Multi-Asset Credit Investing

JUNE 2016

The Multi-Asset Credit Opportunity

> "MAC INVESTING OFFERS LESS VOLATILITY THAN EQUITIES AND HIGHER RETURNS THAN AVAILABLE IN MANY FIXED INCOME MARKETS

In the current investment environment volatility remains elevated and low or negative yields prevail in developed global government and investment grade fixed income markets. Many institutional investors globally are seeking to de-risk their portfolios in order to manage this volatility while also trying to maintain reasonable expected returns. Typically investors are looking to reduce exposure to more volatile asset classes such as equities, and increase allocations to historically less volatile assets such as fixed income. There is a need therefore to find asset solutions that offer less volatility than equities and higher returns than are available in many fixed income markets.

In our view, one such solution is Multi-Asset Credit ('MAC') investing. As an asset class, credit enables de-risking of portfolios from direct equity risk while maintaining attractive expected returns compared to the very low yields prevailing in government bond markets.

MAC offers access to a broad investment opportunity set. With tactical and dynamic asset allocation, MAC investing is able to profit from relative value opportunities between different credit asset classes and across geographic regions over time. This approach can also help to mitigate risk. Furthermore, MAC strategies can seek to capitalise on the most attractive individual credit opportunities prevailing across the range of credit asset classes.

We believe that the optimum approach to MAC investing combines deep fundamental research with agile portfolio management enabling dynamic allocation between instruments, credit asset class sectors and regions.

Why Credit?

> "CREDIT ENABLES PORTFOLIOS TO REDUCE VOLATILITY RELATIVE TO EQUITIES WHILE MAINTAINING ATTRACTIVE RISK-ADJUSTED RETURNS

In the prevailing macroeconomic environment, with low growth and inflation but sporadically high asset price volatility, it is a challenge to maintain reasonable expected returns while moderating volatility. Credit enables portfolios to reduce volatility relative to equities while maintaining attractive risk-adjusted expected returns relative to government and investment grade bond markets. Credit also enables portfolios to generate income, reducing the requirement to fund liability cashflows from capital. Further, we think that the low growth environment is generally attractive for credit, certainly relative to equities.

In the last seven years, the size of credit markets and the number and breadth of credit securities traded has grown significantly. This has increased the credit investment opportunity set. Meanwhile, challenges to liquidity driven by regulatory change are increasing relative value opportunities, while increased dispersion between individual credits is adding to opportunities for idiosyncratic returns from fundamental research.

Why Multi-Asset?

> "A MAC MANAGER CAN SELECT THE BEST INVESTMENT OPPORTUNITIES ACROSS DIFFERENT CREDIT ASSET CLASSES AND REGIONS AND BE NIMBLE IN ROTATING BETWEEN THEM

As the relative value between different credit asset classes shifts over time, MAC investing enables tactical and dynamic asset allocation to profit from opportunities and mitigate risk. With exposure to the full spectrum of issuers and asset types, the multi-asset manager can select the best investment opportunities across different credit asset classes and regions and be nimble in rotating between them. Flexible MAC investing can profit from cyclicality and help to manage credit, liquidity and interest rate duration risks. MAC strategies can also be tailored to different risk and return profiles depending upon investor needs.

Broader Opportunity Set

MAC offers a broader opportunity set than vanilla credit with access to a wider range of issuers and asset sectors. As mentioned, credit markets have grown significantly in size and in number of issuers in recent years.

Relative Value Across Asset Classes

Credit market sectors are cyclical in nature, with this cyclicality driven by variations in fundamentals, supply and demand dynamics, liquidity and regulation. MAC investing can help to both mitigate risk from this cyclicality and profit from it. MAC portfolios can be highly selective and focus on being in the right asset classes at the appropriate time. For example, relative High Yield and Senior Secured Loan spreads have moved significantly in recent years, with Loans sometimes yielding more than High Yield even though they sit higher in a firm's capital structure.

