



Stewardship Report 2024



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All information contained herein is as of 31 December 2024 unless otherwise disclosed. Submitted April 2025.



Scope and Purpose of this Report

Manulife | CQS Investment Management (“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 US Securities and Exchange Commission and a member of the National Futures Association.

MCQS complies with, and adheres to the principles of, The UK Stewardship Code 2020 (the “Code”) and the Shareholders 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 1 January 2024 to 31 December 2024 (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, MCQS Shareholder Rights and Stewardship Policy (the “Stewardship Policy”). This Report is structured in a manner consistent with our Stewardship Policy and the Code, with each section of this Report corresponding to the equivalent Principle under the Code.

A *message* from our Chief Executive Officer

We are pleased to submit our annual UK Stewardship Code report to the Financial Reporting Council. In continuing to pursue our three Firm-wide objectives (below) and meet the commitments made to our Clients, we also comply with and adhere to the 12 Principles of the Code.

Our three 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 2024, our teams conducted 109 direct engagements with companies (2,102 including collaborative engagements via industry initiatives, see Principle 10 for more details).

2. Decarbonise:

Throughout the last year, we have continued to monitor the progress of the interim decarbonisation 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 (see Principle 9 for more details).

3. Nurture:

We deeply believe in our social responsibilities, both to our staff and to our communities, pursuing initiatives to support the ongoing development and of our people and corporate giving focused on youth development. Now as a company of Manulife Investment Management ("Manulife IM"), we are benefiting from world-leading expertise in nurturing people. During 2024, 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 (see Principle 1 for information on these initiatives).

Pursuing our core objectives, delivering our commitments, and meeting each of the Principles of the Code remains the right thing to do and enables us to continue to perform for our Clients.



Soraya Chabarek
Chief Executive Officer



Stewardship Code *Principles* and our Practices

Principle 1:

Signatories' *purpose*, investment beliefs, *strategy*, and *culture* enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Purpose of the Organisation

We have been managing research-driven credit strategies for over 20 years, across multiple market cycles. We offer investors a multi-sector alternative credit platform, focused on what our teams know best: global credit.

As an investment manager, MCQS puts investment performance at the centre of our approach to managing Client portfolios. The Firm's 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 are committed to building enduring partnerships with investors, seeking to generate long-term, risk-adjusted returns and delivering high levels of service, tailoring mandates across a range of return objectives and risk appetites.

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

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 i.e. responsibly allocating, managing, and overseeing our Clients' capital. We apply our rigorous investment process to mitigate downside risk and maintain stability of cash flows in the best interests of our Clients.

Our Culture, Values, and Beliefs

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. Governance considerations have long been integrated into our investment decision-making process.

MCQS has considered a number of governance issues in respect of the assets in which it invests, such as board effectiveness, business risks including corruption and bribery, supply chain risks, tax strategy and financial reporting and disclosure.

In 2016, we began incorporating environmental and social factors into our analysis by integrating external ESG data into our processes. The timeline of our other major responsible investment milestones is shown on the following page.

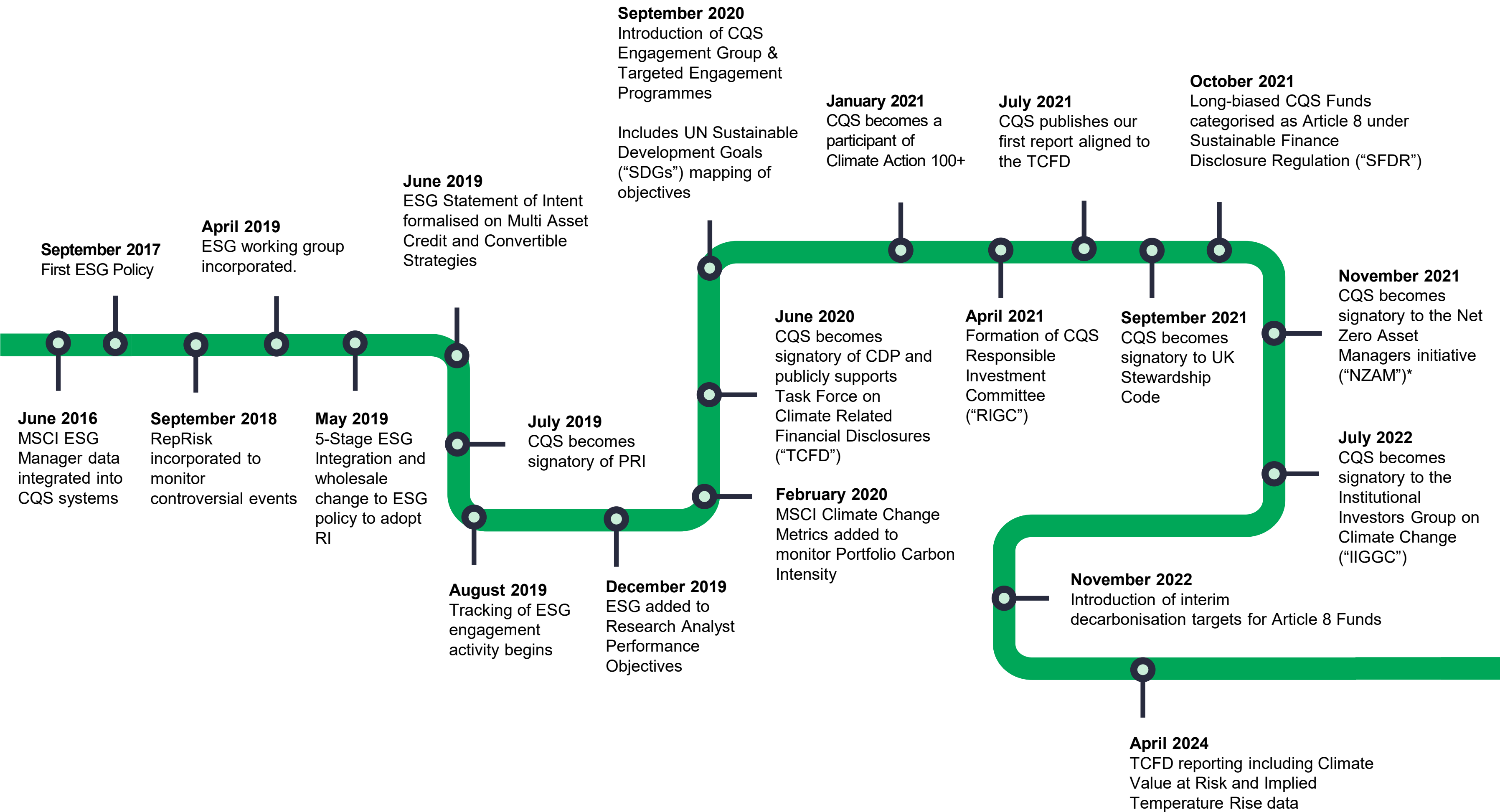
Throughout our journey, we have provided Responsible Investment (“RI”) training to our staff, in particular:

- Research Analysts
- Portfolio Managers
- Distribution Team

Our investment teams are incentivised to deliver strong performance for our Clients. Our detailed credit underwriting process, and ability to mitigate credit loss is part of the performance evaluation for front office and senior staff, and is linked to their integration of our responsible investment integration process, engagement contributions and effective stewardship considerations.

Source: MCQS.

Timeline of our Major Responsible Investment Milestones



Source: MCQS as at 31 December 2024.

*We note that effective 13 January 2025, the Net Zero Asset Managers initiative, to which we committed in 2022, has suspended activities and is conducting a review of the initiative.

Our Investment Beliefs Support Effective Stewardship

We believe that an active approach to stewardship and investing sustainably are vital factors in creating long-term value for our investors. 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. Poor governance and ESG controversies are often leading indicators for probability of default and loss given default.

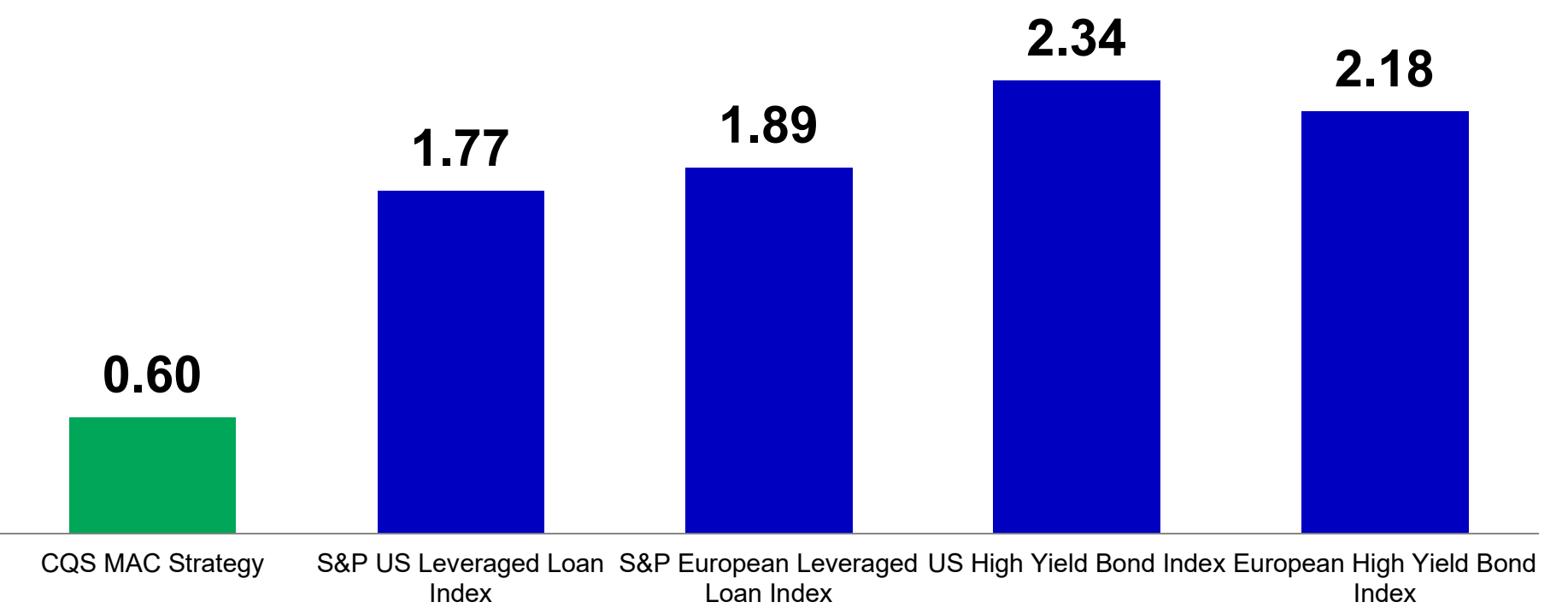
By focusing on individual credit selection and not buying the market, as represented opposite by our Multi Asset Credit (“MAC”) strategy, we achieve a considerably lower average default rate versus loan and bond markets (since inception of the strategy).

We continue to use our position, on behalf of our Clients, 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 Reporting Period, we continued to engage and collaborate with stakeholders to make meaningful change in corporate behaviour.

As predominantly credit investors, the most relevant measure of active ownership is our engagement activity, details of which are set out under Principles 7, 8, 9, 10, and 11.

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.

Default rate of the CQS Multi Asset Credit (“MAC”) Strategy Relative to the wider market



Sources: MCQS, LCD and Moody’s Default Report estimated as at 31 December 2024 (High Yield Indices as at 31 December 2024). Average since strategy inception on 21 January 2013. All time series start at the CQS MAC Strategy (21 January 2013) and show trailing 12-month dollar-weighted par value default rates.

Our Approach to Engagement

1

Targeted Engagement Programme

- Identify key engagement priorities, map these to UN SDGs and collaborate across the Firm
- Discuss targeted engagements at Engagement Group meetings

2

Ongoing Engagements

- Engagement at the investment stage with issuers’ senior management
- Issues flagged in the ESG rating process and regular portfolio reviews are followed up

3

Collaborative Engagements

- Relevant collaborative initiatives with the CDP and our other signatory bodies
- Default reorganisation

In addition to this, we have three key engagement priorities:

- Good governance and financial disclosure
- Climate risk management and disclosure
- People (including Human Rights)

We chose these three key engagement priorities as they align to our beliefs as a Firm. MCQS believes in operating sustainably, ensuring our long-term business strategy enables us to best serve our Clients. We believe the best way to do this is to have an effective and transparent governance structure (as outlined in Principle 2), engaged senior leadership and a thriving, inclusive workforce.

Our Business

MCQS has offices in London and New York.

We seek to reduce the environmental impact of our operations and promote sustainable practices amongst our staff. This includes taking steps to reduce our electricity usage and using renewable electricity where possible, and taking part in recycling facilities available within the offices we lease.

Our London office premises use a specialist energy company, which seeks to purchase power from renewable generators including wind, hydroelectric and solar throughout the UK.

In September 2024, we offset all our operational scope 1, 2 and 3 (business travel) GHG emissions across our organisation (for the year to 31 March 2024). In mid-2024, we published our 2023 TCFD report, reaffirming our commitment to better climate disclosures and mitigation of climate risks. We expect publication of our 2024 TCFD report in mid-2025.

MCQS has offset all our operational scope 1, 2 and 3 (business travel) carbon emissions since 2020.



Diversity and Inclusion

As a multi-sector, alternative credit specialist, being effective stewards of our Clients' capital relies on our people working hard, in teams, together.

We operate a flat management structure and shy away from a star manager culture. This enables our people to exchange thoughts and ideas, recognising that different perspectives result in better outcomes. Team members continually interact across all levels of seniority and experience, and we encourage this. We empower our people without losing the sense of accountability of our leadership.

Our recruitment process seeks a diverse pool of candidates, including in terms of gender, race, and educational/social background. 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.

Our staff wellbeing and engagement programme, which encourages strong relationships, and physical and psychological good health, remained a key focus area during 2024.

Alongside this, we focused on our multi-year corporate social responsibility programme which centres on youth development.

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. We have begun to change the gender mix (from 80/20 in 2020 to 70/30 to the end of 2024). This initiative gives women both inside and outside our firm more opportunities to connect and build their networks.

10,000 Black Interns

An initiative that works to offer opportunities to increase the number of Black professionals in the workplace. With others in the industry, we are raising awareness of this initiative and providing interns with opportunities as a pipeline of talent. This programme strongly aligns with our ambition to increase awareness of the industry and grow our talent pool for the future. We have now hosted interns annually since 2021.

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.

