



## INVESTMENT ADVISOR BROCHURE

Form ADV Part 2A  
September 23, 2022

This Brochure, dated September 23, 2022  
provides information about the qualifications and business practices of

### **MacKay Shields LLC**

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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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MacKay Shields LLC is updating this Brochure to reflect certain material changes since the last annual update of the Brochure that was filed in March 31, 2022:

- John Loffredo, Executive Vice President and Co-Head of MacKay Municipal Managers, has been named Vice Chairman of MacKay Shields with oversight responsibilities for MacKay Shields' investment teams.
- Janelle Woodward, President of MacKay Shields, will be leaving the firm at the end of 2022.

Additionally, while we do not consider this to be a material change, MacKay Shields LLC no longer offers its Passive Equity Investment Strategy. MacKay Shields assigned all advisory agreements for client accounts managed pursuant to this strategy to IndexIQ Advisors LLC, which is an affiliate of MacKay Shields effective as of June 10, 2022. Accordingly, references to the Passive Equity Investment Strategy and the Passive Equity Investment Team have been removed from this Brochure

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## ITEM 4: ADVISORY BUSINESS

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### History

The original predecessor to MacKay Shields LLC (“MacKay Shields” the “Firm” “we” “us” “our”), 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.

### Clients and Investment Services

MacKay Shields offers a variety of fixed income and equity strategies and solutions that clients can select depending on their investment objectives. We maintain independently managed investment strategy teams with their own distinct investment process. Certain investment teams consist of Portfolio Managers, Research Analysts, and Traders, while certain other investment teams share Research Analysts and/or Traders. Investment strategies may be available through separately managed accounts and/or collective investment vehicles, including, without limitation, Mutual Funds, ETFs, Collective Investment Trusts, and other private investment funds (referred to herein as “collective investment vehicle(s)” or “fund(s)”).

Clients for whom we provide separately managed account services may adopt bespoke investment guidelines and objectives, subject to our approval. 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 an investment strategy and to review the securities and instruments generally used by MacKay Shields when implementing that strategy. 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.

MacKay Shields’ advice with respect to collective investment vehicles is given in accordance with the investment objectives and guidelines set forth in the applicable collective investment vehicle’s offering documentation, side letter agreement, or advisory agreement, as applicable. Except as otherwise set forth in the commingled vehicle offering documentation, side letter agreement, and/or advisory agreement, MacKay Shields does not tailor its advisory services to the individual needs of the commingled investment vehicle’s investors, who are generally prohibited from imposing restrictions on investing in certain securities or types of securities. Investors or potential investors in collective investment vehicles should refer to the offering memorandum, prospectus, or similar document 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.

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.

**The descriptions set forth herein and elsewhere in this document of specific advisory services that we offer, and investment strategies pursued and investments made by us on behalf of clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client’s investment objectives and guidelines. The investment strategies pursued by MacKay Shields are speculative and entail substantial risks. There can be no assurance that the investment objectives will be achieved.**

Persons reviewing this Brochure should not consider it to be, and this Brochure should not be construed as, impartial investment advice, an offer to sell or any solicitation to buy securities of any collective investment vehicle managed by MacKay Shields or its affiliates. Such an offer will only be made by means of an offering document delivered to eligible qualified investors.

For more information about the management of client accounts, please refer to “Item 7 – Types of Clients,” and for more information about MacKay Shields’ investment strategies, please refer to “Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss,” below.

### **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 typically 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.

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.

### **Assets Under Management**

As of December 31, 2021, MacKay Shields had approximately \$164.2 billion of regulatory assets under management on a discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

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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, offering document, or similar agreement between each client and MacKay Shields.

## Asset-Based Fees

MacKay Shield charges asset-based fees based on the value of the client's assets under management and/or the value of the client's and its affiliate's or related persons assets under management. Asset-based fees are generally negotiated and tailored with clients on a case-by-case basis and range from 0.010% to 1.500% annually of assets under management, depending on the strategy(ies) involved and vehicle(s) in which the assets are held (e.g., a separately managed account, collective investment vehicle, or registered investment company). In our sole discretion, we may negotiate a performance-based fee, agree to a fee schedule other than within the range described above, and/or waive, rebate, or reduce fees for clients. Factors taken into consideration when tailoring fees may include, but are not limited to: the investment strategy, portfolio composition, and structure of the account (e.g., lock up or liquidity terms, incentive allocation); existing contractual commitments with other clients; whether the client is an affiliate of NYLIC or MacKay Shields and the client's other relationships to MacKay Shields and its affiliates; related accounts under management; servicing requirements; and investment strategy capacity.

## Performance-Based Fees

MacKay Shields receives performance-based fees in connection with the advisory services we provide to certain separately managed account clients in a manner designed to comply with Rule 205-3 under the Investments Advisers Act of 1940 ("Advisers Act"). We further receive performance-based fees in connection with the advisory services we provide to certain funds not registered with the SEC. The performance fees that MacKay Shields receives from its clients are described in the separately managed account client's investment advisory agreement or the fund's offering document. Performance-based fees generally range from 5.000% to 20.000% of returns and may be subject to performance hurdles, loss carry forward, and other restrictions. See "Item 6 - 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. Prospective clients should refer to the applicable sponsor's wrap fee program brochure for fee information and additional disclosures.

## Payment of Fees

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 month quarter, year, or other period, or may be payable in arrears based on the value of assets under management at the end of any such period. Fees are generally 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's 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 separately managed account consent, to instruct the client's custodian to deduct fees from their account. With respect to commingled investment vehicles for which MacKay Shields, or its controlled affiliates, serves as General Partner, Managing Member, or similar capacity, we direct the custodians and/or prime brokers to deduct our asset-based fees and any performance fees.

For commingled investment vehicles that are Mutual Funds or UCITS, payment of fees is generally made by each fund's administrator, who is responsible for calculating and processing the payment pursuant to the fund's prospectus.

### **Other Fees and Expenses**

Fees and expenses that clients are responsible for can vary significantly among clients based on the investments and types of transactions executed on behalf of clients, as well as what is permitted to be borne by the client pursuant to the specific advisory agreements for separately managed account clients or offering materials applicable to collective investment vehicles. Clients and investors in collective investment funds should review such documents for precise information relating to the fees and expenses borne by a specific client account or collective investment vehicle.

