Manulife | CQS Investment Management

Climate-related Financial Disclosures

June 2025

Introduction

Our Climate-related Financial Disclosures

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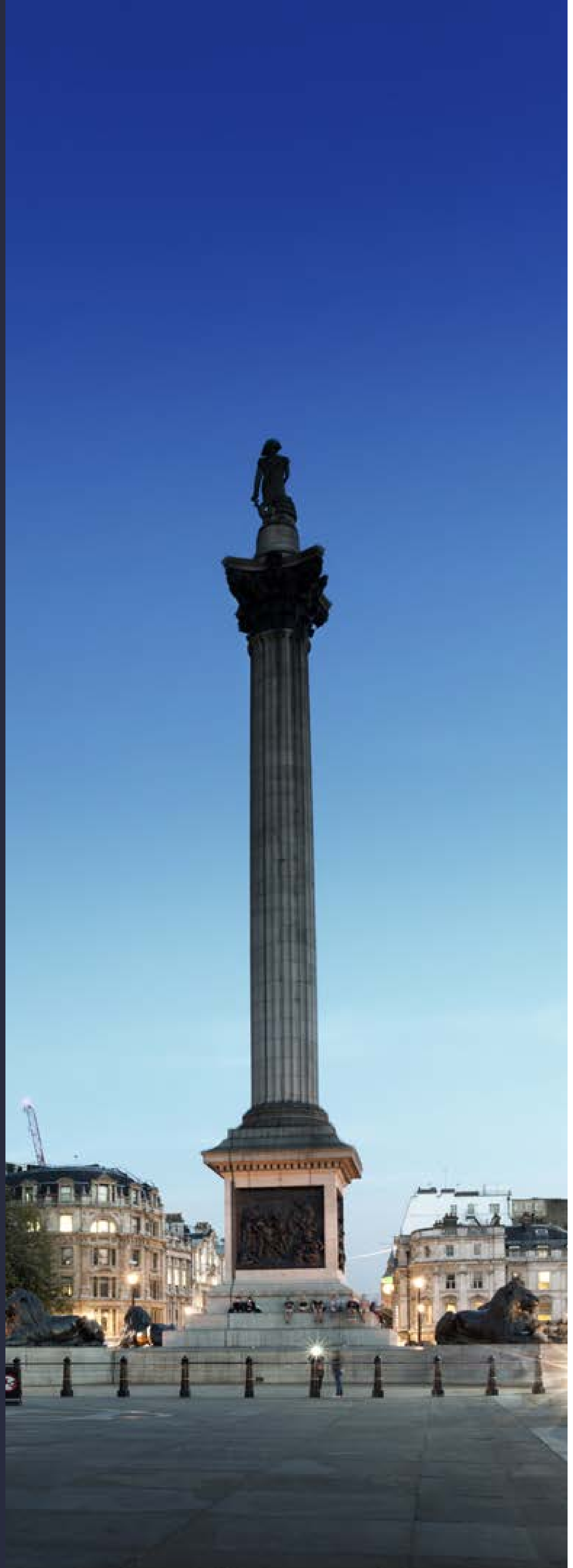

Compliance Statement

We are pleased to present our Task Force on Climate-related Financial Disclosures ("TCFD") entity report (this "Report") which complies with the requirements of Chapter 2 of the Environmental, Social and Governance ("ESG") sourcebook section of the Financial Conduct Authority ("FCA") Handbook.

This Report sets out our approach for managing both climate related risks and opportunities within the four core areas of Governance, Strategy, Risk Management and Metrics and Targets.

The reporting period for this Report is 1 January 2024 - 31 December 2024 (the "Reporting Period").

Paul Massey

Chief Operating Officer

What You'll *Find*

Introduction

About Manulife | CQS Investment Management ("MCQS" or "the Firm")

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 (each "Client", the definition of which shall include, where the context requires, any end investor). The Firm's core capabilities span corporate credit (loans and bonds), asset backed securities ("ABS"), regulatory capital, senior loans, 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.

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 and managing climate risk factors 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 investment view is that being selective (i.e., lending to the right businesses and not buying the market) should enable us to achieve strong risk-adjusted returns through income, capital gains and managing loss risks.

TCFD Compliance Summary

The TCFD recommendations are structured around four key areas: governance, strategy, risk management and metrics and targets. We consider these areas to be interconnected and are supported by disclosures that help our stakeholders understand how we consider climate-related risks and opportunities.

Organisational Support

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

Within our own direct engagement priorities, we are focused on the improvement of climate-related disclosures and the setting of decarbonisation targets.

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 their application.

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

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

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

As a public supporter of the TCFD, we commit to working toward implementing the TCFD recommendations and encouraging portfolio companies to do the same.

Signatory of:

PRI Principles for Responsible Investment

UK Stewardship Code

TCFD Task Force on Climate-related Financial Disclosures

CDP Disclosure Insight Action

A proud participant of Climate Action 100+ Global Investors Driving Business Transition

IIGCC The Institutional Investors Group on Climate Change

The logos above are registered trademarks of the respective organisations/firms represented. For more information on our involvement with these organisations, please refer to the end of this document. 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.

Net Zero Commitment

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.

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.

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.

Throughout this disclosure, references are made to Physical Risks, Transition Risks and Transition Opportunities.

Physical Risks

Climate change means that the world will experience more frequent or severe weather events. These risks impact our society directly and have the potential to affect the economy and the cashflows of our portfolio companies. Examples include heatwaves, droughts, flooding and storms.

Transition Risks

Moving towards a less polluting and 'greener' economy means that some sectors of the economy face big shifts in asset values or higher costs of doing business. Transition risks focus on regulatory and policy responses to climate change. The risk is rooted in the speed of transition to a 'greener' economy and how this affects certain sectors, and issuers and therefore their financial stability.

