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UK Stewardship  
Code Report

**2023**



## Scope and Purpose of this Report

CQS (UK) LLP (“CQS” or the “Firm”) complies with, and adheres to the principles of, The UK Stewardship Code 2020 (the “Code”) and the Shareholders Rights Directive II (“SRD II”) (as transposed into the UK Financial Conduct Authority’s Conduct of Business Sourcebook (“COBS”) in its handbook of rules and guidance (the “FCA Rules”).

This Report sets out how CQS has applied the principles of the Code for the period between 1 January 2023 to 31 December 2023 (the “Reporting Period”) in respect of those funds and clients managed or advised by CQS (each a “Fund” or “Client”, which definition shall include, where the context requires, any end investor). This Report, together with additional tailored reporting provided to specific institutional Clients and Funds, also satisfies the SRD II annual disclosure and asset manager transparency requirements set out in COBS 2.2B (“SRD Requirements”) of the FCA Rules.

This Report should be read in conjunction with, and by reference to, CQS’ Shareholder Rights and Stewardship Policy (the “Stewardship Policy”). This Report is structured in a manner consistent with our Stewardship Policy and the Code, with each section of this Report corresponding to the equivalent Principle under the Code.

In April 2024, the CQS Group was acquired by Manulife Investment Management. CQS has since become known as Manulife | CQS Investment Management. However, as the Reporting Period relates to a period prior to the Manulife acquisition, we have generally referred to the firm as “CQS” throughout this Report.

### Principle

<b>1</b>	Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	<b>4</b>
<b>2</b>	Signatories’ governance, resources and incentives support stewardship.	<b>18</b>
<b>3</b>	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	<b>26</b>
<b>4</b>	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	<b>30</b>
<b>5</b>	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	<b>37</b>
<b>6</b>	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	<b>41</b>
<b>7</b>	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	<b>45</b>
<b>8</b>	Signatories monitor and hold to account managers and/or service providers.	<b>51</b>
<b>9</b>	Signatories engage with issuers to maintain or enhance the value of assets.	<b>54</b>
<b>10</b>	Signatories, where necessary, participate in collaborative engagement to influence issuers.	<b>63</b>
<b>11</b>	Signatories, where necessary, escalate stewardship activities to influence issuers.	<b>70</b>
<b>12</b>	Signatories actively exercise their rights and responsibilities.	<b>75</b>

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# Letter From Soraya Chabarek

We are pleased to submit our annual UK Stewardship Code report to the Financial Reporting Council. In continuing to pursue our three Firm-wide objectives (below) and meet the commitments made to our Clients, we also comply with and adhere to the 12 Principles of the Code.

Our three Firm-wide objectives are:

## **1. Engage:**

We engage with the companies in which our strategies invest to foster long-term change, sharing our expertise to help make their business models more sustainable. Over the past year we have continued to focus on our Targeted Engagement Programme and sharing examples of our ongoing engagement activity with our Clients (see Principles 1, 2 and 4). During 2023, our teams conducted 98 direct engagements with companies (1,889 including collaborative engagements via industry initiatives, see Principle 10 for more details).

## **2. Decarbonise:**

To play our part in the transition to a low-carbon economy, we focus on data, disclosure, and collaboration. CQS is a signatory to the Net Zero Asset Managers' initiative; we continue to monitor the progress of the interim decarbonisation targets set for the relevant CQS open-ended long only Funds, which are classified as Article 8 under the European Union's Sustainable Finance Disclosure Regulation (see Principle 1 for more details).

## **3. Nurture:**

We deeply believe in our social responsibilities, both to our staff and to our communities. Our Diversity and Inclusion initiatives and corporate giving are focused on nurturing from the grassroots and supporting youth development. During 2023, we continued to support initiatives to promote diversity and inclusivity within the Firm and the wider industry, and have been working with our charity partners as part of our multi-year corporate giving programme (see Principle 1 for information on these initiatives).

Pursuing our core objectives, delivering our commitments, and meeting each of the Principles of the Code remains the right thing to do and enables us to continue to perform for our Clients.

**Soraya Chabarek, Chief Executive Officer**

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# Principle 1

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

## **Purpose of the Organisation, Values, and Investment Beliefs**

CQS has been managing research-driven credit strategies for over 20 years, across multiple market cycles.

We offer investors a multi-sector alternative credit platform, focused on what our teams know best: global credit.

The Firm's core capabilities span corporate credit (loans and bonds), asset backed securities ("ABS"), regulatory capital, collateralised loan obligations ("CLOs"), and convertible bonds.

Our ambition is to continue to help investors achieve their goals across market cycles by selecting good quality credits and generating income.

The CQS teams are committed to building enduring partnerships with investors, seeking to generate long-term risk-adjusted returns and delivering high levels of service, tailoring mandates across a range of return objectives and risk appetites.

To achieve this, our culture is rooted in teamwork and an open, inclusive and collegial working environment. Central to the culture, business ethics and values shared across the Firm is an active approach to stewardship, including environmental awareness, social responsibility, and a commitment to good governance, to lead to well-informed perspectives.

From an investment philosophy perspective, we have a history and ethos of active credit management.

Since inception in 1999, we have focused on a thorough bottom-up fundamental research process, ensuring we have a clear view on the probability of default, and extent of recovery, of our investments and seeking to ensure credit spreads compensate investors for any potential loss risk.

Effective stewardship is therefore central to our approach i.e. responsibly allocating, managing, and overseeing our Clients' capital.



As credit investors, governance considerations have long been integrated into our investment decision-making process.

Since inception, CQS has considered a number of governance issues in respect of the assets in which it invests, such as board effectiveness, business risks including corruption and bribery, supply chain risks, tax strategy and financial reporting and disclosure.

In 2016, we began incorporating environmental and social factors into our analysis by integrating external Environment, Social and Governance (“ESG”) data into our processes.

The timeline of our other major responsible investment milestones is shown below.

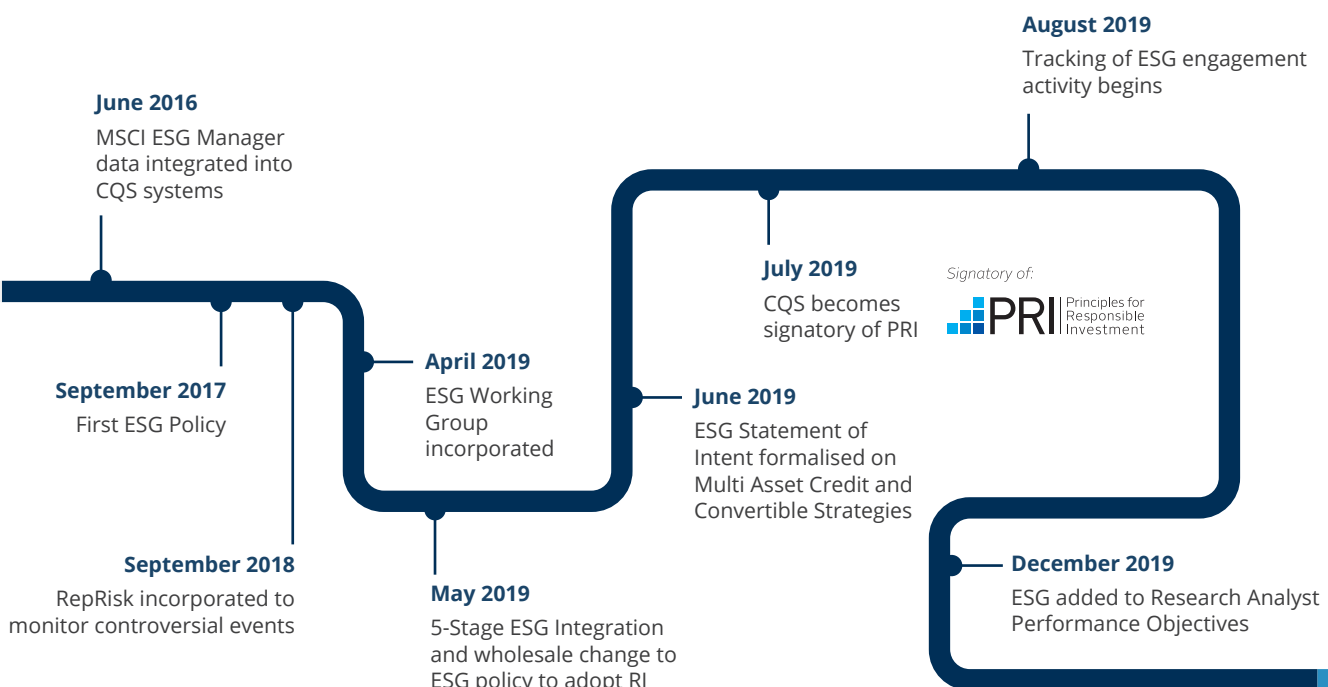
Throughout our journey, we have provided responsible investment (“RI”) training to our staff, in particular:

- Research Analysts
- Portfolio Managers
- Distribution Team

We also regularly share intellectual capital across the Firm. Further detail can be found on page 59.

Performance evaluation for front office and senior staff is linked to the integration of our responsible investment process and effective stewardship considerations.

## Timeline of our major responsible investment milestones



The Reporting Period was focused on developing our systems to be able to better report against our responsible investment commitments.

**November 2022**

Introduction of interim decarbonisation targets through NZAM

**July 2022**



CQS becomes signatory to the Institutional Investors Group on Climate Change ("IIGCC")

**November 2021**

CQS becomes signatory to the Net Zero Asset Managers initiative ("NZAM")



**October 2021**

Long-biased CQS strategies categorised as Article 8 under Sustainable Finance Disclosure Regulation ("SFDR")

**September 2021**

CQS becomes signatory to UK Stewardship Code



**July 2021**

CQS publishes our first report aligned to the TCFD

**January 2021**

CQS becomes a participant of Climate Action 100+



**September 2020**

Introduction of CQS Engagement Group & Targeted Engagement Programmes. Includes Sustainable Development Goals ("SDGs") mapping of objectives



**June 2020**

CQS becomes signatory of CDP and publicly supports Task Force on Climate Related Financial Disclosures ("TCFD")

**March 2020**

CQS completes first PRI assessment Scoring "A" for strategy and Governance

**February 2020**

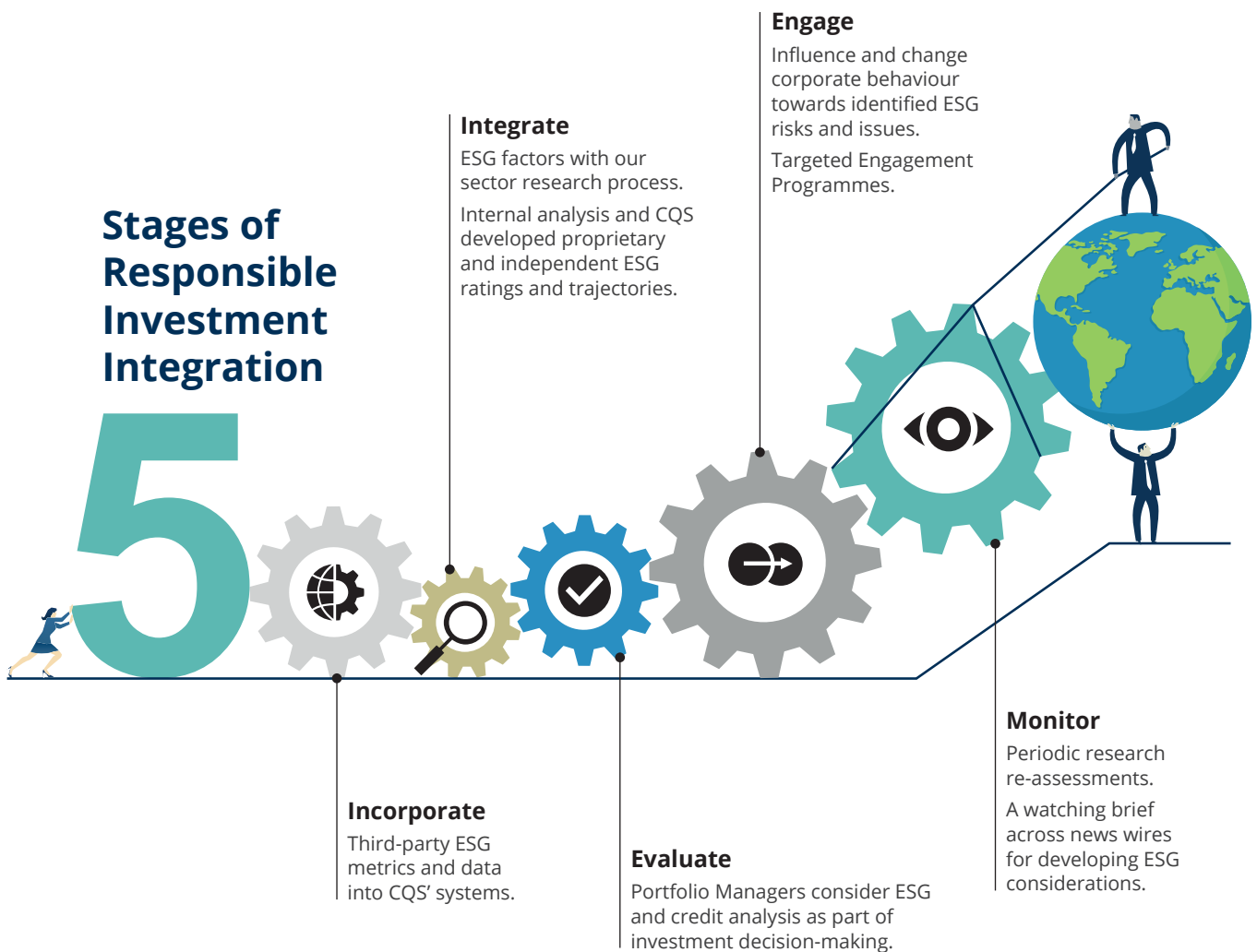
MSCI Climate Change Metrics added to monitor Portfolio Carbon Intensity

## CQS' Investment Beliefs Support Effective Stewardship

As described earlier, given our investment philosophy, we believe that an active approach to stewardship and responsible investing are crucial factors in creating long-term value for our investors. In our view, stewardship and ESG factors are drivers influencing financing costs, valuations and performance. As a result, we have integrated these factors into the Firm-wide five-stage responsible investment integration process, as shown below.

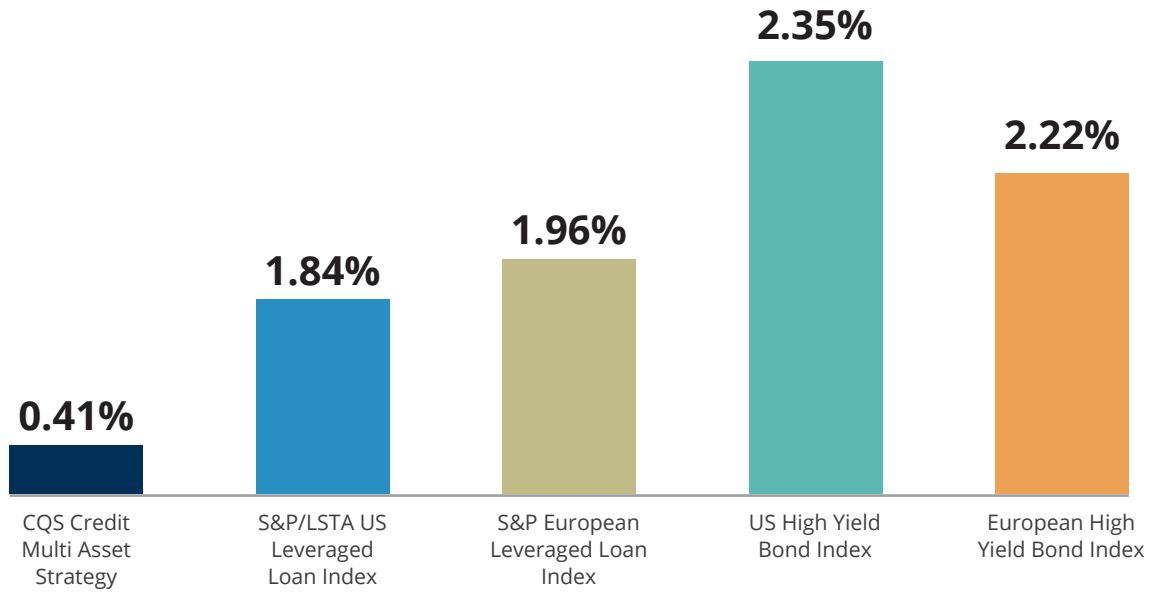
ESG considerations are embedded into the bottom-up fundamental analysis undertaken by our Research Analysts in stages one and two of our process, and by our Portfolio Managers in the investment decision-making process of stage three.

Through the process illustrated below we work hard to ensure that the companies to whom we lend have sufficient cash flow generation and liquidity to pay the interest and principal on their debt.





### Default rate of the CQS Credit Multi Asset Strategy relative to the wider market



Source: CQS Macro and Fundamental Research, LCD and the Moody's Default Report as at 31 December 2023. All time series start at Strategy inception (21 January 2013) and show trailing 12-month dollar-weighted par value default rates.

These issuers are more likely to be companies who are working to improve their ESG factors, including sustainability characteristics, or who are already strong in these areas. Given we typically have exposure to c. 1600 corporates across the Firm, we can engage with many of these businesses to help drive sustainability and long-term ESG improvement. How a company behaves from an ESG perspective can have direct implications for their long-term future, affecting the cost of financing, valuation, and performance. In our experience, ESG issues themselves are often a credit risk; poor governance and ESG controversies are often leading indicators for probability of default and loss given default.

Our effective stewardship continues to be best illustrated by our history of avoiding defaults and minimising their impact.

By focusing on individual credit selection and not buying the market, as represented above by our Multi Asset Credit strategy, we

achieve a considerably lower average default rate versus loan and bond markets (since inception of the strategy).

We continue to use our position, on behalf of our Clients, as an established global provider of credit to actively seek improvements from the companies in which we invest (stage four of the responsible investment integration process). Throughout the Reporting Period, we continued to engage and collaborate with stakeholders as a way to make meaningful change in corporate behaviour.

