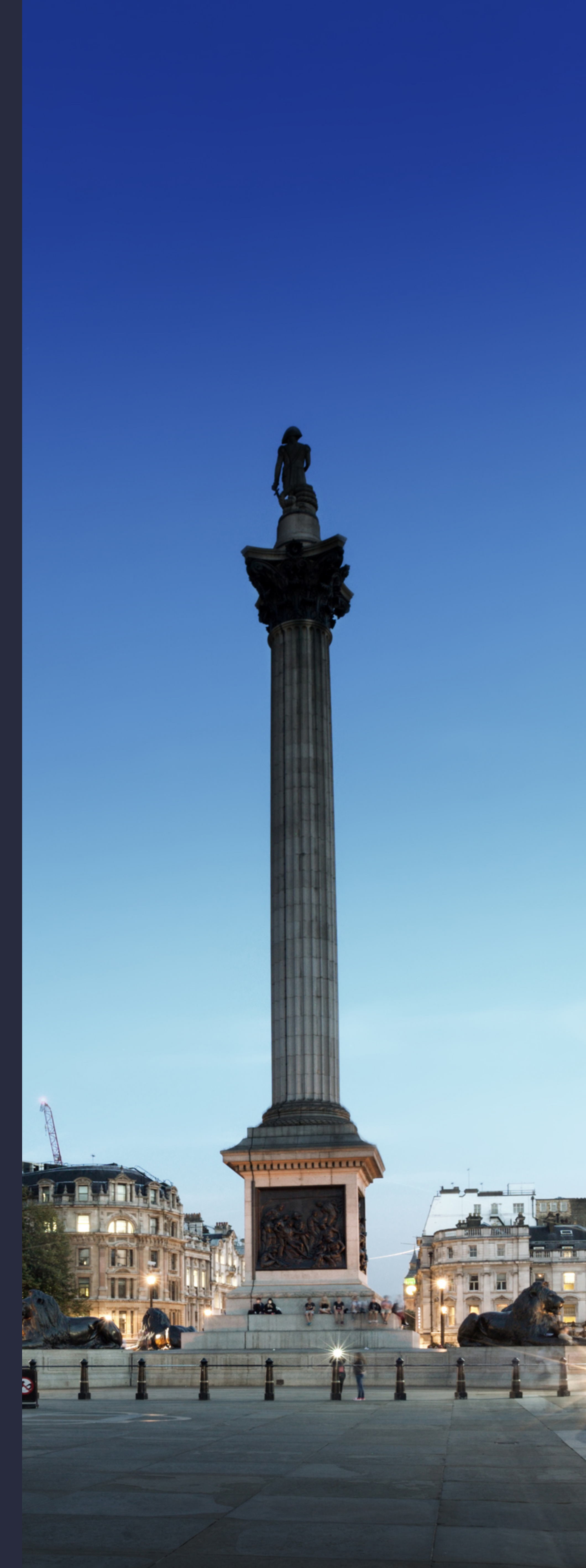
Climate-related Financial Disclosures

June 2024



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 2023 - 31 December 2023 (the "Reporting Period").

Paul Massey

Chief Operating Officer

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Introduction

About Manulife | CQS Investment Management ("Manulife | CQS IM")

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.

Our core capabilities span corporate credit (loans and bonds), asset backed securities ("ABS"), regulatory capital, collateralised loan obligations ("CLOs"), and convertible bonds.

Our ambition is to continue helping investors achieve their goals across market cycles by selecting good quality credits and generating income.

The Manulife | CQS IM 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. From an investment philosophy perspective, we have an active approach to stewardship, including environmental awareness.

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.

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.

Organisational Support

Manulife | CQS IM is a public supporter of the TCFD and has prepared this climate-related financial disclosure to be shared throughout our organisation and with our clients.

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

This is consistent with our role as signatory to, and supporter of, a number of organisations which drive process, action and disclosure in this area.

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 signatory to the Net Zero Asset Managers' initiative, we are committed to achieving net zero greenhouse gas ("GHG") emissions by 2050 or sooner.

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

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

As an investor participant of Climate Action 100+, we engage with companies on the collective goal of halving 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.

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.

Signatory of:

Net Zero Commitment

Manulife | CQS IM is a signatory of the Net Zero Asset Managers' initiative, committing to achieve net zero GHG emissions by 2050 or sooner.

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.

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. 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 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.

