Stewardship and Shareholders' Rights Report

2022

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 2022 to 31 December 2022 (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.

Letter From Soraya Chabarek

We were delighted to learn in September 2022 that CQS continued to meet the high standards required to remain a signatory to the UK Stewardship Code for the second year.

We are pleased to submit our third annual report to the Financial Reporting Council. In continuing to pursue our three Firm-wide objectives 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 Funds invest to foster long-term meaningful change. We believe incorporating ESG criteria reduces risk and improves investment returns and as you will read in our report, we have expanded our Targeted Engagement Programme and enhanced systems to capture and share engagement activity (see Principles 1, 2 and 4). Over the last year, our teams conducted 335 engagements, including collaboratively via industry initiatives (see Principle 10).

2. Decarbonise: We focus on data, disclosure, and collaboration to play our part in the transition to a low carbon economy. As a signatory to the Net Zero Asset Managers' initiative CQS committed to achieve net zero greenhouse gas emissions by 2050 or sooner. In 2022, we set interim decarbonisation targets 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 detail).

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. In 2022, we formalised a multi-year corporate giving programme and continued to support initiatives to promote diversity and inclusivity within CQS and the wider industry (see Principle 1 for information on these initiatives).

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

Soraya Chabarek, Chief Executive Officer

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 Organisation, Values, and Investment Beliefs

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

Today CQS offers investors a multi-sector alternative credit platform, focused on what our teams know best, global credit. CQS has over $15bn in assets under management across long-only and alternative mandates.

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

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

CQS teams are committed to building enduring partnerships with investors, generating 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, the CQS culture is rooted in teamwork and an open, inclusive and collegiate 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, CQS has a history and ethos of active credit management.

Since inception in 1999, CQS has 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 all investments and ensuring credit spreads compensate investors for any potential loss risk.

This disciplined research-driven process has been built on our heritage and experience of running alternatives and long-only mandates.

Our investment view has always been that being active and selective (i.e., lending to the right businesses and not buying the market) should enable CQS to achieve strong risk-adjusted returns through income, potential capital gains and managing fundamental potential loss risks.

Effective stewardship is therefore central to the CQS 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 ESG data into our processes.

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

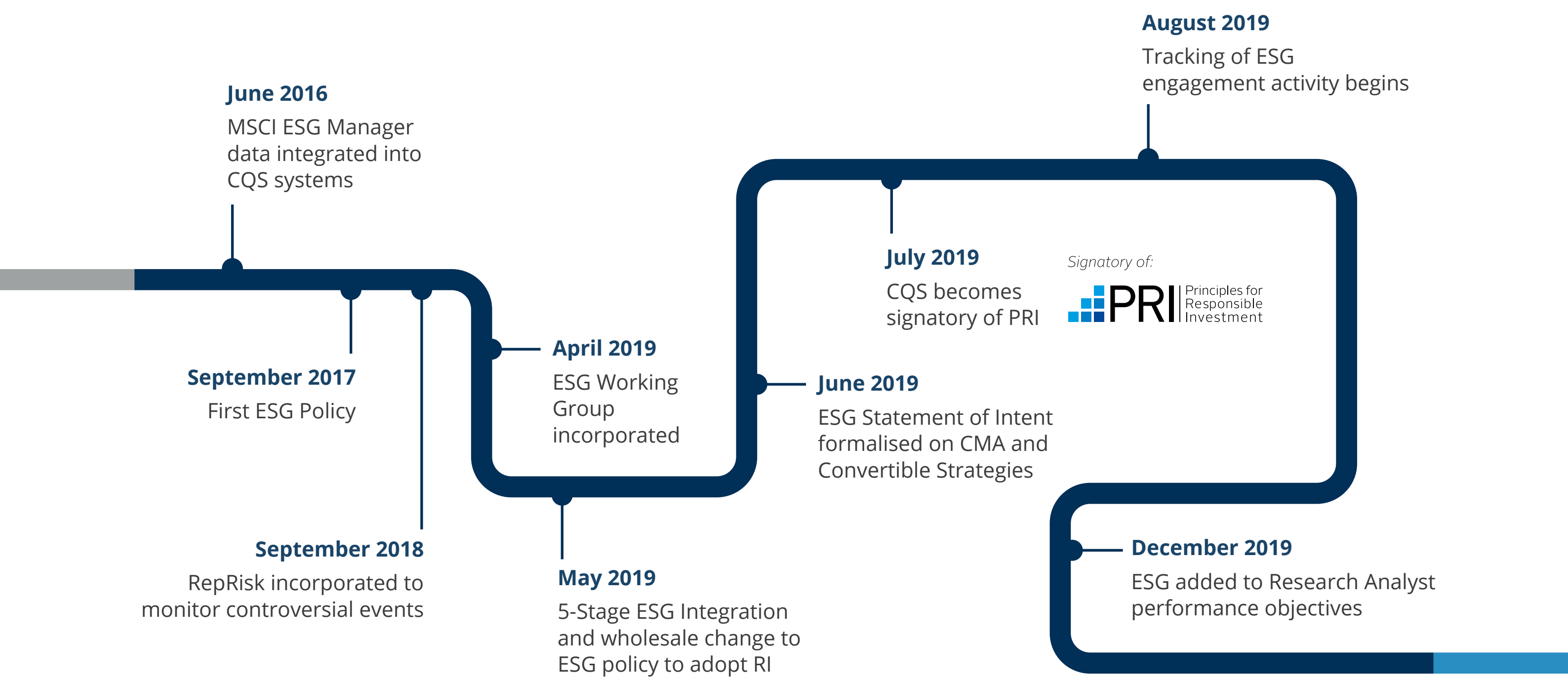
Throughout our journey, we have provided responsible investment ('RI') training to our staff, in particular:

- Research Analysts
- Portfolio Managers
- Marketing and
- Sales.

We also regularly share intellectual capital across the Firm. Further detail can be found on page 58.

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 other major responsible investment milestones



A key action taken during the Reporting Period is the interim decarbonisation targets that we have set for the CQS open-ended long-only Funds which are classified as Article 8 under the European Union's Sustainable Finance Disclosure Regulation ("SFDR").

February 2020
MSCI Climate Change Metrics added to monitor Portfolio Carbon Intensity

March 2020
CQS completes first PRI assessment Scoring "A" for strategy and Governance

June 2020
CQS becomes a signatory to CDP and publicly supports TCFD

September 2020
Introduction of CQS Engagement Group & Targeted Engagement Programmes. Includes Sustainable Development Goal ("SDG"). mapping of objectives

January 2021
CQS becomes a participant of Climate Action 100+

April 2021
Incorporation of CQS Responsible Investment Governance Committee

July 2021
CQS publishes our first report aligned to the Task Force on Climate Related Financial Disclosures ("TCFD")

September 2021
CQS becomes signatory to UK Stewardship Code

October 2021
Flagship CQS long-only strategies categorised as Article 8 under SFDR

November 2021
CQS becomes signatory to the Net Zero Asset Managers' Initiative ("NZAM")

July 2022
CQS becomes signatory to the Institutional Investors Group on Climate Change

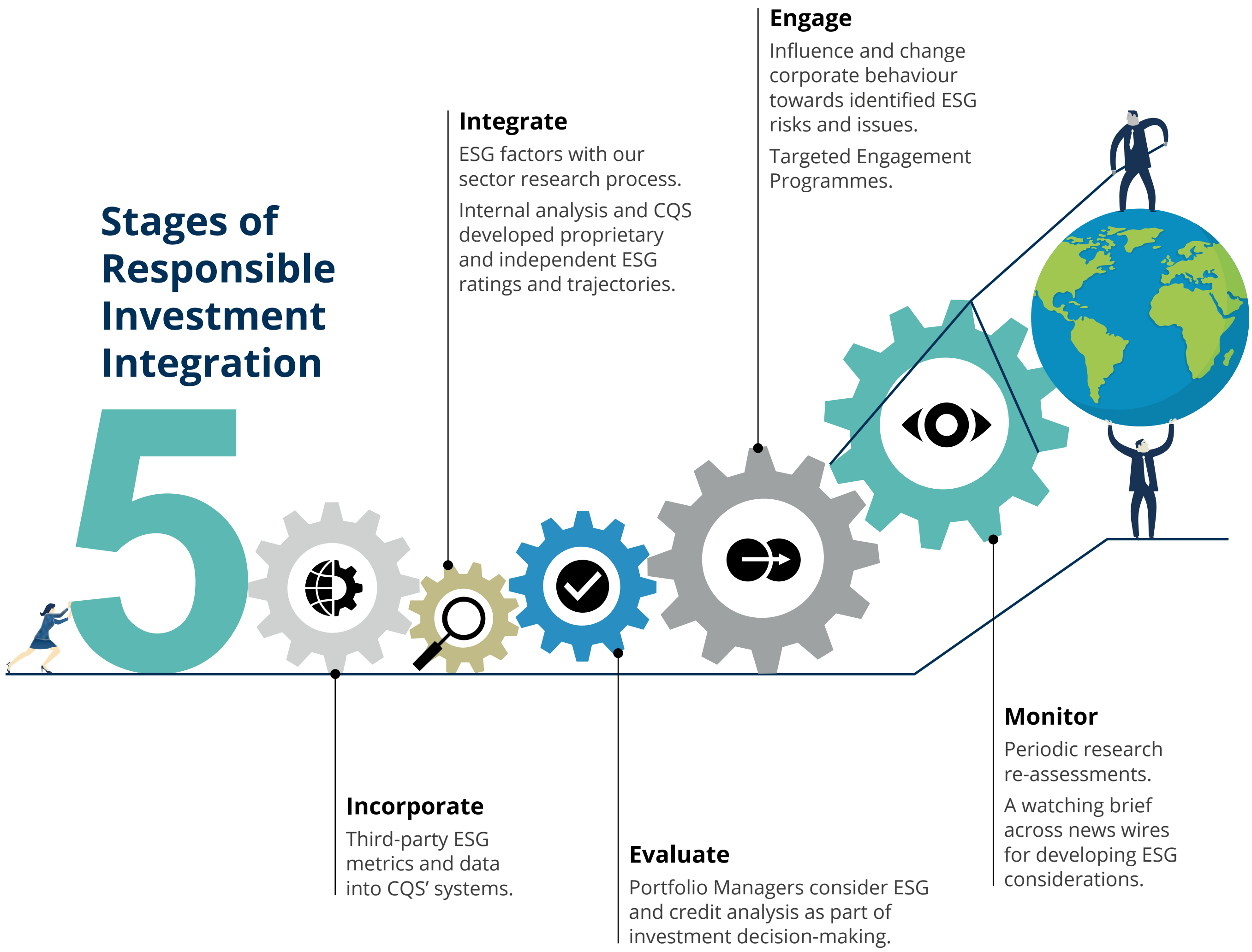
November 2022
Introduction of interim decarbonisation targets through NZAM

CQS' Investment Beliefs Support Effective Stewardship

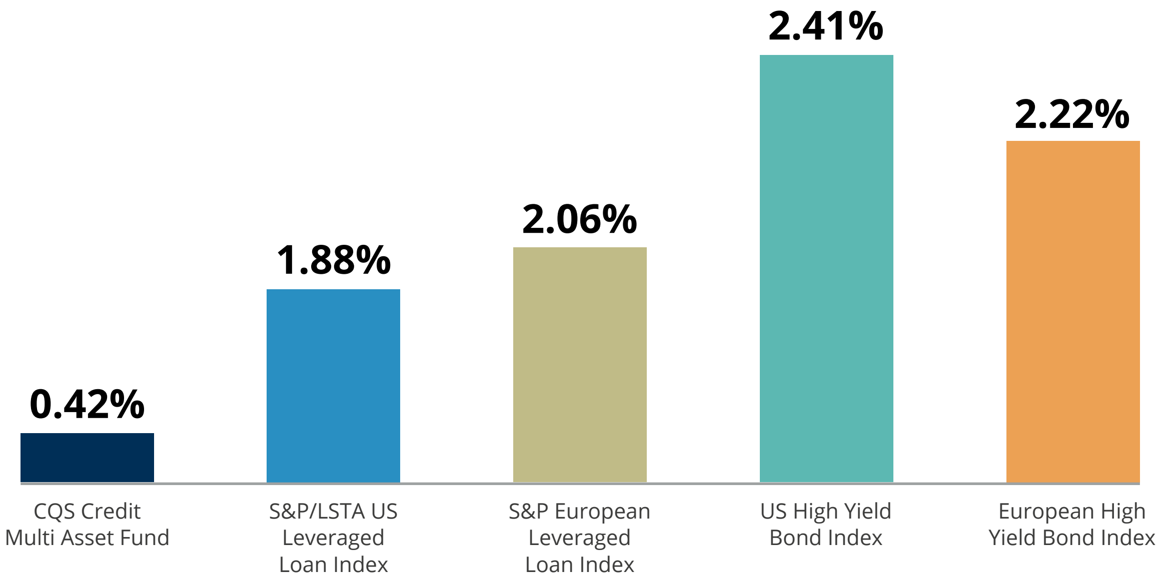
As described earlier, given our investment philosophy, we believe that an active approach to stewardship and responsible investing are crucial factors in creating long-term value for our investors. In our view, stewardship and environmental, social, and governance ("ESG") factors are significant drivers influencing financing costs, valuations and performance. As a result, we have integrated these factors into the Firm-wide five stage responsible investment 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 Fund relative to the wider market



Source: CQS Macro and Fundamental Research, LCD and the Moody's Default Report as at 31 December 2022. All time series start at CMA 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 a 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 CQS Credit Multi Asset Fund, we achieve a considerably lower average default rate versus loan and bond markets (since inception of that Fund).

We continue to use our position, on behalf of our Clients, as a leading global provider of credit to actively seek improvements from the companies in which we invest (stage four of the responsible investment integration process). Through 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 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:

1

Targeted Engagement Programme

- Identify key engagement priorities, map these to UN SDGs and collaborate across CQS
- Discuss all targeted engagements at Engagement Group meetings

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 on

3

Collaborative Engagements

- Collaborative initiatives through CDP, PRI and our other signatory bodies
- Industry wide collaborations
- Default reorganisation

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**

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.

CQS has offices in London, New York and Hong Kong.

