

Inside ESG Investing at Seix

With ESG factors becoming an increasingly important part of investing, here's how Seix's leveraged finance, investment grade, municipal, and securitized credit teams apply such metrics.

Environmental, Social, and Governance ("ESG") considerations have been a part of Seix's investment process for over 25 years. In our early years as a legacy woman and minority owned business, we developed internal systems to ensure compliance with socially responsible guidelines before commercial systems were available. Since the firm's inception, we have managed investment portfolios with social and environmental exclusions provided by clients, as well as an investment portfolio that focused on including affordable housing investments. Among the excluded investments for certain clients are issuers with exposure to gaming, weapons manufacturing, tobacco products, nuclear power plants, and investments in companies identified as egregious violators of human rights or the environment.

Building on these systems and analytical foundations, we have begun to move beyond exclusion of risk and implicit ESG factors consideration, and now explicitly and systematically integrate ESG principles into our investment process. We recognize that in the long run, companies that demonstrate a commitment to ESG are generally more likely to drive above average returns for investors. We do not employ positive or negative screens in our portfolio unless specifically requested by a client in a separately managed account.

We continue to be particularly focused on ESG principles that underscore the potential resilience of a company's business model and adequacy of its financial policies to achieve its stated goals. For example, in healthcare, we have routinely underweighted or avoided companies whose business models are largely driven by regulatory inefficiencies or predatory pricing. In energy, we seek to invest in companies that demonstrate a commitment to environmental stewardship as an integral part of their operations. These companies have assessed their impact on the environment and have outlined specific targets and plans to reduce their impact in areas such as greenhouse emissions, flaring intensity, and fluid spill rates. We believe our focus on these factors enables us to better identify companies that can adapt and survive in periods of change and uncertainty.

INTRODUCING OUR NEW ESG INVESTMENT PRINCIPLES COMMITTEE

Seix has established an Environmental, Social and Governance Investment Principles Committee with responsibility for both facilitating and, at least annually, reporting on the incorporation of ESG investing principles in Seix's investment strategies.

The voting members of the Committee include six portfolio managers and five research analysts.

LEVERAGED FINANCE

Using specific ESG standards developed by the Sustainable Accounting Standards Board (SASB)¹ as a starting point, Seix developed a checklist to screen our investments for exposure to key ESG risks. Our framework seeks to identify whether a company's exposure to an ESG factor is neutral, negative, or positive. Using a 5-point scale (1-5, with 3 as neutral), we score subsectors' various ESG factors to derive an internal ESG risk score. Absent an event or additional information, we review our ESG score annually for credits with a neutral (3) internal ESG score. Companies that score negatively for ESG factors on our internal checklist are subject to more frequent reviews to ascertain that the risk factors of concern have not changed. Companies that score very negatively for ESG (usually due to concerns regarding the sustainability of the business model or the risk of stranded assets) may be excluded from the portfolio at the discretion of the portfolio managers.

Each ESG factor is scored on a 5-point scale as follows:

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|---|--|--|
| 1 Negative (unlikely to invest) | | <ul style="list-style-type: none">• The scores are then averaged to arrive at the “Seix ESG Score.”• The individual ESG scoring documents are stored in the Seix Bloomberg Notes database.• The individual ESG Scores are tabulated in a Bloomberg worksheet that is shared across the firm. |
| 2 Negative (invest with caution/watch list) | | |
| 3 Neutral | | |
| 4 Positive (ESG supports credit improvement) | | |
| 5 Very Positive | | |

In addition to our internally developed tools, we also use Bloomberg Asset and Investment Manager Plus (“Bloomberg AIM Plus”) to restrict the purchase of any industries or issuers that a client has identified as not being in line with its ESG/Socially Responsible goals. We subscribe to MSCI ESG Research (Social Portfolio Screening Service) to screen ESG-related business practices of issuers and rely on other tools developed by third parties such as Bloomberg and the credit rating agencies to screen for outliers across various ESG criteria.

¹The Sustainability Accounting Standards Board (SASB) connects businesses and investors on the financial impacts of sustainability. SASB standards enable businesses around the world to identify, manage, and communicate financially material sustainability information to investors. SASB standards are industry-specific and are designed to be decision-useful for investors and cost effective for companies. They are developed using a process that is evidence based and market informed. To download any of the 77 industry-specific standards, or learn more about SASB, please visit [SASB.org](https://sasb.org).

