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Introduction

MacKay Municipal Managers™ (“MMM”) is a fundamental relative value municipal bond investment team, applying both top-down analysis and bottom-up credit research in the construction of municipal portfolios. Our investment philosophy is centered on the belief that strong long-term performance can be achieved with a relative value, research-driven approach.

In line with [MacKay Shields' Responsible Investing Policy](#), we recognize that material environmental, social, and governance (“ESG”) factors can have an impact on long-term investment outcomes and, therefore, are a natural and important component of disciplined investment research and portfolio management process. Each team member is accountable for incorporating ESG considerations into their analysis, ensuring a comprehensive evaluation of potential investments. Whilst the firm policy will detail many aspects of our responsible investing processes, including our treatment of exclusions, approach to climate change, and governance of our responsible investing activities, the below policy is meant to illustrate how these processes are incorporated into and adapted for our Team’s specific investment philosophy and process.

Research Process¹

MMM believes the consideration of material ESG factors in assessing both risk and return potential at the security and portfolio levels should be an integrated and dynamic part of the research, portfolio construction, and risk management processes.

Through our integrated approach, analysts assign ESG scores to investments. Security scoring is subjective and is assigned by each analyst as part of security specific credit analysis, a process that is overseen and enforced by senior members of the team. The ranking process is grounded in analysis of the scope and scale of an issuer’s exposure to material ESG risks based on the industry sector alongside the issuer’s ability and effectiveness in managing these ESG risks. Analysts assess relevant factors within each E, S, and G factor and will assign each pillar a ESG score ranging from 1 (best in class) to 4 (significant risk). Once the pillar scores are determined, a composite score is calculated for the issuer as a whole, known as the ESG rating.

1. The processes and procedures described in this Responsible Investing Policy, including without limitation ESG scoring, is applicable only to actively managed investment strategies. From time-to-time the Team may manage accounts pursuant to non-actively managed investment strategies, including (without limitation) an account with investment strategy or investment objective to substantially track and index or to maintain a low tracking error, and the processes and procedures described herein will not be applied to the management of such accounts.

These four ESG risk groups are proactive, forward looking, and predominantly based in qualitative analysis, supplemented with quantitative data, where available and applicable to the respective issue. Analysts assess the issuer’s strategy and ability to manage ESG risks in order to understand the issuer’s ability to benefit or create value in the future. ESG risk groups are first compared on a relative basis with peers in similar industries and then compared across industries, given that certain sectors are more exposed to material ESG issues (e.g. energy and transition risk). Our ESG risk groups are evaluated continuously, with added scrutiny if there is a material change in the issuer.

MMM ESG RISK GROUPS & FACTORS



ESG RISK AND OPPORTUNITY PERFORMANCE INDICATORS²



ENVIRONMENT

- Biodiversity & Resource Use
- Carbon Emissions
- Climate Risk (Physical & Transition)
- Pollution & Waste
- Water Stress



SOCIAL

- Access & Affordability
(e.g. Healthcare, Housing, Education)
- Community Relations
- Demographic Shifts
- Employee Relations
- Health and Safety
(Customer, Employee and Product)
- Job Creation
- Public Safety



GOVERNANCE

- Board Structure & Ownership
- Business Ethics
- Cybersecurity & Privacy Protection
- Financial Management & Policies
- Pension & OPEB Management
- Regulation
- Tax Structure & Taxation Practices
- Transparency/Accountability

In making risk assessments, the analysts may consider use of bond proceeds, transparency in reporting practices, relations between the issuer and the general public, community development and diversity, media perception regarding the company or business, risk of increased regulatory scrutiny, and compliance with local standards, as well as other considerations. As climate-related risks can be material to issuers, it is important that issuers are aware of and consider the long-term impact on their future investment performance. The risk groups are an aggregate assessment of the ESG factors that capture how exposed an issuer is to long-term ESG risks and opportunities. Physical climate risk tends to be of particular concern for the municipal market, where many issuers are faced with the economic and demographic implications of more severe and frequent extreme weather events. Recognizing the complexity of climate science data, MMM utilizes outside parties to assist in identifying and assessing physical climate risk across the municipal markets and issuers and to promote greater disclosure of metrics that are material to stakeholder value.

