

# CQS Responsible Investment Policy

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CQS is committed to operating in a responsible manner embedding strong and clear governance, and conducting our business in a sustainable way. In our role as an investment manager, we view ESG factors as key drivers influencing financing costs, risk assessment valuations and performance, while also acting as a lever to shape and influence the world for generations to come.

The assessment, integration and engagement of ESG factors is a crucial part of the Responsible Investment commitment across the CQS investment platform, both in public and privately held companies, and a key factor in our decision-making. By embedding Responsible Investment into our investment process we enhance our ability to identify value, investment opportunity, risk and, critically, to generate the best possible returns and outcomes for our clients.

## Responsible Investment at CQS

We define Responsible Investing as an integrated function of our investment process that seeks, through internal analysis and engagement on ESG factors, to identify value, risk, opportunity and development outcomes across our investment universe.

Our approach to Responsible Investing is continually developing, taking into account national and international policy development, collaborating with industry bodies to identify and develop best practise, and engaging with our clients. In striving to deliver the expected returns and outcomes from our investment mandates, ESG factors introduce threats and opportunities which can impact our evaluation of probability of default and loss given default, as well as the need for active ownership.

## Our Approach

We invest across a wide range of asset classes, both directly and using derivatives, including corporate debt, distressed debt, convertible securities, and equities. As such, CQS operates a five-stage ESG process designed to be integrated across asset classes.

### Stage 1 – Data Incorporation

Incorporation of third-party ESG factors, metrics and data into CQS systems and processes. This includes external industry feeds, for example MSCI ESG Manager (including MSCI CarbonMetrics), Bloomberg, Refinitiv, CDP and RepRisk and broker research.

MSCI is our core data provider and incorporated within CQS internal systems. It is accessible to all CQS investment professionals. Other data sources are widely available via Bloomberg and other online access.

### Stage 2 – Integration

Integration into the investment process begins by taking external analysis and assigning a CQS ESG rating on individual companies. CQS Research Analysts use deep sector experience to determine a rating from AAA to CCC, taking into account relevant ESG factors. In doing so, Research Analysts may assign an ESG rating that is consistent with or differs from external sources. Alongside bottom-up fundamental work and expertise, metrics such as (but not limited to) carbon intensity and reduction target alignment (E), diversity of workforce (S), employee turnover (S), lost time incident rate (S), and board make up and independence (G) will be considered.

CQS Research Analysts will, whenever practical, engage with companies to deepen our understanding of their approach, including their long term trajectory.

ESG ratings and trajectories are factored into the investment rationale presented to Portfolio Managers, and guide cash flow (including probability of default and loss given default) expectations in both material ESG risks and sustainability opportunities.

Engagement and ESG Research notes for the internal rating and trajectory are required be stored in an accessible form and available for use across the Front Office. Discussion and debate is encouraged during the ESG internal analysis, both within the CQS research team and with Portfolio Managers.

### Stage 3 – Evaluation

Portfolio Managers are required to consider (to an appropriate degree having regard to their investment strategy) ESG factors and potential sustainability / development outcomes as part of their investment decision making.

Factor guidelines with respect to ESG and sustainability considerations include:

- **Environmental** – climate change (including the material long-term risks and opportunities), water stress, biodiversity and land use, toxic emissions and waste, environment opportunities and other relevant sustainability risks or opportunities.
- **Social** – labour management, health and safety, privacy and data security, stakeholder opposition and social opportunities, diversity and relevant sustainability risks.
- **Governance** – corporate governance and corporate behaviour, including ethics, corruption, instability, diversity and remuneration.

Portfolio Managers may request additional ESG research where ESG considerations are thought to be especially relevant. The results of additional ESG research (which may vary in degree by investment strategy and the specific investment) are factored into investment decisions.

### Stage 4 – Engagement

CQS seeks to engage with companies during the pre-investment integration stages (2 & 3) and where appropriate during the holding period of such an investment. Engagement is driven by sector analyst expertise as well as a proprietary Engagement Framework, which highlights to investment professionals key engagement considerations by sector and sub-sector.

Further, CQS operates specific and targeted engagement programmes where we believe ESG factors on an individual company should be addressed, or where there may be opportunity to seek a development and/or sustainability outcome. Each of these engagement objectives should be mapped to the relevant United Nations Sustainable Development Goal(s). Where applicable, objectives should consider sustainability outcomes, such as disclosures in alignment with Task Force on Climate-related Financial Disclosures (“TCFD”) and greenhouse gas reduction targets which are constructive to the Paris Agreement.