Charity Partners Include:

RedSTART

A charity that aims to provide financial education to transform the life chances of young people across the country. The RedSTART Change the Game programme was launched in September 2022, with support from CQS. With 57 schools taking part in the programme, RedSTART is delivering financial knowledge to over 20,000 primary school children annually. The aim of the charity is to close down in 2030, because they have provided the evidence the Government say they need to be persuaded that teaching children in primary schools serving communities of greater disadvantage about money, has a significant, positive impact on their future lives and to persuade the Government to adopt this blueprint in all 20,000 primary schools across the UK. We hosted 60 Year 6 children in our offices for two days of “money” workshops in June 2024.

University of Bath Gold Scholarship Programme

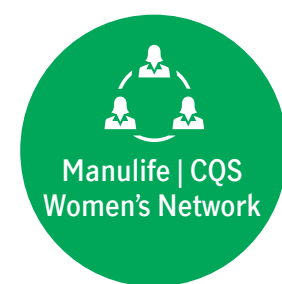
Established in 2017, the Gold Scholarship Programme (GSP) provides bursaries, mentoring and skills training to up to 50 promising young people per year. The GSP targets students from the most disadvantaged backgrounds and provides a comprehensive package of support to see them thrive during their time at Bath and beyond. In 2022, we committed to support three scholarships over the course of three years. We believe in developing a pipeline of future talent and supporting students through their degrees will feed into our flourishing graduate programme. It will also help promote our industry to a group of students with a wider range of backgrounds to improve diversity over the longer term.

Life Support

Life Support is an inspiring organisation that we began supporting in 2022 as part of our Social Responsibility commitments. Life Support has been working in Zambia for the past 14 years and in Malawi for three. They have established two children’s villages (care homes for orphaned and vulnerable children) and community centres - one in Zambia, the other in Malawi. Through these community centres they are able to support many families with school fees, the provision of food, clothing and medical expenses. They care for and educate women with HIV and look after the elderly, abandoned and disabled within the local community. The Eden Farm primary school was opened in 2018 and now provides full time education for 370 children, employing 15 members from the local community. With our support, Life Support has been able to fund the first phase of the Eden Farm secondary school, where pupils receive full time education and a meal a day.

Mission EmployAble

We committed multi-year funding for this charity in 2023, training 19-25-year-olds with disabilities to become employable. According to the charity, in the UK, there are 1.5 million people with learning disabilities, almost 94% of whom are unemployed or doing voluntary work. Through Mission EmployAble’s bespoke employment scheme, each candidate completes a Learning, Employment and Progression Diploma in affiliation with the Bucks College Group.



Case Study – An Update from Life Support

We are pleased to share that as a result of our support, the construction of the second wing of Eden Farm secondary school has been a remarkable success. This new addition includes four classrooms, which significantly increases the school's capacity, toilet facilities and additional staff spaces to support the growing student body.

The new wing will greatly enhance the school's ability to serve the Eden Farm community, enabling us to enroll more students and provide a broader, higher-quality curriculum.

Michael Simbeye's (Eden Farm Manager) comments:

"We are excited to report that the roofing for the new school is nearing completion. Materials for plastering and flooring have arrived, and the workshop is busy preparing windows and desks, with delivery by the contractor expected soon.

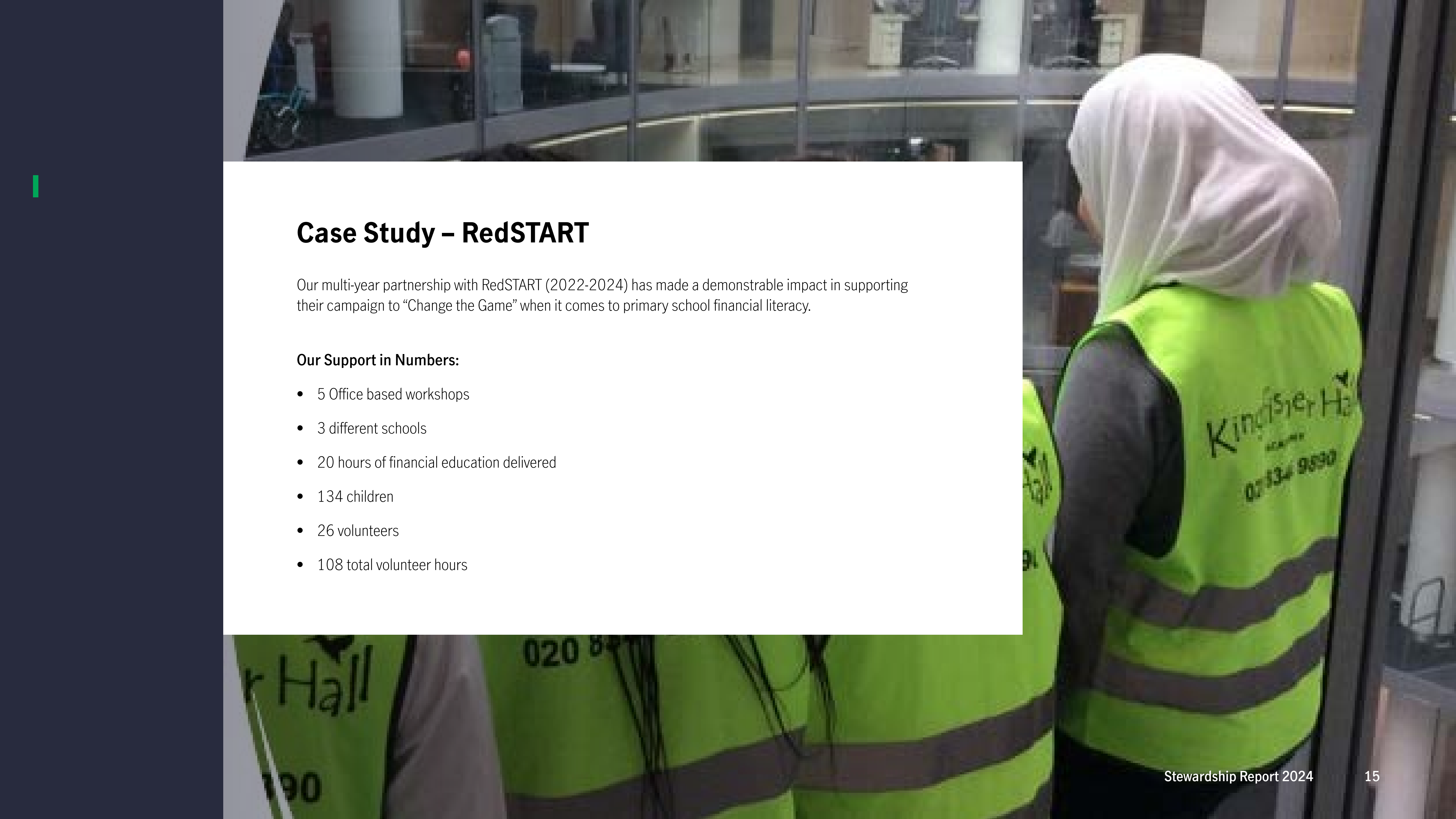
Our immediate goal is to complete one classroom to enable Year 10 students to begin their studies by the end of this month.

The students' exam results were recently released, with an impressive 96% pass rate—only four students need to retake two subjects each.

The addition of upper-grade secondary education has brought immense joy and hope to the community, offering a tangible pathway out of poverty for children and their families. Once the secondary school becomes fully operational, we anticipate serving 250 to 300 students, significantly improving their prospects for the future.

The opening of Grade 10 has generated excitement and inquiries from nearby communities, as we are the first school in the area to offer this grade level. While we are currently not accepting outside applications due to capacity, we anticipate an overwhelming demand and are working on strategies to manage this growing interest. We are incredibly grateful for your continued support and commitment. Together, we are making a difference not only in the lives of individual children but also for entire families and future generations."





Case Study – RedSTART

Our multi-year partnership with RedSTART (2022-2024) has made a demonstrable impact in supporting their campaign to “Change the Game” when it comes to primary school financial literacy.

Our Support in Numbers:

- 5 Office based workshops
- 3 different schools
- 20 hours of financial education delivered
- 134 children
- 26 volunteers
- 108 total volunteer hours

Principle 2:

Signatories’ *governance, resources* and *incentives* support stewardship.

Our 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.

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.

Board Oversight

The Management Committee is responsible for assisting MCQS' Chief Executive Officer 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 overall current and future risk appetite and strategy, including with respect to 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.

About the RIGC

The RIGC meets quarterly (and ad hoc as required) and brings together senior representatives from across the business, including individuals who are also members of the Operating Committee and the Risk Committee. It covers key responsible investment matters, including 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 the development of climate-related disclosures.

Our responsible investment-related policies include:

- [Responsible Investment Policy](#)
- [Engagement Policy](#)
- [Stewardship Policy](#)

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.

Management's Role

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.

The teams represented, whose activities and projects are central to our approach, include:

- Portfolio Management
- Research
- Risk
- Technology
- Legal
- Compliance
- Distribution

The Portfolio Management and Research teams are responsible for integrating responsible investment, while the remaining teams focus on developing or enhancing processes, controls, data, and systems to monitor and report on stewardship activities, responsible investing commitments and relevant targets.

By organising in this way, we ensure a wide breadth of skills and experience in a range of functions needed to meaningfully support our responsible investment integration and stewardship efforts.

Senior Partner Biographies



Soraya Chabarek

Chief Executive Officer

Soraya Chabarek is the Chief Executive Officer (CEO) of MCQS. She is a Senior Partner, Chair of the Board of CQS Management Limited and a member of the Board of Manulife Investment Management (Europe) Limited. She is also a member of the Asset Advisory Committee for Multi Asset Credit. Since joining CQS over 13 years ago, Soraya has been instrumental in the transformation of the Firm from a hedge fund manager into a multi-sector alternative credit platform. She has led the growth of the Firm's core credit strategies to reach a broader Client base of institutional investors and private wealth channels globally. Soraya is directly involved in shaping the investment platform to provide the best offering to Clients. With her extensive experience, she oversees key relationships with the Firm's Clients around the world and under her leadership, the firm has won prestigious investment mandates, including with major global public and private pension schemes.

As CEO, Soraya has focused on cultivating the next generation of talent, especially in her role leading the front office investment teams. She has also championed wellbeing, diversity and inclusion, including founding the CQS Women's Network, and has built multi-year partnerships with charities and organisations that promote youth development.

During her 25+ year career, Soraya has had exposure to a broad range of strategies, including credit, convertibles, global macro, equities, and emerging markets. She is well-known and respected for her ability to provide Client-oriented solutions and shape strategies to meet Client needs. Soraya began her career at HSBC Private Bank and in 2000, moved to Permal Investment Management in London where she focused on distributing fund of hedge funds across EMEA. As a fluent Arabic speaker, Soraya joined GLG Partners in 2004 as a Principal (and Partner) to build out their Middle Eastern presence. The region became a significant contributor to AUM growth. In 2008, when Greg Coffey joined Moore Europe Capital Management, Soraya joined with him as Head of Marketing for Emerging Macro Strategies and a Partner. Here, she successfully rebuilt the asset base during a difficult period in asset management. Soraya holds a BA in Economics and Public Administration from Royal Holloway, University of London.



Craig Scordellis

Co-Chief Investment Officer

Craig is Co-CIO, responsible for the Multi Asset Credit business at MCQS. He is a Senior Partner and chairs the Multi Asset Credit Asset Advisory Committee. Craig previously headed global loans and was responsible for managing the Firm's loan mandates, including those in a variety of multi asset credit funds and collateralised loan obligations.

Prior to joining CQS in 2008, Craig was a Senior Investment Analyst and Assistant Portfolio Manager at New Amsterdam Capital Management, a credit hedge fund. Before this, he was an Associate at the Royal Bank of Scotland where he structured leverage finance and high yield bond transactions. Prior to RBS, Craig was on the Deutsche Bank Investment Banking graduate program. Craig holds a BSc (First Class Hons) in Business Administration from the University of Bath.



Jason Walker

Co-Chief Investment Officer

Jason is Co-CIO and manages MCQS' global asset backed securities strategies across dedicated alternative credit funds and longer-lock mandates. He leads the dedicated ABS team of Portfolio Managers and analysts. Jason is a Senior Partner and is a member of the Asset Advisory Committee for Multi Asset Credit.

Prior to joining CQS in 2010, Jason held a number of ABS Portfolio Management positions. Before CQS, he was with Henderson Global Investors where he was a member of the team managing the Henderson European ABS Opportunities Fund. Before this, he held ABS Portfolio Management roles at Bank of Scotland Treasury, TD Securities and Abbey National Treasury Services, where he began his career as a graduate trainee in 1995. Jason holds an MSc in Finance from the University of Strathclyde and a BA (Hons) Accountancy from Glasgow Caledonian University.

Resourcing of Stewardship Activities

Portfolio level stewardship and responsible investment research and decision-making is deeply integrated within the front office Portfolio Management and Research teams. The Risk team oversees commitments made by specific funds while they, together with wider functions including Technology, Legal, Compliance and Client Service focus on developing or enhancing processes, controls, data, and systems to monitor and report on stewardship activities, commitments and relevant targets. By organising in this way, we ensure a wide breadth of skills and experience in a range of functions needed to meaningfully support our responsible investment and stewardship efforts.

Portfolio Managers are responsible for selecting the specific companies with whom they wish to engage, and overseeing progress made. Conducting ongoing engagements, implementing the targeted engagement programmes, and feeding back to Portfolio Managers, is the responsibility of the research team, led by the Head of Research. The MCQS Engagement Group, comprising a broad representation of Portfolio Managers and Research Analysts, and chaired by the Head of Research, reviews targeted engagement activity and outcomes. This internal collaboration is important as it enables co-ordination across the platform and capital structure. Collaborative engagements are proposed and agreed at quarterly RIGC meetings, while collaborative engagement on the back of default re-organisation occurs ad hoc where relevant.

We place a high importance on training, including in respect of responsible investment and stewardship matters, as an effective way to share knowledge and develop an integrated approach across the business. Internal Responsible Investment training sessions are split by role to ensure they are relevant to the individual's day-to-day work. For example, separate sessions for Portfolio Managers, Research Analysts, and the Distribution team.

Examples of Progress Made in 2024:

Following investor feedback we have:

- 1 Integrated our Responsible Investment framework into our Investment Risk framework. The ESG risks of underlying companies are considered alongside other investment risks and commitments in meetings and interactions between the Risk team and the Portfolio Management and Research teams when discussing investments, performance and risk.
- 2 Added an annual review of our ESG research framework to the RIGC meeting agenda.
- 3 Our Risk team has increased emissions coverage through a project which covers CLO and Regulatory Capital Relief exposure in Article 8 funds.