An example is fossil fuel intensive assets that can become 'stranded' due to changes in policy, regulation or demand, with direct consequences to companies with a business model that fails to adapt.

Transition Opportunities

Policy and regulations will shape certain sectors. Efforts by companies and industries to adapt to a low-carbon economy and mitigate climate change in this new environment may create investment opportunities for asset managers.

The FCA and the TCFD call for companies to standardise disclosure and outline the climate risks and opportunities companies may face, looking at both physical and transition categories.

Our Climate-related Financial Disclosure

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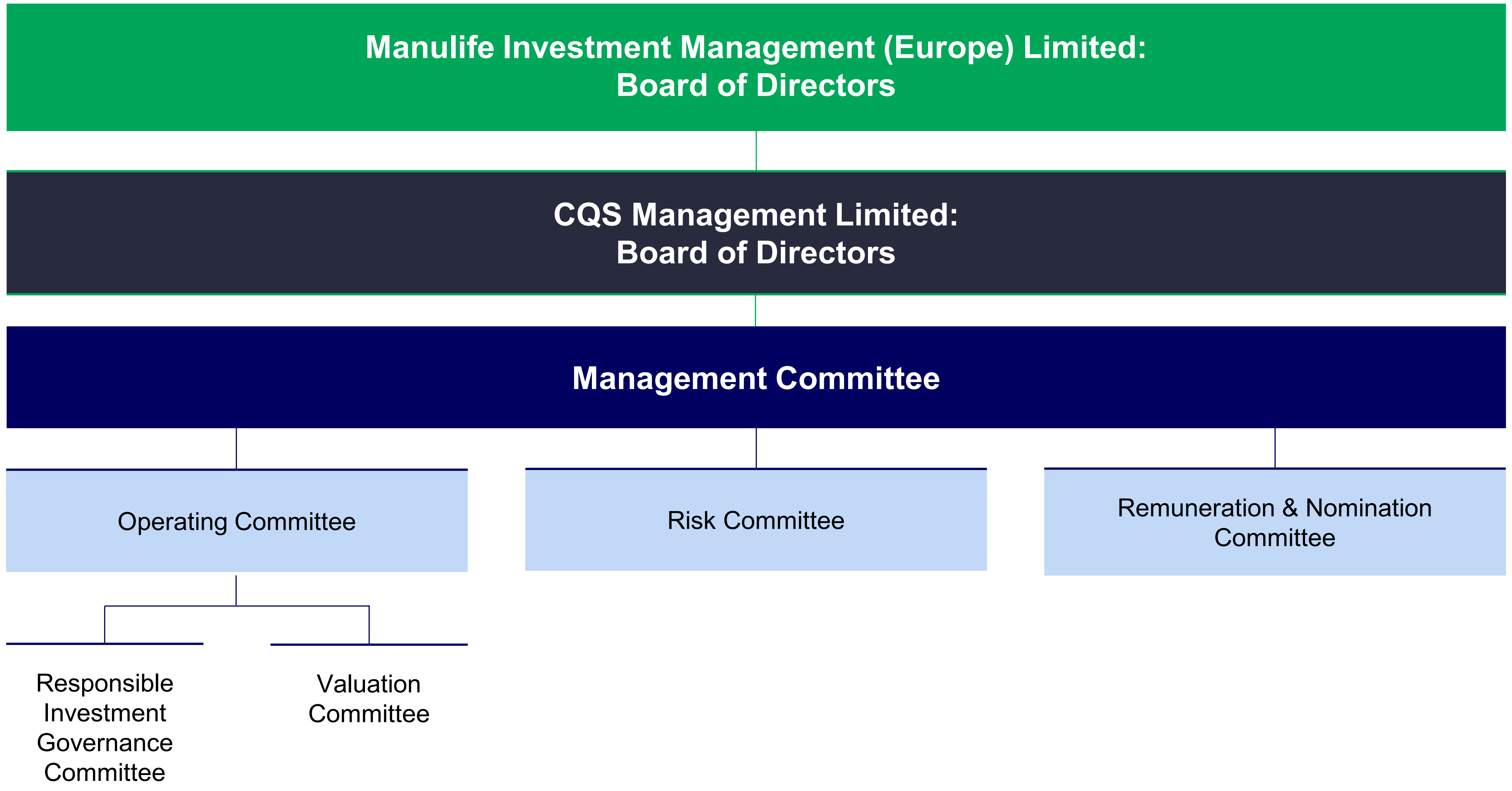
Governance

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



Board Oversight

The Management Committee is responsible for assisting our 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 Responsible Investment Governance Committee ("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
- Engagement
- Shareholder Rights and Stewardship

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
- 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.

Accountability

Front office staff are incentivised by reference to 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.

Strategy

Timeframes for Climate-related Risks and Opportunities

Our overall approach to climate change is to be clear and transparent, while adapting our focus in response to challenges.

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.

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

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.

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.

The different types of climate-related risks are:

Transition Risk	Legal, Regulatory and Policy	Carbon pricing, coal phase-out, 100% clean power, zero emission vehicles, low-carbon buildings, clean industry, low-emissions agriculture and forestry. Policy will define the landscape of the changing economy and will place restrictions on certain industries and sectors.
	Technology	There will be an increase in renewables for energy and the rise in new technologies as climate solutions. While disruptive technology shifts can create risk, they may also be a source of opportunity. The market will see reduced demand for carbon intensive products and an increase in demand for energy efficient products.
	Market	There will be continuous change in consumer behaviour, prompted by policy and cultural shifts.
	Reputation	There will be significant market stigmatisation associated with high carbon emitters.
Physical Risk	Acute	Acute physical risks are event driven shocks. An increased severity of extreme weather events shock markets. e.g. flooding, hurricanes, typhoons, wildfires.
	Chronic	Chronic physical risks are long term shifts in climate patterns, defined by long-term exposure to physical manifestations of climate change. Chronic risks are significant, as they systematically impact sector wide production and market dynamics. e.g. heat stress, water stress, sea-level rise.