2. Not an exhaustive list of indicators used for ESG Integration

Portfolio Construction

We weigh our clients' interest in strong returns against the risk factors associated with the portfolio. As it relates to ESG-related factors, our commitment is to properly assess that such factors are taken into consideration within the context of relative value, among other pertinent factors such as mandate suitability and client guidelines.

The determination of whether specific securities warrant inclusion in the portfolio is first based on client mandate suitability. If the security fits client guidelines, inclusion is based on our assessment of a bond's relative value versus other investment alternatives as well as the impact on the return and risk profile of the portfolio in aggregate.

We work with clients on a case-by-case basis to determine whether additional sustainability considerations should be taken into account in the construction of their respective portfolios (e.g., restricted security or industry list, prohibition of investments with a certain ESG rating). We have experience managing bespoke ESG-conscious portfolios based on client risk and return objectives. Portfolios can be customized on sector or business involvement exclusions and issuer exclusion lists. In addition, portfolios can utilize our ESG scores as part of their ESG guidelines. Upon client request we provide customized ESG reporting on ESG risk group exposures.

Impact

Many municipal bond projects address or finance environmental and social issues, such as conservation projects for water and wastewater systems, non-profit hospitals, public education, infrastructure, public transport, and affordable housing. Due to the natural predisposition of the municipal asset class to potentially generate positive impact on constituencies and communities, we aim to consider the potential impact of any investment as part of our security analysis, where relevant. MMM has a system in place to identify impact based upon use of proceeds and/or the demographic profile of the community in which the bond is issued.

Engagement

We view engaging with issuers as a natural part of the investment due diligence process. Our analysts engage with issuers to build relationships and create a constructive environment of information sharing. The knowledge gained during our engagement activities, along with our credit analysis and information received from third parties, help us to better assess the ESG risks an issuer faces and the issuer's awareness and management of such risks.

Given the emerging nature of many ESG themes and issues, we believe that a constructive two-way dialogue with issuers is the best way to promote transparency and share best practices that we observe in the market as bond investors. Our research analysts engage with issuers through meetings with management to create a constructive environment of information sharing and relationship building. In addition, we engage with public policy makers and government affairs offices regarding government policy and regulations. The knowledge gained during our engagement activities, along with our credit analysis and information received from third parties, help us to better assess the ESG risks facing an issuer and the issuer's awareness and management of such risks.

In those specific instances where an ESG-related matter is significantly material to the return profile of an issue, the position or potential position size is substantial, and we believe we are capable of meaningful influence with the management team, we will conduct more direct and focused engagements. We may employ escalation measures if there is no evidence of demonstrable progress over time, which will vary depending on a variety of factors. In certain instances, we may exit a position and monitor for future improvement, while in other instances, we may engage with other constituents with the aim of influencing the outcome of a material ESG related concern. Findings from our engagements are logged in our research credit notes, which are accessible by all MMM team members, and are factored into our investment analysis. We believe that collaborative engagement allows us to continue to move the market toward greater awareness, understanding, and best practices in terms of managing ESG risk.

Collaboration with the Responsible Investing Team

We believe that while ESG analysis is most effectively conducted directly by investment teams, the rapid evolution of sustainability issues, regulations, and global themes necessitates the provision of additional tools and resources to ensure thorough and responsible analysis. To meet our fiduciary obligations, analysts are equipped with internal ESG scoring tools and can draw on the expertise of the Responsible Investing team when sustainability concerns are particularly significant or closely aligned with a client's specific goals. This collaborative approach leverages both the deep asset and sector knowledge of the analysts and the RI team's specialized insights into sustainability trends and regulations. By combining these strengths, we enhance the overall quality of the investment process, aligning financial returns with responsible investment practices and ensuring that our teams remain adaptable and informed in a changing landscape.

ADDITIONAL DISCLAIMER

As all asset classes are not created equal when it comes to ESG data and application, we retain discretion to apply certain aspects of this policy to a greater/lesser extent depending on data availability, investment time horizon, and client objectives. In addition, [we believe that] there is no conflict between this policy and our responsibilities as an ERISA fiduciary with respect to our ERISA clients.

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