Incentivising Stewardship

Front office staff are incentivised as a function of their performance and achievement of annually set objectives. Teams are subject to periodic appraisals and engage in regular discussions to encourage these behaviours. ESG research and engagement are common performance objectives in respect of all Research Analysts and these objectives are considered in light of their discretionary compensation. Portfolio Managers of responsibly invested mandates also have ESG integration and engagement contribution directly linked to their performance objectives and remuneration outputs.

Our overarching ESG learning and development continues to be guided by Client expectations and through evolving industry standards such as the PRI.

We have continued to support the CDP Non-Disclosure Campaign as we find this a time effective and impactful way to connect with certain of our Funds' portfolio companies. This process often starts with us co-signing a letter to senior management of the company and then follows up with a meeting with the company. As the investor group represents a much larger proportion of the company's equity and/or bond exposure, for larger companies in particular, we see the opportunity for better discussions and more tangible outcomes from the key issues raised.

Examples of this activity can be found in Principle 10.

Organisational Support

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

As a PRI signatory, we commit to the six Principles for Responsible Investment.

As a signatory to the UK Stewardship Code, we apply the code's principles and submit annual reports to the Financial Reporting Council demonstrating this.

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, 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 the Task Force on Climate-Related Financial Disclosures, we commit to working toward implementing the TCFD recommendations and encouraging portfolio companies to do the same.

We note that effective 13 January 2025, the Net Zero Asset Managers initiative, to which we committed in 2022, has suspended activities and is conducting a review of the initiative.

Signatory of:



Systems

In addition to using PRI, CDP and other signatory body information, MCQS uses a variety of sources for external data relating to responsible investment including those available via Bloomberg.

MSCI ESG Manager is our core data provider, although other external sources of data are also used. We have incorporated relevant Science-Based Targets initiative (“SBTi”) verification data into our systems since 2022.

We use these third-party tools to support the research, assimilation and consideration of ESG risk factors within our investment strategies. When considering a rating, Research Analysts will consider the external sources available to them (MSCI, Bloomberg, CDP, Moody’s/S&P, RepRisk, Refinitiv, newswires and street research) alongside their experience and engagement with the relevant business and sector-based competitors.

Importantly, our Research team uses these external data sources to inform a starting position, before preparing an internal ESG research note, which includes our own ESG rating and assessment of the trajectory in which the particular company is heading (ESG Outlook rating). MCQS ratings often differ from the external data providers’ assessment.

Analysis is made available to all Portfolio Managers and across the Firm front office systems.

We keep a close eye on the development of additional ESG data sources, in particular those from traditional credit rating agencies or with innovative technological solutions, and periodically validate whether changes to our core data providers are required.

Monitoring

As part of our ongoing oversight of companies, we monitor portfolio companies closely for controversies, and/or failings relating to governance and social responsibility. We use RepRisk as a tool for controversy monitoring (big news data observation) and review the severity 1, 2 and 3 controversies for our portfolios on a regular basis.

Where there are ‘severity 3’ (the most severe) ESG controversies, we often look to engage with the company to understand what happened and what steps they have taken to mitigate any future risks. Portfolio Managers and Research Analysts also use newswire sources as appropriate.

While RepRisk has good coverage across investment grade companies, there is limited coverage of privately-owned companies. Therefore, to ensure we are aware of any controversies that arise for the privately-owned companies we hold in portfolios, our Research Analysts and Portfolio Managers use a variety of newswire sources such as Reorg.

Evaluation of Current Approach

We believe that it is important to have responsible investment and stewardship embedded into the investment decision-making process with our Research Analysts and Portfolio Managers rather than a separate team. We believe that this approach works well in best serving our Clients and their needs.

Through the oversight provided by the governance structure, and the support of experienced staff, we believe there is sufficient accountability, management and resourcing of our responsible investment practices and ongoing stewardship activity.



Principle 3:

Signatories manage *conflicts of interest* to put the best interests of Clients and beneficiaries first.

Our Approach to Managing Conflicts of Interest

MCQS maintains a Conflicts of Interest Policy that sets out how the Firm identifies, prevents, manages and monitors conflicts of interest between itself, its officers, its staff and MCQS-managed Funds and Clients. This is further elaborated in a stewardship context in the Firm's Stewardship Policy.

Given that MCQS manages multiple Funds and is an active manager with exposure across the capital structure, situations may arise which could give rise to a conflict of interest and, in some cases, a material conflict of interest.

For example, conflicts may arise as a result of:

- Business relationships between Funds and MCQS, and/or the assets they respectively hold or manage;
- Differences between relevant policies relating to stewardship and 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 or equity) and/or different holdings across the capital structure; and
- Funds' and investment mandates' respective interests diverging from each other.

MCQS maintains a conflicts of interest matrix which identifies different types of conflict which might arise in relation to the kinds of service or activity carried out by or on behalf of MCQS.

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. One example is the MCQS Aggregation and Allocation Policy, which also helps to mitigate potential conflicts between Clients by requiring that trades are allocated fairly between MCQS Funds. The Policy also sets out principles and procedures relating to the aggregation of Client orders.

Another 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.

Both Funds must be represented by different Portfolio Managers.

MCQS has a full suite of comprehensive policies, which are reviewed periodically, to ensure a robust approach to managing conflicts of interest across the alternative credit platform.

Conflicts Related to Proxy Voting

Staff must disclose any potential or actual conflict that is known to them relating to their stewardship activities, including in respect of proxy voting. If the Firm does have incidences of actual and potential conflicts these are noted in the conflicts register and reviewed by senior managers to ensure the Firm has effectively mitigated or eliminated these risks. If MCQS is unable to ensure, with reasonable confidence, that the risk of damage to the interests of any Client can be prevented or avoided, then the Firm will fully disclose the conflict to the relevant Client and enter into discussions on how to resolve this.

Material conflicts may exist in situations where MCQS is called to vote on a proxy involving an investee issuer or proponent of a proxy proposal where:

The relevant issuer or proponent of the proxy vote (or an associated entity such as their pension plan) is an investor in a Fund or otherwise a direct Client or affiliate of MCQS

- A proposal may harm a Fund financially while enhancing the financial or business prospects of MCQS (or vice versa)
- A proposal may harm a Fund financially while enhancing one or more members of staff, for example where staff personally hold shares in the relevant issuer
- The Portfolio Manager (or other relevant member of staff) has a close personal or business relationship with a relevant individual associated with the issuer or proponent of the proposal (such as a senior executive director, prospective director or another participant in a proxy contest)

Conflicts Related to Broader Stewardship

MCQS also has a number of further policies and procedures to ensure that conflicts between the Firm (and its staff) and Clients are effectively managed. One example is the MCQS Outside Interests Policy which requires staff to declare all personal conflicts such as history of directorships, details of share ownership and partnership interests, paid consulting fees and paid trusteeships.

The Compliance function reviews all 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 pre-approved 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 both the individual’s manager and 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 and the stewardship of those assets.

Managing Conflicts in Practice

As a credit-focused asset manager, conflicts relevant to proxy voting and broader stewardship occur relatively infrequently within MCQS.

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

However, as we have described within our approach to governance, any conflicts of interest identified can be escalated further to the Operating Committee, Management Committee and/or the Board of Directors for further consideration, as deemed appropriate.

Policies that Address Conflicts of Interest

Aggregation and Allocation Policy
Anti-Bribery and Corruption Policy
Best Execution Policy
Compliance Manuals
Conflicts of Interest Policy
Cross Trading Policy
External Research and Expert Network Policy
Gifts and Hospitality Policy
Outside Interests Policy
Code of Ethics Policy
Stewardship and Shareholder Rights Policy

This list is not exhaustive of all MCQS policies.

Principle 4:

Signatories identify and respond to market-wide and systemic risks to *promote a well-functioning financial system.*

Identifying Market-Wide and Systematic Risks

As a long-term market participant within the alternative credit space MCQS has seen and successfully navigated a wide range of significant market disruptions including the Global Financial Crisis, Sovereign Debt Crisis, Covid-19 and the UK Liability Driven Investment (“LDI”) disruption.

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 current and future macro-economic environment, allows us to identify and gain exposure to those risks we find attractive while mitigating those that we do not.

Our investment staff are the first line of defence and most have an analytical component to their role, be it as specialist Research Analysts (focusing on individual names or sectors) or Portfolio Managers and Asset Class analysts (focusing on particular strategies or asset classes).

Investment staff have access to a wide range of research and data to aid analysis and this is supported by a strong knowledge-sharing culture whereby discussion of macro, geopolitical, environmental, economic and market themes is actively encouraged.

The Firm has a daily alternative credit platform meeting where asset class specialists provide commentary on the market risks and opportunities within their area of expertise.

We believe this is an effective way to widely disseminate and share market insights enabling us to manage and identify systemic risks more effectively.

In the second line of defence, MCQS has an independent Risk function who are responsible for, among other things, ensuring portfolio limit compliance and calculating and providing a wide range of metrics and management information for key internal and external stakeholders.

MCQS has integrated 'best in class' third-party systems into its risk, investment and trading platforms and has built proprietary tools which are capable of handling the broad range of asset classes we trade and the comprehensive limit frameworks we have in place.

While risks, particularly systemic risks such as climate change, can never be entirely guarded against in investment portfolios and business operations, we believe our robust risk management processes help us to effectively manage these risks in our Clients' portfolios.

Case Study – Manulife IM

As a company of Manulife IM, MCQS draws on decades of deep sustainability expertise of our parent. As long-term investors, Manulife IM has established a multilayered risk management structure to help mitigate the investment risks that may arise from systemic risk exposures in their portfolios. In addition, they participate in various initiatives to help protect the integrity of well-functioning financial markets in the face of these risks.

Manulife IM believe that understanding and awareness of systemic risks across the capital markets remains fragmented and incomplete, leading to potential mispricing of investment assets, and that many companies may be inadequately prepared to respond to these risks (and to related opportunities). They may take a variety of steps toward managing sustainability-related risks and opportunities across our businesses and investments, including through stewardship, investment research, and investment decisions.

Systemic Risk Evaluation as Part of Manulife IM’s Overall Risk Management Framework

Building on the Manulife history as a trusted fiduciary, long-term investor, and engaged corporate citizen, Manulife IM actively solicits input from external and internal stakeholders as they seek to evolve their capital allocation and sustainability practices.

The culture of collaboration and innovation enables effective leveraging of the range of capabilities across the Manulife IM platform - by combining local knowledge with a broader global perspective. Because they operate across numerous asset classes and global markets, investment teams are empowered to account for market and systemic risks in their respective investment processes and strategies, which are then monitored at an organisational level.

Manulife IM employs a risk management approach that consists of what we call “three lines of defence” each of which has its own separate management structure and reporting authority to ensure independence.

Manulife IM Sustainable Investing Case Studies:

<https://www.manulifeim.com/institutional/global/en/sustainable-investing-case-studies>

Our Risk team leverages the MCQS risk and trading platform to apply a number of quantitative techniques to understand and quantify the market-wide and systemic risks across the Firm's portfolios. These include:



Sensitivity Analysis

This is the sensitivity of the positions of a Fund to small changes in the underlying price or parameter (e.g. “the Greeks” - Delta, Gamma and Vega).



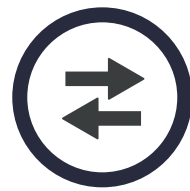
Statistical Analysis

Portfolio analysis techniques such as Value at Risk to calculate the minimum expected loss a portfolio may be exposed to a particular confidence interval and holding period.



Exposure Analysis

Ranging from Fund-level balance sheet metrics such as leverage, to idiosyncratic exposure analysis such as calculation of the potential loss due to the default of an issuer ‘jump to default’. The latter is calculated assuming market-standard recovery rates and a stressed assumption of zero recovery on obligations of the issuer ‘jump to zero’, allowing us to understand the key drivers of credit risk within a portfolio.



Stress Testing and Scenario Analysis

Analysis of the return behaviour of a portfolio following a period of market stress drawn from history (Stress Testing), or possible market scenarios applying arbitrary shocks to the portfolio, for example the impact on the portfolio of a credit shock (Scenario Analysis).

Responding to Market-wide and Systemic Risks to Promote a Well-functioning Financial System

As credit investors, we recognise the importance of maintaining healthy liquidity within the Funds’ portfolios. This is essential, not only to meet investor and counterparty demands, but also to allow the Firm to capitalise on the opportunities that arise during periods of stress. By continually assessing available cash and the current market depth of its invested assets MCQS is able to access, and be a source of, liquidity in the markets. This is one of the primary requirements for markets to function in an orderly way.

Climate Change

Climate change presents both risks and opportunities to the world and to our business, which can be systemic and do not exist in isolation. Our assessments of risks and opportunities are part of our fundamental analysis within bottom-up credit research.

Climate change, among other risks, are considered during our Firm-wide five-stage responsible investment integration process. 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.

The integration of climate change within the Firm's five-stage responsible investment integration process is important to evaluate risks and opportunities when considering financial metrics.

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

Climate change is widely accepted as one of the greatest risks faced by our planet and economies and is an example of a market-wide and systemic risk facing the investment industry. Understanding the physical and transition risks to relevant issuers is a vital component of our integrated approach.

MCQS issues TCFD entity and product level reporting which complies with the requirements of Chapter 2 of the ESG sourcebook section of the FCA handbook. It sets out our approach for managing both climate-related risks and opportunities across the four core areas of Governance, Strategy, Risk Management and Metrics and Targets.

These help us to understand the risks of climate change and are a key means to meet our commitment to engage on climate-related disclosures.

This reporting illustrates the integration of climate change within the Firm's five-stage responsible investment integration process.

When considering timeframes, as credit investors we are focused on probability of default and loss given default within the term of a particular investment, which can be short, medium or long term in nature.

Through an assessment of climate-related risks and opportunities, different issues can be more significant over different timeframes. Within our investment process our aim is to ensure these are thoughtfully considered to continue to meet the risk, return and outcome objectives set by our Clients.

Our analysis of climate factors is supported by third-party data from CDP and MSCI, which provides us with carbon metrics and environmental exposure for individual issuers (MSCI), and practical transparency (CDP). Carbon metrics including Weighted Average Carbon Intensity ("WACI"), Carbon Footprint and Total Greenhouse Gas Emissions are available to investors across many MCQS portfolios (where sufficient reporting is available).