For example, a client's custodian or prime broker 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 charge a spread, commission or transaction fee, as the case may be, that an account pays. Further, clients are responsible, to the extent applicable, for other costs, fees, and taxes associated with transactions executed on their behalf, such as, but not limited to, withholding and transfer taxes, clearing and settlement charges, interest expenses, sales and use taxes, transfer and registration fees, or similar charges. More detailed information about our brokerage practices is found under "Item 12 - 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 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 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 (including, without limitation, tax advisors and third-party valuation providers), 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 "Item 14 - Client Referrals and Other Compensation."

Investors in commingled investment vehicles are subject to their proportional share of the fund's operating expenses, which as described in each fund's offering or similar document, may include, but are not limited to: (i) its operation, administration and management, including, without limitation, the management fees and incentive allocations, fees and expenses of an administrator; (ii) investment expenses, such as expenses incurred in the buying, selling, packaging, structuring and holding of securities and other investments; (iii) legal expenses, including the costs of updating the operative agreements or other related documents; (iv) risk management expenses; (v) the fund's insurance premiums; (vi) internal and external accounting expenses, including fees associated with the valuation or pricing of securities or other instruments in which the fund invests; (vii) audit and tax preparation expenses; (viii) consulting fees, custodian or prime broker fees, brokerage commissions, interest related to margin transactions, any fees of the transfer agent and registrar,



taxes imposed on the fund; (ix) the cost of acquiring a surety bond and any extraordinary expenses; and (x) the cost for any regulatory filings with any regulator having jurisdiction over the fund. Collective investment vehicles that are feeder funds as part of a master-feeder structure indirectly bear the portfolio and other expenses of the master fund (including, without limitation, the types of expenses described above and the fees and expenses of such master fund's administrator) pro rata based on the feeder fund's interest in such master fund. Certain collective investment vehicles may also utilize trading vehicles or other special purpose vehicles, and all portfolio and other expenses relating to such vehicles are borne by the collective investment vehicles, and in turn by such fund's investors.

If a separately managed account client's investment guidelines permit, we may invest all or a portion of their assets in one or more collective investment vehicles. Such clients bear their proportionate share of the fund's expenses in connection with such investments. When we investment on behalf of a separately managed account in a collective investment vehicle not registered with the SEC that is sponsored by MacKay Shields we do not receive a management fee, or incentive allocation (if applicable) 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 of the separate account being managed, including the amounts invested in the collective investment vehicle. With respect to investments in collective investment vehicles that we do not manage, the management fee(s) paid to the third-party investment manager of such investment fund is in addition to the management fee payable to MacKay Shields.

### **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 "Item 10 - 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, but such registered representatives, including our employees, receive compensation for their sales efforts. This practice presents a conflict of interest and gives such an employee an incentive to recommend investment funds based on the compensation to be received rather than based on the best interests and needs of an investor or prospective investor. Further, the compensation that such an employee receives may, in certain instances, be higher with respect to sales of interests in investment funds sponsored by an affiliate than with respect to sales of interests in investment funds sponsored by MacKay Shields. As a result, such employees will have an incentive to recommend affiliated investment funds for which the employee would receive higher compensation, rather than investment funds or other products offered by MacKay Shields. There are policies and procedures in place that we believe are reasonably designed to address these conflicts of interest. For example, disclosure of the conflicts is provided to prospective investors of applicable investment funds, and our employees who are registered representatives of NYLIFE Distributors receive training regarding sales practices and may only recommend investments in 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 "Item 14 - Client Referrals and Other Compensation" below. The compensation paid to those employees comes out of the fee paid by such accounts and is not an additional charge to the account.

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

We receive performance-based fees designed to comply with Rule 205-3 under the Advisers Act in connection with the advisory services we provide to certain separately managed account clients. In addition, we receive



performance-based fees in connection with the advisory services we provide to certain collective investment vehicles. Managing accounts that have a performance-based fee at the same time that we manage accounts that only have an asset-based fee is commonly referred to as “side-by-side management.” This creates a conflict of interest by giving us an incentive to favor those accounts for which we receive a performance-based fee because we will receive a higher fee if their performance exceeds a designated target or benchmark.

It is our policy not to favor the interest of one client over another. We address the conflicts of interest created by “side-by-side-management” by having a Trade Allocation Policy designed so that all client accounts will be treated fairly and reasonably 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.

As a general practice, we will seek to 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 criteria which may include, but are not limited to: (i) client cash limitations; (ii) actual and anticipated or potential account inflows and outflows; (iii) duration and/or average maturity; (iv) credit ratings and anticipated credit ratings; (v) account size, deal size, trade lots; (vi) processing costs; (vii) existing exposure to an issuer or industry type, and other concentration limits; (viii) specific investment objectives, investment guidelines and anticipated guidelines changes; (ix) regulatory requirements and/or tax considerations; (x) borrowing capacity; and (xi) other practical limitations.

If the aggregated order is filled in its entirety, it will generally be allocated among clients in accordance with the target allocation; if the order is partially filled, it will typically be allocated pro-rata based on the allocation methodology recorded in the trade order management systems, subject to the considerations described in the preceding sentence, unless that would be impractical. For all investment teams, if in our judgment or as a result of factors described above 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 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. It is our goal to provide individualized treatment and customized solutions to separately managed account clients and collective investment vehicles. Due to the difference in investment objectives, strategies, guidelines and restrictions, and cash availability, along with the other criteria described 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 “Item 12 – 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, and 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 manage collective investment funds and accounts for our affiliates. See “Item 5 - Fees and Compensation,” above, and “Item 10 - Other Financial Industry Activities and Affiliations,” below.

**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, wrap programs 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.

For clients participating in a wrap program that MacKay Shields sub-advises, please see the sponsor's wrap fee program brochure for fee information and additional disclosures.

**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 generally 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. For the avoidance of doubt, absent specific written direction from a client, MacKay Shields is responsible for determining how to appropriately classify an issue or issuer for purposes of monitoring investment guidelines and reporting, including without limitation, country and industry sector classifications. Such methods of classifications are subject to change, in MacKay Shields' sole discretion, without notice.

## **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 Credit, Global Fixed Income, High Yield, and MacKay Municipal Managers™. The equity team is: Fundamental Equity. Certain of our investment mandates are managed cooperatively by more than one investment team.

Each of our investment teams 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 Credit Investment Team***

The Global Credit investment team incorporates a top-down and bottom-up approach in the decision-making process. The team's philosophy is rooted in the belief that debt markets do not reward for inappropriately high levels of risk, and therefore, the team seeks to avoid uncompensated risk.