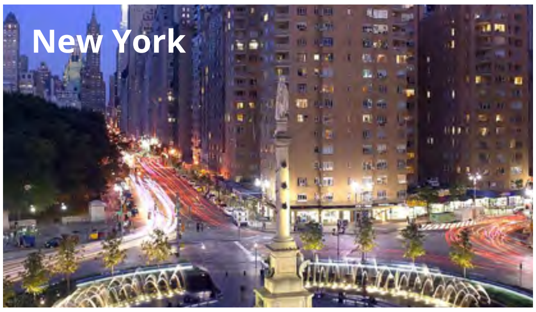
We seek to reduce the environmental impact of our operations and promote sustainable practices amongst our staff.

This includes the introduction of electronic document signing software, 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.

Our London office premises use a specialist energy company which seeks to purchase power from over **600** renewable generators including wind, hydroelectric and solar throughout the UK.

In October 2022, we offset all our operational scope 1, 2 and 3 (business travel) greenhouse gas emissions across our organisation (for the year to 31 March 2022). In mid-2023, we published our 2022 TCFD report, reaffirming our commitment to better climate disclosures and mitigation of climate risks.

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



CQS Diversity and Inclusion

As a multi-sector, credit specialist asset manager, 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, by working with like-minded recruiters who are required to present a diverse range of candidates, focus on diversity.

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.

During 2022, CQS started developing a structured staff wellbeing and engagement programme which encourages strong relationships, and physical and psychological good health. This will remain a key focus area during 2023. Alongside this, we formalised a multi-year corporate social responsibility programme focused on youth development.

CQS' diversity and social responsibility initiatives include:

CQS Women's Network

Women's networks are a powerful way of attracting and retaining talent, where women can interact across 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 2022 event was well attended and continues to be popular both internally and externally to CQS.

Life Support

Life Support is an inspiring organisation who CQS began supporting in 2022 as part of our Social Responsibility commitments.

Life Support has been working in Zambia for the past 14 years and in Malawi for three. They have established two children's villages (care homes for orphaned and vulnerable children) and community centres - one in Zambia, the other in Malawi.

Through these community centres 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 now provides full time education for 370 children, employing 15 members from the local community.

With support from CQS, Life Support has been able to fund the first phase of the Eden Farm secondary school. Once built, pupils will receive full time education and a meal a day.

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 two years of interns (in 2021 and 2022), one of whom joined us as a graduate trainee.

RedSTART

CQS is a proud partner of RedSTART, a charity that aims to provide financial education to transform the life chances of young people across the country.

The RedSTART Change the Game programme was launched in September 2022, with support from CQS. With 48 schools taking part in the programme, by the end of the 2022/2023 academic year, over 46,000 teaching hours will have been delivered to around 15,000 children.

The aim of the charity is to close down in 2030, because they have provided the evidence the Government say they need to be persuaded that teaching children in primary schools serving communities of greater disadvantage about money, has a significant, positive impact on their future lives and to persuade the Government to adopt this blueprint in all 20,000 primary schools across the UK.

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 2022, CQS committed to support three scholarships. 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 with a wider range of backgrounds to improve diversity over the longer term.

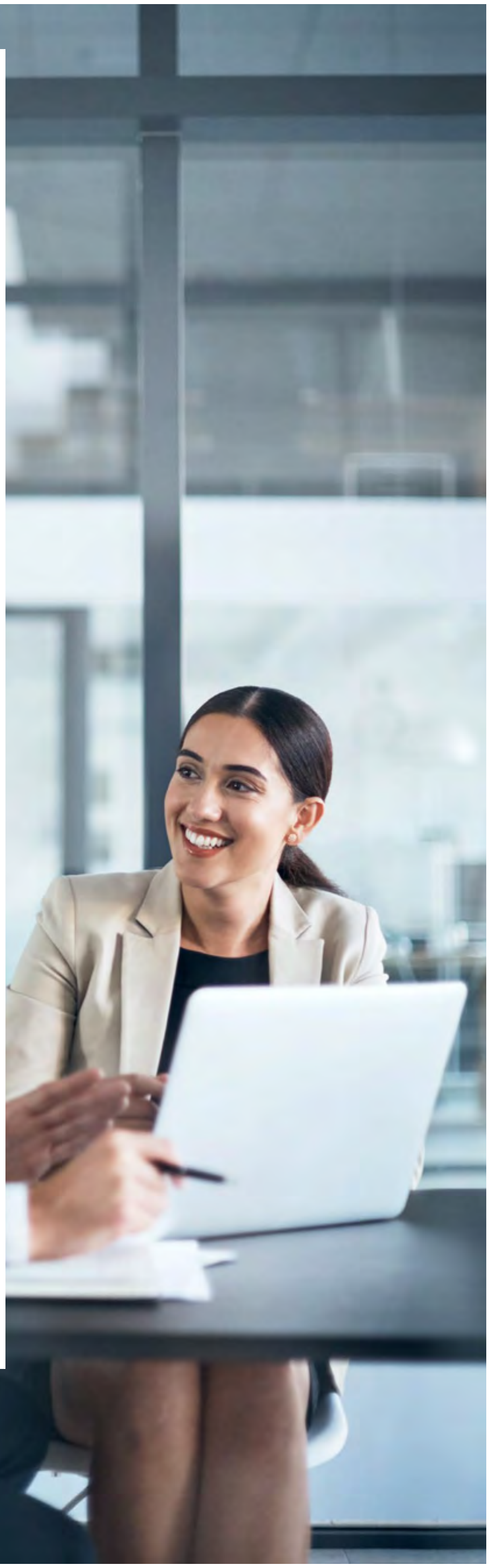
Greenhouse Sports

Greenhouse helps to improve life chances for young people, giving them essential skills. Our support allows us to help children in our community succeed in life and our staff compete in teambuilding competitions against others in our industry.

Greenhouse delivers 50 programmes across the capital by engaging coaches, to teach full time in secondary schools, special needs schools and in their performance clubs.

The charity operates in schools where at least two-thirds of pupils live in areas of high deprivation.

CQS has been supporting Greenhouse Sports for 10 years. Our team, comprised of people from across the Firm, compete in the annual dodgeball tournament where banks, hedge funds and asset managers play to raise awareness and funds.



We engage with issuers to share best practice policies and training on diversity and inclusion, as well as industry insights from other firms in which we invest within the same sector.

The ways in which CQS' own governance structure, resources, and incentivisation framework support effective stewardship are outlined in Principle 2.

30%

of CQS staff are women (average Firm headcount 150-170 globally)

50%

of CQS' 2022 graduate scheme are women

30%

CQS aims for women to represent 30% of our committees by 2030.

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 offering 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.

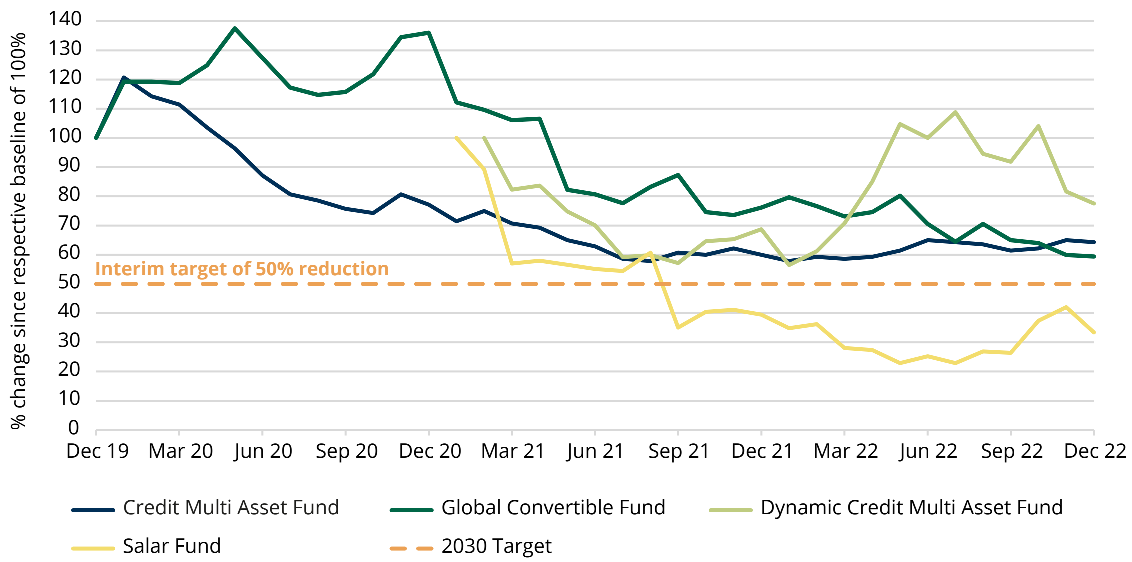
Scope 1 and 2 emissions are covered by our interim targets. We intend to include Scope 3 emissions over time as data quality improves.

We have begun monitoring our progress against our interim targets.

Portfolio Decarbonisation Reference Target

The chart below shows our progress for the Portfolio Decarbonisation Reference Target since the relevant baseline to 31 December 2022 for each of the four covered Funds.

We do not expect the decarbonisation pathway to be linear and all four Funds have made marked progress against the target (the 2030 target is shown by the orange dotted line).



Engagement Threshold Target

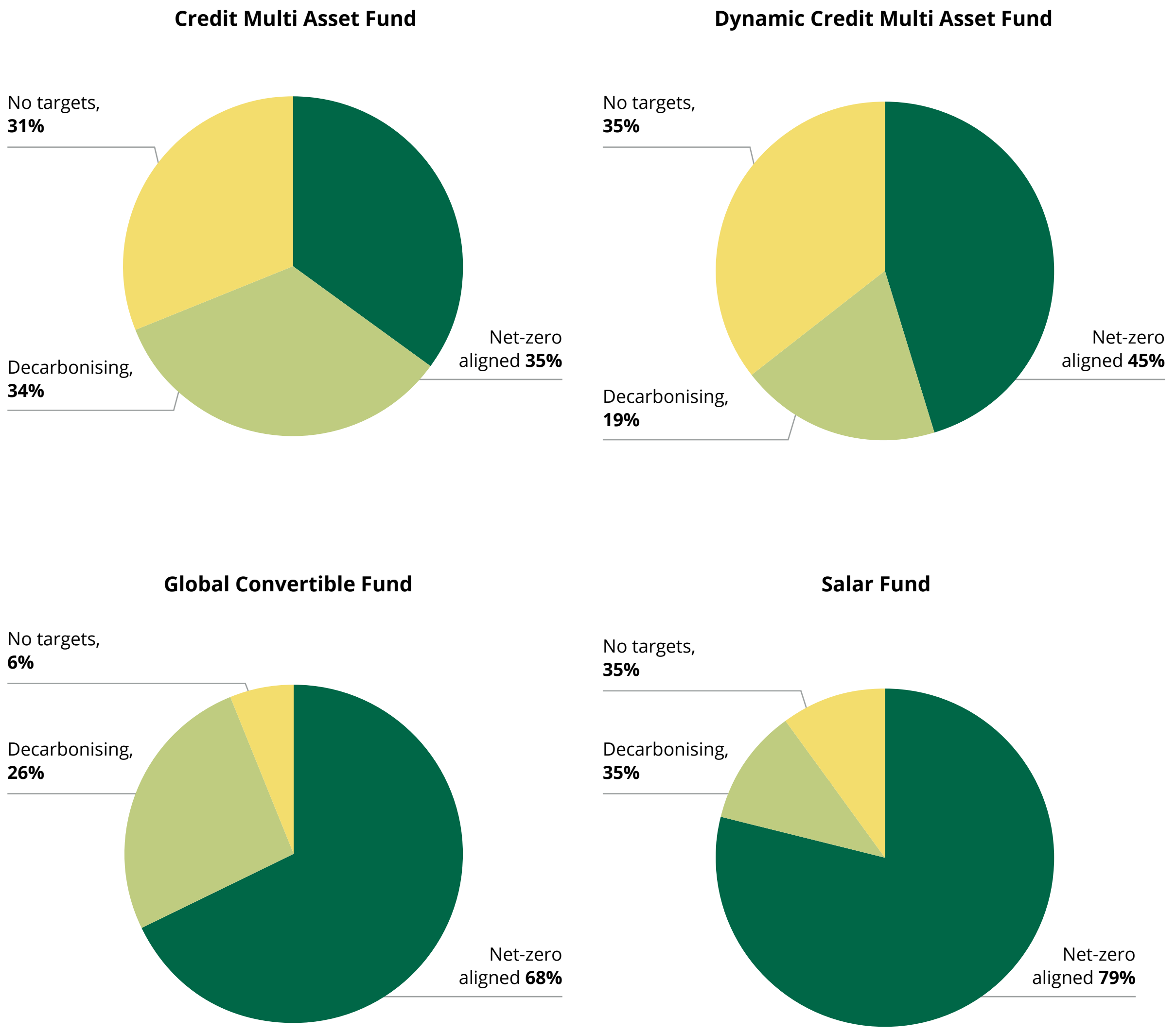
In order to monitor the Firm's progress against the Engagement Threshold Target, a number of key functions (Technology, Risk, Research and Responsible Investment), worked closely to build the relevant dataset and technological capabilities. The two key data points required are whether a company is net-zero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

As of 31 December 2022, 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 will begin monitoring our portfolio net-zero alignment and overlaying our engagements on net-zero to understand our progress against the target.