An ESG Integration Checklist

Seix will use our internally developed ESG integration checklist, which is based, in part, on the Sustainable Accounting Standards Board (SASB) standards¹. That screening process will not necessarily result in an automatic decision to avoid investment in a credit, but it typically does cover a wide range of potential risks, for instance:

Environmental	Social	Governance
Environmental metrics may include greenhouse gas emissions, air quality, energy management, waste, wastewater, and (if applicable) hazardous materials management, among other ecological impacts.	<p>Seix looks at the social part of ESG two ways: social capital and human capital.</p> <p>Social capital factors may include human rights & community relations; customer privacy; data security; access & affordability; product quality & safety; customer welfare and selling practices & product labeling.</p> <p>Human capital considerations may include labor practices, employee health & safety, and finally, employee engagement, diversity & inclusion.</p>	<p>The “G” of Seix’s ESG checklist is twofold.</p> <p>The G1 screen—business model & innovation—may include product cycle & lifecycle management, business model resilience, material sourcing and efficiency, supply chain management, and physical impacts of climate change.</p> <p>The G2 screen—leadership & governance—may encompass business ethics, governance, competitive behavior, management of the legal and regulatory framework, critical incident risk management, and systemic risk management.</p>

Considering the divergence of ESG metrics and evaluation methodologies that investors might want to see, the Seix ESG integration checklist includes third party-ESG scores and key operating statistics shown below. No one metric decides whether to invest or not to invest.

3rd Party ESG Score

MSCI – An MSCI ESG Rating is designed to measure a company’s resilience to long-term, environmental, social and governance (ESG) risks. MSCI uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. ESG Ratings range from leader (AAA, AA), average (A, BBB, BB), to laggard (B, CCC).

Sustainalytics Rank – Sustainalytics’ ESG Risk Ratings are categorized across five risk levels: negligible (0-10), low (10-20), medium (20-30), high (30-40), and severe (40+).

RobecoSAM Rank – RobecoSAM Smart ESG methodology uses quantitative analysis to remove the bias that clouds standard ESG data and helps clarify the true sources of sustainability. As a result, investors are better equipped to reduce risk, spot opportunities, and improve portfolio performance.

Bloomberg ESG Disclosure – Bloomberg ESG Disclosure scores rank the relative performance of companies across four key focus areas of diversity, tenure, director over boarding, and independence.

Key Operating Stats

GHG/Revenue – This metric is a carbon responsibility metric that describes the associated greenhouse gas impact (metric tons of CO₂) per \$1 million in revenues.

ISS Governance Quality Score – ISS Governance Quality Score uses a numeric, decile-based score to indicate a company’s governance risk relative to its index. An overall score in the 1st decile indicates relatively higher quality governance practices and relatively lower governance risk, and, conversely, a score in the 10th decile indicates relatively higher governance risk. Companies also receive a score for each of four categories: board structure, compensation/remuneration, shareholder rights, and audit & risk oversight.

CDP Climate Score – CDP, formerly known as the Climate Disclosure Project, is an international non-profit organization based in the United Kingdom, Germany, and the United States that helps companies and cities disclose their environmental impact. CDP scores alphabetically, but Bloomberg converts the rating from 1-10. The higher the number, the better the company has performed.

For illustrative purposes only.

Sources: MSCI and Sustainalytics publicly provided information; Bloomberg Industries ESG Dashboard.

INVESTMENT GRADE CORPORATE

Investment Grade Corporate research analysts also use another internally developed ESG checklist as part of the investment thesis document. Each ESG factor is scored on a 5-point scale as follows:

- 1 Industry Laggard
 - 2 Needs Improvement vs. Peers
 - 3 Neutral to Peers
 - 4 Ahead of Peers
 - 5 Industry Leader
- Like the Seix LevFin approach, the internal scores are then averaged to arrive at the “Seix ESG Score.”

As mentioned above, the Seix IG Corporate ESG assessment process is not designed to necessarily result in an automatic decision to avoid investment in a credit, but rather to provide additional information as to a company’s wherewithal to invest or to address developing issues in key areas of governance and sustainability, by highlighting a debt issuer’s potential future costs and challenges to its competitive position.

Information sources include financial filings, management discussions, and 3rd party ESG data sources, as discussed.

In addition to our internally developed tools, we use Bloomberg Asset and Investment Manager Plus (“Bloomberg AIM Plus”) to restrict the purchase of any industries or issuers that a client has identified as not being in line with its ESG/Socially Responsible goals. We subscribe to the MSCI ESG Research (Social Portfolio Screening Service) to screen ESG related business practices of issuers and rely on other tools developed by third parties such as Bloomberg and the credit rating agencies to screen for outliers across various ESG criteria.

