

Mackay Shields Fixed Income Quarterly Outlooks

April 2024

Table of Contents

Macroeconomic Outlook	3-4
Active Fixed Income Outlook	5-7
U.S. High Yield Outlook	8-9
Investment Grade Credit Outlook	10-11
Convertibles Outlook	12

Macroeconomic 2Q2024

Steven Friedman, Senior Macroeconomist, Head of the Macro and Quantitative Solutions Team, Portfolio Manager

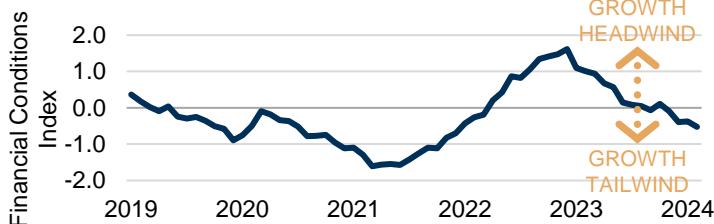
A number of resiliencies, including fiscal policy, should continue to support growth at or above 2% this year. Financial conditions are also a tailwind to economic activity. The risk, however, is that a solid year for the economy will slow disinflationary impulses.

The downshift in U.S. growth we anticipated in our last quarterly has now materialized. After expanding at a 4.1% annualized rate in the second half of last year, GDP is tracking at around a 2.25% growth rate for the first quarter of 2024.

Still, growth at or above 2% now looks sustainable over the coming quarters. While the policy rate appears restrictive, broad financial conditions tell a different story. With sharp gains in equities, a tightening in credit spreads, and Treasury and primary mortgage rates well off the highs of last fall, financial conditions are now providing a modest tailwind to growth.

Easing financial conditions despite an elevated policy rate is less a conundrum than it appears at first blush. One explanation, which we find increasingly compelling, is that a number of resiliencies are serving to offset the impact of monetary tightening. In the household sector, these include locked-in household borrowing costs, elevated levels of aggregate net worth and a return to moderate real wage growth as inflation subsides.

Figure 1: Financial Conditions have Become a Modest Growth Tailwind



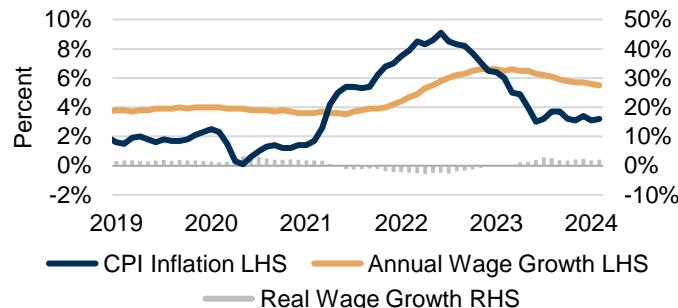
Data as of February 1, 2024

Source: Board of Governors of the Federal Reserve System

Resiliencies also extend beyond the household sector. Fiscal incentives in the CHIPS Act, Inflation Reduction Act and the bipartisan infrastructure deal are supporting investment spending by business as well as state and local governments. And finally, despite its contentious political and social ramifications, a sharp increase in immigration is boosting aggregate demand and allowing for a higher level of sustainable payrolls growth. Individually, these resiliencies may be modest, but collectively they can amount to a meaningful tailwind to growth. And while some resiliencies are continuing to fade, for the foreseeable future they can bolster the economy and build a bridge to an eventual easing in monetary policy.

Beyond resiliencies, patterns of sectoral activity also support a constructive outlook for the economy. The housing market experienced a meaningful contraction in 2022 and through the first half of last year, as developers, buyers and sellers adjusted to higher interest rates.

Figure 2: A Return to Real Wage Growth as Inflation has Moderated



Data as of January 31, 2024

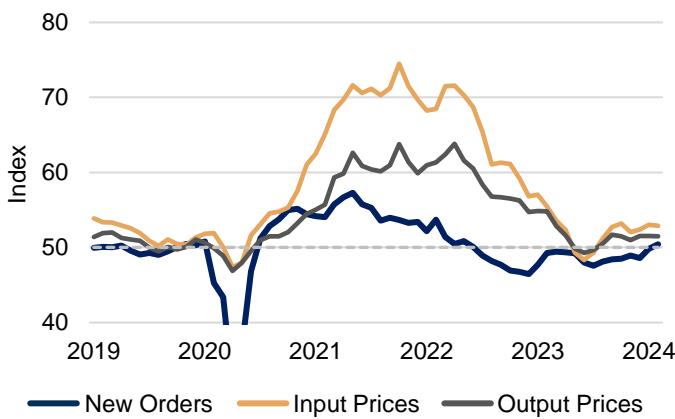
Source: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

But judging from housing starts, as well as new and existing home sales, the worst of this adjustment appears to be in the rear-view mirror. Elsewhere, the corporate sector has emerged from a modest profit recession, and wide margins set the stage for healthy levels of capital expenditure and hiring. Similarly, judging by new orders data, the manufacturing sector also appears to be stabilizing after a period of weakness and should be further supported this year by an upturn in the inventory cycle.