As at 31 December 2022, the four Funds had the following net-zero alignment:

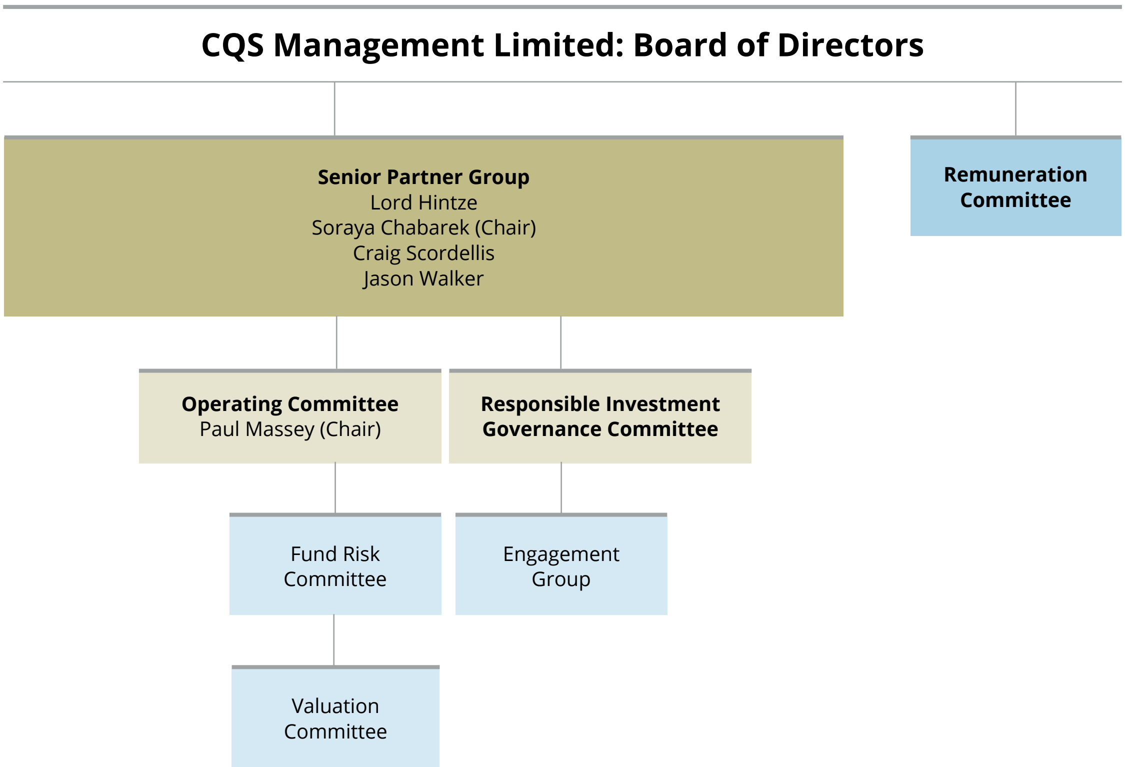


Principle 2

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.



As the diagram above illustrates, the Firm is overseen by the Board of Directors of CQS Management Limited (the "Board") made up of executive and non-executive directors. The Board has appointed the Senior Partner Group ("SPG") as the primary executive decision-making body for CQS. The SPG is responsible for assisting the CEO with formulating CQS' strategy in a manner that promotes, resources, and rewards stewardship activities. The Operating Committee ("OpCo") is the primary infrastructure forum for CQS, with responsibility for managing day-to-day operations. Accountable to SPG, 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 SPG consists of:

Lord Hintze
Founder, Executive Chairman
& Senior Investment Officer

Lord Hintze is the Founder, Executive Chairman and Senior Investment Officer of CQS. He is a Senior Partner, a Senior Portfolio Manager and serves as a Director on the CQS Board of Directors.

Prior to establishing CQS in 1999, Lord Hintze held a number of senior roles at CSFB and Goldman Sachs. He began his career in finance in 1982 with Salomon Brothers, New York, after working as an Electrical Design Engineer in Australia, where he had also served as a Captain in the Australian army.

Lord Hintze holds a BSc in Physics and Pure Mathematics and a BEng in Electrical Engineering both from the University of Sydney. He also holds an MSc in Acoustics from the University of New South Wales, an MBA from Harvard Business School, received a DBA (honoris) from the University of New South Wales and a DEng (honoris causa) from the University of Sydney.

Soraya Chabarek
Chief Executive Officer

Soraya is the Chief Executive Officer of CQS. She is a Senior Partner and serves as a Director on the CQS Board of Directors. She is also a member of the CQS Responsible Investment Governance Committee, Operating Committee, and the Multi Asset Credit Asset Advisory Committee. Soraya joined CQS in 2013 and in her capacity as Global Head of Distribution has been responsible for growing assets and leading CQS' global sales team to build long-term partnerships with investors.

During her career, Soraya has had exposure to a broad range of fund strategies including global macro, equities, emerging markets, credit and convertibles. She began her career at HSBC Private Bank and then in 2000 moved to Permal Investment Management in London where she focused on distributing fund of hedge funds across the EMEA region. A fluent Arabic speaker, Soraya joined GLG Partners in 2004 as a Principal to build out their Middle Eastern presence. In 2008, Soraya joined Moore Europe Capital Management as Head of Marketing for the Emerging Macro Strategies. Here she successfully re-built the asset base during one of the more trying periods in the industry.

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 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 and long only funds, together with bespoke and longer-lock mandates. He leads the dedicated ABS team of Portfolio Managers and analysts who are located in London and New York. Jason is a Senior Partner and is a member of the Multi Asset Credit Asset Advisory Committee.

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 Shareholder Rights 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 Programme 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 2022:

- Fund commitments, such as ensuring a lower Fund WACI vs. an index or decarbonisation progress relative to the 50% reduction by 2030 target, were being monitored in regular Responsible Investment integration meetings held between the relevant Portfolio Manager, the Responsible Investment Manager and the Head of Research. CQS has now formally migrated these tests onto our core risk limits platform so the Portfolio Manager can check these daily as part of their ongoing portfolio risk monitoring process. This has led to efficiency of connected processes.
- The Funds classified as Article 8 under SFDR are required to incorporate good governance into the investment process. This requires verifying that portfolio companies have good governance prior to investing and during the holding period. CQS has enhanced our Research portal to enable CQS Research Analysts to upload specific environmental, social and governance scores (from 0–10), as well as their qualitative ESG rating and ESG outlook rating. If a governance score is blank or does not meet the minimum score criteria, a Portfolio Manager is required to attest via our Pre-Trade Compliance system that the company has met the governance requirement for the Fund. This systematic layer of due diligence ensures a robust and comprehensive approach.
- In order to monitor the Firm's progress against the engagement threshold target, CQS teams built the relevant dataset and technological capabilities. As of 31 December 2022, CQS had 100% net-zero alignment data coverage across the relevant Funds (as shown in Principle 1) and had developed the capability to track exactly which engagements cover net zero going forward.

Front office staff are incentivised as a function of their performance and achievement of annually set objectives. Teams are subject to ongoing 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 Marketing and Distribution teams.

From a training perspective, in 2022, we were focused on the changes to the EU SFDR legislation and preparedness for publishing our interim decarbonisation targets. Training was targeted on these specific areas. For example, the Legal & Compliance and Marketing teams had specific training on the implications for investor communications and reporting. Having enhanced our Research Portal and Risk platforms, the Research Analysts and relevant Portfolio Managers were provided training in these areas. In addition, a number of CQS staff had external ESG-related training over 2022 such as the CFA Certificate in ESG Investing, the CFA UK Certificate in Climate and Investing, and the PRI Advanced Responsible Investment Analysis course.

Our overarching ESG learning and development continues to be guided by Client expectations and through evolving industry standards such as the Principles for Responsible Investment (the "PRI"). It was therefore pleasing to be awarded strong results in our 2021 PRI assessment report which was published in 2022.

The Head of Research and Responsible Investment Manager 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:

PRI Principles for Responsible Investment

In our 2021 Assessment Report, CQS was awarded: 5 stars in our two key modules, Investment & Stewardship Policy and Direct Fixed Income (Corporate); and 4 stars in Direct Fixed Income (Securitised), Direct Hedge Funds (Long/short Credit), and Direct Hedge Funds (Structured Credit).

CDP DISCLOSURE INSIGHT ACTION

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.

A proud participant of Climate Action 100+ Global Investors Driving Business Transition

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.

IIGCC The Institutional Investors Group on Climate Change

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 €51trn 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 2022, our ESG ratings differed from MSCI's in 62% of cases.

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

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

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, our Research Analysts and Portfolio Managers use a variety of newswire sources such as Leveraged Commentary & Data ("LCD"), Debtwire (until November 2022) and Reorg (from November 2022).

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

62%

of cases as of 31 December 2022.

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 elaborated on further, in a stewardship context, in the Firm's Stewardship and Shareholder Rights 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.

CQS also 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.

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.

Because of the conflicts of interest that may arise, cross trades must be in the best interests of both the selling and buying Clients and always be carried out as if negotiated on an arm's length basis.

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.

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 a 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.

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.

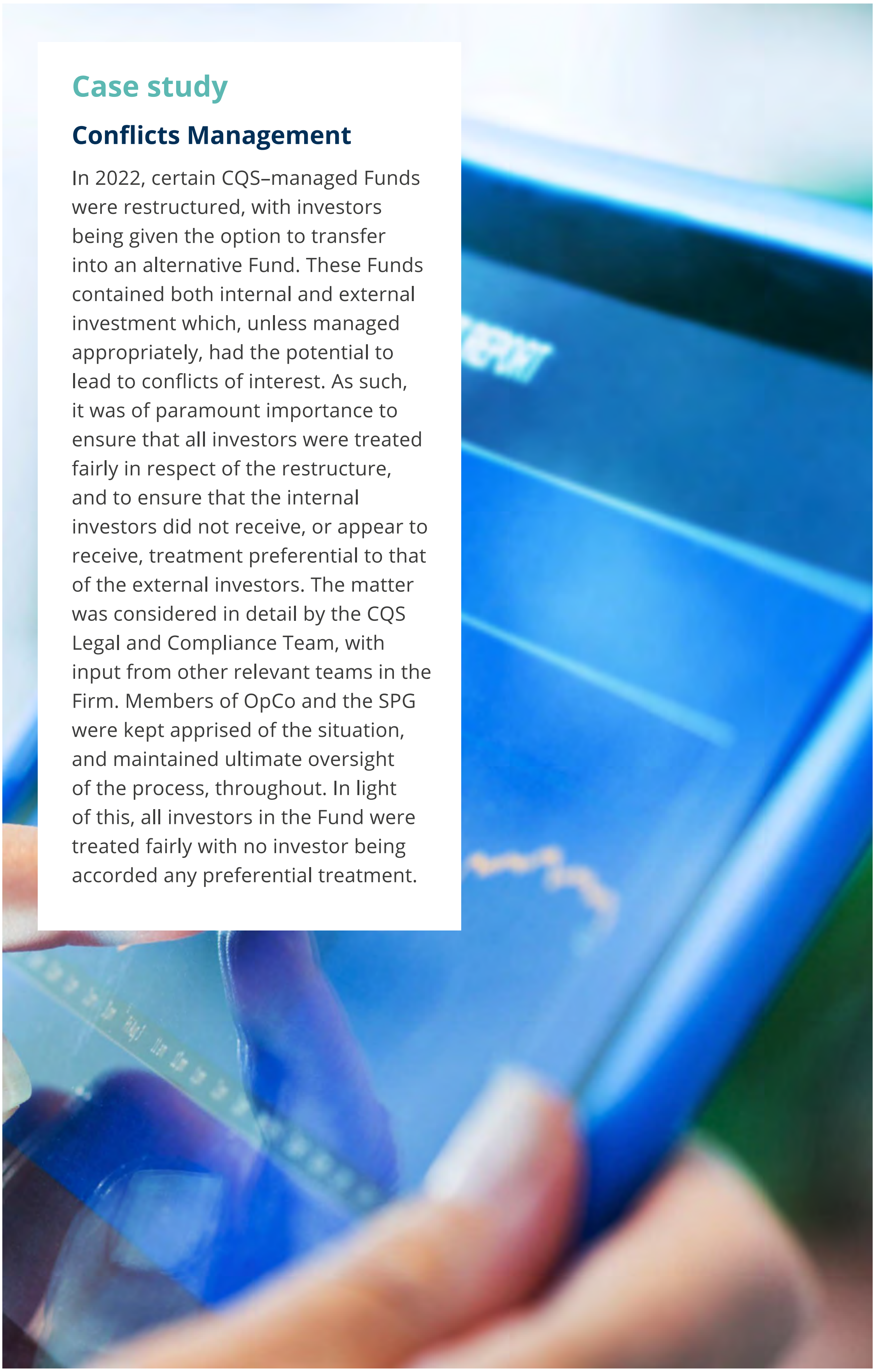
The CQS Personal Account Dealing Policy requires all trades in relevant securities to be pre-approved by Compliance. Compliance performs a number of checks covering the CQS Restricted List, recent CQS trading activity and the specified manager of the staff member is asked to confirm whether they would 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 have 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 OpCo, SPG, and/or the Board of Directors for further consideration, as deemed appropriate.



Case study

Conflicts Management

In 2022, certain CQS–managed Funds were restructured, with investors being given the option to transfer into an alternative Fund. These Funds contained both internal and external investment which, unless managed appropriately, had the potential to lead to conflicts of interest. As such, it was of paramount importance to ensure that all investors were treated fairly in respect of the restructure, and to ensure that the internal investors did not receive, or appear to receive, treatment preferential to that of the external investors. The matter was considered in detail by the CQS Legal and Compliance Team, with input from other relevant teams in the Firm. Members of OpCo and the SPG were kept apprised of the situation, and maintained ultimate oversight of the process, throughout. In light of this, all investors in the Fund were treated fairly with no investor being accorded any preferential treatment.

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 alternatives 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).

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 call where market specialists from across our global offices, as well as our geopolitical strategist, 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

A US consulting firm conducted extensive research regarding the SEC's proposed rulemaking on mandatory central clearing of U.S. Treasuries and repurchase agreements.

CQS was asked to participate in the research in 2022, which we did over a period of weeks.

CQS was subsequently provided with the report which identified:

- Whether the market impact of mandatory clearing had been reviewed using both quantitative and qualitative considerations.
- Specific examination of whether those studies had looked at the economic costs vs. benefits of the proposal.
- Whether other alternatives recommendations had been appropriately evaluated.

The study also identified the need for:

- A careful review of the idea to move to one provider of clearing,
- Additional data to understand the end impact of this mandatory approach on the markets.

By participating in this study, we were able to provide our feedback on the proposal based on our experience in these products and promote an effective and well-functioning financial system. This was used to provide broader feedback to the regulators.

Case study

Given the nature of the markets in which CQS-managed Funds primarily invest, which tend to have a sub-investment grade bias, ESG data availability and coverage presents one of the greatest challenges.

We regularly seek opportunities to engage with ESG data providers and regulatory bodies to provide insight on our experiences and encourage better coverage and disclosure.