The top-down element of the Global Credit 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 a significant contributor to credit creation and an important driver of the inflection points in the market 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, individual credits are run through a multi-factor analysis of financial and non-financial risk characteristics seeking to gain a complete picture of the credit profile of an issuer. For sovereign investments, a country's current account, rate of economic growth, level of inflation, amount of foreign reserves, political stability and bankruptcy laws are evaluated to determine the attractiveness of the cost of debt of each country relative to the risk factors identified.

When investment opportunities are analyzed for possible inclusion into a portfolio, the Global Credit investment team looks to accomplish two important goals: (1) quantify the downside risk; and (2) measure the upside potential. Bottom-up research complemented with a top-down macroeconomic overlay can help identify those securities having the most attractive risk/return profiles. Debt instruments typically have limited upside, but significant downside potential. Given this asymmetric risk-return profile, the Global Credit investment team believes a strong focus on downside protection is required to invest successfully in the market. The Global Credit team has established a Credit Committee that meets regularly to discuss specific issuers in the context of these important risk factors. The Credit Committee is comprised of the team's credit portfolio managers and all investment discussions include the relevant research analysts and traders.

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 Credit investment team may use derivatives, including, but not limited to, Treasury futures and currency forwards.

### ***Global Fixed Income Investment Team***

The Global Fixed Income investment team's 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 through an integrated top-down and bottom-up framework. The team's basic tenet is that debt instruments have limited upside, but significant downside potential. The team seeks to limit or reduce downside risk in an effort to increase the probability of generating higher returns while decreasing volatility.

The team's investment process marries a fundamental bottom-up investment approach with a top-down macroeconomic overlay, while the 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 evaluate the potential downside risk from investments eligible for a client portfolio.

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 a significant contributor to credit creation and an important driver of the inflection points in the market 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, individual credits are run through a multi-factor analysis of financial and non-financial risk characteristics seeking to gain a complete picture of the credit profile of an issuer. In the case of securitized assets, a credit analysis is conducted, including an evaluation of the issuer's underwriting standards and procedures, level of credit enhancement, the strength of the servicer and the quality of the underlying collateral. For sovereign investments, a country's current account, rate of economic growth, level of inflation, amount of foreign reserves, political stability and bankruptcy laws are evaluated to determine the attractiveness of the cost of debt of each country relative to the risk factors identified.

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 and currency forwards.

### ***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 seeks to maximize the default adjusted yield and spread of a diversified portfolio.

The team assesses the credit risk of potential investments by reviewing, among other things, capital structure, covenants, asset coverage, cash flow generating profile, risk of default, and anticipated recovery value. The investment team's process focuses on high yield instruments 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 free cash flow over time.

The investment team categorizes positions in its portfolios into one of four risk groups. When assessing relative value of investments in the various risk groups for purchase or sale for client portfolios, the 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 position for one of three reasons: 1) when the 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; 3) for diversification purposes; or 4) to satisfy investment guidelines and restrictions.

Subject to client constraints, the High Yield investment team may invest in a variety of debt obligations, including, but not limited to, bonds, notes, leveraged loans, convertible securities and preferred stock. Also subject to client constraints, the investment team may invest opportunistically in equities and emerging market debt instruments in certain strategies.

### *Municipal Investment Team*

The MacKay Municipal Managers™ investment team uses a fundamental value approach combined with a top-down macro view and 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 regarding 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, but are not limited to: (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; or (4) a change in credit rating.

Subject to client constraints, certain investment strategies managed by the MacKay Municipal Managers™ investment team may use derivatives, such as Treasury futures, or may involve shorting instruments such as Treasury securities.

## EQUITY INVESTMENT TEAM

### *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.



## 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.

**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 (i.e., rated Ba3 or lower by Moody's Investors Service, Inc., BB- or lower by Standard & Poor's Ratings Services or comparably rated by another nationally recognized statistical rating organization ("NRSRO") or those that are not rated by a NRSRO, but that have characteristics of high-yield securities), 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") or those that are not rated by a NRSRO, but that have characteristics of investment-grade securities) 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, the Financial Conduct Authority, has announced that a majority of LIBOR settings will no longer be published or no longer be representative of the economic reality the LIBOR setting is intended to measure after June 30, 2023. In addition, the U.S. Federal Reserve has instructed U.S. banks to stop writing new contracts using LIBOR and has instructed that all contracts using LIBOR should wrap up by June 30, 2023. As a result of these governmental actions, LIBOR will 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 the client account's portfolio after the relevant date for that LIBOR tenor.

The secured overnight financing rate (“SOFR”) is the leading proposed replacement for LIBOR and measures the cost of overnight borrowings through repurchase agreement transactions collateralized with U.S. Treasury securities. Currently, LIBOR and SOFR will coexist, however, it is expected that SOFR will supplant LIBOR as the dominant benchmark for dollar-denominated derivatives and credit products. Various financial industry groups are planning for the transition away from LIBOR and certain regulators and industry groups have taken actions to establish SOFR as LIBOR’s replacement. There are significant challenges to converting certain contracts and transactions to a new benchmark and the effect of any changes to LIBOR or transition to SOFR or alternative rates will vary depending on a number of factors, many of which are currently uncertain, including the benchmark fallback provisions in individual instruments and how and when industry participants continue to develop and adopt alternative reference rates and fallbacks for both new and legacy instruments. Uncertainty regarding LIBOR or regarding the application or effectiveness of SOFR and other alternative rates might lead to increased volatility and illiquidity in markets for instruments with terms tied to LIBOR, SOFR or other alternative rates.

These developments could negatively impact financial markets in general and present heightened risks, and, as 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.

**Asset-Backed Securities.** Asset-backed securities ("ABS" or "Asset Backed Securities") are securities the payments on which are provided primarily or exclusively by a discrete pool of financial assets. The financial assets, consisting of consumer or commercial obligations, are transferred into limited-purpose vehicle structures designed to reduce or eliminate risks so that the primary risk of payments on the issued securities is performance by the underlying obligors on the financial assets. Through the use of special purpose trusts, corporations and other vehicles, a broad range of securitization techniques is applied to create different types of securities backed by financial assets. Various types of financial assets are securitized, including consumer obligations in the form of automobile loans and leases, credit card receivables and student loans, and commercial debt obligations in the form of equipment loans and leases, floorplan leases, small business loans, large corporate loans and commercial mortgage loans. Holders of asset-backed securities are exposed to various risks, including credit risk, market risk, liquidity risk, structural and legal risks, interest rate risk, concentration risk, operational risk, regulatory risk, and other risks as more fully described below. Risks also arise from discretionary behavior of the issuer or its service providers performing obligations under securitization agreements, such as remedial decision-making by servicers, voluntary seller buybacks from, or contributions to, an underlying pool of loans, or issuer or collateral manager reinvestments of proceeds of loans that are repaid or sold. An originator or sponsor may perform more than one role in a securitization process, simultaneously serving as originator of loans, servicer, administrator, underwriter, provider of liquidity, provider of hedging, or credit enhancer. A multiplicity of roles may be involved, often through a single firm for one or more securitizations.