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 in order to continue to meet the risk, return and outcome objectives set by our clients.

The table below outlines our view of risk and opportunity over different timeframes.

Timeframe	Definition	Mitigation and Opportunity
Short-Term	1-3 years Legal, regulatory and policy risks	The short-term timeframe is more significantly defined by transition risks. Regulatory changes and legislation begin to affect a company's ability to operate or manage practices in certain sectors or geographies. As companies begin to realise this, there will be greater focus on adapting their business models. Companies which are early transition adopters and/ or leading in technological development may be sources of opportunity.
Medium-Term	3-5 years Legal, regulatory and policy risks; and market transformation risk	The medium-term timeframe, from a credit investor's perspective, is largely also affected by transition risks, but acute physical risks will also become increasingly relevant as we progress through this decade and beyond. We anticipate that regulatory changes and legislation will gain momentum and impact companies' licenses to operate in certain sectors or geographies. Market-led changes will likely create obsolescence of certain products and services leading to risk of stranded assets, but also encourage emergence of further opportunities.
Longer-Term	5+ years Legal, regulatory and policy risks; market transformation risks and extreme weather events	The long-term timeframe is most significantly affected by physical risks if climate change is not curbed. It becomes increasingly important as we look ahead, towards 2030 and beyond, when considering asset allocation. In addition to the above, we recognise there is likely to be obsolescence and stranded assets across a range of assets, sectors and geographies due to regulatory changes, market transformation or extreme weather events. Extreme weather events may impact defined geographical locations. Whole regions and supply chain disruptions may affect a large number of sectors. Impact to infrastructure may create second order effects ranging from business discontinuity costs, refurbishments and rebuilding costs to obsolescence and destruction. There may be global migration consequences, as well as implications to food production and supply chains. The changing geographical footprint, consumer behaviours and requirements will generate opportunity for impact mitigation and global resilience.

Our sector-focused Research Analysts consider the materiality of climate-related risks that are pertinent to the particular sector and industry. For example, legal, regulatory and policy risks may differ for an oil and gas company compared to a technology company. Physical risks may have more of an impact on a property insurer's business than a retail bank's business.

Impact of Climate-related Risk and Opportunities

We have dual considerations for both our impact from business-level activity and on portfolio strategies:

- The impact that climate change may have on our portfolio investments
- The impact that our own business operations have on the environment

These considerations help us to balance business decisions with responsible investing activity, while closely managing climate-related risks.

As an asset manager, we seek to reduce the environmental impact of our own operations and promote sustainable practices amongst our staff. This includes measuring the direct impact of our own offices to reducing our value chain emissions and assigning formal ESG training programmes for our front office staff.

We are a signatory to CDP and the IIGCC, as well as a public supporter of TCFD. In addition, we are a signatory and participant in collaborative engagements with Climate Action 100+. 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.

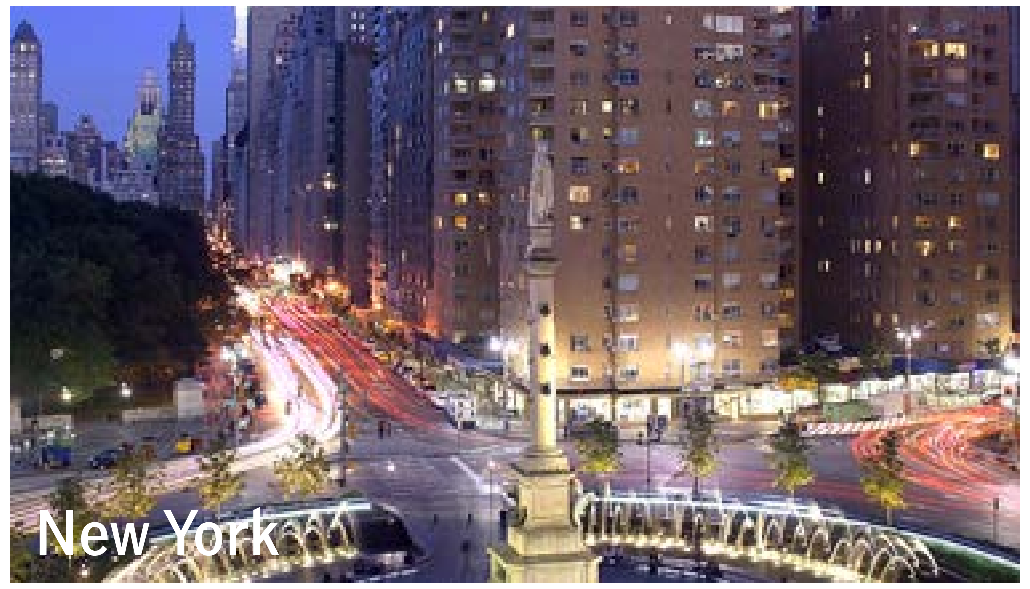
As at the time of writing, MCQS has offices in London and New York.

