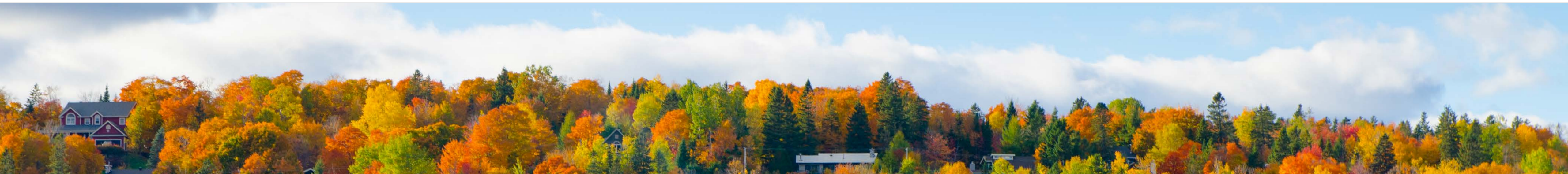




Stewardship Report

2025



What you'll *find*

Introduction	4	Stewardship integration	17	Active ownership	36
A message from Soraya Chabarek	5	Responsible investment	18	Engagement approach	37
Who we are	6	Five-stage process	20	Climate targeted engagement	38
Our asset management business	7	ESG materiality	22	Strategic engagement framework	40
Investment beliefs	10	Climate risk modelling	23	Collaborative engagement	46
Culture and social initiatives	12	Stewardship effectiveness	24	Escalation	50
Governance	13	Risk management	29	Investment process oversight	51
Committee structure and oversight	14	Promoting a well-functioning financial system	30	Monitoring service providers	52
Managing conflicts	16	Systemic risk management	31	Review and assurance	53
		Risk management framework	32	Voting rights and responsibilities	54
		Managing and identifying climate-related risk	33		

All information contained herein is as of December 31, 2025.

Scope of this report

This report covers Manulife | CQS Investment Management (“MCQS”) activities. MCQS is a trading name of CQS (UK) LLP – authorised and regulated by the UK Financial Conduct Authority, and/or CQS (US), LLC which is a registered investment adviser with the U.S. Securities and Exchange Commission (“SEC”). This report does not cover the activities of Manulife Investment Management (“Manulife IM”). While MCQS is a subsidiary, Manulife IM produce an independent sustainability report and is also a signatory to the Code.

This report is designed to meet our Clients’ demands and expectations while also addressing the disclosure requirements of the reporting framework that MCQS is a signatory.

This document doesn’t comprehensively disclose our approach to sustainability-related risks and opportunities. However, it does set out to provide the reader with sufficient information related to our stewardship approach and activities, responsible investment considerations and our role as investors and overarching sustainability practices in the context of the assets we manage on behalf of our Clients.

MCQS complies with, and adheres to the principles of, The UK Stewardship Code 2026 (the “Code”) and the Shareholder 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 MCQS has applied the principles of the Code for the period between January 1, 2025 to December 31, 2025 (the “Reporting Period”) in respect of those funds and Clients managed or advised by MCQS (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, the MCQS Shareholder Rights and Stewardship Policy (the “Stewardship Policy”), with each section of this Report corresponding to the equivalent Principle under the Code.

Source: MCQS as of December 31, 2025. Totals may not sum to 100 due to rounding.

Introduction

A message from Soraya Chabarek

Who we are

Our asset management business

Investment beliefs

Culture and social initiatives

A *message* from Soraya Chabarek

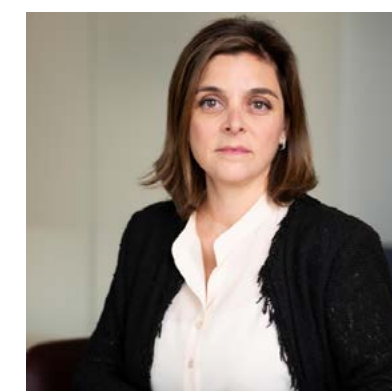
We are pleased to submit our annual UK Stewardship Code report to the Financial Reporting Council. In continuing to pursue our Firm-wide objectives, to fulfil our stewardship responsibilities, and to meet the commitments made to our Clients, we also comply with and adhere to the Principles of the Code.

Our Firm-wide objectives are:

1. Engage: As credit investors, engagement is a key tenet of our established investment process, guiding our views on creditworthiness. We engage with the companies in which our strategies invest to seek improvements and share our expertise to help make their business models and cash flows more sustainable. Over the past year, we have continued to focus on high-quality engagements and sharing examples of our ongoing engagement activity with our Clients. During the year, we have also evolved our engagement framework, becoming more strategic and long-term in our approach and, in doing so, aligning it more closely with the engagement priorities of our parent company.
2. Decarbonise: Throughout the year, we have continued to monitor the portfolio-level progress against our climate commitments, predominantly the efforts made to meet our financed emissions targets set for the relevant MCQS-managed open-ended long-only funds, which are classified as Article 8 under the European Union’s Sustainable Finance Disclosure Regulation (“SFDR”). We are pleased with our performance, in accordance with our commitments, as we look to pursue improvements in climate data and the setting of science-based climate transition pathways and targets.

3. Nurture: We deeply believe in our social responsibilities, both to our staff and to our communities, pursuing initiatives to support the ongoing development of our people and corporate giving focused on youth development. As a company within Manulife¹, we benefit from world-leading expertise in nurturing people. During 2025, we continued to promote wellbeing activities for our colleagues, and have been working with our charity partners as part of our multi-year corporate giving programme.

Pursuing our core objectives, delivering on our commitments, and meeting each of the Principles of the Code remain the responsible thing to do and enable us to continue performing for our Clients.



Soraya Chabarek
President and CEO
MCQS

¹ Manulife IM is the unified global organisation representing the institutional asset management business of Manulife Financial Corporation (“Manulife”)



Who we are

About MCQS

We have been managing research-driven credit strategies for over 25 years, across multiple market cycles. We offer investors a multi-sector alternative credit platform, focused on what our teams know best: global credit. We benefit from the scale and capital strength of our parent company, Manulife, as we look to accelerate our growth.

As an active investment manager, we put investment performance at the centre of our approach to managing Client portfolios. Our core capabilities span corporate credit (loans and bonds), asset backed securities (“ABS”), regulatory capital, collateralised loan obligations (“CLOs”), and convertible bonds.

Our ambition is to continue to help investors achieve their goals across market cycles by selecting high-quality credits and generating income. The MCQS teams aim to generate long-term, risk-adjusted returns and deliver high levels of service, tailoring mandates across a range of return objectives and risk appetites.

To achieve this, our culture is rooted in an open, inclusive and collegial working environment. Central to our culture, business ethics and values is an active approach to stewardship, including environmental awareness, social responsibility, and a commitment to good governance, to lead to well-informed perspectives.

Our asset management business

From an investment philosophy perspective, we have a history and ethos of active credit management. Since inception in 1999, we have focused on a thorough bottom-up fundamental research process, ensuring we have a clear view on the probability of default, and extent of recovery, of our investments and seeking to ensure credit spreads compensate investors for any potential loss risk. Effective stewardship is therefore central to our approach.

As credit investors, we view environmental, social and governance (“ESG”) factors as potential drivers of credit risk that may influence financing costs, risk assessment valuations and performance of the issuers in whom MCQS managed funds and/or mandates invest. In 2016, we began incorporating ESG factors into our analysis by integrating external ESG data into our processes.

We apply our rigorous investment process to mitigate downside risk and maintain stability of cash flows in the best interests of our Clients. Governance considerations have long been integrated into our investment decision-making process.

We believe in operating sustainably to best serve our Clients. To achieve this, we have an effective and transparent governance structure, engaged senior leadership and a thriving, inclusive workforce.

A Global Alternative Credit Platform
25+ years delivering income to investors

Our goal is to deliver fundamental, research-driven solutions across liquid to private credit markets

In numbers:

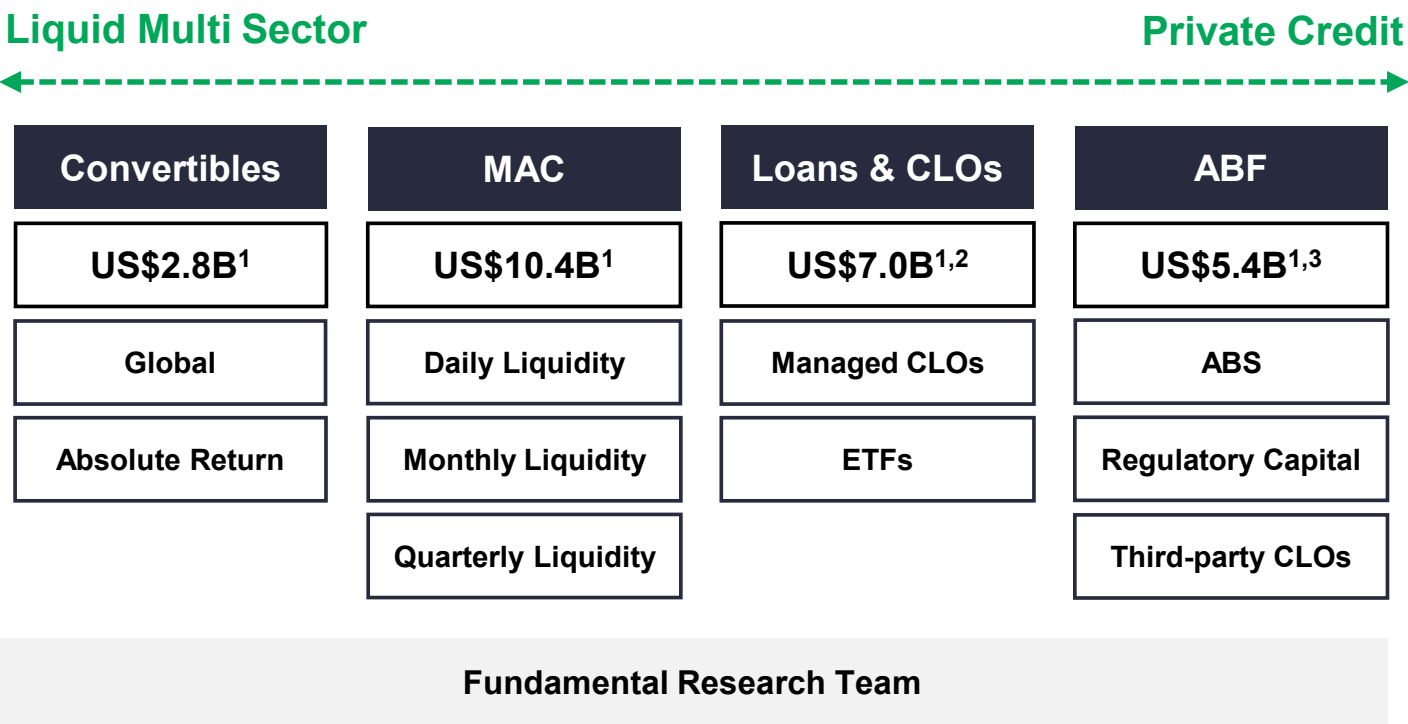
Founded	1999
Acquired	2024
AUM	US\$20.0B
Total staff	124
Investment professionals	~45

Our Differentiators:

Sharp focus on credit selection and mitigating downside risk
Nimble approach to portfolio management
Diversified global credit exposure, with an edge in Europe
Client-centric boutique within a deeply resourced and stable insurance-backed asset manager

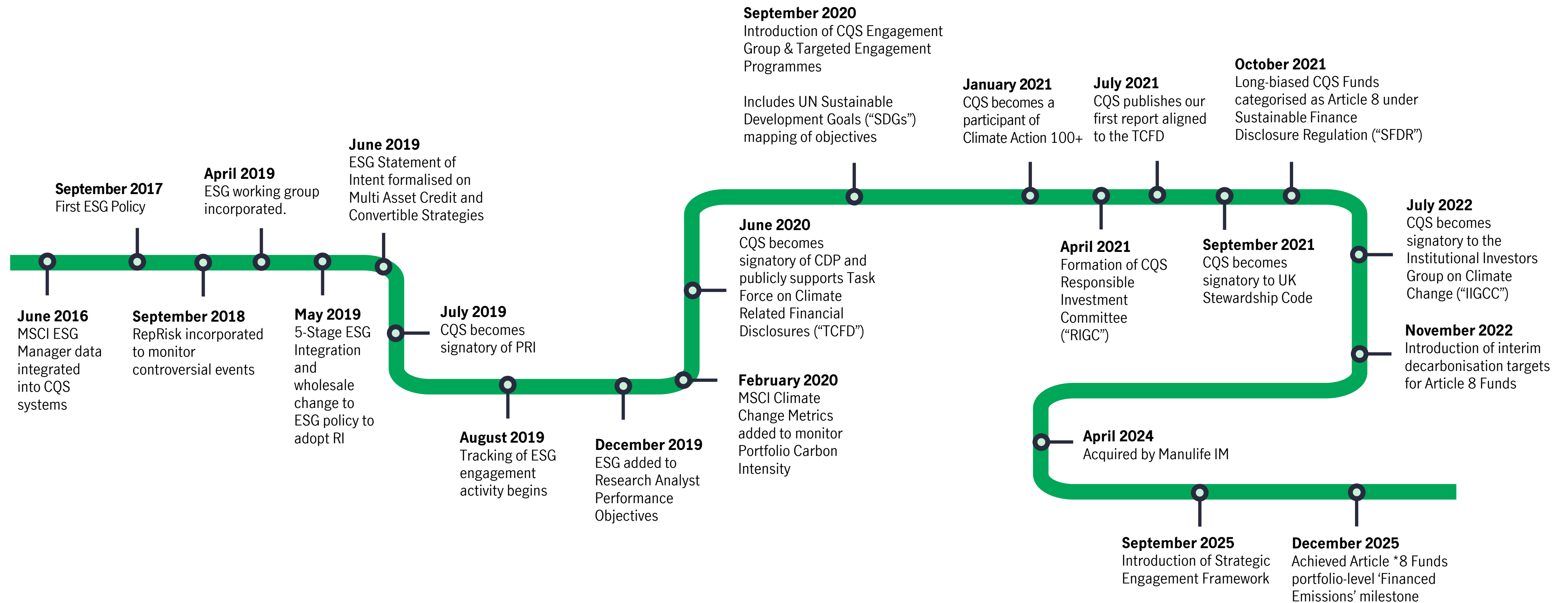
Senior leadership team has worked together for 13 years:

 Soraya Chabarek, President and CEO 13 years at MCQS London based	 Jason Walker, Co-CIO 15 years at MCQS London based	 Craig Scordellis, Co-CIO 17 years at MCQS London based
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Source: MCQS as of December 31, 2025. AUM in US\$. **1** Figures reflect sub-strategy-level allocations and may include overlapping exposures across categories (for example and not limited to: Global Loans within Multi Asset Credit, or CLO strategies within Asset Backed Securities / Asset Backed Finance). These amounts are presented for illustrative purposes only and should not be interpreted as additive or representing distinct AUM. **2** Managed within sleeves of Multi Asset Credit portfolios and ETFs. **3** AUM is based on long assets managed by the ABS team across alternative credit mandates.

Timeline of our major responsible investment milestones



Source: MCQS as of December 31, 2025.



