

Quality Credit Research is Vital in Identifying Relative Value and Enhancing Portfolio Performance

Full time professional credit research all day and every day has never been more critical in the municipal market.

Mackay Municipal Managers' (MMM) active fundamental credit analysis enriched by an experienced knowledge of economic, regulatory, political and tax related factors specific to the municipal marketplace enables the team to position portfolios to perform through headwind scenarios.

Hear from our Director of Research and Senior Managing Director, Frances Lewis on how MMM's credit research continues to drive alpha generation for our clients in an environment of increased complexity.

Investment Talent—Bucking the Trend

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OVER THE PAST 15 YEARS, HOW HAS THE MUNICIPAL CREDIT RESEARCH TEAM AT MACKAY LEVERAGED CREDIT RESEARCH TO DRIVE GROWTH AND MAINTAIN HIGH- QUALITY INVESTMENT OUTCOMES?

Over the past 15 years, MacKay Municipal Managers has relied heavily on internal fundamental municipal credit research as a cornerstone of its investment strategy. This process of systematic credit research enables us to identify and capitalize on relative value opportunities, helping to deliver high-quality investment outcomes for our clients. This has led to significant growth in assets under management, expanding from under \$2 billion to over \$82 billion during this period. In order to facilitate this research process, we have built out a strong analyst team that maintains our commitment to quality research. MMM's resources are robust with a team of more than 20 investment professionals overseeing only 100 plus portfolios across a \$82 billion platform.

We believe it is very important to have sector specialization from our credit research team. This allows the analyst to utilize past experience to quickly begin a credit review process but, more importantly, to be able to generate relative value comparison among trade/purchase opportunities in their respective sectors. The sector analysts are highly proficient in state and local government policies which impact issuers as well as federal and state regulations and legislation which impact sector specific opportunities.

We have cross training programs among sector analysts to share ideas as well as expand credit review skills. Particularly among higher yielding or higher risk credits, we have a team approach when performing due diligence and having interactions with issuers. We engage routinely with issuer management to discuss new offerings and to conduct on going surveillance of positions that we hold.

2

COULD YOU DISCUSS HOW THE RESEARCH TEAM'S STRUCTURE AND CORE PRINCIPLES HAVE ADAPTED AND REMAINED CONSISTENT?

While many market participants have experienced declining AUM and a reduction in headcount, MacKay Municipal Managers has expanded the investment team with a continuous pipeline of new talent. This has been complemented by our longstanding practice of hiring summer interns into full-time roles, where several are now senior research analysts.

Embedding our analysts side by side with portfolio managers on the trading desk has been instrumental to our success. This ensures continuous dialogue, rapid integration of research insights, and effective portfolio structuring, uncovering relative value opportunities in a timely manner.

A pivotal milestone in our evolution was the opening of our Los Angeles office in 2010, where two of our analysts relocated there full-time. This expansion not only strengthened our research capabilities on the West Coast but also reinforced our ability to conduct local site visits and meet with the management teams of issuers—a crucial part of our investment decision-making process.

The research team's efforts have been instrumental in the expansion of our taxable municipal and international portfolios. Analysts have worked in close collaboration with portfolio managers to educate investors, both current and prospective, about the nuances of the municipal market, emphasizing its quality, low default risk, and value.

Deep Analysis to Find Credits That Outlast Headline Risk

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HOW DOES THE SPECIALIZATION OF EACH ANALYST IN SPECIFIC SECTORS ENHANCE MACKAY'S RESEARCH ACCURACY AND EFFECTIVENESS?

Sector specialization is a key pillar of our research approach at MacKay. Each analyst is dedicated to specific sectors, allowing them to develop in-depth expertise and nuanced understanding of the spaces they cover. This specialization enhances the accuracy of our research and allows us to conduct thorough, comparative analysis within a sector, ultimately realizing relative value across bonds and creating alpha opportunities for our portfolios.

Analysts work closely with portfolio managers to conduct a comprehensive review process for new credits, providing sector updates and market analysis including legislative updates, policy changes and changes in governance that could impact issues at a federal or state level. The collaborative structure, with analysts sitting directly on the trading desks, enables a continuous flow of insights and fosters a dynamic responsiveness to market events.

This collaboration has proven particularly beneficial in times of market volatility, during which we have capitalized on secondary offerings. The team's specialized expertise allowed us to identify market opportunities at attractive valuations, ensuring that we remained well-positioned even in challenging market conditions.

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HOW DOES MACKAY'S MUNICIPAL CREDIT RESEARCH TEAM SET ITSELF APART FROM COMPETITORS?

MacKay's municipal credit research team distinguishes itself from competitors through rigorous due diligence, deep sector specialization, and proactive engagement with issuers. Our belief is that sound investments based on credit research require a relative value context. As a result, the credit research analysts are all located on the trading desk. Their work is fully-immersed in the dialogue of trading spreads and relative pricing. Credit research is much more than just a risk mitigation tool; MMM's credit analysts identify investment opportunities. MMM's investment philosophy is that the inefficiency of the municipal market creates investment opportunities that are realized by relative-value focused investment professionals. Each analyst conducts a comprehensive review process for new credits, analyzing offering documents, forecasts, security indentures, and participates in direct discussions with sales representatives and issuer management teams. Our analysts frequently conduct site visits, which are invaluable for understanding the underlying strengths and risks of a credit.

A noteworthy example of our distinct approach involved the financing of a new student housing project on a college campus. During our analysis, our dedicated student housing analyst identified a unique redemption clause in the bond structure—a potential extraordinary redemption at par plus accrued interest, contingent on state funding. While concerning at first, our analyst pursued a deeper due diligence meeting with state government representatives to assess the likelihood of this redemption occurring. The state's commitment to the special funding became clear, and we were able to add to our positions accordingly. This diligent

approach not only generated above-market returns but also led to a subsequent rating agency upgrade for the bond.

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WHY DOES MACKAY MUNICIPAL MANAGERS PUBLISH AN ANNUAL TOP FIVE INSIGHTS PIECE AND HOW SHOULD CLIENTS THINK ABOUT THEM?

Every January, the team publishes our annual ‘Top Five Municipal Market Insights’, an essential tool for communicating our macro views as well as themes implemented in the portfolios we manage. The process begins with every team member contributing ideas, which are then synthesized into broader concepts that form the basis of our investment thesis and strategic focus for the upcoming year. The collaborative nature of this process ensures that diverse perspectives are captured, and the resulting report addresses various facets of the municipal market, including technicals, liquidity, government policy, and political dynamics.

The insights we publish play a crucial role in establishing a macro-level focus for our investment strategies. They serve as a guiding document for our portfolio approaches throughout the year, providing transparency about our views and positioning. A mid-year review also offers updates on the progress of these strategic insights, keeping investors informed.

The research team plays an instrumental role by providing the underlying data and analysis that supports our insights, ensuring that they are backed by robust research. For 2024, for example, our emphasis on avoiding headline risks and finding underappreciated opportunities exemplifies our forward-looking and prudent approach to navigating the municipal market.

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