

Regulation (EU) 2019/2088 (the “Sustainable Finance Disclosure Regulation”) Article 10 product disclosures for financial products that promote environmental or social characteristics

1 January 2023

**Salar Fund, a sub-fund of CQS Funds (Ireland) p.l.c. (the “Fund”)
Legal Entity Identifier: 254900Z0KODP9VSA1194**

(a) Summary

This information is provided in accordance with Article 10 of the Sustainable Finance Disclosure Regulation and is supplementary to the information provided in the prospectus for CQS Funds (Ireland) p.l.c. (the “**Prospectus**”) and the supplement thereto related to the Fund.

Contained herein is information on the following:

- (i) Environmental and social characteristics of the Fund;
- (ii) Investment strategy;
- (iii) Proportion of investments used to meet environmental and social characteristics;
- (iv) Monitoring of environmental or social characteristics;
- (v) Methodologies;
- (vi) Data sourcing and processing;
- (vii) Limitations to methodologies and data;
- (viii) Due diligence; and
- (ix) Engagement policies.

(b) No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment. The Fund will not make any sustainable investments. However, it is typically expected that at least 85 per cent. of the Fund’s assets are aligned with the environmental and social characteristics promoted by the Fund, which do not qualify as sustainable investments.

(c) Environmental or social characteristics (“E/S”) of the financial product

In connection with the requirements of Article 8 of the 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. This is achieved through:

- (i) excluding investments in certain industries perceived as harmful to environmental and/or social objectives;
- (ii) focusing investment on issuers which demonstrate positive environmental, social, or governance (“**ESG**”) characteristics and/or deliver sustainable outcomes by achieving positive ESG ratings. Sustainable outcomes may include, for example, investments in convertible bonds where the use of proceeds of the debt is hypothecated for a specific

use by the issuer to achieve positive environmental outcomes, such as investment in clean energy infrastructure; and

- (iii) managing the Fund to achieve a portfolio with net zero CO2 emissions by 2050 or sooner (net zero being defined as the total emissions of CO2 being equal to or less than the volume of CO2 either offset or re-absorbed).

The sustainability indicators used by the Fund include:

- (i) violations of any of the Ten Principles of the UN Global Compact;
- (ii) operational business involvement in the production of controversial weapons, including cluster munitions, landmines, incendiary weapons (including white phosphorus), blinding laser weapons, non-detectable fragments, depleted uranium weapons, and/or nuclear and biological/chemical weapons;
- (iii) operational business that derives greater than 10 per cent. of revenue from direct involvement in tobacco production, adult entertainment, or predatory lending;
- (iv) operational business that derives greater than 5 per cent. of revenue from direct involvement in thermal coal and/or oil sands;
- (v) ESG ratings;
- (vi) issuer Weighted Average Carbon Intensity (“**WACI**”) metrics; and
- (vii) issuer net zero alignment.

(d) Investment strategy

The investment strategy of the Fund is set out in the supplement to the Prospectus, which can be found [here](#).

In order to meet the environmental and social characteristics promoted by the Fund, CQS (UK) LLP (the “**Investment Manager**”) will exclude direct investment in issuers which:

- (i) are involved in the production of controversial weapons, including cluster munitions, landmines, incendiary weapons (including white phosphorus), blinding laser weapons, non-detectable fragments, depleted uranium weapons, and/or nuclear and biological/chemical weapons;
- (ii) derive greater than 10 per cent. of their revenue from direct involvement in tobacco production, adult entertainment, or predatory lending; or
- (iii) derive greater than 5 per cent. of their revenue from direct involvement in thermal coal and/or oil sands.

The Investment Manager will not invest in companies that, to the best of its knowledge, are linked to and/or engage in activities that involve forced labour, child labour, modern slavery, human trafficking, or other labour practices, in each case as prohibited under US, UK, EU law or deemed to be in breach of the Ten Principles of the UN Global Compact.