Figure 1: European High Yield[1] vs. European Primary Senior Secured Loans[2]

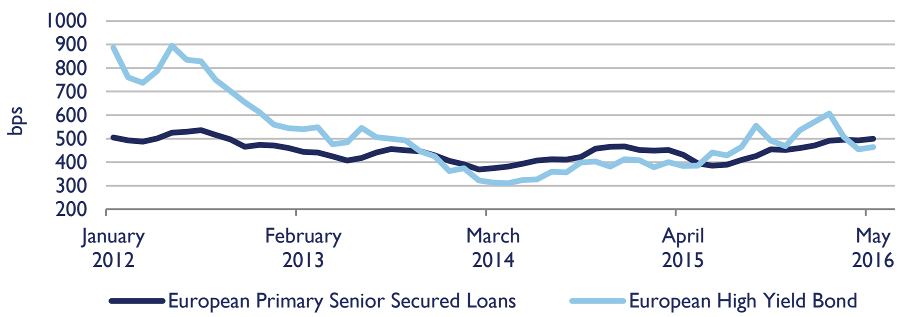
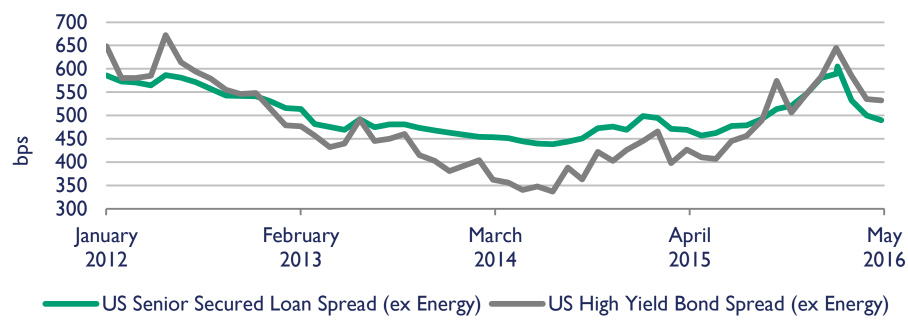


Figure 2: US High Yield[3] vs. US Senior Secured Loans[2]

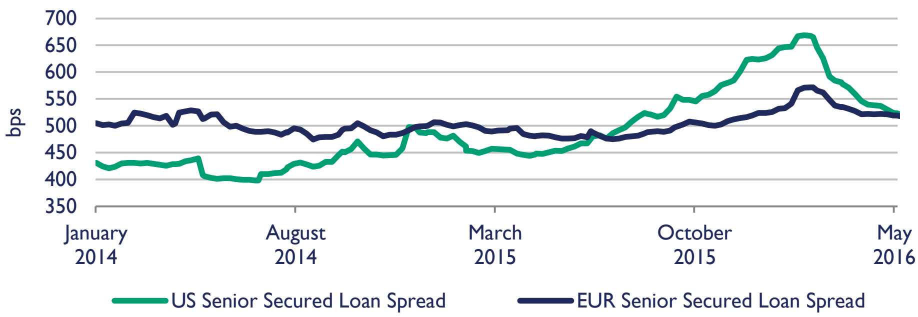


> "EXPLOIT RELATIVE VALUE OPPORTUNITIES BETWEEN REGIONS

Relative Value Across Geographic Regions

Global MAC managers are able to take advantage of opportunities in relative value in credit between regions. These can be driven by shifts in fundamentals or may be driven by different supply and demand conditions for an asset class between geographies. For example, US and European loan spreads have diverged greatly in recent years, with the yield on US loans shifting from below to above that available on European loans.

Figure 3: US Loan Spread vs. European Loan Spread[4]



> "MAC MANAGERS ARE ABLE TO TAKE ADVANTAGE OF OPPORTUNITIES CREATED WHEN INDIVIDUAL CREDITS OR CREDIT ASSET CLASSES BECOME MISPRICED

Liquidity

As the increase in global financial market regulation and pressures on bank capital have been reducing liquidity in markets, MAC managers are able to take advantage of opportunities created when individual credits or credit asset classes become mispriced due to market technicals. For example, US Loan valuations were materially impacted by retail flows into the asset class in 2013 and subsequent outflows from 2014 onwards. MAC can also help to mitigate liquidity risk as a multi-asset portfolio can opportunistically access the best pockets of liquidity at any time.