For our London office premises, in Q1 2025 we completed phase 3 of the ESOS (Energy Savings Opportunity Scheme) Action Plan, which is a strategic document outlining how organisations will improve energy efficiency and reduce carbon emissions, based on their ESOS audit findings. These reports review our energy efficiency and advise on ways to reduce our energy consumption. Our latest review confirmed we are within scope and compliant with the scheme. We will proceed with phase 4 in 2026.

In addition, the building management for our London office implemented additional separation of recyclable waste last year and we now have separate bins for dry mixed recyclables, glass, paper / card, food and general waste. We receive monthly waste reports from the building management team. The building also recycles clean water to the water closet systems to reduce water wastage.

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


London


New York

Portfolio Management

As an alternative credit manager, our focus is on the ability of the companies to whom we lend to repay the principal on their debt. We consider the impact of changes in demand and costs and how they may affect the repricing of debt, and how it may affect probability of default or loss given default.

Our Responsible Investment Policy takes the impact of climate change, along with other ESG factors, into account. We consider how any given issuer is appropriately managing related aspects such as their carbon footprint, or within their value chain. 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 (e.g. the probability of default, loss given default and cost of capital).

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 portfolios (where sufficient reporting is available).

Portfolio Managers are able to take into account the likely impact of an individual investment on a Fund's WACI, and position portfolios to assess both physical and transition risk as part of their qualitative assessment and analysis.

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. We continued to maintain this high level of coverage throughout 2024.

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

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.

Engagement

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 approach to engagement 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 Programme, and feeding back to Portfolio Managers, is the responsibility of the Research team, led by the Head of Research.

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

Across our platform we typically have exposure to around 1,600 corporates. In 2024, we had:

2,102

Engagements with companies targeting numerous topics[1]

109

Direct engagements that we led

94

Companies subject to direct engagement

Our teams 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%	42%	60%
Environmental	Social	Governance

of our engagements covered each of these factors.

1 This includes collaborative engagements through CDP's Non-Disclosure campaign (1,993 engagements, excluding ones we led on).

Engagement with Portfolio Companies

As predominantly credit investors, the most relevant measure of active ownership is our engagement activity. With increasing geopolitical complexity, regulatory shifts, and climate-related risk, effective stewardship and engagement are essential.

Our investment team actively engages with company management and where relevant their boards. This doesn't mean each engagement leads to an outcome, but it's about improvement over time. Our goal through engagement is to engender meaningful change in corporate behaviour over the long term while incentivising the right corporate behaviours. We achieve this through consistent dialogue with issuers, as part of our commitment to being good stewards of capital. As a principle, we believe in engagement to understand a company's actions, rather than beginning on an exclusionary basis or divestment, which makes it much harder to influence change.

We view effective engagement is best illustrated by meeting client commitments, through ongoing data capture, and tracking progress. For example, by meeting our Engagement Threshold Target for 70% of financed emissions to be either net zero, net zero aligned or subject to direct or collective engagement and stewardship actions by 2025.

In addition to continued efforts to engage for improvements in data disclosure, we identify four themes to frame our future engagement activity, as shown in Figure 1.

Figure 1: Engagement Themes

Climate Change Mitigation

- Transition to net zero
- Decarbonisation pathway
- Adaptation to climate risk

Natural Capital

- Circular economy principles
- Biodiversity restoration
- Water and land management

Technology for Good

- Digital equality and inclusion
- Data management
- Connectivity and security

Human Capital

- Health and wellbeing
- People, supply chain rights and modern slavery
- Education, safety and career development

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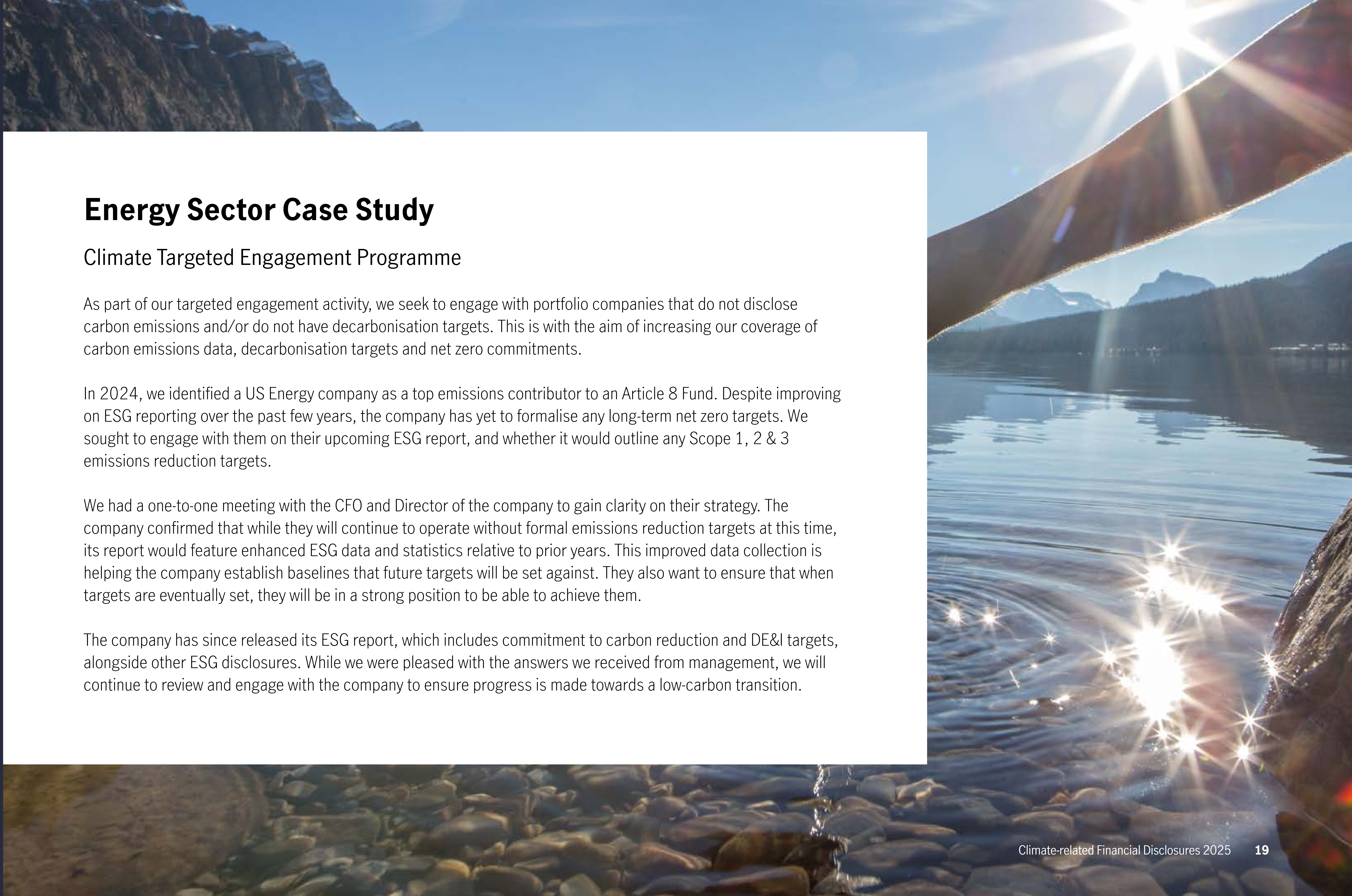