Macroeconomic 2Q2024 (cont'd)

Even as we see better prospects for a sustained period of solid performance for the U.S. economy, the outlook is not without risks. Most notably, inflation readings have been firmer than anticipated since the start of the year and suggest a non-negligible risk that progress toward the 2% inflation objective could stall. Durable goods deflation, an important contributor to the moderation of inflation in the second half of last year, may have run its course. The recent upturn in global manufacturing activity, as indicated by the new orders index of the global manufacturing PMI, has been accompanied by a firming in both input and output prices. Meanwhile, a solid labor market alongside high levels of net worth have slowed progress on services disinflation.

Figure 3: Global Manufacturing PMI: Improving New Orders Comes with Price Pressures



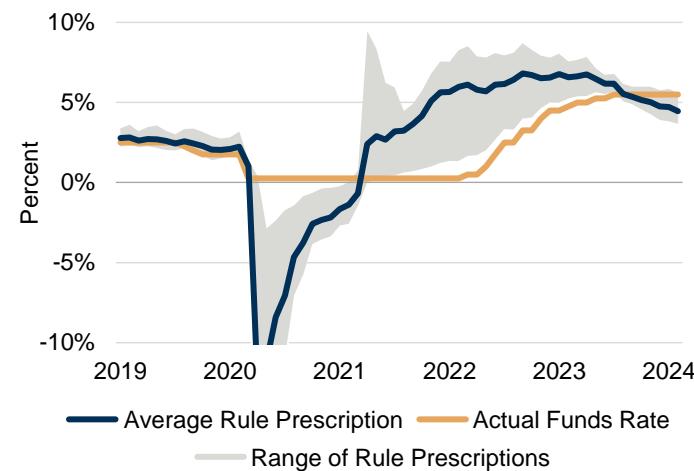
Data as of February 29, 2024

Readings above (below) 50 indicate expansion/increase (contraction/decline).

Source: S&P Global.

These recent inflation developments pose challenges for policy makers. Progress on bringing down inflation over the past year, alongside a modest rise in the unemployment rate, suggest the time is approaching to cut rates. A range of Taylor rule prescriptions indicate as much (see chart below). But the firming in inflation to start the year has left FOMC participants sounding increasingly cautious on rate cuts, especially as strong economic performance provides the flexibility to be patient. At this point, we expect policy easing to be pushed out towards the end of the year. Nevertheless, if delayed policy easing comes alongside still-firm growth, we believe the environment will remain constructive for credit.

Figure 4: Taylor Rules Indicate that Easing is Appropriate



Data as of February 1, 2024

The five monetary policy rules used in this analysis are the original 1993 Taylor Rule, a balanced-approach rule with and without inertia, a balanced-approach shortfalls rule, and a first-difference rule.

Source: MacKay Shields, Board of Governors of the Federal Reserve System, Bureau of Economic Analysis

Active Fixed Income 2Q2024

Forget the Landing Narrative, Stay the Course!

Michael DePalma, Co-Head of Global Fixed Income Team,
Senior Portfolio Manager

Neil Moriarty, Co-Head of the Global Fixed Income Team,
Senior Portfolio Manager

Thomas Musmanno, CFA, Senior Managing Director

The U.S. economy has shown surprising resilience over the past several quarters.

At the most recent FOMC meeting, central bank policy makers communicated that the string of recent firm inflation prints have not fundamentally changed their outlook for inflation or monetary policy.

The rate market is pricing in 50 basis points of cuts during the latter half of the year, consistent with the FOMC dot plot projections. The credit markets are not pricing in a contraction of growth.

Although headline pricing across most sectors of the fixed-income market appear rich, beneath the surface a very different story exists across industries, capital structures and sectors.

Key Investment Themes

- Maintain a longer-duration bias relative to most benchmarks.
- Overweight banks, underweight industrials.
- Overweight higher-coupon Agency mortgages, underweight lower coupons.
- Overweight select commercial mortgage securities.
- Overweight subordinated consumer ABS.
- Overweight higher-quality high yield, underweight stressed/distressed.
- Overweight hard-currency, emerging markets sovereigns, underweight corporates.

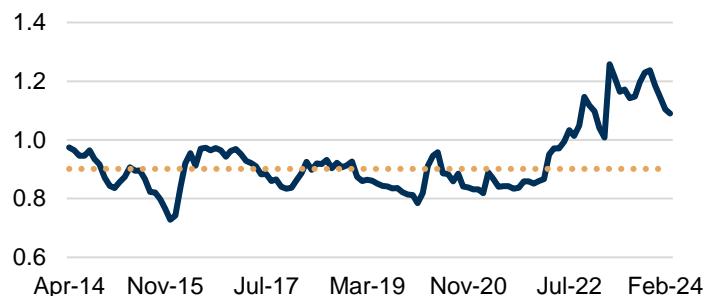
Duration—Remaining Invested Should Benefit

We believe we are at or near the peak cycle in interest rates and that the next move will be a move lower in rates, led by the front end of the curve. We expect the yield curve to steepen modestly with a positive slope emerging over the balance of the year.

Bigger Is Better, but Smaller Can Offer Value in Banking

The banking sector continues to trade wide relative to the rest of the corporate market. At the root of it lies commercial real estate and an inverted yield curve that has reduced lending activity and squeezed net interest margins. Recent banking troubles have not been broadly systemic. As the commercial property market cycle plays out and the yield curve renormalizes, banks will work with borrowers to restructure loans. The performance of individual banks will ultimately depend on their size, loan mix and profitability.