As predominantly credit investors, the most relevant measure of active ownership is our engagement activity, details of which are set out under Principles 7, 9, 10, and 11.

The case studies and examples included throughout this Report serve to illustrate our ongoing approach to stewardship which we believe continues to be effective.

## CQS has a three-pronged approach to engagement:

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# 1

### Targeted Engagement Programme

- Identify key engagement priorities, map these to UN SDGs and collaborate across the Firm
  - Discuss targeted engagements at Engagement Group meetings
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# 2

### Ongoing Engagements

- Engagement at the investment stage with issuers' senior management
  - Issues flagged in the ESG rating process and regular portfolio reviews are followed up
- 

# 3

### Collaborative Engagements

- Collaborative initiatives with CDP, PRI and our other signatory bodies
  - Industry wide collaborations
  - Default reorganisation
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In addition to this, we have four key engagement priorities:

- **Sustainable business practices**
  - **Good governance and financial disclosure**
  - **Climate risk management and disclosure**
  - **Diversity within a company**
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We chose these four key engagement priorities as they align to our beliefs as a Firm. CQS believes in operating sustainably, ensuring our long-term business strategy enables us to best serve our Clients. We believe the best way to do this is to have an effective and transparent governance structure (as outlined in Principle 2), engaged senior leadership and a thriving, inclusive workforce.

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As at the time of writing, CQS has offices in London and New York.

We seek to reduce the environmental impact of our operations and promote sustainable practices amongst our staff.

This includes taking steps to reduce our electricity usage and using renewable electricity where possible, and taking part in recycling facilities available within the offices we lease.

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Our London office premises use a specialist energy company which seeks to purchase power from renewable generators including wind, hydroelectric and solar throughout the UK.

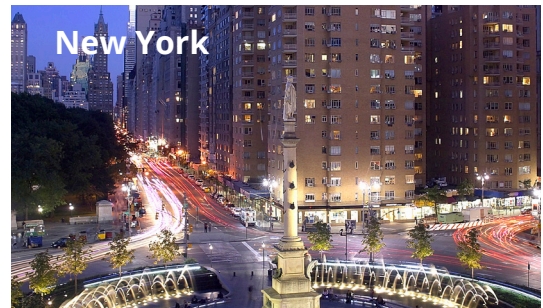
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In September 2023, we offset all our operational scope 1, 2 and 3 (business travel) greenhouse gas emissions across our organisation (for the year to 31 March 2023). In mid-2024, we published our 2023 TCFD report, reaffirming our commitment to better climate disclosures and mitigation of climate risks.

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CQS has offset all our operational scope 1, 2 and 3 (business travel) carbon emissions since 2020.

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## **CQS Diversity and Inclusion**

As a multi-sector, alternative credit specialist, being effective stewards of our Clients' capital relies on our people working hard, in teams, together.

We operate a flat management structure and shy away from a star manager culture. This enables our people to exchange thoughts and ideas, recognising that different perspectives result in better outcomes.

Team members continually interact across all levels of seniority and experience, and we encourage this. We empower our people without losing the sense of accountability of our leadership.

Our recruitment process seeks a diverse pool of candidates, including in terms of gender, race, and educational/social background. For us, diversity is an output of our culture.

We hire on merit and focus on diversity by working with like-minded recruiters who are required to present a diverse range of candidates.

We pride ourselves on our ability to nurture individuals from the grassroots up, and we are engaged in several initiatives to further help us to establish a diverse pipeline of future talent.

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Our staff wellbeing and engagement programme which encourages strong relationships, and physical and psychological good health, remained a key focus area during 2023. Alongside this, we focused on our multi-year corporate social responsibility programme which centres on youth development.

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## CQS' Diversity and Social Responsibility Initiatives Include:



### CQS Women's Network

We believe that women's networks are a powerful way of attracting and retaining talent, where women can interact across different levels of seniority.

Our CQS Women's Network brings women together from across the industry, and from within CQS.

We have begun to change the gender mix at CQS (from 80/20 in 2020 to 70/30 at the end of the Reporting Period).

This initiative gives women both inside and outside our Firm more opportunities to connect and build their networks.

Our annual events are well attended and continue to be popular both internally and externally.



### University of Bath Gold Scholarship Programme

Established in 2017, the Gold Scholarship Programme (GSP) provides bursaries, mentoring and skills training to up to 50 promising young people per year.

The GSP targets students from the most disadvantaged backgrounds and provides a comprehensive package of support to see them thrive during their time at Bath and beyond.

In total, we will be supporting three scholarships and the second scholar we are supporting began their degree in 2023.

We believe in developing a pipeline of future talent and supporting students through their degrees will feed into our flourishing graduate programme.

It will also help promote our industry to a group of students from a wider range of backgrounds to improve diversity over the longer term.



### 10,000 Black Interns

An initiative that works to offer opportunities to increase the number of Black professionals in the workplace.

With others in the industry, we are raising awareness of this initiative and providing interns with opportunities as a pipeline of talent.

This programme strongly aligns with our ambition to increase awareness of the industry and grow our talent pool for the future.

We have pledged to offer a minimum of two internships to candidates from this programme annually. We have now hosted three years of interns and continue to support this impactful initiative.



### Mission EmployAble

In 2023, CQS committed multi-year funding for Mission EmployAble – a social enterprise charity which trains 19-25 year olds with a learning disability to become employable. According to the charity, in the UK, there are 1.5 million people with learning disabilities, almost 94% of whom are unemployed or doing voluntary work.

Through Mission EmployAble's bespoke employment scheme, each candidate completes a Learning, Employment and Progression Diploma in affiliation with the Bucks College Group.

Candidates cover core units such as Communicating Effectively with Customers, Food and Hygiene Safety, and working with the Global Bridge Group, which is a pioneering EdTech platform that connects young people and education with employers, apprenticeships and universities.

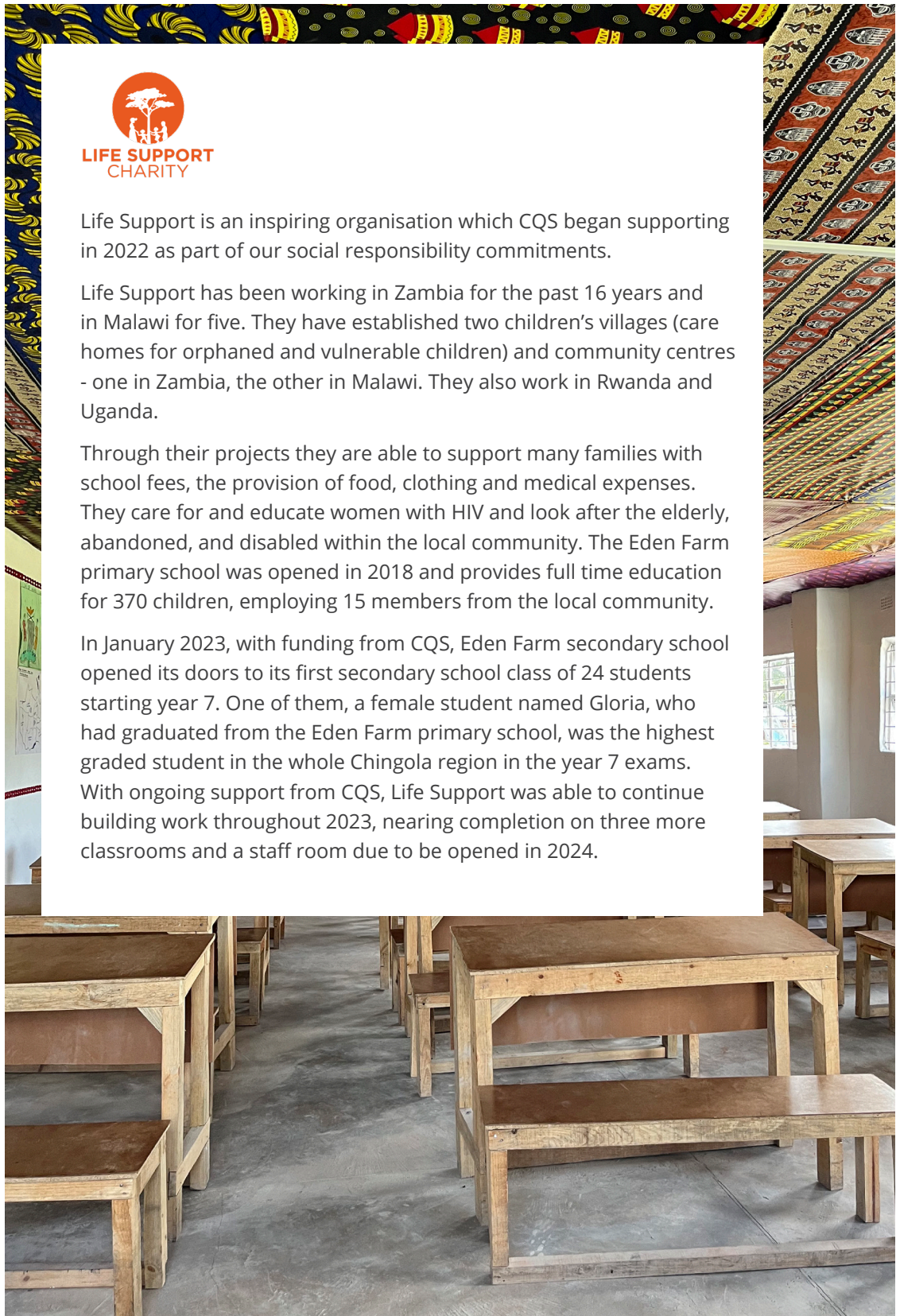


Life Support is an inspiring organisation which CQS began supporting in 2022 as part of our social responsibility commitments.

Life Support has been working in Zambia for the past 16 years and in Malawi for five. They have established two children's villages (care homes for orphaned and vulnerable children) and community centres - one in Zambia, the other in Malawi. They also work in Rwanda and Uganda.

Through their projects they are able to support many families with school fees, the provision of food, clothing and medical expenses. They care for and educate women with HIV and look after the elderly, abandoned, and disabled within the local community. The Eden Farm primary school was opened in 2018 and provides full time education for 370 children, employing 15 members from the local community.

In January 2023, with funding from CQS, Eden Farm secondary school opened its doors to its first secondary school class of 24 students starting year 7. One of them, a female student named Gloria, who had graduated from the Eden Farm primary school, was the highest graded student in the whole Chingola region in the year 7 exams. With ongoing support from CQS, Life Support was able to continue building work throughout 2023, nearing completion on three more classrooms and a staff room due to be opened in 2024.





In 2022, CQS committed to multi-year partnership with RedSTART whose mission is to improve financial literacy in primary school children across the UK. 2023 was the first full calendar year of our partnership.

In this time, CQS has provided funding for two schools and supports around 840 pupils, from Reception to Year 6, in RedSTART's inspiring Change the Game programme.

As a key funder, our support has enabled RedSTART to develop a 'Bank App' - a gamified platform representing a bank account, in which pupils save up to buy 'real' items that our funding has helped to purchase.

We also help fund RedSTART's seven-year randomised controlled trial, conducted by King's College London. The evaluation seeks to explore whether RedSTART's intervention has any positive impacts on children's financial ability, mindset, and behaviour, as well as their maths attainment. The research, which will track around 6,000 children in two cohorts, (including some from Reception all the way through to Year 6) will provide much needed, robust, longitudinal evidence on the impact of financial education for primary school children. King's College London will publish annual, publicly available evaluation reports.

In addition to funding and taking part in the Change the Game steering committee, CQS hosts annual Year 6 workshops in our offices. In June 2023, we held two workshops for 60 ten and eleven year old children from Kingfisher Primary School. A cohort of 15 CQS volunteers from across the Firm trained to deliver "Money Counts" sessions, teaching valuable financial lessons through games. CQS CEO, Soraya Chabarek, also joined the sessions to engage with the children and inspire them to consider a career in asset management.

"We have to start early. Financial education is still not part of the primary curriculum in England and even in secondary school, where it is on the curriculum, it is not being delivered consistently. With support from CQS, RedSTART is working to provide the evidence the Government say they need to be persuaded that teaching primary school children about money has an impact, not only on their financial literacy levels but their cross curricula activity and their confidence levels in their future lives." **Sarah Marks, CEO RedSTART**



## Interim Targets

As signatory to the Net Zero Asset Managers' initiative, in committing to achieve net zero by 2050 or sooner, CQS was required to set interim decarbonisation targets within the first year of being signatory (2022).

Under the guidance of the Paris Aligned Investment Initiative's Net Zero Investment Framework, CQS committed to the following interim targets for our open-ended pooled Funds classified as Article 8 under the SFDR:

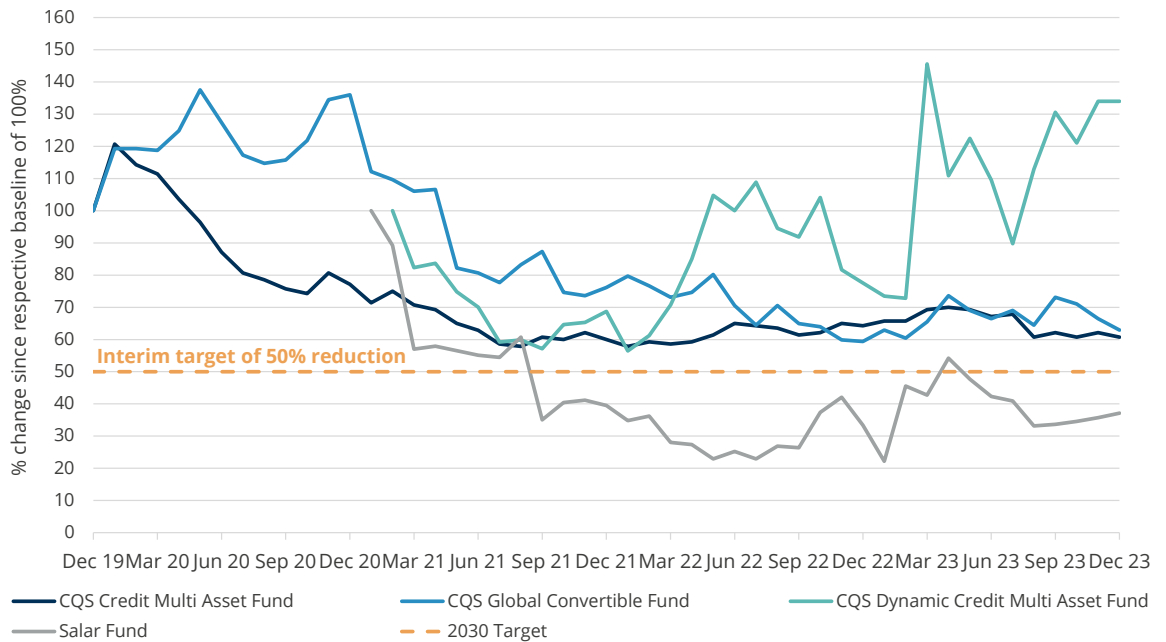
- **Portfolio Decarbonisation Reference Target:** 50% reduction in scope 1 and 2 Weighted Average Carbon Intensity ("WACI") by 2030 from a 31 December 2019 baseline (or such later date as specified in the relevant Fund's offering documentation).
- **Engagement Threshold Target:** 70% of financed emissions to be either net zero, net-zero aligned or subject to direct or collective engagement and stewardship actions by 2025.

The Funds covered by these targets are the CQS Credit Multi Asset Fund, CQS Dynamic Credit Multi Asset Fund, CQS Global Convertible Fund and the Salar Fund.

## Portfolio Decarbonisation Reference Target

The chart below shows our progress for the Portfolio Decarbonisation Reference Target since the relevant baseline to 31 December 2023 for each of the four covered Funds.

We do not expect the decarbonisation pathway to be linear and progress will take both time and engagement with issuers.





## Engagement Threshold Target

In order to monitor the Firm's progress against the Engagement Threshold Target, a number of key functions (Technology, Risk, Research and Responsible Investment), worked closely to build the relevant dataset and technological capabilities. The two key data points required are whether a company is net-zero aligned and whether we have engaged with a company on net zero.

As of 31 December 2023, CQS had 100% coverage of proprietary data on whether a company is net-zero aligned or not, across the relevant Funds.

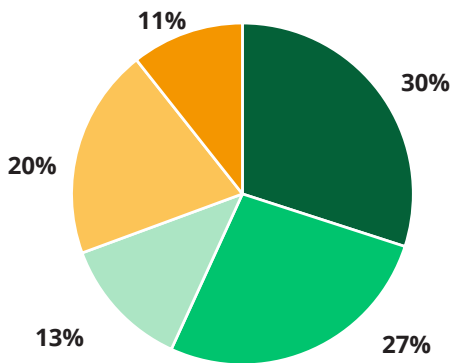
We also developed the ability to track whether an engagement covered net zero explicitly in our ESG engagement monitoring tool on the CQS Research Portal.

In 2023, we began monitoring our portfolio net-zero alignment and overlaying our engagements on net zero to understand our progress against the target.