The European Union conducted a consultation on the functioning of the ESG ratings market in the EU and on the consideration of ESG factors in credit ratings for market participants.

CQS contributed by completing and submitting the full questionnaire to the EU in order to provide our feedback on ESG ratings.

The summary report of the findings can be found online here.

168 market participants responded, including CQS.

84% consider that the market is not functioning well today due to lack of transparency on methodologies, significant biases and potential conflicts of interest.

94% consider that intervention is necessary, with the large majority supporting legislative change.

Almost all respondents consider that ESG rating providers should be subject to minimum disclosure requirements regarding their methodologies and should be using standardised templates.

With regards to integrating ESG factors into credit ratings, the majority of respondents favoured a non-legislative approach of guidelines and/or supervisory action.

We hope our participation in this consultation may lead to improvements in the regulation and guidelines relating to ESG ratings and analysis and promote a better functioning financial system.

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.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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 a considerable opportunity as we transition to a low carbon economy.

CQS is a signatory to CDP (formerly the Carbon Disclosure Project), the IIGCC and 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 ESG 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).

Our Responsible Investment Policy includes taking the impact of climate change into account, and how any given issuer is appropriately managing related aspects such as their carbon footprint (or within their value chain).

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

Their data provides us with specific physical intensity scoring on 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.

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 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.

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 long-only 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 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 new climate metrics in the Firm's 2022 TCFD report, which is publicly available on the CQS website (published in mid-2023).

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 and Shareholder Rights 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.

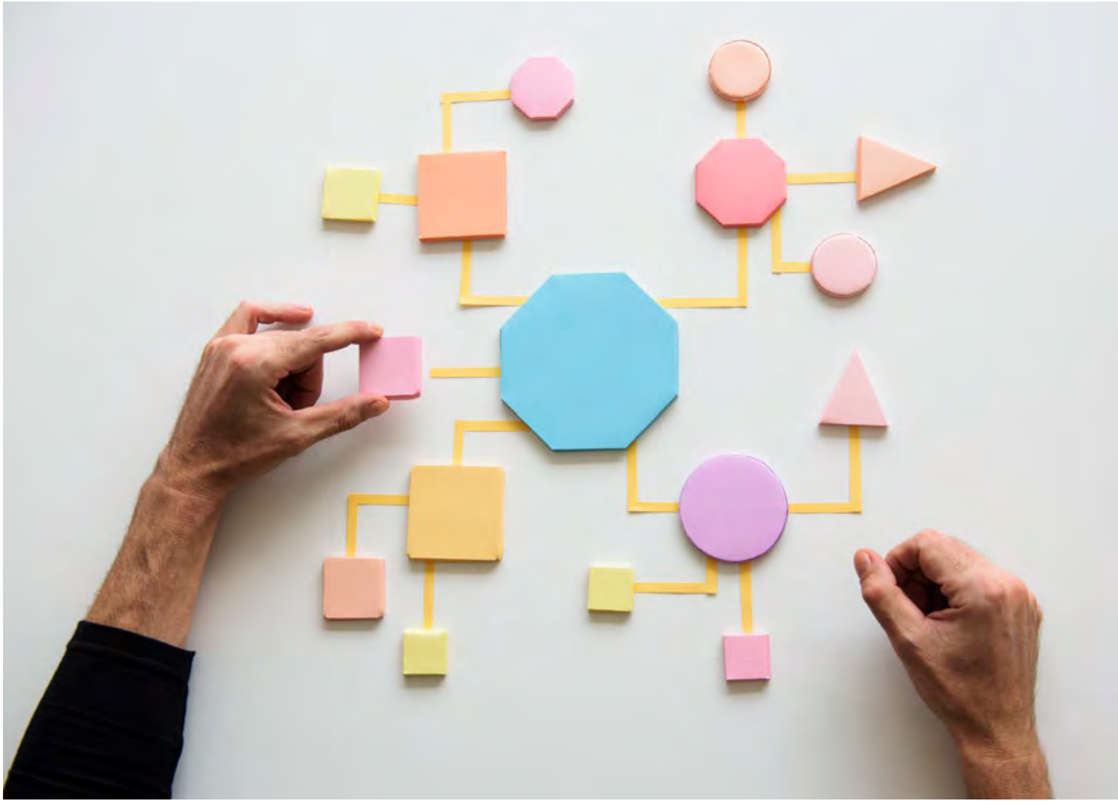
Each CQS policy has a relevant internal "owner" (an individual of sufficient seniority within the Firm who has overall responsibility for the policy; the "Policy Owner").

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.

Any material updates of policies will then be reviewed and formally approved by the OpCo, RIGC and/or SPG.

In 2022, CQS focused on developing processes and practices to ensure the Firm meets the requirements and responsible investment commitments of the Funds. This included:

- The introduction of regular ESG rating reviews by the Responsible Investment Manager and Head of Research, conducted by sector, engaging with the relevant Research Analysts to provide oversight and challenge of our ratings process.
- Auditing and building coverage on proprietary decarbonisation data for portfolio companies and climate metrics.
- The introduction of regular responsible investment integration meetings for Portfolio Managers of open-ended pooled Funds classified as Article 8 under SFDR. Topics covered in these meetings include top 10 contributors to Fund WACI, CCC/B ESG rated holdings, engagement progress and opportunities and any severe ESG controversies linked to portfolio holdings.
- The introduction of interim targets in line with the Firm's commitment under the Net Zero Asset Managers' initiative to achieve net zero by 2050 or sooner (as outlined in Principle 1).



In late 2022, CQS undertook an internal ESG review to assess our responsible investment integration effectiveness and consider opportunities for ongoing efficiencies. Some of these are described in Principle 2.

Following the work undertaken in 2022, the CQS Responsible Investment Policy was updated in early 2023; 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.

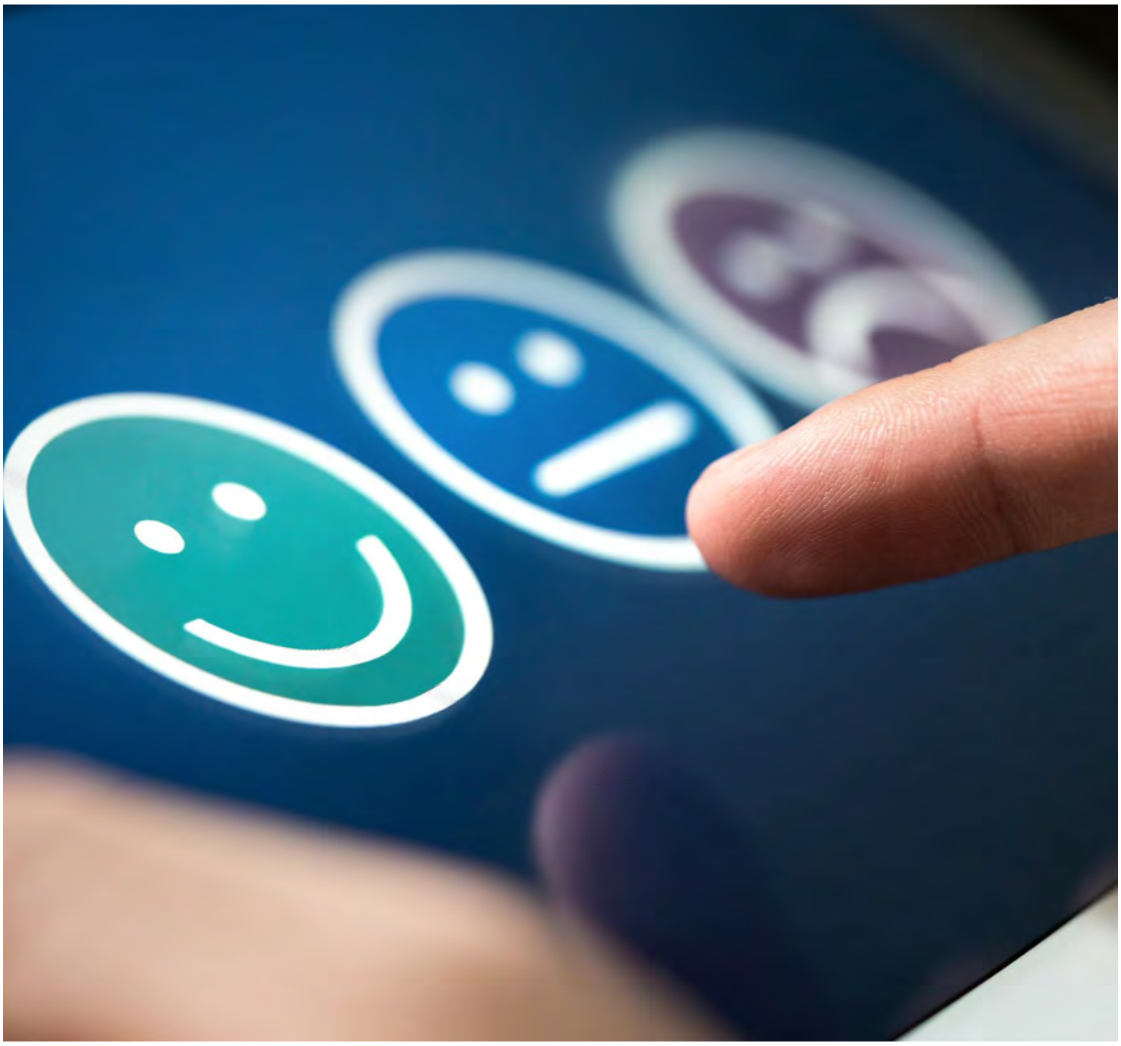
The RIGC provides an overarching level of internal assurance and accountability, and conducts reviews of the policies, processes and practices relating to responsible investment and stewardship (in particular against our formal responsible investment commitments) as outlined in Principles 1, 2, 3 and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

Formal Reporting

In September 2022, CQS was pleased to learn that our 2021 UK Stewardship Code report had been approved by the Financial Reporting Council.

During the Reporting Period, CQS focused on developing appropriate Climate Value at Risk and Implied Temperature Rise metrics (as outlined in Principle 4) that have now been included in the recommendations for TCFD reporting. The Firm's 2022 TCFD report included these developments.

While there was no PRI reporting in 2022, CQS engaged with the PRI at its November 2022 conference to understand the changes to the 2023 PRI reporting. We provided feedback on the beta version of the PRI's reporting insights and comparison tool. CQS proposed adding a filter to screen the data by asset class to enable direct comparison of responses amongst our peers. This would allow us to effectively assess where the Firm is positioned relative to other fixed income or alternative credit asset managers across the industry. Gleaning these insights will help facilitate ongoing RIGC oversight.



CQS improved the level of disclosure and consistency of disclosure of ESG information in the monthly investor reports for the open-ended pooled Funds classified as Article 8 under SFDR. This includes qualitative commentary on engagements or responsible investment integration during the month and ESG metrics such as ESG ratings breakdown, weighted average ESG rating, and climate statistics.

In December 2022, documentation for Funds classified as Article 8 under SFDR was updated to include the necessary ESG-related disclosures required by the regulation. Additional disclosures required under the regulation are publicly available on the CQS website.

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 4. 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. 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.

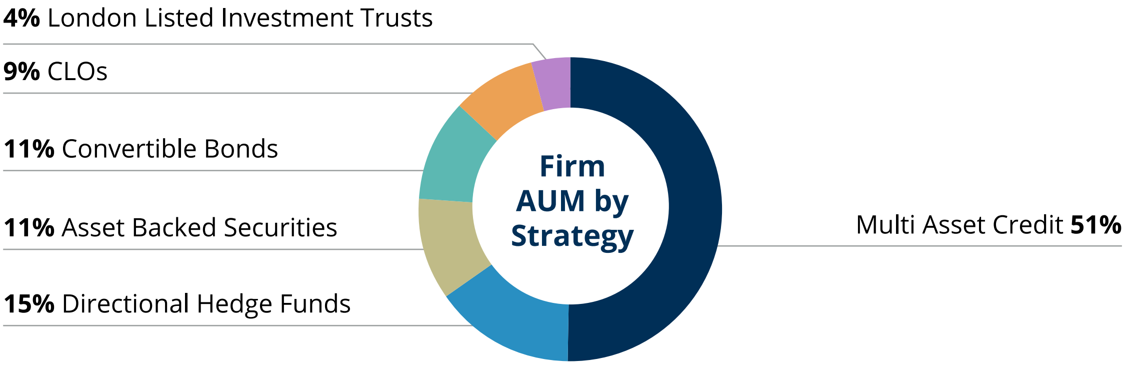
We believe that the combination of the approaches explained in this Principle enables CQS to assess effectiveness of our activities and our processes.