Figure 1: Ratio of Financial to Industrial OAS



Data as of March 29, 2024

Option-adjusted spread

Dashed line = Median (monthly data from April 2014 to March 2024)

Source: ICE Data

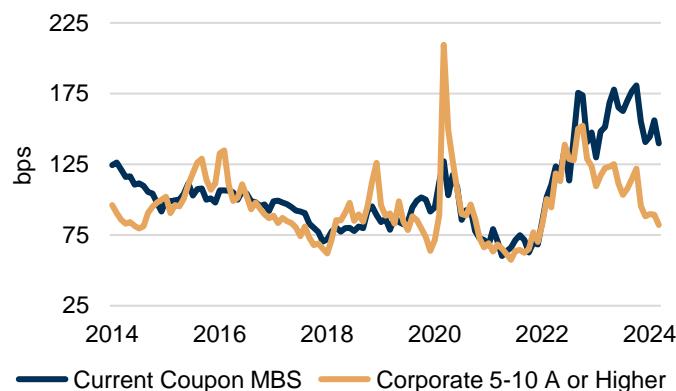
Higher Coupon over Lower Coupon

In the Agency mortgage market, higher-coupon securities are trading with wider spreads, lower durations, higher yields and better liquidity than lower-rated investment grade corporates.

Active Fixed Income 2Q2024 (cont'd)

Forget the Landing Narrative, Stay the Course!

Figure 2: Higher Coupon Over Lower Coupon



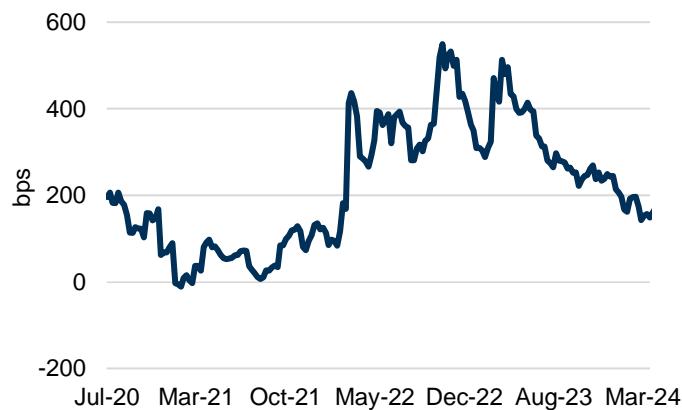
Data as of March 29, 2024

Source: Bloomberg

Leaning into Mortgage Credit Via Credit Risk Transfers

The Credit Risk Transfer (CRT) market, which was created by the agencies as a way to reduce their credit exposure to borrowers, was one of the top performing sectors of the bond markets in 2023. We expect spreads to continue to grind tighter, particularly on subordinate deals with elevated home price appreciation (HPA).

Figure 3: CRT B1 to HY BB



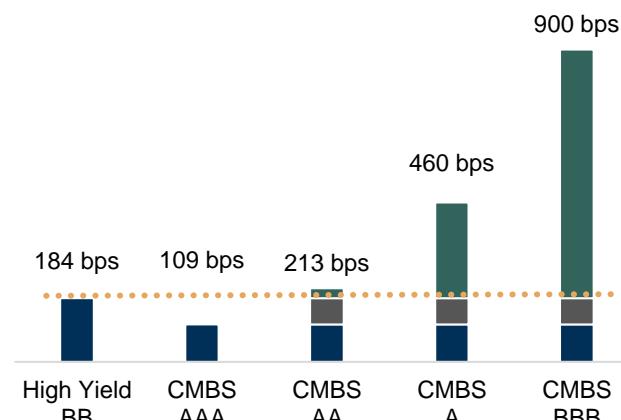
Data as of March 29, 2024

Source: ICE Data

Not All Commercial Real Estate is the Same

Commercial real estate is expected to remain under pressure for the next few years. Debt securities tied to the commercial property market, particularly lower-quality deals, are offered at distressed levels. Not all commercial real estate is alike, and the same holds true for the securitization market. For example, Class A properties with strong credit support, good sponsorship and high-quality tenants are in a much better position than other office properties.

Figure 4: Despite the Recent Rally, CMBS Spreads Can Offer Value for Selective Investors



Data as of March 29, 2024

Source: Bloomberg

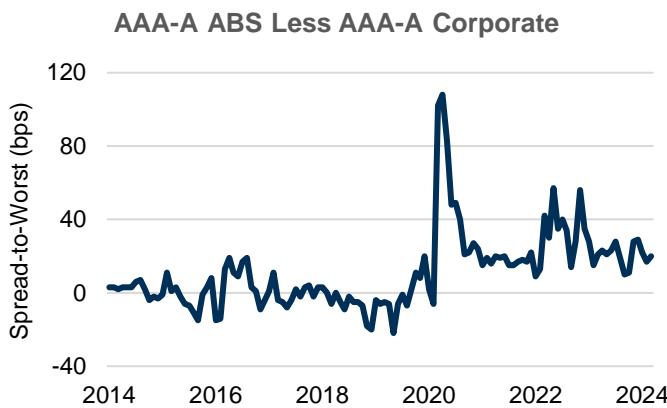
Betting on the Consumer through the ABS Market

In our view, the gap between the spreads of subordinated consumer credit and senior debt has room for further narrowing. This is partly due to banks tightening their lending criteria and raising interest rates, which, in turn, enhances credit quality. Given these conditions, we find it appealing to invest down in quality in the ABS market.