Our Client mix

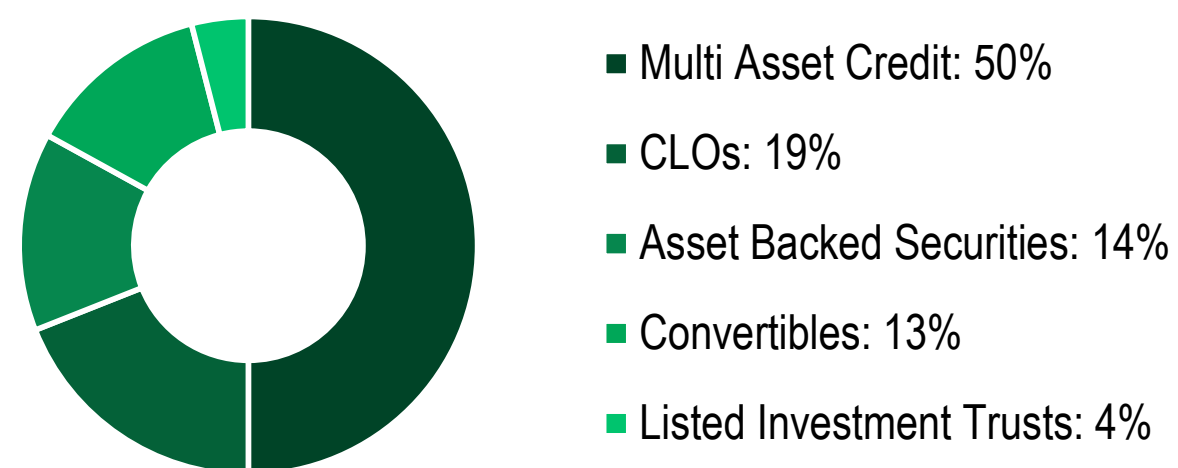
MCQS manages money for a range of Client types across the spectrum of its investment strategy proposition. The Clients who entrust us with their assets typically do so with a long-term investment horizon.

Our Clients expect us to perform in line with the performance objectives of a mandate over the course of a full market cycle.

Our Client breakdown at the end of 2025 was as follows:

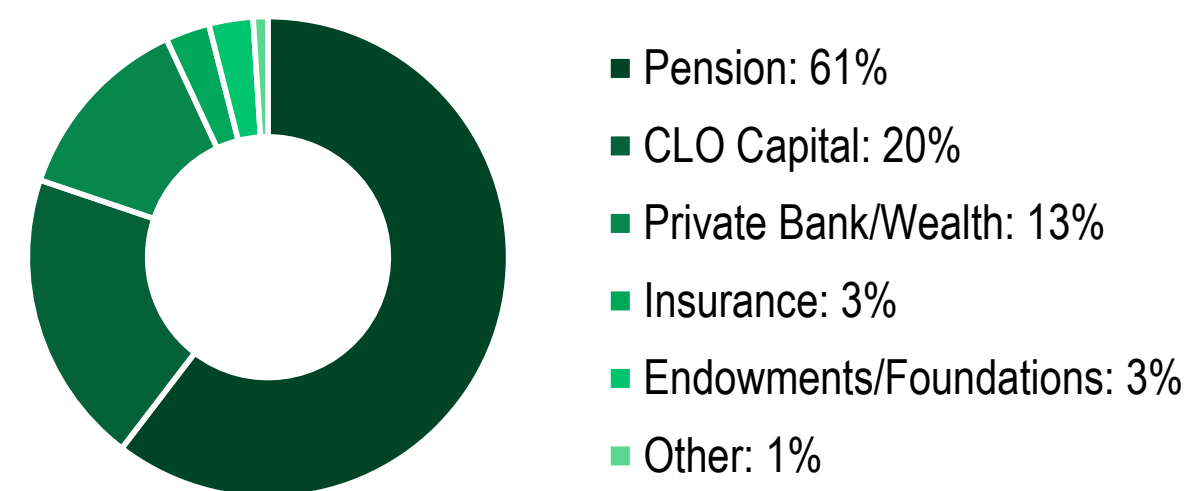
AUM by asset class

AUM in US\$



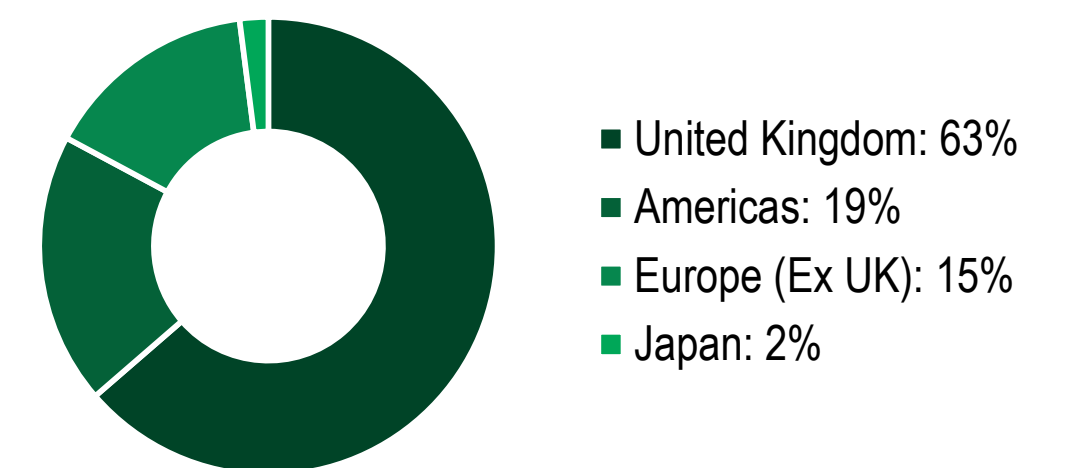
AUM by distribution channel

AUM in US\$



AUM by Client domicile by market

AUM in US\$



Source: MCQS as of December 31, 2025. Totals may not sum to 100 due to rounding.



Investment beliefs

We believe that an active approach to stewardship and investing sustainably are vital factors in creating long-term value for our Clients. We incorporate ESG considerations into investment decisions, alongside engagement with companies, to enhance long-term risk-adjusted performance by being able to consider risks and opportunities to cash flow generation for corporate borrowers.

We have integrated ESG factors into the Firm-wide five-stage responsible investment integration process. ESG considerations are embedded into the bottom-up fundamental analysis undertaken by our Research Analysts throughout our process, and by our Portfolio Managers in the investment decision-making process.

Through our process, we work hard to ensure that the companies to whom we lend have sufficient cash flow generation and liquidity to pay the interest and principal on their debt. Our effective stewardship continues to be best illustrated by our history of avoiding defaults and minimising their impact.

These issuers are more likely to be companies who are working to improve their ESG factors or who are already strong in these areas. Given we typically have exposure to c.1,600 corporates across the Firm, we can engage with many of these businesses to help drive long-term ESG improvement.

We believe company behaviour from an ESG perspective can have direct implications for their long-term future, affecting the cost of financing, valuation, and performance. In our experience, ESG issues themselves are often credit risks. For example, poor governance and ESG controversies are often leading indicators for probability of default and loss given default.

We continue to use our position, following our Clients' mandates, as an established global provider of credit to actively seek improvements from the companies in which we invest (stage four of the firm-wide responsible investment integration process). Throughout the past year, we continued to engage and collaborate with stakeholders to make meaningful change in corporate behaviour.

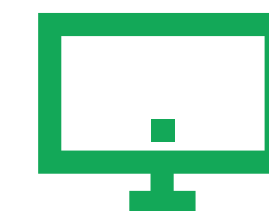
The case studies and examples included throughout this report serve to illustrate our ongoing approach to stewardship, which we believe continues to be effective in meeting our commitment to be responsible stewards of our Clients' capital and allows us to meet our financial performance objectives.

Our thematic framework drives our strategic engagement programmes, targeting specific industries exposed to mega-trends, which we consider pivotal for addressing risk and identifying long-term financial opportunities

We believe assessing material factors will better inform Portfolio Manager investment decision-making and help us engender positive change in corporate strategy through multi-year engagement.



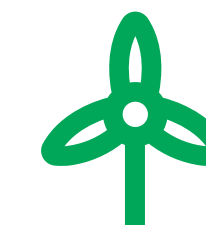
Natural capital



Technology



Human capital



Climate

Culture and social initiatives

Our inclusive culture aims to inspire employees, enabling them to provide high-quality service to our Clients, business partners, and communities. We aspire to create an inclusive culture that draws on diverse talent to drive high performance and enhance our ability to meet our responsible investment commitments.

As a multi-sector, alternative credit specialist, being effective stewards of our Clients' capital relies on our people working hard together in teams. Led by our CEO, we create a purposeful, collegiate working environment where business goals align with our Client needs.

We operate a flat management structure designed to optimise oversight and the sharing of ideas and information. As part of this, we avoid a star manager culture. This enables our people to exchange ideas and recognise that different perspectives lead to better outcomes. Team members continually interact across all levels of seniority and experience, and we encourage this. We empower our people without losing our leadership's sense of accountability.

Our recruitment process seeks a diverse pool of candidates. For us, diversity is an output of our culture. We hire on merit and focus on diversity by working with like-minded recruiters who are required to present a diverse range of candidates. We pride ourselves on our ability to nurture individuals from the grassroots up, and we are engaged in several initiatives to further help us to establish a diverse pipeline of future talent.

Alongside this, we focused on our multi-year social responsibility programme, which centres on youth development. During the year, we continued our intern and graduate programme, welcoming a 20-strong cohort of summer interns from a range of backgrounds, as well as a new graduate intake.

Our initiatives include

MCQS Women's Network: We believe women's networks are a powerful way of attracting and retaining talent, where women can interact across levels of seniority. Our Women's Network brings women together from across the industry, and from within the Firm. This initiative gives women both inside and outside our firm more opportunities to connect and build their networks.

Catalyst Education Programme ("CEP"): The Programme was established in the 2020-2021 academic year to provide economically disadvantaged pupils with the aspiration, belief and tools to develop a career in the investment and savings industry. This strongly aligns with our commitment to promote youth development and encourage talent to join our industry. CEP sits within the Talkaboutblack workstream of the Diversity Project, a cross-company initiative championing a diverse, equitable and inclusive UK investment and savings industry. Through CEP, we help facilitate an exceptional knowledge and skills programme and support students with face-to-face workshops.

RedStart: A charity that aims to provide financial education to transform the life chances of young people across the country. In alignment with our approach to stewardship, corporate responsibility, and youth development, we commenced a multi-year sponsorship of RedSTART in 2022, alongside the launch of the charity's Change the Game programme, providing direct funding, staff volunteering and support for academic research. Our funding has directly supported four London primary schools, reaching over a thousand pupils from Reception to Year 6, and has helped enable the development of RedSTART's "Bank App", a gamified platform designed to teach practical money skills through real world decision making.

Staff engagement was a central element of our support. We hosted annual Year 6 workshops at our London office, where our staff delivered RedSTART's "Money Counts" sessions and provide pupils with exposure to a professional workplace. In both 2023 and 2024, we hosted 60 pupils each year, and this programme continued into 2025 as part of our established volunteering calendar.

In addition, we supported RedSTART's seven year randomised controlled trial led by King's College London, which aims to generate robust evidence on the long-term impact of early financial education. This research underpins RedSTART's objective of influencing policy and supporting the inclusion of financial education within the UK primary school curriculum.

Governance

Committee structure

Managing conflicts

Our governance structure supports decision-making and oversight by leveraging the expertise of a range of functional experts and leaders across the company.

Governance approach

We recognise the importance of managing ESG risk and opportunity. We believe that our governance structure is effective, led by a closeknit senior leadership team with considerable experience, to support responsible investment integration including climate strategy, and ensure appropriate levels of oversight of policies, processes, resources, and the commitments made to Clients.

Board oversight

The Management Committee is responsible for assisting our President and CEO with formulating the Firm’s strategy in a manner that promotes resources and rewards responsible investing and stewardship.

From a Firm-level risk perspective, the Risk Committee advises the Management Committee on the Firm’s current and future risk appetite and strategy, including on climate risk. It also assists the Management Committee in overseeing the implementation of that strategy by senior management, and reviews and approves the Firm’s enterprise risk framework.

Governance structure



MCQS is a trading name of CQS (UK) LLP which is authorised and regulated by the FCA. These Committees are also applicable to CQS (US), LLC under a parallel-run governance structure.

Responsible Investment Governance Committee (“RIGC”)

The RIGC brings together senior representatives from across the business, including members of the Operating Committee and the Risk Committee. It also includes the Chief Sustainability Officer at Manulife IM.

The RIGC meets quarterly (and ad hoc as required) to discuss key responsible investment matters. This includes consistency and appropriateness of policies, and oversight of the development of the Firm’s approach to responsible investing. Regular agenda items include reviewing climate-related risks, process improvements, monitoring progress against climate commitments and targets, and developing climate-related disclosures.

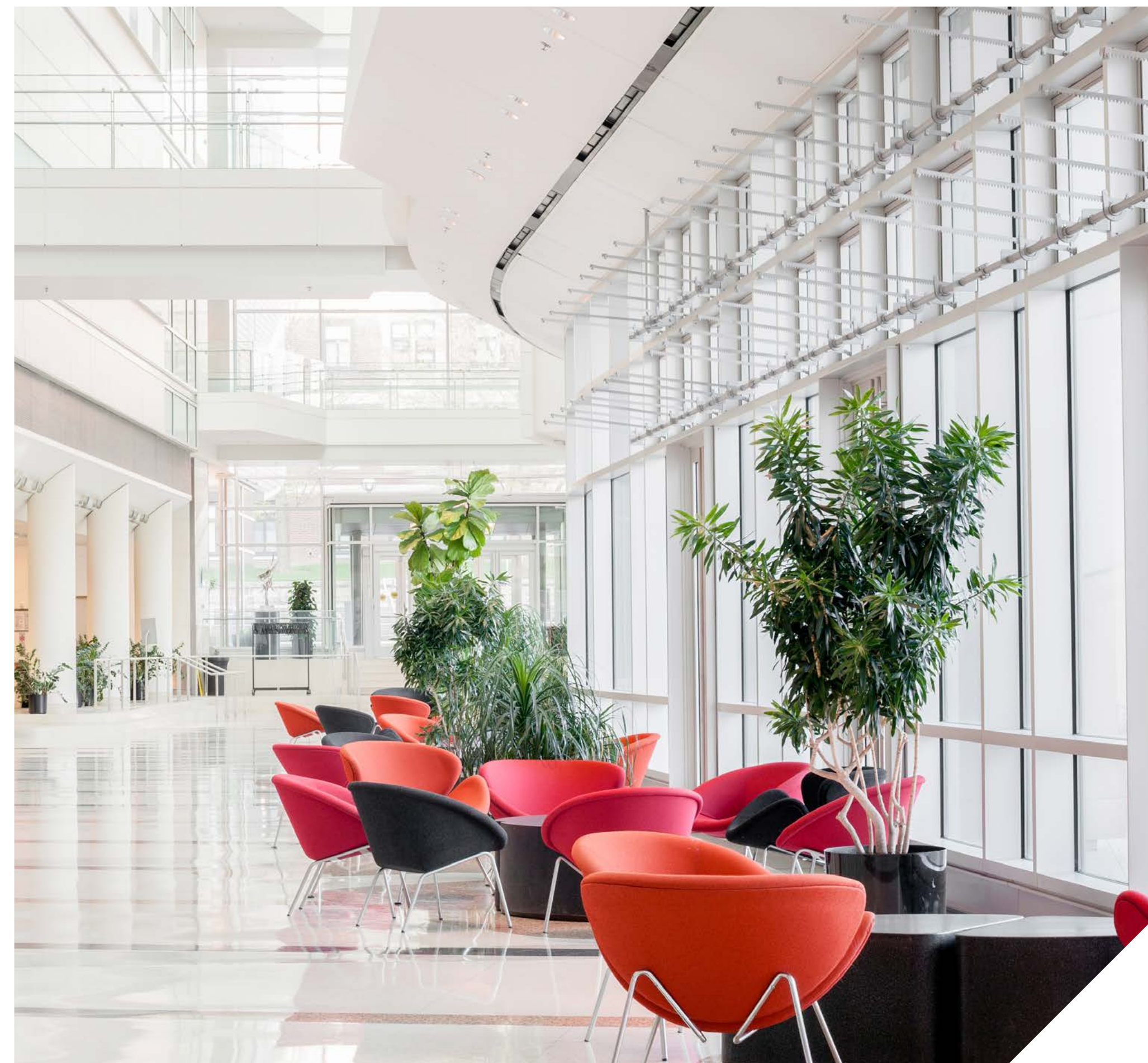
Any key issues emanating from RIGC are escalated to the Operating Committee, Management Committee, and/or the Risk Committee as necessary. This enables further oversight and escalation with clear accountability.

