NEW YORK LIFE INVESTMENTS

Navigating market volatility: Key insights on multi-sector bond positioning

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1 What makes MacKay's Strategic Bond strategy different than other similar strategies in the marketplace?

There are a lot of competitors in our space, but we always focus on the things we can control. In that regard, we differentiate ourselves from our competitors in the following key areas:

- First, we believe in utilizing the entire opportunity set available to us while avoiding an over-reliance on any on sector of the market. A hallmark of our investment approach is "diversified sources of alpha."
- Second, Warren Buffet once said "be fearful when others are greedy, and greedy when others are fearful." We subscribe to this approach because many times investors don't fully understand or appreciate the nuances of different sectors of the market. Our team embraces the underappreciated sectors of the market as a means of seeking to harvest value.
- Third, we love to use our size to our advantage by seeking to capitalize on market sell-offs to potentially identify strong investment opportunities in weak sectors, providing we don't believe there is any fundamental risk of impairment. Historically, in most markets, price volatility created opportunities as these episodes have been typically both short-lived and self-correcting.
- Finally, more than anything else, we recognize the value in complexity. At the root of our investment process is the belief that research is what gives us an edge. Security selection is so important when it comes to identifying and seeking attractive income and total return opportunities.

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2 How active are you in making changes to the portfolio?

In our view it is very important to have a proper balance of both strategic positioning and tactical engagement in a portfolio that has wide investment latitude and few constraints.

Moreover, given our size in the competitive landscape, we believe we are positioned to be much more active in a way that makes a difference to our investors whereas some of our larger peers are unable to do so.

Let me provide you with a couple of examples — last summer we experienced snap elections in Europe and the UK that rattled the markets and created some volatility. In particular, we saw spreads in a number of the UK and French banks widen out on the news. Our research showed that these Global Systematically Important Banks ("GSIB") were well capitalized and fundamentally sound, so we decided to tactically allocate into some of these banks, down in the capital structure. As market fears abated, these securities performed very well relative to the market and our expectations.

Another good example is in the office property market. Back to our belief that we should "be greedy where others are fearful," the office sector within the CMBS market was a great example. Headline risks were high throughout 2024, and the prevailing thought was that the need for office space in an era of hybrid work was the death knell to the sector. While defaults did rise in certain geographies and certain building types, this was not a systemic issue impacting every building and every market.

Our research team identified properties where certain conditions could be met, including but not limited to the following:

1) understand the tenants and their lease terms relative to financing on the deal,

2) understand the property location and type (i.e. class A, trophy properties),

3) stress the securities to see what level in cap rates/ valuations could create a loss, and

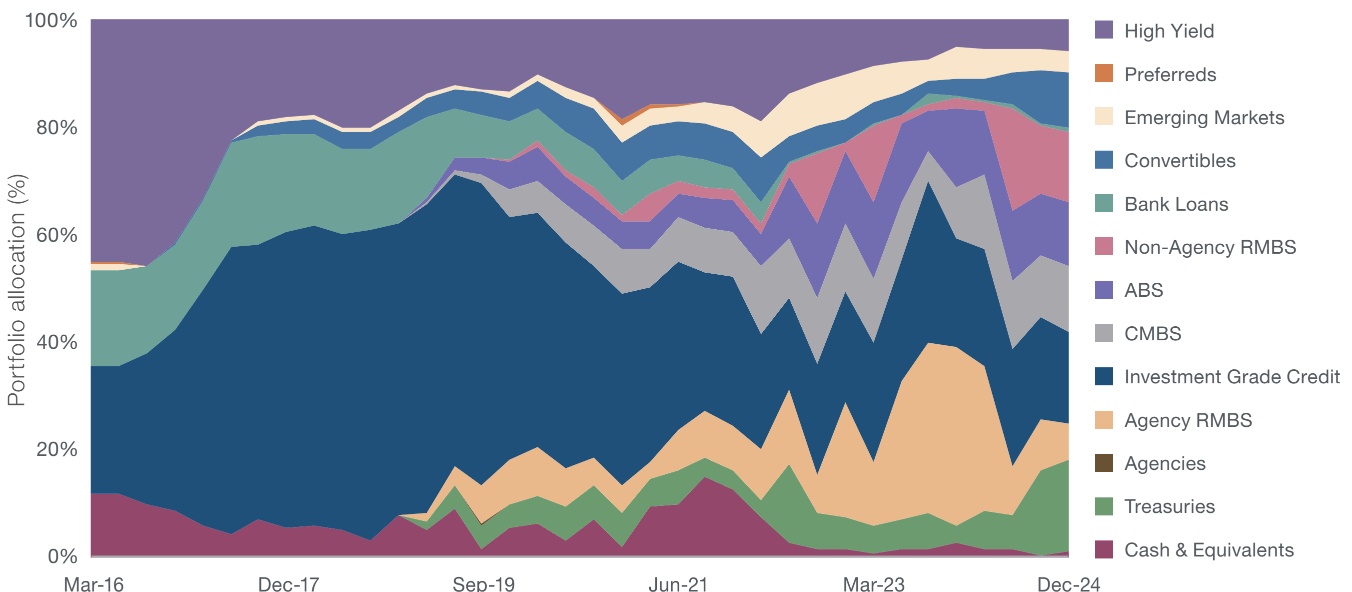
4) identify multiple sources of revenue for the property.

