, 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. In addition, accounts that are managed in a similar manner may or may not participate in an allocation in order to provide similar size exposure to investments.
- **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.
- **Deal Sponsor Considerations** - Certain accounts may or may not participate in an allocation because of deal sponsor discretionary considerations, such as a preference for certain investor profiles.
- **Term Lifecycle of Account** - Certain accounts may or may not participate in an allocation because of the term lifecycle of the account portfolio or vintage year.

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. Orders for the ETF will not be aggregated with orders of any actively managed accounts, which could result in less favorable execution for the ETF or other clients.

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. Orders related to 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, in accordance with the Trade Allocation Policy.

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

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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 team 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**

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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

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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**

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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**

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Typically, the investment management agreements will state whether or not MacKay Shields is authorized us to vote the securities in an 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  
43<sup>rd</sup> Floor  
Attention: Head of Client Services

## **ITEM 18: FINANCIAL INFORMATION**

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Currently, there is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.