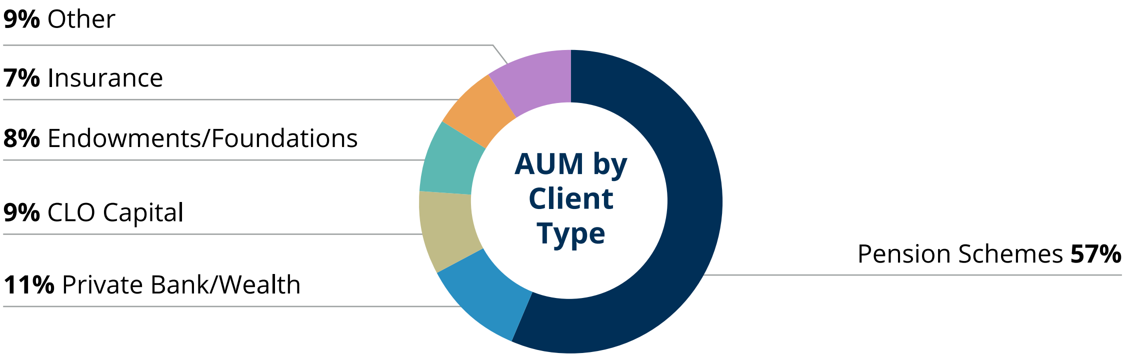
Principle 6

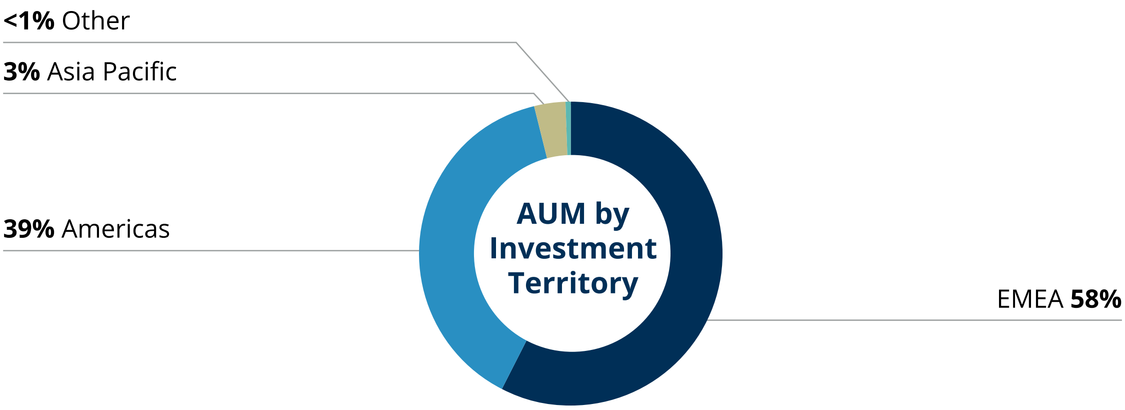
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

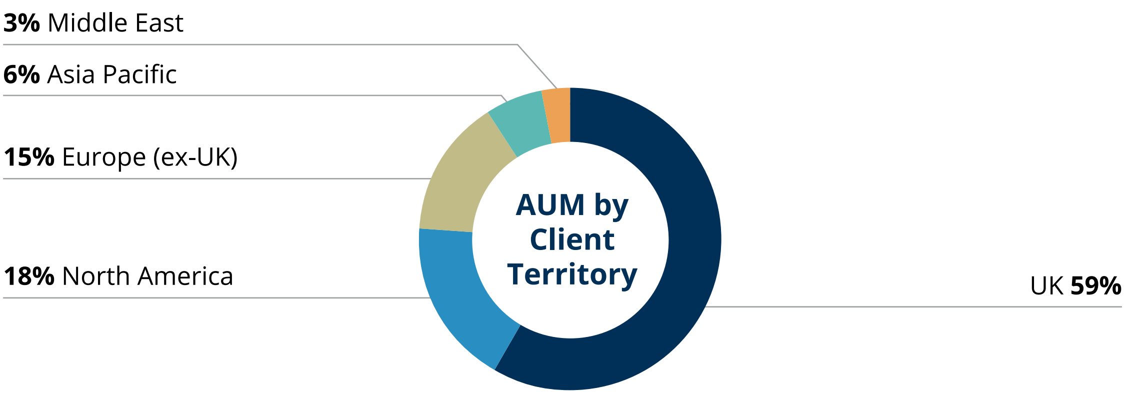
CQS' Client Base and Assets Under Management

CQS has an institutional client-base, with nearly three quarters being pension investors, both private and public.









Source CQS, as at 31 December 2022. Figures may not sum due to rounding.

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

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 servicing team co-ordinates and fulfils such requests for a range of our investors, from public and private pension funds to insurance Clients and private wealth channels, and across multiple jurisdictions.

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

In 2022, we engaged with investment consultants, Clients and industry participants to seek standardisation of Client requests in relation to stewardship and ESG disclosures. CQS now 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
- 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, on a monthly basis, we include qualitative responsible investment commentary as standard in our investor reports for open-ended pooled Article 8 Funds and bespoke Client mandates, where appropriate, which provides some high-level engagement outcome examples. Our quarterly Client presentations for these portfolios also 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 climate 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.

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 took part in the global collaborative engagement on mental health, engaging with 200 companies, both in the UK and across the world.

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, during the Reporting Period, we joined a collaborative engagement, upon the Client's request, with one of our Client's top carbon emitters that was included in the relevant portfolio. This company has since been put forward by the collaboration to the IIGCC net zero engagement initiative.

Principle 7

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

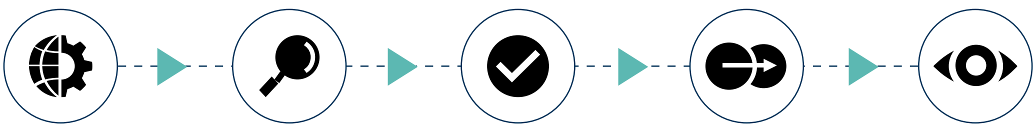
Integrating Stewardship With Investment

The integration and assessment of stewardship and ESG factors is an embedded part of 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.

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 investing integration process:



1 Incorporate

Third-party ESG metrics and data into CQS' systems.

2 Integrate

ESG factors with our sector research process.

Internal analysis and CQS developed proprietary and independent ESG ratings and trajectories.

3 Evaluate

Portfolio Managers consider ESG and credit analysis as part of investment decision-making.

4 Engage

Influence and change corporate behaviour towards identified ESG risks and issues.

Targeted Engagement Programmes.

5 Monitor

Periodic research re-assessments.

A watching brief across news wires for developing ESG considerations.

Our process specifically looks to integrate ESG factors through our sector 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 E, S & G.

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.

Case study

A good example is a British automobile manufacturer. In our review of the company, we noticed MSCI had limited data available on the company and were instead rating them based on their parent company who were rated B, a score which represents a 'laggard'.

We have consistently engaged with the company and found that they have a good decarbonisation pathway, targeting net zero by 2039 and 54% decarbonisation by 2030. They are also targeting 100% Electric Vehicle sales for one of their brands by 2025. As a result, we assigned them an A ESG rating, which places them in the top 11% for the automobile industry based on MSCI's distribution. We increased the relevant Funds' exposure to the issuer as a result. The company recently announced that it had been assigned a Sustainalytics score of 17.1, which is equivalent to an A MSCI rating. This example illustrates our robust internal ESG rating process.

Case study

CQS also uses ESG ratings as a catalyst for improvements in our stewardship efforts. We engaged with a French telecommunications company and brought to their attention that they were rated B by MSCI – a score which represents a 'laggard'.

The company contacted us to understand how we incorporate ESG factors into our investment process and what they could do to improve. We suggested that they engage with the rating agencies, hire an ESG specialist, and identify areas where changes can be made quickly and easily.

We were encouraged by the positive steps they took, such as increased disclosures, and subsequently gave them a 'Positive' internal ESG outlook score. Following this, we noticed that their MSCI score has increased from 3.9/10 (as of January 2022) to 4.7/10 (as of September 2022).

In 2023, MSCI upgraded the company's ESG rating from B to BB.

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

Case study

Following engagement on improving disclosures and setting targets with a European shipping company, they provided us with their inaugural ESG report in June 2022 that included scope 1, 2 and 3 carbon emission disclosures.

MSCI had not updated their data to reflect these disclosures so we implemented a manual override in order to use the reported emissions in our carbon metric calculations, rather than the proxy estimate.

This was highlighted to the relevant Portfolio Managers in the regular responsible investment integration meetings that are held with the Responsible Investment Manager and Head of Research.

As the company was now one of the top emitters within the portfolio, the relevant Research Analyst was invited to discuss the company's transition capacity and strategic plans with the group.

Following a lengthy discussion, it was agreed that CQS deem the company as having a high transition capacity given their goals (targeting carbon neutrality by 2050) and decarbonisation commitments, along with their clear business strategy and capital expenditure to demonstrate how they will achieve it.

As a result, the Portfolio Manager remained comfortable owning the name within the respective portfolio.

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

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.

For example, one of our Targeted Engagement Programme names is held in 12 different Funds and mandates, including as a corporate bond, a loan and an ABS. Another Targeted Engagement Programme name is held as both a corporate bond and equity. A different approach and escalation technique is required depending on the asset class and we have more engagement levers available to us where we have relationships that stretch across the capital structure.

For equity holdings, a significant escalation in engagement may include a vote against management, whereas for fixed income positions, litigation against bond restructuring may be the most appropriate serious escalation technique.

We also see different levels of engagement from senior management that can be region dependent – for example, we get more traction and a higher response rate from European issuers compared with US issuers (though we saw improvements in this over 2022).

Where CQS-managed Funds have short positions, we often lose our right to vote. However, we believe that divesting or shorting a particular company can be a useful tool in extreme circumstances where the company refuses to engage, and we view the ESG risk as significant. However, primarily, we believe in engagement rather than exclusion.

We have found that stage one of our ESG process can be difficult to apply in respect of investment in loans. This is because of the unavailability of third-party data relating to ESG factors on issuers of loans (which are private in nature). The emphasis is therefore on the CQS internal analysis where sector-based Research Analysts apply an ESG rating and ESG outlook rating based on their sector expertise, guided by the MSCI methodology as well as other companies within the industry/sector and their approach to ESG factors.

Case study

An example of our monitoring step (stage 5) in action is our engagement with an identity-related security technology company following a controversy for one of their competitors. The Information Technology sector in which they operate is materially exposed to data privacy issues, as companies deal with a significant amount of private data.

A competitor of the company identified vulnerabilities in their own systems in 2021 and were subsequently sanctioned by US authorities for alleged ties to Russian intelligence. We reached out to understand if they had any connection to this competitor or the sanctions imposed, and what policies and processes the company had in place to mitigate this risk.

The company confirmed that they were unaffected by their competitor's issues as they have never been associated with them. They also reassured us of the measures they take to protect data and provided us with sufficient information to gain comfort.

As a result, we updated our internal ESG outlook score from 'Negative' to 'Neutral' as we are confident that they are taking the right steps to secure data and reduce controversy risk such as governmental sanctions.

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.

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

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, as highlighted in Principle 5, we provided feedback on the beta version of the PRI's reporting insights and comparison tool to enable better comparison across asset managers and encourage better practices across the industry.

In addition, 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. PRI confirmed to us that they will be developing a fixed income ESG analysis component of their responsible investment courses in 2023.

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.

Given our familiarity with the ProxyEdge systems and to ensure consistency in our proxy voting reporting for Clients, we retained the ProxyEdge services over 2022.

As part of our service provider review, we made some improvements to our existing process including:

- Introduction of an automated vote in line with management approach unless the Portfolio Manager expresses otherwise. Portfolio Managers receive an e-mail to confirm the upcoming votes and request their voting preferences. This was introduced in April 2022 to ensure we vote in all future votes.

- The inclusion of a subset of the RIGC members in the e-mails sent by Middle Office to the Portfolio Managers requesting their voting preferences as outlined above. This encourages open discussion on votes and enables better reporting for any investor queries on the topic.

Case study **RepRisk**

We use a number of sources to monitor controversies across our portfolios. One of our most commonly used sources is RepRisk due to their vast coverage (225,676 companies as at the time of writing).

We engaged with RepRisk on several occasions over 2022 to provide feedback on some of the difficulties we were facing with their tool.

Firstly, we wanted to receive automatic controversy updates regarding positions within our open-ended pooled Funds classified as Article 8 under SFDR. However, the process to add individual names was very manual and arduous and it would have taken a long time to upload 1000+ names for monitoring.

We highlighted this to RepRisk and asked if they could design a way to make this easier and more efficient. They confirmed that they would investigate this and offered to upload the portfolio lists to our controversy monitoring accounts in the interim.

In November 2022, RepRisk announced that they had introduced a new feature enabling clients to bulk update watchlists using Excel files. This development allows users to efficiently add a large number of companies to watchlists and easily replace previous watchlists with these files.

Another piece of feedback we gave was that in order to calculate the number of severity 1, 2 and 3 controversies split by severity and by sector over a specific time period, the user had to manually search each holding and note down the number of severity 1, severity 2, and severity 3 controversies and then sum all the holdings individual numbers for the whole portfolio.

RepRisk took our feedback on board and had discussions internally. As a result, they are working on how to build this into their reporting tool. In the interim, they have created a solution for us by building a macro and using existing data sources to sum incidents by severity across the respective sectors.

Case study **MSCI**

Over the year, we continued to engage with MSCI to seek better ESG rating coverage of our investment universe and have provided them with lists of some of our high conviction holdings so we can target a higher percentage of Fund NAV coverage. For example, the CQS Dynamic Credit Multi Asset Fund saw increased MSCI ESG rating coverage over the year, from 55% as of 31 December 2021 to 84% as of 31 December 2022. We also engaged with MSCI on ESG analysis, carbon emission metrics and exclusions methodology.

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.

We also engaged with MSCI on their Climate Value at Risk and Implied Temperature Rise modelling that we access through MSCI ESG Manager. We provided feedback on improvements that could be made for robust fixed income analysis and they made changes as a result (see Principle 4 for further details).

ESG research

Whilst we find external data useful in ESG research, we believe it is important to conduct our own ESG analysis and assign our own ESG ratings, rather than rely solely on external sources. This is because there can be delays between the reporting of publicly-available ESG information and the data or research being updated by the respective service provider. An example of this was our analysis of a global mining company, with whom we had been engaging over a multi-year period to encourage formal decarbonisation target setting and the relevant business strategy alignment.

In January 2022, the company published industry-leading interim decarbonisation targets and a clear business strategy with tangible examples of how they were going to achieve it. We were impressed by this and sought to upgrade our internal ESG rating for the company.

However, during our analysis, we noted that the external data had not yet been updated to reflect these developments. Six months after the publication of the targets, we engaged with MSCI to understand why these targets were still not reflected in their recent update and whether this was because they deem the targets not meaningful or feasible.

MSCI explained their research cycle and process to us and that these disclosures had not yet been considered in their analysis, but would be during the next publication cycle for the issuer. This gave us sufficient comfort that we should include the information in our analysis. A month later, MSCI included the targets in their ESG report and rated the targets as ‘top’ tier for the company’s industry.

Carbon emissions

Reliability and timeliness of carbon emission data availability remains a challenge for the industry. In 2022, we conducted an audit of all the companies for whom we proxy estimate carbon data and sought to understand whether they have available carbon emission disclosures and if not, when they would publish them.

There were a number of companies where carbon emission disclosures were publicly available on the company’s website but MSCI did not take this into account at the time. We raised this with MSCI and met with them to discuss further at the 2022 PRI conference.

In 2023, we will work to highlight companies where MSCI data is not accurate and provide the relevant links so they can update their data and investigate why the emissions disclosures were missed.