Relative Value Within the Capital Structure

Within the capital structure of an individual issuer, greater value may be available in selected parts of the capital structure, often due to broader technical drivers across various asset classes.

Source: [1]Bloomberg, BoAML Euro High Yield Constrained Index (HEC0) as at 31 May 2016. The HEC0 index is designed to track the performance of euro- and British pound sterling-denominated below investment grade corporate debt publicly issued in the eurobond, sterling domestic or euro domestic markets by issuers around the world. [2]S&P LCD European Leveraged Lending Review, as at 31 May 2016. For illustrative purposes only. It is not possible to invest directly in an index. [3]Barclays Benchmark Index: 'US High Yield ex Energy' using the Option Adjusted Spread. The 'US High Yield ex Energy' is a subset of the Barclays US High Yield Index excluding all energy-related issuers. The index is weighted by the market value of each bond issue. [4]CQS and S&P LCD as at 31 May 2016, Europe is ELLI (European Leveraged Loan Index) and US is LLI (Leveraged Loan Index) ex-Energy adjustments made by S&P LCD. S&P Leveraged Loan Indexes are capitalization weighted syndicated loan indexes based upon market weightings, spreads and interest payments. Specifically, the S&P/LSTA Leveraged Loan Index (LLI) covers the US market since 1997 and currently calculates on a daily basis. The S&P European Leveraged Loan Index (ELLI) covers the European market since 2003 and currently calculates on a weekly basis.

"MAC STRATEGIES CAN SEEK TO CAPITALISE ON THE MOST ATTRACTIVE INDIVIDUAL CREDIT OPPORTUNITIES PREVAILING ACROSS THE RANGE OF ASSET CLASSES

Individual Credit Opportunities

MAC strategies can seek to capitalise on the most attractive individual credit opportunities prevailing across the range of asset classes. This is important to enable portfolios to maximise the benefit of idiosyncratic return opportunities.

Duration Management

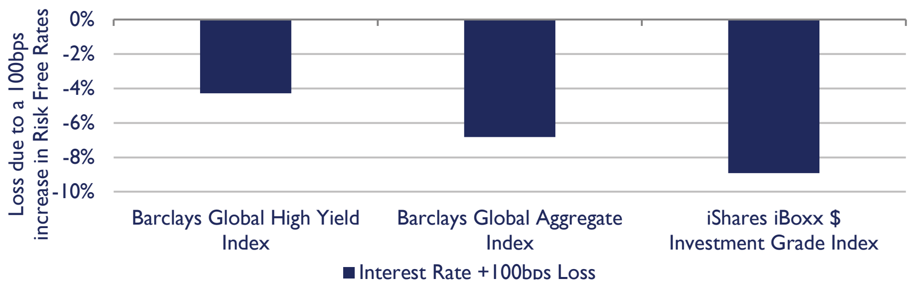
Importantly in the current macro environment, MAC investing can help to manage interest rate duration risk by selecting appropriate duration instruments at differing points in the cycle.

At certain points in the cycle, asset allocation can favour shorter interest rate duration instruments, for example Convertible Bonds, Senior Secured Loans and ABS, the latter two of which are typically floating rate.

Figure 4: Interest Rate Sensitivity Analysis: 1% Increase in Interest Rates[5]

Interest Rate Sensitivity vs. Representative Indices

	Interest Rate +100bps	Yield-to-Maturity
Barclays Global High Yield Index	(4.29%)	7.28%
Barclays Global Aggregate Index	(6.82%)	1.34%
iShares iBoxx $ Investment Grade Index	(8.92%)	3.72%



A 1% increase in interest rates would result in an estimated 8.92% loss for the average global investment grade fixed income portfolio

[5]For illustrative purposes only. Credit spreads and all other parameters remain unchanged. The information regarding the indices is included merely to show the general trends in the periods indicated and no intention is made to imply any similarities to any of the indices in composition or risk. The benchmarks are used for comparative purposes only. CQS analysis, Bloomberg as at 5 May 2016.