**Commercial Mortgage-Backed Securities.** The risks associated with investments in commercial mortgage-backed securities ("CMBS") reflect the risks of investing in the real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants. Real property is susceptible to certain specific risks, such as acts of God, including earthquakes, floods and other natural disasters, acts of war or terrorism, changes in governmental laws and regulations, including local zoning ordinances and the related costs of compliance, environmental risks and risk of loss associated with uninsured or under-insured real property. If any of these or similar circumstance arise, it may reduce the return from an affected property which may, in turn, reduce the payments on the securities held by a client.

CMBS obligations represent only an investor's ownership interests in the issuing entity, whose primary assets are the mortgage loans being securitized. Repayment on the mortgage loans underlying CMBS are generally dependent on the cash flow of the mortgaged properties securing such mortgage loans. Effects on economic, political, environmental and governmental conditions at any given time may have an effect on a mortgaged property's ability to generate cash flow by reducing occupancy, lowering prevailing market rental rates, increasing defaults among tenants and introducing use restrictions on the mortgaged property, among others.



Any such decrease in cash flow at a given mortgaged property may have a negative effect on the related borrower's ability to pay its monthly debt service payments. Furthermore, as most mortgage loans included in CMBS transactions are interest only for the term of the mortgage loan with balloon payments due at maturity, the ability of a related borrower to sell the mortgaged property or refinance the mortgage loan at the scheduled maturity date may affect the borrower's ability to repay the principal due at maturity. Additionally, CMBS products generally rely on third-party service providers to enforce yield maintenance charges and prepayment premiums due on the underlying mortgage loans and to make advances in respect of defaulted and/or delinquent loans. Third-party service providers may have interests that are different than those of the holders of the securities, and may, at times, have interests that are adverse to those of the holders of the securities. Holders of CMBS have limited control over the actions of third-party service providers and may not effectively be able to replace any such service provider. There can be no assurance that third-party service providers will act in the best interests of our clients or that MacKay Shields will have the ability to exercise any control rights with respect to such service providers.

**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.

**Ratings-Related Risks.** Ratings assigned by Moody's, S&P, Fitch and/or other nationally recognized statistical rating organizations ("NRSRO") 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.

**Geopolitical Risks.** Geopolitical events, such as the Ukrainian war, have increased market and liquidity volatility and have caused sanctions, trading suspensions and closures. The sanctions include legal, regulatory, currency and economic risks, and additional sanctions may be imposed in the future. The Ukrainian war has had a devastating effect on the Ukrainian and Russian economies, which have expanded to the European economy and worldwide. Certain economic sectors may be particularly affected, including but not limited to,



financials, energy, metals and mining, engineering and defense and defense-related materials sectors. The duration of the war and the economic effects cannot be known. Such events, and other related events, could have a serious negative impact on, among other things, performance, liquidity and valuation of investments.

**Brexit Risk.** On January 31, 2020, the UK officially withdrew from the EU and the UK entered a transition period which ended on December 31, 2020. On December 30, 2020, the EU and UK signed the EU-UK Trade and Cooperation Agreement (“TCA”), an agreement on the terms governing certain aspects of the EU’s and the UK’s relationship following the end of the transition period. Notwithstanding the TCA, following the transition period, there is likely to be considerable uncertainty as to the UK’s post-transition framework.

The impact on the UK and the EU and the broader global economy is still unknown, but could be significant and could result in increased volatility and illiquidity and potentially lower economic growth. Brexit may have a negative impact on the economy and currency of the UK and the EU as a result of anticipated, perceived or actual changes to the UK’s economic and political relations with the EU. The impact of Brexit, and its ultimate implementation, on the economic, political, and regulatory environment of the UK and the EU could have global ramifications. Any of the foregoing or similar risks could have a material adverse effect on the clients’ investment returns. These events, subsequent developments and future consequences of Brexit lie outside of the control of MacKay Shields and their impact cannot be reliably predicted.

**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), 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 COVID-19 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.

Considerable uncertainty still surrounds COVID-19 and its potential effects, and the extent of and effectiveness of any responses taken on an international and local level. The global impact of the outbreak is rapidly evolving, and many countries have reacted by declaring states of emergency, instituting regional and country-wide quarantines, prohibitions on travel, significant border closures, bans on public events and other large social gatherings and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. These responses may be in place for a considerable period of time and have caused, and may continue to cause, significant economic disruption.

Although we have a business continuity plan to enable personnel to work remotely and effectively, there is no assurance that this will work effectively at all times. In order for employees to effectively work remotely, our technologies and other operational infrastructure must function properly. Any failure in the proper functioning of such technologies or other operational infrastructure could disrupt remote employees’ abilities to adequately carry out their functions.

**ESG Risks.** Each of our investment teams incorporates Environmental, Social and Governance (“ESG”) considerations into their investment process. Due to the breadth of each investment team’s investment activities, procedures may vary, not be applicable in certain cases, or MacKay Shields may not have discretion or control with respect to operational and other material decisions related to certain investments. The likely impact on the return of an investment from an actual or potential material decline in the value of an investment due to an ESG event or condition will vary and depend on several factors including, but not limited to, the type, extent, complexity and duration of the event or condition, prevailing market conditions, and the existence of any mitigating factors. Additionally, certain of MacKay Shields’ investment teams may, and/or in the future may, manage mandates that emphasize ESG as a primary factor in strategy construction, including, without limitation, investment strategies pursuant to which MacKay Shields will primarily seek to invest in assets that meet its proprietary ESG criteria or as defined by a client. Such ESG-focused investment strategies can cause an account to perform differently compared to accounts that do not utilize an ESG-focused investment strategy.

For example, the investment decisions made pursuant to ESG-focused investment strategies may result in an account not participating in certain investment opportunities when it might be otherwise advantageous to do so, or selling certain instruments for ESG-related reasons when it might be otherwise disadvantageous to do so.