We believe this audit and engagement will improve the accuracy of our own data and for others across the industry who rely on external data.

Exclusions

We use MSCI as our primary dataset for negative screening. As well as some environmental and social negative screens for CQS’ open-ended pooled Funds classified as Article 8 under SFDR, there are also a number of Client-specific bespoke exclusions depending on our respective Clients’ investment philosophies.

An example of a typical screen is a maximum revenue limit on revenues from oil and gas. MSCI’s default approach only included production revenues in their “Conventional/Unconventional O&G – Maximum Percentage of Revenue” factor screen, and excluded revenues from refining, trading or distribution/retail.

This results in typical oil and gas names that are expected to appear on the list, not being included. Instead, in order to screen for total oil and gas revenues, users must run for five different factors and sum these in order to calculate.

We provided feedback to MSCI that it would be clearer to have a new factor which calculates this for the user (such as “Oil and Gas All Revenue Streams – Maximum Percentage of Revenue” for example) and change the name of the existing screen to make clear it is production revenue only.

Our feedback was passed on to the relevant team and in November 2022 they introduced a new factor screen which combines all of the five different factors outlined above (“Oil and Gas Related Activities – Maximum Percentage of Revenue”).

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.

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

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

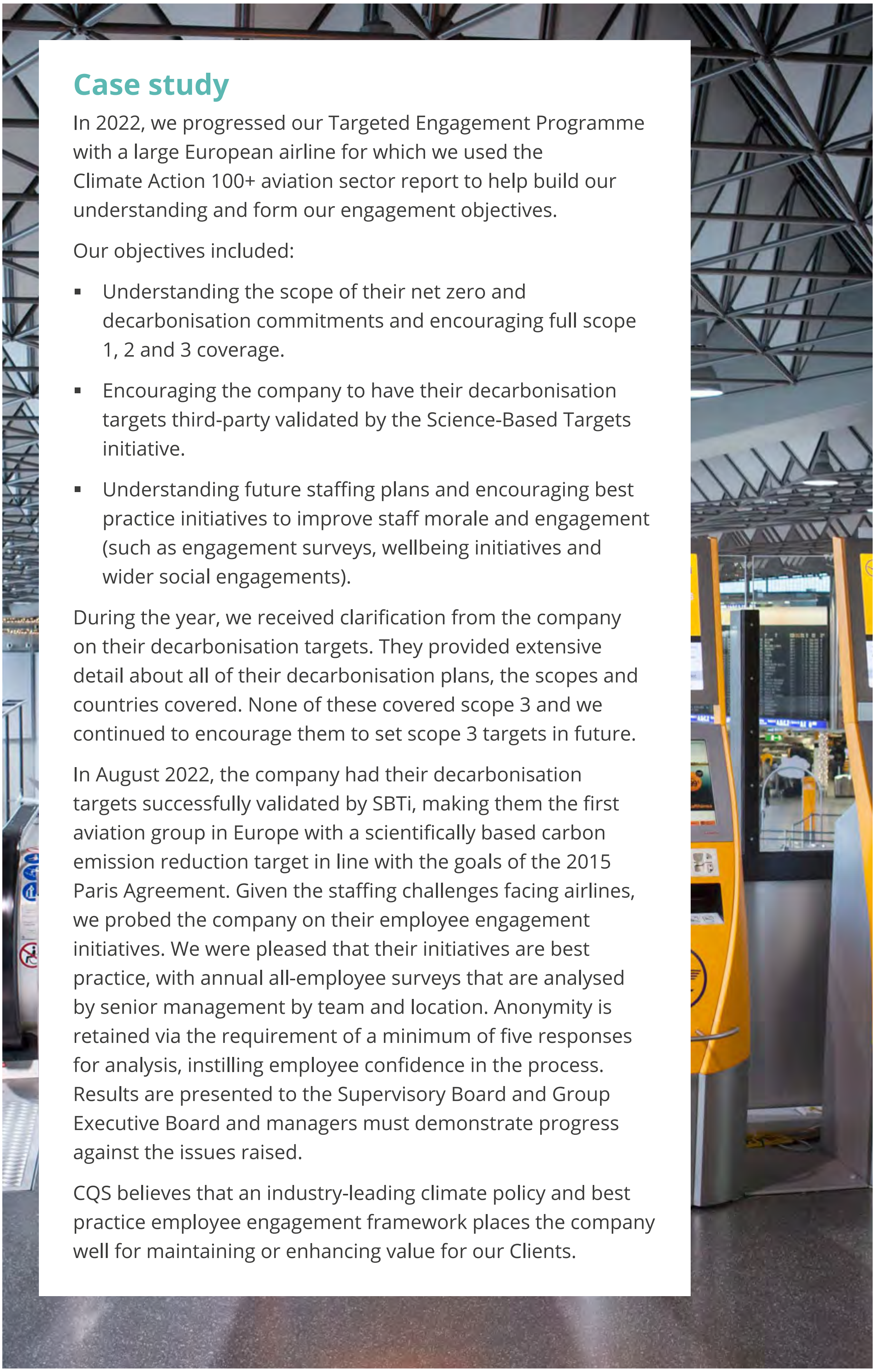
1. Sustainable business practices.
2. Good governance and financial disclosure.
3. Climate risk management and encouraging disclosure.
4. Diversity within a company.

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.

For example, we have begun incorporating the Climate Action 100+ aviation sector strategy which includes a list of recommended investor expectations for the aviation sector. We also use our learnings from broader collaborative engagements with groups such as Climate Action 100+ (see example in Principle 10).



Case study

In 2022, we progressed our Targeted Engagement Programme with a large European airline for which we used the Climate Action 100+ aviation sector report to help build our understanding and form our engagement objectives.

Our objectives included:

- Understanding the scope of their net zero and decarbonisation commitments and encouraging full scope 1, 2 and 3 coverage.
- Encouraging the company to have their decarbonisation targets third-party validated by the Science-Based Targets initiative.
- Understanding future staffing plans and encouraging best practice initiatives to improve staff morale and engagement (such as engagement surveys, wellbeing initiatives and wider social engagements).

During the year, we received clarification from the company on their decarbonisation targets. They provided extensive detail about all of their decarbonisation plans, the scopes and countries covered. None of these covered scope 3 and we continued to encourage them to set scope 3 targets in future.

In August 2022, the company had their decarbonisation targets successfully validated by SBTi, making them the first aviation group in Europe with a scientifically based carbon emission reduction target in line with the goals of the 2015 Paris Agreement. Given the staffing challenges facing airlines, we probed the company on their employee engagement initiatives. We were pleased that their initiatives are best practice, with annual all-employee surveys that are analysed by senior management by team and location. Anonymity is retained via the requirement of a minimum of five responses for analysis, instilling employee confidence in the process. Results are presented to the Supervisory Board and Group Executive Board and managers must demonstrate progress against the issues raised.

CQS believes that an industry-leading climate policy and best practice employee engagement framework places the company well for maintaining or enhancing value for our Clients.

We also regularly circulate papers detailing industry trends with the relevant Research Analysts and Portfolio Managers. Examples of this include developments within the ABS asset class, and diversity updates by sector and region, enabling more focused engagement with tangible best practice and industry standard examples.

As part of our Engagement Framework, companies with significant exposure to fossil fuels will be questioned about their environmental management strategy and how it addresses the Paris Agreement, as well as broader areas such as the impact of drilling on natural habitats and biodiversity. Climate is a core component of our Engagement Framework and process as detailed in Principles 1 and 4. Engagement priorities, in particular where ESG orientated, are also linked to the relevant UN SDGs.

Case study

A British convenience retailer and petrol forecourt operator is in our Targeted Engagement Programme and we have been engaging with them on a number of objectives since 2020, including decarbonisation. We have engaged via meetings, quarterly calls with their recently appointed Head of ESG, and e-mails.

In 2022, having made prior progress in other areas such as governance, board independence and diversity and ESG strategy, CQS focused on climate (encouraging the disclosure, and reduction, of carbon emissions) and diversity.

In October 2022, the company announced scope 1 & 2 decarbonisation targets of 50% reduction by 2030. While the scope 1 & 2 emission reduction targets are a step in the right direction and pleasing to see following a multi-year engagement, the firm’s carbon footprint remains largely unchallenged as 70% of their emissions come from scope 3 emissions.

They have also recently established ESG-linked reward across the leadership structure in Europe, aligning all manager level and above colleagues to ESG objectives.

The company also confirmed that they are implementing a Diversity and Inclusion Plan in each market by 2024, are seeking at least 40% women in senior leadership positions by 2025 and have invested in training, as well as employee engagement.

We continue to monitor the company’s development of their scope 3 targets.

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

In 2022, across the Firm we had:

335

Engagements with companies targeting numerous topics[1]

90

companies were subject to direct engagement by CQS

[1]This excludes engagements as part of CDP's Science-Based Targets campaign but includes collaborative engagements through CDP's Non-Disclosure campaign and the CCLA Global Mental Health campaign.

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:

73%

Environmental

41%

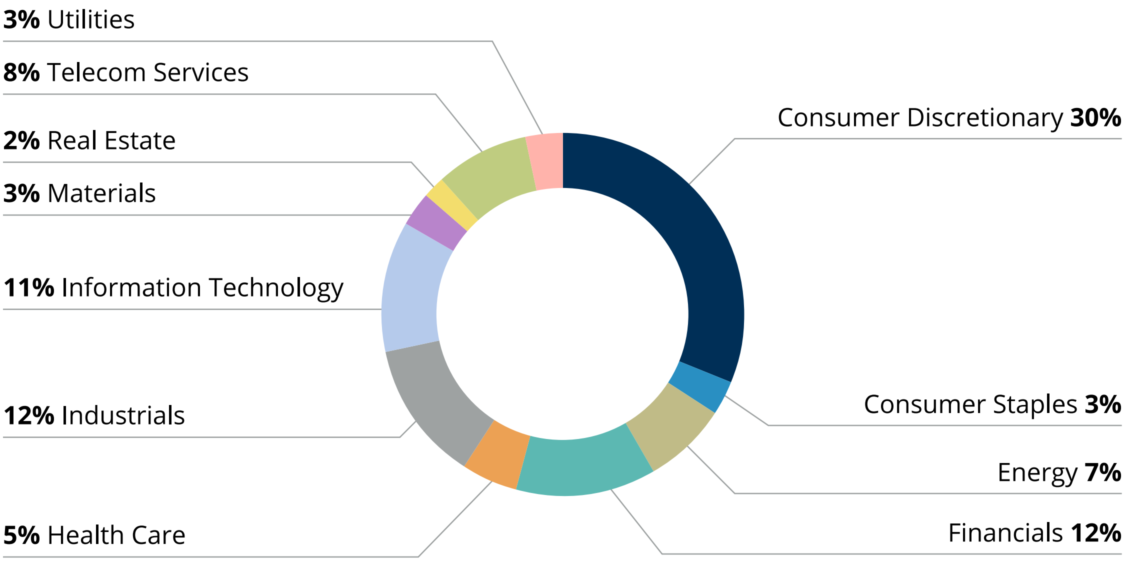
Social

36%

Governance

of our engagements covered each of these factors.

Engagements by Sector in 2022



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
- as part of CDP's Science-Based Targets campaign

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.

Within our alternative products we make extensive use of derivative instruments, and many CQS alternative and long-only products will often have exposure to ABS.

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).

We have included examples of both credit and securitised engagement in our case studies in this Principle.

Whilst CQS is predominantly a fixed income investor, on occasion Fund portfolios may 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.

As investors primarily across developed markets, we have sought to introduce a global engagement model that is consistent and interconnected.

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.

Further case studies of engagement outcomes during the Reporting Period

When we began engaging with a European retailer in 2021, they had little to no disclosures on their social policies and their ESG strategy was unclear. We asked about this on a group investor call, which prompted related questions from other investors and built investor pressure to make progress in this area.

The company responded by hiring a Head of Sustainability in March 2022, and setting up a dedicated Sustainability and ESG team. They also introduced ESG-related governance such as a Sustainability Board, with senior management representation across the firm, and an ESG Steering Committee.

Later in 2022, the company published their first ESG report and we were pleased to see the depth of information, initiatives and targets provided across various ESG factors (particularly across social / employee initiatives). Whilst the company made significant progress on disclosures, there was limited information on data security so we followed up with them. They provided information about their well-established and documented processes, their mandatory data protection training for all new employees, and their bi-annual all-employee information security training. The company has also appointed a Data Protection Officer and an Information Security Officer.

We are pleased with the progress the company has made during our engagement and continue to provide feedback for further developments.

Regulatory Capital Relief

In late 2021, we began to engage with the banks to whom we provide regulatory capital relief.

Initially, we sent them an ESG due diligence questionnaire covering:

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

We then also sent further climate questions which covered decarbonisation targets, third-party validation of targets and executive remuneration.

As of 31 December 2022, we received completed ESG questionnaires from 12 issuing banks. This information helps us to understand the approach to ESG of the lenders and any potential implications of this on the underlying collateral pools.

As part of our day-to-day responsible investment integration process, we regularly engage with the issuing banks, particularly prior to issuance, on ESG disclosures including ESG ratings and carbon emissions. This has enabled us to develop ESG reporting for our Regulatory Capital Relief Funds including a weighted average ESG rating and portfolio WACI.

In 2022, we engaged with a global agricultural company to review their ESG policies, address some of the shortcomings in their reporting and the ESG implications of their products.

We began engagement in May 2022, meeting with the CFO and Finance Director and discussed the following:

- We encouraged the company to commit to net zero and set interim decarbonisation targets.
- We encouraged the company to seek Science-Based Targets initiative validation once decarbonisation targets are set.
- We addressed the limited diversity in the company, particularly across management, the executive team and at Board level. The company confirmed that they have launched a gender equality programme in the firm and are working in schools to promote the attractiveness of the agricultural industry to young women, though noted that progress will take a while to come to fruition.
- We discussed potential controversy risk from the Paraquat fertiliser that has been linked to Parkinson's disease – they confirmed that the product is banned in Europe and they have no exposure in other markets.
- We discussed the biodiversity implications of their product suite (this is limited due to two thirds of their product base being biologically made) and how their products are helping reduce water usage and land space required.
- They confirmed that their executive remuneration is already linked to a number of KPIs such as employee safety and greenhouse gas emissions.

