

# Investor Report

December 2022

## Salar Fund

Key Fund Information	
Investment Manager	CQS (UK) LLP
Portfolio Manager	Rupert Mathews
Fund Launch Date	11 February 2008 ***
Fund Size	\$132.61m
Legal Structure	UCITS
Domicile	Ireland
SFDR	Article 8
Reference Currency	USD
Share Classes	USD, GBP, EUR
UK Reporting Status	Available for selected share classes
Income Available	Available for selected share classes
Dealing	2 days
Subscriptions	T-2
Redemptions	T-2
Entry/Exit Charge	None
Redemption Fee	None

Reference Share Class Details	
Share Class	A1 USD (Acc)
Management Fee	1.00% p.a.
Performance Fee	10% over 3M Libor
Min Investment	\$250,000
ISIN	IE00B2PLHH71
Bloomberg	SALFUNA ID

Fund Characteristics <sup>1</sup>	
No. of Positions <sup>2</sup>	95
Average Current Yield	1.15%
Average Premium	56.63%
Average Delta	30.70%
Average Life	2 years
No. Long CB Positions <sup>2</sup>	71
Weighted Average Carbon Intensity <sup>3</sup>	143

Third Parties	
Administrator	BNP Paribas Fund Administration (Ireland) Limited
Depository	BNP Paribas Securities Services, Dublin Branch
Auditor	Ernst & Young

Risk and Reward Profile							
1	2	3	4	5	6	7	
Lower Risk			4	Higher Risk			

The Fund is categorised as 4 for the purposes of this table due to investments in convertible bonds and use of derivatives.

**The Salar Fund has outperformed the Refinitiv Global Focus Hedged Convertible Bond Index over its 1, 3 and 5-year periods, with less volatility**

### Description

Salar is a long-only convertible bond fund managed with an absolute return mentality. It is designed to generate capital growth while seeking to preserve capital through the careful selection of convertible bonds near their bond floor where the underlying equity has potential for price appreciation.

### Key Advantages for the Investor

- Capital preservation: Strong focus on credit quality to support downside protection
- Risk-adjusted returns: Positions sought with limited downside risk and upside potential
- Enhanced asymmetry: Selection of bonds that rapidly gain positive equity exposure in rising markets but shed it quickly as equities fall.
- The Fund is classified as Article 8 under the Sustainable Finance Disclosure Regulation (SFDR).

### Trailing Net Performance<sup>4</sup>

Past performance does not predict future returns.

	Salar Fund %	Refinitiv Global Focus Hedged Convertible Bond Index (USD) % **	Outperformance %
1 Year	-1.34%	-16.00%	14.66%
3 Years (Annualised)	3.05%	0.68%	2.37%
5 Years (Annualised)	3.07%	2.28%	0.79%
Since Inception (Cumulative)	117.08%	96.33%	20.75%
Since Inception (Annualised)	4.64%	4.03%	0.61%
Annualised Volatility (1 year)	7.06%	11.36%	-4.31%
Annualised Volatility (3 years)	7.67%	11.85%	-4.18%
Annualised Volatility (5 years)	6.45%	9.89%	-3.44%

### Monthly Net Performance (%)<sup>4</sup>

Past performance does not predict future returns.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	(1.40)	(0.52)	1.03	(1.42)	(1.27)	(2.81)	2.28	1.65	(3.14)	1.28	3.38	(0.18)	(1.34)
2021	0.76	1.28	0.03	(0.04)	(0.47)	0.13	(0.79)	0.45	(0.16)	0.43	(1.45)	0.92	1.06
2020	(0.96)	(2.59)	(6.97)	4.45	2.23	1.87	1.45	3.06	0.27	0.24	4.57	2.29	9.74
2019	2.61	1.40	0.13	1.22	(1.84)	1.20	0.58	(1.10)	1.02	1.25	1.06	1.17	8.97
2018	0.97	(0.57)	(0.36)	0.97	(0.62)	(0.31)	0.41	0.40	0.58	(2.02)	0.42	(2.27)	(2.44)
2017	0.27	1.00	(0.23)	0.83	0.50	(0.16)	0.46	(0.30)	0.51	1.12	(0.03)	(0.53)	3.46

Please contact CQS for full performance since inception.