There are significant differences in interpretation of what it means for a company to have positive or negative ESG characteristics and others may not agree with the ESG assessments conducted by our investment teams. The data used to determine whether companies are managed and behave responsibly is gathered through external data sources and internal research. The subjective nature of nonfinancial criteria means that a wide variety of financial outcomes are possible and the data available may not adequately address what our investment team(s) believe to be material sustainability factors. The analysis is also dependent on companies disclosing relevant data and the availability of this data can be limited. There is no guarantee that measures taken by MacKay Shields' analysis of ESG factors will identify certain material ESG deficiencies and/or mitigate or prevent risks from materializing.

Cyber Security and Privacy 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. Unintentional cyber incidents can occur, such as the inadvertent release of confidential information, which could expose our client's personal information to third parties and result in financial harm to them and the violation of applicable privacy laws.

Systems and Operational Risks Generally. MacKay Shields relies heavily on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain investments, to monitor client portfolios and capital, and to generate risk management and other reports that are critical to oversight of its activities. In addition, MacKay Shields relies on information systems to store sensitive information. Certain of MacKay Shields's activities are dependent upon systems operated by third parties, including prime brokers, administrators, custodians, agent banks, market counterparties and other service providers, and MacKay Shields may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by MacKay Shields, prime brokers, administrators, custodians, agent banks, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in MacKay Shields's operations may cause clients to suffer, among other things, financial loss, the disruption of business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on clients.

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.

**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. 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.

**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.

## **ITEM 9: DISCIPLINARY INFORMATION**

There are no legal or disciplinary events involving MacKay Shields or its management persons that are material to our advisory business or to the management of client accounts.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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

### **Regulated Subsidiaries and Financial Industry Activities**

MacKay Shields Europe Investment Management Limited (“MacKay Europe”) and MacKay Shields UK LLP (“MacKay UK”) are indirect wholly-owned subsidiaries of MacKay Shields. MacKay Europe 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”). Effective December 31, 2020, MacKay Europe became the provider of asset management services to the



firm's European clients, replacing MacKay UK. MacKay Shields has arrangements in place in which it provides support services, including but not limited to, technology, finance, legal and compliance, operations, and human resources, to MacKay Europe and MacKay UK, and MacKay Europe has appointed MacKay Shields as sub-adviser for the Plainview Funds plc, and certain separately managed accounts.

MacKay Shields has also established and controls various entities whose purpose is to serve as the general partner, managing member, or equivalent role of commingled investment vehicles managed by MacKay Shields or its affiliates. Additionally, certain of MacKay Shields' senior employees are Directors of MacKay Europe and of commingled investment vehicles sponsored and/or managed by MacKay Shields or MacKay Europe. MacKay Shields does not receive compensation for providing access to such personnel from these entities.

MacKay Shields 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.

### **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, but not limited to, 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 execute transactions on behalf of our client accounts with Affiliated Brokers.

### **Ownership, Management and Compensation**

MacKay Shields is 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 and their affiliates, as well as the Chief Executive Officer of MacKay Shields. In addition, certain compliance and additional non-investment support functions are supported by resources and services of NYL Investments and NYLIC.

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, directors and or "approved persons" 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 two-thirds 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, which 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 their 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;
- MainStay Defined Term Municipal Opportunities Fund, a closed-end registered investment company for which NYL Investments is the investment adviser and administrator and NYLIFE Distributors LLC acts as principal underwriter and distributor;
- 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 adviser, 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 designed 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 "Item 6 - Performance-Based Fees and Side-by-Side Management," above, "Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below, and "Item 12 - Brokerage Practices," below.



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 relative to the index. MacKay Shields has implemented internal controls in order to mitigate any such conflicts related to the management of exchange traded funds.

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.

#### **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 seek to comply with the requirements of the SEC's cash solicitation rule, including the applicable disclosure requirement. Please see "Item 14 - 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.

#### **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, if permitted by clients, may investment separately managed account assets in commingled investment vehicles (including those managed by MacKay Shields or our affiliates) and MacKay Shields has discretion (subject to an accounts investment guidelines and restrictions) in determining the amount of such investments;
- 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, and such conflicts may be exacerbated in a restructuring situation;
- 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 the Code of Ethics (the “Code”) of NYLIM Holdings and all personal trading is monitored by NYLIM Holdings’ Compliance. The Code of Ethics includes the Personal Investing Activities – Restrictions and Monitoring Procedures. The Code of Ethics is designed to comply with Rule 204A-1 under the Advisers Act. The Code covers all MacKay Shields employees, and all employees are typically considered “Access Persons” under the Code, subject to limited exceptions as may be approved by the General Counsel, Chief Compliance Officer, or their designees. All Access Persons are required to submit at the onset of employment and annually an Acknowledgement of Code of Ethics. Employees are also required to adhere to additional policies relating to the Code, including, but not limited to: Insider Trading Policies and Procedures, Information Barrier Policy, Conflicts of Interest Procedures, Gift and Entertainment Policy, Anti-Bribery and Corruption Policy, Policy on Selective Disclosure of Mutual Fund Portfolio Holdings, and Personal Political Contributions Policy.

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 “Item 10 - Other Financial Industry Activities and Affiliations” above. All Access Persons are generally required to pre-clear personal trades in covered securities through the automated personal trading system used by the NYLIM Holdings Compliance Department. Access Persons deemed Investment Personnel are generally prohibited from executing personal securities transactions in securities within seven days before or after we make a trade in such securities for a client. Access Persons and Investment Personnel are not permitted to purchase or sell a Covered Security on a day when there is an open Buy or Sell Order for a client, however, exceptions may be granted if the applicable open order has been

submitted by a separate Investment Team for which the Investment Personnel or Access Person would have no knowledge that such order has been submitted. Short-term trading is also generally prohibited and Access Persons may not engage in a purchase and then sell, or sell and then re-purchase, within 60 days of the initial transaction. There is also a 30-day holding period requirement that applies to transactions in shares of affiliated mutual funds ("Reportable Funds"). No employee may purchase and sell, or sell and purchase, shares of Reportable Funds within 30 days. The 30-day holding period is measured from the time of the most recent purchase of shares of the relevant Reportable Fund by the Employee. Transactions in affiliated ETFs are subject to a seven-day holding period. In addition, investment personnel are prohibited from trading in options with respect to individual securities.