Our governance structure enables oversight of our Portfolio Management teams’ investment activities and supports the implementation of our responsible investment policies.

Members of the RIGC are stakeholders in the integration of responsible investment and stewardship practices across the MCQS alternative credit platform. They also regularly provide insight and reporting on responsible investment and stewardship matters across the Firm.

Policies and frameworks

Our policies, statements—also available on the responsible investing section of our website—and governance practices guide our activities. We use our policy and statement framework to direct action across our investment activities, from integration to investment stewardship.



Our approach to managing conflicts of interest

We are fully committed to conducting business with integrity and treating customers fairly and consistently. Identifying and managing conflicts of interest is fundamental to the effective stewardship of the assets we manage. In line with our principles, this approach extends to our employees, our Clients and between Clients.

When considering conflicts of interest, we always act in our Clients' best interests, managing conflicts across a range of investment activities, including stewardship, transparency, and investment decisions. MCQS has a full suite of comprehensive policies to ensure a robust approach to managing conflicts of interest across the alternative credit platform.

Our Conflicts of Interest Policy sets out minimum requirements and standards. This includes how the Firm identifies, prevents, manages, and monitors conflicts of interest among itself, its officers, its staff, and MCQS-managed Funds and Clients.

Compliance has oversight of all conflicts of interest across the Firm and as a first step, any conflicts identified by MCQS staff are escalated to Compliance with onward escalation to the Head of Compliance (SMF16/17) as appropriate.

Managing conflicts between Clients

Across the Firm, MCQS has implemented a number of policies and procedures to ensure that conflicts between Clients are effectively managed. An example is the MCQS Cross Trading Policy, which outlines the process that must be followed when one MCQS-managed Fund wishes to sell a holding to another MCQS managed Fund. All potential cross trade transactions must be approved by the relevant MCQS teams including Risk, Middle Office, and Compliance, before any trading activity is undertaken. Our staff are required to complete digital training sessions throughout the year.

The Conflicts of Interest policy highlights the conflicts commonly faced by investment management firms. This includes:

- Business relationships between Funds and MCQS, and/or the assets they respectively manage;
- Differences between relevant policies relating to responsible investment and/or the terms of the relevant Fund on the one hand and investors' stewardship or related policies on the other;
- Differing objectives of Portfolio Managers managing different asset classes of the same issuer (e.g. bonds) and/or different holdings across the capital structure; and
- Funds' and investment mandates' respective interests diverging from each other.

Conflicts relating to broader activity

The Compliance team reviews all identified and disclosed conflicts of interest, including outside interests, and considers the impact that it may have on the assets we manage for our Clients and the stewardship of those assets.

In respect of conflicts that might arise as a result of the conduct of our staff, we have policies in place covering Gifts and Hospitality as well as our Code of Ethics. The MCQS Code of Ethics Policy requires all trades in relevant securities to be preapproved by Compliance. Compliance performs a number of checks covering the MCQS Restricted List, recent MCQS trading activity and the specified manager of the staff member is asked to confirm whether they would have any reason to think that the proposed trade conflicts with MCQS business (including any conflicts related to MCQS' stewardship activities).

The MCQS Gifts and Hospitality Policy requires that all gifts and entertainment are registered in our Compliance system. For significant gifts and entertainment, these must receive pre-approval from Compliance.

Compliance will consider any relevant conflicts arising from the gifts and entertainment, which may include whether there is any link to the assets we manage on behalf of our Clients.

Stewardship integration

Responsible investment

Five-stage process

ESG materiality

Climate risk modelling

Stewardship effectiveness



Integrating responsible investing

We define responsible investing as an integrated function within our investment process that seeks, through internal fundamental credit analysis and engagement on ESG factors, to identify risk and opportunity across our investment universe that may impact our evaluation of probability of default and loss given default.

Our approach is founded on the belief that good or improving ESG characteristics can lead to better financial, environmental and social outcomes. Maintaining this focus across our strategies, while also behaving responsibly as a Firm, is integral to delivering wealth creation for our Clients and stakeholders.

As stewards of our Clients' capital, we assess factors that do or could affect the value of our investments. ESG factors can be financially material over the long-term. These can interlink, but not all have the same degree of risk exposure. This is particularly true of different sectors and companies.

Where we have identified issues of greatest significance, we appropriately assess, manage and mitigate the risks and opportunities, in addition to targeting engagement. This includes consideration of, but not limited to, the below sustainability factors.

The integration and assessment of stewardship and ESG factors is embedded into our investment process across the MCQS platform, both in public and privately held companies.

By embedding responsible investment into our bottom-up, fundamentally driven investment process, we enhance our ability to generate the best possible returns and outcomes for our Clients.

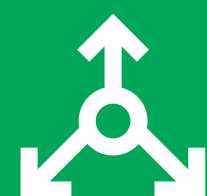
Our overarching ESG learning and development continues to be guided by Client expectations, market narrative and through evolving industry standards such as the United Nation's Principles for Responsible Investment ("PRI"). In addition, we leverage the wider Manulife IM platform and sustainability expertise.



Environmental: The emphasis of our analysis remains focused on understanding a company's contribution to climate change and exposure to related risks and opportunities. Specifically, this should include climate strategy and emission reduction targets aligned to the Paris Agreement. We look for our investee companies to demonstrate climate adaptation, resilience and mitigation considerations. Further, we consider company efforts to reduce their effects on nature, including water, biodiversity loss, land use, waste and ecosystem services.



Social: We identify a strong link between social and economic health. Accordingly, we identify a number of risks arising from poor social risk management, driven by negative impacts including poor labour relations, modern slavery, chronic public health, and digital inequality. Company mismanagement of these factors can result in a loss of social license to operate, operational disruption, reputation damage and legal liability.



Governance: We firmly believe in a rigorous governance approach to establish strong principles and structures which underpin company's practices, conduct, financial performance and stakeholder value creation. This is central to how we invest and frames our own expectation of investee companies. We seek strong evidence of accountability, strong corporate behaviours, appropriate policies and ethics, and adequate transparency and reporting standards.



Investment process and integration

Our investment process specifically looks to integrate ESG factor assessment for relevant strategies through our sector-focused research process, including modelling and internal ratings with ESG methodologies applied to both public and private debt.

Research Analysts undertake bottom-up fundamental research into single names, referencing external research and third-party data service providers as an input into ESG analysis as well as a company's own reports and disclosures, and information derived through our engagement activity.

When considering an ESG rating, Research Analysts will consider the external sources available to them (e.g. MSCI, Bloomberg, Refinitiv) alongside their experience and engagement with the business and sector-based competitors. Analysts incorporate a quantitative methodology into ESG analysis, assigning internal scores and weightings to ESG factors pertinent to the respective sector and then assign an ESG rating by issuer, as well as an overall ESG outlook.

ESG factors are analysed on relevance and impact of the sector and respective company, with consideration of risks and opportunities that could affect cash flows, access to finance or the cost of capital over the short, medium or long-term.

Research Analysts will consider the materiality of any ESG issues relevant to the company and industry on a case-by-case basis, based on a combination of relevant MSCI, Sustainability Accounting Standards Board ("SASB") metrics and proprietary analysis. Sectors will also have different weightings based on specific characteristics.

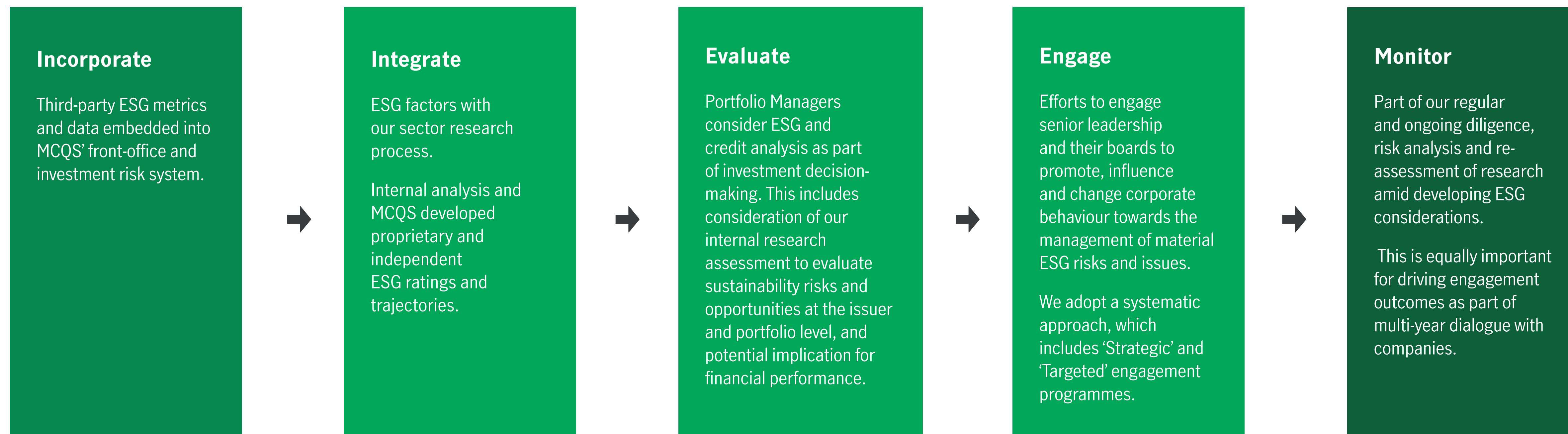
Analysis may be revisited when controversies are identified, or ongoing monitoring and/or engagement brings about new issues for consideration. The insights from the Research Analysts are also utilised to establish the priorities for engagement with issuers.

Research notes are stored on a central portal that our investment teams use to track issuers, keep research and engagement notes, and review relative ESG performance, among other functions. This houses our proprietary ESG analysis and enhances ESG integration by highlighting material ESG risks and opportunities for specific issuers.

Our five stages of responsible investment integration

As illustrated by the graphic below, there are five stages to our responsible investment integration process. Portfolio Managers and Research Analysts are required to consider ESG risks and opportunities as part of their investment decision-making and fundamentally driven research approach, respectively. Where applicable, we integrate what we consider to be financially material sustainability-related risks and opportunities into our investment decision-making processes throughout the investment lifecycle.

Research process



Source: MCQS as of December 31, 2025.

Sustainability trends

Sustainability has evolved significantly over the last twelve months. Despite the challenging environment, we saw Global Fixed Income ESG Fund AUM grow modestly in 2025¹ and a record number of companies submit net-zero targets, according to the latest data from the Science-Based Target initiative (“SBTi”).

Further, progress from companies on underlying ESG performance metrics were far more constructive, while they have largely maintained sustainability reporting standards and aligned investment commitments.

More broadly, we find evidence that fundamentals, technology deployment, and corporate governance signals mattered more than headlines and geopolitics. For example, the clean tech transition continues to take market share, rooted in leadership and regulation. Last year, across the U.S. we saw signs of weather-related disruption amid ageing infrastructure, grid connectivity issues and challenges with intermittent renewable energy streams.

Reliability of energy is a national imperative, and efforts to mitigate disruption risk will remain a prime focus for investors, governments, and policymakers. We are currently positioned at the intersection of energy security, decarbonisation and artificial intelligence (“AI”) baseload challenges, the importance of which has been accentuated by the intensification of the AI race.

The rollout of smart grids and renewable electricity production is underpinning a long-term, structural shift in our energy systems. This is set to re-write business models and reshape industrial competitiveness. Predictable clean power will build macroeconomic resilience, but it will also reshape the geopolitical landscape. Execution signals are becoming clearer, and markets are increasingly selective in how they are pricing the theme.

Yet for now, challenges with grid connectivity and infrastructure bottlenecks have forced global coal plant decommissioning timelines to be extended, lengthening them due to energy security concerns. While a key ongoing debate is whether energy reliability will be prioritised over consumer affordability concerns.

Elsewhere, we see growing momentum in efforts to address economic inequalities. At the heart of this is rising access to healthcare. This comes at a time of growing focus on the proactive promotion of well-being as regulation and consumer choice accelerate change. For example, the shift from ultra-processed foods, the growth of the GLP-1 weight loss drug and the reformulation of ingredients. Science-backed data, AI tools, and wearable health devices are increasingly being integrated into healthcare systems, supporting innovation and enhancing longevity.

¹ Source: Barclays Research as of December 31, 2025.



Meeting Client expectations

Our asset owners remain clear on their expectations of asset managers. Revised ESG priorities and enhanced sustainability reporting demands result in a more integrated approach to the investment process. Our Clients expect an open dialogue on investment actions, active ownership and stewardship efforts. These are considered fundamental pillars for responsible investment, and supports their fundamental needs and goals. By demonstrating how we deliver on responsible long-term value creation, alongside continued financial performance, we are well-positioned to best serve our Clients.



Driving positive outcomes

As active managers, we believe that we have a built-in stewardship advantage. We can leverage our knowledge of companies and sectors to enhance stewardship outcomes and help our Clients achieve their objectives. By drawing on the insights from our engagement activities, we can identify and mitigate exposure to financially material ESG risks, encourage performance improvements, and manage portfolios in the best interests of asset owners.

ESG materiality

Climate-related risks pose a systemic threat to financial, societal, and environmental stability, while market participants are increasingly identifying nature loss and water dependencies as two of the top risks to the global economy.

Equally, megatrends such as de-globalisation, longevity, social inequality, ethical use of AI, obesity risk and ongoing evidence of modern slavery present financially material factors across multiple industries.

As active investors, identifying and considering ESG risks and opportunities which may become financially material is critical.

Responsible investment integration is the responsibility of each individual Portfolio Manager and members of the Research team. This includes the assessment of financially material ESG issues to specific companies and sectors, which underpin our approach to research and stewardship. From pre-screening during the initial investment phase to ongoing monitoring and post-investment review.

Importantly, we assess material risks from both a sector and company-specific perspective. We use this risk assessment to inform investment decision making and prioritise engagement with our investee companies.

These considerations are incorporated into risk, return and outlook evaluations, which actively influence investment decisions, and we believe will enhance returns for Clients over the long-term.

While our analyses and conclusions are led by the individual investment teams, we additionally use a variety of inputs to help us, including: climate dashboard data; external sell-side research and ESG models; external frameworks such as the Sustainability Accounting Standards Board (SASB) to help identify sector materiality; and data from collaborative initiatives and Non-Governmental Organisations.