As at 31 December 2023, the four Funds had the following net-zero alignment:

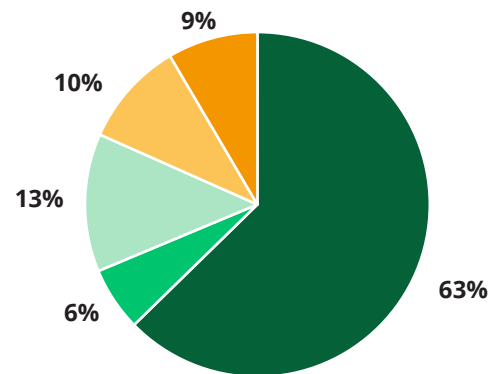
### CQS Credit Multi Asset Fund

77% net-zero aligned or subject to engagement on net zero



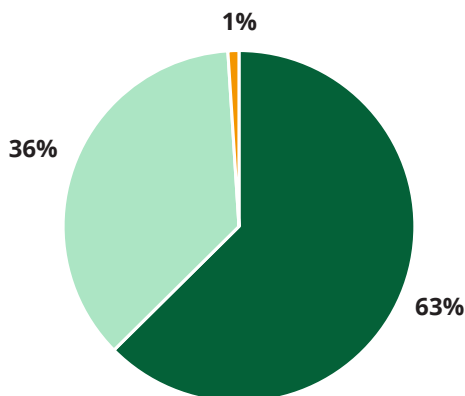
### CQS Dynamic Credit Multi Asset Fund

79% net-zero aligned or subject to engagement on net zero



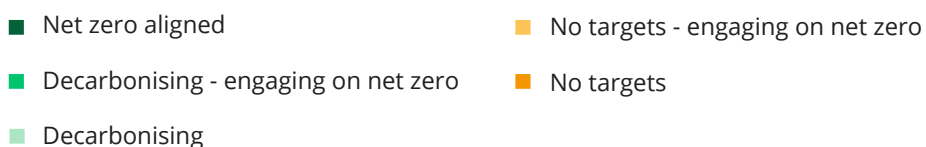
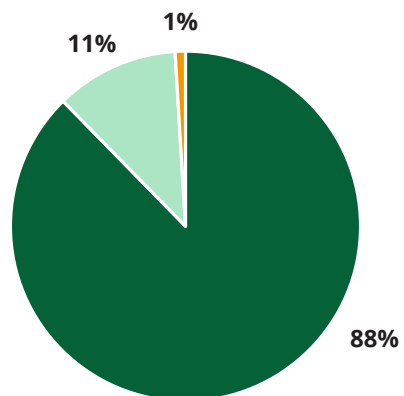
### CQS Global Convertible Fund

63% net-zero aligned or subject to engagement on net zero



### Salar Fund

88% net-zero aligned or subject to engagement on net zero



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# Principle 2

Signatories' governance, resources and incentives support stewardship.

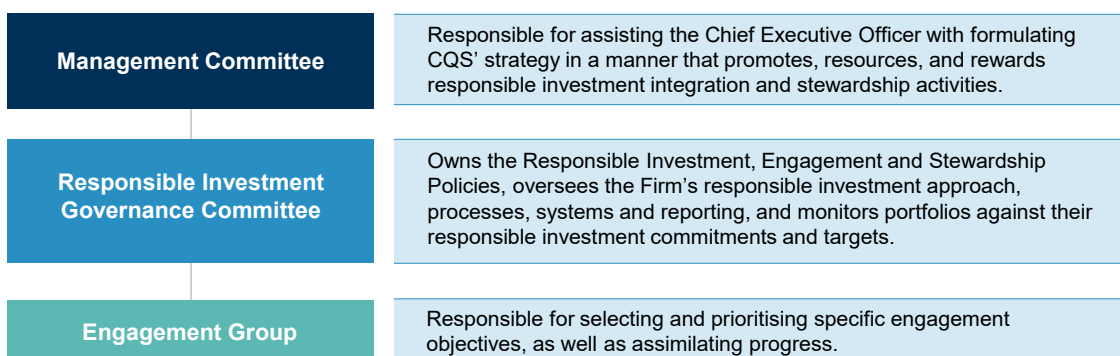
## CQS' Governance Structure Supports Effective Stewardship

CQS believes that good governance is essential for effective fund management, and this in turn translates into a culture and practices which support effective stewardship.

In November 2023, Manulife Investment Management signed an agreement to acquire the CQS alternative credit platform and the transaction completed in April 2024. Both organisations share a belief in, and commitment to, a fundamentally driven, bottom-up research process that integrates ESG principles.

Please see further details [here](#).

## Governance of Stewardship



The Management Committee, which includes the Senior Partners, has been appointed by the CQS Management Limited Board of Directors as the primary executive decision-making body for CQS. The Management Committee is responsible for assisting the CEO with formulating CQS' strategy in a manner that promotes, resources, and rewards stewardship activities. Accountable to the Management Committee, governance and responsible investment policy sits with the Responsible Investment Governance Committee ("RIGC"). We believe this governance structure is highly effective, led by a close-knit senior leadership team with considerable experience to support stewardship activities across the CQS credit platform. The Engagement Group, comprised of a broad representation of Portfolio Managers and Research Analysts, selects and prioritises engagement objectives and monitors progress.

## The Senior Partners Are:

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**Soraya Chabarek**  
Chief Executive Officer

Soraya Chabarek is the Chief Executive Officer (CEO) of Manulife | CQS Investment Management. She is a Senior Partner, Chair of the Board of CQS Management Limited and a member of the Board of Manulife Investment Management (Europe) Limited. She is also a member of the Asset Advisory Committee for Multi Asset Credit. Since joining CQS over 12 years ago, Soraya has been instrumental in the transformation of the firm from a hedge fund manager into a multi-sector alternative credit platform. She has led the growth of the Firm's core credit strategies to reach a broader client base of institutional investors and private wealth channels globally. Soraya is directly involved in shaping the investment platform to provide the best offering to clients. With her extensive experience, she oversees key relationships with the firm's clients around the world and under her leadership, the firm has won prestigious investment mandates, including with major global public and private pension schemes.

As CEO, Soraya has focused on cultivating the next generation of talent, especially in her role leading the front office investment teams. She has also championed wellbeing, diversity and inclusion, including founding the CQS Women's Network, and has built multi-year partnerships with charities and organisations that promote youth development.

During her 25+ year career, Soraya has had exposure to a broad range of strategies, including credit, convertibles, global macro, equities, and emerging markets. She is well-known and respected for her ability to provide client-oriented solutions and shape strategies to meet client needs. Soraya began her career at HSBC Private Bank and in 2000, moved to Permal Investment Management in London where she focused on distributing fund of hedge funds across EMEA. As a fluent Arabic speaker, Soraya joined GLG Partners in 2004 as a Principal (and Partner) to build out their Middle Eastern presence. The region became a significant contributor to AUM growth. In 2008, when Greg Coffey joined Moore Europe Capital Management, Soraya joined with him as Head of Marketing for Emerging Macro Strategies and a Partner. Here, she successfully rebuilt the asset base during a difficult period in asset management.

Soraya holds a BA in Economics and Public Administration from Royal Holloway, University of London.



**Craig Scordellis**

Chief Investment Officer  
of Credit

Craig is Chief Investment Officer of Credit, responsible for CQS' Multi Asset Credit business. He is a Senior Partner and chairs the Multi Asset Credit Asset Advisory Committee.

Craig previously headed global loans and was responsible for managing the Firm's loan mandates, including those in a variety of multi asset credit funds and collateralised loan obligations. Prior to joining CQS in 2008, Craig was a Senior Investment Analyst and Assistant Portfolio Manager at New Amsterdam Capital Management, a credit hedge fund. Before this, he was an Associate at the Royal Bank of Scotland where he structured leverage finance and high yield bond transactions. Prior to RBS, Craig was on the Deutsche Bank Investment Banking graduate program.

Craig holds a BSc (First Class Hons) in Business Administration from the University of Bath.



**Jason Walker**

Chief Investment Officer  
of ABS

Jason is Chief Investment Officer of ABS and manages CQS' global asset backed securities strategies across dedicated alternative credit funds and longer-lock mandates. He leads the dedicated ABS team of portfolio managers and analysts. Jason is a Senior Partner and is a member of the Asset Advisory Committee for Multi Asset Credit.

Prior to joining CQS in 2010, Jason held a number of ABS Portfolio Management positions. Before CQS he was with Henderson Global Investors where he was a member of the team managing the Henderson European ABS Opportunities Fund. Before this, he held ABS Portfolio Management roles at Bank of Scotland Treasury, TD Securities and Abbey National Treasury Services, where he began his career as a graduate trainee in 1995. Jason holds an MSc in Finance from the University of Strathclyde and a BA (Hons) Accountancy from Glasgow Caledonian University.

## Resourcing of Stewardship Activities

Stewardship activities are integrated at each level of the organisation, benefitting from a wide range of experience and skills held internally. The RIGC, which is comprised of senior representatives from the infrastructure and investment teams, governs and oversees the Responsible Investment, Engagement and Stewardship Policies, develops the Firm's responsible investment approach, processes, systems and reporting and monitors portfolios against their responsible investment commitments. Members also regularly provide insight and reporting on responsible investment and stewardship matters across the Firm.

Individual Portfolio Managers integrate responsible investing and stewardship into their respective strategies. We believe that for an organisation like ours, Portfolio Managers are best placed to do so, and as such primary responsibility for effective day-to-day stewardship and investment activities sits with these individuals. The bottom-up research of individual issuers is conducted by a dedicated team of Research Analysts who support the portfolio management team across the organisation in both investment decision-making and subsequent stewardship activity. In Principle 1, we illustrate how this process works and how fundamentally driven research contributes to investment decision-making undertaken by the various portfolio management teams.

CQS has two stewardship-focused groups which support the RIGC in governance and the portfolio management and research teams with integration at a strategy and portfolio level. These groups, as detailed opposite, provide the 'glue' which makes stewardship activity effective across the platform.

First is the CQS Engagement Group, comprised of a broad representation of Portfolio Managers and Research Analysts, as well as the Head of Research and the Responsible Investment Manager. It is responsible for selecting and prioritising specific engagement objectives, mapped to the United Nations SDGs and/or sustainability outcomes, and assimilating progress. Companies are selected on a range of criteria including relative size of exposure, materiality of any issues which may have been identified, or CQS having a position of influence or control. This enables co-ordination across the Firm and capital structure.

As outlined in Principle 1, we have a clear engagement framework and three-pronged engagement approach with our ongoing day-to-day engagements, our Targeted Engagement Programmes and collaborative engagements. CQS Research Analysts identify ESG risks and opportunities during their research process and engage with the issuers either as part of the investment decision-making process or during the holding period.

The second group is the Responsible Investment Working Group, created in 2022 to facilitate the consolidation of stewardship across the Firm. This group is comprised of senior staff across Technology, Risk, Research, Legal & Compliance, and Distribution who each lead relevant teams with responsibility for integrating responsible investment, and developing or enhancing processes, controls, data, and systems to monitor and report on stewardship activities, responsible investing commitments and relevant targets. By organising our resources in this way, we ensure a wide breadth of skills and experience in a range of functions needed to meaningfully support our stewardship efforts.

Examples of progress made in 2023:

- In order to more effectively monitor the Firm's progress against the engagement threshold target (See Principle 1), CQS teams built an automated system to show current positioning, using the datasets and capabilities created in 2022 that track net-zero alignment and engagements covering net zero. The automated charts (as seen on page 17) show positioning split out into the following categories:
  - Already Net Zero
  - Net Zero Aligned
  - Decarbonising - engaging on Net Zero
  - Decarbonising
  - No Targets - engaging on Net Zero
  - No Targets
- Exclusion lists for relevant Funds were previously compiled manually on a regular basis using MSCI ESG Manager. Teams across the Firm including Risk, Technology and Compliance, supported by the Responsible Investment Manager, worked to automate these exclusions so they are now auto-populated into an internal tool using external third-party datasets and can be coded into the CQS Pre-Trade Compliance system. This has reduced the risk of human error that may arise from compiling the lists manually.

## **Incentivising Stewardship**

Front office staff are incentivised as a function of their performance and achievement of annually set objectives. Teams are subject to periodic appraisals and engage in regular discussions to encourage these behaviours. ESG research and engagement are common performance objectives in respect of all Research Analysts and these objectives are considered in light of their discretionary compensation. Portfolio Managers of responsibly invested mandates also have ESG integration and engagement contribution directly linked to their performance objectives and remuneration outputs.

We place a high importance on training, including in respect of responsible investment and stewardship matters, as an effective way to share knowledge and develop an integrated approach across the business. Internal Responsible Investment training sessions are split by role to ensure they are relevant to the individual's day-to-day work – for example, separate sessions for Portfolio Managers, Research Analysts, and the Distribution team.

From a training perspective, in 2023, we focused on understanding of our interim decarbonisation targets and work relating to that. For example, the Distribution team had further training on the implications for investor communications and reporting, whilst the Research Analysts and relevant Portfolio Managers were provided training on what to look out for and how to get the most out of our internal systems. In addition, a number of CQS staff had external ESG-related training over 2023 such as the CFA Certificate in ESG Investing and the CFA UK Certificate in Climate and Investing.

Our overarching ESG learning and development continues to be guided by Client expectations and through evolving industry standards such as the PRI. It was therefore pleasing to be awarded strong results in our 2023 PRI assessment report which was published in January 2024 (further details are below).

We continue to actively seek collaborative engagements via the PRI, CDP and Climate Action 100+ platforms as we find this a time effective and impactful way to connect with our Funds' portfolio companies. This process often starts with us co-signing a letter to senior management of the company and then follows up with a meeting with the company. As the investor group represents a much larger proportion of the company's equity and/or bond exposure, for larger companies in particular, we see better discussions and more tangible outcomes from the key issues raised.

Examples of this collaborative activity can be found in Principle 10.

---

Signatory of:



In our 2023 Assessment Report, CQS significantly outperformed the median for our key modules, achieving the maximum score of 100% for Direct Fixed Income (Corporate), Direct Fixed Income (Securitised) and Confidence Building Measures; and 86% for Policy, Governance and Strategy. In line with the median of our peers, CQS received 1 star for Direct Hedge Funds (Multi-strategy and Structured Credit).



CDP (formerly the Carbon Disclosure Project) is a key collaboration amongst asset owners and asset managers in the drive for greater transparency on Climate Change, Forestry & Water Stress.

It is an initiative covering \$142 trillion in assets under management and includes over 700 investors globally.



As a participant of Climate Action 100+, CQS actively supports engagement with some of the largest carbon emitters globally, as we collectively seek strong accountability & oversight for climate risk, action on greenhouse gas emissions and proper company disclosure.



CQS is a member of the IIGCC, the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 350 members, mainly pension funds and asset managers, across 23 countries, with over €51 trillion in assets under management.

## Systems

In addition to using PRI, CDP and Climate Action 100+, CQS uses a variety of sources for external data relating to responsible investment including those available via Bloomberg. MSCI ESG Manager is our core data provider, although other external sources of data are also used. In 2022, we began incorporating relevant Science-Based Targets initiative verification data into our systems.

We use these third-party tools to support the research, assimilation and consideration of ESG risk factors within our investment strategies.

Importantly, our Research team uses these external data sources to inform a starting position, before preparing an internal ESG research note, which includes our own ESG rating and assessment of the trajectory in which the particular company is heading (ESG Outlook rating). CQS ratings often differ from the external data providers' assessment.

As of 31 December 2023, our ESG ratings differed from MSCI's in 61% of cases.

Analysis is made available to all Portfolio Managers and across the Firm front office systems.

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We keep a close eye on the development of additional ESG data sources, in particular those from traditional credit rating agencies or with innovative technological solutions, and periodically validate whether changes to our core data providers are required.

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We use RepRisk as a tool for controversy monitoring and review the severity 1, 2 and 3 controversies for our portfolios on a regular basis. Where there are 'severity 3' (the most severe) ESG controversies, we often look to engage with the company to understand what happened and what steps they have taken to mitigate any future risks.

While RepRisk has good coverage across investment grade companies, there is limited coverage of privately-owned companies. Therefore, to ensure we are aware of any controversies that arise for the privately-owned companies we hold in portfolios, our Research Analysts and Portfolio Managers use a variety of newswire sources such as Reorg.

## Evaluation of Current Approach

We believe that it is important to have responsible investment and stewardship embedded into the investment decision-making process, with our Research Analysts and Portfolio Managers rather than a separate team. This approach works well in best serving our Clients and their needs.

Through the oversight provided by the governance structure, and the support of experienced staff, including a dedicated Responsible Investment Manager, we believe there is sufficient accountability, management and resourcing of our responsible investment practices and ongoing stewardship activity.



Our ESG ratings differed from MSCI's in

**61%**

of cases as of 31 December 2023.



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# Principle 3

Signatories manage conflicts of interest to put the best interests of Clients and beneficiaries first.

CQS maintains a Conflicts of Interest Policy that sets out how the Firm identifies, prevents, manages and monitors conflicts of interest between itself, its officers, its staff and CQS Funds and Clients. This is further elaborated in a stewardship context in the Firm's Stewardship Policy.

Given that CQS manages multiple Funds and is an active manager with exposure across the capital structure, situations may arise which could give rise to a conflict of interest and, in some cases, a material conflict of interest.

For example, conflicts may arise as a result of:

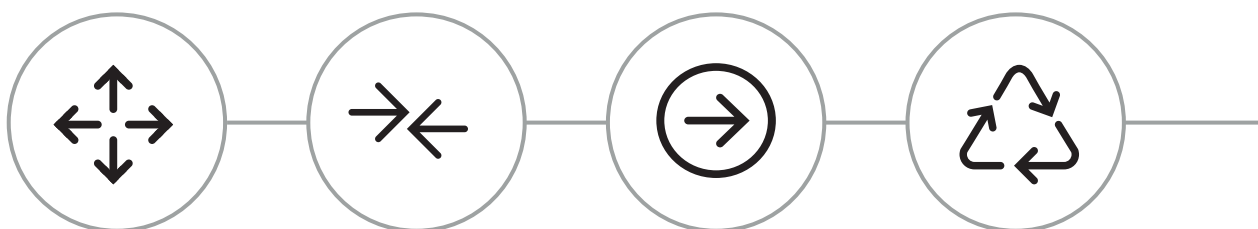
- a. business relationships between Funds and CQS, and/or the assets they respectively hold or manage;
- b. differences between relevant policies relating to stewardship and responsible investment and/or the terms of the relevant Fund on the one hand and investors' stewardship or related policies on the other;

- c. differing objectives of Portfolio Managers managing different asset classes of the same issuer (e.g. bonds or equity) and/or different holdings across the capital structure; and
- d. Funds' and investment mandates' respective interests diverging from each other.

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CQS maintains a conflicts of interest matrix which identifies different types of conflict which might arise in relation to the kinds of service or activity carried out by or on behalf of CQS.

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## Managing Conflicts Between CQS Clients

Across the Firm, CQS has implemented a number of policies and procedures to ensure that conflicts between Clients are effectively managed. One example is the CQS Aggregation and Allocation Policy which also helps to mitigate potential conflicts between Clients by requiring that trades are allocated fairly between CQS Funds. The Policy also sets out principles and procedures relating to the aggregation of Client orders.

Another example is the CQS Cross Trading Policy, which outlines the process that must be followed when one CQS-managed Fund wishes to sell a holding to another CQS-managed Fund.