The Investment Manager will use third-party data screens to apply the exclusions set out above. Any issuers not covered by such third-party data will be assessed as part of the Investment Manager's integrated responsible investment approach.

Notwithstanding the foregoing, the Fund may invest in issuers which would otherwise be prohibited under the above exclusions via sustainability-linked bonds, 'social' bonds, 'green' bonds, 'blue' bonds, and/or 'brown' (or 'transition') bonds, provided such bonds adhere to either the International Capital Market Association Green Bond Principles and/or any similar framework or guidelines published by a recognised industry body. Such bonds are issued by companies where corporate targets and/or the use of proceeds is directly linked to, or used for, sustainable activity by the company.

The Investment Manager will focus investment by the Fund in issuers which demonstrate positive ESG characteristics, as well as adaptability and resilience in the transition to a low carbon economy. In particular, the Investment Manager will:

- (i) invest no more than 20 per cent. of the Fund's total net asset value in issuers with an ESG rating of B or lower. ESG ratings are attributed to issuers using either third-party or internal ESG ratings assessed by the Investment Manager. 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. Whilst the Investment Manager will use commercially reasonable endeavours to ensure that all issuers are assigned an ESG rating, there may be instances in which it is not possible or practicable to do so, for example due to a lack of available data. It is anticipated that a minimum of 95% of the Fund's portfolio will be assessed for an ESG rating;
- (ii) commit to achieving a portfolio for the Fund with net zero CO₂ emissions by no later than 31 December 2049 or such earlier date as may be determined by the Directors by:
 - A. reviewing portfolio companies to capture current net-zero alignment;
 - B. reviewing portfolio targets to establish a trajectory towards a net-zero portfolio;
 - C. directly engaging with issuers where necessary to encourage net-zero alignment; and
 - D. taking prompt action to reduce or remove exposure to issuers that fail to adapt or manage climate risk;
- (iii) commit to a 50 per cent. reduction in the Fund portfolio's scope 1 and 2 WACI by 2030 as measured against the portfolio's scope 1 and 2 WACI as at inception on the CQS platform; and
- (iv) commit to 70 per cent. of financed emissions in the Fund's portfolio to be either net-zero, net-zero aligned or subject to direct or collective engagement and stewardship actions by 2025.

In addition to the above, the Investment Manager seeks to engage on an ongoing basis with relevant issuers to drive long-term ESG improvement.

The companies in which investments are made follow good governance practices.

In accordance with the requirements set out in the SFDR, the Investment Manager will assess the good governance practices of any issuer prior to investing (and on a periodic basis thereafter). Portfolio managers and/or research analysts consider in particular, but without limitation, the

implementation of sound management structures, employee relations, remuneration of staff, tax compliance, shareholder structure, board composition, independence of the board, and diversity. In assessing these factors, portfolio managers and/or research analysts may, depending on the issuer and without limitation:

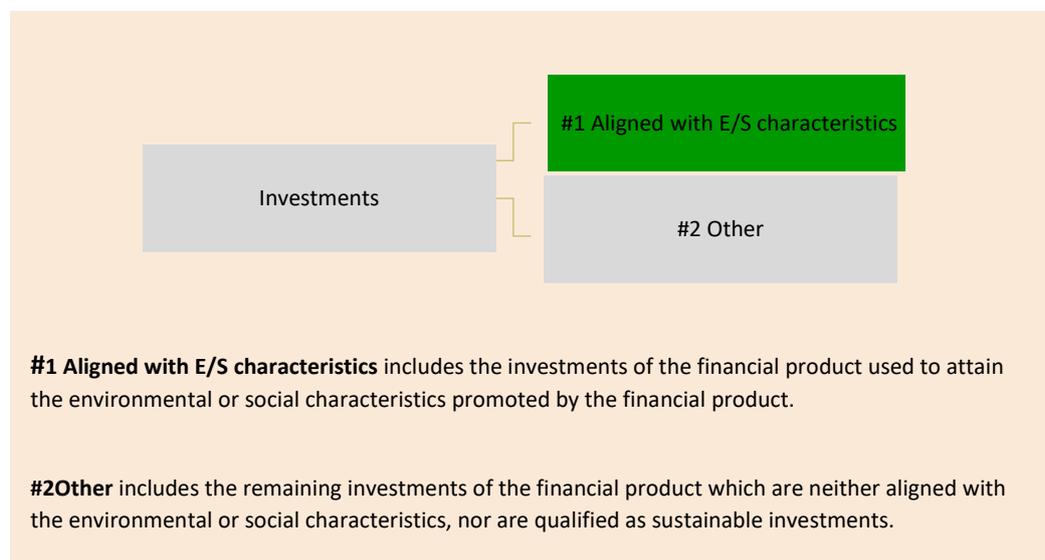
- (i) review external third-party data;
- (ii) examine related newswires;
- (iii) review the relevant issuer’s website and/or public disclosures; and/or
- (iv) engage with senior management at the relevant issuer.