Energy Sector Case Study

Climate Targeted Engagement Programme

As part of our targeted engagement activity, 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.

In 2024, we identified a US Energy company as a top emissions contributor to an Article 8 Fund. Despite improving on ESG reporting over the past few years, the company has yet to formalise any long-term net zero targets. We sought to engage with them on their upcoming ESG report, and whether it would outline any Scope 1, 2 & 3 emissions reduction targets.

We had a one-to-one meeting with the CFO and Director of the company to gain clarity on their strategy. 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.

The company has since released its ESG report, which includes commitment to carbon reduction and DE&I targets, alongside other ESG disclosures. While we were pleased with the answers we received from management, we will continue to review and engage with the company to ensure progress is made towards a low-carbon transition.

Taking Action On Climate

In addition to bilateral engagement, MCQS participates, where applicable and relevant, in collaborative engagements aligned with our net zero strategy. Since 2020 we have been active supporters of CDP's Non-Disclosure Campaign ("NDC"), and believe that better environmental reporting - including carbon emissions - is critical to achieving global climate targets.

In 2024, we participated in our fifth NDC. This was a collaboration of over 250 global financial institutions holding $21 trillion in assets, and sought to encourage greater corporate environmental disclosures and boost data transparency.

During the 2024 NDC, a record 1,998 companies were targeted to enhance disclosure. This marked a 26% increase in the number of companies targeted in the previous year. Most of the companies targeted in the campaign have been targeted over multiple years. Crucially, the results show that transparency drives action at all levels, with tangible progress on carbon emission reduction seen within two years of a successful investor request[1].

For this campaign, we led on five engagements, of which four were focused on climate change. In a bid to foster in-depth dialogue, the letters encouraged the companies to complete the relevant CDP questionnaire (climate, water or forests impact assessment). We will continue contributing to this campaign in 2025, committing to lead on six engagements covering corporate bonds and loans.

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. 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 as at February 2025.
1 Within two years of a successful investor request, companies disclosing through CDP reduce their direct emissions by 7-10%.

Strategy Resilience and Scenario Analysis

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. To understand the resilience of our strategies, with different temperature scenarios, we have used third-party data to support our own analysis.

What are the scenarios?

To understand how physical and transition risks could affect different sectors in the future, we use climate change analysis scenarios prepared by MSCI. This covers scenarios in three categories: 'orderly', 'disorderly', and 'hot house world'. Each outlines a different possible climate pathway and its likely outcome by 2100.

Orderly Transition (1.5 degrees):

Scenarios assume climate policies are introduced earlier and gradually become stricter. In this scenario, worldwide GHG emissions will reach net zero by 2050, and there is a higher likelihood that global warming is likely to be less than 2°C higher than pre-industrial levels. There are two key transition objectives: to significantly reduce the GHG emissions from the global energy sector (known as decarbonisation) by shifting from burning fossil fuels to using renewable energy, and to electrify energy usage in high carbon-emitting sectors.

Disorderly Transition (2 degrees):

Scenarios assume climate policies are delayed until after 2030. Because the shift from fossil fuels to renewables remains slow and climate policies are implemented later, with emissions continuing to rise in the meantime, the transition would need to happen from a higher emissions level over a shorter period of time to limit global warming below 2°C. A sharper transition would be less coordinated, more complex and more costly. Physical risks would also be higher than in an Orderly Transition.

Hot House World (3 degrees):

Scenarios assume that current policies stay the same. Paris Agreement commitments are not met, and emissions and temperatures continue to rise. This causes severe physical risks, as well as social and economic disruptions. In these scenarios, the temperature will rise by over 3°C by 2100.

Climate Risk Modelling

As credit investors, we use various tools to manage physical and transition risk, assessing climate scenarios and using our influence to encourage the companies we invest in to reduce their GHG emissions and align their strategies to a changing climate. We adopt a variety of metrics to manage climate alignment, including carbon footprinting and emissions reduction targets, and scenario analysis through climate Value-at-Risk ("cVaR") and Implied Temperature Rise ("ITR").