All potential cross trade transactions must be approved by the relevant CQS teams including Risk, Middle Office, and Compliance, before any trading activity is undertaken.

Both Funds must be represented by different Portfolio Managers.

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CQS has a full suite of comprehensive policies, which are reviewed on an annual basis, to ensure a robust approach to managing conflicts of interest across the alternative credit platform.

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## Conflicts Related to Proxy Voting

Staff must disclose any potential or actual conflict that is known to them relating to their stewardship activities, including in respect of proxy voting. If the Firm does have incidences of actual and potential conflicts these are noted in the conflicts register and reviewed by senior managers to ensure the Firm has effectively mitigated or eliminated these risks. If CQS is unable to ensure, with reasonable confidence, that the risk of damage to the interests of any Client can be prevented or avoided, then the Firm will fully disclose the conflict to the relevant Client and enter into discussions on how to resolve this.

Material conflicts may exist in situations where CQS is called to vote on a proxy involving an investee issuer or proponent of a proxy proposal where:

- (a) the relevant issuer or proponent of the proxy vote (or an associated entity such as their pension plan) is an investor in a Fund or otherwise a direct Client or affiliate of CQS;
- (b) a proposal may harm a Fund financially while enhancing the financial or business prospects of CQS (or vice versa);
- (c) a proposal may harm a Fund financially while enhancing one or more members of staff, for example where staff personally hold shares in the relevant issuer; and/or
- (d) the Portfolio Manager (or other relevant member of staff) has a close personal or business relationship with a relevant individual associated with the issuer or proponent of the proposal (such as a senior executive or director (or prospective director) or another participant in a proxy contest.

## Conflicts Related to Broader Stewardship

CQS also has a number of further policies and procedures to ensure that conflicts between the Firm (and its staff) and Clients are effectively managed. One example is the CQS Outside Interests Policy which requires staff to declare all personal conflicts such as history of directorships, details of share ownership and partnership interests, paid consulting fees and paid trusteeships.

Compliance reviews all conflicts of interest, including outside interests, and considers the impact that it may have on the assets we manage for our Clients and the stewardship of those assets.

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## In respect of conflicts that might arise as a result of the conduct of our staff, we have policies in place covering Personal Account Dealing and Gifts and Hospitality.

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The CQS Personal Account Dealing Policy requires all trades in relevant securities to be pre-approved by Compliance.

Compliance performs a number of checks covering the CQS Restricted List, recent CQS trading activity and the specified manager of the staff member is asked to confirm whether they would have any reason to think that the proposed trade conflicts with CQS business (including any conflicts related to CQS' stewardship activities).

The CQS Gifts and Hospitality Policy requires that all gifts and entertainment are registered in the CQS Compliance system.

For significant gifts and entertainment, these must receive pre-approval from both the individual's manager and Compliance. Compliance will consider any relevant conflicts arising from the gifts and entertainment, which may include whether there is any link to the assets we manage on behalf of our Clients and the stewardship of those assets.

## Managing Conflicts in Practice

As a credit-focused asset manager, conflicts relevant to proxy voting and broader stewardship occur relatively infrequently within CQS.

Compliance has oversight of all conflicts of interest across the Firm and as a first step, any conflicts identified by staff should be escalated to Compliance with onward escalation to the Head of Legal and Compliance (SMF16/17) as appropriate.

However, as we have described within our approach to Governance, any conflicts of interest identified can be escalated further to the Operating Committee, Management Committee and/or the Board of Directors for further consideration, as deemed appropriate.

## Policies That Address Conflicts of Interest

Aggregation and Allocation Policy

Anti-Bribery and Corruption Policy

Best Execution Policy

Compliance Manuals

Conflicts of Interest Policy

Cross Trading Policy

External Research and Expert Network Policy

Gifts and Hospitality Policy

Outside Interests Policy

Personal Account Dealing Policy

Stewardship Policy

This list is not exhaustive of all CQS policies.

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# Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

## **Identifying Market-Wide and Systemic Risks**

As a long-term market participant within the alternative credit space CQS has seen and successfully navigated a wide range of significant market disruptions including the Global Financial Crisis, Sovereign Debt Crisis, Covid-19 and the UK Liability Driven Investment (“LDI”) disruption.

At our core we believe that a fundamental bottom-up assessment of the issuers to which our Funds are exposed, coupled with a top-down understanding of the current and future macro-economic environment, allows us to identify and gain exposure to those risks we find attractive while mitigating those that we do not.

Our investment staff are the first line of defence and typically have an analytical component to their role, be it as specialist Research Analysts (focusing on individual names, sectors, macroeconomics, or geopolitics) or Portfolio Managers (focusing on particular strategies or asset classes).

Investment staff have access to a wide range of research and data to aid analysis and this is supported by a strong knowledge sharing culture whereby discussion of geopolitical, environmental, economic and market themes is actively encouraged.

The Firm has a daily market update meeting where asset class specialists provide commentary on the market risks and opportunities within their area of expertise.

We believe this is an effective way to widely disseminate and share market insights enabling us to manage and identify systemic risks more effectively.

In the second line of defence, CQS has an independent Risk function who are responsible for, among other things, ensuring portfolio limit compliance and calculating and providing a wide range of metrics and management information for key internal and external stakeholders.

CQS has integrated ‘best in class’ third-party systems into its risk and trading platforms as well as building proprietary tools which are capable of handling the broad range of asset classes we trade and the comprehensive limit frameworks we have in place.



## Case Study

### Sharing Ideas Across the Industry

The Maples Insights Investment Funds Forum (the “Investment Funds Forum”) is an annual event attended by investment managers, external law firms and in-house legal teams across the industry and covers a range of relevant topics, including ESG, Private Assets, Alternatives - Hedge/Open-Ended Products, Retailisation of Private Funds, Liquidity in Private Equity, Restructuring, Distressed Credit and Jurisdictional Trends. There were various speakers from across the industry, including various fund managers, a representative from one of the regulators and various private practice lawyers from Maples and Calder.

The Head of Legal and Compliance attended the Investment Funds Forum and spoke on a panel with other investment management lawyers, relating to Alternatives: Hedge fund and Open-Ended Products, giving insight into his and CQS’ recent experiences on various matters, including regulatory and legal matters and developments. The Investment Funds Forum was held to share ideas amongst industry peers on market-wide and systemic risks, with the over-arching intention being to promote a well-functioning financial system.

The event was well attended, with interesting discussion amongst the panellists and a range of various questions.

The Risk team leverages the CQS risk and trading platform to apply a number of quantitative techniques to understand and quantify the market-wide and systemic risks across the Firm's portfolios. These include:



### **Sensitivity Analysis**

This is the sensitivity of the positions of a Fund to small changes in the underlying price or parameter (e.g. "the Greeks": Delta, Gamma and Vega).



### **Statistical Analysis**

Portfolio analysis techniques such as Value at Risk to calculate the possible loss a portfolio may be exposed to a particular confidence interval and holding period.



### **Exposure Analysis**

Ranging from Fund-level balance sheet metrics such as leverage, to idiosyncratic exposure analysis such as calculation of the potential loss due to the default of an issuer 'jump to default'. The latter is calculated assuming market-standard recovery rates and a stressed assumption of zero recovery on obligations of the issuer 'jump to zero', allowing us to understand the key drivers of credit risk within a portfolio.



### **Stress Testing and Scenario Analysis**

Analysis of the return behaviour of a portfolio following a period of market stress drawn from history (Stress Testing), or possible market scenarios applying arbitrary shocks to the portfolio, for example the impact on the portfolio of a 25% decline in all equity prices (Scenario Analysis).

## **Responding to Market-wide and Systemic Risks to Promote a Well-functioning Financial System**

The Covid pandemic underlined the importance of maintaining healthy liquidity within the Funds' portfolios. This is essential, not only to meet investor and counterparty demands, but also to allow the Firm to capitalise on the opportunities that arise during periods of stress. By continually assessing available cash and the current market depth of its invested assets CQS is able to access, and be a source of, liquidity in the markets. This is one of the primary requirements for markets to function in an orderly way.

In 2022 the UK "mini" budget pushed UK bond yields up rapidly which triggered margin calls on LDI instruments. As a result, CQS saw increased liquidity demands from a portion of its institutional investor base within some of its Funds as they sold assets in order to meet these demands. Due to the cash/asset liquidity mix within the affected Funds CQS was able to successfully satisfy all Client and counterparty requirements without adversely impacting the portfolios as assets were sold right across the allocation and liquidity profile. Additionally, those Funds whose investors were unaffected were able to opportunistically buy assets, providing liquidity to the wider market.





## Climate Change

Climate change is widely accepted as one of the greatest risks faced by our planet and economies and is an example of a market-wide and systemic risk facing the investment industry. Understanding the physical and transition risks to relevant issuers is a vital component of an integrated approach to responsible investment analysis. While a risk, climate change also presents an opportunity as we transition to a low-carbon economy.

CQS is a signatory to CDP, the Net Zero Managers initiative, and the IIGCC, as well as a public supporter of TCFD. In addition, we are a signatory and participant in collaborative engagements with Climate Action 100+. These help us to understand the risks of climate change and are a key means to meet our commitment to engage on climate-related disclosures.

The integration of climate change within the Firm's five-stage responsible investment integration process (see Principle 1) is important to evaluate risks and opportunities when considering financial metrics (probability of default, loss given default and cost of capital).

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Our Responsible Investment Policy takes the impact of climate change into account. We consider how any given issuer is appropriately managing related aspects such as their carbon footprint, or within their value chain.

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Our analysis of climate factors is supported by third-party data from CDP and MSCI.

Their data provides us with carbon metrics and environmental exposure for individual issuers (MSCI), and practical transparency from CDP.

Carbon metrics including WACI, Carbon Footprint and Total Greenhouse Gas Emissions are available to investors across many CQS portfolios (where sufficient reporting is available).

Portfolio Managers are able to take into account the likely impact of an investment on a Fund's WACI, and position portfolios to assess both physical and transition risk as part of their qualitative assessment and analysis.

We recognise the backward-looking nature of carbon metrics and the impact that this may have on the efficiency of financial markets. In 2021, we conducted a climate audit of c. 500 of our portfolio companies to understand the decarbonisation targets and trajectories of some of the companies to whom we provide capital.

In 2022, we focused on increasing our coverage of this climate data to 100% across the open-ended pooled Article 8 Funds in order to understand the decarbonisation pathways of our portfolios.

We continued to maintain this high level of coverage throughout 2023.

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**As of 31 December 2023, we have proprietary climate data for c. 1,800 issuers.**

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# 100%

## **Proprietary climate data coverage across the open-ended pooled Article 8 Funds.**

This climate data is available to all Research Analysts and Portfolio Managers via our Research Portal to be considered as part of their investment decision-making process.

This analysis has enabled us to identify risks and opportunities to engage with Funds' holdings in the climate transition.

As highlighted in Principle 1, in November 2022, CQS published the Firm's interim targets, (which are applicable to the open-ended pooled Funds classified as Article 8 under SFDR).

CQS prioritises engagement over exclusion as a philosophy, engaging with portfolio companies to encourage the setting of targets and where relevant providing them with the capital required to transition to a low-carbon future.

In 2022, we launched the CQS Climate Targeted Engagement Programme which aims to engage with portfolio companies within the open-ended pooled Funds classified as Article 8 under SFDR that do not currently disclose carbon emissions and/or do not have decarbonisation targets in place.

This Targeted Engagement Programme is expected to last for two to three years and will escalate over time to encourage better disclosure and net-zero alignment across the covered portfolios, in line with our engagement threshold target.

In 2023, we ramped up our efforts with the CQS Climate Targeted Engagement Programme (further details can be found on page 55).



## Case Study

### Climate Value at Risk and Implied Temperature Rise

In 2022, responding to Client demand, CQS began investigating how to produce Climate Value at Risk and Implied Temperature Rise metrics for the open-ended pooled Funds classified as Article 8 under SFDR and bespoke Client mandates (where desired by our Clients).

After considering a number of providers, we identified that MSCI had the best coverage for the Firm's portfolios, with c.90% coverage for convertible bond Funds and between 20 and 60% coverage for the Multi Asset Credit Funds.

As we were considering the metric for our bond Funds, we engaged extensively with MSCI to understand how the methodology works and could be applied for bonds of different maturities.

Upon engagement, CQS provided feedback to MSCI that some further developments for robust bond metrics would be useful as the physical risk aspect of the Climate Value at Risk considers risk until the year 2100 and does not scale for a shorter maturity bond.

Whilst MSCI considered our feedback, we added an overlay to the methodology used which linearly scaled this risk for the number of years until maturity of the bond. In April 2023, MSCI announced that they have now published Physical Risk time series, acting on our feedback to enable bond investors to now scale the metric for the maturity of their investment.

We applied a similar approach to the Implied Temperature Rise methodology, using the carbon emission budget, and the predicted under or overshoot of that based on projected emissions, only for the years until the maturity of the bond. For Implied Temperature Rise, we use proxy estimates to increase coverage to 100% (excluding ABS).

Having quantitative scenario analysis helps inform CQS' understanding of a portfolio's climate risk and can assist in engagement discussions when encouraging companies to decarbonise.

We included these climate metrics in the Firm's 2023 TCFD report, which is publicly available on the CQS website (published in mid-2024).

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# Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

## Policy Reviews

CQS reviews all of its policies (including the Stewardship Policy, Responsible Investment Policy and Engagement Policy) on a periodic basis and in a timely manner following significant changes in approach. CQS will have due regard to the principles of effective stewardship (including the 12 Principles enshrined in the UK Stewardship Code) when reviewing, updating, and approving each of its relevant policies.

Each CQS policy has a relevant internal “owner” (an individual of sufficient seniority within the Firm who has overall responsibility for the policy; the “Policy Owner”).

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The Policy Owner is primarily responsible for reviewing the policy and updating it, as required. The Policy Owner may seek comment and feedback from other relevant individuals, departments, committees or working groups within the Firm.

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Any material updates of policies will then be reviewed and formally approved by the Operating Committee (“OpCo”), RIGC and/or Management Committee.

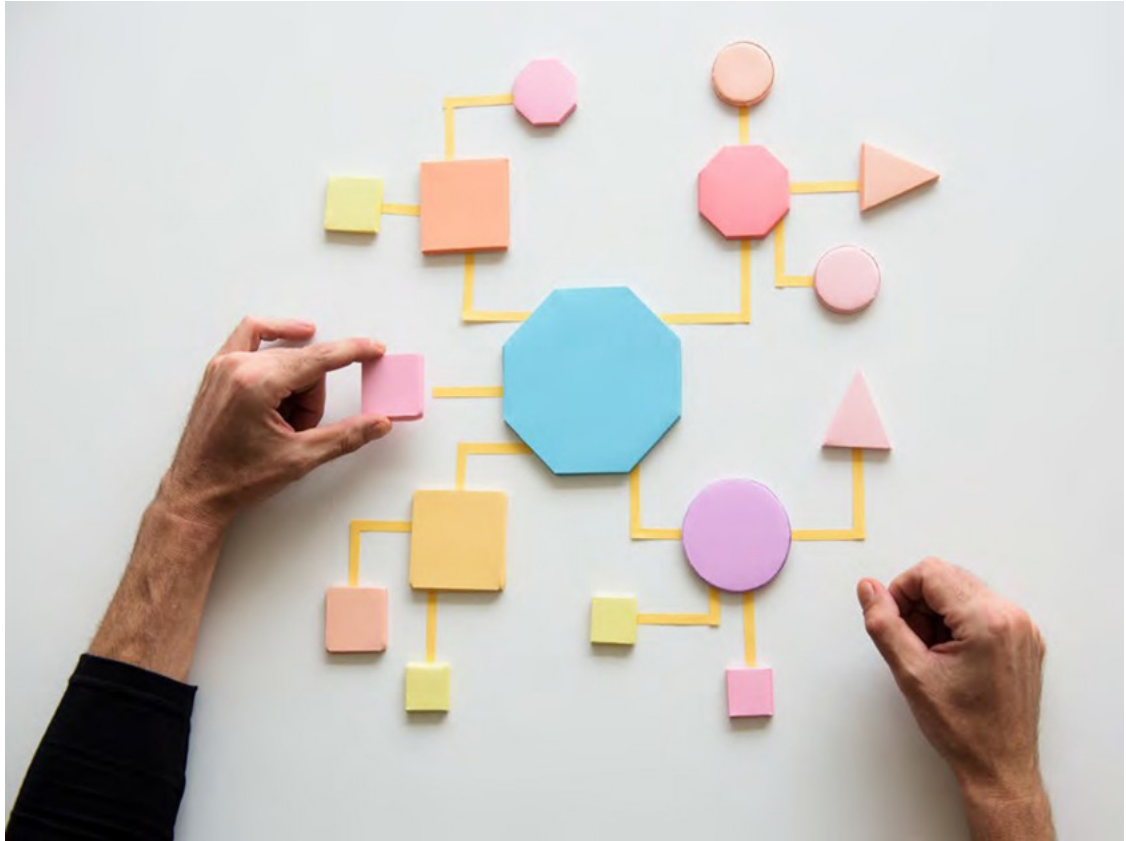
In late 2022, CQS undertook an internal ESG review to assess our responsible investment integration effectiveness and consider opportunities for ongoing efficiencies.

In February 2023, CQS updated its Firm-wide Responsible Investment policy.

The main changes were:

- Updates to include that CQS is now signatory to the UK Stewardship Code, Net Zero Asset Managers’ initiative and Institutional Investors Group for Climate Change;
- Adding reference to the CQS ESG Outlook ratings;
- Updates to the exclusion wording;
- Reference to the funds classified as Article 8 under the EU Sustainable Finance Disclosure Regulation, where relevant.

A copy can be found [here](#) on the CQS website.



In July 2023, CQS updated its Firm-wide Engagement Policy. There were minor changes made to the policy, mostly around improved governance since the last policy review.

A copy can be found [here](#) on the CQS website.

### **Assurances Related to Stewardship**

CQS seeks to ensure that its approach to stewardship and responsible investment matters is periodically evaluated, appraised and reviewed in order to ensure that it remains fit for purpose and to best serve the needs of our Clients. In so doing, CQS will seek both internal and external assurances in a variety of ways, including:

### **Internal Monitoring**

Our ongoing stewardship and ESG monitoring and reporting process includes periodic and collaborative reviews of relevant policies and procedures (as described in greater detail earlier), periodic research re-assessments, a watching brief across news wires for developing ESG considerations and review of ESG metrics such as rating breakdowns and trends.