Our primary data metric across portfolios is currently the WACI. This measure allows the use of proxy estimates within the Global Industry Classification Standard (GICS), where Scope 1, 2 and 3 disclosures are not available directly from the issuer. WACI is calculated in units per US\$m sales (it is normalised such that large and small companies can be compared). We find this measure can be compared across sectors and companies. It is ultimately a signpost for a company's operational practice, and importantly, their likely success in the transition to a low carbon economy versus their peers. Portfolio Managers are able to take into account the likely impact of an investment on a Fund's WACI, and position portfolios to assess both physical and transition risk as part of their qualitative assessment and analysis.

We recognise the backward-looking nature of carbon metrics and the impact that this may have on the efficiency of financial markets. Since 2022, we have focused on increasing our coverage of this climate data for the open-ended pooled Article 8 Funds in order to understand the decarbonisation pathways of our portfolios. As of 31 December 2024, we have proprietary climate data for c. 6000 issuers.

Proprietary Climate Data Coverage Across the Open-ended Pooled Article 8 Funds.

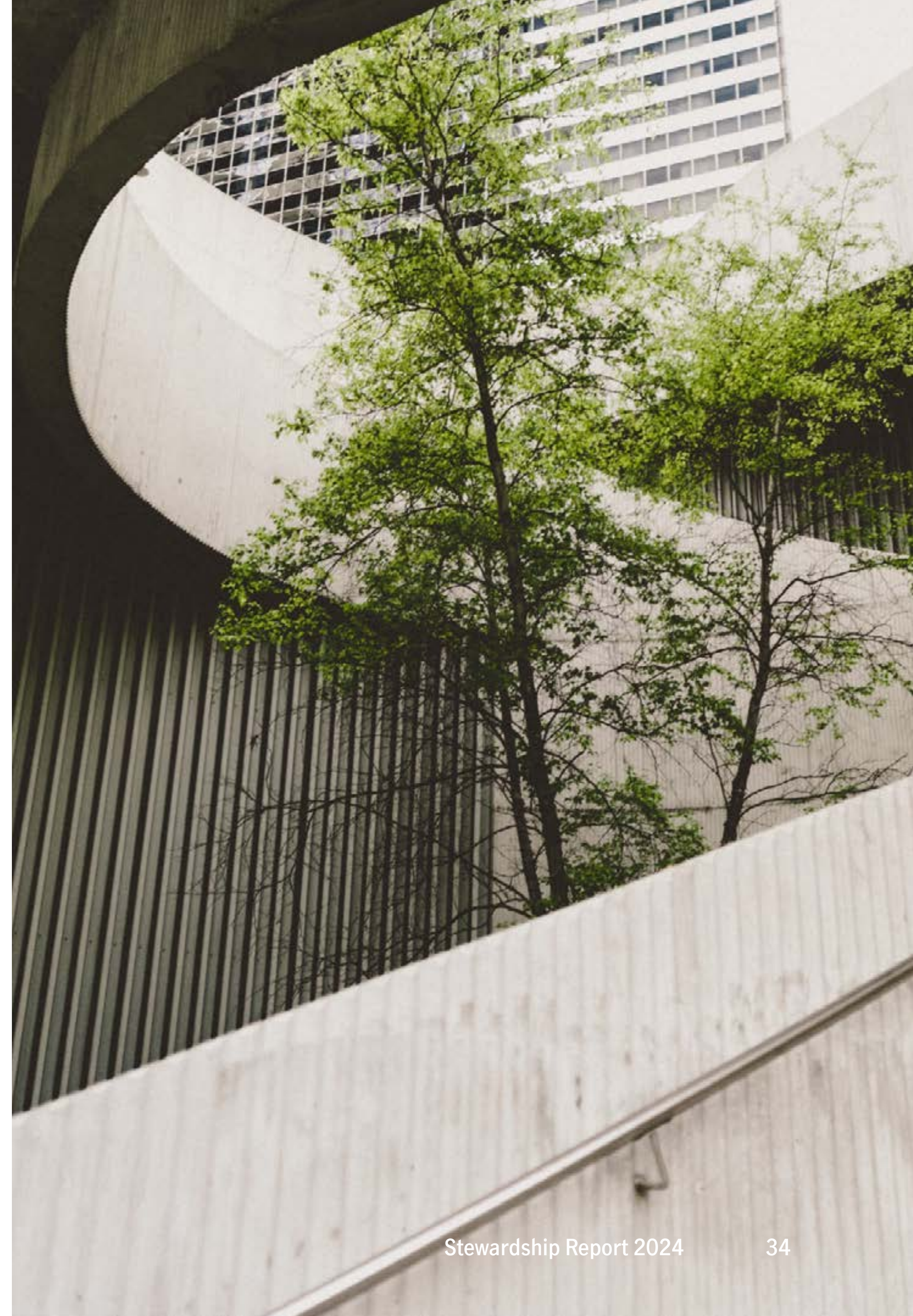
Climate data is available to all Research Analysts and Portfolio Managers via our Research Portal and is to be considered as part of their investment decision-making process. This analysis has enabled us to identify risks and opportunities to engage with Funds' holdings in the climate transition.

Climate scenarios are supplementary to our fundamental credit analysis and company engagement, both of which aim to achieve a holistic understanding of the risk and opportunity faced by our portfolios.

We prioritise engagement over exclusion as a philosophy, engaging with portfolio companies to encourage the setting of targets and where relevant providing them with the capital required to transition to a low-carbon future.

In 2022, we launched the Climate Targeted Engagement Programme which aims to engage with portfolio companies within the open-ended pooled Funds classified as Article 8 under SFDR that do not currently disclose carbon emissions and/or do not have decarbonisation targets in place.

Engagement outcomes so far include formal commitments to the Science Based Targets initiative ("SBTi") and written commitments to publish carbon emission disclosures, decarbonisation targets and net zero commitments.





Climate Value at Risk and Implied Temperature Rise

In 2022, responding to Client demand, MCQS began investigating how to produce Climate Value at Risk and Implied Temperature Rise metrics for the open-ended pooled Funds classified as Article 8 under SFDR and bespoke Client mandates (where desired by our Clients).

As we were considering the metric for our bond Funds, we engaged extensively with MSCI to understand how the methodology works and could be applied for bonds of different maturities. Upon engagement, MCQS provided feedback to MSCI that some further developments for robust bond metrics would be useful as the physical risk aspect of the Climate Value at Risk considers risk until the year 2100 and does not scale for a shorter maturity bond.

Whilst MSCI considered our feedback, we added an overlay to the methodology used which linearly scaled this risk for the number of years until maturity of the bond. In April 2023, MSCI announced that they have published Physical Risk time series, acting on our feedback to enable bond investors to now scale the metric for the maturity of their investment.

We applied a similar approach to the Implied Temperature Rise methodology, using the carbon emission budget, and the predicted under or overshoot of that based on projected emissions, only for the years until the maturity of the bond. For Implied Temperature Rise, we use proxy estimates to increase coverage to 100% (excluding ABS).

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.

We included these climate metrics in the [Firm's 2023 TCFD report](#), which is publicly available on the MCQS website (published in mid-2024), and will include them in our 2024 TCFD reporting.

Principle 5:

Signatories *review* their policies, *assure* their processes and *assess* the effectiveness of their activities.

Policy Reviews

MCQS reviews all of its policies (including the Stewardship Policy, Responsible Investment Policy and Engagement Policy) on a periodic basis and in a timely manner following significant changes in approach. MCQS will have due regard to the principles of effective stewardship (including the 12 Principles enshrined in the UK Stewardship Code) when reviewing, updating, and approving each of its relevant policies.

Each MCQS 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.

The Policy Owner is primarily responsible for reviewing the policy and updating it, as required. The Policy Owner may seek comment and feedback from other relevant individuals, departments, committees or working groups within the Firm.

Any material updates of policies will be reviewed and formally approved by the Operating Committee, RIGC and/or Management Committee as appropriate. Having analysed the Responsible Investment and Engagement policies in 2024, updated policies were published in March 2025.

Assurances Related to Stewardship

MCQS seeks to ensure that its approach to stewardship and responsible investment matters is periodically evaluated, appraised and reviewed in order to ensure that it remains fit for purpose and to best serve the needs of our Clients. In doing so, we will seek both internal and external assurances in a variety of ways, including:

Internal Monitoring

Our ongoing stewardship and ESG monitoring and reporting process includes periodic and collaborative reviews of relevant policies and procedures, periodic research re-assessments, a watching brief across news wires for developing ESG considerations and controversies, and review of ESG metrics such as rating breakdowns and trends.

The Risk team provides independent oversight of the commitments made by MCQS-managed Funds.

Our Compliance and Legal teams work to ensure that our disclosures accurately and adequately describe our responsible investment practices.

The RIGC provides an overarching level of internal assurance and accountability, and conducts reviews of the policies, processes and practices relating to responsible investment and stewardship (in particular against our formal responsible investment commitments).

Formal Reporting

During the Reporting Period, MCQS focused on meeting the reporting requirements under SFDR, such as Annex IV disclosures for the relevant Funds.

In January 2024, the Firm was awarded strong PRI results in our 2023 Assessment Report. We significantly outperformed the median for our key modules, achieving the maximum score of 100% for Direct Fixed Income (Corporate), Direct Fixed Income (Securitised) and Confidence Building Measures; and 86% for Policy,

Governance and Strategy. In line with the median of our peers, MCQS received 1 star for Direct Hedge Funds (Multi-strategy and Structured Credit).

In 2025, we will submit data for the latest PRI Assessment Report to meet their reporting deadline due later in the year, and will publish updated TCFD entity and product level reports.

External Feedback

As we have continued to enhance our processes and methodologies, we have established methods for reporting to, and engaging with, our Clients as detailed in Principle 6. As such, Client feedback is a key way in which we receive external assurances relating to our stewardship and responsible investment practices. This feedback allows us to refine our stewardship policies and processes.

We also have a number of Clients and prospects who kindly share their example responsible investment and stewardship reporting with us so we can continually build on our own reporting to meet the standards expected by our investors. Investment consultants also provide us with valuable guidance on market developments.

Further, we have an independent external advisor who has worked with Local Government Pension Schemes (“LGPS”) for over 30 years and has significant knowledge and understanding of best practice pension investment reporting. They provide us with feedback on our reporting, processes and ideas for future developments to ensure it is fair, balanced and understandable.

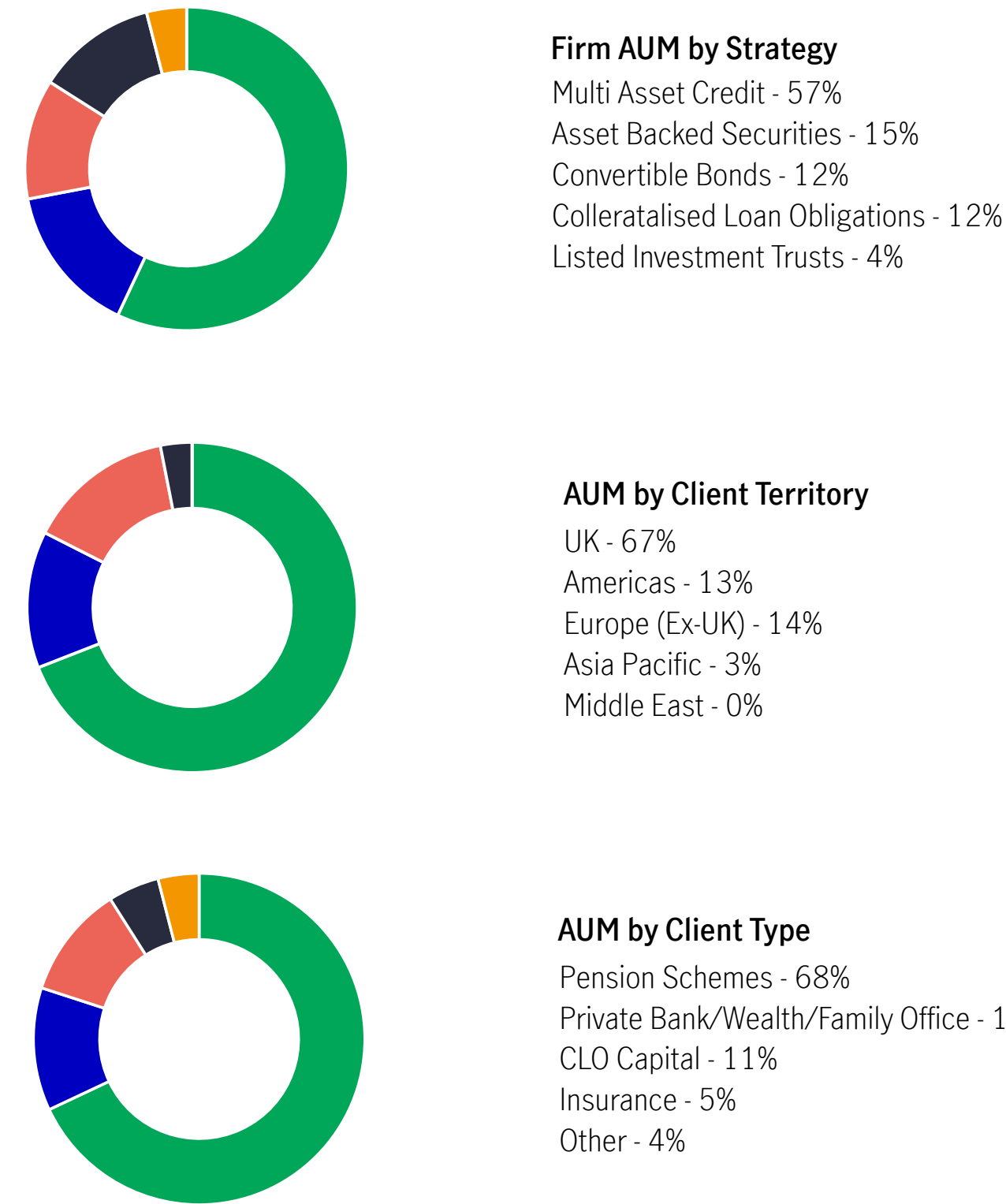
Principle 6:

Signatories take account of *Client and beneficiary needs* and communicate the activities and outcomes of their stewardship and investment to them.

Client Base and Assets Under Management

MCQS manages money for a range of Client types across the spectrum of liquidity from daily UCITS funds through to longer-lock private credit style mandates. Our Clients expect us to perform in line with the performance objectives of a mandate over the course of a full market cycle.

MCQS has an institutional Client base, with c. 90% being institutional investors, both private and public.