Active Fixed Income 2Q2024 (cont'd)

Forget the Landing Narrative, Stay the Course!

Figure 5: ABS Can Offer Attractive Value Relative to Corporates



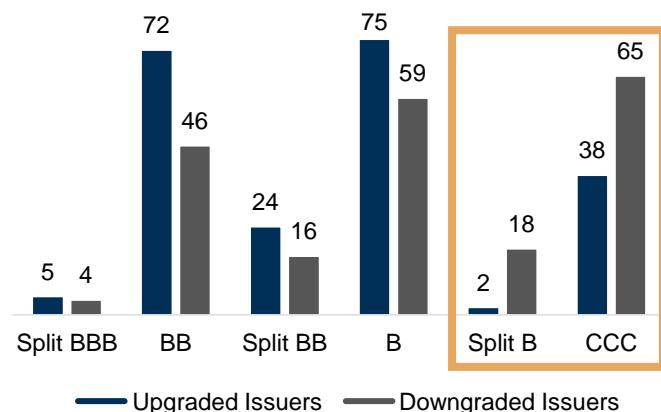
Data as of March 28, 2024

Source: ICE Data

Staying Up in Quality

We believe it will be difficult for CCCs to continue their strong performance in 2024 versus the higher-quality part of the market. There is a deteriorating credit trend among CCC issuers relative to the rest of the high yield market, as seen in the chart below. Despite a resilient economy, higher interest rates are weighing on the lowest-quality issuers, creating a significant headwind to further upside.

Figure 6: # of Issuer Upgrades and Downgrades YTD as of December 2023



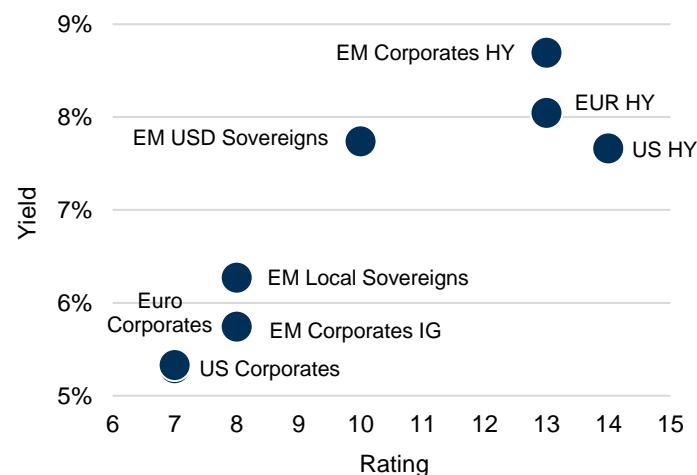
As of December 31, 2023

Source: ICE Data

Emerging Markets Begin to Shine

We believe Emerging Market (EM) hard-currency debt presents an attractive opportunity, buoyed by historically appealing yields and a positive start to the year despite higher U.S. interest rates. The asset class has benefited from a compression of credit spreads, particularly aiding lower-rated issuers, indicating a robust appetite among investors for higher yields amid a supportive commodity price environment. With EM economic growth outpacing expectations and fears of recession in developed markets receding, the outlook for EM debt is bolstered by the anticipation of a more favorable global interest rate environment. Despite potential volatility from a busy electoral calendar, the compelling yield advantage, coupled with a supportive economic backdrop, underscores a strong case for EM.

Figure 7: Emerging Market USD Sovereign Can Offer Attractive Risk-Reward



Data as of March 28, 2024

Source: Bloomberg and JP Morgan

U.S. High Yield 2Q2024

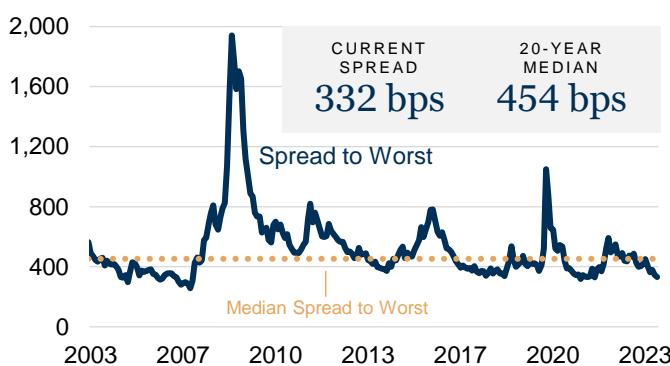
Andrew Susser, Executive Managing Director,
Head of High Yield

Joseph Maietta, CFA, Client Portfolio Manager

Outlook

U.S. High yield spreads have tightened considerably over the past several quarters. As of March 31, 2024, the BofA ICE U.S. High Yield Index's (the "Index") spread-to-worst was 332 bps, significantly lower than the 20-year median of 454 bps and at the low end of the post-GFC* general "non-panic range" of 350-550 bps.