Credit Asset Classes

The following credit strategies are not a comprehensive list, but illustrate the range that may be included in a MAC portfolio:

Investment Grade Credit

Investment Grade bonds are those rated BBB- and above. The global investment grade corporate market is capitalised at approximately $8.61 trillion[6]. The size of the opportunity set notwithstanding, central bank actions combined with the prevailing low growth / low inflation environment have materially depressed yields in this segment of the credit markets. Furthermore, the effective duration of investment grade credit is among the longest of all credit asset classes. For these reasons, we believe that the best opportunities currently lie in other credit markets.

High Yield Credit

High Yield bonds are those that have a credit rating below BBB-.

Typically, High Yield bonds pay higher yields than Investment Grade bonds, but have a higher default rate. The High Yield market has grown substantially in size and breadth since 2009 and is continuing to grow, driven by leveraged buyouts, loan-to-bond refinancing and downgrades of large investment grade corporate bonds and subordinated financial bonds. According to data from Bank of America Merrill Lynch, at the end of April 2016, the global High Yield Credit market comprised outstanding issuance of approximately $2.19 trillion.

We believe an increase in dispersion between issuer performance and higher volatility, along with a muted default environment, provides an attractive backdrop for High Yield credit selection. In the European market, we believe there are opportunities to identify companies with fundamentals which are ahead of their current credit rating or takeover / IPO candidates. In the US, opportunities have arisen around dislocations due to fund flows and large M&A deals with accompanying new debt, re-pricing the secondary market. US High Yield markets, particularly higher-beta sectors, recently cheapened relative to Europe due to contagion from energy-related losses.

Senior Secured Loans

Senior Secured Loans are senior debt instruments secured by the assets of the borrower. They are debt financing made to medium-to-large-sized corporations, predominantly sub-investment grade, for which the lender receives a floating rate of Libor plus a margin (also known as spread).

The sector offers several benefits for investors. Risk-adjusted expected returns are attractive, with returns of 4%-6%[7] currently available in Europe and the US. Further, a senior position in the capital structure and strong documentation help mitigate potential losses of principal and protect against company re-leveraging risk.

Their floating rate structure also offers natural protection against interest rate duration risk. Against these factors, investors should consider the higher default risk and lower liquidity of Senior Secured Loans compared with the Investment Grade debt market.

Senior Secured Loans offer an attractive way to capture yield spread in a more senior, secured position in the capital structure than High Yield bonds. The asset class has exhibited a healthy new-issue pipeline. In our view, global Loan spreads comfortably compensate for credit risk, however individual deal selection through fundamental research remains critical. We believe a global approach to investing in Loans provides investors with the most flexibility to capture relative value. Recently, we have advocated a rotation from European to US loans given the shifting relative value picture and we expect that opportunity to continue.

Asset Backed Securities

An Asset Backed Security is a security whose value and income payments are derived from and collateralised ('backed') by a specified pool of underlying assets, predominantly mortgages. In other words, an Asset Backed Security represents a claim on the cash flows from mortgage loans, either residential ('RMBS') or commercial ('CMBS').

[6]Source: BAML 'G0BC Index': 'The BofA Merrill Lynch Global Corporate Index', as at 23 June 2016. [7]S&P Global Market Intelligence, LCDComps, 22 June 2016.

Asset Backed Securities (continued)

ABS is an attractive sector for managers with a focus on fundamental credit research. ABS has a complexity premium and therefore provides opportunities for managers with specialist in-house expertise and the ability to analyze the structures and underlying collateral.