Source: MCQS as at 31 December 2024.

Reporting to, and Engaging with, our Clients

Transparency of our activity is critical for our Clients, investee companies and other interest parties to be able to hold us to account.

We see engagement with our Clients as an important means by which to understand their values, investment needs, and the outcomes they are seeking. Our Clients are our partners; our approach is one of transparent and clear communication that meets our Clients’ ongoing individual reporting and due diligence requirements.

Our Clients continue to strengthen their review of sustainable investment and stewardship practices. A large number have introduced their own due diligence questionnaires and requests for proposals (“RFPs”) which relate specifically to stewardship and responsible investing. We track these questions to determine whether there are larger trends in Client expectations. Our dedicated Client Communications team co-ordinates and fulfils such requests for a range of our investors, from public and private pension schemes to insurance Clients and private wealth channels, and across multiple jurisdictions.

MCQS can provide bespoke engagement examples to Clients that align to their specific engagement priorities such as climate change, biodiversity and people. The responsible investing section of our website provides an explanation of our process and links to our key reporting such as our UK Stewardship Code and PRI reporting.

We are committed to outstanding levels of Client service with comprehensive and transparent reporting. We have continued to grow our engagement case studies and communicate these to Clients. In 2024, we continued to engage with Investment Consultants, Clients and industry participants to seek standardisation of Client requests in relation to stewardship and ESG disclosures. We produce a number of standardised reports on a periodic basis which are available to Clients upon request.

These include:

- Investment Consultants Sustainability Working Group’s Engagement Reporting Template
- Investment Consultants Sustainability Working Group’s ESG metrics template
- Pensions and Lifetime Savings Association Vote Reporting Template
- Association of British Insurers (“ABI”), the Investment Association (“IA”), and the Pensions and Lifetime Savings Association (“PLSA”) Carbon Emission Template
- European Leveraged Finance Association CLO questionnaire

In addition, our quarterly Client presentations for open-ended pooled Article 8 Funds and bespoke Client mandates provide more detail on our approach, and examples of engagement activity. We continue to request feedback and example reporting from our Clients to evolve our reporting as the industry develops in this area.

To support our investors, we regularly review and acknowledge our Clients’ statement of investment principles and responsible investment policies. While it is for the relevant Clients to determine the appropriateness of their investments, we are able to see a strong alignment of our approach, policies and process, with our Clients’ objectives.

While we have our own engagement framework and key priorities, we are mindful that we are stewards of our Clients’ capital and we are proactive in responding to Client requests to engage with particular companies.

For example, our UK pension scheme Clients often ask us about engagement with the top 10 contributors to WACI. As a result, we actively seek to engage with those issuers. The top 10 contributors to WACI for the CQS Credit Multi Asset Fund as of 31 December 2024 were either net zero aligned or we have sought to engage with them on climate issues.

Principle 7:

Signatories systematically integrate *stewardship and investment, including material environmental, social and governance issues*, and climate change, to fulfil their responsibilities.

Integrating Stewardship with Investment

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.



Environmental

Climate Change, Water Stress, Biodiversity and Land Use, Toxic Emissions and Waste and Environment Opportunities.



Social

Labour Management, Health and Safety, Privacy and Data Security, Stakeholder Opposition and Social Opportunities, Mobility and Diversity.



Governmental

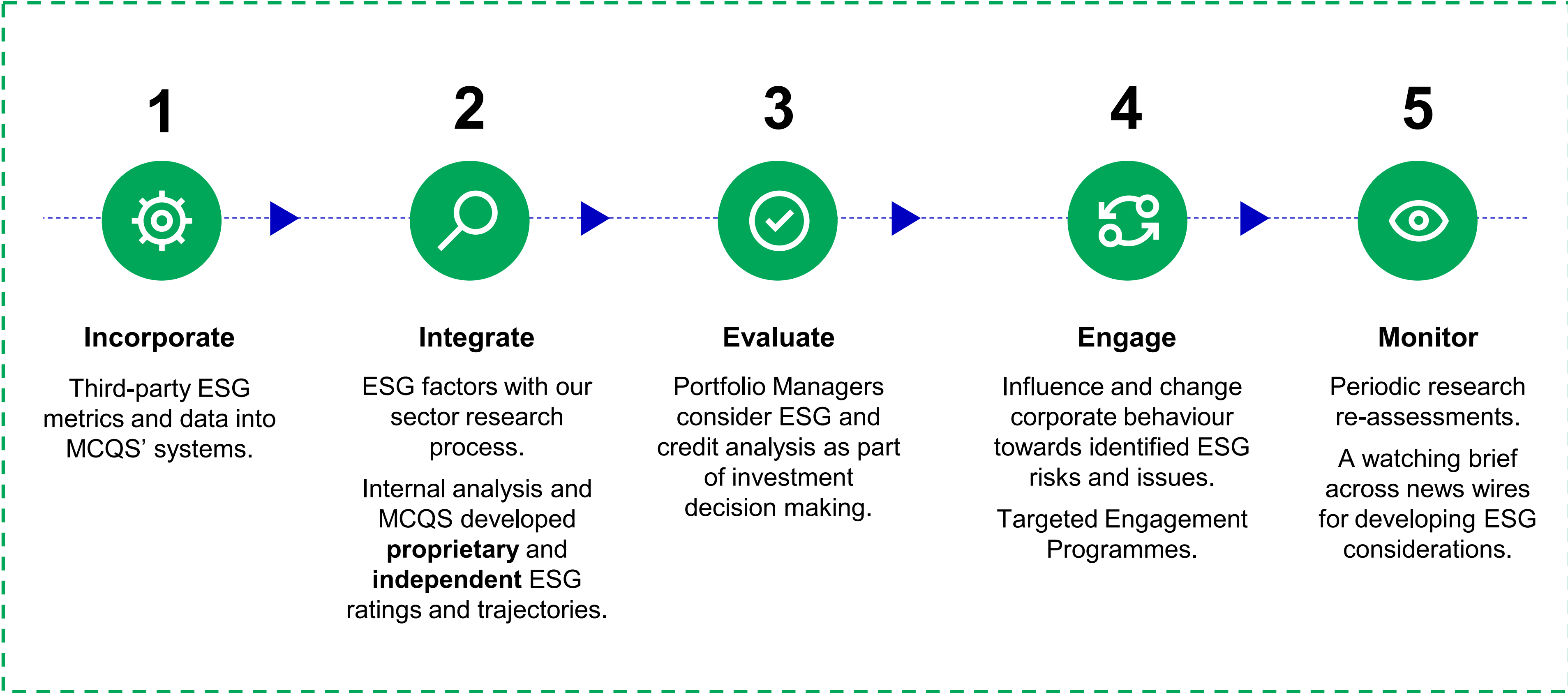
Corporate Governance and Corporate Behaviour including Ethics, Corruption, Instability, Diversity and Remuneration.

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 identify risk, potential value and opportunity, and, critically, to generate the best possible returns and outcomes for our Clients.

As illustrated by the graphic on the next page, 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.

In doing so, we work hard to ensure that the companies to whom we lend have sufficient cash flow and liquidity to pay the interest and principal on their debt.

Our Five Stages of Responsible Investment Integration



Source: MCQS as at 31 December 2024.

ESG Materiality

Our 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 data service providers as an input in the ESG analysis as well as a company's own reports and disclosures, and information derived through engagement activity.

At MCQS, we have a central research 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.

When considering a rating, Research Analysts will consider the external sources available to them (MSCI, Bloomberg, CDP, Moody's/S&P, RepRisk, Refinitiv, newswires and street research) 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. Research Analysts will consider the materiality of any Environmental, Social or Governance issues relevant to the company on a case-by-case basis when assigning an internal ESG rating. Sectors will also have different weightings based on their specific characteristics. For example, climate would have a higher weighting for Oil & Gas issuers, while data privacy would be of greater significance in the Information Technology sector.

Research Analysts are expected to consider the long-term risks and opportunities relating to a company including its approach to climate-related disclosures or diversity-related disclosures respectively.

Research Analysts are sector specialists, and we have a London and a New York based analyst assigned to each sector. ESG research notes are stored in the MCQS Research Portal and are available across the front office. This analysis is consolidated with the ESG rating per issuer, which may often vary relative to external ESG ratings, such as MSCI.

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.

We express active ownership through engagement. We explore this topic in more detail in Principle 9.

Interim ESG Targets

Under the guidance of the Paris Aligned Investment Initiative’s Net Zero Investment Framework, we have committed to the following interim targets for our open-ended pooled funds classified as Article 8 under the Sustainable Finance Disclosure Regulation (“Article 8 funds”):

Portfolio Decarbonisation Reference Target: 50% reduction in scope 1 and 2 Weighted Average Carbon Intensity (“WACI”) by 2030 from a 31 December 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.

The Funds covered by these targets are 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.

Case Study – Energy Infrastructure

Issue: Despite a strong MSCI ESG Rating of “AAA”, a large Energy infrastructure company lacked emission reduction targets and was identified as a top 10 contributor to the WACI in one of our Article 8 Funds. Understanding that the company cites existing technology as a main factor that currently prevents it from publicly-set emission reduction targets, we still consider it to be important to seek further information on their intentions to eventually do so, including a specified time frame.

Action: We asked for more information on the company’s current initiatives that target data collection and benchmarking, the reduction of GHG emissions and to aid in accelerating progress towards eventual target setting. They informed us that they will establish such goals when they believe they are reasonably achievable so that all stakeholders can be confident in their ability to meet them. Any near, medium or long-term greenhouse gas emission (“GHG”) reduction targets will also need to be achievable through actions entirely within management’s control and not any other actor. Their board oversight includes annual discussion regarding their emissions, and they have committed to annually reassessing the feasibility of setting targets for their operations as new and cost-effective

technologies are developed. The company established a group to focus on identifying and evaluating emission reduction opportunities, such as new technology, clear power, gas and liquids modernisation and optimisation, customer needs for GHG emission reductions, and government incentives.

Outcome: As a result, we remain comfortable aligning our ESG rating with MSCI’s as the company continuously improves upon all three ESG pillars, especially as it relates to spill intensity and workforce safety and will continue to monitor their progress towards target setting.

As part of our integrated process, Research Analysts and Portfolio Managers of Article 8 Funds meet formally to review and discuss our internal ESG analysis. Specifically, looking at assessment of ESG risk factors, the highest portfolio carbon emitters, setting clear engagement priorities on climate change and reviewing potential controversies.

Please find below a case study example showcasing our integrated process and a resulting portfolio outcome.

Process in Action – Shipping Industry

Ratings: Analysts incorporate a quantitative methodology into ESG analysis, considering the external sources available to them (MSCI, Bloomberg, CDP, Moody's/S&P, RepRisk, Refinitiv, newswires and street research), assigning internal scores and weightings to ESG factors pertinent to the respective sector and will then assign an ESG rating and outlook to the security. This company is not ESG-rated by MSCI. Having initially assigned the issuer an internal ESG rating of “A”, the Research team downgraded the ESG rating to “BBB” with a neutral outlook following additional data availability within our matrix tool.

Engagement: Within Stage 4 of our five-stage responsible investment integration process, we adopt a risk-based approach to engagement, targeting where we see the highest risks. For example, we seek to engage those companies with no targets set where we haven't previously engaged, the highest emitting companies, companies ESG rated “B” or below and those with RepRisk controversies. The framework includes targeted engagement programmes, and collaborative engagements agreed upon at quarterly RIGC meetings. Portfolio Managers typically meet weekly with Research and support functions to discuss engagement and any controversies.

The global shipping company was identified by the Portfolio Manager team as an engagement priority in February 2021 given its high emission contribution to the relevant portfolio. Our focus was the company's decarbonisation efforts and strategy for carbon emission reduction, recognising that it would take multiple years to see change. Company management has been transparent on the challenges of emissions reduction in the shipping industry and outlined the measures they are taking to make their operations more environmentally friendly.

Monitoring: In 2024 the company submitted targets for verification by SBTi, with talks ongoing as they look for the methodology to better reflect the characteristics of their business. We were satisfied with the information gained through engagement and remain confident that the company are taking demonstrable action to improve the environmental profile of their business in line with the nature of their operations. Monitoring of this issuer is ongoing.

Escalation: As a principle, we believe in engagement to understand a company's approach or actions, rather than divestment. Our Engagement Group will review progress on a periodic basis for targeted engagements. The relevant Portfolio Manager will determine whether engagement objectives should be expanded, reset, completed or withdrawn. If goals are not met or progress does not meet our expectations, Portfolio Managers are expected to consider next steps in relation to the escalation process which can include divestment. This case study is an example of an escalation where management gave us an update only after we reached out to their bankers to intervene. In this example the holding was maintained.



Case Study – Human Rights, Infrastructure

Our Funds classified as Article 8 under SFDR exclude investments in companies who fail against the Ten Principles of the UN Global Compact, based on third-party opinions from our data provider. As a Firm, our philosophy is to engage with companies to seek positive change, rather than to simply exclude.

Issue: We engaged with a US-based environmental commercial services company with regards to its nuclear decommissioning and coal ash remediation work. While the completed work typically has very positive environmental benefits, it puts employees in potentially harmful working conditions, having seen in the past that employees’ lives were put at risk while performing similar tasks for competitor companies. This led us to enquire about risk mitigants that are in place to protect the company’s workers health and safety.

Action: Management highlighted that it prides itself on industry leading safety record, with a “Target Zero” safety program that yields statistics well below industry averages, being classified in the Specialty Trade Contractor category, and has appropriate protections insurance policies in place. Beyond corporate staff, the company has their own health and safety teams, including multiple Branch & Site safety officers that facilitate hands-on safety inspections and training, ensuring there is an

experienced team member managing health and safety on project sites, in addition to providing appropriate training of radioactive waste handling for its employees.

Outcome: The company has developed extensive training programme consisting of OSHA certifications, fulsome corporate safety manual and requirements for all front-line supervisors to be first aid and CPR trained. These extensive safety procedures and training programmes is reflected in the company’s excellent safety record, with better than industry averages for both Lost Time Incident Rate (“LTIR”) and Recordable Incident Rate (“RIR”), which alleviated our social concerns.

Principle 8:

Signatories *monitor* and hold to account *managers* and/or *service providers*.

Monitoring of Service Providers

MCQS is committed to good governance. As credit investors, governance is a key component of the overall risk management assessment, particularly when considering business fundamentals and creditworthiness of the issuers to which we lend. Under SFDR, we are required to incorporate good governance for all Funds classified as Article 8. Because of these factors, good governance is one of our key engagement priorities.