The Investment Manager is a signatory to the UN Principles for Responsible Investment and, as such, is committed to each of the six principles, including the incorporation of ESG issues into investment analysis and decision-making processes.

(e) Proportion of investments

It is typically expected that at least 85 per cent. of the Fund’s assets are aligned with the environmental and social characteristics promoted by the Fund (#Aligned with E/S characteristics), which do not qualify as sustainable investments. It is typically expected that up to 15 per cent. of the investments of the Fund are not aligned with these characteristics (#2 Other).

Those investments included under “#2 Other”, may include derivatives, cash, cash equivalents and money market instruments for ancillary liquidity purposes. There are no minimum environmental or social safeguards.



The Fund may use derivatives for investment purposes, efficient portfolio management and for hedging. Derivatives will not be used for attaining the environmental or social characteristics.

The Fund has no minimum share of sustainable investments with an environmental objective that are aligned with the EU Taxonomy Regulation.

There is no minimum share of investments in transitional and enabling activities.

(f) Monitoring of environmental or social characteristics

Please refer to the sustainability indicators set out in section (c) above. In addition, the environmental and social characteristics of the Fund are monitored using the following approaches:

- (i) Exclusions: The Investment Manager will use third-party data screens to apply the exclusions set out above. Any issuers not covered by such third-party data will be assessed as part of the Investment Manager's integrated responsible investment approach; and
- (ii) Positive ESG characteristics: Monitoring parameters for each issuer will be identified pre-investment. Through research and engagement, the Investment Manager's sector specialist analysts and/or portfolio managers assess company fundamentals pre-investment and on an ongoing basis. Internal ESG ratings and ESG outlook ratings build a comprehensive picture of the current and forward-looking ESG risks and opportunities, guiding portfolio managers on probability of default and loss given default. The Investment Manager's Targeted Engagement Programme focuses on ESG issuers where the Investment Manager believes long-term improvements can be made. In addition, a sample of internal ESG ratings are reviewed on a regular basis and analysis challenged.

(g) Methodologies

With respect to the promotion of E&S characteristics, the Fund measures the attainment of such characteristics by calculating the Fund portfolio's weighted average ESG rating and WACI. It also tracks engagement with issuers and monitors their net zero alignment.

The MSCI ESG Ratings methodology and materiality mapping guides the Investment Manager's issuer analysis. ESG ratings are attributed to issuers using either third-party or internal ESG ratings assessed by the Investment Manager. 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) the Investment Manager's rating will be used. ESG ratings may reflect the subjective opinions of the Investment Manager 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 ratings are not an opinion of the creditworthiness of any issuer.

The WACI is estimated using available disclosures or proxy estimates based on comparative data from MSCI. For proxy estimates, the Investment Manager applies a waterfall approach which requires a minimum of 10 issuers within the proxy estimate group. The WACI score does not include hedges for efficient portfolio management purposes.