The RIGC provides an overarching level of internal assurance and accountability, and conducts reviews of the policies, processes and practices relating to responsible investment and stewardship (in particular against our formal responsible investment commitments) as outlined in Principles 1, 2, 3 and 5.

### **Formal Reporting**

In September 2023, CQS was pleased to learn that our 2022 UK Stewardship Code report had been approved by the Financial Reporting Council.

During the Reporting Period, CQS focused on meeting the reporting requirements under SFDR, such as Annex IV disclosures for the relevant funds, and completing the 2023 PRI reporting cycle.

In January 2024, CQS was awarded strong PRI results in our 2023 Assessment Report. CQS significantly outperformed the median for our key modules, achieving the maximum score of 100% for Direct Fixed Income (Corporate), Direct Fixed Income (Securitised) and Confidence Building Measures; and 86% for Policy, Governance and Strategy. In line with the median of our peers, CQS received 1 star for Direct Hedge Funds (Multi-strategy and Structured Credit).



### **External Feedback**

As we have continued to enhance our processes and methodologies, we have established methods for reporting to, and engaging with, our Clients as detailed in Principle 6. As such, Client feedback is a key way in which we receive external assurances relating to our stewardship and responsible investment practices. This feedback allows us to refine our stewardship policies and processes.

As an example, it was our Clients who initially encouraged us to become a signatory to PRI in 2019 and to the Net Zero Asset Managers' initiative in 2021 (which we did once we had completed the necessary due diligence with our climate audit outlined in Principle 4).

We also have a number of Clients and prospects who kindly share their example responsible investment and stewardship reporting with us so we can continually build on our own reporting to meet the standards expected by our investors.

Investment Consultants also provide us with valuable guidance on market developments, for example directing us to consider the Taskforce on Social Factors and encouraging us to develop diversity engagement metrics for Client reporting.

Further, we have an independent external advisor who has worked with Local Government Pension Schemes ("LGPS") for over 30 years and has significant knowledge and understanding of best practice pension investment reporting.

They provide us with feedback on our reporting, processes and ideas for future developments to ensure it is fair, balanced and understandable.

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**We believe that the combination of the approaches explained in this Principle enables CQS to assess effectiveness of our activities and our processes.**

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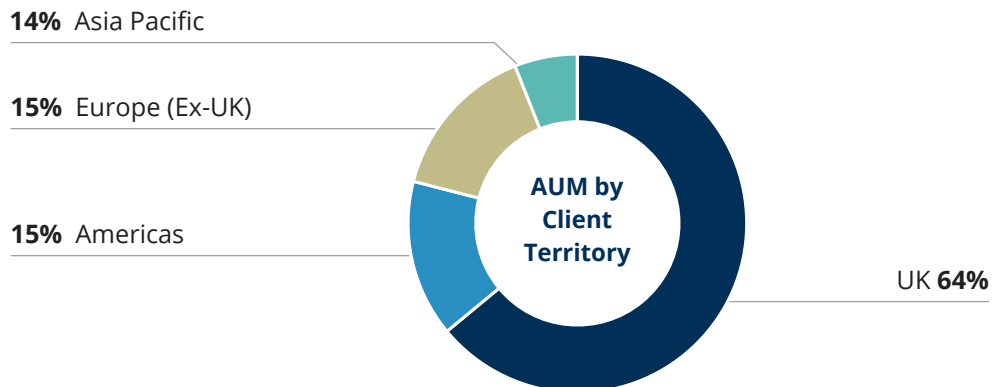
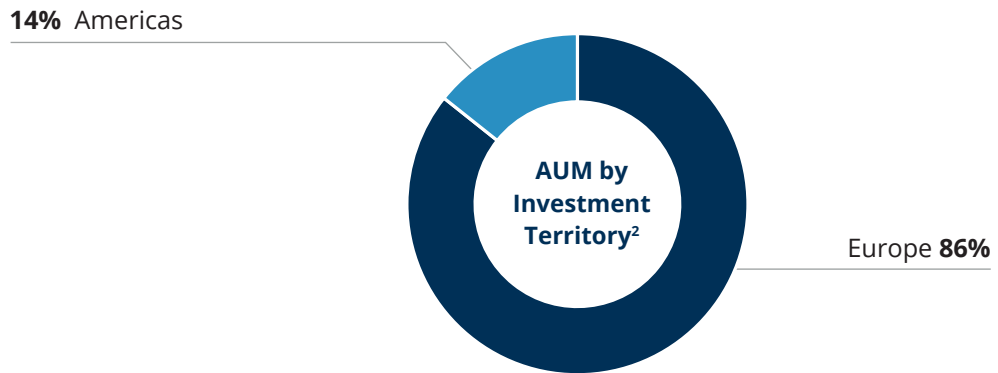
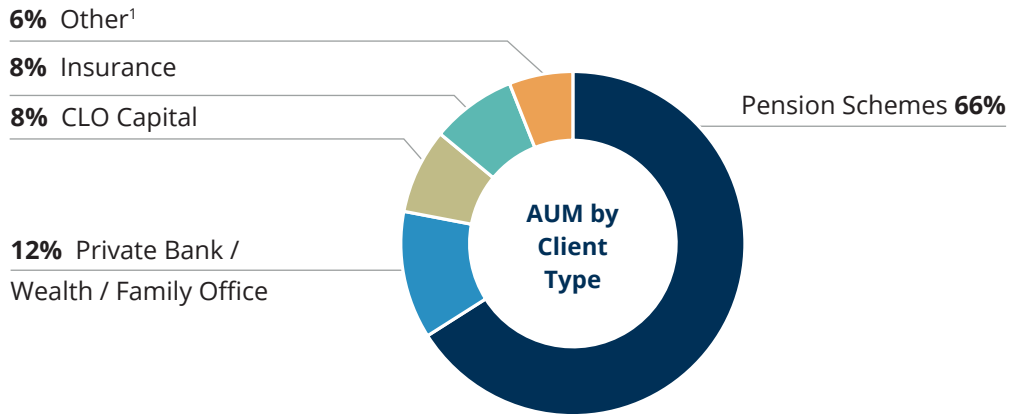
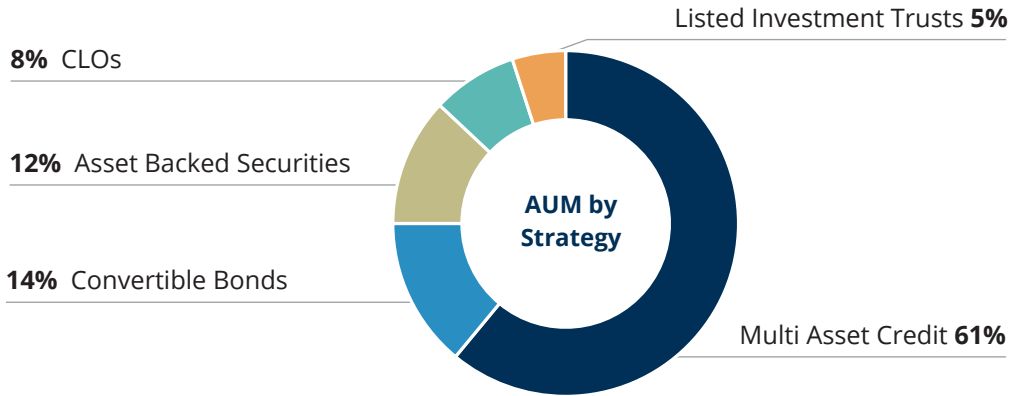
## Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.



## CQS' Client Base and Assets Under Management

CQS has an institutional client base, with c. 90% being institutional investors, both private and public.



Source CQS, as at 31 December 2023. Figures may not sum due to rounding. <sup>1</sup>Other includes institutional investors that represent less than 1% per category. <sup>2</sup>Based on Long Bond Equivalent Exposure.

CQS manages money for Clients across the spectrum of liquidity from daily UCITS funds through to longer-lock private credit style mandates. Our Clients expect us to perform in line with the performance objectives of a mandate over the course of a full market cycle. With regards to stewardship timeframes, we are cognisant of and pragmatic about our Clients' needs. Generally, we do not set hard deadlines for our escalation processes as we believe ESG improvements are an ongoing iterative process, and risks and opportunities are often idiosyncratic in nature.

In order to manage this variety, CQS makes use of its Portfolio Managers' in-depth market and product knowledge as well as comprehensive Fund-level liquidity modelling (monitored by the independent Risk team) to ensure that each Fund's liquidity profile is in line with the terms and constraints of the relevant Fund. In so doing, the Risk Team uses a variety of methodologies and external data (including MSCI Liquidity Scoring) to provide insight into emerging liquidity issues and opportunities.

Our Clients helped us to evolve our responsible investment reporting including the provision of ESG rating analysis, WACI, Carbon Footprint and Carbon Emissions. We provide our carbon metrics for scope 1 & 2 and scope 3 separately so Clients can understand the direct and indirect emission impact of their investments.

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**We are now able to provide ESG rating and carbon metrics for c. 90% of our assets under management.**

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## **Reporting To, and Engaging With, Our Clients**

We see engagement with our Clients as an important means by which to understand their values, investment needs, and the outcomes they are seeking. Our Clients are our partners; our approach is one of transparent and clear communication that meets our Clients' ongoing individual reporting and due diligence requirements. A large number of our Clients have introduced their own due diligence questionnaires which relate specifically to stewardship and responsible investing. Our dedicated Client Communications team co-ordinates and fulfils such requests for a range of our investors, from public and private pension schemes to insurance Clients and private wealth channels, and across multiple jurisdictions.

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**CQS can provide bespoke engagement examples to Clients that align to their specific engagement priorities such as diversity, human rights and climate change. The responsible investing section of our website provides an explanation of our process and links to our key reporting such as our UK Stewardship Code and PRI reporting.**

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In 2023, we continued to engage with Investment Consultants, Clients and industry participants to seek standardisation of Client requests in relation to stewardship and ESG disclosures. CQS produces a number of standardised reports on a periodic basis which are available to Clients upon request.

These include:

- Investment Consultants Sustainability Working Group's Engagement Reporting Template
- Investment Consultants Sustainability Working Group's ESG metrics template
- Pensions and Lifetime Savings Association Vote Reporting Template
- Association of British Insurers (ABI), the Investment Association (IA), and the Pensions and Lifetime Savings Association (PLSA) Carbon Emission Template
- FinDataEx European ESG Template
- European Leveraged Finance Association CLO questionnaire

In addition, our quarterly Client presentations for open-ended pooled Article 8 Funds and bespoke Client mandates provide more detail on our approach, and examples of engagement activity.

We continue to request feedback and example reporting from our Clients to evolve our reporting as the industry develops in this area.

For example, an LGPS Client highlighted that our reporting, which included coverage levels for the carbon metrics, was unclear as to whether it referred to reported emissions only or included proxy estimates. We responded by evolving our reporting to clearly show 'Reported Emissions Coverage' and, where coverage is not 100% with the inclusion of proxy estimates, the coverage as a percentage of Fund Net Asset Value including proxy estimates.

In 2023, as we sought more carbon emission disclosures from companies through engagement, we implemented a number of internal overrides to ensure this data was

reflected in our carbon metrics reported to Clients.

Following previous feedback regarding clarity of data sources, we updated our methodology from 31 December 2023, to ensure reported emissions coverage also includes internal overrides where we were use reported emissions from companies.

To support our investors, we regularly review and acknowledge our Clients' statement of investment principles and responsible investment policies. While it is for the relevant Clients to determine the appropriateness of their investments, we are able to see a strong alignment of our approach, policies and process, with our Clients' objectives.

A number of Clients have highlighted our progress on climate engagements across portfolio companies, but the smaller number of social engagements undertaken. Using the PRI collaborative engagement platform, we actively sought social engagement opportunities that would be appropriate for our Clients' portfolios. As a result, CQS is part of the global collaborative engagement on mental health, engaging with 200 companies, both in the UK and across the world. In 2023, we also did a dedicated training in one of our quarterly Engagement Group meetings on diversity and key questions to ask, as well as the Human Rights Targeted Engagement Programme (see page 50).

While we have our own engagement framework and key priorities, we are mindful that we are stewards of our Clients' capital and we are proactive in responding to Client requests to engage with particular companies.

For example, our UK pension scheme Clients often ask us about engagement with the top 10 contributors to WACI. As a result, we actively seek to engage with those issuers. The top 10 contributors to WACI for the CQS Credit Multi Asset Fund as of 31 December 2023 were either net zero aligned or we have sought to engage with them on climate issues.

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# Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

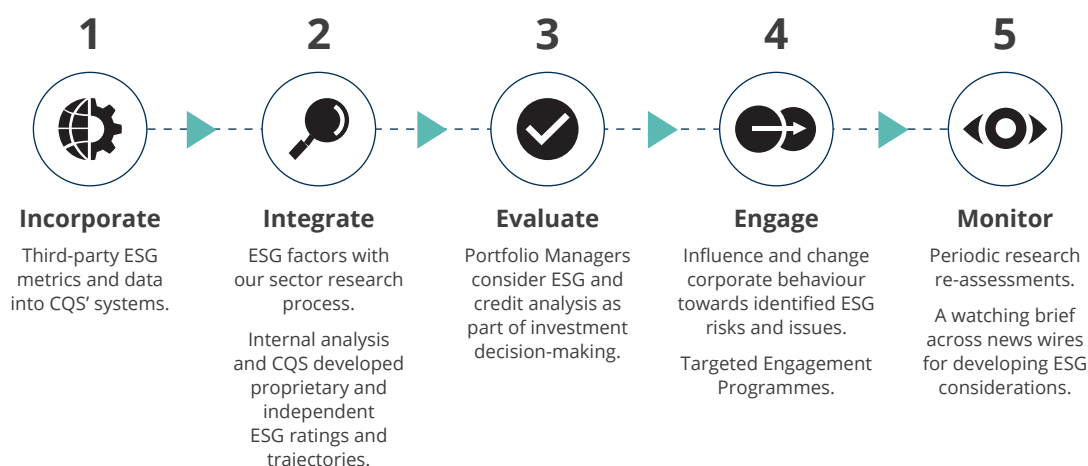
## Integrating Stewardship with Investment

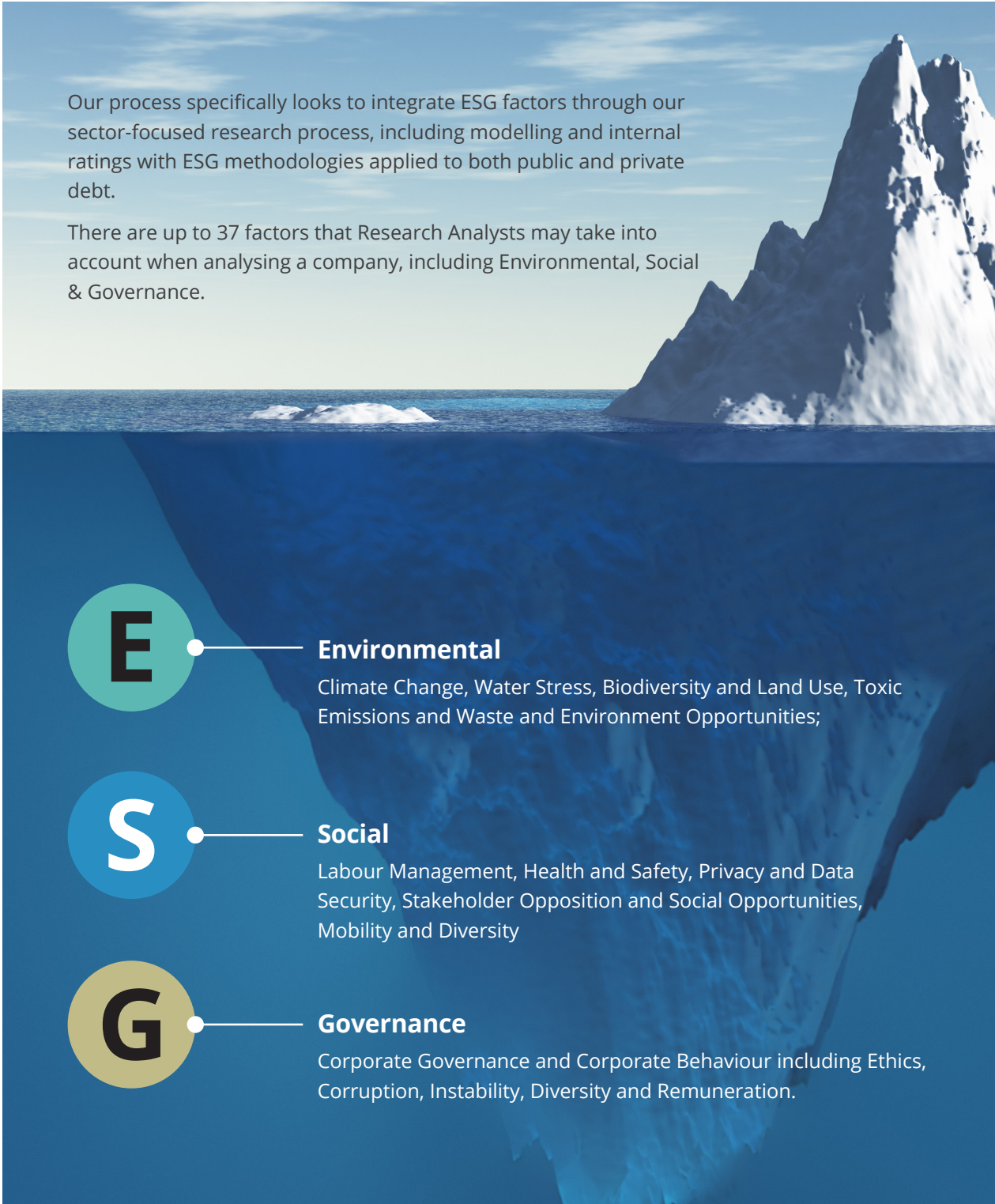
The integration and assessment of stewardship and ESG factors is embedded into our investment process across the CQS platform, both in public and privately-held companies. In doing so, we seek to enhance our ability to identify value, investment opportunities and, critically, to generate the best possible returns for our Clients.