CQS undertakes stewardship and long-term engagement to exercise active ownership of investee companies on behalf of investors, and to help investors achieve their investment objectives.

Our goal through engagement is to implement meaningful change over the long-term through a consistent industry dialogue with issuers, as part of our commitment to being good stewards of capital. CQS will do this directly, and wherever possible collaboratively.

Please see the CQS Engagement Policy for further details.

### Stage 5 – Monitoring

As part of the ESG lifecycle, CQS undertakes ongoing monitoring and reporting of ESG factors on investments. This includes periodic research re-assessments, a watching brief across news wires for developing ESG considerations and internal fund level ESG reporting.

Should a company be flagged by our internal process as having a controversy linked to the Ten Principles of UN Global Compact, CQS Portfolio Managers and Research Analysts are expected to understand this in further detail and take appropriate action, as further outlined within our Engagement Policy.

The Head of Research is responsible for ensuring appropriate ongoing company level monitoring is undertaken in conjunction with the CQS Responsible Investment Governance Committee.

## Sustainability Outcomes

CQS believes integration through ESG processes, awareness and influence of behaviour is the most effective way to provide a total portfolio approach to investors that delivers returns, manages risk and targets consistent goals or outcomes within our core investment activity.

Our engagement programmes may target outcomes that specifically aim to deliver objectives CQS has mapped to UN Sustainable Development Goals, UN Global Compact Principles and the Paris Agreement (in alignment to our public support of the TCFD and Climate Action 100+).

CQS will operate a collaborative approach to understanding client's sustainability outcome requirements (especially where specific to a separately managed account).

The CQS Engagement Group is responsible for assimilating and measuring engagement progress versus sustainability and/or governance objectives, which have been identified for an individual company. Outcomes, when achieved, will be reported within ongoing Responsible Investment and annual Stewardship reporting.

Please see the CQS Engagement Policy for further detail on our approach to engagement.

## Statements of Intent

Certain CQS-managed Funds and investment strategies will operate with a Statement of Intent, which seeks to identify additional Responsible Investment and Sustainability objectives which may strive further than the broader CQS policy.

Such additional commitments will be monitored by the CQS Responsible Investment Governance Committee.

## Exclusions

There are a number of international conventions which seek to limit or prohibit the proliferation of certain weapons including:

- The Oslo Convention on Cluster Munitions (2008)
- The Ottawa Convention on Anti-Personnel Mines (1997).
- The Chemical Weapons Convention (1997)
- The Biological Weapons Convention (1975)
- The Conventional Weapons Convention (1980)
- The Treaty on the Non-Proliferation of Nuclear Weapons (1968)

Not all countries have subscribed to these conventions and treaties but CQS acknowledges and aims to support the principles set out in these and to ensure compliance with any applicable national laws implementing these.

To this end, CQS seeks to avoid directly financing companies which are engaged in the development, production, assembly, acquisition, repair, sale, use or possession of prohibited weapons such as cluster munitions, anti-personnel landmines, incendiary weapons (such as white phosphorus), blinding laser weapons, fragmentation weapons that injure by non-detectable fragments, depleted uranium weapons, biological or chemical weapons or engaged in the proliferation of nuclear weapons. CQS maintains a list of such companies which is reviewed on a six-monthly basis by the Responsible Investment Governance Committee, with reference to screens provided by MSCI, and this list is then coded into the CQS pre-trade compliance system.

Notwithstanding the foregoing, there are occasions where CQS may be unable to avoid some exposure to companies that are involved with such weapons. This is an industry challenge and has led to recognition of limited exceptions where involvement is inadvertent or immaterial. Examples include: (1) where CQS is obliged to comply with specific client or mandate requirements; (2) where exposure is through an index or fund of funds where CQS cannot dictate the constituent parts of the underlying index or portfolio; (3) similarly where the investment is part of a structured portfolio which includes a range of underlying investments; and (5) in other instances when CQS believes that the interest is immaterial, for example, where the involvement is too remote to be meaningful.

Where CQS becomes aware that an investment might involve a breach of the overarching principles set out above, CQS will seek to divest itself of such investment.

CQS may operate exclusion lists in respect of certain Funds or investment strategies, in accordance with their individual Statement of Intent. This may include, for example, restrictions on companies which derive certain levels of revenue from activities involving Tobacco, Adult Entertainment, Thermal Coal or any other exclusion relevant to the fund or investment strategy, including the Ten Principles of Global Compact. These will be periodically monitored by the Responsible Investment Governance Committee and coded, where third party screens are available, into relevant pre-trade compliance systems.