We use several service providers to support our stewardship and responsible investment-related activities. External data and research augments our own proprietary ESG assessment. 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.

We remain focused on the integrity of ESG data. Where the quality of service falls below expected standards, we will seek to address the shortcomings with the service provider. We also provide continuous feedback about how existing products could be evolved or future products could be designed to maximise the use of the relevant product, for MCQS and the wider industry.

For example, we regularly interact with MSCI on various data related matters, including the framework utilised for their ESG scoring methodology and rating assessment, and the timeliness of updates to help companies establish more detailed rationale behind their individual ESG scores and the pathway for improvement. Often, companies inform our Research Analysts of the challenges with the MSCI system and its methodologies during our individual engagements. We feed this back to MSCI and provide input on proposed methodology updates and rating changes.

Proxy Voting

Although MCQS does not use proxy advisors, we use a voting agency (ProxyEdge supported by Broadridge) when engaging in proxy voting for our Funds.

Certain of our managed accounts may also request that other voting agency providers be used. ProxyEdge allows MCQS to manage, track, reconcile and report our Funds' proxy voting through electronic delivery of ballots, online voting and integrated reporting and record keeping.

Case Study – Logistics Services

Addressing and responding to controversies relating to Fund holdings is a key focus as part of both portfolio due diligence and our engagement strategy. This is where external data from MSCI and RepRisk is integral to our investment process.

Issue: MSCI highlighted a controversy relating to a Logistics company, where it was alleged that the business outsourced work to a subcontractor that fell short of its supplier code of conduct and human rights policy standards. Notably, the sub-contractor was accused by drivers of providing poor working and safety conditions.

Action: We engaged with management in H1 2024 to clarify the causes and to understand the steps the company is taking to alleviate concerns. Though we were satisfied with the actions taken by the company, we left the engagement with the intention of following up to ensure the full implementation of their corrective action plan with the alleged sub-contractor. As such, we re-engaged with management in Q4 2024, to obtain a progress update regarding the implementation of their corrective action plan to implement stronger labor practices with subcontractors.

Outcome: From our engagement, we learnt that the company conducted a thorough investigation and physical audit with this subcontractor, where they have been fully supportive of the procedure. Following investigation, a corrective action plan has been developed for specific areas and the subcontractor is currently working on implementing them through its operations. While it was reassuring to hear that they have conducted their own thorough, physical audit and established a corrective action plan, we plan to understand further details on this so we can be confident that they are rectifying any issues. We will re-engage for a progress update in 2025.

Case Study – Integrity of ESG Data

We regularly assess new products, emerging datasets, and tools to ensure that we continue to engage providers that best match the needs of our Clients, our Firm, and our stakeholders.

Biodiversity and Natural Capital are two areas where we have seen improvement in data availability during the past 12 months, including risk factor and impact driver analysis in areas such as land use, ecosystem stress, deforestation links to commodity production and geo-spatial mapping of supply chains. This will help strengthen regulatory alignment and measurement of a wider scope of ESG metrics aligned to financial reporting.

We anticipate more data disclosure from companies in relation to the EU Taxonomy, and we continue to seek further data to enhance our ability to review against the SFDR framework and other emerging ESG standards. We also work regularly with our existing ESG research and data providers to help them improve their services; we have generally found, for example, that ESG data and research are more widely available for publicly listed equities than for public debt. We're working with our providers to expand debt issuer coverage.

Our approach is to work with data providers to ensure data becomes complete and more accurate. Further, where we identify issues with third-party information, we may engage with the vendor to have the data updated or corrected. We may also seek assurance from the service provider that its processes are improved to prevent similar issues in the future. Our central research portal is used by our investment teams 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.

Case Study – Financial Services

Engagement is a fundamental part of our investment strategy. As part of the ongoing monitoring and evaluation of third-party ratings from Research Analysts and Portfolio Managers, we look to engage with companies and external data providers to better understand issues with disclosure and methodology assessment and governance frameworks.

Issue: Following a monthly portfolio review, we sought to engage with a Financial Services company due to a downgrade of the company’s ESG rating from “BBB” to “B” by MSCI. We found this to be unjustified based upon available data and engaged with the company to understand their perspective on the recent downgrade before reaching out to MSCI.

Action: After dialogue with the company in Q3 2024 to discuss their ongoing struggles in interacting with MSCI on its rating audit and system’s processes, we reached out to MSCI to understand their rating approach. MSCI’s “B” ESG Rating contrasts with our “BBB” ESG rating. We further escalated the engagement and raised questions with MSCI on the company’s scores related to “Risk Management Expertise”, “Access to Finance” and “Related Party Transactions”.

Outcome: MSCI responded to our questions on their methodology. We believe that the “Risk Management Expertise” deduction is not warranted, as MSCI’s rigid criteria focuses on the title of people in the role, rather than the length of experience in running a risky lending business. With regards to “Access to Finance”, we acknowledge that the reduction in the score is due to limited disclosure, which we are working towards improving through engaging with the company. With regards to “Related Party Deduction”, we found the deduction disproportionate, where MSCI fails to consider the transaction size relative to revenue and the company’s total assets. We have passed on MSCI’s explanations in hopes that the company will better their disclosure to reach the desired rating upgrade and will follow up with management to check on improved disclosure.

Principle 9:

Signatories *engage* with issuers to maintain or enhance the value of assets.

Approach to Engagement

We use our position as a global credit provider to engage and actively seek to influence long-term change in the way companies operate or behave.

Engagement is part of a wider approach to the assessment and integration of ESG factors. It should be used by our investment professionals as a tool to build a fundamental analysis of risk, relative value and investment opportunity.

We have an engagement framework which is designed to guide investment professionals on recommended areas of engagement by sector and sub-industry. Further, we adopt a three-pronged to engagement approach which includes our (i) Targeted Engagement Programme; (ii) ongoing day-to-day engagements; and (iii) collaborative engagements where appropriate and relevant.

Portfolio Managers are responsible for selecting the specific companies with whom they wish to engage including companies within our Targeted Engagement Programme, and overseeing progress made. Conducting ongoing engagements, implementing the Targeted Engagement Programmes, and feeding back to Portfolio Managers, is the responsibility of the Research team, led by the Head of Research.

We adopt a risk-based approach to engagement. We target our engagement activity where we see the highest risks. We also focus on high quality engagements. For example, we seek to engage those companies with no targets set where we haven't previously engaged, the highest emitting companies, companies ESG rated "B" or below and those with RepRisk controversies.

Engagement should take place, wherever practicable, both pre-investment and post-investment.

The MCQS Engagement Group, comprised of a broad representation of Portfolio Managers and Research Analysts, and chaired by the Head of Research, reviews targeted engagement activity and outcomes on a quarterly basis. Portfolio Managers or the MCQS Engagement Group may determine that a company should be subject to a Targeted Engagement Programme.

Engagement activity may be conducted directly, and at times, where relevant and subject to approval by the RIGC, collaboratively. Portfolio Managers take direct ownership and accountability for engagement priorities at the individual company level, with support from our specialist sector Research Analysts.

We seek to engage in order to enhance our understanding of a corporate issuer's approach before making an investment decision or during the holding period. Engagement can be through a variety of means, including emails, calls, and meetings with company management teams.

Portfolio Managers are charged with decision making and whether a company is included (or not) within a portfolio, as such they are ultimately accountable for engagement outcomes.

Objectives for Engagement

Our proprietary Engagement Framework is designed to guide our investment professionals on areas we consider important. Additionally, as signatories to PRI and CDP, and users of MSCI ESG Manager, we are able to take into account industry best practice by sector.

In order to meet Firm-wide objectives, we may design strategic Firm-wide Targeted Engagement Programmes. An example of this is our ongoing MCQS Climate Targeted Engagement Programme, where we provide an update on progress during the past year on the next page.

Our Climate Targeted Engagement Programme

To monitor progress against the Engagement Threshold Target for the Article 8 Funds, a number of key functions (Technology, Risk, Research and Responsible Investment), worked closely to build the relevant dataset and technological capabilities. 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.

This Targeted Engagement Programme began in 2022 and seeks to encourage better disclosure and net-zero alignment across the covered portfolios, in line with our Engagement Threshold Target.

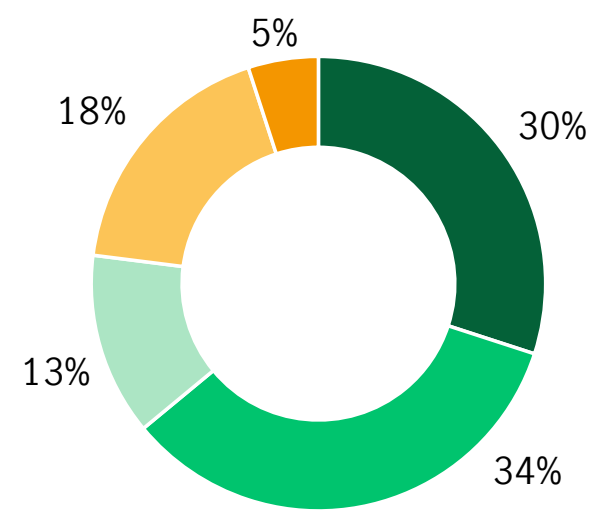
The key objectives are to maintain and where necessary increase:

1. Carbon emission disclosure coverage
2. Proportion of companies with decarbonisation targets
3. Proportion of companies targeting net zero

As of 31 December 2024, all four Funds had met their respective engagement threshold targets:

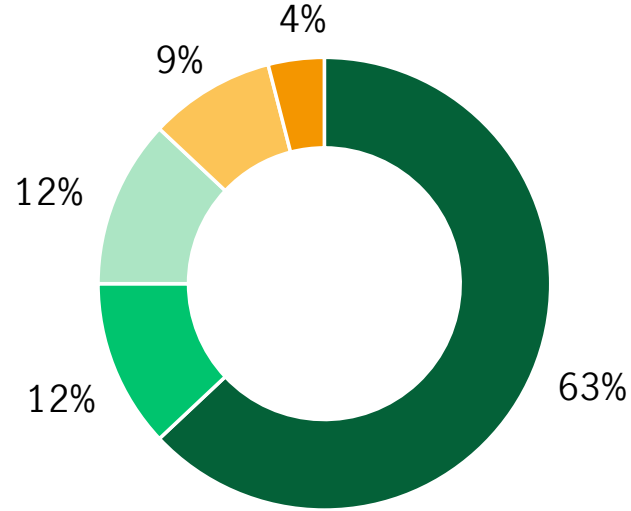
CQS Credit Multi Asset Fund

82% net-zero aligned or subject to engagement on net zero



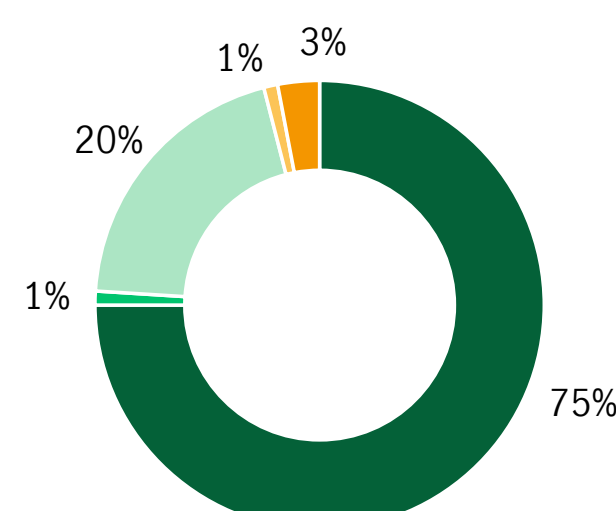
CQS Dynamic Credit Multi Asset Fund

84% net-zero aligned or subject to engagement on net zero



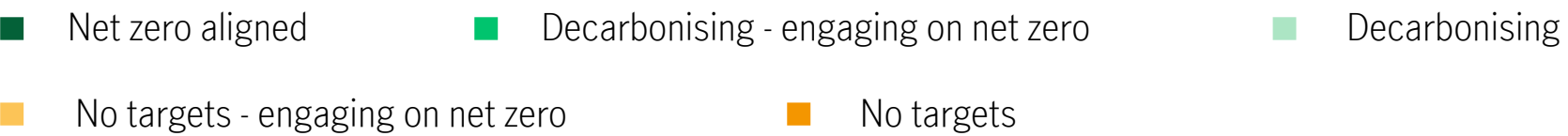
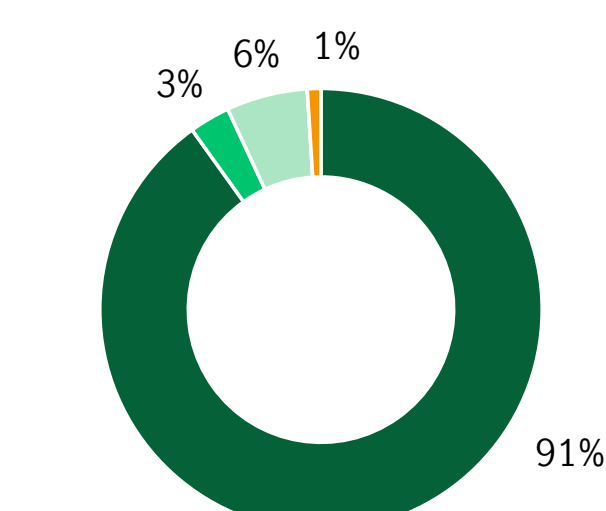
CQS Global Convertible Fund

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



Salar Fund

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



Engagement outcomes during 2024 include formal commitments to the SBTi and written commitments to publish carbon emission disclosures, decarbonisation targets and net zero commitments.

Source: MCQS as at December 2024.



Case Study – Energy Provider

Where there is no carbon emissions data available for a portfolio company, we use proxy estimates based on the sub-industry average.

As part of our Climate Targeted Engagement Programme, we seek to engage with portfolio companies that do not disclose carbon emissions and/or do not have decarbonisation targets. This is with the aim of increasing our coverage of carbon emissions data, decarbonisation targets and net zero commitments.

Issue: We identified a US Energy company as a top emissions contributor to an Article 8 Fund. Despite improving on ESG over the past few years, the company has yet to formalise any long-term targets. We sought to engage with them on their upcoming ESG report, and whether it would outline any Scope 1 & 2 emissions reduction targets.

Action: We had a one-to-one meeting with the CFO and Director of the company to gain clarity on their ESG report. The company confirmed that while they will continue to operate without formal emissions reduction targets at this time, its report would feature enhanced ESG data and statistics relative to prior years. This improved data collection is helping the company establish baselines that future targets will be set against. They also want to ensure that when targets are eventually set, they will be in a strong position to be able to achieve them.