As described in Principle 1, all portfolios managed by CQS follow the Firm's five-stage responsible investment integration process. Having due regard to the specific investment strategy, Portfolio Managers and Research Analysts are required to consider all ESG risks and opportunities as part of their investment decision-making and fundamentally driven research approach, respectively.

## CQS' Five Stages of Responsible Investment Integration

As illustrated by the graphic in Principle 1, there are five stages to our responsible investment integration process:



An illustration of an iceberg floating in the ocean. The tip of the iceberg is visible above the water surface, while the much larger, submerged part of the iceberg is below the surface. The background is a clear blue sky and a calm blue sea.

Our process specifically looks to integrate ESG factors through our sector-focused research process, including modelling and internal ratings with ESG methodologies applied to both public and private debt.

There are up to 37 factors that Research Analysts may take into account when analysing a company, including Environmental, Social & Governance.

**E**

**Environmental**

Climate Change, Water Stress, Biodiversity and Land Use, Toxic Emissions and Waste and Environment Opportunities;

**S**

**Social**

Labour Management, Health and Safety, Privacy and Data Security, Stakeholder Opposition and Social Opportunities, Mobility and Diversity

**G**

**Governance**

Corporate Governance and Corporate Behaviour including Ethics, Corruption, Instability, Diversity and Remuneration.

Research Analysts undertake deep dives into single names, referencing third-party ESG reports as well as a company's own reporting, and information derived through corporate engagement. ESG factors are analysed on relevance and impact. In the case of climate change or diversity, Research Analysts are expected to consider the long-term risks and opportunities relating to a company including its approach to climate-related disclosures or diversity-related disclosures respectively.

Research Analysts are sector specialists, and we have a London and a New York based analyst assigned to each sector. ESG research notes are stored in the CQS Research Portal and available across the Front Office. This analysis is consolidated with the ESG rating per issuer, which may often vary relative to external ESG ratings, such as MSCI.

Analysis may be revisited when controversies are identified, or engagement brings about new issues for consideration.

### Case Study

Loans are often not covered with ESG ratings by third-party providers. In these instances, we may engage with management to understand the most significant ESG risks facing the business so that we can produce our own internal ESG analysis of the company.

For one European software company, we met with senior management and the majority owner to discuss the business fundamentals and ensure comfort on the ESG risk factors.

We covered environment, social and governance issues during the meeting. As they are a software business, we gave a more significant weight to the social pillar because this is where key risks tend to be. Their staff turnover is relatively low and they have received awards for being a Top Employer. They also have good data management processes in place and have not been subject to any sanctions by a supervisory body in relation to data privacy.

Given they are a privately-owned company we wanted to make sure there were no governance concerns. Our engagement helped us feel comfortable that their governance practices are aligned with investors.

On the environmental side they confirmed to us that they have calculated their scope 1 and 2 emissions and are in the process of carrying out scope 3 assessments. Once completed they will look to build a carbon reduction road map in line with the Paris Agreement and net zero.

We were satisfied with their answers and assigned the company an ESG rating of AA, with a Neutral outlook rating. We continue to monitor their progress with regards to environmental disclosures and targets.

As part of our culture, we encourage discussion and debate, especially during the internal ESG analysis, both within the Research Team and amongst Portfolio Managers.

### Case Study

We regularly perform sector ESG rating audits with the Responsible Investment Manager, Head of Research, and relevant research analysts. Our ESG rating audit process examines the internal CQS ESG ratings for that particular sector with a deep dive discussion into two portfolio companies to provide external challenge.

Following our Healthcare ESG rating audit, we engaged with a US care provider to better understand and evaluate the company's ESG profile. There was little publicly-available information on the company and its ESG policies, so the engagement was critical in allowing us to evaluate the company from an ESG perspective. We were able to encourage the company to disclose its ESG framework, stressing the importance of disclosures to investors.

As a leader in the workers' compensation industry, data privacy and security is one of the most critical ESG risk factors. The company confirmed that they have been certified by a number of third parties, including HiTrust (a leader in cybersecurity and privacy threats).

The company has also taken robust steps to address its issue of talent retention since the COVID pandemic, with an overhauled playbook that allows for virtual work and a sophisticated training program for employees. Additionally, the company has increased compensation to become more competitive. Turnover is now more than 50% lower than at peak levels.

Two of the nine Board Directors are independent and there is some diversity on the Board.

Overall, we concluded that the company's strong social risk mitigation is sufficient to upgrade the company's ESG rating from a B to a BB. This reaffirmed our conviction in the ESG mitigated risks and opportunities of this position and we increased the size of our position following engagement.



Specific names are targeted for outcome-focused engagements. Our Engagement Group and Engagement Framework allows for priorities to be identified, engagement objectives to be set and discussed whilst assimilating progress. This enables co-ordination across the platform and capital structure as Portfolio Managers across the Firm contribute to the Engagement Group.





Through this internal collaboration, we noted that Portfolio Managers across the Firm have exposure to Private Equity Sponsors and there were similar themes that affected the underlying companies.

In November 2023, we launched the Private Equity Sponsor Targeted Engagement Programme. Further details are below.

### Case Study

In Q4 2023, CQS launched the Private Equity Sponsor Targeted Engagement Programme. The engagement covers 7 Private Equity Sponsors and 74 underlying portfolio companies across Multi Asset Credit strategies.

There are four key objectives:

Topic	Objective	UN SDGs
<b>Environmental</b>	Seek alignment of corporate level commitments with portfolio company disclosures and targets – an increase in scope 1, 2 and 3 carbon emission disclosures, net zero commitments and decarbonisation targets.	
<b>Social</b>	Encourage improvements in diversity disclosures and targets of portfolio companies, to mirror the progress made at the sponsor level.	
<b>Governance</b>	Understand what good governance means to the sponsor, what KPIs (if any) they use, and how they monitor.	
<b>Strategy</b>	Understand how the company is navigating the challenging regional differences in approach to ESG investing.	

As a first step, we met with Private Equity Sponsors at the Barclays Leveraged Credit Forum in November 2023 to make them aware of the engagement and seek the best contact for the next steps.

In Q1 2024, we began providing our detailed analysis for each of the engagement objectives to the Private Equity Sponsors and meeting with them to discuss. We will provide an update on our progress in our 2024 UK Stewardship Code report.



## Case Study

### Human Rights Targeted Engagement Programme

Our Funds classified as Article 8 under SFDR exclude investments in companies who fail against the Ten Principles of the UN Global Compact, based on third-party opinions from our data provider. As a Firm, our philosophy is to engage with companies to seek positive change, rather than to simply exclude.

We noticed that a number of companies in the investible universe were flagged as 'fail' against the UN Global Compact Principles because of allegations of forced labour of Uyghur people and other ethnic minorities. In May 2023, we reached out to four companies to understand what is happening and what actions are being taken to resolve issues and prevent future allegations, and encourage positive change.

We received responses from three companies that we were comfortable with as steps in the right direction. We then met with MSCI to encourage better dialogue on the actions taken by the companies, as the companies had flagged that MSCI was slow to respond to their communications.

In July 2023, one of the targeted companies was removed from MSCI's UN Global Compact 'fail' list and we were subsequently able to trade the name. In December 2023, a second targeted company was removed from the list and in March 2024, the remaining two companies were removed from the list.

We believe it is important to express to companies the importance of adherence to the UN Global Compact Principles in order to make themselves more widely investible, building investor pressure for positive change.

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# Principle 8

Signatories monitor and hold to account managers and/or service providers.

## Monitoring of Service Providers

CQS uses a number of service providers to support its stewardship and responsible investment-related activities.

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As with all key service providers engaged by the Firm, CQS conducts periodic reviews of the services provided.

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Where the quality of service falls below expected standards, CQS will seek to address the shortcomings with the service provider.

We also provide continuous feedback about how existing products could be evolved or future products could be designed to maximise the benefit and use of the relevant product, for both CQS and the wider industry.

For example, we provided feedback to CDP on their data portal interface and how they could make it easier to navigate by adding qualitative sub-headings, as opposed to numerical ones.

In addition, in 2022, we provided feedback to the PRI on their educational courses. As a credit-focused asset manager, it can be challenging to find suitable external training materials that consider the impact of ESG risks on credit analysis specifically.

We noted that the existing PRI course materials had more of an equity focus. In 2023, PRI developed a fixed income ESG analysis component of their responsible investment courses.

## Proxy Voting

Although CQS does not use proxy advisors, CQS does use a voting agency (ProxyEdge supported by Broadridge) when engaging in proxy voting for our Funds.

Certain of our managed accounts may also request that other voting agency providers be used. ProxyEdge allows CQS to manage, track, reconcile and report our Funds' proxy voting through electronic delivery of ballots, online voting and integrated reporting and record keeping.

Following the improvements made to our processes for proxy voting in 2023, including the automation of voting in line with management (unless the Portfolio Manager expresses otherwise) and a subset of RIGC members being included on all proxy vote decisions, we decided to retain ProxyEdge for the Reporting Period. This ensured consistency in our proxy voting reporting for our Clients.

## Case Study

### Review of an alternative third-party data provider

We believe it is important to regularly review the market offering and products available from third-party data providers. As part of this process, we undertook a trial of an alternative provider's ESG data offering to understand if it could offer any additionality to our existing processes and practices.

We trialled the provider's ESG data, ESG research and exclusion screening.

As predominantly credit investors, we use a credit rating style scale for our internal ESG ratings. The provider we trialled uses a numerical scale which we felt could be difficult for the Research Analysts to integrate into their analysis. For example, it is easier to think about the difference between a BBB and A rating than the difference between a 27 and a 28 score. In addition, the distribution of the scores was not spread across the range of possible scores, with the majority of scores sitting between the 0 and 50 bucket on a 0 to 100 scale. This made it difficult for us to map the scores over to our existing internal ESG rating scale.

Similarly to many other data providers, we found some data was stale and slow to be updated. This is a problem across the industry and is why we regularly review underlying carbon metrics, implementing internal overrides where necessary to ensure, as far as practicable, that available data is reflected. We fed back our observations on specific names to the provider.

Lastly, there were some mapping issues that we were experiencing with the provider, which is a common issue for the asset classes in which we invest (for example, sub-investment grade).

Ultimately, we decided not to proceed with adding the provider to our current datasets during the Reporting Period.

## Case Study

### MSCI

As described in Principle 2, we use MSCI ESG Manager as one of our external ESG data sources. This includes ESG research and ratings, controversy monitoring, climate-related data such as carbon emissions and exclusion screening.

In our 2022 UK Stewardship Code report, we highlighted a number of areas where we had been engaging with MSCI to seek improvements.

In 2023, we continued to build on our engagement with MSCI on these key areas for improvement including:

- Timeliness of updates to ESG research to reflect significant improvements in Environmental, Social and/or Governance factors;
- Reliability and timeliness of carbon emissions data availability;
- Usefulness and usability of negative screening options;
- Responsiveness of the client service team.

We had two face-to-face meetings with MSCI to discuss the challenges we were experiencing - one with the Global Head of Fixed Income & Product, ESG & Climate and one with the Head of ESG & Climate Data Content and Services.

Since our meetings, we have observed improved client servicing and prompt responses to the issues raised. We continue to highlight to MSCI any company-specific issues relating to ESG research, climate data and exclusionary screens. In some cases, this has led to more prompt updates than previously.

We continue to engage with MSCI throughout 2024 and review their offering.

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# Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

## Approach to Engagement

At CQS we use our position as a global credit provider to engage and seek to influence long-term change in the way companies operate or behave. Engagement may focus on a wide range of factors, from financial stability through to environmental or social considerations.

The CQS Engagement Group is responsible for selecting and prioritising specific engagement objectives, as well as assimilating progress. Companies are selected on a range of criteria including relative size of exposure, materiality of any issues which may have been identified, or CQS having a position of influence or control. This enables co-ordination across the platform and capital structure.

The Portfolio Managers will then take direct ownership and accountability for engagement priorities, with support from our specialist sector Research Analysts.

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Portfolio Managers are charged with decision making and whether a company is included (or not) within a portfolio, as such they are ultimately accountable for engagement outcomes.

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As outlined in Principle 1, our current primary areas of engagement are as follows:

1. Sustainable business practices.
2. Good governance and financial disclosure.
3. Climate risk management and encouraging disclosure.
4. Diversity within a company.

We seek to engage in order to enhance our understanding of a corporate issuer's approach before making an investment decision. Engagement can be through a variety of means, including emails, calls, and meetings with company management teams.

## Objectives for Engagement

CQS has a proprietary Engagement Framework that is designed to guide our investment professionals on areas we consider important. Additionally, as signatories to PRI, CDP and Climate Action 100+, and users of MSCI ESG Manager, we are able to take into account industry best practice by sector.

In order to meet Firm-wide objectives, we may design strategic Firm-wide Targeted Engagement Programmes. An example of this is the CQS Climate Targeted Engagement Programme and further details are on the next page.

## Case Study

### CQS Climate Targeted Engagement Programme

As highlighted in Principle 1, CQS is signatory to the Net Zero Asset Managers' initiative and has set interim targets. One of the Firm's targets is an Engagement Threshold Target for 70% of financed emissions to be either net zero, net-zero aligned or subject to direct or collective engagement and stewardship actions by 2025.

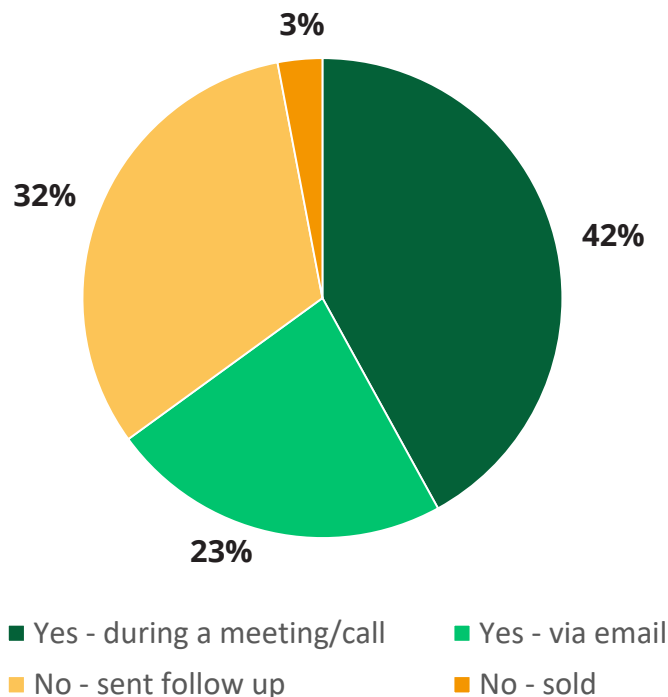
In 2022, we launched the CQS Climate Targeted Engagement Programme which aims to engage with portfolio companies within the open-ended pooled Funds classified as Article 8 under SFDR that do not currently disclose carbon emissions and/or do not have decarbonisation targets in place.

This Targeted Engagement Programme is expected to last for two to three years and will escalate over time to encourage better disclosure and net-zero alignment across the covered portfolios, in line with our Engagement Threshold Target.

The key objectives are:

1. Increase carbon emission disclosure coverage;
2. Increase proportion of companies with decarbonisation targets;
3. Increase proportion of companies targeting net zero.

As of 31 December 2023, we have sought to engage with 73 companies as part of the Programme. We are pleased with the response rate so far, with 65% of companies responding to engagement – the response statistics are outlined below.



Engagement outcomes so far include formal commitments to the Science Based Targets initiative ("SBTi") and written commitments to publish carbon emission disclosures, decarbonisation targets and net zero commitments in 2024. We will provide further updates as the engagements develop.

## Case Study

Where there is no carbon emissions data available for a portfolio company, we use proxy estimates based on the sub-industry average.

As part of the CQS Climate Targeted Engagement Programme as described on the previous page, we seek to engage with portfolio companies that do not disclose carbon emissions and/or do not have decarbonisation targets. This is with the aim of increasing our coverage of carbon emissions data, decarbonisation targets and net zero commitments.

A US software company to which we have exposure does not have carbon emissions data available through MSCI or on their website. We reached out to them to encourage an assessment of their carbon emissions and disclosure of this to investors, as well as decarbonisation targets and a net zero commitment.

We exchanged multiple e-mails with the company regarding their approach to ESG and carbon emissions as there is very limited information available on their website.

The company initially responded with an overview of their ESG initiatives covering:

- Environmental: carbon footprint study; carbon emission reduction plan for supply chain.
- Social: policies including Health and Safety, Anti-Discrimination and Equal Opportunity, Employee Wellness, Charity and Community Outreach; employee benefits and mental health support; DEI programme; cybersecurity.
- Governance: policies including Code of Ethics, Anti-Corruption, Anti-Bribery; and the launch of a confidential reporting system for improper, unethical or illegal issues.

We then followed up requesting details of their carbon footprint study and they provided us with details of their scope 1, 2 and 3 carbon emissions.

We encouraged them to disclose their carbon emissions publicly, set a net zero commitment and decarbonisation targets. They noted that as almost 90% of the emissions are scope 3 emissions, they have plans to develop a sustainable procurement programme to drive emission reductions and Science Based Targets adoption across the supply chain, along with clean power and operational initiatives.

As the company provided us with scope 1, 2 and 3 carbon emission disclosures, we were able to implement a manual override in our reporting system to integrate this data into our carbon metrics for our Clients.

We were pleased that the company has taken the first step of understanding their current environmental impact and have plans with regards to carbon emission reduction (particularly concerning their supply chain given 90% of their emissions are scope 3). We continue to monitor their progress in this regard.

Overall, the engagement made us comfortable with their current ESG approach to risks and opportunities. We assigned an internal CQS ESG rating of BBB.





CQS typically has exposure to around 1,600 corporates across the Firm.

In 2023, across the Firm we had:

# 1,889

Engagements with companies targeting numerous topics<sup>1</sup>

# 98

Direct engagements led by CQS

# 85

Companies subject to direct engagement with CQS

Some engagements covered more than one element and the split by engagement over the year can be seen below.