The value of securities may go down as well as up, depending on the performance of companies and general market conditions. \* Source: CQS as at the last business day of the month at the top of this report. Please note, the CQS Salar Strategy Index USD is a theoretical, non-investable share class. It is made up of a series of share classes in order to demonstrate the longest consistently available track record for the Strategy. Returns are represented by the Salar Strategy Index USD: since inception 30 November 2005 to 10 February 2008, returns are the Salar Fund A USD share class; 11 February 2008 to the present date, returns are the CQS Salar Fund (UCITS) A1 USD share class. Since 11 February 2008, the Strategy has followed the Undertakings for Collective Investment in Transferable Securities Directive (UCITS). The investment process and team have remained substantially the same for the life of the Strategy. Returns are net of fees, expenses and transaction costs. Investors should refer to each specific share class for the actual historical performance of the relevant class. **This document includes historic returns and past performance is not a reliable indicator of future results.** \*\* The Refinitiv Global Focused Hedged Convertible Bond Index (USD) is used as a broad asset class reference, as the Fund is actively managed, and not managed with reference to a benchmark. \*\*\* Fund launched as an Irish PLC in 2008 and, following a corporate action in September 2022 converted onto CQS' existing UCITS plc umbrella platform.

## Fund Commentary<sup>5</sup>

### Market

December saw a partial reversal of the previous two month-rally for risk assets, with both bonds and credit weaker on the month to compound a very poor year for these asset classes; equities, in particular, sold off. The Nasdaq was one of the worst performers, down 8.7% on the month and taking it to down 33.1% on the year, its third-worst performance since 1974! Other major markets were also weak, with the S&P down 5.9%; Eurostoxx down 4.3%, and the Nikkei down 6.7%. The one bright spot was the Hang Seng which, was up 6.4% on the month.

Initially a weaker than expected US CPI print reinforced the peaking inflation narrative, but this was followed by hikes from the Fed, ECB and BOE coupled with increasingly hawkish commentary from Powell and Lagarde, pushing rates higher and equities lower. December capped an already very poor year for almost all asset classes, as the end of Quantitative Easing (QE) and rising inflation resulted in, for only the second time in the last 100 years, negative returns for both bonds and equities.

### Performance

In this context, the Refinitiv Index fell 1.71%, taking its year-to-date (YTD) performance to a negative 16%; the Salar Fund lost 18bp, taking its YTD return to a negative 1.34%. Salar benefited from its Asian exposure, which added nearly 50bp in December; Europe was flat, and US and Japan were both down just over 30bp. On an individual name basis, only one name made over 10bp (a new issue in Link Reit in Asia); there were no losers of over 10bp.

### Positioning

Whilst no fund manager likes to be down on the year, the Salar Fund outperformed its reference index by 14.7% in 2022. This was mainly due to four factors:

- 1) **Quality focus:** As we felt that some Credit wasn't paying investors sufficiently for taking risk, our traditional quality, higher-rated Credit focus helped us spare the negative effect of the sell-off in the lower-rated part of the market.
- 2) **Underweight US:** Our focus on Credit and valuations has for a long time meant that we have been underweight US Technology and, in particular, non-profitable Tech for many years. This was a significant headwind in the past, but in 2022 it clearly benefitted the Fund, as the Nasdaq and non-profitable Technology were amongst the year's worst performers.
- 3) **Short duration:** Since we were not being paid for credit or rates, we had a very short duration book, with an average weighted life of 2 years. Until September, we had also hedged our rates exposure beyond 2 years and thus did not suffer as much from the sharp rise in bond yields.
- 4) **Valuation and asymmetry focus:** This made the Fund less exposed to the cheapening in the Convertibles market and also better placed to take advantage of the moves to actively rotate the portfolios to add and take off risk.