Materiality in action

Our Research Analysts and Portfolio Managers work to identify themes and/or sectors where we can combine the different areas of knowledge and expertise within our investment teams to research, assess and engage on material ESG issues.

Below, we provide a snapshot of key thematic and industry-specific examples from 2025, where we see growing evidence of specific ESG factor risk which we identify as increasingly financially material.

-  **Energy transition**—Grid investment (renewables) has been an area of focus over the last year, with disruption from climate change and the booming growth of data centre construction placing strain on outdated infrastructure that is vital for the energy transition. Surging investment in clean energy sources faces contention with the need for energy security and affordability, while the impact of cumbersome regulation and slow permitting comes at a time of rising utility demand. Our activities include research into data centre and AI impact on energy demand (load) growth, engaging with U.S. and European companies that are part of the utilities system, and assessing company-specific investment capex plans alongside decarbonisation initiatives.
-  **Water dependencies**—Water security is one of the most significant challenges to natural ecosystems, as declining freshwater levels expose business models to water-shortage risk amid elevated demand. For companies, their suppliers and investors, these pressures are already translating into operational, legal and reputational challenges. Without developing water resilience, water-related risks may threaten economic developments and long-term investment returns. Adaptation can be costly and companies can face increased costs to secure supply amid growing water stress. Our analysis and engagements have so far focused on the technology sector's demand footprint, including semiconductor water strategies. We intend to expand this in 2026 to include the consumer and hospitality industries.

Climate risk modelling

As credit investors, we use various tools to manage physical and transition risk, assessing climate scenarios and using our influence to encourage the companies in which we invest to reduce their greenhouse gas (“GHG”) emissions and align their strategies to a changing climate.

We adopt a variety of metrics to manage climate alignment, including carbon footprinting and emissions reduction targets, and forward-looking scenario analysis using climate Value-at-Risk (“cVaR”) and Implied Temperature Rise (“ITR”).

This helps us better understand:

- Financial exposures to climate-related risks (e.g. chronic or acute)
- Challenges to business models from these risks
- Implications for the value chain
- Potential timeframes for industry transition
- Climate-related investment opportunities

Having quantitative scenario analysis helps inform our understanding of a portfolio’s climate risk and can assist with our assessment of companies’ decarbonisation targets. This may also help form plans for our engagement activity, where we are able to utilise scenario analysis to inform potential business impact and sector risk.

We use two main metrics: one is climate risk, which describes the potential risk from various climate scenarios to asset valuations, and the other is temperature alignment, which assesses whether companies are contributing to the changes we require to reach global climate commitments, or whether they put them at risk.

We do not use proxy estimates, so it is not possible to calculate the metrics where there are, for example, non-visible collateral pools (such as Regulatory Capital Relief transactions). As coverage of these metrics is low for particular asset classes in which we invest, their usefulness can be somewhat limited. However, we continue to monitor their development and consider how the climate-related risks they highlight might impact our portfolios.



Stewardship effectiveness

Our effectiveness as an asset manager is measured, in part, by our ability to identify and manage both investment risk and opportunities. In addition, we believe this is equally represented by the strength and successful implementation of our responsible investing policies and stewardship activities.

While bondholders lack voting rights, we are able to influence issuers' cost of capital in the primary market, and improve ESG performance. By actively engaging with issuers, we can help shape climate strategies, support the adoption of sustainable practices, contribute to the broader transition to a net zero economy and therefore protect the long-term value of our investments.

Our approach takes into account Client commitments, as well as national and international legal and regulatory policy requirements and their ongoing development. We have due regard to the principles of effective stewardship when reviewing, updating, and approving each of our relevant policies. Evaluating our effectiveness is an important aspect of our commitment as responsible stewards of capital.

Any material updates of policies will be reviewed and formally approved by the Operating Committee, RIGC and/or Management Committee as appropriate.

Ongoing dialogue with asset owners and our Clients represents a valuable input in helping us evaluate our stewardship effectiveness. It allows us to incorporate feedback and improve the information we provide to meet their needs.

We provide detailed engagement reports on a quarterly basis in line with the requirements of the Investment Consultants Sustainability Working Group (ICSWG) engagement template, which is monitored by leading UK investment consulting firms. This is designed to improve transparency of our engagement activity for asset owners, where we provide a selection of recent case studies covering a broad range of ESG factors.

We also work with a number of investment consultants who share examples of their responsible investment and stewardship reporting with us, where we work together to provide support to their own reporting requirements and continually build on our own reporting to meet the standards expected by our investors. Investment consultants also provide us with valuable guidance on legal and market developments.

Net zero commitment

We have committed to the following interim targets for our open-ended pooled Funds classified as Article 8 under the Sustainable Finance Disclosure Regulation:

Portfolio Decarbonisation Reference Target: 50% reduction in scope 1 and 2 Weighted Average Carbon Intensity ("WACI") by 2030 from a December 31, 2019 baseline (or such later date as specified in the relevant fund's offering documentation).

Engagement Threshold Target: 70% of financed emissions to be either net-zero, net-zero aligned or subject to direct or collective engagement and stewardship actions by 2025.

Outcomes so far include formal commitments to SBTi validation and written commitments to publish carbon emission disclosures, decarbonisation targets and net zero commitments.

The Funds covered by these targets include the CQS Credit Multi Asset Fund (a sub-fund of CQS Global Funds (Ireland) p.l.c) and the CQS Dynamic Credit Multi Asset Fund, CQS Global Convertible Fund, and the Salar Fund (each a sub-fund of CQS Funds (Ireland) p.l.c.)

Scope 1 and 2 emissions are covered by our interim targets.



Alignment with Client needs

We pursue strong responsible investment integration practices to mitigate material risks and identify financial opportunities. By continuing to enhance our risk management approach across the business through training, data, and technology, we seek insights and knowledge-sharing to sharpen our focus on ESG issues.

We recognise that a significant number of our asset owners apply sustainability considerations to their investments, with financial performance, risk management and climate impact ranking as key motivating factors. Engagement and advocacy also feature highly during our conversation with Clients.

We prioritise regular two-way engagement with our Clients to ensure our approach aligns with evolving expectations and investment objectives. We work with our Clients to identify their needs and ensure expectations are met. Crucially, most investors understand that the landscape is changing for asset managers – and investee companies - and see ESG issues as becoming more complex and challenging.

Approach according to funds and assets

Given our global multi-sector alternative credit platform, responsible investment priorities may differ by asset class, and in each asset class, from investment team to investment team, depending on their investment strategy, portfolio focus, and/or holdings profile.

We adapt our engagement processes according to the varying nature of the assets and geographies we invest in. As an alternative credit manager, this involves using approaches that differ from or complement those that would typically be used with traditional corporate bond issuers. For example, for CLOs, we seek to engage with CLO Managers by requesting that they complete the European Leveraged Finance Association (“ELFA”) CLO Manager ESG due diligence questionnaire.

For ABS strategies, 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, collateral manager, and trustees). For banks to which we provide Regulatory Capital Relief, we request that they complete a proprietary ESG due diligence questionnaire.

Engagement case studies

We believe that engaging with companies on their material sustainability issues can enhance our understanding of the risks and opportunities of a given investment, while also creating a channel for encouraging actions that may lead to improved value creation for all stakeholders.

Case study – Semiconductors and assessment of water-related impact

This newly initiated engagement with a leading European semiconductor company focused on their water stewardship policies, dependencies and key actions to help deliver on its company-specific water reduction targets.

Clean water supply is business critical to the semiconductor industry, with a large chip fabrication (“fabs”) facility typically consuming between 5 to 10 million gallons of water per day. This immense volume is primarily used for cleaning and purifying silicon wafers. For a rapidly growing industry that is critical to economic developments, finding ways to reduce water use is important to ensure future sustainability.

Of increasing concern though, with the visible impact of climate change and nature-related loss, many of these production facilities are in areas of rising water stress. Further, the pipeline of new fabs is heavily concentrated in regions projected to face “high” or “extremely high” scarcity by 2030, which suggests some degree of business model risk from any negative impact to volume growth.

We discussed our concerns with company management around water-related risks in relation to operational performance and local ecosystem disruption. Management provided details of governance accountability and oversight of these matters, in addition to proactive actions to manage water-related risks across its front-end fabs. This includes physical and financial risk assessment from potential water shortages, active monitoring of public reservoirs, and the policy expectations for major subcontractors.

With water scarcity an increasing topic of stakeholder debate in wake of growing data centre and AI demand, we look for greater evidence of advanced liquid cooling technologies being implemented into plants and more circular resource management, through efforts focused on advanced water recycling and reuse.

Driven by our research, we exchanged views on the lack of strategic uniformity and evidence of trackable sustainability goals across the industry to protect shared natural resources. Critically, regarding processes and target setting in areas aligned to improving water usage, efficiency and wastewater treatments.

We encouraged company management to adopt best-in-class behaviours, citing comparison with Asian peers, to provide a picture of their relative standing. This was positively received by management.

Looking ahead, we will monitor for improved water stewardship disclosure and the setting of additional water-related target initiatives during future reporting cycles. Specifically, higher reclaimed water usage and wastewater recycling in fab plants, alongside a reduction in water use per unit of production.



Source: MCQS as of December 31, 2025.

Case study – Shipping industry decarbonisation

As part of a multi-year engagement programme with a global operator of a large cargo shipping fleet, we sought an update this year on their decarbonisation efforts and the company’s future strategy as it relates to climate transition.

The shipping industry is responsible for between 2% and 3% of all global emissions, according to various industry sources. Heavy transportation is one of the biggest industry-level contributors to financed emissions across a number of our MCQS Funds. Today, the industry tends to lack commercial viability on feasible climate transition pathways, predominantly due to the immaturity of new technologies and lack of cost-effective solutions needed to help achieve decarbonisation. In recognition of this, the International Maritime Organization (“IMO”) has prudently set the goal to fully decarbonise the sector by 2050.

Multiple alternative fuels, such as methanol, ammonia, LNG, hydrogen, and biofuels, are being explored as potential solutions. However, there is currently no clear consensus, either technically or through regulatory action, on which fuel will emerge as the industry standard. The availability and cost of these alternative fuels continue to present significant challenges to widespread adoption, and funding mechanisms remain limited. Alternative fuels such as methanol and ammonia are not available in sufficient quantity and are in some cases up to five times more expensive when they are available.

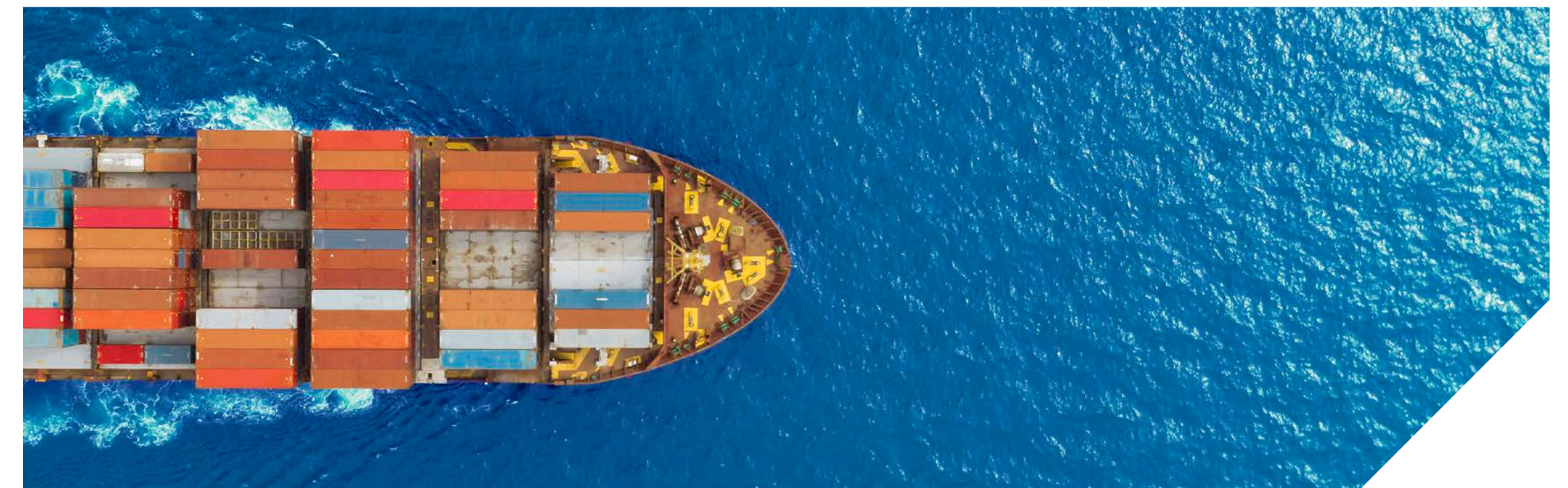
Company management confirmed that much of the existing global shipping fleet is unable to run on alternative fuels and it would take more than 20 years for the shipping fleet to be retired and replaced by new generation capacity. That is, assuming all global shipyards capable of manufacturing such ships were to run continuously. According to the company, there are currently no available slots for delivery of methanol ready vessels before 2028. All new vessels being ordered are methanol ready and adhere to the highest available environmental standards. However, management emphasised that the ultimate decision on fuel usage rests with the charterer, not the lessor. At present, due to the limited availability and higher cost of alternative fuels, most dual-fuel capable vessels in the market continue to operate on conventional bunker fuel.

Both LNG and methanol remain uncompetitive from a pricing perspective, according to management. In the near term, given the limited availability and higher cost of alternative fuels, it is likely that most shipping operators will continue to rely on slow steaming as the primary means of meeting emissions requirements and reducing fuel consumption.

With the implementation of new carbon taxes, more funds should be available to be deployed by governments to support research and development on decarbonisation technologies. However, that also remains uncertain as legislation continues to be challenged.

For now, company strategy is to maintain maximum flexibility, ensuring that its fleet is technically prepared for a range of future fuel options, while acknowledging that large-scale adoption will depend on broader industry developments in fuel supply, infrastructure, and regulation.

Upon review, we are disappointed by the lack of progress on alternative fuel adoption and in fleet modernisation efforts to improve operational efficiencies. As a result, we took the decision to reduce our exposure to the company, on concerns that the company will struggle to achieve meaningful decarbonisation prior to 2035.



Source: MCQS as of December 31, 2025.

Case study – Consumer goods company on advancing health and longevity trends

We met with a global beauty company to discuss changing industry dynamics amid growing focus from a more conscious consumer on the benefits of broader health & wellbeing trends. Increasingly, as it relates to the themes of longevity, ageing and preventative self-care.

We believe there is a strong link between social health and economic health. As such, the way we think about health, beauty and nutrition is changing. It's not just about living longer, but living better.

Companies are having to adapt business models in response to industry trends and regulation challenges. From targeted, science-backed research and innovation to compliance with ingredient reformulation legislation, adherence with clean labelling standards and funding strategic collaboration.

During our engagement we provided our views, setting out the need for more research findings on product strategy and innovation priorities across both its operating divisions and brands. Alongside focus on disclosing more materiality related to the reformulation of active ingredients and the health benefit of its product portfolio. In addition, we also discussed efforts made by the company to reach a wider customer demographic by ensuring accessibility and affordability, critically across emerging markets.

We were impressed by the thorough approach adopted by the company to various sustainability topics, which align to its values and strategic growth opportunities. Investment in research and scientific developments remains mission critical to the business, with the company recognising the alignment of consumer trends and clinical studies helps to strengthen both competitive positioning and positive social outcomes.