**A CQS Research Analyst can touch on multiple engagement issues when evaluating a company.**

# 66%

Environmental

# 52%

Social

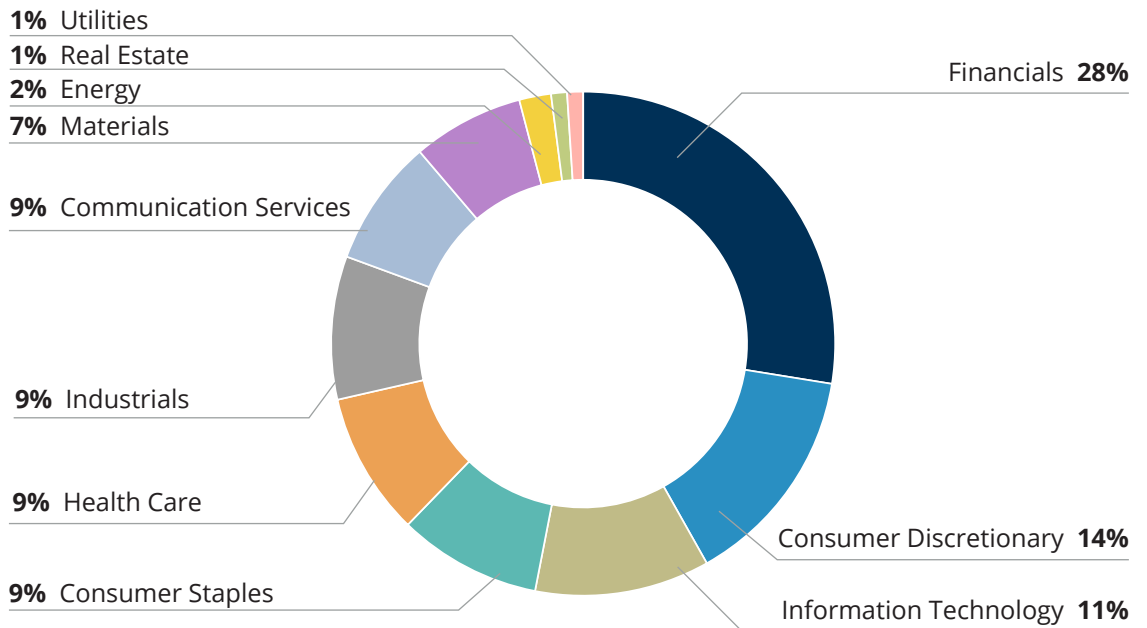
# 49%

Governance

of our engagements covered each of these factors.

<sup>1</sup>This includes collaborative engagements through CDP's Non-Disclosure campaign (1,586 engagements, excluding ones we led on) and the CCLA Global Mental Health campaign (205 engagements).

## Engagements by Sector in 2023



The engagements above only include direct corporate engagements and exclude collaborative engagements:

- as part of the CCLA Global Mental Health campaign
- that we did not lead on in CDP's Non-Disclosure campaign



We also regularly circulate papers detailing industry trends with the relevant Research Analysts and Portfolio Managers. Examples of this include developments relating to the Task Force on Nature-related Financial Disclosures and Task Force on Social Factors, enabling more focused engagement with tangible best practice and industry standard examples.

As credit investors, governance is core to our fundamental analysis and has been since the inception of the Firm. Under SFDR, we are required to incorporate good governance for all Funds classified as Article 8. Because of these factors, good governance is one of our four key engagement priorities as outlined earlier in this Principle.



### Case Study

Engaging to maintain or enhance value for our Clients is as much about determining when not to invest as when to invest.

We had the opportunity to participate in a primary deal for US health plan provider. We had a call with management to discuss potential regulatory risks associated with their business model and the ownership structure of the firm.

The company faces regulatory risk as there is a high chance that legislation will ban spread pricing within the next six months, as these pricing systems are being blamed for higher drug prices.

The company is 90% owned by the CEO. Upon further investigation, we uncovered that former employees and holders of the remaining equity were suing the CEO for allegedly using his control of the company to benefit himself by taking out personal loans and manipulating the stock price to buy shareholders out at below market value. We also have some governance concerns relating to the company's decision to seek funds for an undisclosed M&A now, rather than when the company is in a position to disclose the target which would enable investors to conduct the relevant due diligence.

While the company's fundamentals are attractive and we feel that the regulatory risks are manageable for them over the medium term, we think that the governance risk is quite high and ultimately decided to decline the deal.

## Engagement Approach in Light of Funds, Assets or Geographies

Principle 6 outlines the Firm's Client assets and our investment geographies. This can have an impact on the approach we take regarding specific engagements and how certain strategies need to differentiate based on the underlying assets.

CQS is an established ABS manager. For most securitised credit sectors, responsible investment and engagement implementation requires a different approach than, for example, corporate bonds.

During our detailed fundamental analysis of ABS, we evaluate the specific pool of assets, the structure and documentation relating to special purpose vehicles and the multiple potential counterparties relevant to the specific transaction (such as the originator, the servicer, collateral manager, and trustees).

For CLOs, we seek to engage with CLO Managers by requesting that they complete the ELFA CLO Manager ESG Diligence questionnaire. The questionnaire is expected to drive increasing standardisation and accessibility of insight into individual Collateral Managers' approaches.

For banks to whom we provide regulatory capital relief, we request that they complete a proprietary ESG due diligence questionnaire.

The questionnaire covers:

- ESG policies and processes;
- Participation in industry initiatives;
- Governance;
- Exclusions;
- Engagement;
- Diversity in recruitment, hiring, training, promotion and retention;
- Net-zero alignment.

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As of 31 December 2023, we have engaged with 46 European CLO Managers that we may invest in and 14 banks to whom we may provide regulatory capital relief.

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Whilst CQS is predominantly an alternative credit investor, some portfolios include equity positions. We have equity representation on our Engagement Group to ensure we maximise the opportunity to use our voting power in line with engagement priorities, where opportunities arise.

Both London and New York based investment professionals are members of the CQS Engagement Group, and represent the range of asset classes we manage.

Investing in sub-investment grade credit markets can raise similar challenges to Emerging Markets. Companies can be in high growth phases, subject to uncertainty or have balance sheet challenges.

Engaging with these companies can lead to some of the greatest impacts as sustainable business models (economic, social and environmental) can have a material impact on a company's cost of capital.

Examples of our engagement priorities, and outcomes, are typically focused on those sub-investment grade companies where we have the greatest exposures and expertise.

Engaging with larger investment grade companies requires a different approach. We are less likely to have access to senior management or be able to meet with the companies in person. The next two case studies address how we engage with both investment grade and sub-investment grade companies.

## Case Study

### Multi-year Targeted Engagement Programme

We have been engaging with a British convenience retailer and petrol forecourt operator since 2020 as part of our Targeted Engagement Programme on a number of issues including decarbonisation, electric vehicle charging facilities, board structure, disclosures and diversity.

We met with them in June 2023 to discuss their progress since their inaugural ESG report last year, the progress with an MSCI ESG rating and how the sale of some UK assets would affect electric vehicle charging plans.

They informed us they will be publishing their 2022 ESG report in June 2023 (now published) and provided us with some updates.

The report provided the following updates:

- 4% reduction in Scope 1 and 2 carbon footprint was achieved from 2021 to 2022;
- They announced a goal to set a target for Scope 3 emissions, working with third-party expert, Carbon Trust, to develop a realistic target in 2023/2024;
- They nearly doubled the number of EV charging points across the UK and Europe in 2022 from 250 to 470;
- They have increased the number of women in senior leadership positions from 23% to 30% between 2021 and 2022 and have set a target of 40% by 2025;
- They have embedded ESG into the short-term and long-term incentive plans for senior leadership across some of their markets (including a requirement to complete an online ESG training module);
- They voluntarily published TCFD reporting a year earlier than required, improving disclosures.

Regarding the MSCI ESG rating, they were told by MSCI that they are not currently in MSCI's universe and therefore will not receive an ESG rating. We have been engaging with MSCI separately on continued low coverage of the markets in which we invest and continue to raise this point with them.

The company confirmed that it was strategically important to continue investing in electric vehicle charging points, despite the sale of UK assets, noting that the UK was more advanced than other regions in this area.

Overall, the Head of ESG, who was appointed during our targeted engagement, continues to be receptive and open to our feedback which is positive. We would like to see how the UK assets sale effects the company from an ESG standpoint and will follow up on progress with scope 3 targets.

Over the three years we have been engaging with the company, we believe that the company has made significant positive progress and continues to stride in the right direction.

## Case Study

### Accessing engagement opportunities with larger companies

It can be challenging to get a dedicated 1-1 face-to-face meeting with larger companies, as normally they direct ESG-related queries through their investor relations mailbox.

This engagement demonstrates how we actively seek opportunities to meet with companies face-to-face to discuss key ESG risks and opportunities. It can help us to better understand their disclosures and targets, as well as push for progress in certain areas.

In November 2023, we attended the Barclays ESG Investing Conference which provided the opportunity to have 1-1 50 minute engagement sessions with a number of companies. We met with four companies held across the Multi Asset Credit platform.

**Company 1:** We covered: the practicalities of their net zero and decarbonisation strategy, particularly across their value chain; employee morale and engagement; community impact of the rollout of a digital replacement for a traditional product; and MSCI ESG analysis flags. We stressed the importance of providing vulnerable customer support with the digital transformation rollout, requested they address with MSCI the inconsistencies in the MSCI ESG analysis; and encouraged further work on Electric Vehicle infrastructure.

**Company 2:** The company provided extensive details regarding their environmental strategy and impressed with their government-level engagement to encourage systemic change that would apply to their business (such as removing the need to fly from Munich to Hamburg twice a day to meet current legal requirements). We raised a human capital management controversy with them to understand how they were addressing the issue. They followed up by e-mail with information regarding their audit and corrective action plan.

**Company 3:** The bank was the first in Europe to be included in the Refinitiv Global D&I Index and we queried how they would maintain their strong position. They explained a number of initiatives, as well as their strong gender diversity targets (which executive remuneration is linked to). They are committed to SBTi and confirmed that they will submit their targets for approval in March 2024, which we will monitor. We encouraged them to engage with MSCI to provide further information on human capital management.

**Company 4:** As an energy company, we encouraged them to seek SBTi validation of targets, and questioned the lack of CDP Forest disclosures and the practicalities of implementing environmental commitments relative to certain projects. There is no SBTi framework for Oil & Gas currently, but they have engaged with SBTi on this. They do not feel the CDP Forests questionnaire fits their business and are engaging with CDP to explain the challenges. They evidenced the successful carbon sequestration in the Congo and Kazakhstan as to how they could make it work better than their peers have for an Australian project that has been subject to public scrutiny.

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# Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

## Collaborative Engagements

We view collaborative engagement with wider stakeholders as an effective way to engender meaningful change in corporate conduct over the long-term, incentivising the right behaviours. It helps to build investor pressure and we tend to see tangible outcomes achieved more quickly than through direct engagement alone.

As a signatory to the PRI, we are committed to the six Principles which contribute to developing a more sustainable global financial system. This includes Principle 5, which embodies collaboration across signatories.

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## PRI Principle 5

We will work together to enhance our effectiveness in implementing the PRI Principles.

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The PRI Collaboration platform provides opportunities to participate in collaborative initiatives that we wouldn't otherwise be aware of or have access to. These collaborations can come in different forms, from large scale collaborations targeting multiple companies to smaller groups with the collective goal of encouraging a company to make positive change on a specific issue.

For example, through the PRI Collaboration platform, we joined the global coalition for workplace mental health which targets over 200 companies globally and started as a collective of more than 29 asset owners and asset managers. The engagement began with a global investor statement and benchmarking exercise and then developed into company-specific engagements. Further details can be found in the case study on pages 66 and 67.

By comparison, another collaborative engagement opportunity we sought through the PRI Collaboration platform, was a nature-related engagement targeting an Italian beverage company directly. This provided the opportunity to partner with like-minded investors to achieve improvements in water management and disclosure for the specific company. Further details can be found in the case study on page 69.

Alongside PRI, and being a public supporter of TCFD, CQS is a signatory to a number of collaborative initiatives including CDP (formerly the Carbon Disclosure Project) and Climate Action 100+.



CDP is an initiative covering \$142 trillion in assets under management and includes over 700 investors globally who request companies to disclose on climate change, water stress and deforestation.

This not only provides access for CQS to the reporting of over 23,000 companies globally which feeds into our integrated process of ESG assessments, but also allows CQS to access CDP collaborative engagement initiatives.

In 2023, CQS participated in the CDP Non-Disclosure campaign. This was a collaboration of 288 global financial institutions holding \$29 trillion in assets and sought to encourage environmental disclosures. Further detail is provided in the case study on page 68.

We are typically investors in sub-investment grade credit developed market companies, which CDP cover, and we believe it is appropriate to lend our name when CDP targets such companies.

Our long-term aim is to improve disclosure across sub-investment grade credit developed market issuers and complement our own direct engagement activity.







As a signatory and participant to Climate Action 100+, we also collaborate with c. 700 other asset owners and managers across 33 markets (representing \$68 trillion in assets under management) with a focus on climate engagement for companies who produce 80% of the world's industrial emissions.

As part of Climate Action 100+, CQS publicly acknowledges the risks of climate change and recognises the need for a low carbon transition. Our contribution to the initiative is through collaborative engagement to encourage companies to work towards the global goal of halving GHG emissions by 2030 and delivering net zero GHG emissions by 2050, in line with the goals of the Paris Agreement to pursue efforts to limit warming to 1.5°C.

The initiative's primary objectives are to ensure companies:

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**1** **Implement a strong governance framework**, which clearly articulates their Board's accountability and oversight of climate change risk.

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**2** **Take action to reduce greenhouse gas emissions** across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees (aiming for 1.5 degrees) above pre-industrial levels by 2050 or sooner.

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**3** **Provide enhanced corporate disclosure** in line with the TCFD recommendations and sector-specific Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change guidelines (when applicable).

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CQS remains committed to collaborative engagement. We view stewardship as a way to enhance our ability to identify value, investment opportunity, risk and, critically, to generate the best possible returns and outcomes for our Clients.



## Case study

According to Deloitte's 2022 UK Mental Health report, poor mental health costs employers billions of pounds each year, and the cost has risen since the pandemic. To tackle this, CQS supported the Corporate Mental Health Benchmark by CCLA and associated corporate engagement.

CCLA have developed a framework providing recommendations to companies encouraging them to acknowledge and promote workplace mental health, set targets to improve workplace mental health and report on progress annually.

CQS was one of 29 founding signatories of the Global Investor Statement on Workplace Mental Health, representing \$7 trillion in assets under management. In 2022, we co-signed letters to 100 UK companies and 100 global companies, which received a positive response and led to improved mental health disclosures over the last six months of 2022.

In 2023, CQS co-signed letters to 207 companies included within the 2023 Corporate Mental Health Benchmark. We also supported CCLA in direct corporate engagement on mental health with two companies, that were ranked in the bottom tier (tier 5) in the CCLA Corporate Mental Health Benchmark Global report.

In 2022, 33 companies with whom we engaged had stated an intention to use the recommendations to improve, and 10 companies have already taken steps to enhance mental health practices and disclosure.

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Examples of workplace mental health improvements include the introduction of a standalone mental health policy, the launch of new mental health benefits for employees and their families, and new and/or improved disclosures on training, awareness and uptake of initiatives.

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In 2023, we attended a call where we received an update on further progress with bottom tier companies. We discovered that one of the two tier 5 companies that we supported CCLA's direct engagement with were given a preliminary ranking of tier 4. This new ranking was confirmed in their 2023 investor report and means that they have improved and no longer receive the worst ranking.

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In total, 42 companies moved up one or more performance tier in 2023 (21% of companies from the 2022 campaign made improvements in workplace mental health).

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## Case study (continued)

Within the 2023 global report, the following outcomes from the initiative were reported:

- 95%** of companies recognise mental health as an important business concern (up from 90% in 2022);
- 84%** of companies have formal initiatives aimed at raising awareness of mental health (up from 72% in 2022);
- 78%** of companies provide internal or external mental health services and support (up from 72% in 2022);
- 43%** of companies are monitoring the uptake of support services and initiatives (up from 26% in 2022).

From a UK perspective in 2023, more than half of UK companies targeted by the initiative now encourage a culture of openness on mental health, with 57% of companies stating a management commitment to tackling the stigma associated with workplace mental health (up from 44% in 2022). In addition, the number of UK companies in the top two tiers almost doubled in 2023 (19 companies vs. 10 companies in 2022).





### Case study

CQS supported the CDP's 2023 Non-Disclosure Campaign.

Along with 287 other global financial institutions holding \$29 trillion in assets, we called on the world's highest impact companies to begin disclosing key environmental information on climate, water and forests.

The campaign targeted 1,590 companies worldwide, including a number of CQS-managed Fund holdings.

CQS led on four engagements and co-signed all other letters as part of the campaign. The letters encourage the companies to complete the relevant CDP questionnaire (climate, water or forests).

Each engagement we led on represented 275 financial institutions, covering \$27.8 trillion in assets.

317 companies in the campaign made disclosures on key environmental issues including climate, water and forests.

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20% of the companies engaged with across the initiative provided disclosures on any or multiple of the three issues.

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A narrow street in a town with colorful buildings and a canal in the foreground. The street is paved and has a few parked bicycles. The buildings are multi-story and have various colors like yellow, orange, and red. There are balconies with plants. In the foreground, there is a canal with blue water and some greenery on the bank.

## Case study

In March 2022, we joined a collaborative engagement through the PRI platform to encourage better water management and related disclosures from an Italian beverage company. As a positive sign, they extensively addressed our letter at their 2022 AGM and outlined their progress within their operations. They also confirmed that they are completing the CDP Climate Change questionnaire this year, and would seriously consider completing the CDP Water questionnaire in future and welcomed our feedback on water management improvements in the interim.

In March 2023, we joined the same collaboration, co-signing a letter alongside eight other investors. The letter acknowledged the progress the company has made regarding water use in their own operations but pushed for a supply chain assessment and completion of the CDP Water questionnaire.

We also co-signed the CDP Non-Disclosure campaign letter to the company, which further encouraged the completion of the CDP Climate and Water questionnaires.