We are generally constructive on ABS markets. Unlike most segments of the credit market, the asset class has been slowly shrinking as repayments outweigh new issuance. This leaves ABS in a good medium-to-long-term technical position. Also as fundamentals remain strong we believe the lagging performance of ABS markets more recently will generate attractive returns in the coming months. Yields are currently running at 5%-7%[8], and we see opportunities across global CLOs, US RMBS, European CMBS and RMBS, as well as whole business securitisation in the UK.

Convertible Securities

A Convertible is a bond that can be converted into a predetermined amount of a company's equity at certain times during its life, usually at the discretion of the bondholder. Essentially, a Convertible is a bond with an embedded equity option.

Convertibles are an attractive asset class, offering participation in the upside when equity markets rise and, because of the bond floor, downside protection when equity markets fall. Studies of Convertible Bond returns have demonstrated long-term performance comparable with that of equities with lower volatility. Furthermore, Convertibles have modest effective duration and have demonstrated low (even negative) correlation with global government bonds and modest correlation with broader Corporate Credit and thus we believe constitute an attractive addition to broader credit portfolios[9].

Convertibles also frequently offer idiosyncratic opportunities where the specifics of the bond documentation offer material potential upside in the event of M&A or other corporate activity.

Emerging Market Debt

Emerging Market Debt is the Sovereign and Corporate Bond issuance of less developed countries and is usually rated below investment grade. The sector provides diversification to developed world credit exposures and has historically paid higher yields and offered higher returns than developed markets.

Given the potential returns, risks too can be higher. Compared with developed markets, Emerging Market Debt has a higher perceived default rate, greater risk of corporate governance issues, and sovereign bonds can also be more volatile.

Direct Lending / Private Debt

Direct Lending strategies seek to capitalise on the reduction in bank lending due to regulatory capital and other balance sheet constraints. Private Debt is usually in the form of Loans (Senior, Subordinate or a combination) which are structured and held directly by institutions and funds rather than structured and syndicated by a bank. While the strategy is highly illiquid, returns can exceed those from more liquid Loans.

[8]CQS analytics as at 31 May 2016. [9]CQS 'Case for Convertibles', BoAML 'Global Convertibles Primer' 2016.

Not for distribution to retail investors as defined in Article 4 of the European Directive 2011/61/EU and the UK FCA COBS 3.4. CQS is a founder of the Hedge Fund Standards Board ("HFSB") which was formed to act as custodian of the hedge fund best practice standards (the "Standards") published by the Hedge Fund Working Group ("HFWG") in 2008 and to promote conformity to the Standards. HFSB is also responsible for ensuring that they are updated and refined as appropriate. The Standards were drawn up by HFWG which comprised the leading hedge funds (based mainly in London) in 2007 in response to concerns about the industry, including financial stability and systematic risk. The HFWG completed its work in January 2008 and published its report outlining the Standards. By applying, managers commit to adopt the "comply or explain" approach described in the Standards.

The term "CQS" may include one or more of any CQS branded entity including CQS Cayman Limited Partnership which is registered with the Cayman Islands Monetary Authority, CQS (UK) LLP and CQS Investment Management Limited which are both authorised and regulated by the UK Financial Conduct Authority, CQS (Hong Kong) Limited which is regulated by the Hong Kong Securities and Futures Commission, CQS (US), LLC which is registered with the US Securities and Exchange Commission, and CQS Investment Management (Australia) Pty Limited which is registered with the Australian Securities & Investments Commission, Australian Financial Services Licence No. 386047.

This document has been prepared for general information purposes only and has not been delivered for registration in any jurisdiction nor has its content been reviewed by any regulatory authority in any jurisdiction. The information contained herein does not constitute: (i) a binding legal agreement; (ii) legal, regulatory, tax, accounting or other advice; (iii) an offer, recommendation or solicitation to buy or sell shares in any fund or any security, commodity, financial instrument or derivative linked to, or otherwise included in, a portfolio managed or advised by CQS; or (iv) an offer to enter into any other transaction whatsoever (each a "Transaction").