The company is delivering compounding returns which reinforce its sustainability leadership, particularly linked to the acceleration of its innovation initiatives and scaling breakthrough, affordable health solutions. In doing so, they are achieving divisional and category growth, whilst improving margins.

Management was supportive of our recommendation to integrate consumer health-aligned strategic KPIs with financial targets, in addition to improving their societal outcomes narrative to be more geared towards the longevity theme.



Source: MCQS as of December 31, 2025.

Risk management

Promoting a well-functioning financial system

Systemic risk management

Risk management framework

Managing and identifying climate-related risk



Promoting a well-functioning financial system

As active managers, we acknowledge our responsibility to promote well-functioning markets. Like many asset managers, we are exposed to a number of market and systemic risks, including climate change. Through the application of rigorous investment policies and frameworks, and by collaborating with others, we aim to contribute to market improvements and mitigate investment risk.

Effective management of our risks is supported through risk control self-assessments and event reporting. The Risk team independently monitors portfolio risk exposures. While Portfolio Managers are responsible for responding to market events, including through portfolio asset allocation and strategy changes to align with investment objectives.

Recognising the dynamic nature of responsible investing and its increasing impact on financial markets, we continuously enhance our approach to ESG risk management.

This includes refining data and technology systems to improve access to ESG data and subsequent analysis, and improving controls and processes for ESG information we share in Client and regulatory reporting. We also consult with our parent company, Manulife IM, to ensure our risk management and operating model align with best practices.

Systemic risk management

As established investors and long-term market participants, we endeavour to ensure that the investments we make on behalf of our Clients have long-term benefits and meet Clients' objectives.

At our core, we believe that a fundamental bottom-up assessment of the issuers to which our Funds are exposed, coupled with a top-down understanding of the macroeconomic environment, allows us to identify and gain exposure to those risks we find attractive while mitigating those that we do not. To this end, we consider proactive stewardship essential for identifying and mitigating systemic risks.

Our overarching view aligns with Manulife IM on the systemic threats posed by climate change, nature loss, and social inequality risks that, in our view, can have a negative impact on financial markets, alongside environmental and societal stability, and, therefore, to our business and our Clients' financial objectives.

We believe that understanding and monitoring of systemic risks across financial markets and capital structures remain fragmented, leading to potential mispricing of investment assets, and that many companies may be inadequately prepared to respond to these risks (and related opportunities).

Therefore, we take a variety of steps toward managing ESG-related risks and opportunities across our businesses and investments, predominantly through our stewardship activities and investment decisions, alongside risk monitoring.

Managing climate-related risks and opportunities

Consideration of climate risks and opportunities is integrated into our responsible investment process. To manage this approach effectively, we monitor and assess portfolio selection and allocation, as well as our engagement activity. As part of the integration of stewardship and ESG factors into our investment processes, we seek to assess how environmental changes may impact the companies to whom we lend and in which we invest. Understanding both physical and transition risks relevant to issuers is a vital component of our integrated approach.

We may take a variety of actions toward managing climate-related risks and opportunities across our investments, including through stewardship, investment research, and decision-making activities. This approach is driven by our specialist credit expertise across asset classes, sectors and industries.

Assessment and continuous improvement

During the year, we saw mounting evidence that physical climate risk is becoming more material, and capital markets are starting to price this into equity market valuations. For example, as evidenced by the increase in Weighted Average Cost of Capital ("WACC"), where climate change (e.g. evidenced by disruptive weather events) is actively driving an uplift in the premium for sectors such as materials and utilities. This implies that markets are evolving to actively price climate risk into financing costs.

We continue to monitor developments in climate risk, ESG regulation and reporting standards, recognising that these are evolving across jurisdictions. We also continue to review our internal processes, controls and reporting to support the effective integration of responsible investment considerations into our investment activities.

Our investment activities, including responsible investment policies, risk management models and reporting commitments, are subject to internal governance and review processes. These include discussion of relevant themes, such as climate risk exposure, engagement activity and portfolio sustainability metrics, through appropriate governance forums, with the aim of maintaining alignment with Client commitments and internal standards.

Risk management framework

We maintain a multi-layered risk management framework to support the management of investment risks, including those arising from systemic exposures.

The first line of defence is the investment team. This includes Research Analysts, Portfolio Managers and asset class specialists, all of whom contribute to the identification, assessment and management of risks within their respective areas. Portfolio Managers are ultimately responsible for managing risks within the portfolios they oversee.

The investment team is supported by a broad range of research, data and internal discussion forums, including regular cross-platform dialogue on market developments, risks and opportunities. This supports the sharing of insights across teams and helps inform investment judgement.

The second line of defence is the independent Risk function. The Risk team monitors portfolio exposures, oversees compliance with relevant limits, and provides risk analysis, challenge and management information to internal stakeholders.

We also make use of third-party systems, vendor data and proprietary tools across our risk, investment and trading platforms to support risk monitoring across the range of asset classes in which we invest.

Separate assurance and oversight is also provided through relevant control functions and oversight processes, including legal, compliance, audit and group oversight arrangements.

Line 1—Identify and assess

Portfolio Managers (investment decisions)

Research Analysts (investment research and support)

Line 2—Oversight and guidance supporting the first line

Risk

Legal and Compliance

Client Service

Our 2 lines of defence identify, review and manage different forms of risk

For illustrative purposes only.

Managing and identifying climate-related risk

Climate is a credit risk over all time horizons. As an asset manager, we use a range of information to identify exposure to climate risk across the portfolios we manage.

Applying different methods to assess physical and transition risk helps inform our analysis of business risk and the potential direct and indirect impact over varying time horizons.

Monitoring of significant individual contributors to climate change and ESG laggards are discussed alongside more traditional risk measures to ensure that the portfolios are positioned in line with the Funds or mandates' objectives and risk appetites.

We seek to address and mitigate climate investment risks in three ways:

- Ensure climate risk is integrated into our risk framework
- Integrate the assessment of material ESG factors, including climate change risk, into our investment decision-making
- Use engagement as a tool to highlight potential environmental risks and influence company behaviour

One of the metrics we use across portfolios is WACI, which can provide an indicator of carbon intensity and support relative comparisons across issuers, sectors and portfolios. We treat such metrics as one input within a broader assessment framework rather than as a standalone measure.



We are active members, signatories and participants in key initiatives that foster best practice. Through communication they support investor needs, developed in collaboration with industry peers, providing access to resources, frameworks and tools, in addition to opportunities to engage and advocate for policy change.

Through our participation in various initiatives and forums, we are able to articulate our investment perspective, with the intention of helping to protect the integrity of financial markets and our Clients assets in the face of investment risks, including environmental and social-related matters. We do this at an industry, Firm and investment strategy level according to our investment processes and Client mandates.

By collaborating with regulators, industry peers, asset owners and internally with Manulife IM, we can advance market dialogue to the benefit of responsible investment, good governance policy and improving the efficacy of financial markets.

We actively participate in industry-wide initiatives and collaborative engagement, where appropriate, recognising that to instigate change a collective approach can often make success more likely. This is covered in more detail later in the report.

Signatory of:



Organisational support

MCQS is a signatory to, and supporter of, a number of organisations which drive process, action and disclosure. This includes:

As a **PRI** signatory, we commit to the six Principles for Responsible Investment, which works to support the understanding of the investment implications of ESG factors and efforts to incorporate these factors into investment and ownership decision making.

As a signatory to the **UK Stewardship Code**, we apply the code's principles and submit annual reports to enhance the quality and documentation of our engagement to the Financial Reporting Council ("FRC").

As a **CDP** signatory, we promote environmental disclosures via collaborative engagements and have access to current and historical CDP company scores and completed questionnaires.

As an investor member of the **Institutional Investors Group on Climate Change ("IIGCC")**, we are supported in managing climate risk and have access to collaborations with others.

As an investor participant of **Climate Action 100+**, we engage with companies on the collective goal of halving greenhouse gas emissions by 2030 and delivering net zero greenhouse gas emissions by 2050.

As a public supporter of **Task Force on Climate-Related Financial Disclosures ("TCFD")** reporting, we commit to working toward implementing the TCFD recommendations.

Collaborative engagements as part of our engagement framework

In addition to bilateral engagements, where applicable and relevant, we participate in targeted collaborative engagements. We value engagement with stakeholders through industry groups that support partnering with companies to understand and address investment risks, including systemic risks. We participate in a variety of collaborative engagements with a range of stakeholders, including industry peers and asset owners.

Case study – CDP Non-Disclosure Campaign (“NDC”) participation

Since 2020 we have been active supporters of CDP’s NDC. We continue to see significant investor participation in this campaign, signalling a clear intention towards the value in positive progress on climate disclosure.

The purpose of CDP activity is to encourage greater corporate environmental disclosure and drive for change in the areas of climate, water and forestry. Last year marked our sixth NDC participation, which brought together collaboration from over 220 global financial institutions.

During 2025, over 1,300 companies that had never previously disclosed through CDP before¹, were called on to disclose, with over 900 targeted on climate.

As part of our contribution, we targeted engagement with five issuers, covering multiple sectors including software and health care. Letters sent to company management encouraged the select companies to complete the relevant CDP questionnaires, focused on a combination of climate and water disclosure

In total, 10% of the targeted CDP companies submitted responses related to NDC-targeted themes. For our own engagements, we received positive responses from two of the five approached companies, receiving subsequent confirmation from CDP of successful submission of their respective climate questionnaires.

Case study – Addressing antimicrobial resistance (“AMR”) in supply chains

As part of a series of collaborative engagements with Manulife IM, we approached several global restaurant chains to develop an understanding of their respective animal welfare practices and policies implemented to limit antibiotic use across the industry value chain in relation to heightened AMR risk concerns.

Driven by global overuse and misuse of antimicrobials in humans, animals and agriculture, and the subsequent spread of antimicrobial residues into the environment, AMR has become a systemic risk akin to climate change and nature loss. According to research from FAIRR, AMR is one of the top ten global threats to human health.

As a large purchaser of animal protein, fast-food restaurants are well-positioned in the value chain to promote and encourage for their upstream supply chain to adopt responsible antibiotic use practices at the farm level. Through engagement we sought to establish compliance with the World Health Organisation (“WHO”) standards, the critical variables to antibiotics use and the maturity curve for protein disclosure. Of key importance was to find evidence of improved animal husbandry standards, including disclosure and targets.

For our largest individual portfolio exposure, the company confirmed it does not track or disclose antibiotics use data. While its standards comply with the WHO guidelines framework, management cited ongoing challenges gaining full supply chain transparency. The company has good oversight of its broiler chicken supply chain, yet visibility on other proteins, most notably beef, remains limited. For those proteins, different businesses operate each stage of the life cycle, which compares to the vertically integrated model for chicken farming, where there is stronger auditing practices. The lack of trackable data for other proteins has resulted in slow progress in setting time-bound antibiotics reduction targets. Management did make a verbal commitment to work closer with their beef suppliers on mitigating AMR risk exposure, albeit was pragmatic on the feasibility of annual target setting. We will continue to monitor industry progress and updates from the FAIRR initiative, alongside ongoing engagement with the company.

¹ Source: CDP NDC Results Report (<https://www.cdp.net/en/campaigns/non-disclosure-campaign>) as of February 2026.

Active ownership

Engagement approach

Climate targeted engagement

Strategic engagement framework

Collaborative engagement

Escalation

We believe responsible, active ownership of our investments through stewardship efforts is an important pillar of our investment approach. Engagement can deliver useful investment insight and help promote positive change.

Active ownership approach

As credit investors, engagement across the financing lifecycle forms a key part of our investment process and stewardship activities, guiding our views on the probability of issuer default and loss given default. We believe that engagement, either bilaterally, or as part of a collaborative initiative, may lead to improved actions that enhance financial performance over the long-term.

We consider engagement as a means to gain insight and knowledge from companies, helping to build a more comprehensive understanding of a business model, financial performance and management quality, that strengthens our due diligence. This can positively influence asset allocation and security selection, through more informed investment decisions.

In addition, through constructive dialogue with individual companies, we share our expectations and best-practice examples. Our goal is to help foster meaningful change in corporate behaviour by encouraging the adoption of sustainable business practices and actions that reduce the potential impact of sustainability risks. We believe this can have a positive impact on the underlying investment case.

Engagement is identified as Stage 4 within the MCQS five-stage responsible investment integration process, forming an integral part of ESG factor assessment. It is used by our investment professionals as a tool to build a fundamental analysis of risk, relative value and investment opportunity.

Importantly, we recognise the different cadence of issuer engagement. From seeking transparent disclosure and measurable ambition to time-bound commitment and financial execution. We aim to move companies one step up the ladder from data measurement to financed net zero alignment.

We conduct engagements internally, seeking dialogue with investee companies for a given context on a range of sustainability matters, and may interact virtually, in person, or through written communication. All activity is logged on a centralised system for reporting and tracking progress.

In terms of our framework, we adopt a three-pronged approach to engagement activity: strategic and Climate Targeted campaigns; ongoing bilateral issuer engagement; and collaborative efforts, where appropriate. Importantly, governance practices cut across all these approaches.

Members of the investment teams often interact with issuer representatives as part of their fundamental research process. These engagements provide additional insight into business drivers, governance and investment strategies. In parallel, these engagements may also discuss sustainability risks and opportunities. Such engagements should be used to better understand a company's ESG characteristics and activities, which form part of the MCQS credit and ESG assessment.

We recognise that effective engagement requires continuous monitoring and ongoing dialogue, with a focus on achieving meaningful outcomes over the long-term. As such, we prioritise depth and quality of our engagement activity. Engagement should take place, wherever practicable, both pre-investment and post-investment.

Our Engagement Group typically meets on a quarterly basis to provide sustainability insights and review our latest stewardship and engagement activity. This comprises a broad representation of Portfolio Managers, Research Analysts and members of RIGC. It is chaired by the Head of Research.

Climate Targeted Engagement Programme

During the year, we continued to make progress with our Climate Targeted Engagement Programme, which we formalised in 2022, and is a key component for the monitoring and review of Fund-level financed emissions.

As part of our climate strategy, a key objective of our Targeted Engagement Programme is to engage issuers to push for improved environmental data disclosure, and to encourage companies to adopt comprehensive climate transition plans which have emissions reduction targets that are externally verified using science-based methodologies, such as those from the SBTi.

Prioritisation of companies subject to such programmes are determined by Portfolio Managers and the Research team, with selection considered based on: materiality of issues identified (relative to company specific ESG issues versus overarching MCQS engagement priorities); the size of the investment and WACI contribution on the portfolio; and our view on the ability to materially influence net positive improvements to their transition plan and general practices.

For the highest-emitting companies owned across our Funds, we evaluate whether they have climate transition strategies aligned with relevant industry peers, and, for those that do, how they are progressing with their 2030 (or beyond) decarbonisation plans.

As part of our engagement, we consider it important to demonstrate to companies the benefits of a robust transition pathway, including increased access to capital.

For sectors which are considered the most hard-to-abate industries, including steel, cement, aviation and chemicals, we adopt a pragmatic approach on the feasibility of setting science-based decarbonisation targets. We look for evidence of achievable, immediate actions, technology deployment and transition financing, rather than reliance on break-through technologies.

To monitor progress against the Engagement Threshold Target for our Article 8 Funds, where it is a formal sustainability objective, a number of key internal functions work closely to monitor the relevant dataset on an ongoing basis, with the output regularly discussed at our monthly performance review meetings.

The two key data points required are whether a company is net-zero aligned and whether we have engaged with a company on net-zero.