A good example of this was a commercial real estate building in Manhattan. This was a deal that came to market in the fourth quarter. The property derives revenue from multiple sources; 1) observation deck, 2) office space, 3) retail on the ground floor and 4) the rink.

Earlier last year we also financed a commercial building in Chicago which shared many of the same characteristics; 1) revenue from leases of the antennas, 2) observation deck, 3) office space and 4) retail on the ground level. These are the types of investments we like because we believe the compensation level is very attractive.

NYLI MacKay Strategic Bond Fund: Characteristics

As of 12/31/24



ABS = Asset-Backed Securities; CMBS = Commercial Mortgage-Backed Securities. Portfolio holdings are subject to change without notice. Due to rounding, the sum of the items shown may not equal 100% or any expressed totals, as applicable.

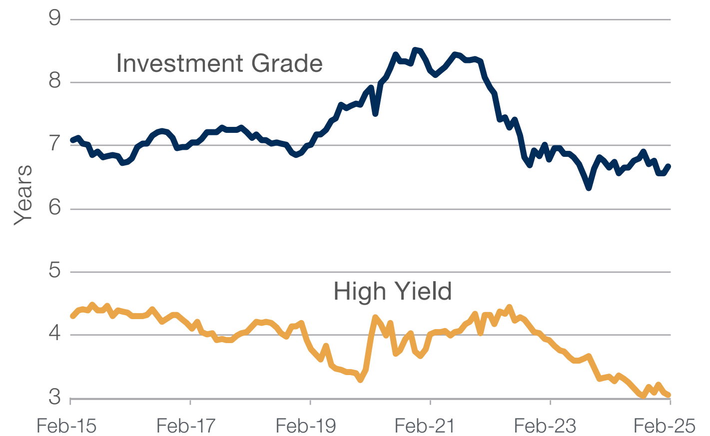
3 What is the team's approach to duration?

We will always have a view on the direction of rates and the shape of the yield curve, but we don't believe in using duration as a meaningful source of alpha generation in our portfolios. We believe that trading duration tends to be a "low information ratio" play that is difficult to execute with a high degree of success consistently.

Now, we seek to execute curve trades that can help manage directional risk while providing a more balanced risk-return profile than outright duration plays.

In terms of the Fund's duration, we believe in allowing the "natural" duration of the assets in the portfolio to define the level of interest rate risk we are comfortable taking. This will generally range between 3 and 5 years, in most environments, recognizing we have flexibility beyond these "normal ranges."

High yield durations have fallen



Source: Bloomberg, ICE Data. Investment Grade: ICE BofA US Corporate Index; High Yield: ICE BofA US High Yield Index

4 Opportunities you see today in the multi-sector bond market

Diversification continues to be the only free lunch in the market today. Valuations are still stretched in most sectors of the bond markets and we believe a disciplined, cautious approach while resisting the urge to chase speculative rallies in overvalued sectors.

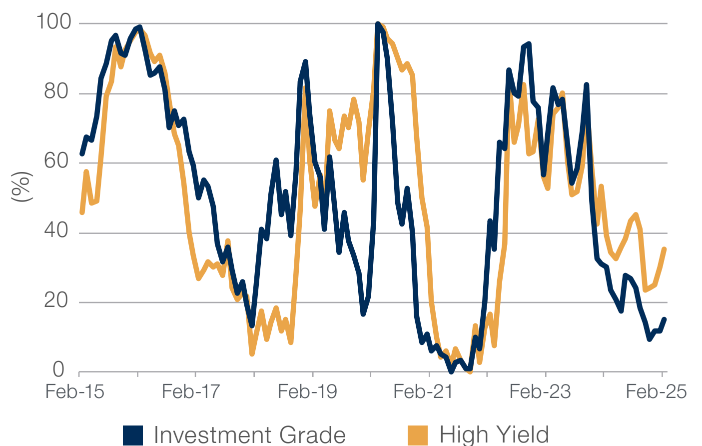
As we see it, there are still areas of the securitized credit markets that offer better relative value compared to unsecured corporate risk. Agency passthroughs (high coupon) and until recently, AAA-rated collateralized loan obligations (CLOs) offered good carry and strong structural protections (source: MacKay Shields).