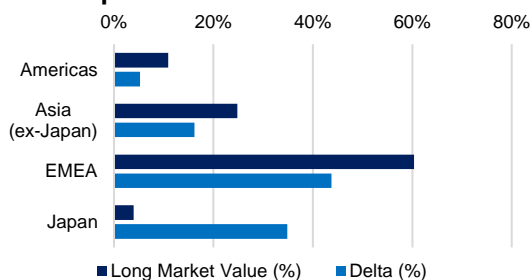
### Outlook

Looking forward, we believe Salar is well placed to take advantage of an increasingly dislocated market, maintaining its defensive positioning whilst retaining its potential for upside exposure. Indeed, as we move from QE to QT, performance becomes less about market beta and more about name selection. We believe the bottom-up and research focus of the Fund should benefit it in this environment. The Convertible market as a whole is becoming more interesting as wider rates and spreads, combined with cheaper pricing, give investors a better return profile. Whilst issuance in 2022 was low, over time it has been highly correlated to rates and spreads as companies look to reduce interest costs; we expect issuance to significantly rise this year, with real coupons and lower premiums.

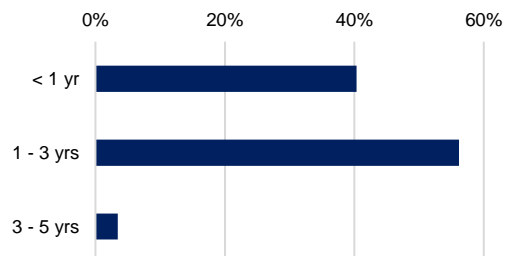
I would like to personally thank you for your support last year and wish you all a very happy and prosperous 2023.