Figure 1: High Yield Spreads



Index: ICE BofA US High Yield Index

As of March 31, 2024

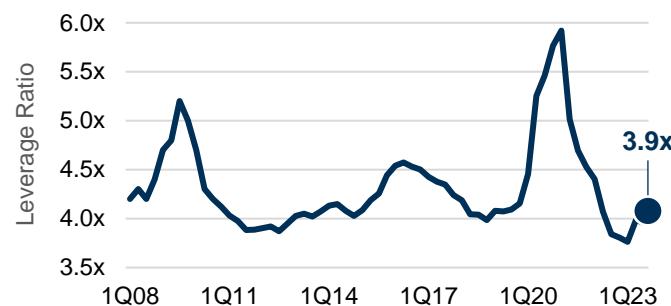
Source: ICE Data

Tighter spreads are logical in the context of the "everything rally" market environment. Recently the S&P 500 Index, Bitcoin, and Gold have reached all-time highs, corresponding to a robust appetite among investors for fixed income. Since November 2023, the U.S. high yield market has seen significant inflows, creating a demand that the supply of new bonds has been unable to meet. This imbalance has contributed to a further tightening of spreads. It appears that some pension investors are shifting from stocks to high yield bonds to secure their equity gains while still seeking some excess return.

From a fundamental perspective, the credit trends within the U.S. high yield bond market remain stable. The leverage level of high yield issuers is near historical lows, according to JP Morgan (Figure 2).

*Global Financial Crisis of 2008

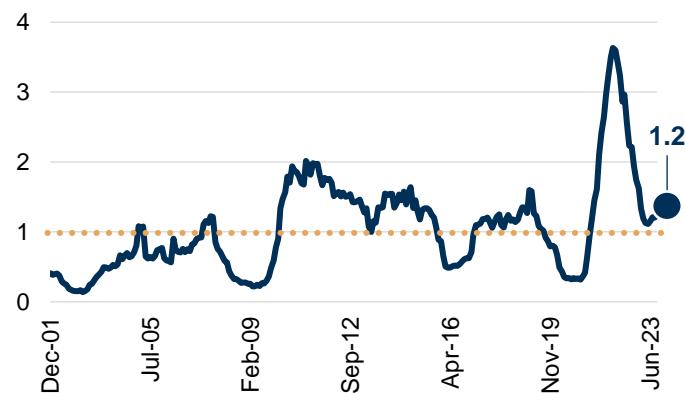
Figure 2: Leverage Level of High Yield Issuers



Source: JP Morgan

Similarly, as illustrated in Figure 3, the "upgrade-to-downgrade" ratio in the high yield bond market is above one, meaning that for every \$1.0 of high yield bonds downgraded by credit rating agencies, \$1.2 in high yield bonds have been upgraded. Although this ratio has decreased significantly from its peak in 2021, it indicates that overall credit trends continue to be strong.

Figure 3: Last 12 Months U.S. High Yield Upgrade-to-Downgrade Ratio (By PAR)



Data as of December 31, 2023

Source: JP Morgan

U.S. High Yield 2Q2024 (cont'd)

Beneath the surface, however, there is a stark difference in credit trends between CCC issuers and the rest of the high yield market. So far in 2024, the number of CCC issuers downgraded (23) has been significantly larger than the number upgraded (11). On the other hand, both BB and B issuers have continued to more frequently experience upgrades than downgrades. BB and B issuers have seen 66 upgrades in 2024 versus 40 downgrades. (source JP Morgan)

Overall yields are attractive relative to historical levels given the rise in rates. Starting yields (currently 8.0% as of April 10) have generally been good indicators for the subsequent 5-year performance for the market. Moreover, U.S. High Yield looks attractive relative to equities, with the spread between the yield on the Index and the earnings yield of the S&P 500 Index at 4.0% (as of March 31, 2024). U.S. High Yield has also performed well relative to equities in past cycles when starting yields have been near current levels.

There are many risks in financial markets today. However, we maintain that stable fundamentals and reasonable valuations suggest that U.S. high yield continues to represent a reasonable, lower-duration, fixed-income investment option.

Investment Grade Credit 2Q2024

Shu-Yang Tan, CFA, Senior Portfolio Manager
 Lesya Paisley, CFA, Portfolio Manager

Mark Kehoe, CFA, Portfolio Manager

Summary

With a backdrop of good corporate earnings and moderating inflation, we see credit spreads remaining range bound around current levels. At 93 bps, investment grade corporate spreads are tight when compared to historical levels. Yet, demand has been robust despite a record issuance of investment grade debt in Q1 2024, helped by higher treasury yields. Any easing by the US Federal Reserve this year, which should lead to lower yields (especially in the front end of the yield curve) would be positive for fixed-income investors.

Fundamentals Broadly Resilient

Investment grade company balance sheets are strong despite headwinds. Given the higher rate environment, many companies have chosen to de-leverage to reduce interest expense. According to Citigroup, interest coverage ratios have declined over the past year, although they remain a healthy 9.2 times as issuers refinance debt at higher overall interest rates. Corporate leverage was persistent at just 1.95 times (gross debt as a multiple of trailing 12-month EBITDA), similar to year-ago levels, but still well below the June 2022 high of 2.56 times. We expected companies to continue to refinance debt at a robust pace given the warm reception new issues have received from investors.