It is our view that high yield is probably the cleanest sheet in the dirty pile of corporate risk. We prefer to rotate the marginal dollar into bonds, yielding 7 to 8% with a spread over 200 bps than high quality bonds, yielding 5% with a spread of only 65 bps.

Investment grade & high yield spreads in the bottom decile on an absolute basis

Source: Bloomberg, ICE Data. Investment Grade: ICE BofA US Corporate Index; High Yield: ICE BofA US High Yield Index

On a spread per unit duration basis high yield appears more attractive than investment grade



Source: Bloomberg, ICE Data. Investment Grade: ICE BofA US Corporate Index; High Yield: ICE BofA US High Yield Index

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THE FOLLOWING BENCHMARKS MAY BE REFERRED TO IN THIS PRESENTATION

ICE BofA U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.

ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

DEFINITIONS

The **information ratio (IR)** measures an investment manager’s returns versus a benchmark as well as the consistency of those returns.

A **pass-through security**, aka a pay-through security, is a pool of fixed-income securities backed by a package of assets. Agency pass-throughs are mortgage pass-through securities whose principal and interest payments are guaranteed by government agencies, such as the Government National Mortgage Association (Ginnie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae).

A **collateralized loan obligation (CLO)** is a single security backed by a pool of debt. The process of pooling assets into a marketable security is called securitization. Collateralized loan obligations (CLO) are often backed by corporate loans with low credit ratings or loans taken out by private equity firms to conduct leveraged buyouts.

Diversification cannot assure a profit or protect against loss in a declining market.

Bond ratings are expressed as letters ranging from AAA, which is the highest grade, to C (“junk bonds”), which is the lowest grade. Standard & Poor’s format: AAA and AA = high credit-quality investment grade; AA and BBB = medium credit-quality investment grade; BB, B, CCC, CC, C = low credit-quality (non-investment grade), or “junk bonds”; D = bonds in default for non-payment of principal and/or interest.

It is our view that **high yield** may offer relatively attractive risk-adjusted opportunities compared to other corporate risk.

ABOUT RISK:

Before considering an investment in the Fund, you should understand that you could lose money. Investing in **below investment grade securities** may carry a greater risk of nonpayment of interest or principal than higher-rated bonds. **Foreign securities** are subject to interest rate, currency exchange rate, economic, and political risks. These risks may be greater for **emerging markets. Short positions** pose a risk because they lose value as a security’s price increases; therefore, the loss on a short sale is theoretically unlimited. As a result, these funds may not be suitable for all investors. The use of **leverage** may increase the Fund’s exposure to long equity positions and make any change in the Fund’s NAV greater than it would be without the use of leverage. This could result in increased volatility of returns. Issuers of **convertible securities** may not be as financially strong as those issuing securities with higher credit ratings and are more vulnerable to economic changes. The Fund may invest in **derivatives**, which may increase the volatility of the Fund’s NAV. The principal risk of mortgage **dollar rolls** is that the security the Fund receives at the end of the transaction may be worth less than the security the Fund sold to the same counterparty at the beginning of the transaction. The principal risk of **mortgage-related and asset-backed securities** is that the underlying debt may be prepaid ahead of schedule, if interest rates fall, thereby reducing the value of the fund’s investment. Funds that invest in bonds are subject to **interest-rate risk** and can lose principal value when interest rates rise. Bonds are also subject to **credit risk** which is the possibility that the bond issuer may fail to pay interest and principal in a timely manner. If interest rates rise, less of the debt may be prepaid. **Unconstrained bond funds** generally have higher fees than the standard core bond funds. Certain **environmental, social, and governance** (“ESG”) criteria may be considered when evaluating an investment opportunity. This may result in the Fund having exposure to securities or sectors that are significantly different than the composition of the Fund’s benchmark and performing differently than other funds and strategies in its peer group that do not take into account ESG criteria.

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