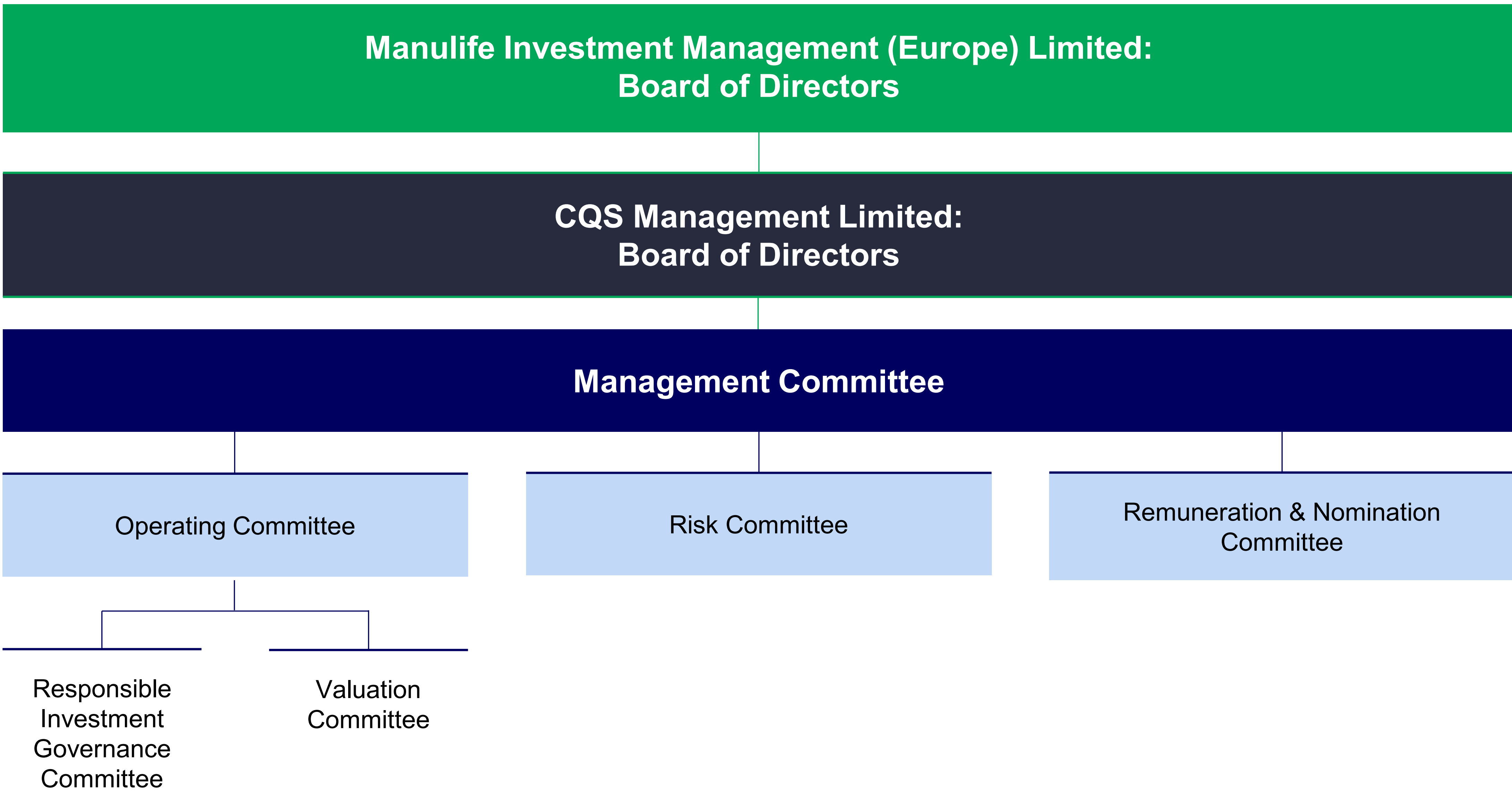
Our climate-related financial disclosure

Governance

In November 2023, Manulife Investment Management signed an agreement to acquire the CQS alternative credit platform; the transaction completed on 2 April 2024. Both organisations share a belief in, and commitment to, a fundamentally driven, bottom-up research process that integrates ESG principles. CQS (UK) LLP is now known as Manulife | CQS IM and is part of the Manulife Investment Management group.[1]

Please see further details here.

Governance Structure



1 Manulife | CQS IM is a trading name of CQS (UK) LLP which is authorised and regulated by the FCA.

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

Board Oversight

We believe that good governance is essential for effective fund management, and this in turn translates into a culture and practices which support effective responsible investment.

Our climate strategy is overseen by the Responsible Investment Governance Committee ("RIGC") which is in turn overseen by the Operating Committee, the primary infrastructure forum for Manulife | CQS IM, with responsibility for managing day-to-day operations. The Operating Committee is appointed and authorised by the Management Committee, the primary executive decision-making body for the Firm. The Management Committee is responsible for assisting Manulife | CQS IM's Chief Executive Officer with formulating the Firm's strategy in a manner that promotes, resources, and rewards responsible investment 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
- 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, including climate-related issues, and supports the implementation of our responsible investment policies.

Members of the RIGC are stakeholders in the integration of responsible investment across the Manulife | CQS IM 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.

Incentivising ESG Integration and Stewardship

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.

Engagement

Engagement is a core part of our approach. We have an engagement framework, which is designed to guide investment professionals, and a three-pronged engagement approach which includes (i) our Targeted Engagement Programme; (ii) ongoing day-to-day engagements; and (iii) our collaborative engagements.

Portfolio Managers are responsible for selecting the specific companies with whom they wish to engage as part of the 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.

Our 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. 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.