The Board extensively addressed our questions in their AGM. The company confirmed that their operating activities are not located in extremely high water risk areas (based on an internal assessment through the World Resource Institute Aqueduct Water Risk tool). They also noted that due diligence of their main suppliers is underway.

The company recognised investors' need for disclosures and transparency and in October 2023, they confirmed that they will complete the CDP Water questionnaire for the first time in 2024 and fully assess the water risks in their supply chain.

We were pleased with the company's positive and proactive responses to our engagements with them, and were encouraged by both their answers on water management and the progress they were making on climate and water related ESG risks and opportunities.

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# Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

## **CQS' Approach to Escalation**

Engagements are prioritised where we feel we can make a meaningful difference, or where material issues have been identified. In certain instances, engagements will be the primary way by which we can remain comfortable with an investment decision or not. We have described in detail our approach to developing engagement targets and companies (see Principle 9). This is an ongoing process with an increasing focus on the largest carbon emitters within CQS-managed Funds' portfolios to better understand their approach and strategy, and encourage the setting of targets.

Escalation practices are important. CQS operates a clear system via our Research Portal which allows Research Analysts, and where applicable Portfolio Managers, to record their engagement activities when researching and interacting with companies.

This includes detail of the engagement by issuer, the outcome and next steps of any engagement and the information is accessible across Front Office staff to allow collaboration across exposures.

For any particular issuer or company, Research Analysts and Portfolio Managers can access all historic engagements to understand the progress made and track any areas of concern over time. Tracking our engagements in this way allows us to discuss engagement activity more effectively at the regular CQS Engagement Group meetings and identify any trends or issues with companies which our investment team feel should be addressed.

As debtholders, it is important that management of an issuer understand we still expect engagement issues to be taken seriously and may reduce or cease our provision of debt where unacceptable progress is made.

The CQS Engagement Policy formally outlines our approach to escalation of stewardship activities. As a philosophy, CQS believes in engagement over exclusion.

However, should a material issue be identified which engagements fail to address, this can be cause for selling an investment, if insufficient action or progress is evident after a reasonable period. This can be at the discretion of both the Portfolio Manager and the CQS Engagement Group.

Prior to selling or exclusion, a number of other engagement approaches may be adopted such as:

- Escalation within the company to a more senior individual such as the CEO or Chair.
- Collaboration with other investors (via initiatives such as PRI, CDP, Climate Action 100+, with Clients or with private equity sponsors).
- Dedicated Targeted Engagement Programme, reviewed periodically by the CQS Engagement Group.
- Use of proxy voting (where applicable)
- Policy lobbying and consultations (including via third parties in which CQS is a member).
- Litigation.

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The escalation technique used depends on the asset class and geography. For example, there are limited voting opportunities for the bonds in which we invest so a targeted engagement programme or collaboration with other investors is likely to be a more effective escalation option.

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### **Collaboration**

As outlined in Principle 10, we view collaboration as an effective way to engender meaningful change over the long-term. It can also help to emphasise the importance to the wider investment industry, as well as to CQS and our Clients, of the improvements we are requesting companies to make. For example, we had been engaging with a European beauty company since 2021 to encourage environmental disclosures but had seen limited improvement. In 2023, we escalated this by leading engagement through the CDP Non-Disclosure campaign, representing 288 investors and \$29 trillion in assets under management. Further details can be found on page 74.

Similarly, we escalated another engagement by co-signing the CDP Non-Disclosure campaign letter, as outlined on page 68.

### **Targeted Engagement Programme**

We noticed during our climate analysis and through the CQS Climate Targeted Engagement Programme outlined in Principle 9 that we saw fewer carbon emission disclosures publicly available and fewer decarbonisation targets announced by private equity sponsored companies, compared with publicly listed companies. There were also similar commonalities regarding diversity and governance. We decided to escalate our engagement efforts by targeting the private equity sponsors, as well as the underlying portfolio companies, by establishing the CQS Private Equity Sponsor Targeted Engagement Programme as outlined in Principle 7. We recognised our limitations as debtholders and hope that co-ordinating our efforts across the capital structure will lead to better outcomes for our Clients.

### **Litigation**

The use of litigation is a measure available in extreme scenarios to drive change in relation to the practices of a company but represents a severe escalation. We predominantly invest in developed market geographies and litigation can be more effective in these geographies where investors have well defined rights.

In 2023, we joined a bondholder group to take litigation action following the default of one of our positions.

Further, as part of our ongoing oversight of companies, CQS will monitor closely for controversies and/or failings relating to governance and social responsibility.

A combination of Research Analyst expertise and monitoring, alongside the use of RepRisk for big data news observation, allows us to monitor for breaches. For example, CQS would expect to escalate any identified breach of the Ten Principles of the United Nations Global Compact.

In summary, where stewardship matters requiring escalation arise and a company (existing or new) fails to meet any commitments given, first and foremost we will continue to engage with the company.

If no action or progress is evident after a 12-month period or we deem the controversy risk too high, then decreasing exposure or excluding the company from the relevant Fund's investment universe may have to be considered.

The CQS Engagement Policy outlines the above-mentioned engagement escalation measures such as collaborative engagement, public engagement, voting, litigation or ultimately divesting.

This provides a clear line of sight for our Clients, but perhaps most importantly, to companies with whom we engage, making them aware of the potential responses should they continually fail to engage in a way that would be expected.

Escalation can apply in any geography, sector and asset class, and we see a key benefit in a widely represented CQS Engagement Group which can leverage stewardship escalations across the capital structure.

We have also provided more capital to companies where we see a strong ESG opportunity following engagement. For example, one of our targeted engagement programmes is with a petrol forecourt company. Following discussions regarding their plan to increase the building of electric vehicle charging points, we sought to provide them with more capital to help enable them to achieve their strategic goals in the transition to a low carbon economy.







## Case study

We have been engaging with an Asian global consumer internet business since early 2022 to understand plans to improve board diversity, carbon emission disclosures and set decarbonisation targets.

As outlined in our 2022 UK Stewardship Code report, we sought engagement with the company on multiple occasions but we did not receive responses to our requests. Following discussion on next steps during a CQS Engagement Group meeting, we escalated the issue to the joint CEO/Chair of the company. This led to us receiving a prompt response and they published some carbon emission and diversity disclosures for the first time in their 2022 sustainability report later that year.

As part of the 2023 CDP Non-Disclosure Campaign, we sent a letter to the company on behalf of 288 investors representing \$29 trillion in assets to encourage them to complete the CDP Climate questionnaire.

In late June 2023, we had a meeting with the Chief Corporate Officer's team. We highlighted the importance of disclosure as a first step in the low carbon transition. In particular, we referenced that 86% of companies within the same Fund in which we held the company's debt do currently make climate disclosures to CDP. The company thanked us for this useful insight and confirmed that they would consider completing the CDP Climate questionnaire. However, they ultimately decided not to complete the questionnaire in 2023.

We view engagement with companies as an iterative process and we hope to see further progress in the future.



## Case study

As noted earlier in this Principle, CQS had been engaging with a European beauty company since 2021 to encourage environmental disclosures but had seen limited improvement.

As part of the 2023 CDP Non-Disclosure Campaign, which CQS was a public supporter of, we escalated this engagement by sending a letter to the company on behalf of 288 investors representing \$29 trillion in assets to encourage them to complete the CDP Climate questionnaire. However, they did not respond.

We arranged a 1-1 meeting with the company at the JP Morgan conference to directly engage with them further. We wanted to understand why they did not respond to the letter we sent, and any progress they had made in relation to the carbon-related targets for net zero.

The company told us they would not complete the CDP Climate questionnaire in 2023 but would continue to evolve their ESG strategy so they can be in a position to complete the questionnaire in the future.

The company currently has targets to reduce 50% of scope 1 and 2 carbon emissions by 2025 using a 2019 baseline. They also informed us of plans to include scope 3 emissions in targets and get third party validation from the Science Based Targets initiative. However, these plans are still in the development stage so we will continue to encourage and closely monitor them.

Whilst we were disappointed not to see environmental disclosures submitted to the CDP, we were pleased with the positive progress that the company is making in this area. We believe that the CDP letter may have encouraged the company to better position themselves to complete the questionnaire in the future.

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# Principle 12

Signatories actively exercise their rights and responsibilities.

## **Voting Policies and Use of Proxy Voting Advisors**

CQS discloses its proxy voting policy under part 12 of our Stewardship Policy. Recognising the discretion afforded to CQS under the relevant investment management agreements, CQS will generally make any proxy voting decision or determine broader proxy voting policies on behalf of the relevant Fund.

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In respect of any directly managed accounts, third-party sub-managed mandates, funds-of-one or similar, CQS may agree a specific listed equity voting policy with the Client in respect of such mandate or, in certain circumstances, the Client may reserve the right to exercise proxy voting rights on behalf of the relevant Fund or investment vehicle.

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In respect of CQS' pooled Funds, Clients may not override any CQS house policy on the exercise of listed equity voting rights. This is to ensure that no Client is afforded preferential treatment over another and

avoids actual or potential conflicts of interests arising. That being said, where appropriate, CQS may consult with and take on-board the views of Clients in order to evaluate and consider an appropriate approach. We note that CQS did not use any proxy voting advisors over the Reporting Period.

Click [here](#) to read our Stewardship Policy.

## **Approach to Proxy Voting**

Our approach to voting can differ depending on the investment strategy of respective Funds. For the alternative Funds managed by CQS during the Reporting Period, equity investment can be more short term than our long-only funds. In either case, the relevant Portfolio Manager is expected to elect on how to vote in respect of their Fund's positions.

CQS will vote the number of shares held at the relevant custodian or prime broker.

## **Stock Lending and Voting**

Where a portion of our position has been lent by the prime broker to other market participants, we will vote the remaining shares. The operations team will facilitate in any instance where a Portfolio Manager deems it of greater benefit to Clients to recall lent shares in order to vote.

In April 2023, we set up a process to automatically vote in line with management which can be overridden should our Portfolio Managers wish to vote differently.

The feature allows Portfolio Managers to identify where they wish to vote contrary to management and has helped to increase our percentage of eligible votes voted (87% in 2023 vs. 67% in 2022).

During the Reporting Period, CQS Funds voted against management on approximately 0.44% of resolutions.

Whilst this number is relatively low, it reflects the importance we place on incorporating good governance into our responsible investment process and that we often have a positive view of management and their approach.

The majority of instances where we vote against management fall into the following broad categories:

- To encourage transparency in business practices such as increased disclosures on human rights, data privacy and climate lobbying further promoting our priority engagement themes;
- Where we feel the decision made by management would not be optimal for a Fund from a return perspective;
- If we feel the decision made by management does not promote good governance practices, which is something we are committed to as a Firm.

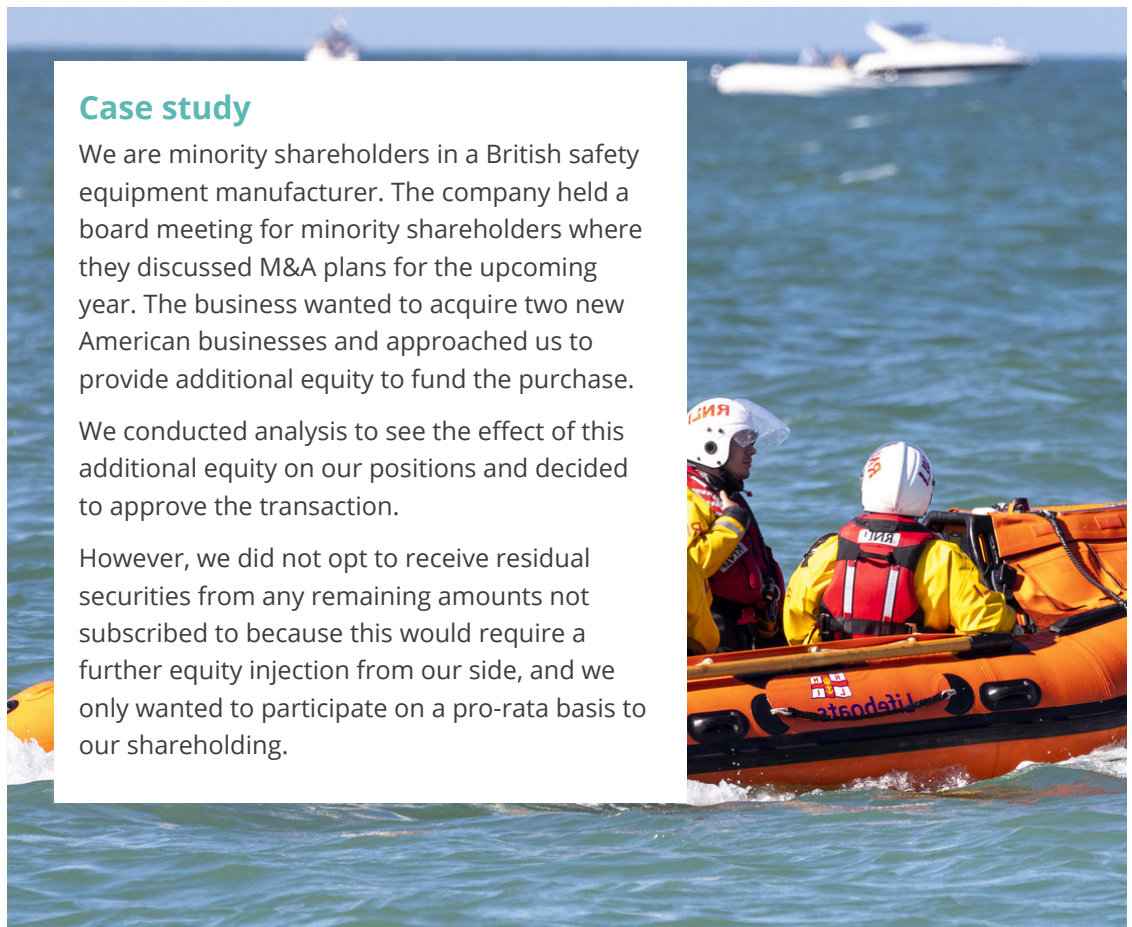
CQS is currently reliant on our custodians and prime brokers to provide ProxyEdge with holdings information who in turn provide CQS with reports detailing the required elections.

### Case study

We are minority shareholders in a British safety equipment manufacturer. The company held a board meeting for minority shareholders where they discussed M&A plans for the upcoming year. The business wanted to acquire two new American businesses and approached us to provide additional equity to fund the purchase.

We conducted analysis to see the effect of this additional equity on our positions and decided to approve the transaction.

However, we did not opt to receive residual securities from any remaining amounts not subscribed to because this would require a further equity injection from our side, and we only wanted to participate on a pro-rata basis to our shareholding.





### Case study

We are invested in the debt of a French distribution company. Throughout the course of the year financial results deteriorated and EBITDA was significantly below previous expectations.

Due to the cyclical nature of the business, it was affected by a weaker market and an inflationary environment which resulted in a loss of market share and margin compression.

We signed a covenant waiver regarding leverage ratio testing, so that the company would not have to report a potential breach externally.

Subsequently we plan to exit the position when appropriate.

### Equity Positions

A record of CQS' equity voting activity can be found [here](#).

However, it should be noted that equity investing does not form a material part of CQS' overall investment strategies.

As of 31 December 2023, CQS had net positive equity exposure (c. 4.4% of Firm assets under management).

CQS strives to vote in almost all instances where a long position is held with the prime broker or custodian. For our long-only Funds this would typically be our full position.

As mentioned previously, for our alternative credit Funds, positions may have been lent by the prime broker, meaning we can only vote a proportion of the relevant Fund's position. We do not have any voting rights for our ABS Funds, so we do not take part in any voting concerning these Funds.

In 2023, we were eligible to vote 2,858 times; we voted in 87.3% of votes.

## Examples

Examples where Portfolio Managers voted against management in shareholder votes:

1. We voted against a company's executive compensation proposal as we felt their approach was excessive. Even though the company performed well during the period given the volatility in the sector, we did not think such a high payout was appropriate. The resolution still passed however so we have reduced our position in the name due to these concerns.
2. We are committed to delivering the best financial outcome for our clients, so we voted against a management proposal to amend the reference rate from LIBOR to SOFR without financially compensating lenders, as we felt this was unfavorable. LIBOR was phased out in June 2023 and securities with existing LIBOR language that cannot be amended had to be redeemed. Given where the security was trading and the maturity date this would have been a positive outcome for the Fund. The proposal was not approved and we sold the position.
3. As part of our incorporation of good governance we voted against management to prevent a related-party transaction which we believe would have an adverse impact on shareholders. Management brought forward a proposal to sell \$440m worth of assets to the founder's private fund. We believe that these assets were significantly undervalued so voted against it. The resolution did not pass through. The situation is ongoing, and the Board has been replaced. We continue to monitor the situation.
4. We regularly seek improvements in ESG practices and disclosures by portfolio companies. We voted

against management and in line with other shareholders to encourage ESG improvements such as a climate lobbying report, data privacy report, human rights assessment, and a performance review of the audit committee.

## Fixed Income Positions

CQS uses a variety of methodologies to review relevant transaction documents relating to potential investment in bonds and loans.

CQS' experienced in-house Research team has access to a comprehensive range of research resources including a market-leading loan and bond covenant review service.

This is used to better understand the risk (and potentially avoid) instruments with problematic terms.

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As part of the primary market process, we give feedback on problematic terms (via the broker trading desks or direct to the debt capital markets team).

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Typically, our ability to influence issuers is proportional to our relative prominence in the deal.

As needs arise, we also play an active role in various forms of bondholder groups in order to agree (or not) the restructuring of debt in distressed situations.



## Case Study

A US fitness company came to lenders with an amendment to the credit agreement. However, the drafting contained a mistake by their lawyers resulting in an inflated free cash flow figure.

As a result, we were owed \$8m by the company, but were asked to waive the payment as it was due to an error in calculation.

Together with other lenders we were able to negotiate more favourable terms in exchange for waiving the \$8m. The new agreement increases reporting requirements for the company including liquidity forecasts, monthly reporting, and calls. It also requires the sponsor to launch a marketing process for the business and includes a small exit fee for lenders if the business is sold.

This demonstrates how taking an active approach to lending can produce positive results leading to better business practices by the company.

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**PRI Note:** PRI is an investor initiative in partnership with UNEP Finance and the UN Global Compact.

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Signatory of:



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