Public Disclosures: 31 March 2022

Background

The Investment Firms Prudential Regime ("IFPR") is the FCA's new prudential regime for investment firms, which came into force on 1 January 2022. The IFPR has been implemented through the new 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.

The Firm has adopted the FCA's transitional provisions for disclosure requirements contained in MIFIDPRU TP12. Consequently, the scope of the information disclosed in this document relates principally to the Firm's governance arrangements, own funds, own funds requirements, and remuneration arrangements.

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.

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 the Operating Committee ("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	1
Sir Michael Hintze	SMF1 Chief Executive SMF27 Partner	5
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 2022:

	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 2022.

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	635
	∑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 £13,008k, 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 2021 (the "Performance Period"). In accordance with the transitional provisions for public disclosure requirements in rule 12.8 of MIFIDPRU TP12, CQS UK continues to comply with remuneration disclosure requirements as they applied to the Firm in previous financial years under BIPRU for the current Performance Period.

Proportionality

CQS UK has been identified as a proportionality level three firm, as described in the FCA's General Guidance on Proportionality dated January 2014, for the purposes of this remuneration disclosure. All staff involved in this business during the Performance Period are captured by this disclosure.

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.

Information on Link Between Pay and Performance

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.

CQS is committed to ensuring that individuals are not rewarded for running undue risk and are incentivised to operate within the risk tolerances of the Firm.

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.

Quantitative Information on Remuneration

Code Staff have been identified as those falling into the following categories:

- Senior management, material risk takers and those responsible for control functions; and
- Any staff receiving total remuneration that takes them into a defined remuneration bracket that is considered to be indicative of having a material impact on the risk profile of CQS.

CQS has identified 20 individuals as Code Staff during the Performance Period. The aggregate remuneration of staff identified as Code Staff for the Performance Period was $58.4m. CQS considers that it has a single business area (investment management) which benefits from a range of support and ancillary functions.