This helps us better understand:

- Financial exposures to climate-related risks
- Challenges to business models from these risks
- Implications for the value chain
- Potential timeframes for industry transition

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

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

MSCI continues to improve its datasets and methodology for calculating cVaR, enhancing our ability to conduct climate-scenario analysis and assess climate transition risks. We view this as a useful addition to our bottom-up analysis of company-specific risk.

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

Climate Value-at-Risk

cVaR is a forward-looking and return based valuation assessment that allows users to measure climate-related risks and opportunities on a portfolio. It indicates how much the physical and transition risks of climate change could impact the future returns of a portfolio. By calculating the financial risks from climate change per company and per scenario this provides portfolio managers and research analysts with the tools to identify possible risks to market valuations and take necessary action.

The table below shows the cVaR metrics for the Article 8 funds:

Fund	Orderly Transition (1.5 Degrees)	Disorderly Transition (2 degrees)	Hot House World (3 Degrees)	Coverage
CQS Credit Multi Asset Fund	(1.49%)	(0.81%)	(0.85%)	15.39%
CQS Dynamic Credit Multi Asset Fund	(0.99%)	(0.44%)	(0.34%)	42.80%
CQS Global Convertible Fund	(0.32%)	(0.24%)	(0.23%)	82.61%
Salar Fund	(0.26%)	(0.11%)	(0.06%)	58.76%

Source: MCQS as at 31 December 2024.

As shown on the previous page, the assets within the portfolios exhibit a number of features that mitigate the impact observed within some of the climate metrics, leading to the results showing minimal impact.

These include:

Short duration:
The assets typically mature within five years and consequently are not exposed to climate effects beyond this.

Position in the capital structure:
Being debt positions the portfolio assets are senior to the equity piece which absorbs any initial losses and must be fully depleted before realised losses are experienced.

Effects to mitigate impact of climate action

In addition, there are some further effects within the portfolios that could further mitigate the impact of climate action which have been omitted from the modelling:

Pull-to-par:
This effect mitigates any mark-to-market losses on the positions as they reach maturity and pay back the principle. In a hold to maturity portfolio only defaults caused by climate impact should register as a loss. Since the portfolios are generally traded this feature is not modelled.

Coupon income:
Performing debt pays a regular coupon. This positive profit would offset additional losses over time.

Climate transition scenarios integrate both the impact of climate change as well as the cost of implementing business change to limit temperature rises to a given level. Consequently, we observe situations where the cost of transition is greater than the impact from physical change, which leads to total losses from more severe temperature rises being less than those from more moderate scenarios.

Note: For the modelling shown, assets are modelled to maturity with no assumptions as to how capital rolling off will be reinvested.

Risk Management

Identifying, Assessing and Managing Climate-related Risks

Our processes for identifying climate risks are supported by our policies and engagement practices.

As part of our responsible investment integration process, we look to identify and assess climate risks in our investment portfolios through public disclosure and third-party sources, as well as through our own research, company engagement, and collaborative initiatives (where appropriate and relevant). We believe that a fundamental bottom-up assessment of the issuers to which our funds and mandates 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. This includes climate-related risks.

Climate risks are integrated into our overall approach to risk management, with overlapping lines of defense. We believe this approach helps ensure that we understand the extent of these risks in our portfolios and for the Clients' assets we manage.

Our investment staff are the first line of defence and typically have an analytical component to their role, be it as specialist Research Analysts or Portfolio Managers. The investment teams 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 environmental, economic and market themes is actively encouraged.

In the second line of defence, we have an independent Risk function who are responsible for, among other things, ensuring portfolio limit compliance, calculating and providing a wide range of metrics and management information for key internal and external stakeholders. We have integrated "best in class" third-party systems into our risk and trading platforms and have built proprietary tools capable of handling the broad range of asset classes we trade and the comprehensive limit frameworks we have in place.

Climate Risk Identification

As an asset manager, we use a range of information to identify exposure to climate risk across the portfolios we manage. Applying different methods to assess physical and transition risk helps inform our analysis of business risk and the potential direct and indirect impact over varying time horizons.

Metrics such as significant contributors to climate change and ESG laggards are discussed alongside more traditional risk measures to ensure that the portfolios are positioned in line with the funds or mandates' objectives and risk appetites.

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

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

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.

This allows Portfolio Managers to understand each investment and therefore consider its rationale for inclusion within the portfolio.

Engagement Framework

We engage with companies to encourage best practices in climate-related disclosure. We use our position as an established credit provider to engage and seek to influence long-term change in the way companies operate or behave. Engagement is a tool to both assess the climate-related risks of businesses to whom we lend, and to constantly review and manage our view of bottom-up climate-related risks.

We may seek to engage with companies in a number of ways:

1. During an investment analysis (especially at new issue stage) in order to enhance our understanding of a corporate issuer's approach
2. During the holding period of an investment where material ESG issues are raised
3. Through our Targeted Engagement Programmes

As one of our three key overarching engagement priorities, we consider 'climate risk management and disclosure'. Under this priority, the emphasis of our engagement remains ensuring companies have a climate strategy and GHG reduction targets aligned to the Paris Agreement, to limit climate change below 2°C with the pursuit of efforts to limit the increase to 1.5°C.

In conjunction with the MCQS Climate Targeted Engagement Programme, we will pursue net zero emissions commitments and improved climate data disclosure, by evaluating the credibility of transition plans and increasing the number of formal commitments from companies to the SBTi for validation and approval. As an extension, we recognise the increasing importance of natural capital, circular economy and biodiversity as evolving themes, seeing high impacts and dependencies across communities and supply chains. We look to encourage companies to foster change by reducing any negative environmental impact across the value chain.