Demand Is Strong

Investment grade corporate new issue activity for the first quarter of 2024 was very active. Through March 28, \$540 billion of new issues were brought to market, 31% higher than the average of the past five years. Despite this deluge of supply, investment grade corporate spreads tightened 9 bps to 90 bps currently (as measured using the Bloomberg US Corporate Index). Investors are attracted to the higher yields (5.5% yield-to-worst) which are at the 91st percentile of the past ten-year range. Strong demand is reflected in fund flow data, where the Investment Grade Credit category saw inflows of almost \$33 billion over the past three months according to Goldman Sachs.

Opportunities in Investment Grade Credit

While investment grade spreads are near historically tight levels, we believe there are opportunities for incremental gains. Bank credit spreads are still wide to Industrials, and we expect they will tighten to levels inside Industrial debt. The banking sector is higher rated than industrials, with the typical bank generally rated AA or A, while industrials are generally rated A or BBB, a full letter grade lower. In addition, banks are highly regulated and capitalization ratios are approaching historical highs. Unless there is stress in the banking system (Figure 1), the ratio of banks to industrial bond spreads is typically less than 1.0, owing to better-quality credit. Currently this ratio is at 1.1, and we expect it to fall below 1 over time. This ratio is off its recent high when it touched 1.3 during the collapse of Credit Suisse and Silicon Valley Bank. Regulators quickly stepped in to resolve these and other smaller bank failures. We expect more banks to fail, particularly very small banks, as interest rates remain high, and stresses persist in the commercial real estate market. However, as noted above, bank capitalization ratios are generally quite high, and balance sheets are broadly sound. Still, in the current market environment, security selection matters more than ever and we believe this opportunity will ultimately reward patient, selective investors.

Figure 1: Ratio of Financial to Industrial Credit Spread

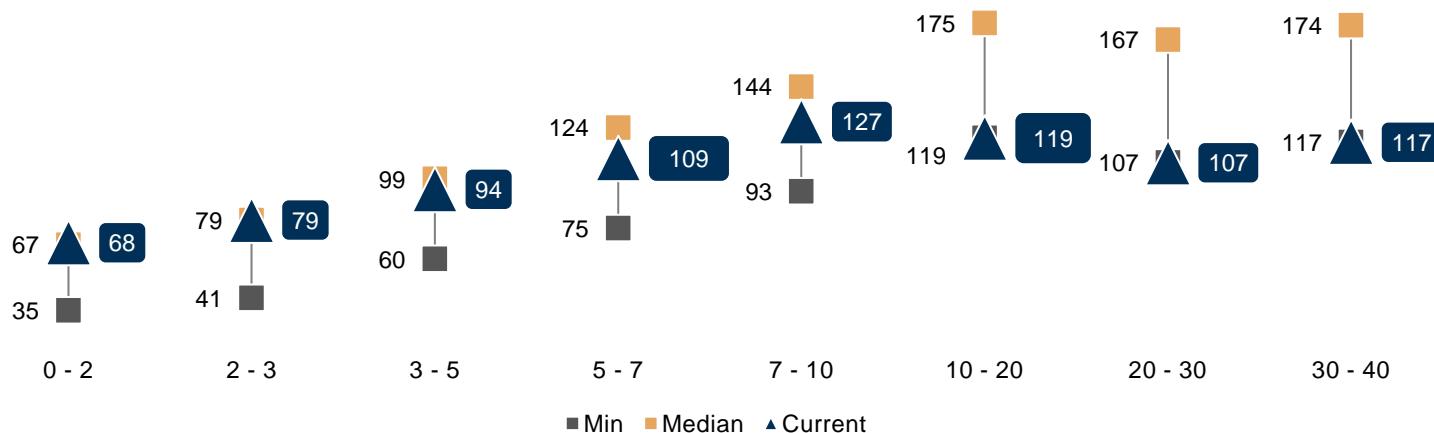


Source: ICE Data

Investment Grade Credit 2Q2024 (cont'd)

Another opportunity that exists in the investment grade corporate market is in shorter-maturity debt. While longer-dated (greater than 10 years to maturity) corporates offer spreads near the 10-year tights on an OAS basis, shorter debt (less than 10 years to maturity) are priced at or near the median. In addition, we expect longer-dated issuance to increase when interest rates eventually fall, which could be a catalyst for wider spreads at long maturities should this eventually happen. Hence, we find more value in shorter-dated bonds and have overweight debt with maturity less than ten years in our portfolios.

Figure 2: Investment Grade Corporate Spreads 10 Years History (BPS)



Source: ICE Data

Sector Strategy

From a sector perspective, we still favor banks and financials. In particular, regional banks continue to offer spreads wide to the “Big 6” banks. This difference, which widened significantly a year ago due to the fallout from the banking failures, is still too wide in our view. The issues with deposit flight and loan quality affecting regional banks have largely been priced by markets. We prefer the “Super Regionals” versus the smaller regional banks as these banks have diversified revenue streams, which lower the volatility of earnings.

Other preferred sectors include Telecommunications, where the large issuers have begun to de-leverage with free cash flow. Capital expenditure spend on network build is largely behind these issuers, and with higher interest rates, lowering their debt balances makes the most financial sense. Finally, Electric Utilities, especially first mortgage bond issues, provide stable consistent returns given the regulated structure of their businesses.

