

CQS Responsible Investment Policy

As an investment manager, CQS views Environmental, Social and Governance (“**ESG**”) factors as significant drivers influencing financing costs, risk assessment valuations and performance.

The assessment, integration and engagement of ESG factors is a crucial part of the responsible investment commitment across the CQS investment platform, both in public and privately held companies. ESG matters are key factors in our decision-making for all CQS-managed funds classified as Article 8 under the EU Sustainable Finance Disclosure Regulation, as well as certain bespoke client mandates with similar commitments. By embedding responsible investment into our investment process, we enhance our ability to identify value, investment opportunity, risk and, critically, to generate the best possible returns and outcomes for our clients.

The extent to which the terms of, and the processes set out in, this policy apply to funds and/or mandates under CQS’s management, may vary depending on the investment objectives/strategy of the relevant fund or mandate.

Responsible Investment at CQS

We define responsible investing as an integrated function of our investment process that seeks, through internal analysis and engagement on ESG factors, to identify value, risk, opportunity and development outcomes across our investment universe.

Our approach to responsible investing is continually developing, taking into account national and international legal, regulatory and policy development, collaborating with industry bodies to identify and develop best practice and engaging with our clients. In striving to deliver the expected returns and outcomes for our investment funds and mandates, ESG factors introduce threats and opportunities which can impact our evaluation of probability of default and loss given default, as well as the need for active ownership.

Our Approach

Funds and/or mandates under CQS management invest across a wide range of asset classes, both directly and using derivatives, including, but not limited to, corporate debt, distressed debt, convertible securities and equities. As such, CQS operates a five-stage responsible investment integration process, designed to be integrated across asset classes.

Stage 1 – Data Incorporation

Incorporation of third-party ESG factors, metrics and data into CQS systems and processes. This includes external industry feeds, for example MSCI ESG Manager (including MSCI CarbonMetrics), Bloomberg, Refinitiv, CDP and RepRisk and broker research.

MSCI, our core data provider, is incorporated within CQS internal systems and accessible to all CQS investment professionals. Other data sources are widely available via Bloomberg and other online access.

Stage 2 – Integration

Integration into the investment process begins by taking external analysis and assigning a CQS ESG rating and a CQS ESG Outlook rating on individual companies. CQS research analysts use deep sector experience to determine an ESG rating from AAA to CCC, taking into account relevant ESG factors. In doing so, research analysts may assign an ESG rating that is consistent with or differs from external sources. Research analysts also assign an ESG Outlook rating of Positive, Neutral or Negative. Alongside bottom-up fundamental work and expertise, metrics such as (but not limited to) carbon intensity and reduction target alignment (E), diversity of workforce (S), employee turnover (S) and board make up and independence (G) will be considered.

CQS research analysts will, whenever practical, engage with companies to deepen our understanding of their approach, including their long-term trajectory.

ESG ratings and ESG Outlook ratings are factored into the investment rationale presented to portfolio managers and guide cash flow (including probability of default and loss given default) expectations in both material ESG risks and sustainability opportunities.

Engagement and ESG research notes for the internal ESG rating and ESG Outlook rating are required to be stored in an accessible form and available for use across the Front Office. Discussion and debate is encouraged during the ESG internal analysis, both within the CQS research team and with portfolio managers.

Stage 3 – Evaluation

Portfolio managers are required to consider (to an appropriate degree having regard to their investment strategy) ESG factors and potential sustainability / development outcomes as part of their investment decision making.

Factor guidelines with respect to ESG and sustainability considerations include:

- **Environmental** – climate change (including the material long-term risks and opportunities), water stress, biodiversity and land use, toxic emissions and waste, environment opportunities and other relevant sustainability risks or opportunities.
- **Social** – labour management, health and safety, privacy and data security, stakeholder opposition and social opportunities, diversity and relevant sustainability risks.
- **Governance** – corporate governance and corporate behaviour including sound management structures, employee relations, remuneration of staff, tax compliance, ethics, corruption, instability and diversity.

Portfolio managers may request additional ESG research where ESG considerations are thought to be especially relevant. The results of additional ESG research (which may vary in degree by investment strategy and the specific investment) are factored into investment decisions.

Stage 4 – Engagement

CQS seeks to engage with companies during the pre-investment integration stages (2 & 3) and where appropriate during the holding period of such an investment. Engagement is driven by sector analyst expertise as well as a proprietary Engagement Framework, which highlights to investment professionals key engagement considerations by sector and sub-sector.

Further, CQS operates specific and targeted engagement programmes where we believe ESG factors on an individual company should be addressed, or where there may be opportunity to seek a development and/or sustainability outcome. Each of these engagement objectives should be mapped to the relevant United Nations Sustainable Development Goal(s).

CQS may undertake stewardship and long-term engagement to exercise active ownership of investee companies on behalf of investors, and to help investors achieve their investment objectives.

Our goal through engagement is to implement meaningful change over the long-term through consistent industry dialogue with issuers, as part of our commitment to being good stewards of capital. CQS will do this directly, and at times, collaboratively.

Please see the CQS Engagement Policy and the CQS Shareholder Rights and Stewardship Policy for further details.