Portfolio Managers take direct ownership and accountability for engagement priorities, with fundamental analysis performed by our specialist sector Research Analysts. These are the individuals charged with decision making and whether a company is included within a portfolio. As such they are ultimately accountable for engagement outcomes.

In addition, we monitor the progress of relevant funds against their interim targets, which include a decarbonisation target and an engagement threshold target (for net-zero alignment).

Integrating Climate-related Risks

Our Responsible Investment framework is integrated within our Firm-wide investment process and risk frameworks, and enables the identification, assessment, and management of climate-related and wider ESG risks. We believe this approach helps ensure that we understand the extent of these risks in our clients' portfolios and for the assets we manage.

We view accurate climate-related data and information as critical to understanding how portfolios are positioned. The combination of research and engagement are important tools to achieve this.

All Research Analysts and Portfolio Managers have access to internal systems which store ESG research by company, the internal ESG rating, and the trajectory set by an analyst. The Investment Risk function provides regular reporting to Portfolio Managers detailing the largest GHG contributors by individual name and sector within their portfolios as well as analysis of the WACI.

1. Data Incorporation: Third-party ESG factors, metrics and data into our systems and processes. This includes external industry feeds, for example MSCI ESG Manager (including MSCI CarbonMetrics). We collate proprietary climate data for portfolio companies on net-zero alignment, decarbonisation targets, SBTi temperature alignment and whether climate targets are incorporated into executive remuneration.

2. Integration: Taking external analysis and assigning an internal ESG rating and an ESG Outlook rating on individual companies. ESG ratings and ESG Outlook ratings are factored into the investment rationale presented to Portfolio Managers and guide cash flow (including probability of default and loss given default) expectations.

3. Evaluate: Portfolio Managers are required to consider ESG data, potential ESG outcomes and credit analysis as part of their investment decision making. Where applicable, they will also consider the impact of the investment on portfolio climate metrics and climate commitments of the relevant fund or mandate.

4. Engage: Influence and actively seek improvements from the companies in which we invest. We conduct Targeted Engagement Programmes, day-to-day engagement with management and collaborative engagements with other investors. Climate is one of our key engagement priorities.

5. Monitor: Investment teams undertake ongoing portfolio monitoring and for relevant funds/mandates reporting of ESG factors on investments. This includes periodic research re-assessments and a watching brief across news wires for developing ESG considerations and controversies.

Metrics and Targets

Metrics for Assessing Climate-related Risks and Opportunities

Outlined below are the TCFD aligned metrics for all in-scope funds under the Sustainable Finance Disclosure Regulation, as at 31 December 2024.

These metrics are a core component in understanding how our portfolios are positioned and are made available to Portfolio Managers. Within these metrics, Portfolio Managers are able to identify the underlying and individual contributors of GHG emissions.

	Weighted Average Carbon Intensity [1,2]		Carbon Emissions [1,3]		Footprint [1,4]	
Scope	1&2	3	1&2	3	1&2	3
Entity	119	644	639,750	2,849,850	59	268
Article 8 funds	94	485	391,508	1,700,125	52	231
Article 6 funds	175	1,006	248,242	1,149,724	76	351

Climate-related metrics for segregated mandates and funds-of-one are made available to the relevant investors.

Source: MCQS as at 31 December 2024.

Metrics and Calculation Methodology

Methodology:

1 Carbon metrics are estimated using available disclosures or proxy estimates based on comparative data from MSCI. For proxy estimates, MCQS applies a waterfall approach which requires a minimum of 10 issuers within the proxy estimate group. Carbon metrics do not include hedges for efficient portfolio management purposes.

2 Weighted Average Carbon Intensity is calculated as:

$$\sum_{n}^{i}\left(\frac{\textit{Current value of investment}_i}{\textit{Current value of all investments (\$ millions)}} \times \frac{\textit{Investee company's scope 1 and 2 emissions}_i}{\textit{Investee company's sales (\$ millions)}_i}\right)$$

3 Total Carbon Emissions are calculated as:

$$\sum_{n}^{i}\left(\frac{\textit{Current value of investment}_i}{\textit{investee company enterprise value}_i}\right) \times \textit{investee company's scope 1 and 2 emissions}_i$$

4 Carbon Footprint is calculated as:

$$\frac{\sum_{n}^{i}\left(\frac{\textit{Current value of investment}_i}{\textit{investee company enterprise value}_i} \times \textit{investee company's scope 1 and 2 emissions}_i\right)}{\textit{Current value of all investments (\$ millions)}}$$

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:

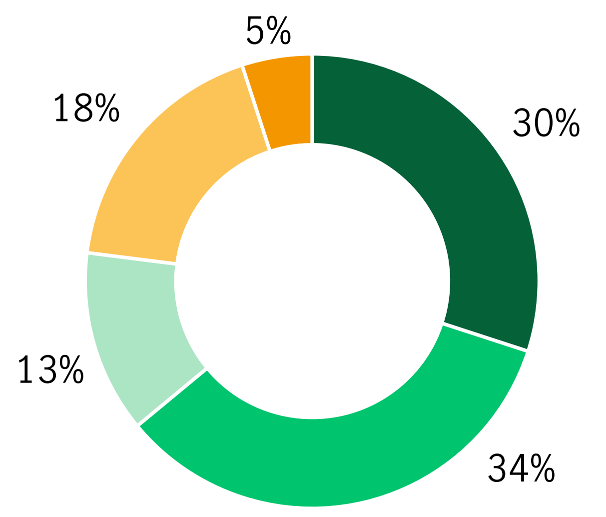
1. Carbon emission disclosure coverage
2. Proportion of companies with decarbonisation targets
3. Proportion of companies targeting net zero