## Portfolio Analysis<sup>6</sup>

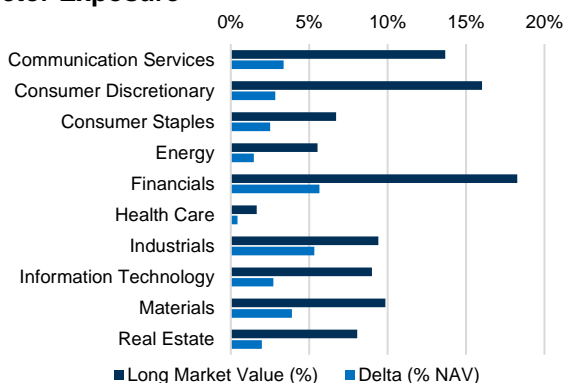
### Regional Exposure



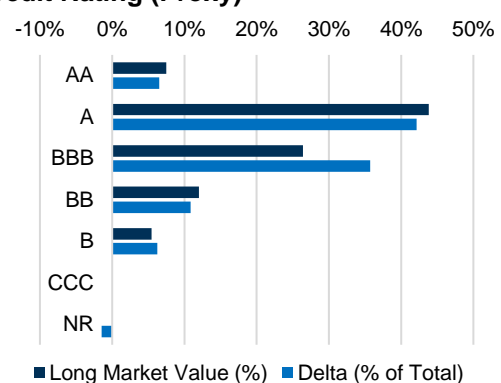
### Duration<sup>7</sup>



### Sector Exposure



### Credit Rating (Proxy)<sup>8</sup>

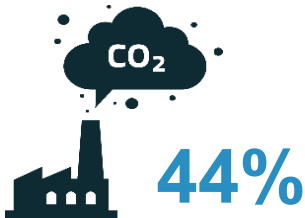


There is no guarantee that the Fund will invest in this way at all or do so in the same manner as set forth in this factsheet. Figures may not sum to 100 due to rounding. The value of securities may go down as well as up, depending on the performance of companies and general market conditions. The value at which securities in certain companies can be liquidated may differ, sometimes significantly, from the interim valuations. Investment in securities of certain companies may be less liquid, more volatile and subject to greater risks than securities of other companies. Investment in emerging markets may increase the volatility of the Fund's Net Asset Value, and accordingly, an investment in the Fund's Shares may be worth more or less on redemption than their original purchase value. As the Fund may invest in derivatives, such as swaps, it may lose more than the amount invested in such derivatives. Investors in shares denominated in a currency other than the base currency of the Fund may be affected by changes in currency movements. For full details of the relevant risks reference should be made to the risk factors sections of the Prospectus and Supplement.

On 14 November 2022, the Salar Fund was classified as Article 8 under the EU Sustainable Finance Disclosure Regulation. The Fund seeks to promote certain environmental and social characteristics, which consist of (i) restricting investment in thermal coal and oil sands; (ii) restricting investment in certain industries considered to be socially harmful; and (iii) not facilitating investment in controversial weapons.

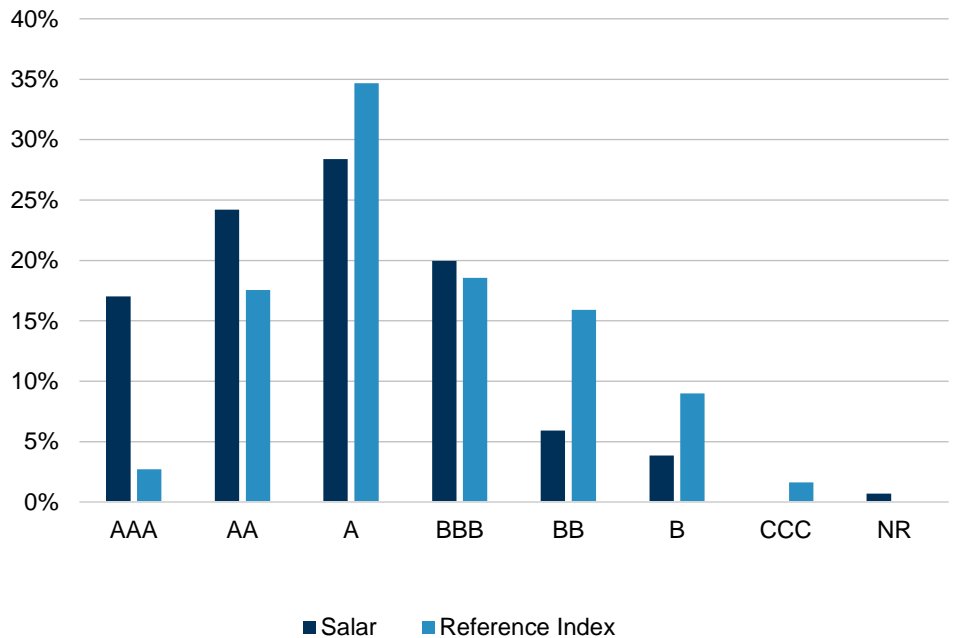
**Weighted Average Carbon Intensity (t/\$m revenue)<sup>3</sup>**

**143** Fund  
**253** Refinitiv Global Focus Convertible Index



Lower carbon emission intensity than investing in the broader universe

**Fund ESG Rating Breakdown (%)<sup>9</sup>**



**Weighted Average ESG Rating**

**A**

We are a signatory to the Net Zero Asset Managers’ initiative and our interim targets have now been approved and published. Please refer to the Net Zero Asset Managers’ initiative website (<https://www.netzeroassetmanagers.org/signatories/cqs/>) for further details.



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The CQS Salar Fund is an Article 8 Fund under the EU Sustainable Finance Disclosures Regulation (‘SFDR’). This page does not represent the formal limits and/or restrictions set out in the Fund’s investment policy.

Source: CQS. Please refer to page 4 for sources relating to relevant footnotes.