Any decision to enter into a Transaction should be based on your own independent investigation of the Transaction and appraisal of the risks, benefits and suitability of such Transaction in light of your individual circumstances. Where applicable, any decision to enter into any Transaction should be based on the terms described in the relevant prospectus, supplement, offering memorandum, private placement memorandum, trading strategy, constitutional document and/or any other relevant document as appropriate (each an "Offering Document"). Any Transaction will be subject to the terms set out in its Offering Document and all applicable laws and regulations. The Offering Document supersedes this document and any information contained herein.

Nothing contained herein shall constitute or give rise to the relationship of partnership nor shall it constitute a joint venture or give rise to any fiduciary or equitable duties. Any information contained herein relating to any third party not affiliated with CQS is the sole responsibility of such third party and has not been independently verified by CQS or any other independent third party.

The information contained herein is not warranted as to completeness or accuracy and no representations are made in such respect, nor should it be deemed exhaustive information or advice on the subjects covered; as such, the information contained herein is not intended to be used or relied upon by any counterparty, investor or any other party. The information contained herein, as well as the views expressed herein by CQS professionals made as of the date of this presentation, is subject to change at any time without notice.

CQS uses information sourced from third-party vendors, such as statistical and other data, that are believed to be reliable. However, the accuracy of this data, which may also be used to calculate results or otherwise compile data that finds its way over time into CQS research data stored on its systems, is not guaranteed. If such information is not accurate, some of the conclusions reached or statements made may be adversely affected. CQS bears no responsibility for your investment research and/or investment decisions and you should consult your own lawyer, accountant, tax adviser or other professional adviser before entering into any Transaction. CQS is not liable for any decisions made or action taken by you or others based on the contents of this document and neither CQS nor any of its directors, officers, employees or representatives (including affiliates) accept any liability whatsoever for any errors and/or omissions or for any direct, indirect, special, incidental or consequential loss, damages or expenses of any kind howsoever arising from the use of, or reliance on, any information contained herein.

Information contained in this document should not be viewed as indicative of future results as past performance of any Transaction is not indicative of future results. The value of investments can go down as well as up. Certain assumptions and forward looking statements may have been made either for modelling purposes, to simplify the presentation and/or the calculation of any projections or estimates contained herein and CQS does not represent that any such assumptions or statements will reflect actual future events or that all assumptions have been considered or stated. Accordingly, there can be no assurance that estimated returns or projections will be realized or that actual returns or performance results will not materially differ from those estimated herein. Some of the information contained in this document may be aggregated data of transactions executed by CQS that has been compiled so as not to identify the underlying transactions of any particular customer.

Any indices included in this document are included to simply show the general market trends relative to the types of investments CQS tends to select for certain funds managed or advised by CQS ("CQS Funds") for the periods indicated within this document. The indices are not representative of CQS Funds in terms of either composition or risk (including volatility and other risk related factors). CQS Funds are not managed to a specific index. This document is not intended for distribution to, or use by, the public or any person or entity in any jurisdiction where such use is prohibited by law or regulation. In accepting receipt of this information, you represent and warrant that you have not been solicited, directly or indirectly, by CQS and are receiving this information at your own request. It is your responsibility to inform yourself of and to observe all applicable laws and regulations of any relevant jurisdiction.

(continued on next page)

The information contained herein is confidential and may be legally privileged and is intended for the exclusive use of the intended recipient(s) to which the document has been provided. In accepting receipt of the information transmitted you agree that you and/or your affiliates, partners, directors, officers and employees, as applicable, will keep all information strictly confidential. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information is prohibited. Any distribution or reproduction of this document is not authorized and prohibited without the express written consent of CQS, or any of its affiliates.