In addition, reviews are conducted of employee trading activity to ensure there are no violations of the Code. On a quarterly basis, Access Persons are required to submit certain certifications, such as a Quarterly Transaction Certification and a Quarterly Brokerage Account Certification. In addition, annually, all employees are required to file an annual holdings report and certify to their brokerage accounts as of year-end. The NYLIM Holdings Compliance Department maintains a record of documents submitted and conducts a review to identify any issues. The compliance certifications are captured electronically through the automated personal trading system used by the NYLIM Holdings Compliance Department. NYLIM Holdings' Compliance Department notifies MacKay Shields' Compliance Department when all employee certifications are completed and will consult with MacKay Shields' Chief Compliance Officer or his designee if there are any issues.

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 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' Chief Compliance Officer has oversight of the daily monitoring of employee personal trades conducted by the NYLIM Holdings Compliance Department and assists in addressing issues and questions that arise. In addition, reviews are conducted of employee trading activity to ensure there are no violations the Code. Employees who violate our Code can have their personal securities trading privileges suspended, and we can impose severe sanctions for violations of the Code and the related policies listed above, including termination of employment. 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.

We will provide a copy of our Code to any client or prospective client upon request sent to:

MacKay Shields LLC  
1345 Avenue of the Americas, 43<sup>rd</sup> Floor  
New York, NY 10105  
Attention: Chief Compliance Officer  
Compliance-DB@mackayshields.com

#### **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. However, from time-to-time, our personnel or those

of our affiliates may come into possession of inside information concerning various companies. The investment decision making and trading functions at MacKay Shields and our affiliates 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 prevent trading on the basis of such information and to limit any potential conflicts of interest.

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 investment personnel may serve on the board of directors, a creditors' committee or a bondholders' committee of an issuer whose securities or other instruments 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, sponsors, advisors, and/or other parties relating to defaults and alleged defaults by issuers and other parties under the indenture agreements or other documents governing investments 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, we may acquire material non-public information, which may result in restrictions on trading. 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) are autonomous and operate separately from our affiliates. 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 “Item 12 - 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 reasonable 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 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 and, to the extent applicable, the transaction satisfies Rule 206(3)-2 under the Advisers Act. See “Item 6 - Performance-Based Fees and Side-By-Side Management,” above and “Item 12 - Brokerage Practices,” below.

The investment decision making and trading functions at MacKay Shields are autonomous and operate separately from our affiliates. 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 “Item 10 - 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.

### **Contemporaneous Trading and Contrary Investment Positions**

We maintain independently managed investment strategy teams, which may compete with each other for the same investment opportunities and/or take positions that are counter to one another. MacKay Shields engages in transactions and investment strategies for certain clients that differ from the transactions and strategies executed on behalf of other clients. At times, two or more of MacKay Shields’ investment teams may jointly manage the assets of a single client portfolio (“Crossover Mandate”). In such instances, the asset allocation decisions will be discussed amongst the various investment teams, but the day-to-day investment decision-making process will typically be made independently by each team for the portion of the Crossover Mandate that team is responsible for managing.

MacKay Shields invests in all segments of the capital structure on behalf of clients and is not precluded from investing in instruments of a company held in another client, even if such positions may be adverse to one another. MacKay Shields’ clients have held, and it is expected that in the future they will at times hold, different investments of the same issuer that have different priorities. These investments create conflicts of interest, particularly because MacKay Shields can take certain actions for clients that can have an adverse effect on other clients (e.g., in connection with restructuring and reorganization situations). For example, certain MacKay Shields clients in one strategy may hold instruments that are senior or subordinated relative to instruments of the same issuer held by clients in another strategy. This presents a conflict of interest because



any action that the portfolio managers of one strategy were to take on behalf of the issuer's senior instrument, for instance, could have an adverse effect on the issuer's junior instrument held by clients of another investment strategy, and vice versa, particularly in distressed or default situations. To the extent MacKay Shields or any of its employees were to serve on a formal or informal creditor or similar committee on behalf of a client, such conflicts of interest may be exacerbated.

MacKay Shields also acts as investment adviser to clients that have issued securities and other instruments, and MacKay Shields may enter into similar investment advisory relationships in the future. Such companies may be investors in collective investment vehicles sponsored or managed by MacKay Shields or its affiliates. MacKay Shields may purchase, on behalf of its clients, instruments issued by such companies. However, MacKay Shields is not obligated to purchase or sell or recommend for purchase or sale for any client any security or other asset that we and our employees and affiliates may purchase or sell for their own accounts or for the account of any client.

Additionally, MacKay Shields may make investments for certain clients that they conclude are inappropriate for other clients. For instance, clients within one investment strategy may take short positions in the debt or equity instruments of certain issuers, while at the same time those instruments or other instruments of that issuer are acquired or held long by clients in another investment strategy, or within the same strategy, and vice versa.

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.

### **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. Cross trades may be executed for different clients on the same or a different day on which we trade in the same investment for other clients. To the extent that this occurs, it could give rise to a conflict of interest because clients acquiring securities through a cross trade would typically pay lower execution costs than clients purchasing these instruments through a broker-dealer and clients disposing securities through a cross trade would typically receive higher execution proceeds than clients disposing of these instruments through a broker-dealer.

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 of the Investment Company Act of 1940, which sets forth the conditions that must be met.

## Differing Terms of Investment Products

MacKay Shields offers many of its investment strategies through a variety of investment products, including, without limitation, separately managed accounts, private funds, mutual funds, and ETFs. Given the different structures of these products, certain clients are subject to terms and conditions that are materially different or more advantageous than available under different products. For example, mutual funds offer investors the ability to redeem from the fund daily, while private funds offer less frequent liquidity. Similarly a client with a separately managed account may have more transparency regarding the positions held in its account than would be available to an investor in a collective investment vehicle. Further, separately managed account clients have the ability to terminate their investment management agreement with little or no notice (subject to the terms of the investment advisory agreement or similar agreement).

As a result of these differing liquidity and other terms, MacKay Shields may acquire and/or dispose of investments for a client either prior to or subsequent to the acquisition and/or disposition of the same or similar securities held by another client. In certain circumstances, purchases or sales of securities by one client could adversely affect the value of the same securities held in another client's portfolio. In addition, MacKay Shields has caused, and expects that in the future it will cause, certain clients to invest in opportunities with different levels of concentration or on different terms than that to which other clients invest in the same securities. These differences in terms and concentration could lead to substantially different investment outcomes among clients investing in the same securities. We seek to tailor our investment advisory services to meet each client's investment objective, constraints and investment guidelines, and MacKay Shields' judgments with respect to a particular client will at times differ from its judgments for other clients, even when such clients pursue similar investment strategies.