The Engagement Group reports to the RIGC and has primary responsibility for undertaking the actions required to meet the engagement threshold interim target for relevant Manulife | CQS IM-managed funds.

We typically have exposure to around 1,600 corporates across the Firm. In 2023, we had:

1,889

Engagements with companies targeting numerous topics[1]

98

Direct engagements that we led

85

Companies subject to direct engagement

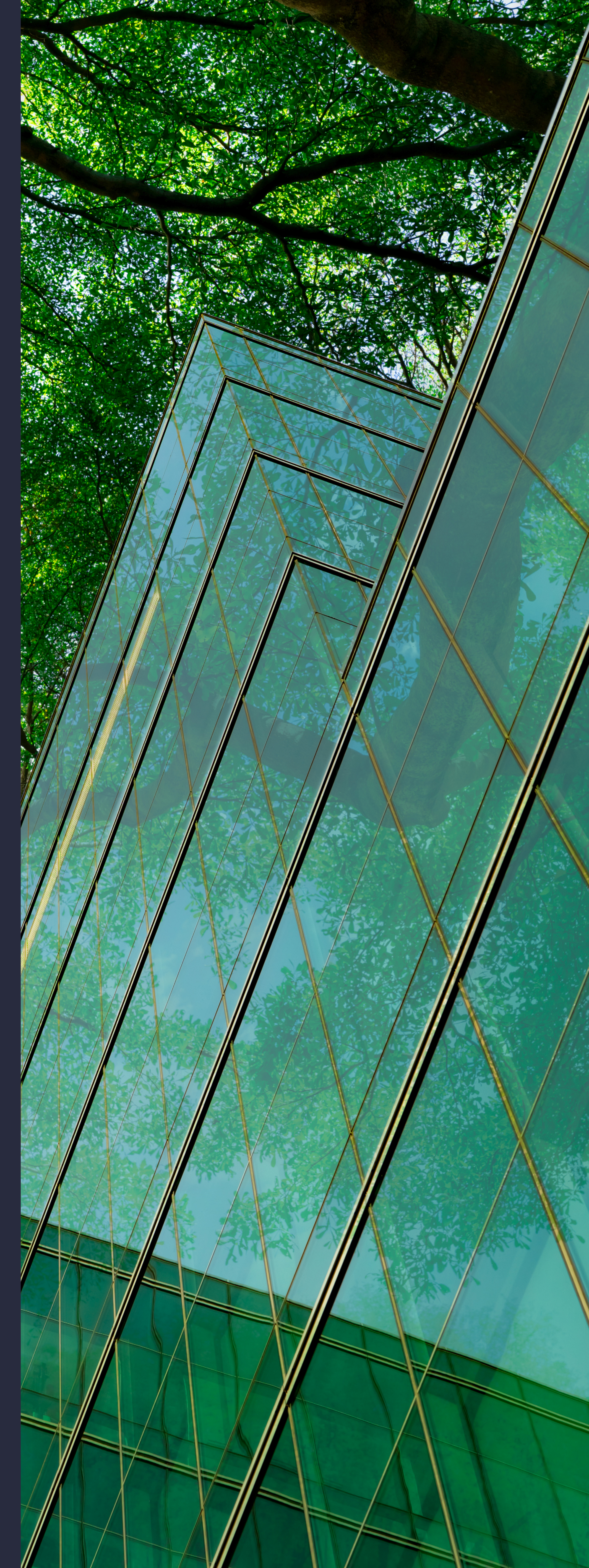
Some engagements covered more than one element and the split by engagement over the year can be seen below.

A Research Analyst can touch on multiple engagement issues when evaluating a company.

66%	**52%**	**49%**
Environmental	**Social**	**Governance**

of our engagements covered each of these factors.

1 This includes collaborative engagements through CDP's Non-Disclosure campaign (1,586 engagements, excluding ones we led on) and the CCLA Global Mental Health campaign (205 engagements).



Strategy

Timeframes for Climate-related Risks and Opportunities

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.

As part of our integration of ESG issues into our investment processes, we seek to assess how policy, regulation and, where applicable, physical environmental changes may impact the companies to whom we lend and in which we invest.

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 are also 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

Impact on Business and Strategy

Climate change is widely accepted as one of the greatest risks faced by our planet and its 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 an integrated approach to responsible investment analysis. While a risk, climate change also presents an opportunity as we transition to a low-carbon economy.

We are a signatory to CDP, the Net Zero Asset Managers initiative, 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, Manulife | CQS IM has offices in London and New York.