Outcome: We were pleased with the answers we received from management. The company has since released its ESG report, which includes commitment to carbon reduction and DE&I targets, alongside other ESG disclosures.

Case Study – Financial Services

Issue: We identified a Spanish savings bank to which we had exposure to on our Article 8 Funds, as not having set any decarbonisation targets and having no commitment to net zero. We wanted to understand if they intended to target net zero and/or introduce decarbonisation targets, and if so, the expected timeline.

Action: The company responded to our inquiries by confirming that it has followed best practice for financial institutions, both disclosing and setting targets for their Scope 3 category 15 (financed portfolios) emissions. This is where most of the firm's environmental impact will arise from, given financial companies tend to have low Scope 1 & 2 operational emissions. In order to set decarbonisation targets, the company has calculated by 2022 year-end the financed portfolios emissions (in addition to Scope 1,2 & 3) and taken into account the 1.5°C or net zero by 2050 scenario, thereby meeting the requirements of sectorial initiatives like the NZBA (Net Zero Banking Alliance).

They highlighted the establishment of interim decarbonisation goals for the most GHG intensive sectors which contribute most to its carbon footprint, which are Oil & Gas, Energy and the Residential Mortgage Portfolio, approved by their Board of Directors in 2023.

Outcome: The company has yet to commit to net zero, but highlighted that regarding their decarbonisation strategy, they joined in December 2019 the Collective Commitment for Climate Action promoted by the United Nations Climate Change Conference (COP25), the fundamental goal of which is to align signatory institutions' portfolios with the objectives set out by the Paris Agreement by 2030. We will continue to monitor company commitments and look for progress in 2025.

Engagement in Numbers

Across our alternative credit platform we typically have exposure to around 1,600 corporates.

2,102

Engagements with companies targeting numerous topics¹

109

Direct engagements

94

Companies subject to direct engagement with MCQS

Our team engaged most frequently on climate change, notably around net zero target commitments. However, some engagements covered more than one element and the split by engagement over the year can be seen below.

67%

Environmental

42%

Social

60%

Governance

Source: MCQS as at 31 December 2024.

¹ This includes collaborative engagements through CDP's Non-Disclosure campaign (1,993 engagements, excluding ones we led on). Totals may not sum to 100 due to rounding.

Objectives achieved across engagement activity during 2024 include:

- Strengthened ESG-related policy and/or processes (human rights, climate adaptation etc)
- Setting of new targets that are verified by the SBTi
- Enhanced transparency via public disclosures (CDP, TCFD etc)
- Measurable improvement in ESG performance (GHG emissions, board diversity etc)

We continue to evolve our engagement assessment and reporting approach, including the monitoring of engagement effectiveness, relative to net-zero alignment engagement threshold targets.

Engagements by Sector

- Financials – 22%
- Industrials – 15%
- Consumer Discretionary – 14%
- Materials – 10%
- Information Technology – 9%
- Consumer Staples – 8%
- Energy – 8%
- Health Care – 6%
- Telecommunication Services – 5%
- Utilities – 2%





Case Study – Commodity Producer

Engagement is used to manage risks by proactively identifying monitoring and mitigating issues. Further, it allows us to enhance company analysis and strengthen opportunities to enhance value for our investors.

We prioritise engagement with companies where we have identified more significant risk issues and where our Targeted Engagement Programme has led us to focus on those issuers which have the largest negative impact on our portfolios.

Issue: As a leading North-American steel producer, we identified that the company has high absolute carbon emissions and is a high WACI contributor to certain Article 8 Fund portfolios.

Action: As part of our engagement, our goal was to ensure that the company is being proactive in reducing its carbon emissions, particularly following a recent fund-raising to partially fund an acquisition, which would add to its footprint. In addition, given the nature of its business, we were keen to understand its broader process for environmental considerations, with the steel industry an important component in the transition to a low-carbon economy. The company has a supply chain advantage of being self-sufficient through vertical integration in the production of ferrous raw materials for steelmaking, which should be a benefit to managing waste, driving circularity and reducing carbon emissions.

Outcome: The company disclosed that post completion of the acquisition it will look to reduce emissions by leveraging their own industry leading technology, which prioritises the use of low carbon fuels, consuming higher amounts of recycled materials, purchasing renewable energy and utilising hot-briquetted iron (“HBI”). The company has already hit its 2030 GHG reduction target, which led to management revising its targets in May 2024. The company has also set a long-term target aligned with the Paris Agreement’s 1.5°C scenario, to reduce Scope 1, 2 & 3 emissions to near net zero by 2050. We were encouraged to see that the company plans to apply best practices to help decarbonise the assets from its recent acquisition, and that it has made significant progress in achieving its 2030 GHG reduction targets well in advance. We will continue monitoring their metrics trend going forward and look to engage further with management next year.

Engagement Approach According to Funds, Assets or Geographies

At MCQS, 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.

MCQS is an established asset-backed securities (ABS) manager. During our detailed fundamental analysis of ABS, 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 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. The questionnaire is expected to drive increasing standardisation and accessibility of insight into individual collateral managers’ approaches.

For banks to which we provide Regulatory Capital Relief, we request that they complete a proprietary ESG due diligence questionnaire.

The questionnaire covers:

- ESG policies and processes
- Participation in industry initiatives
- Governance
- Exclusions
- Engagement

- Diversity in recruitment, hiring, training, promotion and retention
- Net zero alignment

In 2024, we engaged with 47 European CLO managers and 17 banks to which we can provide Regulatory Capital Relief by requesting and analysing ELFA ESG due diligence questionnaires, as well as our own proprietary MCQS Climate Questionnaire.

Whilst MCQS is predominantly an alternative credit investor, some portfolios include equity positions. We have representation from across the platform on our Engagement Group to ensure that we maximise the opportunity to use our voting power in line with engagement priorities, where opportunities arise.

Both London and New York based investment professionals are members of the Engagement Group, and represent the range of asset classes we manage.

Investing in sub-investment grade credit markets can raise similar challenges to Emerging Markets. Companies can be in high growth phases, subject to uncertainty or have balance sheet challenges. Engaging with these companies may lead to some of the greatest impacts as sustainable business models can have a material impact on a company’s cost of capital.

Examples of our engagement priorities, and outcomes, are typically focused on those sub-investment grade companies where we have the greatest exposures and expertise.

Engaging with larger investment grade companies requires a different approach. We are less likely to have access to senior management or be able to meet with the companies in person. The next two case studies address how we engage with both investment grade and sub-investment grade companies.



Case Studies – Accessing Engagement Opportunities

We actively seek opportunities to engage with companies to discuss key ESG risks and opportunities. It can help us to better understand disclosures and targets, as well as push for progress in certain areas.

Company 1: We know this company well after many years as both loan/bond investors and subscribers to many of their products and services. As we had assigned the group with an internal ESG rating of “B”, we felt we needed to engage at a senior level.

Issue: We wanted to understand more on existing governance issues and clarify external funding sources and terms. On environmental and social factors, we were keen to understand their position on net zero/climate targets and wanted to obtain an update on any potential cyber security issues.

Action: During our one-on-one meeting with senior management, we were able to discuss and address our concerns around governance and transparency. The company assured us that governance is important and whilst disclosure had not been a priority historically, they plan to improve communication going forward, emphasising that their external funding was never hidden. There is one ultimate owner and a board structure in place with four independent directors out of the 12.

Outcome: The company also highlighted that there are no immediate plans for climate targets, which we will continue to push for. We will continue with open dialogue with the company and monitor the situation for target-setting.

Company 2: We engaged with a leading water supply and irrigation systems company as a targeted engagement due to its position as a high emissions contributor to several funds.

Issue: We sought to better understand the company’s ESG profile, including its strategy for reporting emissions and establishing carbon reduction targets.

Action: We reached out to the company’s CFO to see if they could share any ESG reports or disclosures in addition to those provided with the recent term loan issuance. The company provided us with two new reports disclosing their 2022 Scope 1 & 2 emissions, including a carbon intensity that compared favourably with its peers. They also outlined positive water reuse initiatives.

Outcome: Based on their better-than-expected carbon intensity statistics and positive water use initiatives, we remained comfortable with our BBB ESG rating. We encouraged management to continue sharing their ESG progress with its lender base as new reports become available and look forward to gaining access to their 2024 statistics.



Case Study – Energy Retailer

Since 2020, we have been engaging with a leading British retailer and forecourt operator, focused on several issues aligned to climate change disclosure, targets and its strategy for managing its transition to a lower-carbon future.

Issue: From our most recent engagement, we looked to understand potential revision of their climate targets, particularly considering the disposal of its UK assets, and its landmark deal with an electric vehicle (EV) production company for use of its ultra-fast EV charging unit technology. Further, recognising that the bulk of company emissions sits in Downstream Scope 3 emissions (i.e. the use of sold products), we aimed to understand efforts the company is taking to calculate its value chain footprint and to gauge a timeframe for setting a Scope 3 reduction target. In addition, we also joined a collaborative engagement as part of the CDP Non-Disclosure Campaign, requesting greater transparency and disclosure of their environmental impact, with a view to addressing existing issues around emissions reporting.

Action: The company confirmed that it is working with the Carbon Trust to rebase their carbon reduction roadmap to reflect disposals and acquisitions, and that it is assessing various future climate scenario analysis under different climate policies to establish full Scope 3 carbon emissions. This was publicly confirmed as a progress indicator in the company's latest ESG report, published in 2024. Strategic importance in accelerating electrification was reiterated by management, both in terms of commercial benefits and from the transition away from fossil fuels.

The company did reaffirm its existing Scope 1 & 2 reduction targets, indicating it is still on track to meet their 50% reduction goal by 2030. The company also confirmed commitment towards inaugural completion of the CDP climate questionnaire for 2024. These disclosures signal an evolving approach to strategic ESG priorities, notably within climate change management and the scaling of services to enable the energy transition.

Outcome: Since initiating engagement with the company, where it has since measured group-wide carbon footprint for the first time, we believe that the company has made significant positive progress and continues to move in the right direction. We will continue to pursue engagement with management to focus on the robustness of its climate objectives and monitor for Scope 3 target submission in their 2025 ESG report.

Principle 10:

Signatories, where necessary, participate in *collaborative* engagement to influence issuers.

Collaborative Engagements

MCQS may participate in collaborative engagement where such collaboration relates to a company that is subject to a Targeted Engagement Programme and/or where a MCQS-managed Fund or mandate classified as Article 8 under SFDR is invested in a company.

Further, where applicable and suitable, MCQS will seek to be involved with and support capital markets and/or sponsor developments where related to the improvement of industry processes for responsible investment and sustainability outcomes.

This work allows us to expand the scope of our sustainability-focused activity while helping us build more resilient portfolios. It may help us see tangible outcomes more quickly than through direct engagement alone. Collaborative efforts also allow us to share perspectives with, and to learn from, peers and third parties.

As a signatory to the PRI, we are committed to the six Principles which contribute to developing a more sustainable global financial system. This includes Principle 5, which embodies collaboration across signatories.

PRI Principle 5:

We will work together to enhance our effectiveness in implementing the PRI Principles.

We keep our membership of collaborative engagement initiatives under review to determine whether such memberships remain beneficial to the Funds and/or mandates under our management and/or advice.



CDP is an initiative covering \$142 trillion in assets under management and includes over 700 investors globally who request companies to disclose on climate change, water stress and deforestation.

This provides access for MCQS to the reporting of over 24,800 companies globally which feeds into our integrated process of ESG assessment and also allows us to access CDP collaborative engagement initiatives, where relevant.

In 2024, we participated in our fifth CDP Non-Disclosure Campaign. This was a collaboration of 251 global financial institutions holding \$21 trillion in assets and sought to encourage environmental disclosures.

During the 2024 Non-Disclosure Campaign, a total of 1,998¹ companies that had never disclosed through CDP before were called on to disclose. This marked a 26% increase in the number of companies targeted in the previous year.

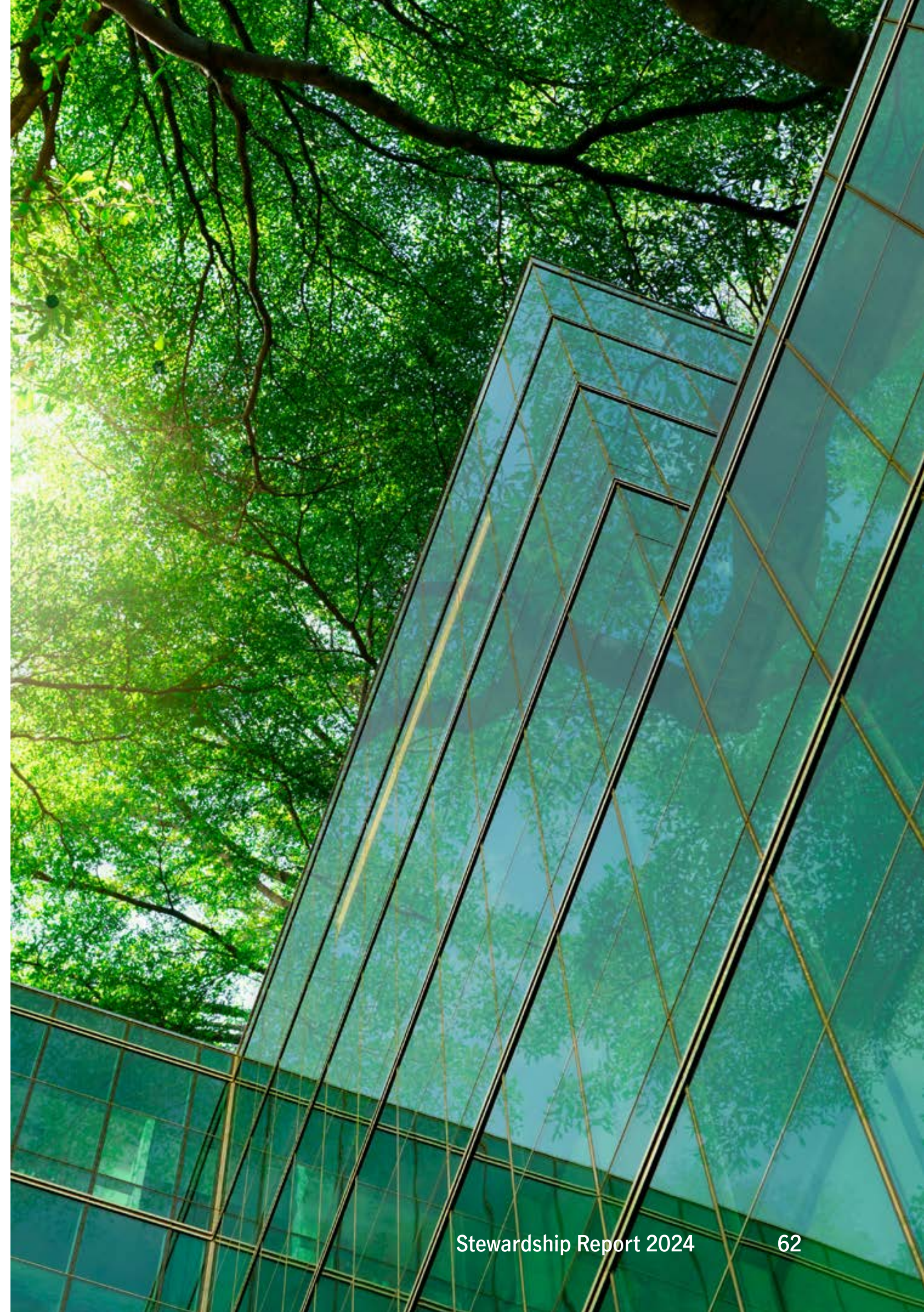
We are typically investors in sub-investment grade credit developed market companies, which CDP covers, and we believe it is appropriate to lend our name when CDP targets such companies.