We followed up with the team in September at their roadshow. They confirmed to us that they would publish their sustainability report which would include climate targets in early 2023.

In February 2023, the company publicly announced their commitment to net zero by 2050, and outlined scope 1, 2 and 3 decarbonisation targets for 2025, 2030 and 2040.

We were pleased to see this significant progress from the company following our engagement with them on the topic. We will continue to monitor further ESG developments and encourage progress with employee diversity and biodiversity.

Principle 10

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

Collaborative Engagement

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. Alongside 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 $130trn in assets under management and includes over 680 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 13,000+ companies globally which feeds into our integrated process of ESG assessments, but also allows CQS to access CDP's two collaborative engagement initiatives each year – the Non-Disclosure campaign and the Science-Based Targets campaign.

In 2022, CQS participated in both initiatives and further detail regarding the Non-Disclosure campaign is provided in a case study later in this Principle.

We supported CDP's 2022-23 Science-Based Targets Campaign which targeted 1,060 companies worldwide calling on them to urgently set science-based emission reduction targets in line with 1.5°C warming scenarios. The campaign was supported by 318 financial institutions and multinational firms, representing $37trn in assets.

213

Companies joined the Science-Based Targets initiative since the launch of the 2021-22 campaign.

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 617 other asset owners and managers (representing $65trn 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, is supportive of the Paris Agreement and recognise the need for a low carbon transition. Our contribution to the initiative is through collaborative engagement.

The Climate Action 100+ initiative's primary objectives are to ensure companies:

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

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.

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

As an example, we are currently supporting the engagement with a lead investor on a US electric utility. The company has set a target for carbon neutrality by 2050 and we continue to engage to understand their plans to expand the scope of their decarbonisation targets and their business strategy to achieve it.

CQS continued to work closely with Clients, consultants and professional bodies in 2022. For example, we collaborated with one of our Clients, a large French pension fund, to engage with a French-headquartered global waste management company on a number of environmental matters, including their greenhouse gas emission reduction objectives, the scope of such objectives, and timescales.

We recognise, however, that at times the industry can suffer from a lack of collective action in relation to matters enabling effective stewardship and responsible investing. As such, we will continue to look at ways in which we can help foster a culture of collaborative engagement across the industry.

Case study

CQS supported the CDP's 2022 Non-Disclosure Campaign.

Along with 262 other global financial institutions holding $31trn 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 1,468 companies worldwide, including a number of CQS-managed Fund holdings.

CQS co-signed letters to 63 companies and led on the engagements with 18 of these companies, directly engaging to encourage better environmental disclosures. Each engagement we led on represented at least 25 investors covering at least $3.9trn in assets (the largest covering $9.6trn in assets).

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

27% of the companies engaged with across the initiative provided disclosures on any or multiple of the three issues.

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 are supporters of the Corporate Mental Health Benchmark by CCLA and associated corporate engagement.

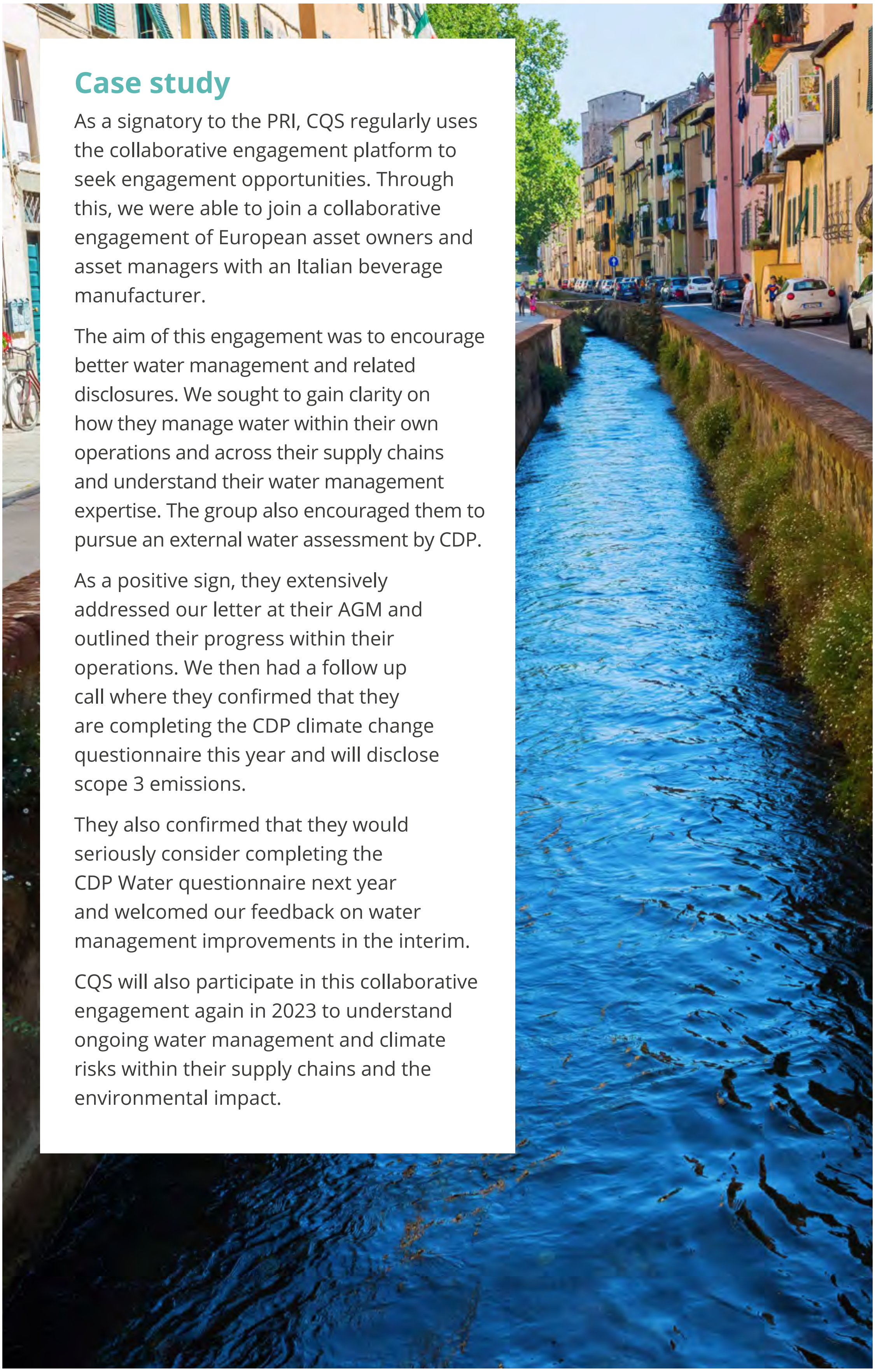
CCLA have developed a framework providing recommendations to companies encouraging them to acknowledge and promote workplace mental health, set targets to improve workplace mental health and report on progress annually.

CQS was one of 29 founding signatories of the Global Investor Statement on Workplace Mental Health, representing $7trn in assets under management.

The investor statement now has support from 44 signatories, representing $8.5trn.

We have also co-signed letters to 100 UK companies and 100 global companies, which have received a positive response and led to improved mental health disclosures over the last six months of 2022.

Of the companies engaged with so far, 33 companies have stated an intention to use the recommendations to improve, and 10 companies have already taken steps to enhance mental health practices and disclosure. Examples 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.



Case study

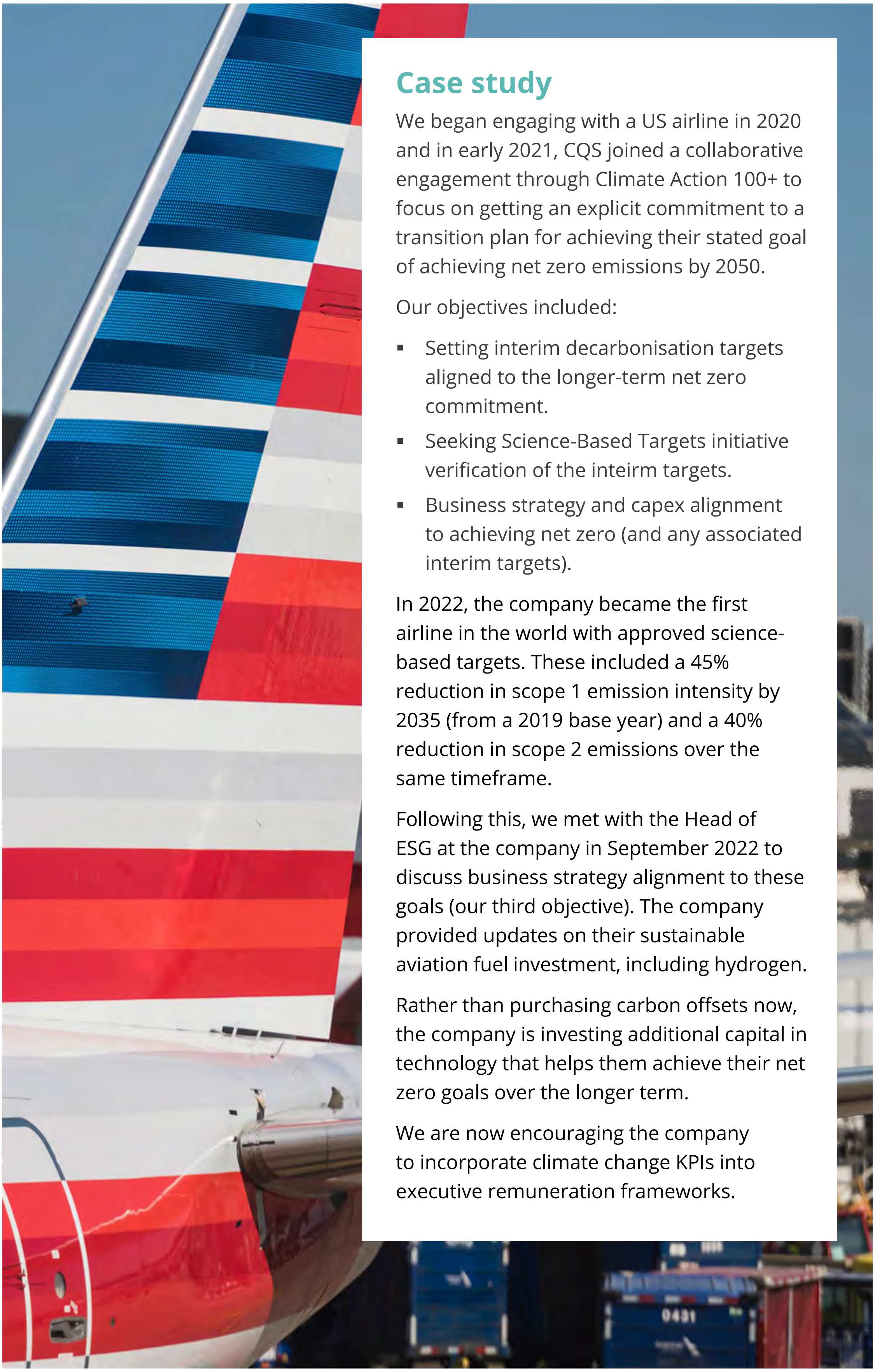
As a signatory to the PRI, CQS regularly uses the collaborative engagement platform to seek engagement opportunities. Through this, we were able to join a collaborative engagement of European asset owners and asset managers with an Italian beverage manufacturer.

The aim of this engagement was to encourage better water management and related disclosures. We sought to gain clarity on how they manage water within their own operations and across their supply chains and understand their water management expertise. The group also encouraged them to pursue an external water assessment by CDP.

As a positive sign, they extensively addressed our letter at their AGM and outlined their progress within their operations. We then had a follow up call where they confirmed that they are completing the CDP climate change questionnaire this year and will disclose scope 3 emissions.

They also confirmed that they would seriously consider completing the CDP Water questionnaire next year and welcomed our feedback on water management improvements in the interim.

CQS will also participate in this collaborative engagement again in 2023 to understand ongoing water management and climate risks within their supply chains and the environmental impact.



Case study

We began engaging with a US airline in 2020 and in early 2021, CQS joined a collaborative engagement through Climate Action 100+ to focus on getting an explicit commitment to a transition plan for achieving their stated goal of achieving net zero emissions by 2050.

Our objectives included:

- Setting interim decarbonisation targets aligned to the longer-term net zero commitment.
- Seeking Science-Based Targets initiative verification of the inteirm targets.
- Business strategy and capex alignment to achieving net zero (and any associated interim targets).

In 2022, the company became the first airline in the world with approved science-based targets. These included a 45% reduction in scope 1 emission intensity by 2035 (from a 2019 base year) and a 40% reduction in scope 2 emissions over the same timeframe.

Following this, we met with the Head of ESG at the company in September 2022 to discuss business strategy alignment to these goals (our third objective). The company provided updates on their sustainable aviation fuel investment, including hydrogen.

Rather than purchasing carbon offsets now, the company is investing additional capital in technology that helps them achieve their net zero goals over the longer term.

We are now encouraging the company to incorporate climate change KPIs into executive remuneration frameworks.

Principle 11

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

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, strategy and 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 debt holders, it is important that issuer management 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.

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 impactful escalation option.

Collaboration

One of our issuers, a French multinational waste management company, had responded to our climate questionnaire in 2021 but their targets only covered scope 1 and 2 emissions and were not aligned to our ambition to achieve net zero by 2050 or sooner.

As a result, we began collaborating with a Client and some of their other asset managers co-signing a letter to the company asking them to explain their longer-term decarbonisation strategy, coal exposure outside of Europe and green taxonomy strategy.

In 2022, we met with the company's senior management and encouraged them to better align with the Paris Agreement goal of limiting global warming to 1.5 degrees above pre-industrial levels (instead of well below 2 degrees that their targets currently seek to achieve).

They explained that they are looking into various initiatives such as moving away from coal in China and carbon capture projects in LATAM. They have a waste treatment plan and a capex plan to accelerate biogas recovery. Whilst their exit from coal is not planned out, they did make clear that they believe in a just transition and will seek to repurpose the plant.

