Public Disclosures: 31 March 2023

Background

The Investment Firms Prudential Regime ("IFPR") is the FCA's prudential regime for investment firms, which came into force on 1 January 2022. The IFPR has been implemented through the MIFIDPRU sourcebook, with disclosure requirements outlined in MIFIDPRU 8.

This disclosure is in relation to CQS (UK) LLP ("CQS UK" or the "Firm"), which is authorised and regulated by the FCA. Under the IFPR's firm categorisation, CQS UK is categorised as a non-SNI MIFIDPRU investment firm. The disclosure for CQS UK is prepared annually on a solo entity basis. The disclosed information is proportionate to CQS UK's size and organisation, and to the nature, scope and complexity of CQS UK's activities.

CQS UK forms part of a wider CQS consolidation group (the "Group"), which is headed by CQS Management Limited.

The principal activity of the Group is the provision of investment management and advisory services.

Risk Management Objectives and Policies

Risk Appetite

The Firm's risk appetite describes the level and types of risk the Firm is willing to assume to achieve its strategic objectives and meet its business plan, with regard to certain external and internal influences. The process of determining the risk appetite is more fully described in the Firm's Risk Management Framework, which includes a formal Risk Appetite Statement. The risk appetite is formally quantified in the firm's enterprise risk management system using a variety of impact criteria (financial, legal, regulatory and reputational) and estimates of likelihood, and a specific risk appetite level is assigned to every identified risk.

Enterprise Risk Framework

The Firm has established an Enterprise Risk Framework (the "Framework") to enable the Firm to identify, manage, and mitigate risks at the enterprise level. CQS UK has documented the Framework, which is reviewed on an annual basis, including the principles, processes and governance structures that allow CQS to manage risks effectively.

The Framework is supported by the Firm's governance structure described below. In particular, the Firm's Operating Committee ("OpCo") is responsible for reviewing the effectiveness of the Framework, with feedback being provided to ensure continuous improvement of the overall process and reporting, as well as specific feedback in respect of risk mitigation. Where the Firm's risk profile has, or expected to have, moved outside its risk appetite the matter will be escalated to OpCo, which will determine if any action (or additional action) is required to resolve the issue. Corrective actions (arising from risk and control assessments, risk/loss events and internal audits) may be formally documented and their status tracked at departmental and/or relevant committee meetings.

Under the Framework, the Firm has established a register of potential risks, primarily at group level but separated by entity or location where relevant. Risks are defined as discrete, specific, potential events that have negative impacts on the Firm. The Enterprise Risk Team work with departmental managers across the organisation to identify risks their departments face, and ensures that these are recorded on the register where required, together with their risk appetite and relevant mitigation activity including controls. These assessments are used as an integral part of the calculation of capital and liquidity requirements in the ICARA process.

A central register of incidents is maintained that also records any operating loss events that have occurred. More detailed registers are also maintained at the departmental level (e.g. trade error logs and compliance registers). Events and losses are reviewed at the departmental level, or by groups of departments under common management. High severity events are reported to the Firm's OpCo promptly as they occur.

MIFIDPRU 8.2.1 Disclosure

Pursuant to MIFIDPRU 8.2.1, the Firm is required to disclose its risk management objectives and policies for the following categories of risk:

Own Funds Requirements (MIFIDPRU 4)

Certain categories of risk are identified and assessed for the purpose of calculating the Firm's Own Funds requirements (detailed below). The occurrence of these risks may pose a risk of harm to the Firm itself, the Firm's clients, and the markets in which the Firm operates.

1. Operational Risk

Operational risk encompasses the risks relating to the Firm and the operation of the funds under CQS UK's management that are not classified as market, credit, or liquidity risks. Operational risks are typically either endogenous or exogenous. Endogenous operational risks include the risk that inadequacies or failures in information systems, processes or internal controls, human errors or management failures may result in losses. Exogenous operational risks include the risk that changes in regulatory, fiscal, political and legal environments may result in losses. Examples of operational risks considered in calculating Own Funds requirements include the risk of trade errors, pricing and valuation errors, technology failures and unavailability, breaches of information security and privacy, breach of legal or regulatory obligations, and financial control failures.

Under the Framework, the Firm has a number of policies, procedures, and controls in place to identify, assess, and address operational risks. Regular staff training is conducted as well as ongoing audit testing and controls assurance reviews to cover areas assessed as higher risk or of being of particular interest or concern to senior management.