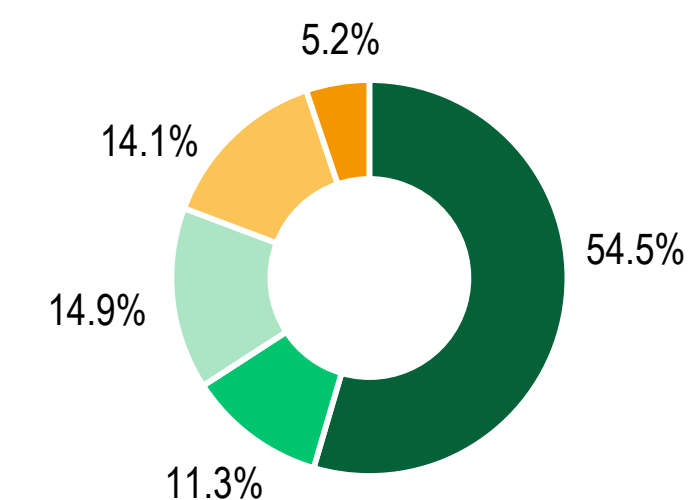
The key objectives are to maintain and where necessary increase:

- Carbon emission disclosure coverage
- Proportion of companies with decarbonisation targets
- Carbon emission disclosure coverage

This year, we identified 30 companies for engagement. Outcomes during the year included formal commitments to the SBTi and written commitments to publish carbon emission disclosures, decarbonisation targets and net zero commitments.

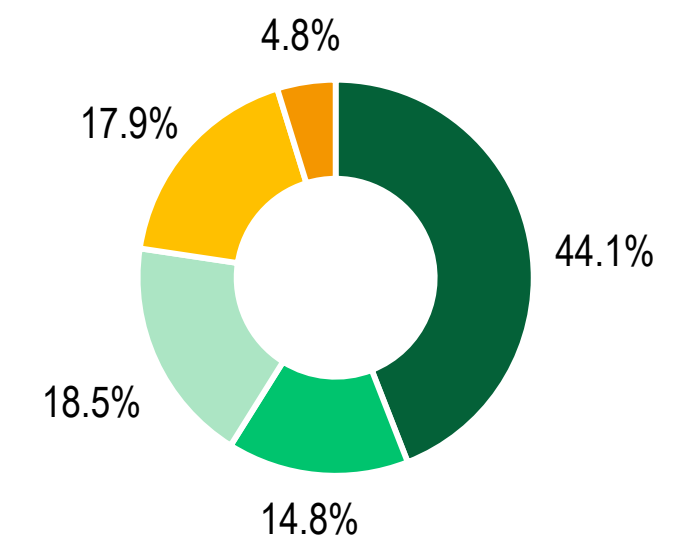
CQS Credit Multi Asset Fund

80% net-zero aligned or subject to engagement on net-zero



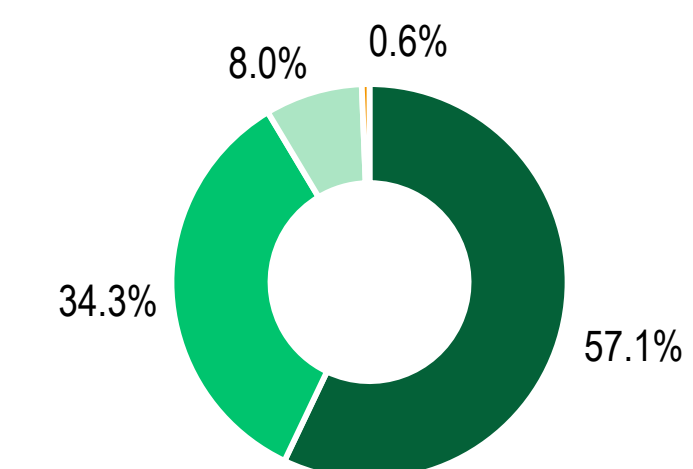
CQS Dynamic Credit Multi Asset Fund

77% net-zero aligned or subject to engagement on net-zero



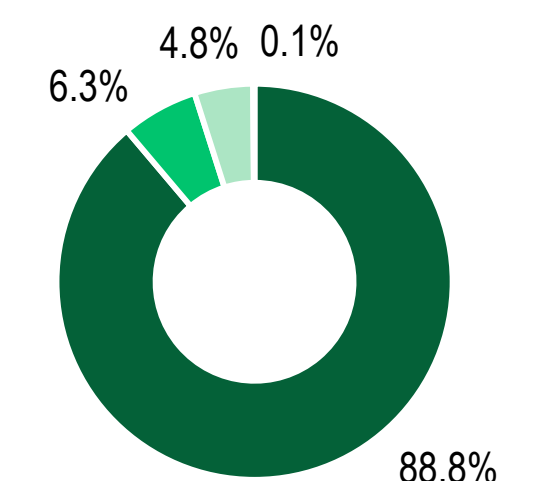
CQS Global Convertible Fund

91% net-zero aligned or subject to engagement on net-zero



Salar Fund

94% net-zero aligned or subject to engagement on net-zero



■ Net zero aligned
 ■ Decarbonising, engaging on net zero
 ■ Decarbonising
■ No targets, engaging on net zero
 ■ No targets

Source: MCQS as of December 31, 2025. All Funds met their engagement threshold targets.

Case study – Apparel retailer’s climate transition plan

During the period, we initiated a new engagement with a well-known consumer footwear brand as part of our Climate Targeted Engagement Programme. These engagements focus on real economy decarbonisation, where we look for companies to improve emissions performance disclosure (including Scope 3), commit to financing an appropriate decarbonisation strategy and to set science-aligned emission reduction targets. We also wanted to know if the company had any near-term plans to publicly disclose a climate transition pathway in its annual reporting.

These engagements also help our Research Analysts and Portfolio Managers to better understand the potential drivers and impacts of industry-level risks and opportunities, in addition to understanding the nuances of physical and transition risk within different sectors.

The company’s 2024 sustainability report recorded an increase in Scope 1 and 2 emissions, owing in part to the growth of the brand and increase in the number of physical sites year-on-year, notably within the Asia Pacific region. We also noted comments made by the company on adopting a more comprehensive approach to measuring emissions, including calculating parts of Scope 3 emission categories for the first time.

During our engagement, management confirmed efforts this year will include coverage expansion of their GHG emission reporting framework to fully incorporate all significant Scope 3 categories for measurements, with plans to disclose this publicly in 2026.

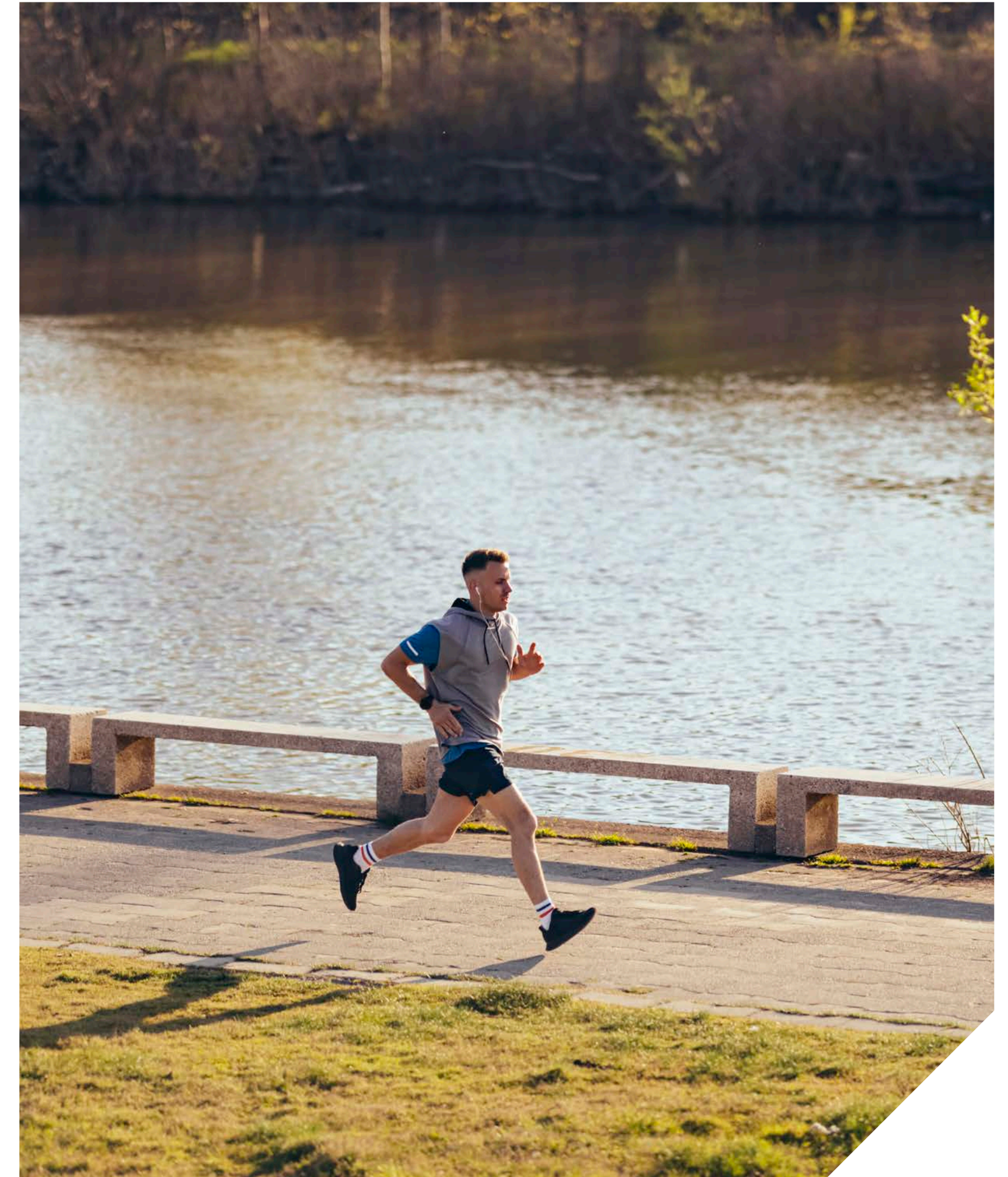
While the company has not committed to setting a timeframe for SBTi validation, management advised they continue to focus internal and external resources on improving and refining the quality of their climate data disclosure.

We were provided with details of recent activities which they believe will enhance data reporting of their operational footprint to better inform their sustainability strategy, which includes achieving a reliable GHG baseline measure for global activities.

While we acknowledge momentum in the progress of climate disclosure and scenario analysis, we still believe the company can accelerate the speed and scope of its efforts to improve data disclosure and overall decarbonisation strategy. The company considerably lags footwear peers in this regard, based on our internal analysis.

We will continue to monitor progress on data refinement and carbon emissions reduction targets, albeit will revisit engagement with management should this not meet expectations.

Source: MCQS as of December 31, 2025.



Evolving our engagement framework

During the year, we updated our engagement plan specifically to create a more forward-looking strategic framework, which more closely aligns to long-term themes that reflect the priorities of investors, corporate issuers and industry initiatives. Additionally, this considers increasingly important issues relevant to Research Analysts in their assessment of their respective coverage sectors, and more closely aligns us to the engagement priorities adopted by Manulife IM.

Our strategic engagement campaigns focus on four material sustainability themes which are central to our active ownership strategy: Climate; Natural Capital; Responsible Technology; and Human Capital. These themes are covered in more detail on the next page.

Long-term strategic plan

We consider these themes to be material drivers of long-term value, reflecting the combined perspective of Portfolio Managers, Research Analysts and Responsible Investment Specialists across the Firm. This shared insight helps form a holistic opinion and establish clear engagement objectives.

For each theme, we set out 5-6 underlying mega-trends, which we consider pivotal to help us identify long-term systemic risks and address key ESG factors. These themes may often interconnect, and understanding these connections helps further deepen our corporate engagement.

We target specific industry engagements on a quarterly basis, where we identify ESG risks and opportunities that represent financial materiality to business models and cash flows. We don't engage on all key themes for all companies. Instead, we focus on insights and outcomes for the issuers that we choose to prioritise aligned to their most material themes.

As bondholders, we rely on robust data, transparent disclosures, and access to company decision makers. The framework allows us to engage across the ecosystem, focusing effort where risks are most material to creditworthiness and expands our potential to exert positive influence.

Success is measured through a proprietary system that tracks a company's progress toward ESG goals over time, including issuer and industry level sustainability targets, and against our objective criteria. Engagement tactics include direct dialogue with senior leadership teams, involvement in targeted collaborative theme initiatives (e.g. FAIRR), and asking questions at board meetings.

We believe this informs investment decision-making and strengthens our efforts to engender change in corporate strategy over the long-term. The framework enables us to become more targeted around industries and issuers where we assess forward looking implications for business models.

Additionally, the plan specifically maps engagement objectives to targets that sit under the UN Sustainable Development Goals ("SDGs"), such as: doubling the improvement in energy efficiency (SDG 7.3); upgrading all industries and infrastructure for sustainability (SDG 9.4); and reducing premature mortality from non-communicable disease (SDG 3.4).

As examples of our campaigns, during the year we targeted semiconductor (water risk dependencies), real estate (net zero build standards) and utilities (funding the energy transition) to understand technical requirements, level of capex investment and the regulatory barriers to achieving industry-wide and company specific goals.

The plan is periodically reviewed and updated by the RIGC members to include increasingly important issues.

Theme breakdown

Our strategic engagement framework identifies four long-term engagement themes as follows:



Climate—Encouraging companies to align their strategies and emissions targets with the Paris Agreement (1.5°C goal) and ensuring credible transition plans. Focus on issuer climate adaptation, resilience and mitigation efforts, alongside clean technology investment as part of a decarbonisation strategy.



Natural capital—Expecting companies to acknowledge and manage nature-related risks in operations and supply chains. This includes efforts to protect and restore biodiversity, monitor water security and dependencies, ensure functioning food ecosystems and regenerative agriculture, and to minimise waste by promoting a more circular economy, including green design principles.



Responsible technology—Advocating for companies to advance efforts to reduce societal inequalities by broadening social connectivity, digital equality and inclusion. Ensuring more responsible use of AI and adoption of rigorous safeguarding protocols to prevent data privacy and cybersecurity risk. Invest in digital tools and data to advance access to improved economic developments and industry innovation.



Human capital—Ensuring companies apply appropriate management of people rights, including modern slavery in supply chains, fostering career development and equal opportunities by upskilling workers, closing ethnic and gender pay gaps, addressing longevity and an ageing society by pursuing changing consumer trends, including areas of beauty and nutrition, to the benefit of human health.



Strategic engagement campaign

For our strategic engagements we look to focus on long-term financially material risks and opportunities, targeting industry level issues which we consider will have a meaningful impact on environmental, social and/or economic outcomes, in addition to business model risk. Our framework consists of four themes and a series of micro-trends.

Case study – Utilities managing growing demands of the energy grid

We engaged with a large electric and gas utility provider that generates power from natural gas, renewables and coal, focusing on the transmission and distribution of energy. This formed part of our strategic engagement campaign focused on the energy grid transition, aimed at encouraging accelerated investment in renewables to replace fossil-fuel-generated capacity amid rising load growth.

Specifically, we discussed the company's recently announced capital investment plan to better understand how the (significant) rise in capex will deliver modernised grid infrastructure from renewable energy expansion and new gas generation, including phasing out coal, without compromising on grid reliability and energy security concerns.

Management provided a detailed run-through of its plans for grid decarbonisation, including the pathway to achieve its clean energy goals by 2040. Aligning capex investment with decarbonisation initiatives provides a clear line of sight for the company on earnings and achieving its overarching sustainability priorities.

