Pillar 3 Disclosures: 31 March 2019

1. Background

The European Union Capital Requirements Directive sets out the regulatory framework governing the amount of capital which must be maintained by credit institutions and investment firms. In the UK the directive has been implemented by the Financial Conduct Authority (the "FCA").

The capital adequacy framework consists of three "pillars":

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risks;
- Pillar 2 requires firms, and the FCA, to assess though the Internal Capital Adequacy Assessment Process ("ICAAP") whether additional capital should be held against risks not covered by Pillar 1; and
- Pillar 3 requires firms to publish certain details of their capital, risks and risk management processes.

2. Scope of Application

The CQS consolidation group (the "Group") includes one entity that is regulated in the UK by the FCA, being CQS (UK) LLP ("UK LLP"). UK LLP is authorised by the FCA as a full-scope UK Alternative Investment Fund Manager and is categorised as a BIPRU firm for prudential regulatory purposes. UK LLP is subject to consolidated disclosure requirements by the FCA.

The Pillar 3 disclosures contained within this document apply to the Group on a consolidated basis. The Group is headed by CQS Management Limited and, in addition to the regulated entity listed above, fully consolidates the following entities:

Name	Nature of business
CQS Aiguille du Chardonnet S.à.r.l.	Fund general partner
CQS Investment Management (Australia) PTY LTD	Sales agent and marketing, regulated by ASIC in Australia
CQS Investment Management Limited	In wind down; was authorised as an IFPRU investment firm until 2018
CQS (Grosvenor) LLP	Inactive
CQS US Feeder Fund (GP) LLC	Fund general partner
CQS (US), LLC	Investment management and advisory, regulated by US SEC

The Group's Pillar 3 disclosures are made annually as at the accounting reference date of 31 March each year.

3. Governance Framework

The Group is overseen by the Board of Directors of CQS Management Limited. The Board brings strong non-executive experience to provide professional independent governance to safeguard the Group's longevity and sustainability.

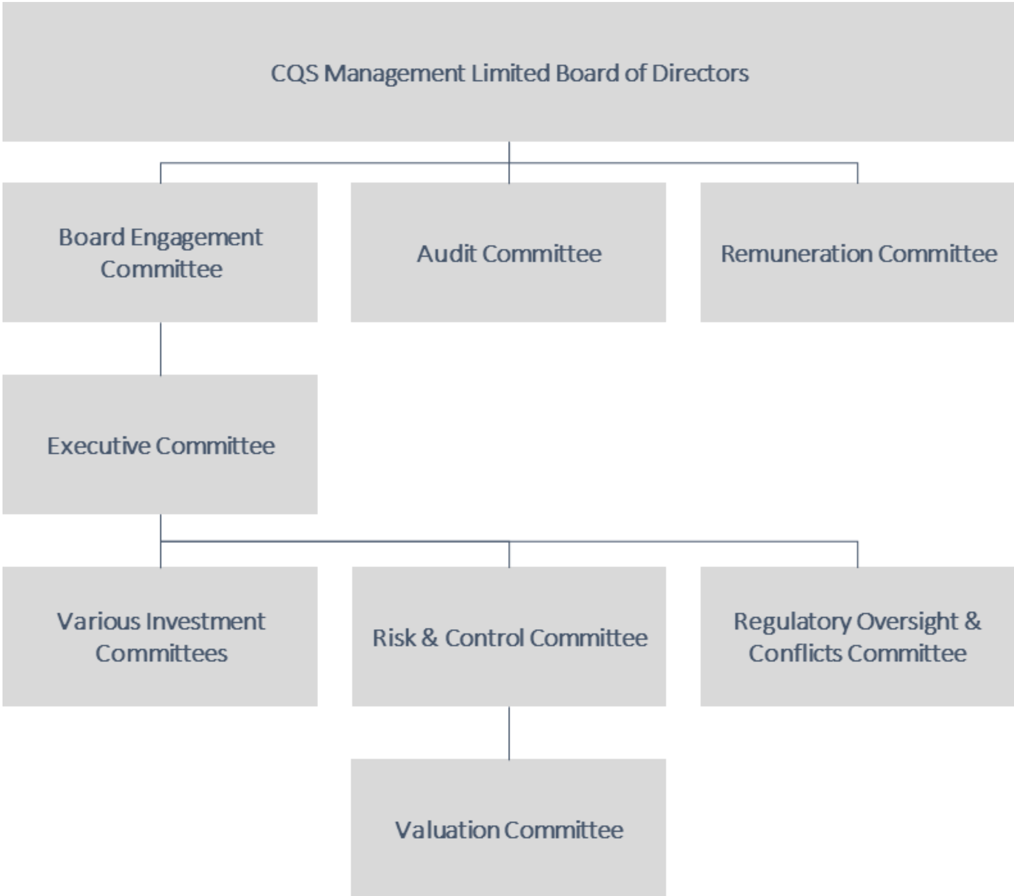
Reporting to the Board are the following committees:

- The Board Engagement Committee, whose primary focus is developing and articulating the Group's strategy and overseeing its execution, and executive management of the business through the Executive Committee ("ExCo"). Exco is responsible for executing the Group's strategy and overseeing the day-to-day operation of the business.
- The Audit Committee, which has been delegated responsibility for supervising governance activities, including internal and external audits and risk.
- The Remuneration Committee, which independently reviews and approves remuneration policies.

Sub-groups or committees reporting to the Executive Committee:

- Various investment committees: There are a number of investment advisory committees covering the requirements of specific mandates, all of which are responsible to the Senior Investment Officer, Sir Michael Hintze.
- The Risk and Control Committee (“RiskCo”): Oversight of CQS’s risk matrix and exposures, including funds’ liquidity, counterparty credit and operational risk.
- Valuation Committee (“ValCo”): Oversight of valuation policies and pricing of hard-to-value positions. The Valuation Committee has a reporting line to RiskCo and ultimately to ExCo.
- Regulatory Oversight & Conflicts Committee (“ROCC”): Dual focus on the impact of regulatory developments upon CQS and the assessment of conflicts of interest affecting CQS or its funds.

Governance Structure:



4. Risk Management Objectives and Policies

Ultimate oversight of the Group’s risk management objectives and policies is provided by the Executive Committee. The Risk and Control Committee, which reports into the Executive Committee, is responsible for overseeing and supervising the risk management function and providing oversight of the Group’s risk matrix and exposures.

The objective of the Group’s risk management structure is to manage known risks effectively and react to emerging risks. The Risk and Control Committee and key members of the Group’s management meet on a regular basis to discuss and identify known and potential risks faced by the Group.

a. Business Risk

The Group has identified its key business risk as being the risk of a substantial decline in assets under management 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. The Group 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.

The Group's business model is also at risk from reputational factors, as reputational damage could result in a significant decrease in assets under management and impairment of future business development. To curb both the effect and occurrence of damage to reputation, the Group invests resources into portfolio management, the infrastructure platform 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 Group operates within a highly regulated environment and laws and regulations may evolve in a manner that negatively impacts upon the Group's business model, including changes as a result of "Brexit". The Group mitigates this risk through ongoing monitoring of current and proposed regulatory requirements along with engagement with industry bodies.

b. Operational Risk

The Group is exposed to operational risks as a result of inadequate or failed internal processes, breaches of regulatory or ethical standards, errors and breaches in the Group's security. Operational risk is monitored by the Group's Risk and Control Committee and is mitigated through the implementation of robust controls and processes, regular staff training and policies covering anti-money laundering, bribery, market abuse etc.

The Group has also established an internal audit function to provide independent, objective assurance and consulting services that help senior management to protect the assets, reputation and sustainability of the Group. Internal audit conducts 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.

c. Market Risk

The Group holds investments in Collateralised Loan Obligations ("CLOs") to satisfy risk retention requirements, along with investments in certain CQS funds, both of which are exposed to possible impairment due to market performance. As part of the Group's capital planning process, specific capital and reserves are held in consideration of market risk to mitigate the impact of this exposure, which is reported to the Executive Committee on a monthly basis.

Market risk also arises through exposure to balances held in foreign currencies, primarily due to fees generated in currencies other than the Group's functional currency as well as foreign currency denominated investments. Foreign currency balances are monitored on an ongoing basis and hedging strategies executed to mitigate exposure.

d. Credit Risk

The Group is exposed to the risk of loss should any of the Group's counterparties fail to fulfil their contractual obligations. This risk is managed through the establishment of short settlement terms with the Group's counterparties, primarily the funds managed by the Group and other CQS entities outside the Group, with billing for management and performance fees settled within three months. Oversight of the liquidity, credit and operational risk of the funds managed by the Group is provided by the Group's Risk and Control Committee.

e. Liquidity Risk

The Group is required to maintain sufficient liquidity to ensure that there is no significant risk that liabilities cannot be met as they fall due. The Group 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.

5. Capital Resources and Requirements

a. Capital resources

The Group's capital resources, on a consolidated basis, consisted of the following as at 31 March 2019:

Capital Resources		$ millions
Core Tier One Capital	Share capital, share premium and other reserves	36.1
Less: Deductions		-
Total Capital Resources		36.1

b. Capital requirement

As a BIPRU 50k firm, the Group's minimum capital requirement under Pillar 1 is calculated as being the greater of:

- A base capital requirement of €50,000;
- The sum of its market and credit risk capital requirements; and
- The fixed overheads requirement.

As at 31 March 2019, the Group's Pillar 1 capital requirement was as follows:

Capital Requirement	$ millions
Credit Risk	8.6
Market Risk	0.1
Sum of Credit and Market Risk	8.7
Fixed Overhead Requirement	12.1
Total Pillar 1 Capital Requirement	12.1

As a result of the regulatory permissions held, the Group's Pillar 1 capital requirements do not include an operational risk capital component. As part of the Group's ICAAP, the Group assesses all known risks, including operational risks, to consider the adequacy of the level of capital held in view of the Group's current and future activities. The risks identified are stress-tested against various scenarios to determine the level of capital that needs to be held.

The adequacy of the capital held by the Group is assessed regularly, and at least annually, as part of the ICAAP framework and is subject to approval by the Group's Executive Committee. Following the most recent ICAAP review, it was concluded that the Group's total Pillar 2 capital requirement was $20.0 million.

c. Exposure to securitisation positions

The Group's securitisation positions represent holdings in Collateralised Loan Obligations ("CLOs") to satisfy risk retention requirements arising under Article 405 of Regulation No 575/2013/EU (the "Retention Rules"). The Retention Rules require that the Group holds at least 5% of the nominal value of each tranche sold or transferred to investors of each CLO for which the Group acts as originator in its role as collateral manager. Consequently, the CLO notes held by the Group range from most senior to most subordinate.

6. Remuneration

The following Pillar 3 disclosure on remuneration is made for the 15 month period ended 31 December 2018 (the "Performance Period").

a. Proportionality

UK LLP 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.

b. Governing body and remuneration committee

The responsibility for remuneration of the above staff lies with the board of directors of CQS Management Limited (the "Governing Body"), which is the corporate member of UK LLP.

The Governing Body sets the Remuneration Policy for CQS and oversees its governance framework to ensure that remuneration arrangements are consistent with, and promote, effective risk management. The setting of the Remuneration Policy and its operation takes account of the following:

- the primary business of CQS is the provision of investment management and advisory services to funds (each of which have their own independent governing bodies), generating fee-based income;
- the retention, recruitment and talent development requirements of the firm as well as the external market environment; and
- updates on regulatory developments and market wide remuneration issues.

The Governing Body has appointed an independent Remuneration Committee ("RemCo"), comprising four non-executive independent members, to make recommendations to the Governing Body in respect of remuneration.

RemCo has met several times to consider evidence provided by senior management within CQS and the results of external benchmarking studies and advice from third party consultants with respect to the Performance Period.

The Group's Remuneration Committee is responsible for providing an independent review and approval of all remuneration policies and annual discretionary compensation. Input into such policies and proposed discretionary compensation is provided to the Remuneration Committee by an internally constituted Compensation Review Group.

c. Information on link between pay and performance

The total remuneration for each individual comprises a base salary/draw, discretionary variable award (which may be deferred) and benefits. These components are considered and are balanced appropriately 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 and RemCo take into consideration:

- the operating profit of CQS, reflecting the revenue from management and performance fees (on a crystallisation basis) less its operating expenses;
- the performance of the relevant team, being the business line (e.g. the Convertibles portfolio management team) or support function (e.g. the Distribution or Legal function);
- the performance of the individual (both financial and non-financial performance); and
- market and benchmarking data for the industry and individual functions.

The assessment of each individual's performance encompasses both financial and non-financial performance with quantitative metrics and qualitative input utilised. CQS is committed to ensuring that individuals are not rewarded for running undue risk and are incentivised to operate within the risk tolerance set by the Governing Body in conjunction with the firm's

Executive Committee. Risk, Compliance, Human Resources and Middle Office provide a confidential risk assessment to RemCo for individuals or teams and this is taken into account with adjustments made to individual variable remuneration levels (both positively and negatively) as appropriate; a weighted rating in favour of effective risk management and compliance with policies and procedures may be used to ensure an individual's remuneration promotes effective risk management.

CQS also uses deferral plans to incentivise and retain staff, 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. A significant proportion of the performance award for those in receipt of a variable award above a level set at the discretion of the Governing Body and RemCo is deferred and the amount deferred is invested in funds managed by the firm. Such amounts typically pay out at the end of a three year deferral period subject to various conditions being met and claw backs for poor performance may be made during the deferral period.

d. Quantitative information on remuneration

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

- Senior management, risk takers and control functions; and
- 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 39 individuals as Code Staff during the course of the Performance Period. The aggregate remuneration of staff identified as Code Staff for the Performance Period was $85.8m. CQS considers that it has a single business area (investment management) which benefits from a range of support and ancillary functions.