CQS Update

In June 2016, CQS first began formally integrating ESG data into our systems. As we approach this 5-year anniversary, the expectations of our clients and of ourselves have rightly increased dramatically.

February 2021

Responsible Investing

As our investors and consultants know, we care deeply about the integration of E, S and G factors into our investment process, and view this fundamental analysis as a key input into identifying value, investment opportunities and truly understanding the probability of default and loss given default faced by a company. Being responsible across our investment approaches, and subsequent direction of capital, gives us the power to help shape and influence the world for generations to come.

A number of our CQS strategies, including Credit Multi-Asset, operate to a distinct Statement of Intent; an expectation that portfolio managers will demonstrate consistently better ESG ratings and Carbon Intensity statistics versus the investment universe. All such strategies report their positions and progress to clients on a monthly basis.

We strive for continuous improvement, and a number of developments were made in this area in 2020/21. While our processes and methodologies will continue to go further as our business and expectations grow, we wanted to share some of the key highlights below.

The Introduction of a CQS Engagement Group & Framework

While transaction-by-transaction engagements are critical to understanding an issuer's approach and a key input into our proprietary ESG ratings, in some cases a deep, outcome-orientated focus is required.

We have introduced a CQS Engagement Group & Framework (EGF) to identify priorities, set engagement objectives and assimilate progress for a focused number of corporate issuers at any one time.

EGF includes representation from both CQS Senior Portfolio Management and CQS Research as we seek to co-ordinate and leverage our process across the capital structure. We share a number of individual objectives identified by the EGF with our clients, including the initial mapping of these objectives to the Sustainable Development Goals. During 2021 we will provide further updates to our clients, investors and consultants on these and other related changes, proposed and effected, by these companies.

A Focus on Climate Change

Understanding physical and transition risks is an essential component of an integrated approach to responsible investment analysis.

Climate change is widely accepted as the greatest risk faced by our planet and the global economy. Understanding the physical and transition risks facing relevant companies is an essential component of an integrated approach to responsible investment analysis. While a risk, climate change also presents a vast opportunity as we transition to a low-carbon economy.

In 2020 CQS became a signatory to CDP (formerly the Carbon Disclosure Project) and a public supporter of Task Force on Climate-related Financial Disclosures (TCFD). In addition, in January 2021, we became a signatory and participant in collaborative engagements with Climate Action 100+.

TCFD-aligned climate disclosure is now a key priority within our engagement framework. Furthermore, we recognise the backward-looking nature of Carbon Intensity statistics. We are about to commence an audit across our Credit Multi-Asset Fund holdings to understand companies' approach to decarbonisation targets, net-zero commitments, capital expenditure on climate solutions and executive remuneration linked to any climate-related targets.

TCFD Reporting

TCFD reporting for long-only strategies is a target deliverable for Q2 2021.

The introduction of TCFD reporting for CQS long-only strategies is a current focus of our 2021 action plan, and a target deliverable for Q2 2021. This will bring greater disclosure on metrics, targets and scenario analysis, as our clients look to understand how Funds are positioned. We would very much encourage our clients to engage with us on their own requirements and objectives as we seek to provide a clear and meaningful insight into climate risks and opportunities.

TCFD aims to improve and increase reporting of climate-related financial information. It does this through a level of transparency that requires organisations to describe their governance, strategy, risk management, metrics and targets in relation to climate-related risks and opportunities. Please visit the TCFD website (www.fsb-tcfd.org) for more information.

Institutionalising Our Approach

All CQS strategies with a Statement of Intent to manage ESG and Carbon Metrics in a certain way now report their positions and progress to clients on a monthly basis.

Going further, we have created a system to track all of our engagement activity, whether transactional or outcome-focused. This knowledge base and insight directly contributes to internal CQS ESG ratings, and increases our ability to track incremental and long-term progress for the companies we invest and work with.

We have introduced ESG trajectories for each corporate issuer.

Finally, we have introduced ESG trajectories for each corporate issuer as part of our internal analysis. This directional assessment is coupled with an active approach to assigning CQS ESG ratings, and a significant degree of deviation when compared to data vendors. In Q4 2020 only 55% of CQS ESG ratings agreed with our primary third party data provider and of the remainder, 19% notched up and 26% notched down.

Summary

We believe it is important to share updates with our clients and consultants as we recognise the speed at which development continues across the industry in this area.

The journey of development continues as we advance our investment into our responsible investment tools, processes and capabilities while delivering the total portfolio returns and outcomes our clients expect of us across credit markets.

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