Conclusion

Given a resilient economy, healthy fundamentals, and high yields, we expect robust demand for investment-grade corporate debt from investors to keep credit spreads, which are near historical tights, range bound for the foreseeable future. We are in an environment where fed funds rate has likely peaked, and eventual easing will be a positive for fixed-income investors. In addition, lower short-term rates in the U.S. should also stimulate demand from foreign investors as hedging costs have been a significant hurdle over the past year, a potential further source of stability for the market going forward.

Convertibles 2Q2024

Edward Silverstein, CFA, Senior Managing Director,
Head of Convertibles

Performance

With the U.S. Convertible Index¹ (the “Index”) up 1.7% through the first three-and-a-half months of 2024, the asset class is falling short of the traditional 60-80 upside capture of equity returns, but still distinguishing itself from traditional non-convertible bonds which are generally lower for the year-to-date period. Within equities, small-cap underperformance has weighed on convertibles which have a large representation of small- and mid-cap companies in the universe and a complete absence of mega-cap technology companies, which have been the drivers of S&P 500 and NASDAQ performance.

As smaller and midcap stocks trade at a significantly lower valuation to large-cap equities, our expectation is that a narrowing of the valuation gap will lead to improved convertible performance relative to the S&P 500 and NASDAQ indexes, and an improvement in upside return capture. In addition, a broadening of the equity rally beyond Information Technology shares should help the performance of our portfolio, which has an overweight to the Healthcare and Energy sectors.

Issuance

Issuance of convertible securities for the first quarter has been particularly strong with approximately \$20 billion of new issuance coming to the market. A wave of maturing debt has companies searching for less costly avenues to refinance that debt. Higher interest rates have been a motivating factor for companies seeking financing in our asset class, as they can usually issue a convertible bond with a meaningfully lower coupon than they would be required to pay in the straight high yield or investment grade market. Lastly, with stocks at records levels, companies are comfortable issuing an equity-linked security.

Our expectation is that issuance will remain at elevated levels for the balance of the year as the factors that drove the first quarter's surge, namely elevated interest rates and the need to refinance maturing debt, is unlikely to subside. New issuance is generally a positive for the convertible market, as most new securities are priced at a discount to their theoretical fair value and generally trade above the issue price on their first days of trading, providing a small boost to Index returns. In addition, new bonds priced at par are balanced securities that usually offer an asymmetric return profile, whereby the bond will capture a greater percentage of the underlying equity's upside than downside. Lastly, with higher prevailing interest rates, most new issues are coming to market with higher coupons and lower conversion premiums — the amount that the common stock price needs to go up before it becomes advantageous to convert — than what was prevalent in the post-financial crisis environment of ultra-low interest rates.

With an upswing in new issuance with attractive terms and a rising market that may be on the cusp of broadening its gains, the second half of 2024 may be an interesting time for investors to consider an allocation to convertible bonds.

1. The ICE BofA All U.S. Convertibles(VXA0) Index. See index definition at the end of this document.

IMPORTANT DISCLOSURE

Availability of this document and products and services provided by MacKay Shields LLC may be limited by applicable laws and regulations in certain jurisdictions and this document is provided only for persons to whom this document and the products and services of MacKay Shields LLC may otherwise lawfully be issued or made available. None of the products and services provided by MacKay Shields LLC are offered to any person in any jurisdiction where such offering would be contrary to local law or regulation. This document is provided for information purposes only. It does not constitute investment or tax advice and should not be construed as an offer to buy securities. The contents of this document have not been reviewed by any regulatory authority in any jurisdiction.

This material contains the opinions of certain professionals at MacKay Shields but not necessarily those of MacKay Shields LLC. The opinions expressed herein are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and opinions contained herein should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Any forward-looking statements speak only as of the date they are made, and MacKay Shields assumes no duty and does not undertake to update forward-looking statements. No part of this document may be reproduced in any form, or referred to in any other publication, without express written permission of MacKay Shields LLC. ©2024, MacKay Shields LLC. All Rights Reserved.

Information included herein should not be considered predicated of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met. **Past performance is not indicative of future results.**

ABOUT RISK

Convertible securities are subject to a risk of loss. Convertible securities may be subordinate to other securities. The total return for a convertible security depends, in part, upon the performance of the underlying stock into which it can be converted. Additionally, an issuer may encounter financial difficulties which could affect its ability to make interest and principal payments. If an issuer stops making interest and/or principal payments, an investor could lose its entire investment.

High yield securities (junk bonds) have speculative characteristics and present a greater risk of loss than higher-quality debt securities. These securities can also be subject to greater price volatility.

One of the principal risks 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 an investment. If interest rates rise, there is less prepayment risk, but defaults may increase, potentially causing losses. This is not a complete list of risks associated with the strategy. Consult your professional advisors for further guidance.

CREDIT RATING DISCLOSURES (FOR INDEX)

ICE BA Credit Ratings

ICE BA utilizes its own composite scale, similar to those of Moody's, S&P and Fitch, when publishing a composite rating on an index constituent (e.g., BBB3, BBB2, BBB1). Index constituent composite ratings are the simple averages of numerical equivalent values of the ratings from Moody's, S&P and Fitch. If only two of the designated agencies rate a bond, the composite rating is based on an average of the two. Likewise, if only one of the designated agencies rates a bond, the composite rating is based on that one rating.