2. Business Risk

Business risks are risks that pose a threat to the Firm's strategy or business model, or which may result in a failure to meet the Firm's short or medium term business objectives. The Firm has identified its key business risk as being the risk of a substantial decline in assets under management ("AUM") and, therefore, fee income. This is principally driven by the risk of poor investment performance, whether due to internal decision making, errors or external market conditions. Poor investment performance may reduce AUM directly (due to lower fund valuations) and indirectly (via redemptions). The Firm mitigates this risk through close monitoring of investment performance, implementing appropriate remuneration and incentive structures to hire and retain highly skilled professionals, and through maintaining robust procedures for identifying, measuring and managing portfolio risk, and ensuring risks and limits are correctly disclosed.

The Firm's business model is also at risk from reputational factors, as reputational damage could result in a significant decrease in AUM and impairment of future business development. To curb both the effect and occurrence of damage to reputation, the Firm invests resources into portfolio management, the infrastructure platform, compliance arrangements and communications with relevant parties (including investors, independent directors, regulators, third party service providers and counterparties).

Regulatory factors also give rise to business risk; the Firm operates within a highly regulated environment and laws and regulations may evolve in a manner that negatively impacts upon the Firm's business model. The Firm mitigates this risk through ongoing monitoring of current and proposed regulatory requirements along with engagement with industry bodies.

3. Market Risk

Market risk is the risk posed to the value of the Firm's operations or assets as result of market forces such as changes in rates or general market performance.

The Firm, from time to time, holds investments in collateralised loan obligations ("CLOs") to satisfy risk retention requirements, along with investments in certain CQS funds (either through direct holdings or derivatives linked to CQS funds), both of which are exposed to possible impairment due to market performance. As part of the Firm's capital planning process, specific capital and reserves are held in consideration of market risk to mitigate the impact of this exposure. The Firm is also exposed to the risk of loan covenant breaches, where applicable, caused by market movements. Compliance with covenants is monitored on an ongoing basis, with any concerns escalated to the relevant committee. Market risk also arises through net income amounts generated in non-USD currencies and non-USD denominated investments. Such balances are regularly monitored with appropriate hedging strategies executed to mitigate exposure. The Firm is exposed to interest rate risk arising from investment holdings, cash balances and any debt. Exposure to interest rate risk is regularly monitored and managed using financial instruments as deemed necessary.

4. Credit Risk

Credit risk is the risk to the Firm arising from the possibility that a counterparty may default on amounts owed to the Firm, its affiliates, or related parties. The Firm is exposed to counterparty credit risk which is managed through setting short dated cash payment terms with counterparties, primarily the fund entities managed by Group entities. The Fund Risk Committee provides oversight of the market, liquidity, credit and operational risk of the funds managed by the Group. The Firm is also exposed to credit risk in relation to its bank accounts, and counterparties used for on-balance-sheet investments. Balances and credit ratings are monitored on an ongoing basis, with any concerns escalated to senior management.

Concentration Risk (MIFIDPRU 5)

Under IFPR, the Firm has a general requirement to monitor all sources of concentration risk. In general, this is not treated as a separate risk category or subcategory in the CQS Risk Register but concentrations are considered (of clients, counterparties etc.) when assessing the impact and likelihood of other risks (e.g. redemptions, counterparty defaults). Under MIF004 there is a requirement to report on concentrations of (i) cash at bank and (ii) customers/funds. The first is considered in the calculations made under the ICARA for the risk “Failure of firm’s corporate bank”, and the latter is considered primarily in the Redemptions stress test carried out under the ICARA.

Liquidity Risk (MIFIDPRU 6)

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that liabilities cannot be met as they fall due. The Firm maintains sufficient surplus cash and other liquid assets to meet its working capital requirements and other immediate requirements that can reasonably be foreseen through cash forecasting and review of net liquid assets on a regular basis. See also “Liquid Assets Adequacy and Monitoring” below.

Governance Framework

The Board of Directors of CQS Management Limited has ultimate responsibility for the overall management of the Group and has delegated the formulation and execution of strategy for both the Group and the Firm to the Senior Partners Group (“SPG”). SPG acts as the Governing Body of the Firm. Due to the size, nature and complexity of it’s activities, there is no Risk Committee or Nomination Committee in place as part of its governance arrangements, nor is it required to establish these committees as per MIFIDPRU 7.1.4R.