MacKay Shields has entered, and in the future may enter, into arrangements with certain clients and investors in collective investment vehicles that grant such clients or investors special or more favorable rights that are not available to clients and investors. Such special or more favorable rights include, but are not limited to: (i) different fee or liquidity arrangements, including fee sharing arrangements; (ii) additional reporting and/or greater access to certain information; (iii) opportunities to meet or speak with MacKay Shields' investment personnel; and (iv) key-person, material litigation, and similar notifications rights.

## Non-Exclusive Services

It should be noted that MacKay Shields' services to each client are not exclusive. Our employees and affiliates may effect transactions for their own accounts and for the accounts of other clients that differ materially from the advice given, or the time or nature of action taken, with respect to a particular client account. Also, it may not always be possible for the same investment positions to be taken or liquidated at the same time or at the same price. Additionally, the nature of managing accounts for multiple clients creates a conflict of interest with regard to time available to serve clients. MacKay Shields and its officers and/or employees will devote as much of their time to the activities of each client as they deem necessary and appropriate. However, a conflict of interest exists as different clients may often be in competition for the time and effort of the MacKay Shields and its officers and/or employees.

MacKay Shields' clients should be aware that although MacKay Shields strives to identify and mitigate all conflicts of interest, and seeks to treat its clients in a fair and reasonable manner consistent with its fiduciary duties, there may be times when conflicts of interest are not resolved in a manner favorable to a specific client. Accordingly, MacKay Shields conducts an annual review of its business practices to identify those areas that might pose a conflict of interest between MacKay Shields and its clients. MacKay Shields' Legal and



Compliance Departments endeavors to ensure that all relevant disclosures concerning conflicts of interest are included in this Brochure.

## 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 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; 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 will regularly 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 or the supply limited.

Pursuant to our “Approval of Broker-Dealer Policies and Procedures,” our traders typically 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, or their designee. There may be instances when an investment team may request to transact with a broker-dealer not currently approved. In these instances, the Chief Compliance Officer, the General Counsel, or their designee may grant an exception, subject to certain conditions being met.

We effect transactions in over-the-counter (“OTC”) instruments 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.

In selecting a broker for our equity strategies, MacKay Shields may also consider research or brokerage services provided by the broker-dealer, in accordance 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 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**

### *Soft Dollar Benefits in Fixed Income Strategies*

MacKay Shields does not have any soft dollars arrangements with respect to our fixed income business because trading of fixed income securities does not generate a broker commission; instead these securities are traded with a bid/offer spread to compensate the trading broker.

MacKay Shields may receive, without cost and unrelated to the execution of transactions, a broad range of research services from brokers, including information on the economy, industries, securities and individual companies, statistical information, market data, complimentary attendance at industry conference and events, access to company management, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information that may affect the economy and/or security prices.

Subject to our best execution policy, from time-to-time we allocate transactions to these brokerage firms. The research, information and services furnished by these brokers are useful in varying degrees and may be used in servicing our clients. Some of these services may be used in connection with accounts that paid no

commissions to the broker providing such services. No formula has been established for the allocation of business to such brokers. We may also pay brokers and their affiliates for certain specialized data and services, such as benchmark information, that are also unrelated to the execution of securities transactions.

#### *Soft Dollar Benefits 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 team 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, and may in the future receive additional 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 consults 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.” Participating in commission sharing arrangements enables MacKay Shields’ equity investment team 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.

#### *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 also pay hard dollars to certain broker-dealers to access their written research, analysts, conferences, etc.

### Brokerage for Client Referrals

MacKay Shields has formal and/or informal arrangements in place with brokers and/or affiliates of brokers who market our investment strategies and/or products or otherwise make our investment strategies and/or products available to their respective clients. In certain circumstances, MacKay Shields or our clients compensate these brokers or their affiliates in connection with these arrangements (including, for example, a placement agent fee paid by a client). In selecting or recommending broker-dealers or other counterparties with whom to execute client transactions, 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. Nonetheless, this practice creates a conflict of interest because we have an incentive to select or recommend a broker based on our interest in receiving client referrals. The allocation of transactions to brokers who (or that have affiliates who) market or otherwise make our investment strategies or products available to their clients is subject at all times to our obligation to obtain best execution.

### Directed Brokerage

At a client's request, we may 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. 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.

It is important to note that 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 are 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. Currency Forwards may also be used to gain exposure to a certain currency, in line with a client's investment guidelines and objectives.

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**

It is our policy that all client accounts will be treated fairly 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 investments 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 Shields 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.

Orders within an investment team will typically be aggregated or bunched to reduce the costs of the transactions. Orders are typically not aggregated across investment teams even though there may be orders by separate investment teams to execute the same instrument on the same trading day; provided, however, that orders for the same instrument are typically aggregated across investment that are supported by a shared trading desk. It is the investment team's responsibility to determine whether aggregation is appropriate. For the avoidance of doubt, MacKay Shields will not aggregate transactions if it believes that such an aggregation is inconsistent with its duty to seek best price and execution for its clients or is inconsistent with the terms of MacKay Shields' investment advisory agreement with each client for which trades are being aggregated. Aggregated orders are typically allocated among accounts based upon an average price, with all other transaction costs, if any, shared among the accounts on a fair and reasonable basis. Clients that instruct us to allocation transactions to a certain broker dealer may be excluded from certain aggregated orders as a result of such directed-brokerage arrangements; for additional information, see the section "Directed Brokerage" above.

As a general practice, we will seek to 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 criteria which may include, but are not limited to: (i) client cash limitations; (ii) actual and anticipated or potential account inflows and outflows; (iii) duration and/or average maturity; (iv) credit ratings and anticipated credit ratings; (v) account size, deal size, trade lots; (vi) processing costs; (vii) existing exposure to an issuer or industry type, and other concentration limits; (viii) specific investment objectives, investment guidelines and anticipated guidelines changes; (ix) borrowing capacity; and (x) other practical limitations. If the aggregated order is filled in its entirety, it will generally be allocated among clients in accordance with the target allocation; if the order is partially filled, it will typically be allocated pro-rata based on the allocation methodology recorded in the trade order management systems, subject to the considerations described in the preceding sentence, 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 will be made promptly following execution but no later than the end of the trading day. Such orders will be based upon the criteria noted above and will not unfairly discriminate against or advantage one account over another over time. With respect to the equity investment team, orders typically 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, if in our judgment or as a result of factors described above 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 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. It is our goal to provide individualized treatment and customized solutions to separately managed account clients and collective investment vehicles. 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, but are not limited to, 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 may 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 it is anticipated that it 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.
- **Investment Restrictions/Guidelines** - Certain accounts may have client restrictions, regulatory restrictions, tax considerations, 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.
- **Issue or Issuer Characteristics** - Certain accounts may or may not participate in an allocation because of the issue or 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 a fair and reasonable 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 preferential treatment. There can be no assurance, however, 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 act as sub-adviser to an affiliated fixed-income 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 Shields 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 typically 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 not being aggregated with orders of any actively managed accounts could result in less favorable execution for the ETF or other clients.