Company representatives were positive on the influence of state-level regulation, pointing to Michigan's mandated energy laws, citing recent improvements in network planning and overcoming permitting bottlenecks. This will help accelerate grid modernisation and provide improved visibility on future grid capacity planning. Reassuringly, the company has several climate goals, which support execution efforts.

We will monitor the progress of planning approval to bring renewable energy supply online and on the closure of its remaining coal assets, pending a reversal of policy changes from the U.S. Department of Energy. We will also track changes in the state-level regulatory environment, which could accelerate transition efforts.

Source: MCQS as of December 31, 2025.

Case study – Industrial software helping decarbonise the energy grid

This was a newly-initiated engagement with an industrial technology company which operates in the energy grid value chain as a digital intelligence solution enabler to utility companies, predominantly in the U.S. market.

Considering the energy transition requires more than capacity expansion and clean generation, we discussed the transition opportunities for the company from grid-enhancing technologies, and the role of software and data tools. The company is focused on the provision of solutions and services with a growing customer base.

On the opportunity set, the company confirmed an increasing demand backdrop following increased sophistication from U.S. utility customers amid growing use of real-time data and analytics to help balance the energy grid mix and reduce bill costs for consumers. Following years of underinvestment, management commented there is now widespread recognition for greater flexibility in network management, which can be achieved through digitalisation and the use of software tools. Capital investment projects and regulatory activity are also favourable, driven by greater focus on smart grid optimisation and energy reliability trends.

Market concerns around environmental policy pivots in the U.S. amid persistent media headlines, is considered overblown by company management, with positive developments at the federal state level more significant than national policy.

We also encouraged further Scope 4 emission analysis as a means for commercial value and disclosure of environmental improvement from its product set. The company confirmed that Scope 4 analysis is now an active part of the conversation for its sales channels as part of its go-to-market strategy adopted by the company to win new business as a quantifiable product advantage.

We will continue to monitor company results to look for evidence of commercial traction in their sustainability strategy. This will also provide useful context on wider utility industry decarbonisation developments.

Case study – Grocery retail on human rights-related risks

Retail employment in the UK is highly labour competitive and is set to undergo major reforms under the Employment Rights Act with increased media scrutiny placed on the promotion of fair and safe work standards. This is in light of continued evidence of forced labour situations and modern slavery conditions. Managing against these risks requires strong governance, monitoring and policy implementation for an industry responsible for a large workforce.

A tightening regulatory environment will look to address modern slavery and human rights vulnerabilities, which is supported by a growing trend of labour benchmarking assessment, including the latest “Find it, Fix it, Prevent it” initiative report from the CCLA¹ Investment Management, which indicates companies still prioritise policy documents over action.

More than ever, risk mitigation measures require human rights strategies to balance compliance with commercial performance. Failure to respond to these issues exposes companies to enforcement action, operational disruption, financial fines, stakeholder pressures and reputational damage from the fallout of union activity and poor labour relations.

Following a review of the sector, we identified a UK grocery retailer as an industry laggard in areas of employment data and human rights diligence, where we uncovered concerns over the company’s oversight and approach, including efficacy of policy, diligence of labour rights, attitude towards employee equality and promotion of worker wellbeing.

Our latest engagement with company management looked to discuss human rights standards in the wake of negative industry headlines in the past year. The company has previously lagged peers on salary benchmarking and pay developments, which formed the grounds for union representation for employees to advocate remedial action. We looked to attain an update on the extent of union and employee conversation on pay and working hours, and to share the extent of any remediation plans.

The meeting with company management was constructive, with representatives keen to flag recent improvement in both operational performance and employee relations through the past year.

On recent labour challenges, the company admitted they were forced to act in response to employee strikes because of alleged equal pay issues throughout the lower pay tiers of its hierarchy, which represents a significant proportion of its workforce. While labour discussions with unions were still ongoing at the time of our engagement, the company is confident of making progress to appease concerns, and has increased salary thresholds to be in line with the national living wage.

We voiced our views on the importance of maintaining strong labour relations, and the company confirmed steps are being implemented to strengthen performance, including improved accountability of human rights diligence and board-level responsibility for employee performance monitoring. In addition, we advocated for more insight on its approach to supply chain modern slavery and oversight of labour management within its operations.

We will continue to monitor progress on improving labour disclosure and on aligning human capital policies with industry peers, including on equitable pay assessment.



Source: MCQS as of December 31, 2025. ¹ CCLA: Churches, Charities and Local Authorities (CCLA) Investment Management Limited.



Case study – Real estate roadmap to net zero buildings and infrastructure

During the year, we met with the management team of a European real estate company, which provides affordable rental properties, including social housing. Our engagement centred on understanding current net zero build developments, to establish the financial capital required to retrofit its existing housing stock and for the company to provide an update on its climate adaptation strategy.

Our engagement revealed the industry paradigm shift from a focus on energy efficiency improvement to one which prioritises CO₂ emission reduction and emissions efficiency gains. Company management spoke at length at the importance of identifying cost-effective technology initiatives that can accelerate decarbonisation whilst maintaining affordability for tenants.

The company strategy contains annual targets to cut absolute emissions, achieve commissioning of more sustainable heating products, accelerate funding of green ventures and generate new revenue streams from these projects. Importantly, these ambitions are supported by prudent financial assumptions and are embedded into senior leadership remuneration.

As part of its scenario analysis, the company established an 8% modernisation cost, which it will look to cap at these levels once it completes its retrofit investment programme. Financial analysis suggests attractive long-term economic returns for both the company and tenants as part of the payback period.

The company has identified three readily-available innovations which it considers pivotal to achieving its sustainability strategy, and where it doesn't expect to encounter supply or demand issues.

The primary driver of decarbonisation will be installation of emission-efficient heat supply, such as air-to-air heat pumps, which will contribute approximately 50% of the overall CO₂ reduction target by 2030. The other key initiatives for energy demand reduction include AI-controlled thermostats and conventional energetic modernisation measures (e.g. prefabricated facade refurbishment for high-performance insulation).

Importantly, company management guided to a total spend of €1 billion over the near-term to finance its decarbonisation strategy, with the aim to minimise the costs per saved ton of CO₂, and continue to reduce them into the next decade. Encouragingly, this capex target has been revised lower from original projections of ~€1.5 billion. We were pleased to hear of the efforts made by the company to meet emission reduction goals at an affordable cost for its tenants.

Management was also open to our suggestion that the business could be more ambitious on setting higher financial aspirations related to the generation of revenue growth from its 'green' venture investments by 2030. We will look to review this progress and assess its decarbonisation efforts in future sustainability reports.

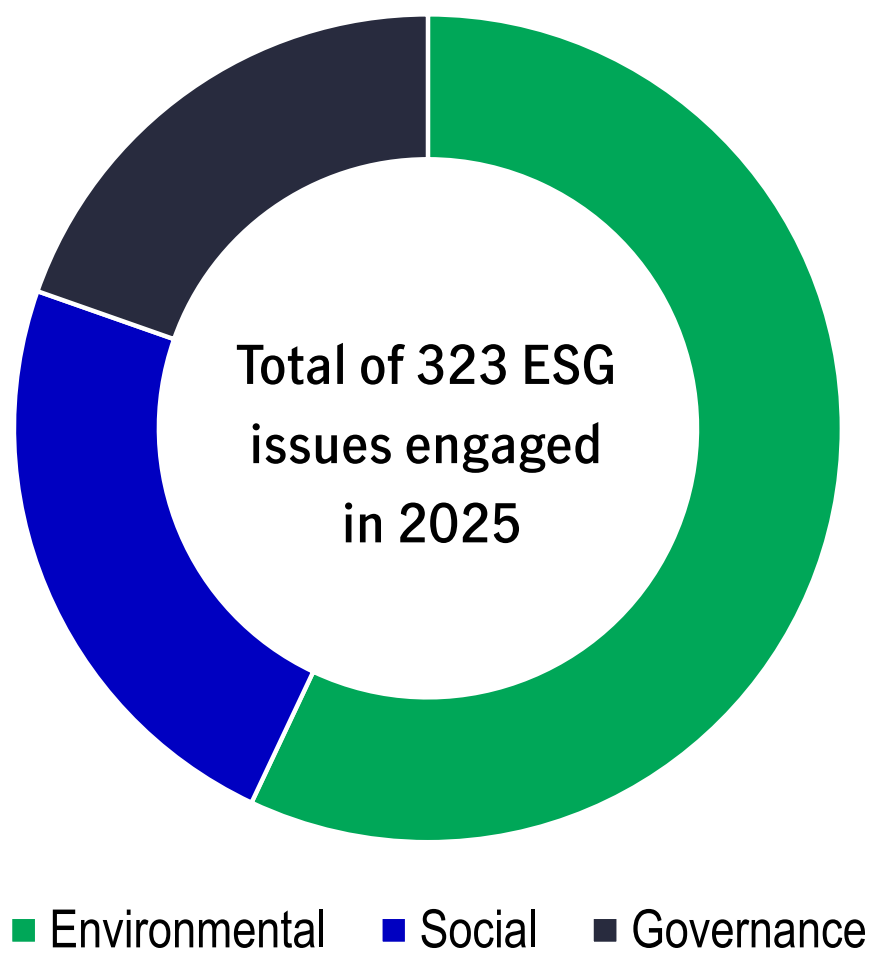
Source: MCQS as of December 31, 2025.

Engagement by numbers

Our engagement activities cover issues that span a broad spectrum of ESG topics. The specific issues on which we engage are jointly determined by the Portfolio Managers and Research Analysts.

Engagement issues are prioritised based on their materiality of the issue for a company and the industry in which it operates. As illustrated below, some engagements covered more than one focus area.

We continue to evolve our engagement assessment and reporting approach, including the monitoring of engagement effectiveness and regularly discussing individual case study outcomes as agenda items for the quarterly Engagement Group and RIGC meetings, respectively.



Environmental Issues	
Climate change	55
Natural resources	43
Pollution & waste	35
Green solutions	21
Total	154

Social Issues	
Culture & ethics	22
Labour rights	12
Human capital management	18
Public health	10
Total	62

Governance issues	
Board effectiveness	55
Leadership	43
Financial strategy	35
Accountability & reporting	21
Total	107

Source: MCQS as of December 31, 2025.



Stakeholder collaboration

While our preference is to engage with issuers directly, particularly given the asset classes in which we invest, and considering our fundamental research-based approach to responsible investing, we also see the value in coordinated, collaborative engagements where appropriate and relevant.

Our views on climate and social matters often align with those of our peers. Further, where applicable and suitable, we will seek to be involved with and support capital markets and/or sponsor developments where related to the improvement of data disclosure and sustainability outcomes.

This work allows us to expand on the scope of our sustainability-focused activity, whilst helping us to build more resilient portfolios. It may help us see tangible outcomes more quickly than through direct engagement alone.

Through collaborative efforts, we improve our ability to encourage for positive change by being part of initiatives which connect investor and help us to benefit from economies of scale. This can be directly at the company level or more broadly at an industry level.

Ongoing participation in industry dialogue is a vital input into our own responsible investment process, strengthening the investment toolkit, governance, operating policies and disclosure standards.

For example, involvement in investor initiatives allows us to exchange views with investment peers and industry experts covering all sustainability-focused activities. This improves our education and market insights, ensuring we are well-placed to respond to changing industry standards, policy work and evolving systemic risks. It is also a forum that represents the most practical route for policy advocacy.

We believe collaborating with others not only increases our voice, but by sharing expertise and views we can improve the knowledge base of our stewardship activities.

We consider a number of factors when looking to review our participation in collaborative initiatives, and these were reviewed during the year by RIGC. Overall, we view selective collaborative action as an efficient lever to improve investment outcomes for our Clients over the long-term.



Collaborative examples

Collaborative engagement can be a lever for managing climate change-related risk and supporting real economy emissions reduction, where appropriate, via participation in industry initiatives.

For example, we remain signatory of the IIGCC, a collaborative platform for asset managers and asset owners focused on environmental action through policy advocacy, corporate engagement and lobbying. As a member, this provides us with a route to access industry-leading resources and participate in many interactive workshops, roundtable discussions and plenary sessions providing expert insights and learnings, in addition to opportunities to share best practice to help enhance industry stewardship.

Some of the highlights we encountered in the year include providing our input and feedback on the deforestation investor group, joining consultations on the ‘engage series’ research programme and redefining the concept of ‘Systems Stewardship’, which extends beyond individual company-level engagement. We also attended two of the annual IIGCC summit events in London.

During the year we leveraged research from the FAIRR Initiative, a collaborative investor network associated with food and agriculture supply chains. FAIRR provides data-driven research and looks to advocate for policy change relating to areas such as biodiversity loss, sustainable protein developments and responsible antibiotics use. Specifically, we identified the issue of AMR as an engagement topic, which represents an increasingly financially material risk to animal agriculture, human health and investment markets.

Utilising FAIRR’s source material and research findings, we conducted collaborative engagements with our colleagues at Manulife IM, with the aim of targeting several of the leading quick-service restaurant chains in the U.S. Engagement plans focused on company policy adherence with recommended medical guidelines and progress towards implementing antibiotic policies and monitoring of key animal proteins. Our request of companies was to improve disclosure in areas where supply chain transparency needs to improve, and for the setting of time-bound targets to drive initiatives focused on the reduction of antibiotic use in the most upstream part of the protein supply chain.

We also pursued engagements with three companies operating in the utility and power generation industries as part of Climate Action 100+.

Source: MCQS as of December 31, 2025.

Case study – Aviation industry progress on new aircraft technologies

This was a newly-initiated engagement with a U.S. passenger airline company as part of our strategic engagement campaign targeting hard-to-abate industry decarbonisation. Specifically, the engagement sought to discuss challenges and progress of its climate transition strategy, with the emphasis on ensuring long-term capital allocation prioritises fleet renewal and adoption of new fuel technologies.

The aviation industry connects ~9 billion passengers annually, whilst contributing 3% of GHG emissions and 12% of the transportation sector's emissions. Technological innovation cycles in aviation typically span 15-20 years – creating a critical timing challenge for decarbonisation efforts.

We discussed elements of their strategy and financial commitments as it relates to improvements in operational efficiency and funding fleet modernisation (both considered as near-term imperatives), and the scaling and utilisation of sustainable aviation fuel technology as we approach 2030. This was in the context of disclosing more robust transition plans. We also shared concerns with the company on its net zero commitment, which we believe to be misaligned with industry peers and unlikely to be achieved without considerable technological developments and policy support during the next decade.

Company management reaffirmed its commitments that were previously set in 2022, articulating the progress made to date to reduce flight emissions and order book plans to accelerate fleet renewal. Despite this, we expressed disappointment that based on publicly-available information, current progress suggests the company appears to be tracking behind its climate targets.

We recognise that fleet modernisation over the short-term represents a significant step to achieving 2030 goals, with delivery of new generation aircraft technology a vital component to operating a more fuel-efficient fleet, which can also improve operating performance and lower costs. In response to concerns, management conceded that due to events beyond their control, uncertainty over order book conversion and an extension of mid-life engine ownership, following a period of aircraft grounding and disruptions, presents a risk to reaching long-term sustainability goals.

Based on our evaluation, we believe an average age of the aircraft fleet needs to be below 10 years - and increasingly modernised - to deliver on industry climate reduction goals. Management agreed with this assessment.