The governance and oversight framework ensures that the Governing Body defines, oversees and is accountable for the implementation of arrangements to ensure effective and prudent management of the Firm, including appropriate segregation of duties of senior managers in line with the FCA’s Senior Management and Certification Regime (“SMCR”) and management of conflicts of interest.

SPG is supported by OpCo which has responsibility for managing day-to-day operations in respect of the global investment management business and associated activities, including risk management, and advising SPG as required.

The Group’s Remuneration Committee (“RemCo”), which reports to the Board of CQS Management Limited, is responsible for formulating and reviewing the Group’s remuneration framework and making remuneration recommendations to the CQS entity Boards and relevant governing bodies.

Senior Partners’ Group

The following have held office as members of the Senior Partners’ Group during the financial year and up to the date of publication of this disclosure:

Name	Senior Management Function (“SMF”)	Other Directorships
Soraya Chabarek	SMF27 Partner	2
Lord Hintze	SMF1 Chief Executive SMF27 Partner	11
Craig Scordellis	SMF27 Partner	0
Jason Walker	SMF27 Partner	0

Own Funds

Composition of Own Funds

The Firm’s own funds (i.e. capital resources) consisted of the following as at 31 March 2023:

	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	**22,141**	
2	**TIER 1 CAPITAL**	**22,141**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**22,141**	
4	Fully paid up capital instruments	22,141	Note 17
5	Share premium	-	
6	Retained earnings	-	
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	**-**	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	**-**	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

The total common equity tier one capital noted in item 4 above corresponds to the total members’ capital as reported in CQS UK’s audited annual financial statements for the year ended 31 March 2023.

Main Features of Common Equity Tier 1 Instruments

The full features of the Firm’s common equity tier 1 items are set out in the Further Amended and Restated Limited Liability Partnership Deed dated 1 January 2022. Each member of CQS UK is required to make a capital contribution, as set out in their member letter, on admission as a member of CQS UK. Interest is not payable on capital contributions, and any capital contributions repaid to leavers provided are required to be replaced by contributions from new or existing members.

Own Funds Requirements

K-Factor Requirement and Fixed Overheads Requirement

The Firm's K-Factor requirement and fixed overhead requirement amounts are as follows:

Item		Amount (GBP thousands)
K-Factor	∑K-AUM, K-CMH and K-ASA	668
	∑K-DTF and K-COH	-
	∑K-NPR, K-CMG. K-TCD and K-CON	**-**
Fixed Overhead Requirement		**9,045**

ICARA Process

Under IFPR, the Firm must assess own funds and liquidity requirements set out in the Internal Capital and Risk Assessment ("ICARA") process and ensure sufficient own funds and liquidity resources are held at all times to meet the Overall Financial Adequacy Rule ("OFAR"). As part of the ICARA process, the Firm establishes its own funds threshold requirement and its liquid assets threshold requirement to ensure that the Firm can remain viable, addressing any potential harm from ongoing activities, and can wind-down in an orderly way. For harms not adequately mitigated through systems and controls or driven by an activity not covered by the K-Factor Own Funds Requirement, the Firm assesses whether additional own funds / liquid assets are required. The stress tests performed as part of the ICARA process includes early warning indicators to assist the firm when approaching trigger levels and sets out credible actions to help reverse or repair any adverse trends. The wind-down planning includes triggers (own funds and liquid assets) and timelines, with different scenarios considered that could cause a need to wind-down the business. The Firm sets resources aside so that sufficient own funds and liquid assets are always maintained to enable an orderly wind-down. The adequacy of the ICARA process is reviewed on an annual basis, or more frequently should there be any material changes to the Firm's risk profile or business strategy.

Own Funds Adequacy and Monitoring

CQS UK assesses the adequacy of its own funds on a periodic basis, including measurement against trigger levels at which specific notifications, escalations and mitigating actions may be taken. The Firm currently holds a material surplus of capital resources over own funds requirements, which enables it to take advantage of opportunities as they arise (for example, acquisition opportunities, recruitment of senior staff or 'seed' investments in funds). The assessment of own funds versus requirements is reviewed at least quarterly to understand the impact of any material changes to the business plan and react to these with amendments to the ICARA if needed.