AIFMD and Distribution in the European Economic Area:
The Alternative Investment Fund Managers Directive (Directive (2011/61/EU)) ('AIFMD') is a regulatory regime which came into full effect on 22nd July 2014. CQS (UK) LLP is an Alternative Investment Fund Manager (an 'AIFM') to certain CQS Funds (each an 'AIF'). The AIFM is required to make available to investors certain prescribed information prior to investing in an AIF. The majority of the prescribed information is contained in the latest Offering Document of the AIF. The remainder of the prescribed information is contained in the relevant AIF's pre-investment disclosure document, the monthly investor report, and the fund limits document. All of this information is made available in accordance with the AIFMD.

In relation to each member state of the EEA (each a "Member State") which has implemented the AIFMD (and for which transitional arrangements are not/no longer available), this document may only be distributed and shares in a CQS Fund ("Shares") may only be offered or placed in a Member State to the extent that: (1) the CQS Fund is permitted to be marketed to professional investors in the relevant Member State in accordance with AIFMD (as implemented into the local law/regulation of the relevant Member State); or (2) this document may otherwise be lawfully distributed and the Shares may otherwise be lawfully offered or placed in that Member State (including at the initiative of the investor).

In relation to each Member State of the EEA which, at the date of this document, has not implemented the AIFMD, this document may only be distributed and Shares may only be offered or placed to the extent that this document may be lawfully distributed and the Shares may lawfully be offered or placed in that Member State (including at the initiative of the investor).

Information Required, to the extent applicable, for Distribution of Foreign Collective Investment Schemes to Qualified Investors in Switzerland:
The representative in Switzerland is ARM Swiss Representatives SA, Route de Cité-Ouest 2, 1196 Gland, Switzerland. The distribution of shares of the relevant CQS Fund in Switzerland will be exclusively made to, and directed at, qualified investors (the "Qualified Investors"), as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended ("CISA") and its implementing ordinance (the "Swiss Distribution Rules"). Accordingly, the relevant CQS Fund has not been and will not be registered with the Swiss Financial Market Supervisory Authority ("FINMA"). The representative in Switzerland is ARM Swiss Representatives SA, Route de Cité-Ouest 2, 1196 Gland, Switzerland. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Ile, 1204 Geneva, Switzerland. The relevant Offering Document and all other documents used for marketing purposes, including the annual and semi-annual report, if any, can be obtained free of charge from the representative in Switzerland. The place of performance and jurisdiction is the registered office of the representative in Switzerland with regards to the Shares distributed in and from Switzerland. CQS (UK) LLP (as the distributor in Switzerland) and its agents do not pay any retrocessions to third parties in relation to the distribution of the Shares of the CQS Fund in or from Switzerland. CQS (UK) LLP (as the distributor in Switzerland) and its agents do not pay any rebates aiming at reducing fees and expenses paid by the CQS Fund and incurred by the investors.

Index Descriptions:
Barclays Global High Yield Index: An unmanaged index considered representative of fixed rate, non investment-grade debt of companies in the US, developed markets and emerging markets.

Barclays Global Aggregate Index: An unmanaged index considered representative of global investment-grade, fixed income markets.

iShares iBoxx $ Investment Grade Index: iShares iBoxx $ Investment Grade Corporate Bond ETF is an exchange-traded fund incorporated in the USA. The ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment-grade corporate bonds.

Contact Information

clientservice@cqsm.com
www.cqs.com

CQS (UK) LLP
CQS Investment Management Limited
4th Floor, One Strand
London WC2N 5HR
United Kingdom

Tel: +44 (0) 20 7201 6900
Fax: +44 (0) 20 7201 1200

CQS (Hong Kong) Limited
Unit 1207, 12th Floor
No.9 Queen's Road Central
Hong Kong
China

Tel: +852 3920 8600
Fax: +852 2521 3189

CQS (US), LLC
152 West 57th Street
40th Floor, New York
NY 10019
United States

Tel: +1 212 259 2900
Fax: +1 212 259 2699

CQS Investment Management (Australia) Pty Limited
Suite 9.02, 50 Pitt Street
Sydney
NSW, 2000
Australia

Tel: +61 2 8294 4180