With reference to other binding commitments such as those highlighted on paragraph (d) "*Investment Strategy*" and (f) "*Monitoring of environmental and social characteristics*" the Fund collects data relating to controversies from RepRisk or other external data sources.

(h) Data sourcing and processing

The Investment Manager uses a variety of third-party data providers, research analysts and similar including MSCI ESG Manager, RepRisk, Bloomberg ESG, CDP (formerly the Carbon Disclosure Project), Moody's / Vigeo Eiris, issuer reports and Refinitiv as sources of external data. These third-party tools are used to gather and evaluate data and such data is integrated into the Investment Manager's internal systems. This is then used to support the research, assimilation, and consideration of ESG risk factors and positive ESG characteristics within the investment strategy. Third-party data is assessed for its quality by comparison with issuer websites, public disclosures and newswires. Where third-party data is unavailable, the Investment Manager makes use of proxy estimates. The proportion of data that is estimated fluctuates over time based on portfolio holdings. The Investment Manager's research analyst team uses this range of external data sources, as well as issuer disclosures and issuer websites, to prepare an internal ESG research note and a proprietary ESG rating and ESG outlook rating, which is made available across the Investment Manager's portfolio management systems.

MSCI data is the core automated data input into the Investment Manager's research systems and available across its investment teams. Internal ESG research notes include for example the issuer's MSCI rating and the Investment Manager's internal ESG rating.

(i) Limitations to methodologies and data

The main limitations to the methodologies referred to in section (g) above and data sources referred to in section (h) above are lack of disclosures and coverage.

For sub-investment grade issuers, there are often fewer ESG-related public disclosures, such as carbon emissions. In these instances, the Investment Manager uses proxy estimates and considers the issuer's business strategy regarding ESG factors to ensure environmental and/or social characteristics are promoted. The Investment Manager also engages with companies, directly and collaboratively, to encourage future ESG-related disclosures.

Given the markets in which the Fund invests, coverage of external ESG ratings and ESG data is at times limited. In order to overcome these limitations, the Investment Manager conducts proprietary ESG analysis using issuer disclosures and issuer websites, as well as engagement with companies in some cases, to supplement external analysis and data and promote environmental and/or social characteristics for the Fund.

(j) Due diligence

The Investment Manager recognises that environmental, social, and governance factors, including exposure to sustainability risk, are integral to the analysis of individual issuers. The factors considered by the Investment Manager will vary depending on the security in question, but typically include the themes addressed by the sustainability risks as set out in the "*Risk Factors*" section of the Prospectus. The Investment Manager conducts periodic monitoring of existing investments and may determine that certain investments are no longer appropriate for the Fund and accordingly may disinvest or decide not to invest in such assets.

In respect of the Fund, the Investment Manager:

- (i) Monitors third-party ESG ratings for each security;
- (ii) Assesses, records, and monitors good governance practices of issuers;

- (iii) Develops internal ESG ratings for most investments and records this in research notes. This is reviewed on a regular basis;
- (iv) Monitors controversies for all investee companies;
- (v) Updates the exclusions noted previously in the Restricted List application on a regular basis; and
- (vi) Considers existing and emerging ESG risks as part of its investment research process and determines the most significant risks to the Fund.

(k) Engagement policies

As an active investor, the Investment Manager may also engage, if deemed appropriate, on behalf of the Fund with issuers (either directly or collaboratively) to encourage them to recognise, and potentially change their sustainability actions to engender long-term improvement.

The Investment Manager's Engagement policy can be found [here](#), and the Stewardship and Shareholder Rights policy can be found [here](#).

In the event that a sustainability risk arises, or a sustainability-related controversy, the Investment Manager may determine that certain assets are no longer appropriate for the Fund and accordingly may disinvest or decide not to invest in such assets.

(l) Designated reference benchmark

The Fund has not designated a reference benchmark for the purposes of attaining the environmental characteristics which the Fund seeks to promote.