SOURCE INFORMATION

Source: ICE Data Indices, LLC ("ICE Data"), is used with permission. ICE® is a registered trademark of ICE Data or its affiliates, and BofA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA") and may not be used without BofA's prior written approval. ICE Data, its affiliates and their respective third-party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates nor their respective third-party suppliers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. ICE data, its affiliates and their respective third-party suppliers do not sponsor, endorse, or recommend MacKay shields LLC, or any of its products or services.

"Bloomberg®", "Bloomberg Indices®", Bloomberg Fixed Income Indices, Bloomberg Equity Indices and all other Bloomberg indices referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by MacKay Shields LLC ("MacKay Shields"). Bloomberg is not affiliated with MacKay Shields, and Bloomberg does not approve, endorse, review, or recommend MacKay Shields or any products, funds or services described herein. Bloomberg does not guarantee the timeliness, accuracy, or completeness of any data or information relating to MacKay Shields or any products, funds or services described herein.

COMPARISONS TO AN INDEX

Comparisons to a financial index are provided for illustrative purposes only. Comparisons to an index are subject to limitations because portfolio holdings, volatility and other portfolio characteristics may differ materially from the index. Unlike an index, individual portfolios are actively managed and may also include derivatives. There is no guarantee that any of the securities in an index are contained in any managed portfolio. The performance of an index may assume reinvestment of dividends and income, or follow other index-specific methodologies and criteria, but does not reflect the impact of fees, applicable taxes or trading costs which, unlike an index, may reduce the returns of a managed portfolio. Investors cannot invest in an index. Because of these differences, the performance of an index should not be relied upon as an accurate measure of comparison.

The following indices may be referred to in this document:

The **ICE BofA All U.S. Convertibles Index** is an unmanaged index that consists of convertible bonds traded in the U.S. dollar-denominated, investment grade and non-investment grade convertible securities sold into the U.S. market and publicly traded in the United States. The Index constituents are market value weighted based on the convertible securities prices and outstanding shares, and the underlying index is rebalanced daily.

The **Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

The **S&P 500 Index** is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

The **NASDAQ Composite Index** is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

The **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. Qualifying securities must have a below-investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings). In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed-coupon schedule and a minimum amount outstanding of \$100 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the Eurobond and U. S. domestic bond markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed-rate period and are at least one year from the last call prior to the date the bond transitions from a fixed- to a floating-rate security. DRD-eligible and defaulted securities are excluded from the Index.

IMPORTANT DISCLOSURE

The **Bloomberg U.S. Aggregate Index** represents securities that are SEC-registered, taxable, and dollar-denominated. Must have at least one year to final maturity regardless of call features. Must have at least \$300 million par amount outstanding. Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Must be dollar-denominated and non-convertible.

The **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.

The **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..

The **ICE BofA U.S. Mortgage-Backed Securities Index** tracks the performance of U.S. dollar-denominated, fixed-rate, residential mortgage pass-through securities publicly issued by U.S. agencies Fannie Mae, Freddie Mac and Ginnie Mae in the U.S. domestic market. 30-year, 20-year and 15-year fixed-rate mortgage pools are included in the Index provided they have at least one year remaining term to final maturity and a minimum amount outstanding of at least \$5 billion per generic coupon and \$250 million per production year within each generic coupon.

The **BofA U.S. Fixed Rate CMBS Index** tracks the performance of U.S. dollar-denominated, investment grade, fixed-rate, commercial mortgage-backed securities publicly issued in the U.S. domestic market.

The **ICE BOFA AA-BBB U.S. Asset Backed Securities Index** represents the portion of the ICE BofA U.S. Fixed Rate Asset Backed Securities Index composed solely of bonds that are rated AA-BBB.

The **ICE BofA High Yield Emerging Markets Corporate Plus Index** is a subset of The ICE BofA Emerging Markets Corporate Plus Index including all securities rated BB1 or lower. ICE Bank of America High Yield Master II Index tracks the performance of U.S. dollar-denominated, below-investment grade-rated corporate debt publicly issued in the U.S. domestic market. To qualify for inclusion in the index, securities must have a below-investment grade rating (based on an average of Moody's, S&P, and Fitch) and an investment grade-rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long term sovereign debt ratings). Each security must have greater than 1 year of remaining maturity, a fixed-coupon schedule, and a minimum amount outstanding of \$100 million.

The **ICE BofA Emerging Markets External Sovereign Index** tracks the performance of U.S. dollar- and euro-denominated, emerging markets sovereign debt publicly issued in the major domestic and Eurobond markets.

DEFINITIONS

Active Management: Active management is the use of a human element, such as a single manager, co-managers or a team of managers, to actively manage a fund's portfolio. Active management strategies typically have higher fees than passive management.

Duration: Duration can measure how long it takes, in years, for an investor to be repaid a bond's price by the bond's total cash flows.

Spreads: The difference of gap that exists between two prices, rates, or yields.

Yield Curve: A line that plots yields of bonds having equal credit quality but different maturity dates.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investments" is both a service mark, and the common trade name, of certain investment advisors affiliated with New York Life Insurance Company.



INVESTMENTS

"New York Life Investments" is both a service mark, and the common trade name, of certain investment advisors affiliated with New York Life Insurance Company.