ESG ratings are attributed to issuers using either third party or internal ESG ratings assessed by CQS. The ratings range from AAA-CCC and are based on factors such as climate change, toxic emissions and waste, labour management, health and safety, privacy and data security, corporate governance and behaviour, and remuneration. A waterfall approach is used when assessing the ESG rating portfolio distribution and average rating of the portfolio, whereby (i) if a third party ESG rating is available that rating is used, failing which (ii) CQS’ rating will be used. ESG ratings may reflect the subjective opinions of CQS or the relevant third party and may be based on qualitative as well as quantitative data. ESG ratings may be based on unverified third party sources or unaudited financial and non-financial data. ESG rating are not an opinion of the creditworthiness of any issuer.

The value of securities may go down as well as up, depending on the performance of companies and general market conditions. The value at which securities in certain companies can be liquidated may differ, sometimes significantly, from the interim valuations. Investment in securities of certain companies may be less liquid, more volatile and subject to greater risks than securities of other companies. Investment in emerging markets may increase the volatility of the Fund’s Net Asset Value, and accordingly, an investment in the Fund’s Shares may be worth more or less on redemption than their original purchase value. As the Fund may invest in derivatives, such as swaps, it may lose more than the amount invested in such derivatives. Investors in shares denominated in a currency other than the base currency of the Fund may be affected by changes in currency movements. For full details of the relevant risks reference should be made to the risk factors sections of the Prospectus and Supplement.

## Important Information

The Fund was incorporated in Ireland on 27 November 2007 as an investment company with variable capital with limited liability under registration number 449784. The Fund is authorised by the Central Bank as a UCITS pursuant to the UCITS Regulations.

Overall Fund data source: CQS and BNP Paribas Fund Administration Services (Ireland) Limited as at the last business day of the month indicated at the top of page 1.

<sup>1</sup>Excludes investments in other CQS-managed Funds, Futures and Interest Rate Swaps.

<sup>2</sup>Excludes positions with zero market value.

<sup>3</sup>Weighted Average Carbon Intensity ("WACI") is estimated using scope 1 & 2 available disclosures or proxy estimates based on comparative data from MSCI. For proxy estimates, we apply a waterfall approach which requires a minimum of 10 issuers within the proxy estimate group. If there are not 10 issuers in the proxy estimate group, it changes to a broader category group to increase the number of comparable issuers and continues moving to a broader group until a minimum group size of 10 issuers are obtained or 'sector' level is reached. The order is sub-industry first, then industry, then industry group, then finally sector. Please note that the WACI score does not include hedges for efficient portfolio management purposes.

<sup>4</sup>Performance represents the Class A1 USD Shares (Acc) net of fees, expenses and transaction costs from inception of this class to the present date. Investors should refer to each specific share class for the actual historical performance of the relevant class. This factsheet includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

<sup>5</sup>The Fund may have since exited some or all of the positions detailed in this commentary. Includes data sourced from Bloomberg.

<sup>6</sup>Delta of each instrument weighted according to its market value.

<sup>7</sup>Only includes Convertibles.

<sup>8</sup>Cash is rated according to the issuer rating of the custodian bank.

<sup>9</sup>ESG rating breakdown is calculated based on percentage of assets (excluding cash) and using a waterfall approach. We use the MSCI ESG rating first. Where there is no MSCI ESG rating, we then use the CQS internal ESG rating. MSCI ESG ratings are sourced from MSCI ESG Research LLC. Please see the MSCI ESG Rating disclaimer at the end of this report. Reference index is the Refinitiv Global Focus Convertible Index.

Investors should take into account all characteristics and objectives of the fund as set out in full in the fund's supplement and/or prospectus. Further information on the investment manager's ESG processes and commitments, including its Responsible Investment Policy, can be found on [www.cqs.com](http://www.cqs.com).

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**PRI Note:** PRI is an investor initiative in partnership with UNEP Finance and the UN Global Compact. GMv10.

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