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

As of 31 December 2024, all four Article 8 Funds had met their respective engagement threshold targets:

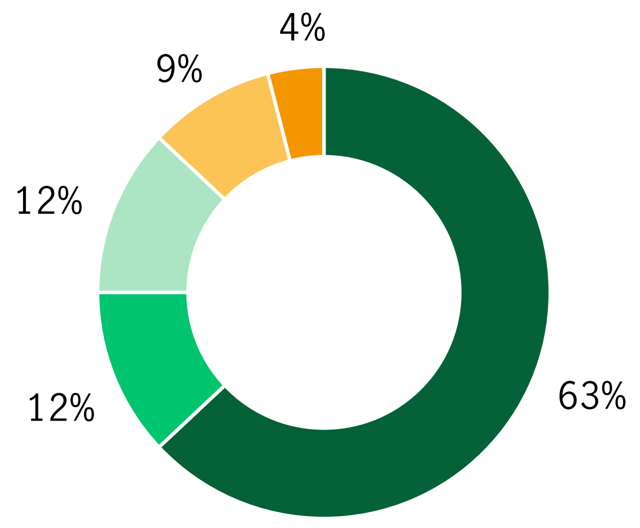
CQS Credit Multi Asset Fund

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



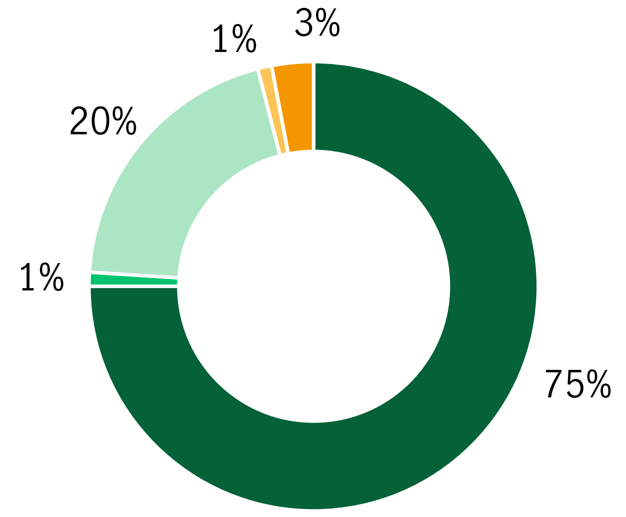
CQS Dynamic Credit Multi Asset Fund

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



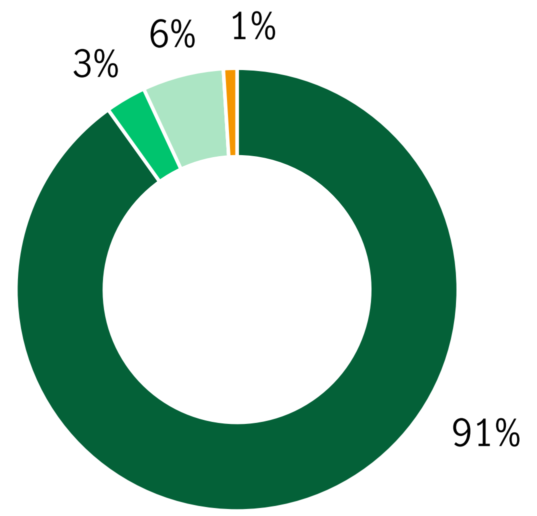
CQS Global Convertible Fund

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



Salar Fund

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



Net zero aligned | Decarbonising - engaging on net zero | Decarbonising | No targets - engaging on net zero | No targets

Source: MCQS as at 31 December 2024.

Scope 1, Scope 2 and Scope 3 GHG Emissions

We seek to reduce the environmental impact of our asset management business operations and promote sustainable practices amongst our staff and in our offices.

Our London office premises utilise a specialist energy company which seeks to purchase power from over 600 renewable generators throughout the UK.

GHG Emissions and Energy Consumption

The following information summarises our global direct environmental performance, which comprises the majority of our operations over the year ending 31 March 2025.

Metric Tons CO_2e	2024/2025
Scope 1	21.56
Scope 2	447.72
Scope 3	897.73
Total	1,366.00

Emissions relating to assets under management are included in the prior section (*Metrics for Assessing Climate-related Risks and Opportunities*).

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

Source: MCQS as at 31 March 2025. Please note that the above data is in accordance with the guidance given in the Environmental Reporting Guidelines and IFRS 2 'Climate-related Disclosures', both of which advocate for aligning the emissions reporting with the accounting period/financial year.

Projects we supported to offset our emissions include:

Clean drinking water projects in Zambia
Less than 50% of the rural Zambian population have access to safe drinking water, with the majority having to rely on unsafe water sources. The project rehabilitates and maintains these vital safe water sources, trains the communities on best hygiene practices, and builds the capacity of local communities to manage and maintain the water sources into the future.

Solar power generation in India
The project involves installation and operation of a combined 56.25 MW of solar power. The project will generate renewable energy, which will feed into the power generated to the state grid in India. Since, the solar power is GHG emissions free, the power generated will displace 95,145 MWh/year of electricity from the generation-mix of power plants connected to the Indian Grid, which is mainly dominated by thermal/ fossil fuel-based power.

Afforestation in Ghana
The project aims to restore 14,000 hectares of degraded forest reserves by 2025. This will help to combat deforestation, improve soil quality, protect resources, and enhance biodiversity in the region. The project is expected to remove a substantial amount of CO_2e over its 30-year lifespan, contributing to climate change mitigation efforts.

Manulife | CQS Investment Management

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