

## Inside ESG Investing at Seix

A guide to how Seix’s leveraged finance, investment grade, municipal, and securitized credit teams think about sustainability in our investment process.

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 issuers identified as egregious violators of human rights or the environment.

Our sector analysts consider relevant ESG factors in their analysis of an issuer’s creditworthiness. For example, an issuer’s business practices relating to resource use, labor practices, ownership and board of directors’ composition, as well as financial policies in regard to investments and capital allocation practices are considered as part of our fundamental investment process.

We continue to be particularly focused on ESG principles that underscore the resilience of an issuer’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 business models with the resilience and potential to adapt and survive in periods of change and uncertainty.

### **THE SEIX ESG INVESTMENT PRINCIPLES COMMITTEE**

Seix established an Environmental, Social and Governance Investment Principles Committee (the “Committee”) with responsibility for both facilitating and reporting on the incorporation of ESG investing principles in Seix’s investment strategies. The Committee was created in 2021.

The voting members of the Committee consist of portfolio managers and research analysts from the Leveraged Finance (bank loans and high yield bonds), Corporate, Tax-Exempt, and Securitized investment teams, Client Service representatives, and the Head of Structured Credit. The Chief Compliance Officer is the Secretary of the Committee and is a non-voting member of the Committee.

### LEVERAGED FINANCE

Seix Leveraged Finance uses an internally developed 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. 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:

- 1 Negative (unlikely to invest)
- 2 Negative (invest with caution/watch list)
- 3 Neutral
- 4 Positive (ESG supports credit improvement)
- 5 Very Positive

The scores are then averaged to arrive at the “Seix ESG Score.”

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 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.

Our goal is to have ESG scores for at least 75% of the bank loans and 90% of the high yield bonds in our Leveraged Finance portfolios.

### INVESTMENT GRADE CORPORATE

Investment Grade – Corporate research analysts also use an 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.”

The Seix IG Corporate ESG assessment process is designed to provide additional information as to a company’s wherewithal 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. The ESG assessment process is part of the overall credit assessment. Information sources include financial filings, management discussions, and third party ESG data sources.

In addition to our internally developed tools, we use 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.

The goal is to have ESG scores for 100% of the corporate bonds in our Investment Grade – Corporate portfolios. We do not assign ESG scores to U.S Treasuries and Agencies’ mortgage securities because we do not believe that they are appropriate for ESG analysis.

**MUNICIPAL BONDS**

Even before the terms “ESG” and “SRI” (Socially Responsible Investing) 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 the review of ESG factors into our existing credit process and formulation of our credit opinion.

Like Leveraged Finance and Investment Grade – Corporate, we assign ESG scores to the debt issuers or names 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:

- 1** Large Negative ESG Impact
- 2** Negative ESG Impact
- 3** Neutral ESG Impact
- 4** Positive ESG Impact
- 5** Large Positive ESG Impact

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.

Preliminary scores for each sector are as follows:

• <b>Utilities</b> (water and sewer, electric power, and solid waste)	<b>4</b>
• <b>Education</b> (school districts, charter schools, and higher education)	<b>4</b>
• <b>Healthcare</b>	<b>4</b>
• <b>State and Local</b> (general obligation, dedicated tax, and appropriation-backed)	<b>3</b>
• <b>Transportation</b> (airport, toll road, seaport, and mass transit)	<b>3</b>
• <b>Miscellaneous</b> (tobacco, lottery, and prison)	<b>2</b>

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.

Our goal is to have ESG scores for all of the bonds in our Municipal portfolios.

## SECURITIZED ASSETS

The Seix Securitized Assets team places our primary focus on a transaction's underlying collateral and a secondary focus on the various parties to the transaction and their ability to perform their contractual obligations. We have systematically integrated ESG principles into our investment process as an additional set of risk factors to be considered both at the collateral and interested party levels.

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

- 1** High Risk
- 2** Above Average Risk
- 3** Average Risk
- 4** Below Average Risk
- 5** Low Risk

The scores are then averaged to arrive at the "Seix ESG Score."

We do not assign ESG scores to U.S Treasuries and Agencies' mortgage securities because we do not believe that they are appropriate for ESG analysis.

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](http://seixadvisors.com).

For information regarding our subadvised mutual funds,  
please visit [virtus.com](http://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.