Liquid Assets Adequacy and Monitoring

The Firm periodically reviews the liquidity adequacy assessment determining the Firm's requirements for liquid assets, ensuring that these remain appropriate to cover the liquidity risks in normal and stressed conditions, as well as supporting the wind-down of the Firm in an orderly manner. A framework of metrics, controls and limits is designed to manage the liquidity risks within the Firm's risk appetite, with periodic reporting provided to senior management.

AIFMD Requirements

Separately to the assessment of own funds requirements, CQS UK is subject to a capital requirement under the AIFMD. This comprises the Firm's fixed overhead requirement (£9,045k as above) plus a "professional negligence capital requirement" of 0.01% of AIF assets under management, gross of leverage. This gives a total capital requirement for the Firm of £12,218k, which acts as an additional floor of regulatory capital that it must hold.

Remuneration Policy and Practices

The following disclosure on remuneration is made for the year ended 31 December 2022 (the "Performance Period").

General Principles

CQS UK is subject to both the MIFIDPRU Remuneration Code and the AIFM Remuneration Code (together, the "**Codes**"). The Codes require regulated firms to establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Staff remuneration is determined by business performance and profitability, and the individual's performance. RemCo oversees the remuneration process for CQS UK and other operating entities within the Group.

The profit from which remuneration is paid out from to staff is generated by the management fees and performance fees earned for managing and advising the Group's investment funds and client mandates. The Firm's remuneration framework considers the split between variable and fixed remuneration and seeks to ensure appropriate alignment (and the avoidance or management of any conflicts of interest) between the interests of CQS and its staff with its clients. The remuneration framework has been established having regard to the business strategy, objectives, and long term interests of the Group, in particular:

- the Group's risk appetite and strategy, including environmental, social, and governance ("ESG") risk factors;
- the Group's culture and values; and
- the long term effects of investment decisions taken and consideration of past returns achieved for clients.

Remuneration Committee

The Remuneration Committee ("RemCo") is responsible for formulating the remuneration policy and the remuneration framework, and recommending such to the Board of CQS Management Limited, the Governing Body, and the boards and governing bodies of other CQS entities within the Group. The Board of CQS Management Limited oversees the governance framework to ensure that remuneration arrangements are consistent with, and promote, effective risk management.

In particular, RemCo will:

- review and recommend to the respective governing bodies appropriate remuneration for staff;
- review variable remuneration structures against the Group's risk profile to ensure these reflect the risk tolerance of the business;
- support the implementation and management of the remuneration policy and framework;
- in determining levels of remuneration, consider the profitability of the Group and, specifically in respect of partners of the Firm, the appropriate allocation of profits between the partners of the Firm taking into account the overall level of profits expected or achieved for the period by the Firm;
- ensure that its approach to remuneration is coherent and consistent with the wider aims of the business.

Basis for Determining Remuneration

The remuneration pool is initially based upon adjusted net profits derived from the management and performance fees received for managing and advising client portfolios and funds less the operating expenses of the business. in respect of partners of CQS UK, the first consideration in determining the appropriate allocation of profits shall be the overall level of profits of CQS UK expected or achieved for the period. Further adjustment may be made taking into account certain factors such as:

- the Group's capital requirements and projected liquidity;
- the fixed overhead requirement of CQS UK;
- risk exposures within the relevant funds or client portfolios;
- the Group's current activities and associated prudential and conduct risks;
- the level of base pay required to retain and attract experienced and qualified individuals;
- any financial obligations arising in the next twelve months; and
- partner base drawings.

The total remuneration for each individual comprises a fixed base, discretionary variable award (which may be deferred) and other benefits. These components are considered and balanced having regard to the role fulfilled by each particular individual. In establishing the level of variable awards (if any) for the firm as whole and the individuals, the Governing Body takes into consideration various factors, including:

- the profit of the Firm, reflecting the revenue from management and performance fees, less expenses;
- the performance of the relevant team or business line;
- the performance of the individual (both financial and non-financial performance); and
- market and benchmarking data for the industry and individual functions, as appropriate.

In proposing the level of remuneration at an individual level for the relevant performance period, RemCo will take into consideration the performance both the financial and non-financial performance of the individual.