As a result of our engagement, they will be relaying our feedback regarding waste management, coal usage and long term decarbonisation targets to the relevant working groups. We have also submitted the name to the IIGCC's Net Zero engagement initiative to further expand our collaborative engagement and build investor pressure.

Targeted Engagement Programme

Another issuer, a US electronic payment provider, did not respond to our climate questionnaire request in 2021, despite five attempts. We decided to escalate the engagement to our Targeted Engagement Programme, setting engagement targets mapped to the UN SDGs and reviewing progress in a more formal way at the CQS Engagement Group. We highlighted this to the company in late 2021.

In 2022, we escalated this engagement further via the CDP Non-Disclosure campaign and further details can be found in the case study later in this Principle.

Litigation / Seeking resolutions outside of insolvency

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 2022, we petitioned a global pharmaceutical company not to file for Chapter 11, as we believed value would be better preserved for all stakeholders outside of an insolvency process. Further details can be found in the case study in Principle 12.

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. 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 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 reached out to an Asian global consumer internet business on multiple occasions to understand plans to improve board diversity, carbon emission disclosures and set decarbonisation targets. However, we had no response.

This was raised at the CQS Engagement Group meeting to discuss the best approach to escalate the engagement. The Engagement Group agreed that the best course of action was to raise the issue directly with the CEO/Chair as a first step.

We forwarded our correspondence on to the joint CEO/Chair, explaining that engagement from corporates was important to our Clients, and had a response within a matter of hours. They confirmed that they intend to publish carbon emission disclosures in their 2021 sustainability report (published in 2022) and would begin assessing the other points we raised, including on diversity.

When the 2021 sustainability report was published, we were pleased to see that the report included the carbon emission disclosures as promised and also included a number of diversity metrics, in response to our feedback.

They have good gender diversity across senior management, though their board remains 100% male. Our escalation led to a prompt response and improved disclosures on carbon emissions and diversity. We continue to encourage progress in board diversity and decarbonisation targets.

Case study

CQS' engagement philosophy centres around transparent, ongoing dialogue with our core positions, particularly those held within the Firm's open-ended Funds classified as Article 8 under SFDR.

We were concerned by the lack of investor communication by a global educational technology company we invest in across multiple Funds. We escalated this by meeting with the CEO in our offices with the following objectives:

- Enhance communication with lenders.
- Hire a global CFO for the company and increase depth within the finance function.
- Push for a 2021-2022 audit work plan.

The CEO was receptive to our feedback and agreed to regular calls with investors, and the company's legal and financial advisors, to enhance communication and transparency.

They also agreed to hire a global CFO, who was subsequently hired in April 2023, and have added further resource to their finance team.

The company also agreed on a workplan and timeline to produce a clean audit for 2021-2022, which they continue to make progress on.

We continue to have open dialogue with the company and hope to see further progress in 2023.

Case study

We have been engaging with a US electronic payment provider, for the last couple of years on their lack of ESG policies, disclosures and targets, and disappointing diversity (particularly across senior management).

We struggled to get a response on multiple occasions so began a Targeted Engagement Programme with clear, established objectives including:

- Provide public disclosures on ESG and governance practices.
- Disclose diversity and inclusion metrics and plans (particularly across management and Board level).
- Encourage publication of TCFD-aligned climate disclosures and set decarbonisation targets, which are validated by SBTi.

We then escalated the engagement to another contact, highlighting the importance of a response on our objectives. We received a response confirming that they would address our questions in their annual proxy statement.

It was pleasing to see the company include some ESG metrics and information on their ESG policies and processes in their annual proxy statement for the first time and commit to nominating an 'ethnically diverse candidate' to the Board at the next election in 2023.

However, we continued to push for more progress, particularly on environmental issues.

As part of CDP's Non-Disclosure campaign, we led on the collaborative engagement with the company on behalf of 30 investors representing $5.7trn in assets under management, to encourage them to submit the climate questionnaire and provide climate disclosures.

They responded that they had not yet made a public commitment to a net zero emissions target and would continue to provide us with updates when available. However, they did add an ESG section to their website with details of their "sustainability framework".

As a result of the progress made with this engagement over the last couple of years, we upgraded our internal ESG outlook score to 'Positive' and continue to hold exposure in a number of funds across the Firm.

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 Shareholder Rights and 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.

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.

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 Shareholder Rights and Stewardship Policy.

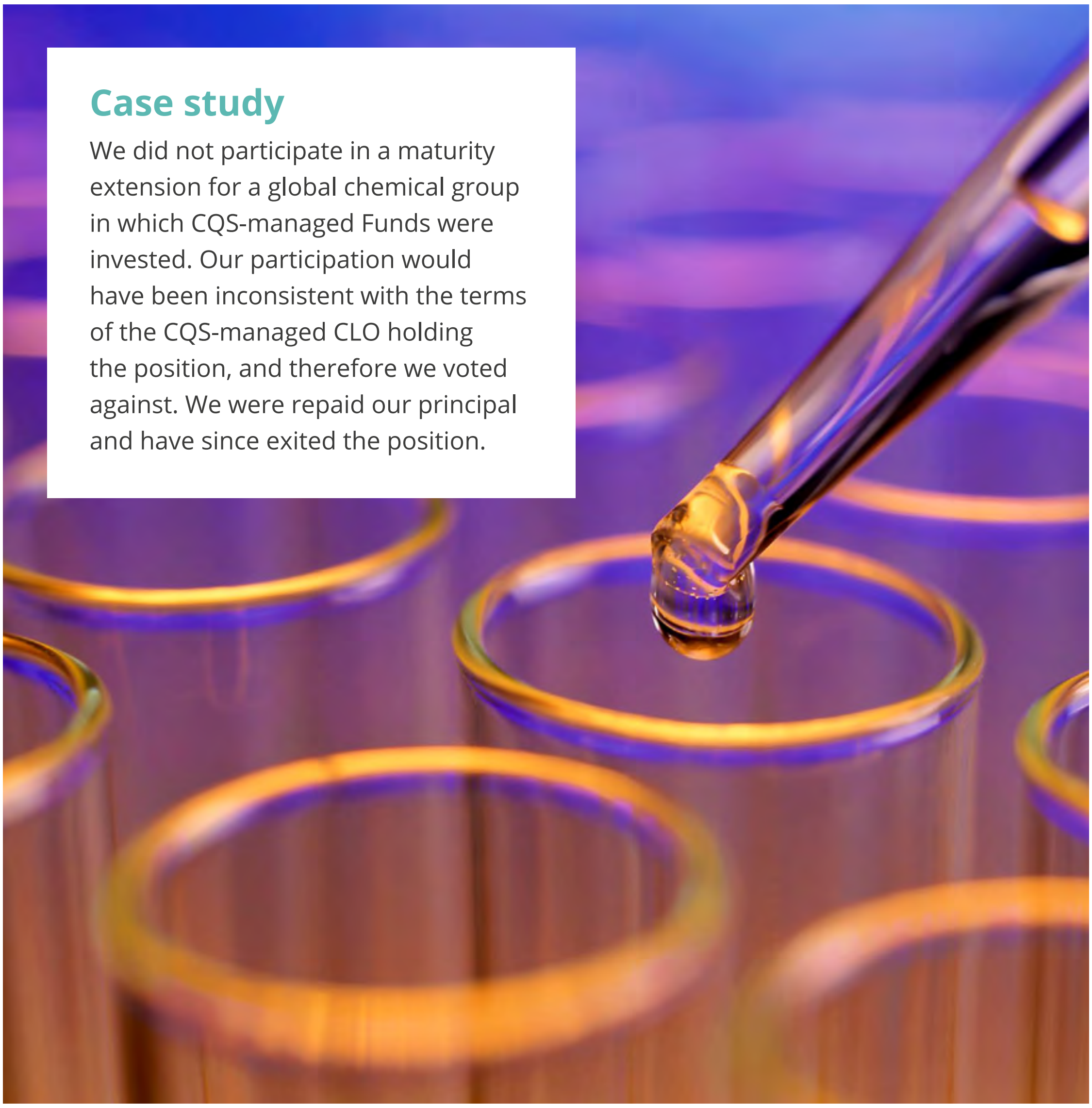
Approach to Proxy Voting

Our approach to voting can differ depending on the investment strategy of respective Funds. For many of our alternative Funds, 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



Case study

We did not participate in a maturity extension for a global chemical group in which CQS-managed Funds were invested. Our participation would have been inconsistent with the terms of the CQS-managed CLO holding the position, and therefore we voted against. We were repaid our principal and have since exited the position.

in any instance where a Portfolio Manager deems it of greater benefit to Clients to recall lent shares in order to vote.

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 2022, CQS had net positive equity exposure (c. 3.6% 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 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 2022 we were eligible to vote 5,061 times; we voted in 69%. During the Reporting

Period 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 will help to increase our percentage of eligible votes voted for the next Reporting Period.

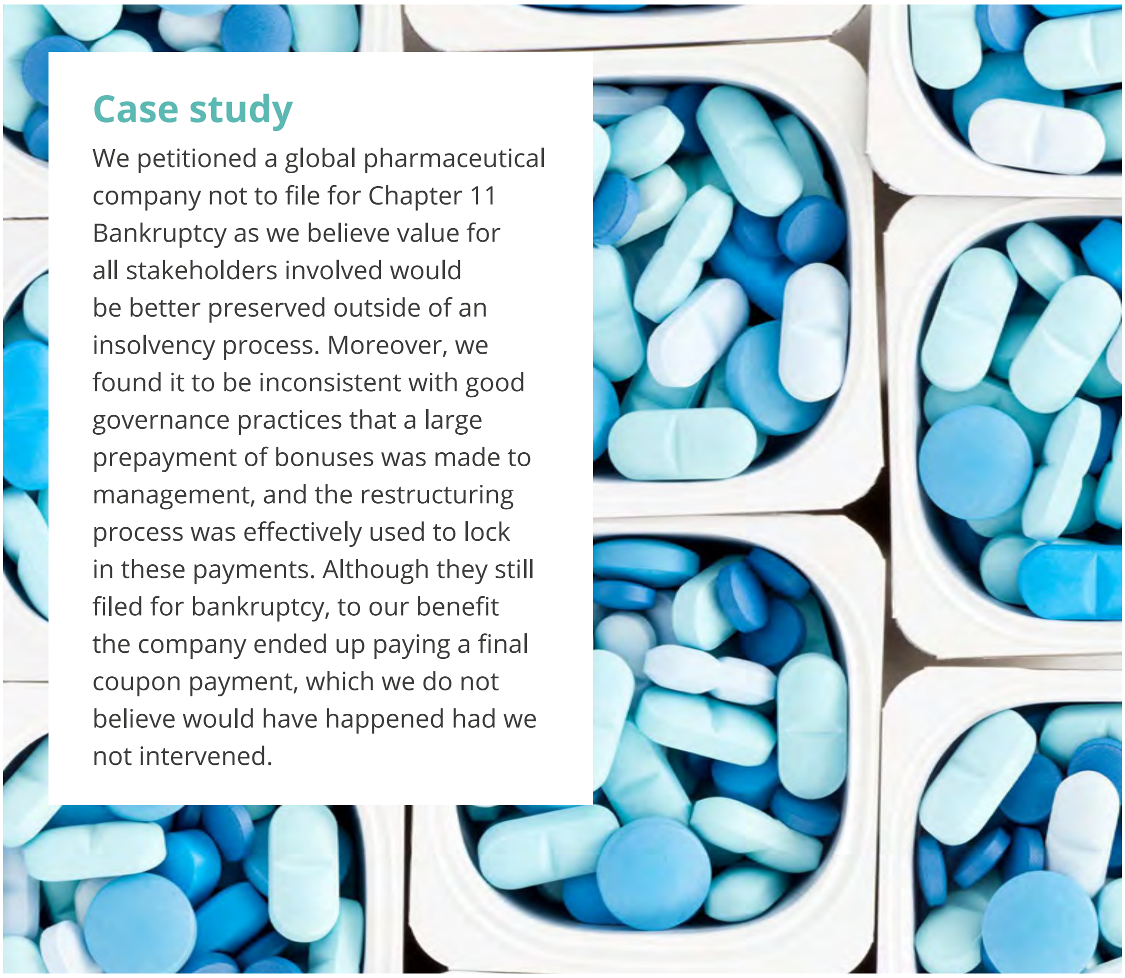
During the Reporting Period, CQS Funds voted against management on approximately 1% of resolutions.

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 prevent decisions that we believe will lead to poor governance such as removing audit functions from companies and directors setting their own pay incentives.
- Where we feel we the decision made by management would not be optimal for a Fund from a return perspective.
- If we feel we lack sufficient information to make an informed decision.

Currently CQS is 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 petitioned a global pharmaceutical company not to file for Chapter 11 Bankruptcy as we believe value for all stakeholders involved would be better preserved outside of an insolvency process. Moreover, we found it to be inconsistent with good governance practices that a large prepayment of bonuses was made to management, and the restructuring process was effectively used to lock in these payments. Although they still filed for bankruptcy, to our benefit the company ended up paying a final coupon payment, which we do not believe would have happened had we not intervened.

Examples

Examples where Portfolio Managers voted against management in shareholder votes:

1. We voted against management offering a buyback as we did not think it was beneficial for the Fund holding the position. The company had performed well during this period, and we would have preferred a redistribution of these profits in the form of a dividend payment. The buyback however was approved, and we have since exited this position.

2. As part of good governance, we voted against a proposal by a company's management to have their audited accounts requirement removed. We believe audits help promote best practice within a firm and increase investor confidence in company accounts and therefore think they are important. We still hold this position as restrictions on the entity has made it difficult to sell.

3. We believe management should act in a way that is beneficial for all stakeholders in the long term. This is why we voted against a management proposal to give directors the ability to set their own remuneration as we do not believe this incentivises good corporate governance, which is a key focus for CQS.

4. There was a hostile takeover attempt on one of our investments. We did not think this would be beneficial for our Fund's investment and therefore voted against the board nominations put forward to prevent board members who are in favour of the takeover from being appointed. The issue is still ongoing, and we are monitoring the situation.

5. We decided to abstain from voting in one of our Fund's positions because we did not feel we had enough information on the proposals to make an informed decision. We had plans to exit the position soon and did not feel voting would have a material economic impact on the position. Therefore we felt abstaining was the best choice.

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.

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).

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.

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