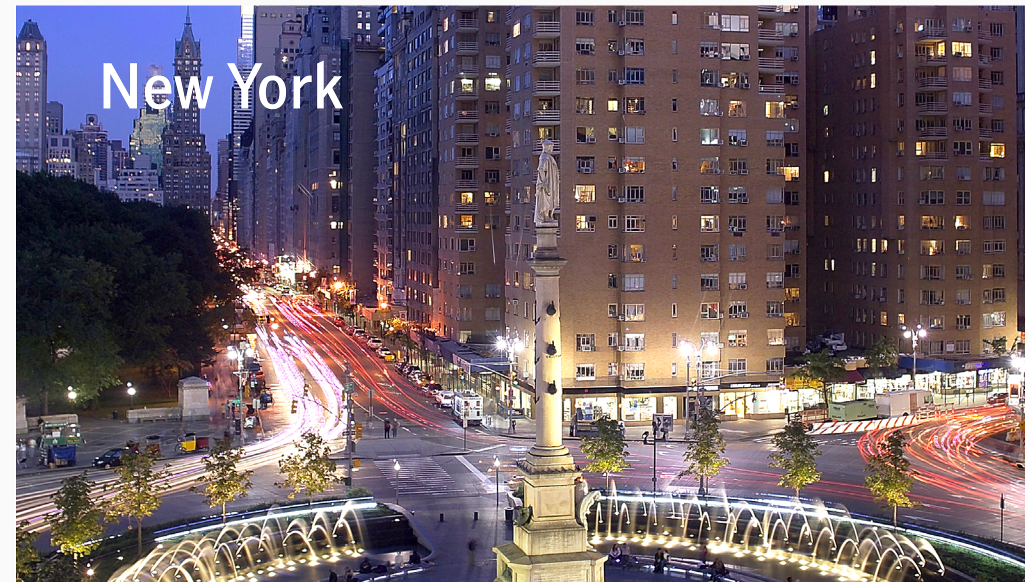
We seek to reduce the environmental impact of our operations and promote sustainable practices amongst our staff.

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 2023, we offset all our operational scope 1, 2 and 3 (business travel) GHG emissions across our organisation (for the year to 31 March 2023).

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



Portfolio Management

As an alternative credit manager, our focus is 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 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 (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. Their data provides us with carbon metrics and environmental exposure for individual issuers (MSCI), and practical transparency (CDP).

Carbon metrics including WACI, carbon footprint and total GHG emissions are available to investors across many Manulife | CQS IM portfolios (where sufficient reporting is available).

Portfolio Managers are able to take into account the likely impact of an investment on a portfolio'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.

In 2021, we conducted a climate audit of c. 500 of our portfolio companies to understand the decarbonisation targets and trajectories of some of the companies to whom we provide capital.

In 2022, we focused on increasing our coverage of this climate data to 100% across the Article 8 funds in order to understand the decarbonisation pathways of our portfolios. We continued to maintain this high level of coverage throughout 2023.

As of 31 December 2023, we have proprietary climate data for c. 1,800 issuers. This climate data is available to all Research Analysts and Portfolio Managers via our Research Portal to be considered as part of their fundamental credit analysis and investment decision-making respectively.

This analysis has enabled us to identify risks and opportunities to engage with funds' holdings in the climate transition. In November 2022, we published the Firm's interim targets, (which are applicable to the Article 8 funds).

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.

100% Proprietary climate data coverage across our Article 8 funds.

Case Study

Our Climate Targeted Engagement Programme

We are a signatory to the Net Zero Asset Managers' initiative and one of our Article 8 funds' targets is an 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.

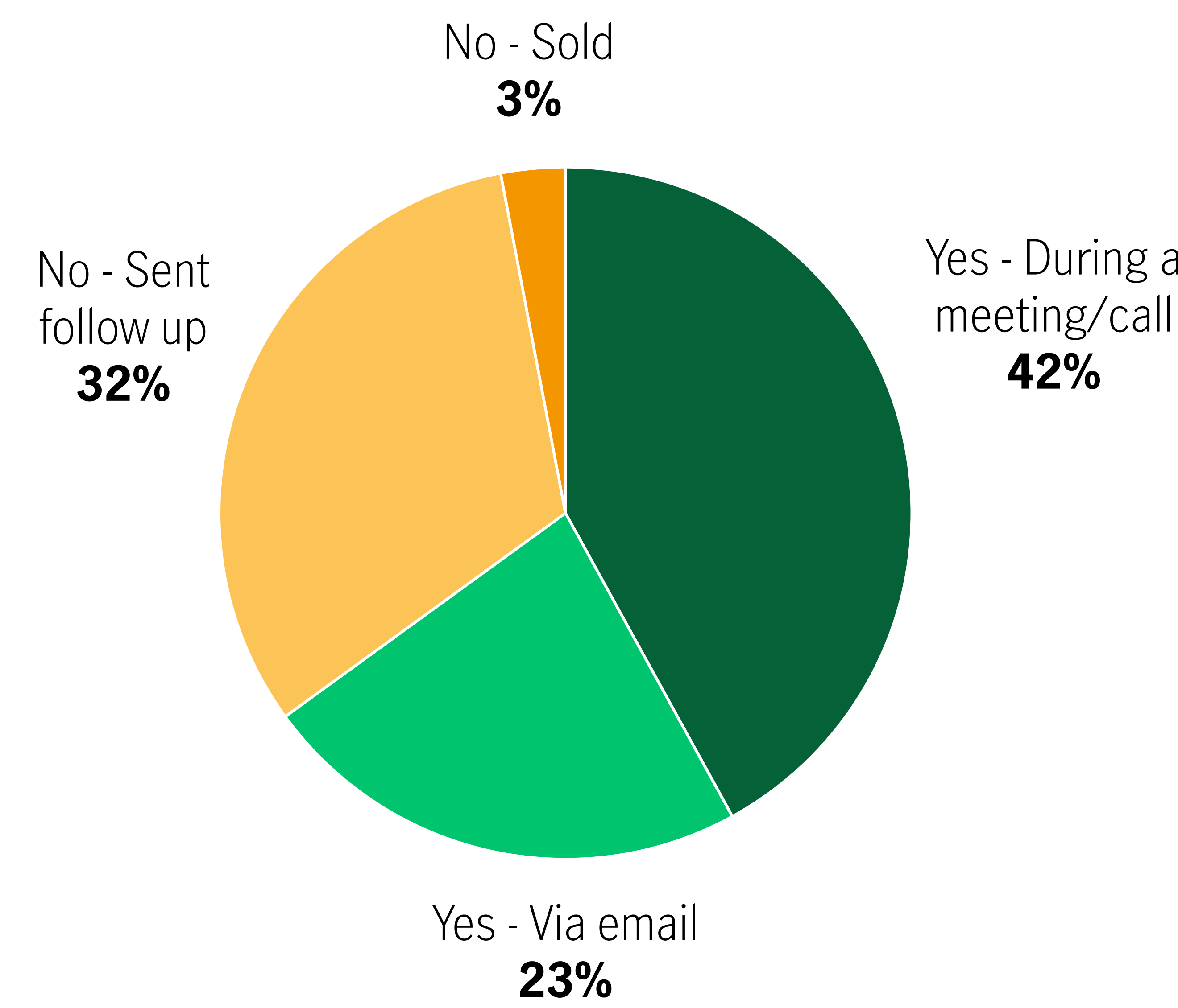
In 2022, we launched our Climate Targeted Engagement Programme which aims to engage with portfolio companies within the Article 8 funds that do not currently disclose carbon emissions and/or do not have decarbonisation targets in place. In 2023, we ramped up our efforts with the programme.

The programme is expected to last for two to three years and escalate over time to encourage better disclosure and net-zero alignment across the covered portfolios, in line with our Engagement Threshold Target.

The key objectives are:

1. Increase carbon emission disclosure coverage;
2. Increase proportion of companies with decarbonisation targets; and
3. Increase proportion of companies targeting net zero.

As of 31 December 2023, we engaged with 73 companies as part of the programme. We are pleased with the response rate, with 65% of companies responding to engagement.
The response statistics are outlined below.



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 in 2024.

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 Value-at-Risk

Climate Value-at-Risk ("cVaR") is a forward-looking metric that allows users to measure the impact of climate-related risks on a portfolio.

MSCI has developed a dataset and methodology for calculating cVaR. For each company, a score is calculated for each of the following areas of risk:

- Physical
- Policy
- Technology Opportunities

These are combined to obtain a total score. The company equity and debt losses are then calculated, where equity is considered to be first at risk, then any remaining climate losses will be detracted from the debt. The maximum equity loss is considered to be the market cap of the company and the maximum debt loss is considered to be the difference between the Enterprise Value Including Cash ("EVIC") and market cap.

For equity instruments, equity losses are taken as a proportion of the market cap.

For debt instruments, losses are then linearly scaled from the assumed 70-year hold period to the remaining maturity on the debt (divide by 70, multiply by remaining maturity in years). This is because the average maturity of the debt we hold is three years, so we do not believe it is appropriate to assume losses over the 70-year timeframe.

If a company has a carbon intensity of greater than 1,000 (in USD), we consider this to be a higher carbon emitter. As these issuers are more exposed to climate-related risk, these companies may have a greater potential financial loss than lower carbon emitters. Therefore, we regress the total 70-year loss by a factor of 10, instead of 70, before scaling for the remaining maturity on the debt.

We do not use proxy estimates, so it is not possible to calculate the metrics where there are non-visible collateral pools (such as Regulatory Capital Relief) 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.

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	(1.51%)	(0.20%)	(0.55%)	13.74%
CQS Dynamic Credit Multi Asset Fund	(0.53%)	(0.18%)	(0.05%)	52.35%
CQS Global Convertible Fund	(0.72%)	(0.79%)	(0.61%)	80.09%
Salar Fund	(0.35%)	(0.41%)	(0.24%)	67.58%

As shown above, 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.

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

At our core, 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.

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

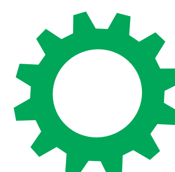
Investment staff have access to a wide range of research and data to aid analysis and this is supported by a strong knowledge-sharing culture whereby discussion of environmental, economic and market themes is actively encouraged.

In the second line of defence, we have an independent Risk function who are responsible for, among other things, ensuring portfolio limit compliance and 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 which are capable of handling the broad range of asset classes we trade and the comprehensive limit frameworks we have in place.

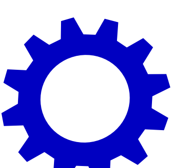
Our Integrated Approach

Governance Oversight



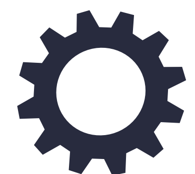
Portfolio Managers

- First line of defence in managing portfolio risk and meeting commitments
- Directing engagement activity



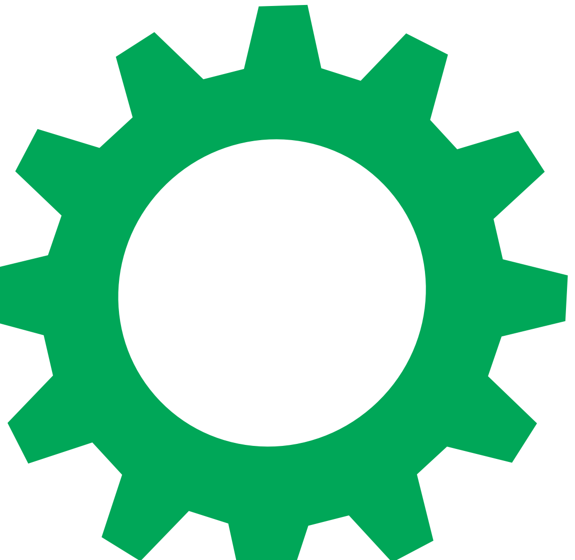
Research Analysts

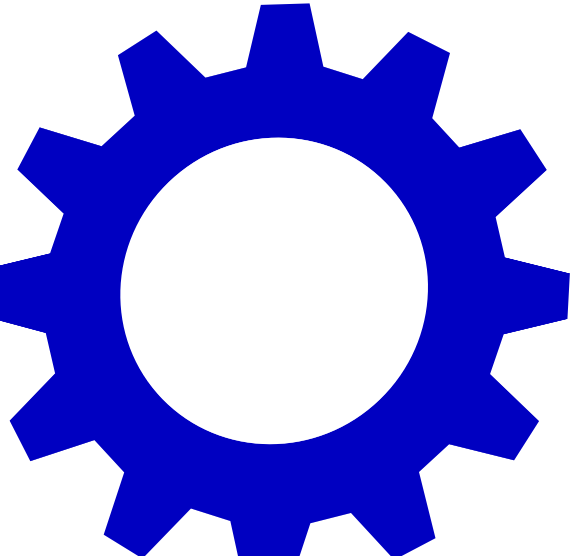
- ESG Ratings, Engagement and Stewardship
- Formalised engagement metrics and reporting

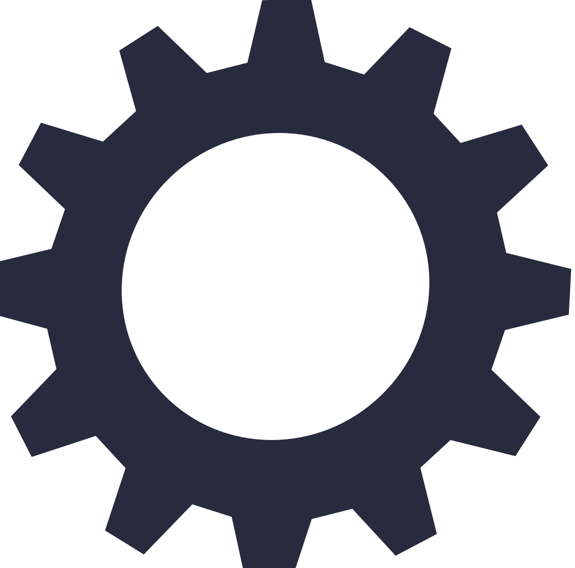


Risk

- Assessment of ESG alignment with objectives and commitments
- Responsible investment and climate risks integrated into the Firm's investment risk review process







Metrics

As an asset manager, we use a range of information to identify exposure to climate risk across the portfolios we manage. 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.

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.

Other data metrics for portfolios, such as carbon emissions and carbon footprint, are available to our Portfolio Managers. This allows Portfolio Managers to understand each investment and therefore consider its rationale for inclusion within the portfolio.

Engagement Framework

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 investee 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 either material Environmental, Social or Governance issues are raised
3. Through our Targeted Engagement Programmes

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. This can include adjustment to a portfolio's exposure to the given company. Our Engagement Group reviews targeted engagement activity and outcomes.

In addition, as part of the Net Zero Asset Managers initiative, 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). While initially relying on surveys of companies for information, we now have a proprietary emissions data system outlining companies' GHG emissions reductions targets (including where relevant net zero targets) and alignment with SBTi.

Education/Knowledge

The RIGC is tasked with the governance and development of responsible investing within the firm, including directing the training programme for our teams. Regular training have included updates on new processes, data sources, market trends or guiding on factors which should be considered as part of an integrated responsible investment approach.

In 2023, we focused on understanding our interim decarbonisation targets and related workstreams. For example, the Research Analysts and relevant Portfolio Managers were provided training on what to look out for and how to get the most out of our internal systems.

Integrating Climate-related Risks into Our Risk Management Approach

Our Responsible Investment framework is integrated within our wider Investment Risk Framework and enables the identification, assessment, and management of climate-related and wider ESG risks.

We view accurate data and information as critical to understanding how portfolios are positioned.

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.

The Firm's five-stage responsible investment integration process is as follows:

1. Incorporate: Third-party ESG metrics and data into our systems. 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. Integrate: Internal analysis conducted by Research Analysts with independent and proprietary ESG ratings and ESG outlook ratings assigned. Climate is one of the ESG factors considered as part of this analysis.

3. Evaluate: Portfolio Managers consider ESG and credit analysis as part of their investment decision-making process. 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 change corporate behaviour regarding identified ESG risks and issues. 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: Undertake periodic research re-assessments. A watching brief across news wires, including RepRisk and Reorg, for developing ESG considerations and controversy monitoring. Portfolio Managers also monitor carbon metrics and decarbonisation targets of portfolio companies.

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 2023.

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	125	645	632,020	2,057,354	63	212
Article 8 funds	99	473	366,893	1,092,780	54	167
Article 6 funds	178	1,001	265,127	964,574	82	305

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

Methodology:

1 Carbon metrics are estimated using available disclosures or proxy estimates based on comparative data from MSCI. For proxy estimates, Manulife | CQS IM 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.

Methodology (Continued):

2 Weighted Average Carbon Intensity is calculated as:

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

3 Total Carbon Emissions are calculated as:

$$\sum_{n}^{i}\left(\frac{Current\ value\ of\ investment_i}{investee\ company\ enterprise\ value_i}\right) \times investee\ company's\ scope\ 1\ and\ 2\ emissions_i$$

4 Carbon Footprint is calculated as:

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

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.

This includes the introduction of electronic document signing software, 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 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 2024.

Metric Tons CO_2e	2023/2024
Scope 1	20.68
Scope 2	450.49
Scope 3	882.80
Total	1,353.97

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.

Projects we supported to offset our emissions include:

Solar in Vietnam
Fossil fuels represent 73% of the power generation capacity in Vietnam, with 45% attributable to coal. The project reduces Vietnam's emissions by 65,254 tonnes per year and the operational lifetime of the solar farm is 25 years.

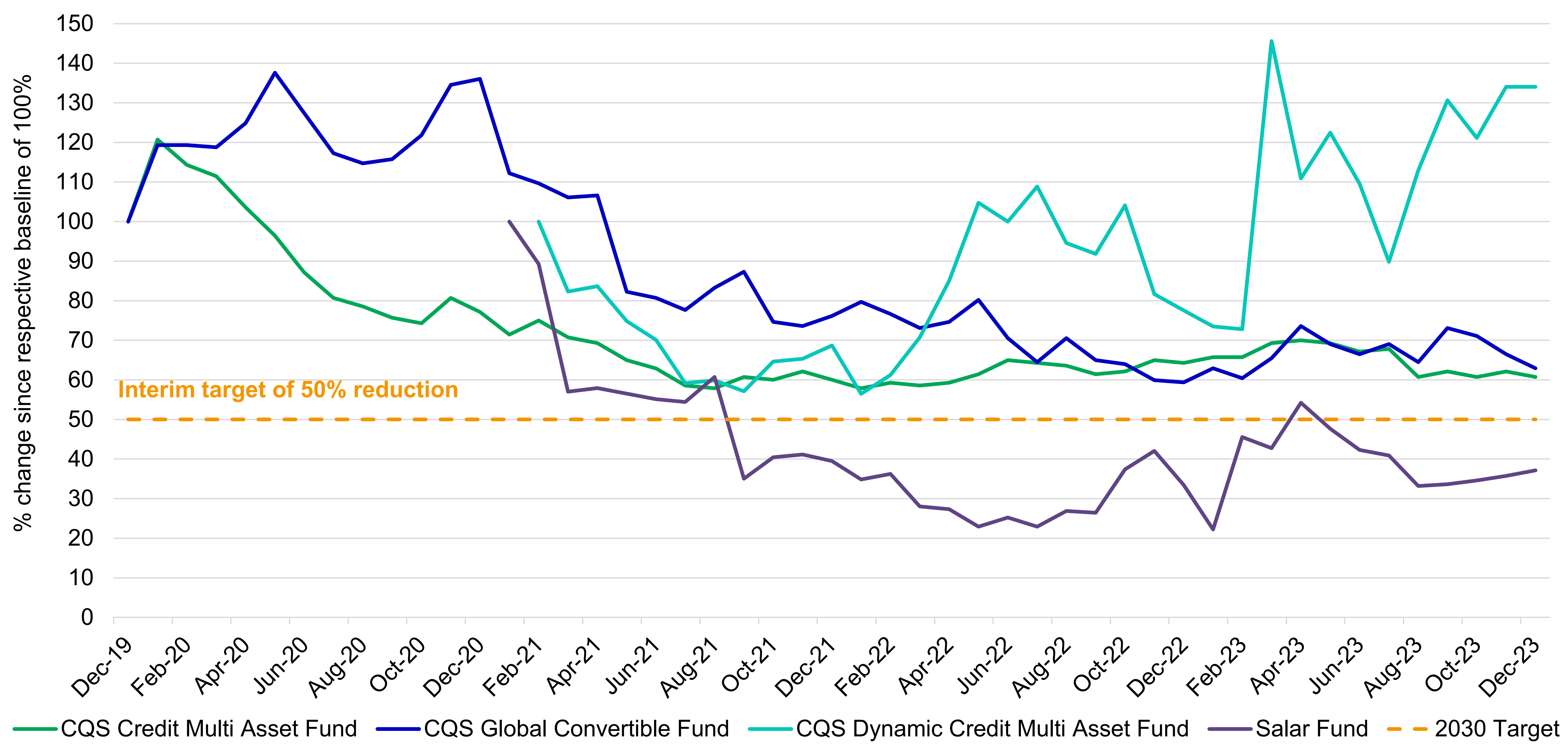
Wind in India
74% of India's power generation comes from coal, with fossil fuels representing 77% of total power generation. The project reduces India's emissions by 365,404 tonnes per year.

Wastewater treatment in Bulgaria
The project upgrades existing wastewater treatment processes to best practice, enabling a significant reduction in methane gas emissions and using excess methane gas for electricity production reducing the reliance on fossil fuels. The leftover sludge waste is also reduced by as much as 50% reducing the amount to be transported (which in turn further reduces GHG emissions, though these are not included in the carbon credit calculation).

Portfolio Decarbonisation Reference Target

The chart below shows our progress for the Portfolio Decarbonisation Reference Target since the relevant baseline to 31 December 2023 for each of the Article 8 funds.

We do not expect the decarbonisation pathway to be linear. The below chart illustrates the progress of the Article 8 funds (the 2030 target is shown by the orange dotted line).



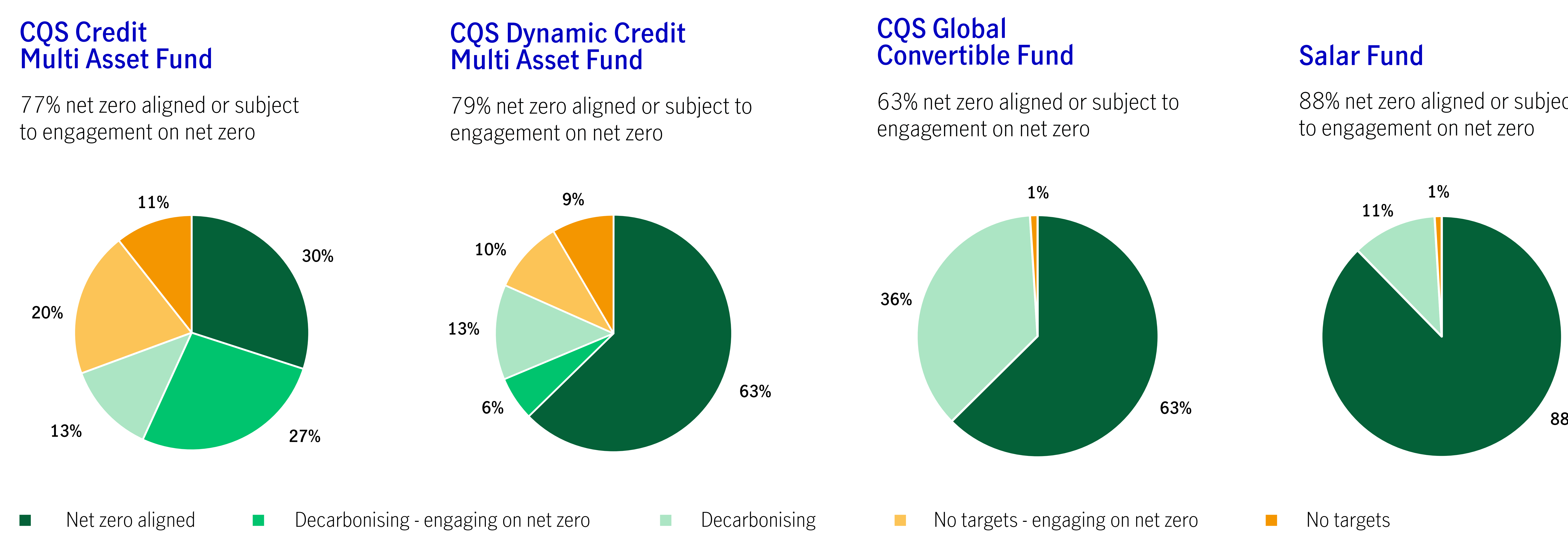
Engagement Threshold Target

In order to monitor our progress against the Engagement Threshold Target, a number of key functions 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.

As of 31 December 2023, we had 100% coverage of proprietary data on whether a company is net zero aligned or not, across the Article 8 funds.

We also developed the ability to track whether an engagement covered net zero explicitly in our ESG engagement monitoring tool in our Research Portal.

As at 31 December 2023, the Article 8 funds had the following net zero alignment:



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