In addition, while the adoption of sustainable aviation fuel is widely regarded as critical to reduce air travel emissions – estimated to contribute ~50% of the decarbonisation pathway, according to the company - the achievability of cost-effective SAF production is far from certain. Management shared examples of supportive airport developments during the past year but accepted that the absence of wider functioning industry support (i.e., policy funding and legislation) could undermine future commercial developments and act as a barrier to achieving necessary levels of SAF procurement to hit milestones for 2030 and 2035.

We will continue to review future sustainability reports for updates relating to disclosure of the company's progress against climate transition targets and monitor for timing on fleet modernisation.



Source: MCQS as of December 31, 2025.

Case study – Financial services mortgage book ESG assessment

As part of a review of financed emissions within our financials exposure, we discovered a leading UK specialist mortgage lender disclose the Energy Performance Certificate (“EPC”) split of their mortgage book within the content of their annual report. This is considered in respect of its risk model testing, which it uses to address potential financial exposure of properties to energy price shocks as part of climate scenario analysis.

On review of the information, we identified a high weighting towards EPC ‘D’ rating, which although not a bad thing per se, this is higher than some regional peers and potentially raises questions about the quality of the Buy To Let mortgage book, particularly its potential future upgrade path.

We arranged for a call with company management to discuss the EPC distribution of the company’s mortgage book in more detail. Given that 44.7% of properties have a ‘D’ EPC rating we were interested whether the company was offering products to upgrade the EPC ratings profile of its lending book.

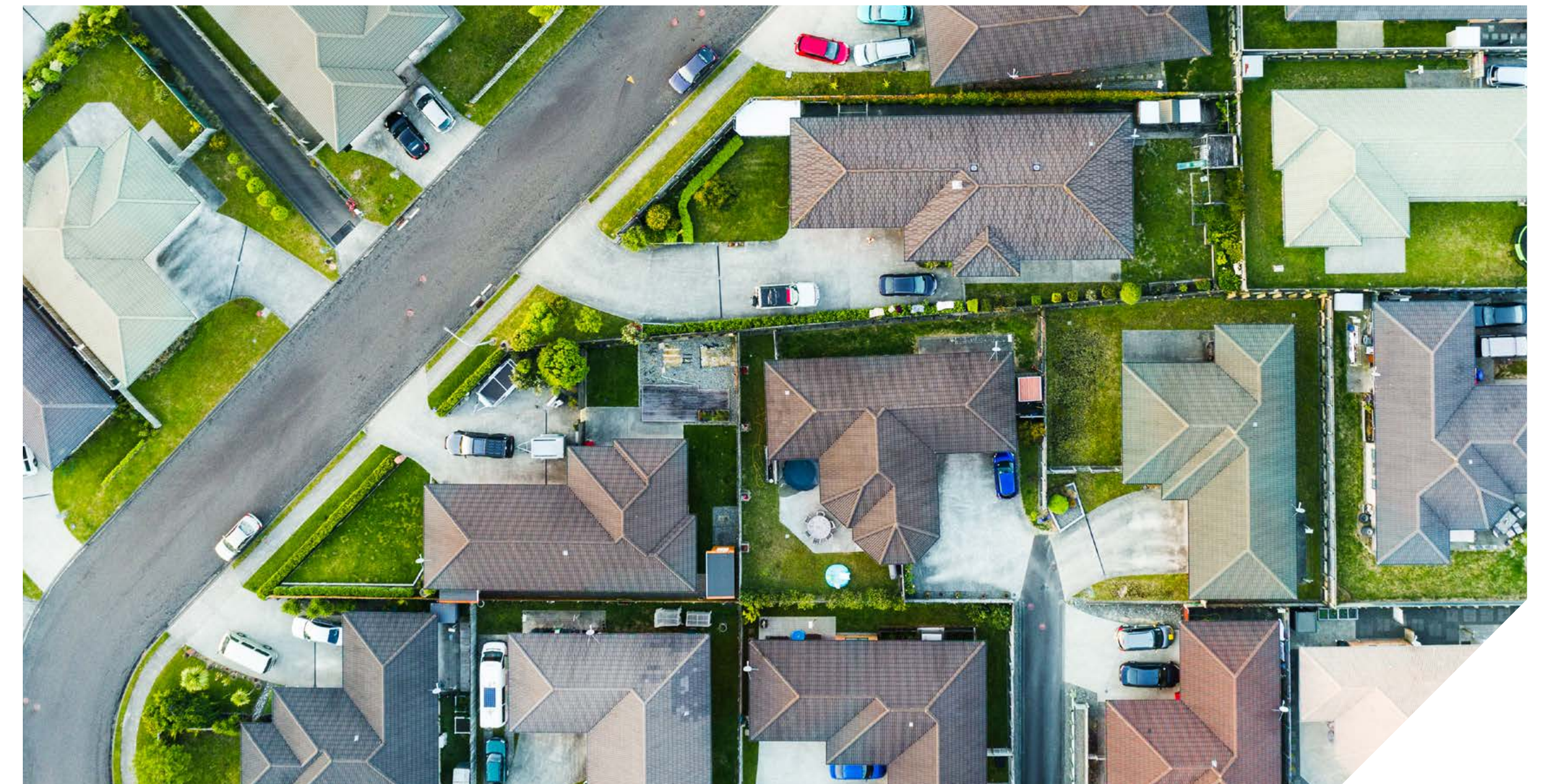
Company management stated that they were happy to support upgrades to virtually all the properties they finance. Under its Warm Homes Plan, current government policy requires landlords to spend £10,000 per property on energy efficiency upgrades (lowered from a previous proposal of £15,000). If that does not upgrade the EPC rating sufficiently, it will be able to continue as a Buy-to-Let, providing an exemption is registered. However, should it be required, management confirmed the business would advance more to invest in most properties.

The company are also working through their development for specific products, but they note that most landlords do want better EPC ratings, and likely not only because it simplifies the documentation needed for their refinancing.

Current government proposals aim for new tenancies to reach an EPC rating of ‘C’ or above by 2028, unless an exemption applies. The EPC methodology will also be updated from 2026, which could present financial risk depending on portfolio alignment.

The company quantified its weight of properties in the ‘D’ (44.7%) and ‘E’ (11.1%) bucket to be somewhat, but not substantially, higher than peers.

While we were pleased with management’s disclosure during our engagement, we encouraged for some migration from the company toward stronger EPC bands over time. Looking forward, we will continue to monitor progress as the government target dates of 2028 and 2030 approach. Further, we will see how the EPC distribution changes, and/or how many landlords rely on exemptions, and how this may impact upon future risk modelling.



Source: MCQS as of December 31, 2025.

Our approach to escalation

As a principle, we believe in engagement to understand a company's approach or actions, rather than beginning on an exclusionary basis. Engagements are prioritised where we feel we can make a meaningful difference, or where material issues have been identified. In certain instances, engagements will be the primary way by which we can remain comfortable with an investment decision or not, as part of our ongoing monitoring and review process.

As debtholders, it's important that management of an issuer understand we still expect engagement issues to be taken seriously and may reduce or cease our provision of debt where unacceptable progress is made.

We have a clear system via our Research Portal which allows Research Analysts, and where applicable Portfolio Managers, to record their engagement activities when researching and interacting with companies. This includes detail of the engagement by issuer, the outcome and potential next steps of any engagement and the information is accessible across front office staff to allow collaboration across exposures

As we monitor our portfolio investments on an ongoing basis, we seek to identify issues that we feel, if left unaddressed, could affect the value of the investment. Depending on the materiality of the issue and/or progress made, we may choose to engage with the company to discuss this in more detail. This may involve setting a timeframe to see demonstrable progress

For any particular issuer or company, Research Analysts and Portfolio Managers can access all historic engagements to understand the progress made and track any areas of concern over time. Tracking our engagements in this way allows us to discuss engagement activity more effectively at the regular Engagement Group meetings. Our Engagement Group will review overall progress on a periodic basis and determine whether engagement objectives should be expanded, reset, completed or withdrawn. If goals are not met or progress does not meet our expectations, relevant Portfolio Managers are expected to consider next steps in relation to the investment.

However, depending on the company response, we may consider escalating a given risk or issue only when we determine, after careful review, that the issuer hasn't satisfactorily responded to our engagement efforts, or has made no attempt to engage with us. These escalations are tailored on a case-by-case basis, with due consideration on the facts and circumstances.

For example, where we identify a high emitting company has made limited progress on improvements to climate data disclosure or setting a net zero strategy, or where we have identified a RepRisk controversy which company management have failed to acknowledge, address or fix appropriately.

If, after repeated engagements and escalation of engagement, insufficient progress is made, this can be cause for the relevant Portfolio Manager to sell the relevant position. The relevant company may also become excluded from a fund's investment universe.

Where engagement fails to address a material issue, or where we determine that the issuer hasn't made sufficient improvements on a matter, the relevant Portfolio Manager may at their discretion decide to sell the relevant position. The relevant company may also become excluded from a Fund's investment universe.

Prior to selling or exclusion, a number of engagement approaches may be adopted such as:

- Escalation within the company to a more senior individual (e.g. CEO or Chair)
- Dedicated Targeted Engagement Programme
- Collaboration with other investors (where appropriate)
- Use of proxy voting (where applicable)
- Litigation

Investment process oversight

Monitoring service providers

Review and assurance

Voting rights and responsibilities

Monitoring of service providers

We use service providers as one of our research tools and data sources, or to support our stewardship activities. These help build consistency in our processes, augmenting our own proprietary ESG assessment, to support the practical implementation of responsible investment.

The RIGC and Risk functions seek to ensure that the business has appropriate access to ESG data that allows research analysts and portfolio managers to fully integrate responsible investment into our investment processes. This helps us to fulfil our stewardship obligations and fiduciary duties.

The external data vendors and service providers we have access to provide a mix of data, research and news flow which is used to support the understanding of material information, highlight industry and company-specific news flow, allow for rigorous issuer monitoring and is used to assess exposure to ESG factor risks. This data and information feeds into our in-house portfolio management data platform and research portal.

As part of our efforts to ensure we remain focused on the integrity of ESG data and technical expertise, aligned with our commitment to maintain strong business practices and good governance, we periodically review the quality and timeliness of the services offered by

our external data providers to ensure the quality of the data remains high and fit for purpose throughout the life of our partnership.

For most of our providers, this involves a qualitative assessment of whether the data and research enhance our investment decision-making and whether they offer regular improvements in the quality of the information, as well as its access and use. All our providers send regular newsletters and updates, as well as organising webinars and interactive sessions on services and planned improvements.

Through ongoing dialogue, we provide continuous feedback on key enhancements to datasets, tool capabilities and new product launches, with the intention on establishing the best method to maximise the use of the relevant content to the benefit of our Clients' interests. We discuss the appropriateness of these data sets and tools through annual engagement as part of our relationship management.

Service provider example

Our interactions with MSCI continues to focus on its extensive, and evolving, datasets and analytical tools - in addition to our use of ESG ratings - which we find informative for our fundamental analysis and bottom-up research.

MSCI's climate data is embedded into our front-office and risk systems, which includes a combination of reported ESG data, such as company-level emission intensity, total portfolio footprinting, UNGC global norms screening and science-based target alignment, alongside forward-looking forecasting tools such as ITR and SDG alignment metrics.

This analysis of current and future ESG risk, helps inform company evaluation and to identify engagement targets. We also utilise MSCI screening datasets for business involvement research and controversy assessments.

During the year, we fed back our thoughts on the latest nature-related data updates, as MSCI extended its partnership with the WWF to build on its biodiversity risk dashboard, which included enhancements to technical capabilities and improved visualisation tools. This addition provides more detailed insight into portfolio-level risk exposure, utilising geospatial asset intelligence to assess climate and weather hazards associated with acute physical climate risk. Following a portfolio demo, we continue to explore integration of this dataset analysis, providing suggestions to further improve functionality to aid with our internal deployment of the data sets.

Source: MCQS as of December 31, 2025.

Response to regulatory developments

Regulatory developments continued at pace during the year, with multiple changes to reporting requirements and disclosures for corporate issuers, asset managers and asset owners. This brought further emphasis on the importance of stewardship activities and measuring effectiveness.

Developments have taken place at an international and national level, bringing forward new disclosure rules and standards to be adopted in the coming years. This includes the introduction of the European Corporate Sustainability Reporting Directive (“CSRD”), deemed mandatory as a reporting change for large European companies, and definitive refinement of the EU Carbon Border Adjustment Mechanism (“CBAM”), before its introduction at the beginning of 2026. In the UK, the FCA also made several new proposals, including a consultation on the regulation of ESG rating providers to improve transparency and governance.

The main sustainability disclosure rules directly impacting MCQS are the EU SFDR, where we can expect a fundamental overhaul following the release of their SFDR 2.0 proposal, and on forthcoming changes to the FCA’s TCFD disclosure requirements.

Equally, we saw changes beyond the sustainability of financial product reporting, with noteworthy developments in the review of exclusion framework compatibility for sustainability-related investments. Most notably, signs that investors are increasingly reversing limits for ‘defence’ industry exposure.

Review and assurance

We believe that full transparency of our policies and operating procedures ensures that our Clients have a clear and accurate understanding of our activities and processes. To support this, where applicable, we regular review and provide updates on improvements to our responsible investment and stewardship processes. This ensures they remain fit for purpose and relevant.

Any material updates of policies will be reviewed and formally approved by the Operating Committee, RIGC and/or Management Committee as appropriate.

During the year, we updated several key policies and procedures. A broad range of functions actively participated with clear responsibilities by reporting line. These required various committee and mechanisms for review, audit and sign off to ensure applicability and compliance with relevant regulation.

Each policy has a relevant internal policy owner, an individual of sufficient seniority within the Firm who has overall responsibility for the policy.

Our approach takes into account Client commitments, together with national and international legal and regulatory policy requirements and their development. In doing so, our Compliance and Legal teams work to ensure that our disclosures accurately and adequately describe our key practices.

Voting rights and responsibilities

Exercising voting rights represents a fiduciary responsibility as part of our stewardship activities. However, as outlined in previous stewardship code reports, we have limited voting opportunities compared to equity managers, due to the nature of the asset classes in which we invest (ie. fixed income) which do not carry the same ownership rights.

Engagement, including working with issuers on credit events, such as new issuance and changes to capital structures, represents our main responsibility to advocate for good governance practices.

Our proxy voting policy outlines how we comply with obligations, in respect of our voting authority. Recognising the discretion afforded to us under the relevant investment management agreements, we generally make any proxy voting decision or determine broader proxy voting policies on behalf of the relevant Fund.

Our approach to voting can differ depending on the investment strategy of respective Funds. The relevant Portfolio Manager is expected to elect on how to vote in respect of their Fund’s positions. We will vote the number of shares held at the relevant custodian or, if relevant, prime broker.

In respect of any directly managed accounts, third-party sub-managed mandates, funds-of-one or similar, we 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.

For pooled Funds, Clients may not override any house policy on the exercise of listed equity voting rights. This is to ensure that no Client is afforded preferential treatment over another and avoids actual or potential conflicts of interests arising. That being said, where appropriate, we may consult with and take on-board the views of Clients in order to evaluate and consider an appropriate approach.

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

- To encourage transparency in business practices such as increased disclosures on human rights, data privacy and climate lobbying further promoting our priority engagement themes
- Where we feel the decision made by management would not be optimal for a Fund from a return perspective
- If we feel the decision made by management does not promote good governance practices, which is something we are committed to as a Firm

We are currently reliant on our custodians (and prime brokers) to provide ProxyEdge with holdings information who in turn provide us with reports detailing the required elections.

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