CQS is dedicated to ensuring that its remuneration framework and policy encourages responsible business conduct and promotes risk awareness and prudent risk taking. The Firm seeks to ensure that individuals are not rewarded for running undue risk and are incentivised to operate within the risk tolerances of the Firm. Therefore, when assessing individual performance, both non-financial and financial criteria are taken into account. Poor performance in respect of non-financial criteria may pose a threat to CQS and its clients and thus these may be treated as outweighing the financial metrics in some instances. The relevant non-financial criteria include (without limitation):

- effectiveness of risk management and whether permitted risk tolerances have been exceeded;
- compliance with Group policies and procedures;
- compliance with relevant regulatory requirements including the FCA Code of Conduct; and
- conduct demonstrating effective stewardship of client assets and relevant consideration of ESG factors and risks.

The financial performance of individuals and teams are also measured and provided to RemCo where appropriate. For example, for investment professionals, data on performance fees attributable to their investment performance may be provided, whilst for infrastructure staff, cost effectiveness and the scale of any operational incidents and losses incurred are more likely to be taken into account.

Staff remuneration may be deferred, to ensure individuals maintain sustainable performance and effective risk management over a multi-year timeframe and to align interests to investors in the funds managed by the Firm. Staff designated as Code Staff and certain other non-Code Staff receive part of their remuneration in the form of deferred compensation. Amounts deferred are invested in, or aligned to the interests of, CQS managed funds and are subject to vesting conditions and pay-out profiles as defined within the relevant deferral plan rules. Deferred amounts are also subject to malus and clawback provisions.

Material Risk Takers

Under the MIFIDPRU Remuneration Code, CQS UK is required to identify each Material Risk Taker (“MRT”). An individual falls within the definition of an MRT where that individual’s activities are considered to have a material impact on the risk profile of the Firm or the funds or client mandates that the Firm manages. Such individuals include (i) members of SPG, representing the senior management of the Firm also responsible for key strategic decision making, (ii) those with managerial responsibility for units that carry on the regulated activity of portfolio management; (iii) certain individuals responsible for control functions; (iv) the individual with responsibility for anti-money laundering compliance; and (iii) the individual with overall responsibility for IT and cyber security.

Guaranteed Remuneration

CQS will only provide guaranteed variable remuneration (typically in respect of an individual's entitlements from their current employment as considered necessary to buy-out entitlements otherwise at risk of loss due to taking up subsequent employment with the Firm) in circumstances where the payment is (i) exceptional, (ii) made in the context of a new hire, (iii) limited to the first year of service with the Firm, (iv) where the payment is a buy-out payment, the payment will be no more generous (in amount or terms) than that which the individual would have received from their previous employer; and (v) where the individual is an MRT, only made in circumstances where the Firm has a strong capital base. In all other situations the Group does not enter into guaranteed remuneration arrangements.

In determining whether to provide guaranteed remuneration, the relevant Governing Body will have regard to the individual’s qualifications and experience, the need for an individual with such experience to be recruited and the likely impact on the wider Group. In exceptional circumstances, the Group may offer key members of staff a one-off retention award. Any decision to offer such a payment to Remuneration Code Staff must be notified to the FCA and will only be made on prudential grounds in the context of a major restructuring.

Any award of guaranteed variable remuneration will also be subject to malus and clawback.

Payments Related to Early Termination

In determining any early termination payments, the relevant Governing Body will have regard to the performance of the individual over a period of three years (where available) benchmarked against general market performance. Both financial and non-financial performance will be taken into account and any adjustments must be approved and documented by the relevant Governing Body. The Governing Body will ensure any payment does not have a material impact on capital or liquidity requirements.

Payments related to early termination may also be subject to malus and clawback.

Quantitative Information on Remuneration

CQS has identified 12 individuals as MRTs during the Performance Period. The aggregate remuneration of staff identified as MRTs for the Performance Period was £10.4m. CQS considers that it has a single business area (investment management) which benefits from a range of support and ancillary functions.

The total remuneration paid to CQS UK staff is detailed in the table below:

	Senior Management	Other MRTs	All Staff
Fixed remuneration (£)	6.3m	1.6m	23.0m
Variable remuneration (£)	-	2.5m	11.1m
Total (£)	6.3m	4.1m	34.1m

During the Performance Period, CQS UK made no (i) guaranteed remuneration payments; (ii) no severance payments.