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; provided, however, that investment teams supported by a shared trading desk may have shared access to trading blotters.

### Trade Errors

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. MacKay Shields is not, however, responsible for losses associated with errors of other third parties, including third-party brokers and custodians. If an error results in a gain, the gain will 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).

MacKay Shields has a conflict of interest when determining how to resolve a trade error because we would be required to reimburse a client for any losses resulting from our error. MacKay Shields will seek to resolve each trade error in a manner it considers appropriate and consistent with its fiduciary duties.

### ITEM 13: REVIEW OF ACCOUNTS

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 have several tools at our disposal to assess and monitor overall compliance of managed portfolios with their stated investment objectives and restrictions. 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 to assist in performing next day reviews.

Separately managed account clients (or their designated agent) typically receive a comprehensive quarterly (or more frequently upon request) reporting package that includes performance results and comparative benchmark returns, a detailed summary of transactions, an asset listing, and a portfolio manager commentary. Certain separately managed account clients may receive on a monthly basis an asset list

providing a market valuation of each security (produced on a trade-date basis and including accrued interest), a transaction journal, and, to the extent applicable, performance compared to the clients' respective benchmarks. Specialized reports may also be provided upon request.

We conduct periodic meetings with clients of separately managed accounts (or their designated agent), as well as advisers of registered and non-registered investment fund for which we act as sub-adviser, to discuss their portfolio(s). In general, at least one portfolio manager and a client service representative participate in these meetings. We also may report to the advisors and/or boards of the investment funds we advise, which may include a variety of written materials concerning the portfolios, including the materials made available to fund investors.

We review client portfolios no less frequently than 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.

#### ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

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We have entered and anticipate that in the future we will 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 "Item 10 - 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, we follow procedures reasonably designed to comply with the requirements of the SEC's current cash solicitation rule. 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.

We pay some of our employees for referring client accounts to us or our affiliates. The compensation comes out of the fee paid by such accounts. This creates a conflict of interest as certain employees may have an incentive to recommend or use the investment services or products of our affiliates over third parties that do not pay us fees for recommending their products and services. 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 act as placement agent for certain of our investment funds not registered with the SEC ( i.e., private funds) 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 investor referred by the placement agent. In some cases, investors who invest in certain of our private funds 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, and our employees who are registered representatives of NYLIFE Distributors are responsible for the sale of interests in these private funds, we are authorized by NYLIFE Distributors to compensate such registered representatives. See "Sale of Investment Products by Supervised Persons" above for additional information.

We or our employees at times purchase services, products, membership in industry organizations and forums, from, and purchase tickets to events sponsored by, consultants and other parties (or their affiliates) who may recommend our advisory services to prospective clients. We do not make these payments 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 typically subject to an annual audit in accordance with Generally Accepted Accounting Principles (GAAP) conducted by an independent public accountant registered with the Public Company Accounting Oversight Board (PCAOB) 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.

MacKay Shields generally does not act as custodian or otherwise take or retain possession, custody, title or ownership of holdings of client accounts. However, in certain instances, MacKay Shields may be deemed to have custody of client assets, other than as described in the preceding paragraph. For any such client, a qualified independent accounting firm will conduct an annual surprise examination on the holdings over which MacKay Shields is deemed to have custody. Other than investment funds for which we or an affiliate act as general partner, manager, managing member, sponsor, trustee, director or in a similar capacity, clients select their own qualified custodians, such as banks or broker-dealers, to maintain client assets. Clients typically receive account statements directly from their custodians and/or from their custodian banks' accounting departments. Clients should carefully review those statements. In addition, clients typically receive account statements from us. When a client receives an account statement from us, such clients are encouraged to compare them to the account statements received from their 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 the custodian may use different pricing sources to value securities held in portfolios. 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.

## ITEM 16: INVESTMENT DISCRETION

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We primarily manage clients' assets on a discretionary basis. The investment management agreements, or similar agreements, 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. When we act on behalf of a collective investment vehicle, our authority to select the identity and amount of securities to be bought or sold is limited by that collective investment vehicle's offering documents.

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 by the client to vote proxies with respect the securities in an account. MacKay Shields has adopted Proxy-Voting Policies and Procedures designed to make sure that where clients have delegated proxy-voting authority to MacKay Shields, proxies are voted in the best interest of such clients without regard to the interests of MacKay Shields or related parties. We currently use Institutional Shareholder Services, Inc. ("ISS") to assist us in voting client securities. If the client appoints MacKay Shields as its proxy-voting agent, the client will be asked to specify whether its proxies should be voted in accordance with custom guidelines provided by the client or in

accordance with standard guidelines adopted by MacKay Shields. Clients must furnish any custom voting guidelines to us in writing. Our standard guidelines follow ISS voting recommendations and standard guidelines will vary based on client type and/or investment strategy (e.g., union or non-union voting guidelines, or sustainability voting guidelines). 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.

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 generally 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 document his or her decision and complete the same form, with a similar review process as described above. 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 Shields 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 differently than the ISS recommendation, the portfolio manager must document 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 his or her documented reasons the form to our Legal or 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 Legal or Compliance Department determines that a conflict exists, we will refer the matter to our Compliance Committee for consideration. The Committee may use different means to resolve a conflict, such as using ISS's recommendation or that of another third-party, asking the client to vote the proxy, or disclosing our conflict to the client and asking the client to consent to our conflicted vote. 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.

Proxy voting on shareholder matters in foreign countries, particularly in emerging markets, may be subject to restrictions, including, but not limited to, registration procedures that prohibit sales result in a holding being illiquid for a period of time and limitations that impede or make the exercise of shareholder rights impractical. If these restrictions interfere with the management of the security, we typically will not vote.

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.

We will provide a copy of our Code to any client or prospective client upon request sent to:

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, 43<sup>rd</sup> Floor  
New York, NY 10105  
Attention: Head of Client Services

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**ITEM 18: FINANCIAL INFORMATION**

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