Stage 5 – Monitoring

As part of the ESG lifecycle, CQS undertakes ongoing monitoring and reporting of ESG factors on investments. This includes periodic research re-assessments, a watching brief across news wires for developing ESG considerations and internal fund level ESG reporting.

In line with certain fund and/or mandate commitments, should a company be flagged by our internal process as having a controversy linked to the Ten Principles of UN Global Compact, CQS portfolio managers (of the relevant funds and/or mandates) and research analysts are expected to understand this in further detail and take appropriate action, as further outlined within our Engagement Policy.

The Head of Research is responsible for ensuring appropriate ongoing company level monitoring is undertaken in conjunction with the CQS Responsible Investment Governance Committee (“RIGC”).

Sustainability Outcomes

Our engagement programmes may target outcomes which specifically aim to deliver objectives CQS has mapped to UN Sustainable Development Goals, UN Global Compact Principles and the Paris Agreement (in alignment to our public support of the Task Force on Climate-related Financial Disclosures (“**TCFD**”) and Climate Action 100+).

The CQS Engagement Group is responsible for assimilating and measuring engagement progress versus sustainability and/or governance objectives which have been identified for an individual company. Outcomes, when achieved, will be reported within ongoing responsible investment and annual stewardship reporting.

Please see the CQS Engagement Policy and CQS Shareholder Rights and Stewardship Policy for further detail on our approach to engagement.

Exclusions

CQS may operate exclusion lists in respect of certain funds and/or mandates, in accordance with their individual statement of intent. This may include, for example, restrictions on companies which derive certain levels of revenue from activities involving tobacco, adult entertainment, thermal coal or any other exclusion relevant to the fund or mandate, including the Ten Principles of Global Compact. These will be periodically monitored by the RIGC and coded, where third-party screens are available, into relevant pre-trade compliance systems.

Where CQS becomes aware that an investment might involve a breach of an exclusion list, it may seek to divest itself of such investment.

In extreme cases, and as outlined within the Firm’s Engagement Policy, should a company fail to engage with CQS on material ESG risks or demonstrate a willingness to address such issues, it may be excluded across all CQS portfolios. Such decisions would be taken by the RIGC.

Management of Conflict

CQS will consider, mitigate and manage any conflicts arising in relation to its responsible investment approach in accordance with the CQS Conflict of Interest Policy, and to the extent required, escalate to the CQS Operating Committee (“**OpCo**”). Opco meets on a quarterly basis and can consider any conflicts or regulatory matters arising from this policy, which can then be reported to the relevant individuals, the RIGC, and/or the Senior Partner Group (“**SPG**”) as appropriate.

Responsible Investing Customisation

When requested by our clients on a bespoke or customised basis, the CQS investment team will work with clients to shape portfolios to their ESG or responsible investment needs.

This may include positive selection methodologies, as well as exclusions based on activity, location or other methodology such as minimal standards based on international norms.

Training and Dialogue

CQS welcomes an open dialogue with clients and stakeholders and values the opportunity to collaborate with experts to support and strengthen our responsible investment initiatives. Portfolio managers and research analysts receive support from internal and external experts, participate in training and capacity building programmes and share insights.

Internal training sessions are held for CQS investment professionals. Training sessions, and their frequency, are tailored to the role.

Our responsible investment process is guided by industry best practice, international standards and frameworks. We are a public supporter of the TCFD and signatory to the Principles for Responsible Investment (“**PRI**”), Net Zero Asset Managers’ initiative, UK Stewardship Code, CDP, Institutional Investors Group for Climate Change (“**IIGCC**”) and Climate Action 100+. We are also a member of the Responsible Investment Working Group for the Standards Board for Alternative Investments (“**SBAI**”).

PRI

As noted above, CQS is signatory to the PRI. As such, we have committed to:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be an active owner and to incorporate ESG issues into our ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which we invest;
- Promote acceptance and implementation of the Principles within the investment industry;
- Work together to enhance their effectiveness in implementing the Principles; and
- Report on our activities and progress towards implementing the Principles.

Oversight and Governance Structure of Investment Integration

SPG is responsible for the CQS strategy and approach towards responsible investment.

Governance and process development of the CQS Responsible Investment Policy is overseen by the RIGC which is accountable to SPG. The CQS Engagement Group is accountable to RIGC.

Portfolio managers take individual responsibility for the management of their investment activities; this includes the consideration and application of ESG factors, engagement priorities and alignment of strategies to any relevant Statement of Intent.

The ability to assess and integrate ESG factors can vary between different investment strategies and requires a nuanced approach, for example, when constructing portfolios of structured credit or macro long/short index positions.

CQS is committed to providing transparent and timely reporting to clients on relevant strategies to ensure responsible investment integration and compliance with applicable law and regulation. This includes relevant metrics such as ESG rating breakdowns and carbon metrics.

Policy Review

This policy is subject to review at least once per year. Any material changes will be presented to RIGC for approval.

Policy Information

Maintenance, Authorisation, and Review Requirements

Department responsible	RIGC
Individual responsible (policy owner)	Chair of the RIGC
Minimum frequency of update/review	Annual
Distribution	Internal – External with Policy Owner Consent
Entity applicability	All Group Companies

Update and Review Information

Last updated	February 2023
Updated by	RIGC