MUNICIPAL BONDS

Even before the terms “ESG” and “SRI” (sustainable and responsible investment) became part of the popular lexicon, Seix incorporated it in its municipal credit analysis. In fact, to some extent, most types of municipal bonds serve an ESG purpose and can qualify as an SRI. This is because the primary goal of most municipal financings is to improve access to and quality of governmental services. An electric utility may issue bonds to acquire renewable energy sources with the goal of improving air quality by reducing the carbon footprint (E). A local government may issue bonds to eliminate blight, with the goal of creating jobs by promoting economic development (S). A public university may issue bonds to enhance research capabilities, with the goal of achieving environmental and social benefits (E and S). Finally, strong governance is critical in ensuring capital financing goals will be met and debt service will be paid (G). We explicitly integrate ESG factors into our existing credit process and formulation of our credit opinion.

Like LevFin and IG, we assign ESG scores to the debt issuers we cover. As stated above, many of the names in the market would meet the base criteria for an ESG investment and consequently our score is focused on each issuer’s impact relative to the rest of the market. Our scoring is on a scale of 1 to 5, with 5 being the strongest and 1 being the weakest:

<p>1 Large Negative ESG Impact</p> <hr/> <p>2 Negative ESG Impact</p> <hr/> <p>3 Neutral ESG Impact</p> <hr/> <p>4 Positive ESG Impact</p> <hr/> <p>5 Large Positive ESG Impact</p> <hr/>	<p>The scoring process begins by assigning a preliminary score based upon the sector to which the issuer belongs. These scores are then subject to positive or negative “notching,” based upon the characteristics of the issuer itself, to produce a final score.</p> <p>Preliminary scores for each sector are as follows:</p> <ul style="list-style-type: none"> • Utilities (water and sewer, electric power, and solid waste) 4 <hr/> • Education (school districts, charter schools, and higher education) 4 <hr/> • Healthcare 4 <hr/> • State and Local (general obligation, dedicated tax, and appropriation-backed) 3 <hr/> • Transportation (airport, toll road, seaport, and mass transit) 3 <hr/> • Miscellaneous (tobacco, lottery, and prison) 2 <hr/>
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The ESG assessment process is not designed to sway the investment decision of the portfolio manager, but is used to provide additional information and context into the ESG standing of each issuer which may, over time, impact demand dynamics or market spreads.

SECURITIZED ASSETS

While the Seix Securitized Assets team places its primary focus on a transaction’s collateral and a secondary focus on the various parties to the transaction and their ability to perform their contractual obligations, it has systematically integrated ESG principles into the investment process as an additional set of risk factors to be considered.

Each ESG factor is scored on a 5-point scale, relative to transactions with similar collateral and structure:

<p>1 High Risk</p> <hr/> <p>2 Above Average Risk</p> <hr/> <p>3 Average Risk</p> <hr/> <p>4 Below Average Risk</p> <hr/> <p>5 Low Risk</p> <hr/>	<p>The scores are then averaged to arrive at the “Seix ESG Score.”</p> <p>We review each issuer’s credit rating on an annual basis to ensure it remains valid. Concurrently, we review each issuer’s ESG score to preserve its accuracy.</p> <ul style="list-style-type: none"> • The individual ESG scores are stored in our CreditScope system as a part of each issuer’s credit opinion record. • When needed, an aggregated report containing ESG scores for all of our holdings can be generated by the system.
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The ESG assessment process is not designed to sway the investment decision of the portfolio manager but is used to provide additional information and context into the ESG standing of each issuer which may, over time, impact demand dynamics or market spreads.



To learn more about Seix Investment Advisors,
please visit seixadvisors.com.

For information regarding our subadvised mutual funds,
please visit virtus.com or call 1-800-243-4361.

About Seix Investment Advisors LLC

Seix Investment Advisors is an investment management boutique focused exclusively on managing fixed income strategies since 1992. Seix seeks to generate competitive absolute and relative risk-adjusted returns over the full market cycle through a bottom-up focused, top-down aware process. Seix employs multi-dimensional approaches based on strict portfolio construction methodology, sell disciplines, and trading strategies with prudent risk management as a cornerstone.

INDEX DEFINITIONS

The **MSCI ACWI Index (net)** is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and emerging markets. The **MSCI ACWI SRI Index (net)** includes large and mid-cap stocks across 23 Developed Markets (DM) countries and 27 Emerging Markets (EM) countries. The index is a capitalization weighted index that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts. Constituent selection is based on research provided by MSCI ESG Research.

IMPORTANT RISK CONSIDERATIONS

Investing involves risks and the possible loss of principal. This report is based on the assumptions and analysis made and believed to be reasonable by Seix. However, no assurance can be given that Seix opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities.