Stewardship and Shareholders' Rights Report

2020

Scope and Purpose of this Report

CQS (UK) LLP ("CQS" or the "Firm") complies with, and adheres to the principles of, The UK Stewardship Code 2020 (the "Code") and the Shareholders Rights Directive II ("SRD II") (as transposed into the UK Financial Conduct Authority's Conduct of Business Sourcebook ("COBS") in its handbook of rules and guidance (the "FCA Rules")).

This Report sets out how CQS has applied the principles of the Code for the period between 1 January 2020 to 31 December 2020 (the "Reporting Period") in respect of those funds and clients managed or advised by CQS (each a "Fund" or "Client", which definition shall include, where the context requires, any end-investor). This Report, together with additional tailored reporting provided to specific institutional Clients and Funds, also satisfies the SRD II annual disclosure and asset manager transparency requirements set out in COBS 2.2B (SRD Requirements) of the FCA Rules.

This Report should be read in conjunction with, and by reference to, CQS' Shareholder Rights and Stewardship Policy (the "Stewardship Policy"). This Report is structured in a manner consistent with our Stewardship Policy and the Code, with each Principle of this Report corresponding to the equivalent Principle under the Code.

Front Cover Photo by Markus Winkler (www.Unsplash.com)

Letter From Sir Michael Hintze

The integration of stewardship and ESG factors into our investment approach is critical to assessing risk and identifying value and investment opportunities, generating the best possible returns for our Clients, as well as leading to sustainable benefits for the economy, the environment and society as a whole.

I strongly believe 'total portfolio thinking' incorporates seeking long-term absolute returns based on risk, return and consistent goals. As such, an active approach to stewardship and the careful consideration of ESG factors play a core part in our investment approach.

We do this through adherence to our Stewardship Policy and by following our five-stage ESG process. Engagement and internal analysis is crucial. In engaging with companies we seek to make our approach clear, a failure to address the issues raised may ultimately impact their cost of capital.

Regular engagement is key to understanding how a corporate issuer is really operating, and directly forms part of our ESG rating from the outset of analysis to subsequent investment decisions. We continue to strive to evolve our approach to stewardship, responsible investment, and engagement. Not only is it the right thing to do, it is also critical to enabling us to perform for our Clients.

Sir Michael Hintze

Founder, Group Executive Chairman
and Senior Investment Officer

Principle 1

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

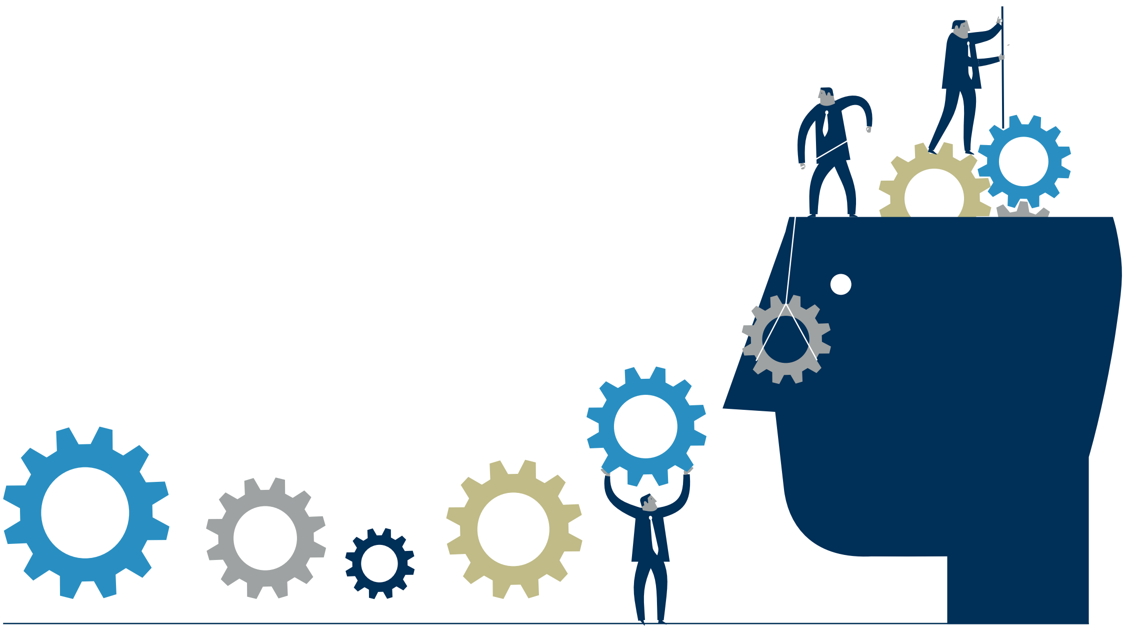
Purpose of Organisation, Values, and Investment Beliefs

CQS is a credit-focused multi-strategy asset manager which was founded in 1999. CQS launched its first strategy in 2000 and today provides a range of investment solutions for investors across a variety of return objectives and risk appetites. Our primary purpose is to generate long-term, risk-adjusted returns for our Clients. We focus on our core credit asset classes where we have built specialist expertise across the corporate capital structure over our 20+ year history.

CQS is committed to delivering performance and high levels of service to our Clients.

An active approach to stewardship, including environmental awareness, social responsibility and commitment to good governance is at the heart of CQS' culture, business ethics and shared Firm values.

CQS has a history and ethos of active credit management, selecting assets which appropriately compensate end-investors for risk, trading economically around opportunities and seeking to meet investor return, risk and liquidity requirements without benchmarking or "buying the market". This comes from a belief in deep, thorough fundamental analysis to price and trade risk across various asset classes, geographies, sectors and individual issuers. We believe that our disciplined, robust and repeatable investment process allows us to invest in the right businesses or asset pools, and accurately determine relative value to achieve Client objectives and expected outcomes arising from the use of their capital.



CQS' Investment Beliefs Support Effective Stewardship

We believe that an active approach to stewardship and responsible investing are crucial factors in creating long-term value for our Clients. Stewardship and environmental, social, and governance ("ESG") factors are key drivers that influence financing costs, valuations and performance. As a result, our integration of these factors into the investment process is extensive and deeply embedded.

Over the Reporting Period, we have sought to use our position, on behalf of our Clients, as a leading global provider of credit to actively seek improvements from the companies in which we invest. We have engaged and collaborated with stakeholders as a key means by which to make a meaningful change in corporate behaviour.

As predominantly credit investors, the most relevant measure of active ownership is our engagement activity, details of which are set out under Principles 9, 10, and 11.

The case studies and examples included throughout this Report serve to illustrate our approach to stewardship and we believe that has proved to be effective.

The ways in which CQS' own governance structure, resources, and incentivisation framework support effective stewardship are outlined in Principle 2.

We recognise that this is a rapidly evolving area and we are striving to continually improve and develop our approach to responsible investment and stewardship. We have highlighted areas where we believe improvements can be made (e.g. the need for greater collaboration across the industry outlined in Principle 10) and the steps we are taking to further improve our processes (e.g. the introduction of an Engagement Policy outlined in Principle 2).

Principle 2

Signatories' governance, resources and incentives support stewardship.

CQS' Governance Structure Supports Effective Stewardship

CQS believes that good governance is essential for effective Fund management, and this translates into a culture and practices which support effective stewardship.

The Firm is overseen by the Board of Directors of CQS Management Limited (the "Board") made up of executive and non-executive directors. The Board Executive Committee ("BEC") is responsible for forming and executing strategy and for the overall direction of the business.

The responsibility for the formulation and execution of a strategy that promotes, resources and rewards stewardship activities, therefore ultimately sits with BEC. In addition, BEC may become involved in specific stewardship-related matters.

The CQS Regulatory Oversight and Conflicts Committee ("ROCC") is the primary committee responsible for review and management of any material conflicts of interests relating to the Firm and its Clients, including any stewardship-related conflicts (as detailed further in Principle 3). The ROCC has also been delegated responsibility for signing off the Firm's principal policies, including its Stewardship Policy and an overarching Responsible Investment Policy.

The ESG Working Group comprises senior members of the Firm's Front Office, Distribution, and Infrastructure Teams. This group oversees the development of CQS' stewardship and responsible investment policies and procedures as well as responsible investment integration, including working with Portfolio Managers on suitable metrics and reporting. It also regularly provides insight and reporting on responsible investment and stewardship matters across the Firm. During 2021, CQS is formalising its responsible investment governance with the incorporation of a Responsible Investment Governance Committee.

The Firm's Engagement Group comprises a broad representation of Portfolio Managers, Research Analysts and members of the Distribution Team which focuses in detail on a targeted group of companies each year which have been identified as requiring engagement on ESG issues. This is a powerful way of generating insight and action across the capital structure for companies in which CQS is invested. The CQS Engagement Group was formed in 2020 and continues to develop its process, including a forthcoming Engagement Policy. In 2020, CQS also introduced an Engagement Framework to guide our Research Analysts on key areas to address by sector. This Framework forms part of our overarching engagement approach. Please see Principle 9 of this Report for further detail on the activities of the CQS Engagement Group during the Reporting Period.

Both the ESG Working Group and Engagement Group are underpinned by diversity of thought, with representation from the Firm's Front Office as well as the Client-facing Teams.

Resourcing of Stewardship Activities

We believe that the individual Portfolio Managers are best-placed to integrate responsible investing and stewardship into their respective strategies, as such primary responsibility for effective day-to-day stewardship and investment activities sits with these individuals. The bottom-up research of individual issuers is conducted by a dedicated team of Research Analysts who support the Portfolio Management Teams across the organisation in both investment decision making and subsequent stewardship activity. In Principle 7, we illustrate how this process works and how fundamentally-driven research contributes to investment decision-making undertaken by the various Portfolio Management Teams.

Front Office staff are incentivised as a function of their performance and achievement of annually set objectives. Teams are subject to ongoing appraisals and engage in regular discussions to encourage these behaviours. ESG research and engagement are common performance objectives in respect of all Research Analysts, and are a component of their discretionary compensation. For the forthcoming Reporting Period, a range of Portfolio Managers will also have ESG integration and engagement contribution directly linked to their performance objectives and remuneration.

We place a high importance on training, including in respect of responsible investment and stewardship matters, as an effective way to share knowledge and develop an integrated approach across the business. We are considering opportunities for further training and development, including encouraging ESG certification. Our overarching ESG learning and development has been guided by Client expectations and through evolving industry standards such as the Principles for Responsible Investment (the "PRI").

Systems

CQS uses a variety of sources for external data relating to responsible investment. MSCI ESG Manager is our core data provider, although other external sources of data are also used. We use these third-party tools to support the research, assimilation and consideration of ESG risk factors within our investment strategies.

Importantly, our research teams use these external data sources as a starting position, before preparing an internal ESG research note, which includes our own ESG rating and assessment of the trajectory in which the particular company is heading. CQS ratings may differ from the external data providers' assessment. In the latter part of 2020, we began reporting to our Clients on these statistics.

Analysis is made available to all Portfolio Managers and across the Firm's Front Office systems. We keep a close eye on additional ESG data sources developing, in particular those from traditional credit rating agencies and periodically validate whether changes to our core data providers are required.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

CQS maintains a separate conflicts of interest policy that sets out how the Firm identifies, prevents, manages and monitors conflicts of interest between itself, its partners, its staff and CQS Funds and Clients. This is elaborated on further, in a stewardship context, in the Firm's Stewardship Policy. Given that CQS manages multiple Funds and is an active manager with exposure across the capital structure, situations may arise which could give rise to a conflict of interest and, in some cases, a material conflict of interest. For example, conflicts may arise as a result of:

a. business relationships between Funds and CQS, and/or the assets they respectively hold or manage;

b. differences between our Stewardship Policy and investors' stewardship policies;

c. differing objectives of Portfolio Managers managing different asset classes of the same issuer (e.g. bonds or equity) and/or different holdings across the capital structure; and

d. Funds' and investment mandates' respective interests diverging from each other.

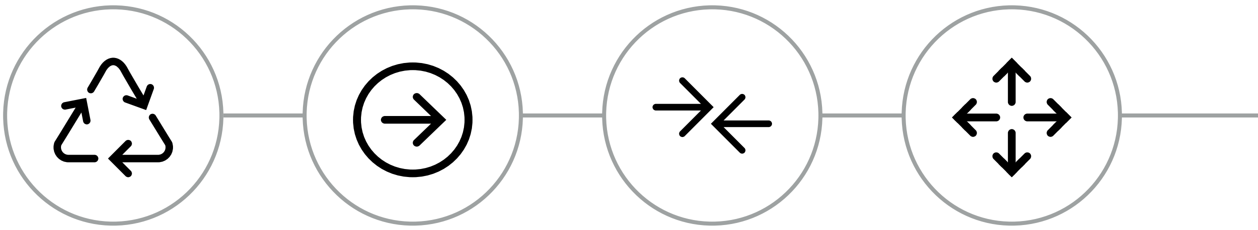
CQS also maintains a conflicts of interest matrix which identifies different types of conflict which might arise in relation to the kinds of service or activity carried out by or on behalf of CQS.

Staff must disclose any potential or actual conflict that is known to them relating to their stewardship activities, including in respect of proxy voting. If the Firm does have incidences of actual and potential conflicts these are noted in a conflicts register and reviewed by senior managers to ensure the Firm has effectively mitigated or eliminated these risks. If CQS is unable to ensure, with reasonable confidence, that the risk of damage to the interests of any Client can be prevented or avoided, then the Firm will fully disclose the conflict to the relevant Client and enter into discussions on how to resolve this.

Across the Firm, CQS has implemented a number of further policies and procedures to ensure that conflicts between Clients are effectively managed. One example is the CQS Cross Trading Policy that outlines the process that must be followed when one CQS Fund wishes to sell a holding to another CQS Fund. Because of the conflicts of interest that may arise, cross trades must be in the best interests of both the selling and buying Clients and always be carried out as if negotiated on an arm's length basis. All potential cross trade transactions must be approved by the CQS Compliance Team before any trading activity is undertaken. Both Funds must be represented by different Portfolio Managers.

In respect of conflicts that might arise as a result of the conduct of our staff, we have policies in place covering Personal Account Dealing, Gifts and Entertainment and Outside Business Interests. We have an automated system for tracking all personal account dealing activity, gifts and entertainment (both given and received) and any outside business activity. This is tracked and monitored by CQS' Compliance Team. All staff receive regular training on these policies and are required to attest annually that they have declared all activity in respect of these policies.

As we have described within our approach to governance, any conflicts of interest identified can be escalated to the ROCC or BEC for further consideration.



Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Identifying Market-Wide and/or Systemic Risks

CQS' structure, systems, and controls allows it to effectively identify, monitor, and respond to market-wide and systemic risks. This is supported by a strong knowledge sharing culture whereby discussion of geopolitical, environmental, economic and market themes is actively encouraged. Investment staff typically have an analytical component to their role, be it as specialist Research Analysts (focusing on individual names, sectors, macroeconomics, or geopolitics) or Portfolio Managers focusing on particular strategies or asset classes. In addition, staff have access to a wide range of research and data to aid analysis.

In their daily work the individual members of the CQS Risk Team rely on a wide variety of metrics to monitor Fund portfolios and to provide the Front Office with timely and relevant reporting. These metrics are primarily calculated by our portfolio management system, which allows any relevant risk factor to be stressed in isolation or in combination. CQS has also integrated 'best-in-class' third party systems to supplement the risk analysis of our positions. In particular, a "systematic shocks" analysis is run on a daily basis with the results analysed and reported to the investment teams as relevant.

The results of this monitoring are shared through either reporting or data visualisation software allowing the Risk Team and Front Office to interrogate the data.

CQS' Response to COVID-19

The impact of the market disruption at the outset of the COVID pandemic affected all Funds managed by CQS. Given the liquidity spectrum of the different CQS Funds, a variety of trading strategies were employed to preserve investor assets. The priority on the hedge-fund side of CQS' business was to preserve liquidity while actively trading market opportunities as these arose.

For the long-only strategies, the Portfolio Managers proactively managed exposures with an eye on potential government action and its likely impact on credit markets in particular.

The violent market movements experienced in Q1 2020 were reflected in the performance of certain of our Funds. We were able to manage all our Funds through this period of extreme market disruption and our Funds have made good progress in recovering from the worst losses.

Climate Change

Climate change is widely accepted as one of the greatest risks faced by our planet and economies and is an example of a market-wide and systemic risk facing the investment industry. Understanding the physical and transition risks to relevant issuers is an essential component of an integrated approach to responsible investment analysis. While a risk, climate change also presents a considerable opportunity as we transition to a low carbon economy.

Our Portfolio Managers are actively exploring climate as a thematic investment across a number of strategies including 'green hydrogen' (that which is created using renewable energy instead of fossil fuels). We see this as one of the few current means to decarbonise hard-to-decarbonise industries such as cement and steel production. Green hydrogen remains relatively expensive, currently costing $3-7.5/kg versus fossil-fuel derived hydrogen which can cost as little as $1/kg. However, we believe that with improving efficiency and technology this gap will tighten. Further, for our investment theme, we believe green hydrogen will always carry a premium as it is manufactured rather than extracted. CQS' Portfolio Management Teams continue to explore a number of companies including those involved with electrolysers, fuel cells, renewables and platinum (which is used within fuel cells).

In 2020 CQS became a signatory to CDP (formerly the Carbon Disclosure Project) and a public supporter of the Task Force on Climate-related Financial Disclosures ("TCFD"). In addition, we are a signatory and participator in collaborative engagements with Climate Action 100+. These help us to understand and collaborate the risks of climate change and are a key part of our commitment to engage on climate-related disclosures.

The integration of climate change within the Firm's five-stage ESG process (see Principle 7) is essential to evaluate risks and opportunities when considering financial metrics (probability of default, loss given default and cost of capital). Our Responsible Investment Policy requires all portfolio managers to take ESG factors into account when making investment decisions. This includes the impact of climate change and how any given issuer is appropriately managing aspects such as their carbon footprint (or within their value chain).

Our analysis of climate factors is supported with third-party data from CDP and MSCI Climate Analytics. Their data provides us with specific physical intensity scoring on individual issuers (MSCI), and practical transparency from CDP.

Weighted Average Carbon Intensity ("WACI") scores are available to investors across most CQS portfolios (where sufficient reporting is available), and as part of being a signatory to CDP, we also encourage greater company climate reporting. Portfolio Managers are able to take into account the likely impact of an investment on their WACI, and position portfolios to assess both physical and transition risk as part of their qualitative assessment and analysis. To add further insight, in 2021 CQS will begin testing quantitative scenario analysis tools as an additional input in estimating the impact of different transition outcomes.

We recognise the backward-looking nature of carbon intensity statistics. We are approaching climate disclosures on a strategy-by-strategy basis and we have commenced an audit across our Multi-Asset Credit strategy holdings to understand their approach to decarbonisation targets, net zero commitments, capital expenditure of climate solutions and executive remuneration linked to climate-related targets. The results of this audit will be made available to investors and it is hoped will provide a deep level of insight into the forward positioning of the strategy, and its adaptation and resilience to the impact of climate change (decarbonisation and working for a just transition).

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Policy Reviews

CQS reviews all of its policies (including the Stewardship Policy and Responsible Investment Policy) on an annual basis. CQS will have due regard to the principles of effective stewardship (including the 12 principles enshrined in the Stewardship Code) when reviewing, updating, and approving each of its relevant policies.

Each CQS policy has a relevant internal 'owner' attributed to it (an individual of sufficient seniority within the Firm who has overall responsibility for the policy, i.e. the "Policy Owner"). The Policy Owner is primarily responsible for reviewing the policy and updating it on an annual basis. The Policy Owner may seek comment and feedback from other relevant individuals, departments, committees or working groups within the Firm. Any material updates of policies will then be reviewed and formally approved by the Regulatory Oversight and Conflicts Committee (ROCC).

As an example, in updating the Firm's Responsible Investment Policy the Policy Owner reviewed it against best practice outlined by the PRI. This is one of the primary reasons CQS became a signatory of PRI, so that we could develop our processes in this area.

This is coupled with timely amendments to reflect the changes and improvements we make during the year to our responsible investment process more generally (such as industry initiatives or Client reporting of Carbon Intensity statistics). The Responsible Investment Policy was reviewed by our ESG Working Group leading to further comments and updates. The Policy was then formally approved at the ROCC before publication to our investors. Senior Portfolio Managers for whom the policy most directly applies were individually consulted throughout the process (several of whom were part of the process as members of the ESG Working Group).

Assurances Related to Stewardship

CQS seeks to ensure that its approach to stewardship and responsible investment matters is periodically evaluated, appraised and reviewed in order to ensure that it remains fit for purpose and to best serve the needs of our Clients. In so doing, CQS will seek both internal and external assurances in a variety of ways, including internal monitoring, PRI reporting and Client feedback.

Internal Monitoring

Our ongoing stewardship and ESG monitoring and reporting process includes periodic and collaborative reviews of relevant policies and procedures (as described in greater detail above), periodic research re-assessments, a watching brief across news wires for developing ESG considerations and review of ESG metrics such as rating breakdowns and trends. Our ESG Working Group is responsible for this ongoing oversight alongside work with Portfolio Managers to seek continual improvement and increasing adoption as the responsible investing requirements of our Clients continue to develop.

PRI Reporting

CQS uses its PRI reporting as key means by which progress can be measured with regard to incorporating stewardship and responsible investing into the investment process. The results of the PRI reporting highlight certain areas on which to focus and develop. In 2020, this included a focus and prioritisation on reporting our activities to investors (ESG breakdowns, carbon intensity, engagement) and the introduction of a more formalised approach to engagement. Both of these were material advancements made during 2020 and outlined in greater detail in Principle 9.

Although the PRI Reporting modules were optional for us in 2020, we chose to report so that we could share the results with our Clients, as follows:

- CQS scored an A for the Strategy and Governance of our overall ESG process
- Across each of the three individual fixed income modules, we scored a B

In our first year of PRI reporting, we are pleased with these results and believe they represent a strong process. The 2021 PRI process has subsequently been updated and the scores will not be directly comparable, however we continue with the process of review and improvement to validate our approach.

Client Feedback

As the expectations of our Clients around stewardship and responsible investment have increased, as have our processes and methodologies. We have established processes for reporting to, and engaging with, our Clients as detailed in Principle 4. As such, Client feedback is a key way in which we receive external assurances relating to our stewardship and responsible investment practices. This feedback allows us to improve our stewardship policies and processes. As an example, it was our Clients who initially encouraged us to become a signatory to PRI in 2019.

In 2020 CQS was appointed to a large convertible bond mandate which applies screening for environmental, social and governance factors, which has a significant focus applied to social outcomes of certain investment decisions. The mandate funded in January 2021, however through 2020 we built the investment screen, using initially Refintiv data. This screen has now been adopted into the Portfolio Management System used for our long-only convertible bond portfolios and is an enhancement of our overall process and informational understanding prior to investment decision making.

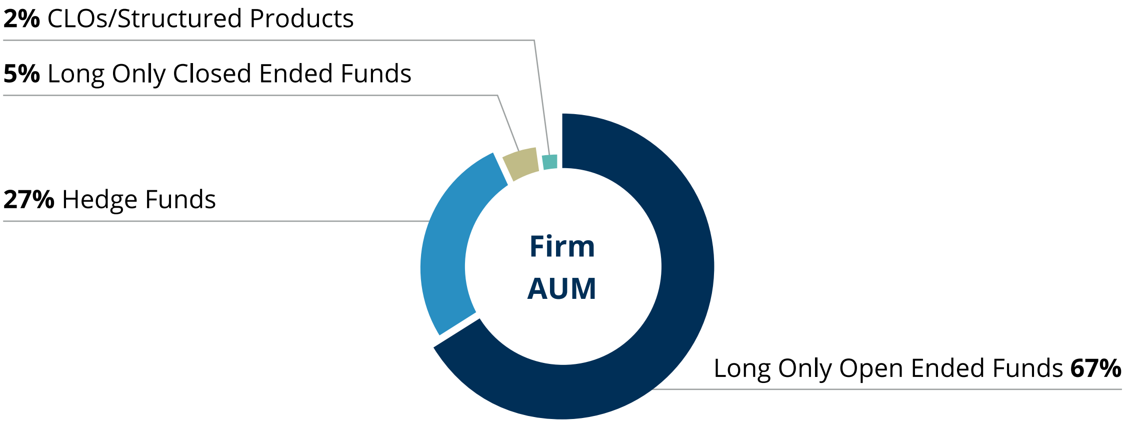
The next section of this Report sets out in further detail our approach to Client reporting.

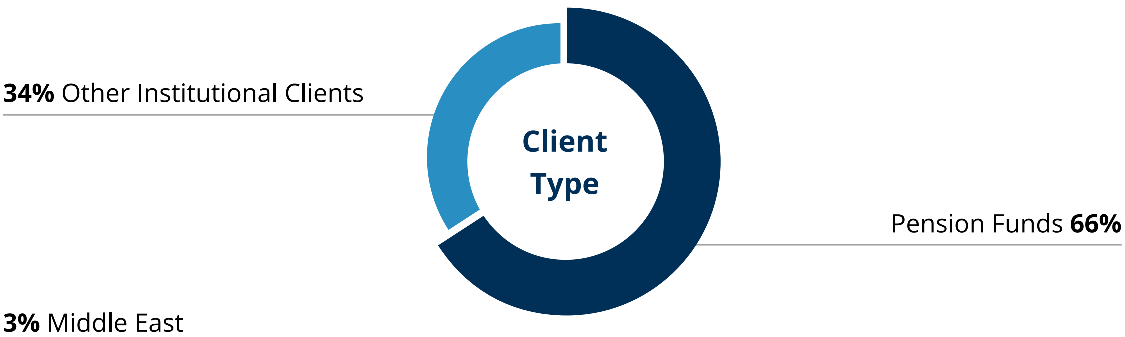
Principle 6

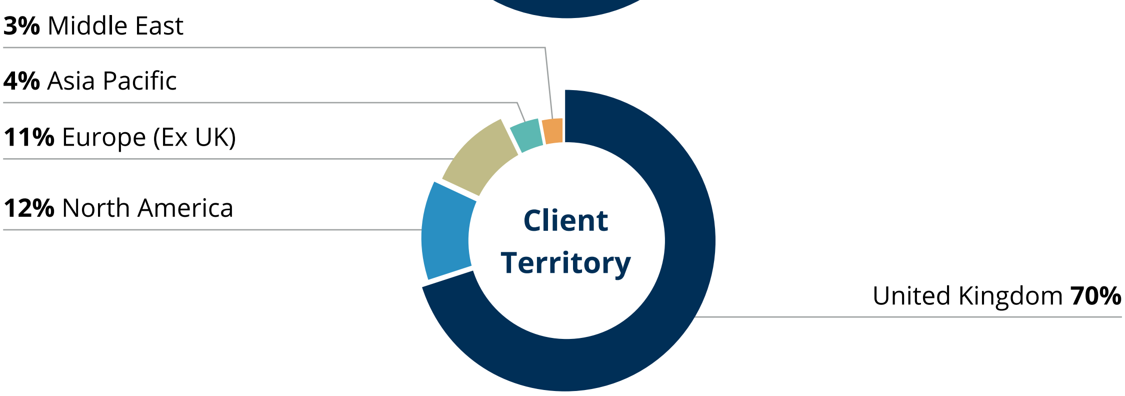
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

CQS' Client Base and Assets Under Management

CQS has an institutional client-base, with nearly two thirds being pension investors, both private and public, and manages money for Clients across the full spectrum of time horizons, from daily liquidity UCITS Funds through to longer lock private debt style mandates.







Source CQS, as at 31 December 2020.

In order to manage this variety, CQS makes use of its Portfolio Managers in-depth market and product knowledge as well as comprehensive Fund level liquidity modelling (monitored by the independent Risk Team) to ensure that each Fund's liquidity profile is in line with the terms and constraints of the relevant Fund. In so doing, the Risk Team uses a variety of methodologies and external data (including MSCI Liquidity Scoring) to provide insight into emerging liquidity issues and opportunities.

Reporting to, and Engaging with, our Clients

We see engagement with our Clients as a critical means by which to understand their values, investment needs, and the outcomes they are seeking. Our Clients are our partners; our approach is one of transparent and clear communication that meets our Clients' ongoing individual reporting and due diligence requirements. A large number of our Clients have introduced their own due diligence questionnaires which relate specifically to stewardship and responsible investing. Our dedicated Client servicing team co-ordinates and fulfils such requests for a range of our investors, from pension funds to insurance Clients and funds-of-funds, and across multiple jurisdictions. These may also include the completion of Cost Transparency Initiative templates, an initiative supported by CQS, as well as industry-standard voting templates and records of engagement activity.

In 2020 we also began several conversations with our Clients on the importance of climate change and the metrics they look for. This will expand as the industry becomes increasingly aware of its emissions alignment to the Paris Agreement, with CQS planning to introduce TCFD reporting.

Our Clients have told us we have a strong engagement process, but our reporting was not visible enough. We have sought to address this with a combination of initiatives to increase the visibility of our ongoing activities. On a monthly basis, the reporting for our long-only strategies include breakdowns of both ESG ratings at the portfolio levels and also climate intensity statistics. In addition, we have introduced quarterly Client presentations which provide a detailed outline of our approach, and examples of the engagements underway. We have also built upon our Responsible Investing section of our website and will look to expand this further, with a focus on outlining our engagement priorities as a Firm, with case studies that our Clients can follow to see our approach in practice.

To support our Clients, we regularly review and acknowledge their statement of investment principles. While it is for the relevant Clients to determine the appropriateness of their investments, we are able to see a strong alignment of our approach, policies and process, and ensure consistency with our Clients' objectives.

Principle 7

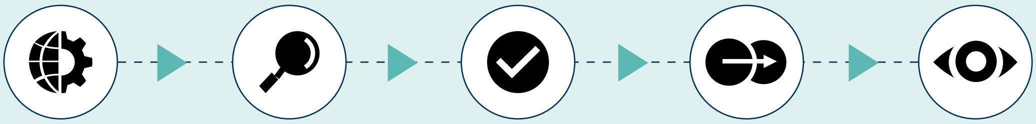
Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Integrating Stewardship with Investment

The integration and assessment of stewardship and ESG factors is a crucial part of our investment process across the CQS platform, both in public and privately-held companies, and a key factor in our decision-making. Through embedding these considerations into our investment process we seek to enhance our ability to identify value, investment opportunities and, critically, to generate the best possible returns for our Clients.

All portfolios managed by CQS follow the Firm's five-stage responsible investing integration process. Having due regard to the specific investment strategy, Portfolio Managers and Research Analysts are required to consider E, S, and G risks as part of their investment decision-making and fundamentally-driven research approach, respectively.

CQS' Five Stages of Responsible Investment Integration



1	2	3	4	5
Incorporate	**Evaluate**	**Decide**	**Engage**	**Monitor**
Incorporation of third-party ESG metrics and data into CQS' systems.	Evaluation of ESG factors in our sector research process. Includes analysis to formalise company specific internal ESG ratings and their trajectory.	Portfolio Managers consider research analysis as part of investment decision making.	Influence and change corporate behaviour towards identified ESG risks and issues. Targeted Engagement Programmes.	Periodic research re-assessments. A watching brief across news wires for developing ESG considerations.

Our process specifically looks to integrate ESG factors through our sector research process, including modelling and internal ratings with ESG methodologies applied to both public and private debt. There are up to 35 factors that Research Analysts may take into account when analysing a company, including:

- **Environmental**: Climate Change, Water Stress, Biodiversity and Land Use, Toxic Emissions and Waste and Environment Opportunities
- **Social**: Labour Management, Health and Safety, Privacy and Data Security, Stakeholder Opposition and Social Opportunities, Mobility and Diversity
- **Governance**: Corporate Governance and Corporate Behaviour including Ethics, Corruption, Instability, Diversity and Remuneration

Research Analysts undertake deep dives into single names, referencing third-party ESG reports as well as the companies' own reporting. ESG factors are analysed on relevance and impact. In the case of climate change, Research Analysts are expected to consider the long-term risks and opportunities relating to a company including its approach to climate related disclosures. ESG research notes are stored and available across the Front Office. This analysis is consolidated with ESG ratings per issuer, which may notch up or down versus the MSCI ratings.

As part of our culture, we encourage discussion and debate, especially during the ESG internal analysis, both within the Research Team and with Portfolio Managers. Analysis may be revisited when controversies are identified or engagement brings about new issues for consideration.

Specific names are targeted for outcome-focused engagements. Our Engagement Group and Engagement Framework allows for priorities to be identified, engagement objectives to be set and discussed whilst assimilating progress. This enables co-ordination across the platform and capital structure. For further details, please see Principle 9.

In 2020, CQS Portfolio Managers took action with two private equity sponsors who they felt were not factoring in ESG considerations into the issuance of secured loans and demonstrated a lack of willingness to adapt. We viewed this as a threshold issue which constrained our ability to conduct the five-stage ESG process, while also being a material concern with regards to the behaviour of these private equity sponsors. As such, CQS escalated these concerns to them.

We have found that Stage One of our ESG process can be difficult to apply in respect of investment in loans. This is because of the unavailability of third party data relating to ESG factors on issuers of loans (which are private in nature). The emphasis is therefore on the CQS internal analyst rating where we look to our sector based Research Analysts to apply a rating based on their sector expertise, guided by the MSCI methodology as well as other companies within the industry/sector and their approach to E, S or G. CQS is also part of a collaborative initiative, which we hope to be able to share publicly in the next Stewardship Report, to catalyse a gear change in coverage of the European loans market by third party rating providers.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Monitoring of Service Providers

CQS uses a number of service providers to support its stewardship and responsible investment-related activities. As with all key service providers engaged by the Firm, CQS conducts periodic reviews of the services provided. Where the quality of service falls below expected standards, CQS will seek to address the shortcomings with the service provider.

CASE STUDY

MSCI: ESG Data Provider

Following a periodic review, and observations from general use of the services, the following issues were identified with some of the ESG data services provided by MSCI. CQS has proactively discussed these considerations with MSCI in 2020.

- MSCI, our core ESG data provider, provides basic data but does not include presence with company management (e.g. analysts rarely meet management)
- MSCI provides useful groundwork, but is largely a desktop analysis which can occasionally contain errors and peculiar conclusions
- Unlike the Credit Rating Agencies older reports are removed from MSCI's website; over time MSCI's reports are refined
- ESG is still in its infancy: There are many users of MSCI, and ESG ratings anomalies may present additional opportunities for CQS
- It is hard for both CQS and even rated companies to connect with the underlying MSCI analysts - there are no analyst contact details on the ratings notes

MSCI reports provide a good starting point for ESG analysis e.g. for policies and governance structures. When traditional Credit Rating Agencies add an ESG overlay the available analysis may become more thorough: Fitch, Moody's, S&P analysts speak with management regularly. CQS uses reports by MSCI as one component of our ESG analysis — CQS' internal ESG ratings often differ. For example, in Q4 2020, CQS took different ESG views to MSCI, notching 19% of ratings up, and 26% down.

Proxy Voting

Although CQS does not use proxy advisors, CQS does use a voting agency (ProxyEdge supported by Broadridge) when engaging in proxy voting for our Funds. Certain of our managed accounts may also request that other voting agency providers be used. ProxyEdge allows CQS to manage, track, reconcile and report our Clients' proxy voting through electronic delivery of ballots, online voting and integrated reporting and record keeping. In 2021, CQS plans to carry out a review as to whether any enhanced monitoring of proxy-voting related service providers is required.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Approach to Engagement

At CQS we use our position as a leading credit provider to engage and seek to influence long-term change in the way companies operate or behave. Engagement may focus on a wide range of factors, from financial stability through to environmental or social considerations.

The CQS Engagement Group is responsible for selecting and prioritising specific engagement objectives, as well as assimilating progress. Companies are selected on a range of criteria including relative size of exposure, materiality of any issues which may have been identified, or CQS having a position of influence or control. This enables co-ordination across the platform and capital structure.

The Portfolio Managers will then take direct ownership and accountability for engagement priorities, with support from our specialist sector Research Analysts. These are the individuals charged with decision making and whether a company is included (or not) within a portfolio, as such they are ultimately accountable for engagement outcomes.

Our current primary areas of engagement are as follows:

1. Sustainable business practices
2. Good governance and financial disclosure
3. Climate risk management and encouraging disclosure
4. Diversity within a company

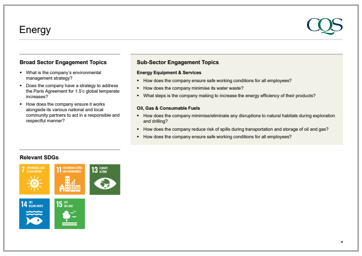
We seek to engage in order to enhance our understanding of a corporate issuer's approach before making an investment decision, and during an investment where either material E, S or G issues are raised, or the company is subject to a focused engagement programme. Engagement can be through a variety of means, including emails, calls, and meetings with company management teams.

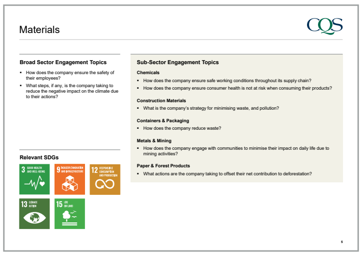
Objectives for Engagement

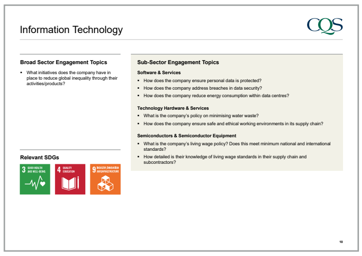
CQS has an internally-developed Engagement Framework that is designed to guide our investment professionals on areas we feel are important. Additionally, as signatories to PRI, CDP and Climate Action 100+ we are able to take into account industry best practice by sector. For example, we will look to incorporate the Climate Action 100+ aviation sector strategy, which includes a list of recommended investor expectations.

As part of our Engagement Framework, energy companies will be questioned about their environmental management strategy and how it addresses the Paris Agreement, as well as broader areas such as the impact of drilling on natural habitats. Climate is a core component of our Engagement Framework and process as detailed in Principle 4. Engagement priorities, in particular where ESG orientated, are also linked to the relevant UN Sustainable Development Goals "each an SDG".

Our Portfolio Managers are also actively involved in financial stewardship that extends beyond ESG factors and into a company's broader management or stability. For example, CQS is a majority debt holder in a number of companies who have been through restructuring. We have a special situations team, who support CQS portfolios when companies come under stress. Being part of a work-out group is a clear example of the methods available to CQS in order to engage and deliver material outcomes for companies and our investors (see Survitec Case Study in Principle 10).

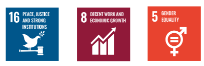




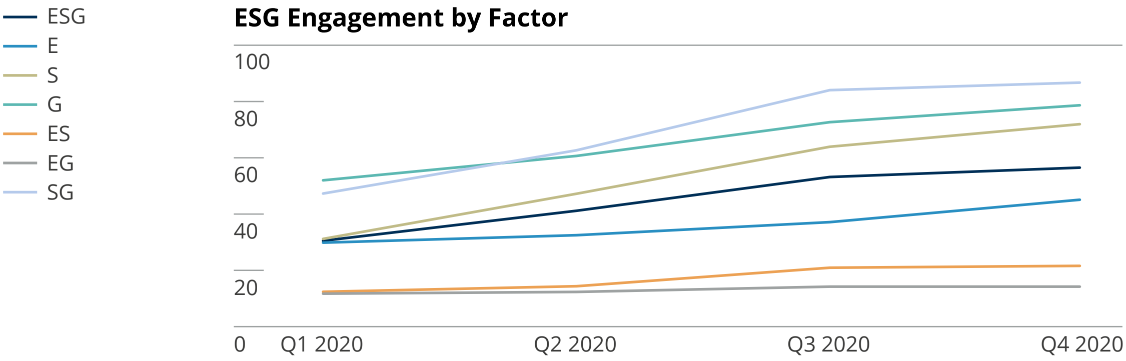


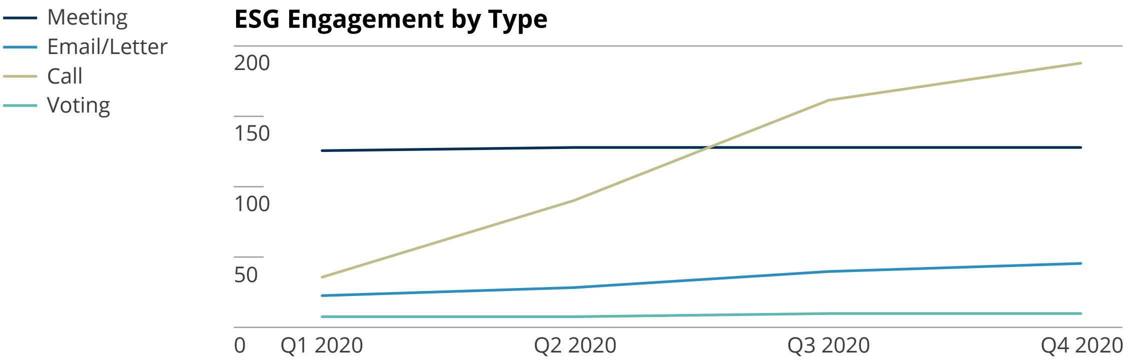
Two examples of our current engagement objectives, and the precision in which they are set are outlined below.

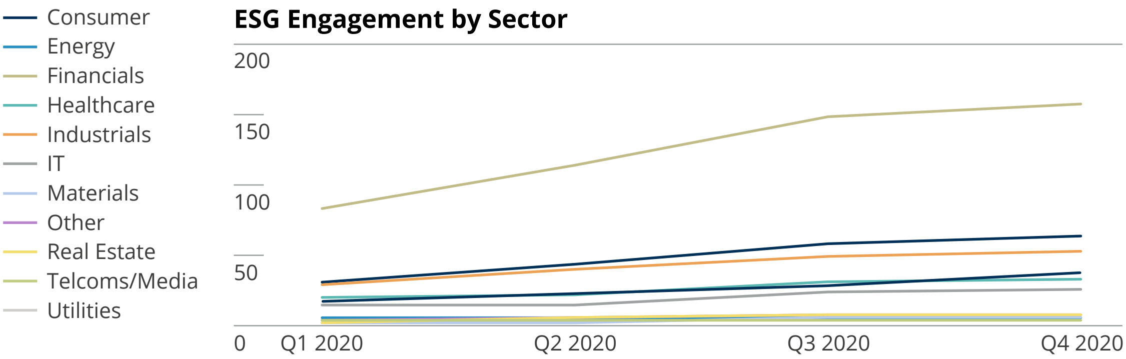
CQS Funds	MSCI ESG Rating	CQS ESG Rating	Identified Issues	Engagement Objectives	Sector	E, S or G	SDG Mapping
x7	BB	BB	1. Coal Fired Power Plant as main source of power at Cobre Panama operation	Better understand management's decision making process during planning of Cobre Panama construction	Materials	E	
			2. While environmental measures such as emissions, energy usage, and water stress are tracked annually, there are no set targets to reduce them from current or historical levels	Requesting the company set TCFD-aligned emissions targets, as well as energy usage, and water stress which are standardized to output to allow for growing production volumes		E	
			3. Company does not incorporate ESG objectives into incentive based compensation for management	Using the targets mentioned in point (2) as a first step in incorporating ESG goals into incentive compensation		G	
			4. Structure has been highlighted by MSCI as needing additional independence	Conduct additional diligence of the board concerns with MSCI, and if needed suggesting the company consider adding board seats for independent directors and consideration of term limits		G	

CQS Funds	MSCI ESG Rating	CQS ESG Rating	Identified Issues	Engagement Objectives	Sector	E, S or G	SDG Mapping
x4	N.A	BB-	1. Resignation of Deloitte as auditor resulting in negative press regarding financial controls	Full disclosure of any issues raised by Deloitte in terms of financial figures or general governance. Conversations with the company and sponsor revealed disputes over fees and questions regarding board composition	Retail	G	
			2. Board structure and appointment of independent directors	Given ambitions of public listing, encourage company to bring forward appointment of independent board directors (announcement of John Carey as a potential addition followed in October 2020)		G	
			3. LfL Financial Reporting	Ensure comparability in numbers in light of rapid expansion across different geographies; if not possible on the group level then regionally to begin with.		G	
			4. Reduction in ICE vehicles on the road	Understand plan for implementation of electric charging across the estate to contribute to the reduction of C02 emissions		E	

The number of ESG related engagements during 2020 can be seen in the graph below. This includes engagements which have either been transactional or targeted.







At present, we also have six companies who are subject to a focused engagement plan, relating to a wide range of issues including climate change disclosure, links to executive remuneration, independence of boards, health and safety and local community support. We choose to undertake focused, outcome orientated engagements on a small number of companies so as to concentrate our efforts as we seek sustainable benefits for the economy, the environment and society as a whole.

Engagement Approach in Light of Funds, Assets or Geographies

Principle 6 outlines the Firm's Client assets and geographic locations. This can have an impact on the approach we take to specific engagements and how certain strategies need to differentiate based on the underlying assets.

Within our hedge fund products, we make extensive use of derivative instruments and many hedge and long-only products, may have exposure to asset-backed securities.

For most securitised credit sectors, responsible investment and engagement implementation requires a different approach than, for example, corporate bonds. During our detailed fundamental analysis, we evaluate the specific pool of assets, the structure and documentation relating to special purpose vehicles and the multiple potential counterparties relevant to the specific transaction (such as the originator, the servicer, CLO manager, and trustees). While CQS is not typically an equity investor, occasionally Fund portfolios may include equity positions. We have equity representation on our Engagement Group to ensure we maximise the opportunity to use our voting power in line with engagement priorities when opportunities arise.

As investors primarily across developed markets, we have sought to introduce a global engagement model that is consistent and interconnected. Investment professionals from both the US and UK sit on the CQS Engagement Group and represent the range of assets we manage.

Investing in sub-investment grade markets can raise similar challenges to emerging markets. Companies can be in high growth phases, subject to uncertainty or have balance sheet challenges. Engaging with these companies can lead to some of the greatest impacts as sustainable business models (economic, social and environmental) can have a material impact on a company's cost of capital. Examples of our engagement priorities, and outcomes, are typically focused on those sub-investment grade companies where we have the greatest exposures and expertise.

Outcomes of Engagement During the Reporting Period

On pages 24 and 25 we have outlined two proactive engagement case studies that led to specific outcomes.

CASE STUDY

Aptos

The governance issues that we identified caused us to have a material concern over the valuation, encouraging us to seek full repayment for the loan. Aptos is a market leader in the field of retail point of sale, order management and customer relationship management solutions.

As long-term investors in a senior secured loan issued by the company we conducted preliminary due diligence in February 2020 to determine whether to participate in a new round of financing.

In the course of our due diligence it became clear that we would need to award it a low ESG rating as the governance of the company was not where it should be and senior management were not being fully transparent about customer attrition rates. This was a material concern for us and prompted our decision to decline to participate in the new round of financing at any pricing level, and to receive full repayment for the loan and exit the position entirely.

Logoplaste

CASE STUDY

Logoplaste

In 2020 CQS facilitated and invested in the first institutional term loan with interest payments directly linked to ESG factors. This was a term loan issued by Logoplaste, a leading designer and manufacturer of sustainable rigid plastic containers headquartered in Portugal.

Logoplaste has a long record of creative solutions to help clients achieve sustainability goals. Their “plant in a plant” production model (locating production within customers’ plants), saves costs and CO2 by eliminating the need for trucks for shipping and secondary packaging. They also have a dedicated “Innovation Lab” to pursue greener design. The Ocean Bottle designed for Ecover is constructed in part from ocean plastic waste, and uses 20% less material than traditional bottles., The company has an overall score (from MSCI) of 6.7/10, compared to an industry average of 5.2/10 and the CQS internal ESG analysis is supportive while also noting that the company’s environmental commitment was considered best-in-class.

Logoplaste estimate that their unique business model saved more than 19,000 tonnes of CO2 in 2019 compared to market norms, and are committed to increase this further. As a real financial commitment to this goal, the firm and their sponsor explored the idea of incorporating a KPI based on the amount of CO2 saved. CQS is a long-term member of the loan syndicate for Logoplaste, and were strong and early supporters of an amendment to the pricing structure to incorporate an ESG pricing ratchet. The change was duly implemented in June 2020 –a market first for an institutional senior secured loan and a good alignment of interest for Logoplaste, CQS and our investors.

Image source: www.ecover.com

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

CQS Collaboratively Engages

We view collaborative engagement with wider stakeholders as a key means by which to engender meaningful change in corporate conduct over the long term, incentivising the right behaviours.

Alongside being a public supporter of the Task Force on Climate-related Financial Disclosures (TCFD), CQS is a now signatory to a number of collaborative initiatives including CDP and Climate Action 100+. CDP is a US$110 trillion initiative and includes 590 investors globally who request companies to disclose on climate change, water stress and deforestation. This not only provides access to the reporting of 9,600 companies globally which feeds into our integrated process of ESG assessments, but also allows CDP to name CQS as a signatory to their disclosure initiative each year. We are typically investors in sub-investment grade developed market companies, which CDP cover and we feel it is important to lend our name when CDP target such companies. CQS has also supported this initiative and will be explicitly named on letters CDP send to companies to which we have exposure, but did not report. Our long-term aim is to influence improved disclosure across sub-investment grade developed market issuers and complement our own direct engagement activity.

As a signatory and participant to Climate Action 100+ we also collaborate with 545 other Asset Owners & Managers (representing US$54 trillion AUM) with a focus on climate engagement for companies who produce 80% of the world's industrial emissions.

The initiatives primary objectives are to ensure companies:

1. Implement a strong governance framework, which clearly articulates their Board's accountability and oversight of climate change risk
2. Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees (aiming for 1.5 degrees) above pre-industrial levels by 2050 or sooner
3. Provide enhanced corporate disclosure in line with the TCFD recommendations

As part of Climate Action 100+ CQS publically acknowledges the risks of climate change, is supportive of the Paris Agreement and recognises the need for a low carbon transition. Our contribution to the initiative is through collaborative engagement. As an example we are currently supporting the engagement lead investor on American Airlines.

CQS has also worked closely with consultants and professional bodies in 2020 and continues to do so in 2021.

We do recognise, however, that at times the industry can suffer from a lack of collective action in relation to matters enabling effective stewardship and responsible investing. As such, we will continue to look at ways in which we can help foster a culture of collaborative engagement across the industry.

CASE STUDY

Survitec

Survitec is a good example of a financial engagement which was also collaborative in nature to influence and engender change within the company.

The company defaulted in 2019 within our US$11.5 billion Multi-Asset Credit investment strategy. Our engagement efforts sought to restructure the company and maintain our investment position. This had a direct benefit to our investors, but also Survitec's own employees and customer base.

Survitec are a leading global designer and manufacturer of survival equipment for the aerospace & defence and marine sectors.

It was acquired by private equity sponsor in 2015. As a result of mismanagement and a poorly executed corporate strategy, limited post-merger integration of M&A and a number of product quality issues, the business breached its June 2019 leverage covenant. Shortly afterwards, the sponsor announced they would not be injecting more money to cure the breach and would instead facilitate a consensual transition of ownership to lenders.

As one of the larger lenders, CQS (supported by our special situations team) formed part of an Ad-Hoc Group to stabilise the business then spearhead a full debt restructuring, including the injection of additional capital.

As part of our intensive programme of financial engagement with the company, it also became clear to us that they had an inadequate governance structure, with a lack of diversity on the board, an inability to hold management to account and an unsatisfactory corporate culture all contributing to the problems experienced by the company.

One of the key outcomes of our involvement within the Ad-Hoc Group stabilising the business was the appointment of an entirely refreshed Board of Directors and new Executive Chairman. We worked closely with the other members of the Ad-Hoc Group to ensure the new directors would bring diversity of experience and expertise, including skillsets in operational turnaround/ post-merger integration, corporate restructuring and the end markets Survitec was selling into, to help drive through the business transformation in keeping with its new values centred on safety, trust, integrity and excellence.

CQS formed part of the selection committee for the new Executive Chairman and was instrumental in selecting a candidate who combined all these desired skills with what we judge to be a strong moral compass to set the business on the right footing.

The outcome of our engagement with Survitec has not only been restructuring the company debt but also a wholesale business transformation, with a new Board of Directors and new Executive Chairman bringing greater diversity in terms of experience and expertise, and a set of values for the company which we believe are much more in keeping with the 21st century and better for all stakeholders — including our investors. From the default in late-2019, CQS has recovered 113.5% (as at market value of 26 Feb 2021) , in part due to CQS's active involvement in the appointment of new executive and non-executive Board members who have, and continue to, successfully execute on the transformation plan. We continue to hold the equity.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

CQS' Approach to Escalation

Engagements are prioritised where CQS feels it can make a meaningful difference, or where material issues have been identified. In certain instances, engagements will be a key means by which we can remain comfortable with an investment decision, or feel a line has been crossed. We have described in detail our approach to developing engagement targets and companies (see, in particular, Principle 9). This process will continue to develop, with an increasing focus on the largest carbon emitters within our portfolios to better understand their approach, strategy and targets as the world moves towards a lower carbon economy.

Escalation practices are critical. In 2020, CQS developed its system and process to record engagement activities when researching and interacting with companies. This now includes detail of the engagement by issuer, the outcome and next steps of any engagement. Transactional engagement tracking in this way allows us to record and assimilate activity at the quarterly Engagement Group and identify any trends or issues with companies (which are not subject to a focused engagement programme) which our Investment Team feel should be addressed.

As debt holders, it is important that management understand we still expect engagement issues to be taken seriously, and may reduce or cease our provision of debt where unacceptable progress is made. The planned Engagement Policy will reflect our approach to escalating and explicitly taking action where a company fails to engage.

Alongside the Engagement Group, Portfolio Managers take direct responsibility for holding companies to account in light of their engagement priorities. This includes regular follow up and progression assessments with the relevant Research Analysts, which is then consolidated during discussions at the Engagement Group.

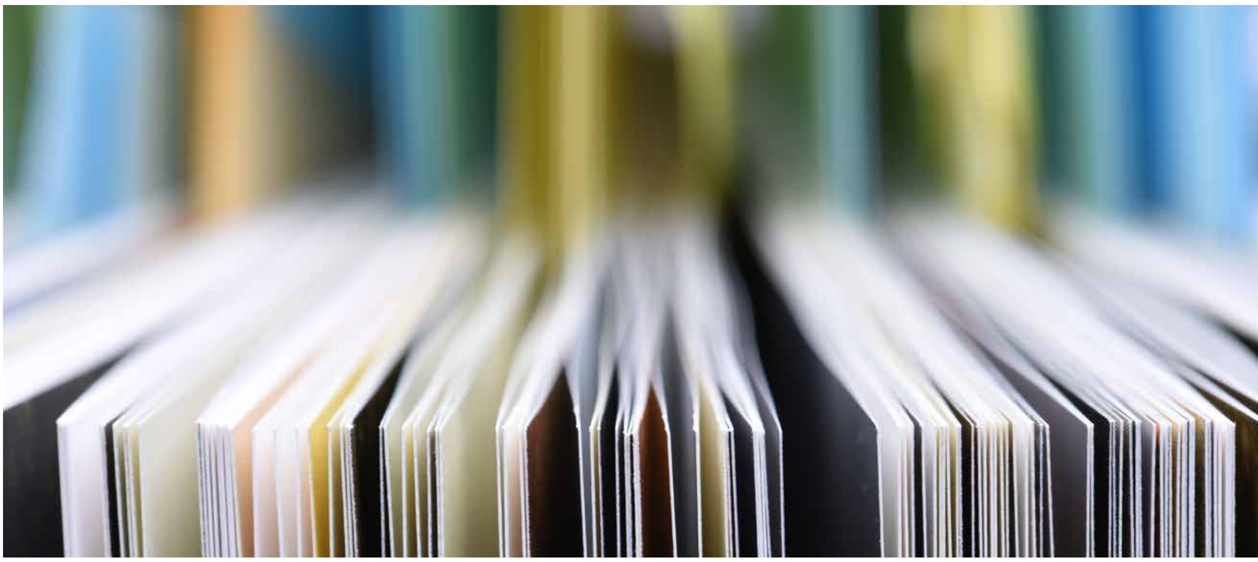
Portfolio Managers took action in 2020 with two private equity sponsors who they felt were not factoring in ESG considerations into the issuance of secured loans and demonstrated a lack of willingness to adapt. As such, CQS escalated these concerns to the sponsors. Until material improvements are made, CQS is not currently entering transactions brought to market by these sponsors. This is an example of a material issue escalation as we seek to drive consistent, long-term and sustained improvement across our industry in how market participations act as good stewards of capital.

Further, as part of our ongoing oversight of companies, CQS will monitor closely for controversies and/or failings relating to governance and social responsibility. A combination of Research Analyst expertise and monitoring, alongside the addition of RepRisk for big data news observation, allows us to be monitor for breaches. CQS would expect to escalate any identified breach of the Principles of the United Nations Global Compact.

Where stewardship escalations arise and a company (existing or new) fails to meet any commitments given, first and foremost we will continue to engage with the company. If no action or progress is evident after a 12-month period, then excluding the company from the relevant Fund's investment universe may have to be considered. Ultimately, a tool which is also available to us as an Investment Manager is litigation. CQS has not yet had a situation where litigation has been required to drive change in relation to the practices of a company, but severe escalation, especially where companies have over-stated their processes or deliverables could ultimately lead to litigation.

The proposed Engagement Policy will outline engagement escalation measures such as collaborative engagement, public engagement, voting, litigation or ultimately divesting. This will provide clear line of sight for our investors, but perhaps most importantly, to companies with whom we engage, making them aware of the potential responses should they continually fail to engage in a way that would be expected.

In Principle 9, we have included additional examples where we have taken action and sold positions within our organisation relating to stewardship. Escalation can apply in any geography, sector and asset class, and we see a key benefit in a widely represented Engagement Group which can leverage stewardship escalations across the capital structure.



Principle 12

Signatories actively exercise their rights and responsibilities.

Voting Policies and Use of Proxy Voting Advisors

In light of the discretion afforded to CQS under the relevant Investment Management Agreements, CQS will generally make any proxy voting decision or determine broader proxy voting policies on behalf of the relevant Fund.

In respect of any directly managed accounts, third party sub-managed mandates, "funds-of-one" or similar, CQS may agree a specific listed equity voting policy with the Client in respect of such mandate or, in certain circumstances, the Client may reserve the right to exercise proxy voting rights on behalf of the relevant Fund or investment vehicle.

In respect of CQS' co-mingled fund products, Clients may not override any CQS house policy on the exercise of listed equity voting rights. This is to ensure that no Client is afforded preferential treatment over another Client and avoids actual or potential conflicts of interests arising. That said, Portfolio Managers will listen to Client views and take them into account when considering votes.

CQS did not use any proxy-voting advisors over the Reporting Period.

Click here to read our voting policy.

Approach to Proxy Voting

Our approach to voting can differ across Funds depending on the investment strategy of relevant Funds. For many of our credit focused hedge funds, equity investment can be more short term than for our long-only funds. In either case, the relevant Portfolio Manager is expected to vote on motions in respect of their Fund's positions.

CQS will vote the number of shares held at the custodian or prime broker. Where a portion of our position has been lent by the prime broker to other market participants we will vote the remaining shares. The operations team will facilitate in any instance where a Portfolio Manager deems it of greater benefit to clients to recall lent shares in order to vote.

Equity Positions

CQS expects to vote in almost all instances where we hold a long position with the prime broker or custodian. For our long-only funds this would typically be our full position (approximately 80% of voted resolutions). As mentioned previously, for our hedge Funds, positions may have been lent by the prime broker, meaning we can only vote a proportion of the Fund's position.

We vote against management on approximately 5% of resolutions. This is consistent, given that a key determinant of our original investment is portfolio managers having a positive impression of a company's management.

The majority of instances where we vote against management fall into the following broad categories:

- Director appointments where the board is insufficiently diverse in terms of age (for the purposes of smooth succession plans), experience or culture, or where members past careers indicate a lack of suitability
- Compensation resolutions where we see the board as out of step with competitors or there is a material performance issue for specific executives
- Appointment of auditors, particularly where the same auditor has been in place for three years or more

Currently CQS is reliant on our custodians and prime brokers to provide ProxyEdge with holdings information who in turn provide CQS with reports detailing the required elections.

Fixed Income Positions

CQS uses a variety of methodologies to review relevant transaction documents relating to potential investment in bonds and loans.

In particular, CQS' experienced in-house Research and Legal Teams have access to a full range of research resources including a market leading loan and bond covenant review service. This is used to better understand the risk (and potentially avoid) instruments with problematic terms.

As part of the primary market process we give feedback on problematic terms (via the broker trading desks or direct to the debt capital markets team).

Typically, our ability to influence issuers is proportional to our relative prominence in the deal.

As needs arise we also play an active role in various forms of bond holder groups in order to agree (or not) the restructuring of debt in distressed situations.

A copy of our 2020 voting activity can be found here.

EXAMPLES

Examples where portfolio managers voted against management in shareholder votes:

Xylem Inc 2020 AGM, CQS Funds voted against two board appointments

- One on the basis of his past actions as CEO of another company
- The other due to a lack of relevant experience

Alphabet Inc. 2020 AGM, CQS Funds voted against management in several measures

- Against retention of the existing auditor, as we believe rotation advances auditor independence
- Against excessive executive pay and for a report on sustainability of performance in Alphabet's current incentive pay policies
- For a vote demanding more equitable voting rights for all shareholders

With respect to influencing bond/ loan terms and conditions CQS was an active participant in the following cases:

ThyssenKrupp Elevators

- Engaged with the sponsors to discuss aggressive terms in the loan documentation
- Significant concessions were agreed, better aligning the company's governance and incentives with debt holders

PetSmart

- CQS engaged to express our concerns about loose covenants, which PetSmart and its sponsors materially limited in the final document
- The company ultimately came back to market with a collateral structure similar to the one we had proposed, tighter covenants and increased collateral, and we participated on these revised terms

New Look

- CQS participates in multiple bondholder groups, one notable example being in relation to New Look (a large UK retail group with 10,000+ employees)
- CQS was a significant member of the bondholder group (>15% outstanding bonds and equities) that agreed a restructuring of existing debt alongside new lending which averted liquidation and restored the company to a sound financial footing

Logoplaste

- Note case study in Principle 9, with respect to amending loan terms for an ESG pricing ratchet

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In light of the ongoing economic and financial market uncertainty relating to the COVID-19 pandemic, the contents of this document should be treated as subject to change as markets continue to react to current world events.

NFPv3.

PRI Note: PRI is an investor initiative in partnership with UNEP Finance and the UN Global Compact.

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