For this campaign, we prioritised five engagements. The letters encouraged the companies to complete the relevant CDP questionnaire (climate, water or forests impact assessment). Forty percent of the companies engaged with across the initiative provided updated disclosures.

Our long-term aim is to improve disclosure across sub-investment grade credit developed market issuers and complement our own direct engagement activity.

Source: CDP (<https://www.cdp.net/en>)

¹ This includes collaborative engagements through CDP's Non-Disclosure campaign (including engagements we led on).



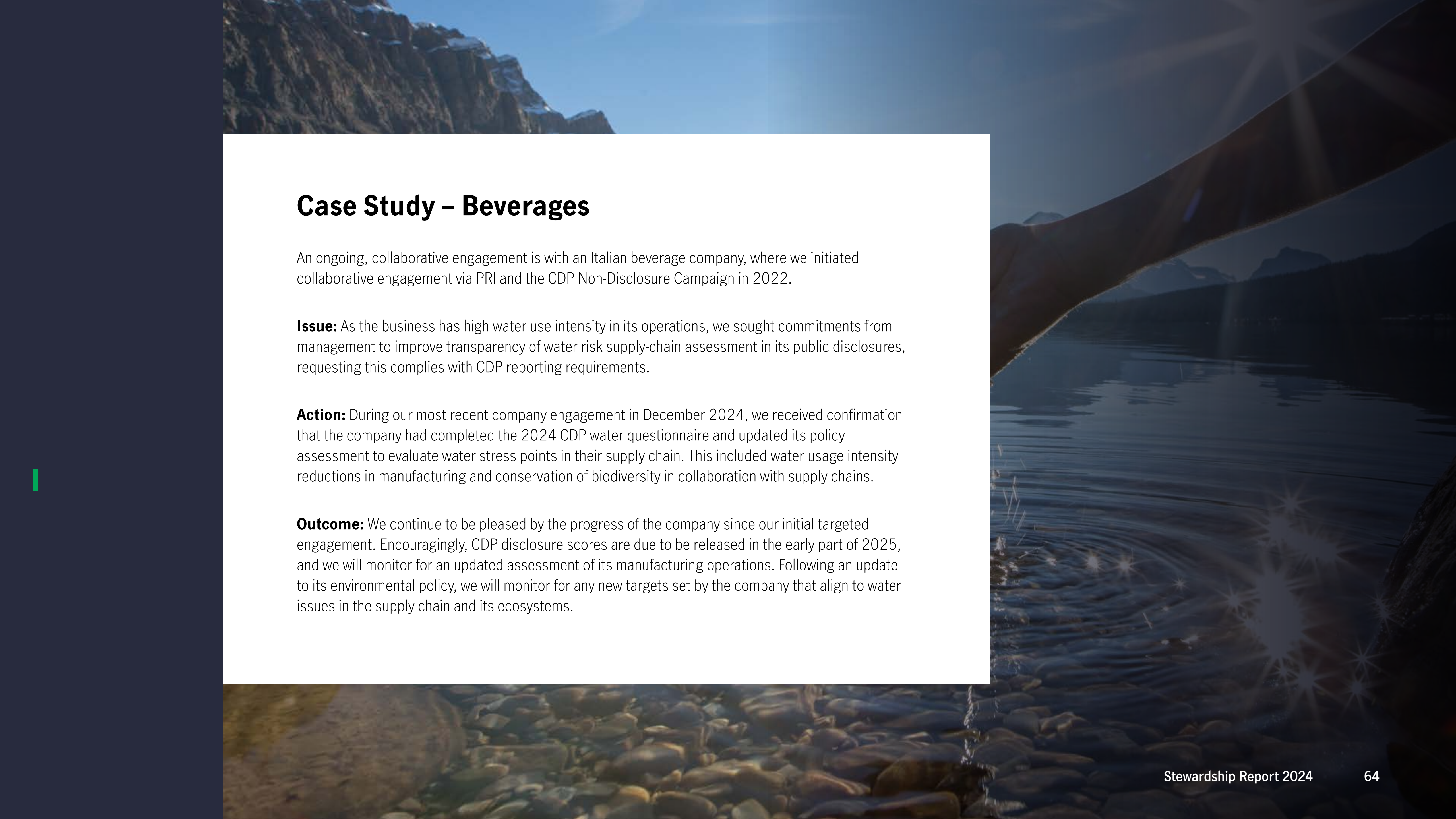
Case Study – Financial Services

Issue: As a result of our previous engagement with the company as part of collaborative efforts, we sought to re-engage in order to obtain a progress update on the company’s actions towards improving their ESG disclosures, specifically setting decarbonisation targets, including its commitment to the CDP questionnaire.

Action: We re-engaged with the company on whether they have committed to completing and submitting to the CDP questionnaire. In addition, the company released a 2023 ESG report where they stated having reduced “year-on-year Scope 1 & 2 emissions from 2022 by 14%”. With that in mind, we wanted to know whether they plan to target net zero and/or introduce decarbonisation targets and, if so, an expected timeline for publishing these commitments.

Outcome: The company confirmed that they have completed and submitted their first CDP questionnaire earlier in 2024, expecting their score and responses to become public in the following year (2025). With regards to decarbonisation targets, the representative expressed that the company endeavours to implement GHG reduction targets as they continue their journey to net zero, but as of the time of the response they have not provided an expected timeline for this. They did, however, emphasise that they will continue to work on improving their ESG efforts on all fronts, including refining their report and disclosures in the coming years.

We were pleased to hear that the company has completed and submitted the CDP questionnaire and look forward to obtaining their score and responses in 2025. Though they have not yet set any GHG reduction targets, we acknowledge the current efforts that the company is making and will monitor for the publishing of any new commitments/disclosures. We will reach out in the following year to review their progress.



Case Study – Beverages

An ongoing, collaborative engagement is with an Italian beverage company, where we initiated collaborative engagement via PRI and the CDP Non-Disclosure Campaign in 2022.

Issue: As the business has high water use intensity in its operations, we sought commitments from management to improve transparency of water risk supply-chain assessment in its public disclosures, requesting this complies with CDP reporting requirements.

Action: During our most recent company engagement in December 2024, we received confirmation that the company had completed the 2024 CDP water questionnaire and updated its policy assessment to evaluate water stress points in their supply chain. This included water usage intensity reductions in manufacturing and conservation of biodiversity in collaboration with supply chains.

Outcome: We continue to be pleased by the progress of the company since our initial targeted engagement. Encouragingly, CDP disclosure scores are due to be released in the early part of 2025, and we will monitor for an updated assessment of its manufacturing operations. Following an update to its environmental policy, we will monitor for any new targets set by the company that align to water issues in the supply chain and its ecosystems.

Principle 11:

Signatories, where necessary, *escalate* stewardship activities to influence issuers.

Our Approach to Escalation

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. We have described in detail our approach to developing engagement targets and companies (see Principle 9). This is an ongoing process with an increasing focus on companies where we see the highest risk. For example, the highest emitting companies or those with RepRisk controversies within our managed Funds to better understand their approach and strategy, and encourage the setting of targets.

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.

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.

As debtholders, it is 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.

The MCQS Engagement Policy formally outlines our approach to escalation of stewardship activities. As a principle, we believe in engagement to understand a company's approach or actions, rather than beginning on an exclusionary basis. However, 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.

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

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

Collaboration

As outlined in Principle 10, we may participate in collaborative engagement where we believe it applicable and suitable to meet commitments.

Targeted Engagement Programme

We noticed during our climate analysis and through the MCQS Climate Targeted Engagement Programme outlined in Principle 9 that we saw fewer carbon emission disclosures publicly available and fewer decarbonisation targets announced by private equity sponsored companies, compared with publicly listed companies. There were also similar commonalities regarding people and governance.

We decided to escalate our engagement efforts by focusing on a group of private equity sponsors, as well as the underlying portfolio companies, by establishing our Private Equity Sponsor Targeted Engagement Programme. We recognised our limitations as debtholders and hope that co-ordinating our efforts across the capital structure will lead to better outcomes for our Clients.

Litigation

The use of litigation is a measure available in extremis to drive change in relation to the practices of a company but represents a severe escalation. We predominantly invest in developed market geographies and litigation can be more effective in these geographies where investors have well defined rights.

Further, as part of our ongoing oversight of companies, MCQS will monitor closely for controversies and/or failings relating to governance and social responsibility.

A combination of Research Analyst expertise and monitoring, alongside the use of external provider RepRisk for big data news observation, allows us to monitor for controversy breaches. For example, MCQS would expect to escalate any identified breach of the Ten Principles of the United Nations Global Compact.

In summary, where stewardship matters requiring escalation arise and a company (existing or new) fails to meet any commitments given, first and foremost we will continue to engage with the company.

Priority engagements may require a number of actions in order to achieve the outcomes or objectives MCQS is looking to address. If no action or progress is evident after a 12-month period or we deem the controversy risk too high, then decreasing exposure or excluding the company from the relevant Fund's investment universe may have to be considered.

The MCQS Engagement Policy outlines the above-mentioned engagement escalation measures such as collaborative engagement, public engagement, voting, litigation or ultimately divesting.

This provides a clear line of sight for our Clients, but perhaps most importantly, to companies with whom we engage, making them aware of the potential responses should they continually fail to engage in a way that would be expected.



Case Study – Cement Producer

Issue: A US ready-mix aggregates and cement company was identified as a high output emitter of carbon given the high energy use in concrete production. Additionally, because it is a private company, we were looking for information related to the composition of the company’s board in terms of number of board members, number of independent board members and diversity of the board.

Action: As part of our engagement, we contacted the company’s Chief Sustainability Officer in early April 2024 to get more information on a breakdown of the company’s carbon emissions and where the company stands in terms of scope 1, 2 & 3 reporting and setting a strategy for assigning improvement targets. We also sought more information related to governance as it relates to board make-up.

Outcome: Disappointingly, we did not get a response to our enquiry. After multiple attempts, the company’s lack of engagement with its lenders has led us to exit the position in the company’s bonds.

Principle 12:

Signatories actively exercise their *rights and responsibilities*.

Voting Policies and Use of Proxy Voting Advisors

MCQS discloses its proxy voting policy under part 12 of our Stewardship Policy.

Recognising the discretion afforded to us under the relevant investment management agreements, we will generally make any proxy voting decision or determine broader proxy voting policies on behalf of the relevant Fund.

In respect of any directly managed accounts, third-party sub-managed mandates, funds-of-one or similar, MCQS 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 MCQS' 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, MCQS may consult with and take on-board the views of Clients in order to evaluate and consider an appropriate approach.

[Click here to read our Stewardship Policy.](#)

Approach to Proxy Voting

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.

MCQS will vote the number of shares held at the relevant custodian or, if relevant, prime broker.

Stock Lending and Voting

Where a portion of our position has been lent by the prime broker to other market participants, we will vote the remaining shares. The operations team will facilitate in any instance where a Portfolio Manager deems it of greater benefit to Clients to recall lent shares in order to vote.

In April 2023, we set up a process to automatically vote in line with management which can be overridden should our Portfolio Managers wish to vote differently.

The feature allows Portfolio Managers to identify where they wish to vote contrary to management and has helped to increase our percentage of eligible votes voted.

During the Reporting Period, MCQS Funds voted against management on approximately 2.2% of resolutions.

Whilst this number is relatively low, it reflects the importance we place on incorporating good governance into our responsible investment process and that we often have a positive view of management and their 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

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

Source: MCQS as at 31 December 2024.

Equity Positions

A record of MCQS’ equity voting activity can be found [here](#). However, it should be noted that equity investing does not form a material part of MCQS’ overall investment strategies.

As of 31 December 2024, MCQS had net positive equity exposure (c. 2.7% of Firm assets under management).

MCQS strives to vote in almost all instances where a long position is held with the prime broker or custodian. For our long-only Funds this would typically be our full position.

We do not have any voting rights for our ABS Funds, so we do not take part in any voting concerning these Funds.

In 2024, we were eligible to vote 1,668 times; we voted in 93.8% of votes.

The following is an example of where a Portfolio Manager voted against management in shareholder votes:

We voted against the takeover merger of a company we held in a portfolio, due to concerns with the offer terms. We had multiple calls and a meeting with C-suite level management, explaining our perspective, which was clearly also the view of other shareholders and Glass Lewis who suggested voting against the takeover. This subsequently resulted in management submitting a revised takeover all-share offer, which we considered to be a better deal for our shareholders, as they will now own a larger proportion of the company, which we believe the term structure improves the management of the new combined entity.

Source: MCQS.

Fixed Income Positions

MCQS uses a variety of methodologies to review relevant transaction documents relating to potential investment in bonds and loans.

Our experienced in-house Research team has access to a comprehensive range of research resources including a market-leading loan and bond covenant review service. This is used to better understand the risk (and potentially avoid) instruments with problematic terms.

As part of the primary market process, we give feedback on problematic terms (via the broker trading desks or direct to the debt capital markets team). Typically, our ability to influence issuers is proportional to our relative prominence in the deal.

As needs arise, we also play an active role in various forms of bondholder groups in order to agree (or not) the restructuring of debt in distressed situations.

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