In extreme cases, and as outlined within the Firm's Engagement Policy, should a company fail to engage with CQS on material ESG risks or demonstrate a willingness to address such issues, it may be excluded across all CQS portfolios. Such decisions would be taken by the Responsible Investment Governance Committee or, where necessary, escalated to the Board Executive Committee.

## **Management of Conflict**

CQS will consider, mitigate and manage any conflicts arising in relation to its Responsible Investment approach in accordance with the CQS Conflict of Interest Policy, and to the extent required, escalated to the CQS Regulatory Oversight and Conflict Committee ("ROCC"). ROCC meets on a quarterly basis and can consider any conflicts or regulatory matters arising from this policy, which can then be reported to the relevant individuals, the Responsible Investment Governance Committee, CQS Operating Committee (and/or the Board Executive Committee as appropriate).

## **Responsible Investing Customisation**

When requested by our clients on a bespoke or customised basis, the CQS investment team will work with clients to shape portfolios to their ESG or Responsible Investment needs.

This may include best-in-class or positive selection methodologies, as well as exclusions based on activity, location or other methodology such as minimal standards based on international norms. The monitoring of such customised requirements will typically be managed as part of CQS Compliance procedures.

## **Training and Dialogue**

CQS welcomes an open dialogue with clients and stakeholders and values the opportunity to collaborate with experts to support and strengthen our Responsible Investment initiatives. Portfolio Managers and Research Analysts receive support from internal and external experts, participate in training and capacity building programmes and share insights.

CQS internal training sessions are held at least annually for investment professionals, and a recording made available on the CQS intranet.

Our Responsible Investment process is guided by industry best practice, international standards and frameworks. We are a public supporter of the TCFD, CDP and Climate Action 100+ and a member of the International Corporate Governance Network ("ICGN").

## **Principles for Responsible Investment (PRI)**

CQS is signatory of PRI. As such, we have committed to:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be an active owner and to incorporate ESG issues into our ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which we invest;
- Promote acceptance and implementation of the Principles within the investment industry;
- Work together to enhance their effectiveness in implementing the Principles; and
- Report on our activities and progress towards implementing the Principles

## Oversight and Governance Structure of Investment Integration

CQS' Board Executive Committee and Senior Investment Officer are responsible for the CQS strategy and approach towards Responsible Investment.

Governance and process development of the CQS Responsible Investment Policy is overseen by the CQS Responsible Investment Governance Committee which is accountable to the Board Executive Committee. The CQS Engagement Group is accountable to the Responsible Governance Committee.

Portfolio managers take individual responsibility for the management of their investment activities; this includes the consideration and application of ESG factors, engagement priorities and alignment of strategies to any relevant Statement of Intent.

The ability to assess and integrate ESG factors can vary between different investment strategies and require a nuanced approach, for example when constructing portfolios of Structured Credit or Macro long/short index positions.

CQS is committed to providing transparent and timely reporting to clients on relevant strategies to ensure Responsible Investment integration. This includes relevant metrics such as ESG breakdowns and weighted average carbon intensity.

## Corporate Social Responsibility (CSR)

Environmental awareness, social responsibility and commitment to good governance is at the heart of CQS' culture, business ethics and shared company values.

Our Firm-wide commitment to ESG goes beyond integrating ESG factors into our business and investment practices, and includes promoting and nurturing a conscientious mind-set and a commitment by all employees to good global citizenship and stewardship.

CQS strives to ensure best practice with regard to CSR initiatives and seeks to be a responsible actor and to protect the quality of lives and livelihoods of those working for CQS and those impacted by our business, including in the local and wider communities.

## Policy Review

This ESG policy is reviewed at least once per year with the aim of continuous improvement and integration of lessons learnt. This document was last updated in May 2021.

CQS also maintains a Shareholder Rights and Stewardship Policy.

## Policy Information

### Maintenance, Authorisation, and Review Requirements

<b>Department responsible</b>	Product & Responsible Investment
<b>Individual responsible (policy owner)</b>	Principal, Product & Responsible Investment
<b>Minimum frequency of update/review</b>	Annual
<b>Distribution</b>	Internal – External with Policy Owner Consent
<b>Entity applicability</b>	All Group Companies

### Update and Review Information

<b>Last updated</b>	May 2021
<b>Updated by</b>	Principal, Product & Responsible Investment