Manulife | CQS
Investment Management

For the Quarter Ending 31 December 2023

CQS New City High Yield Fund Limited

Climate-related Financial Disclosures

Portfolio Overview

Portfolio Name: CQS New City High Yield Fund Limited

About This Report

This report is designed to help give you information about the collective climate impact and risks of the assets held by the Fund. The content is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and complies with the specific sustainability disclosure rules of the Financial Conduct Authority (FCA) in the UK.

The Fund/Portfolio

Investment Objective

The objective of the CQS New City High Yield Fund is to provide investors with a high gross dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

Policy

The Fund invests predominantly in fixed income securities, including, but not limited to, preference shares, loan stocks, corporate bonds and government stocks. The Fund also invests in equities and other income yielding securities. The Fund uses gearing and has a current limit that gearing will not exceed 25% of Shareholders' funds at the time of borrowing.

Philosophy

The Fund invests across a well-diversified range of sectors as well as interest rate durations with a good proportion in floating rate notes. It maintains a non-sterling exposure of around 30%. Revenue and dividends are topics of crucial importance and the ability of any portfolio company to pay its coupon or expected dividend is one of the major indicators we follow.

Climate-related Financial Disclosure

Climate Risk Strategy

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 review within our investment analysis; we seek to assess how policy, regulation and, where applicable, physical environmental changes may impact the companies in which we invest. Please see our TCFD Entity-level report for more information.

Climate Risk Management

The firm's Responsible Investment framework is integrated within our wider Investment Risk Framework and enables the identification, assessment and management of climate and wider ESG risks. 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 objectives and risk appetite. Please see our TCFD Entity-level report for more information.

Climate Risk Governance

Governance and responsible investment policy sits with the Responsible Investment Governance Committee ("RIGC"). The RIGC governs the Responsible Investment, Engagement and Shareholder Rights and Stewardship Policies, oversees the Firm's responsible investment approach, processes, systems and reporting and monitors portfolios against their responsible investment commitments and targets. Members also regularly provide insight and reporting on responsible investment and stewardship matters across the Firm. Any key issues are escalated to the Management Committee and Board as necessary. This enables further oversight and escalation with clear accountability. Please see our TCFD Entity-level report for more information.

Climate Metrics

31 Dec 2023

Portfolio Name: **CQS New City High Yield Fund Limited**

Climate Metrics	Portfolio	Data Provider	Unit of Measurement	Coverage
Scope 1 and 2 GHG Emissions	20,680	MSCI	Metric Tons	113.17 %
Scope 3 GHG Emissions	75,936	MSCI	Metric Tons	113.17 %
Total Carbon Emissions	266,895	MSCI	Metric Tons	113.17 %
Total Carbon Footprint	732	MSCI	Metric Tons per $1M AUM Contribution	113.17 %
Weighted Average Carbon Intensity	1,057	MSCI	Metric Tons per $1M Sales	113.17 %

Scenario Analysis

Portfolio Name: **CQS New City High Yield Fund Limited**

Scenario Analysis	Portfolio	Data Provider	Coverage
Orderly Transition	-8.83 %	MSCI	21.80 %
Disorderly Transition	-10.98 %	MSCI	21.80 %
Hot House World	-13.49 %	MSCI	21.80 %

Scenario Analysis

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.

Summary on how climate change is likely to impact the portfolio

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 overall impact may be minimal.

Significant Drivers of Impact for the Portfolio

The assets within the portfolios exhibit features that may significantly mitigate the impact observed.

These include:

- Short duration: The assets typically mature within 5 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 realized losses are experienced

Although evolving, coverage for the portfolio is a challenge when considering temperature rise scenarios. We have continued, and will continue, to work with third party providers to improve the situation. Current modelling uses the covered portion of the fund as a proxy for the whole fund.

Glossary

Key Performance Indicators	Definition
Scope 1 Greenhouse Gas Emissions (Metric Tons)	Direct GHG emissions that occur from sources that are owned or controlled by the company.
Scope 2 Greenhouse Gas Emissions (Metric Tons)	GHG emissions from the generation of purchased electricity consumed by the company.
Scope 3 Greenhouse Gas Emissions (Metric Tons)	GHG emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company.
Total Greenhouse Gas Emissions (Metric Tons)	Total of Scope 1, 2, and 3.
Total Carbon Footprint (Metric Tons per $1M AUM Contribution)	Total carbon emissions for a portfolio normalized by the market value of the portfolio, expressed in tons CO2e/$M invested.
Weighted Average Carbon Intensity (Metric Tons per $1M Sales)	Volume of carbon emissions per million dollars of sales (carbon efficiency of a portfolio), expressed in tons CO2e/$M sales.
Orderly transition	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	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	Scenarios assume that current policies stay the same. Paris Agreement commitments aren't 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 to over 3°C by 2100.

Important Information - Responsible Investment

31 Dec 2023

Carbon Metrics are estimated using scope 1, 2 and 3 available disclosures or proxy estimates based on comparative data from MSCI. For proxy estimates, we apply a waterfall approach which requires a minimum of 10 issuers within the proxy estimate group. If there are not 10 issuers in the proxy estimate group, it changes to a broader category group to increase the number of comparable issuers and continues moving to a broader group until a minimum group size of 10 issuers are obtained or 'sector' level is reached. The order is sub-industry first, then industry, then industry group, then finally sector. Where MSCI data is stale or the proxy estimate is not an appropriate reflection of the issuer, we may implement a carbon emission override to report an issuer's most recent publicly available carbon data or use a more appropriate comparator (using MSCI data) as a proxy estimate. Please note that the WACI score does not include hedges for efficient portfolio management purposes.

Weighted Average Carbon Intensity uses Sales, rather than Revenue, in its calculation methodology in line with our data provider, MSCI.

Carbon Footprint and Absolute Carbon Emissions use EVIC (Enterprise Value Including Cash) in their calculation methodology. Prior to 29 December 2023, CQS used Market Cap in the calculation methodology of these metrics. We changed our methodology to align with industry standard as coverage of the metric had improved.

Reported Emissions Coverage is calculated as a percentage of Fund NAV, excluding ABS and Cash. We use a proxy estimate, sourced from MSCI, where emissions are not reported to increase our coverage to 100%, excluding ABS and Cash.

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PRI Note: PRI is an investor initiative in partnership with UNEP Finance and the UN Global Compact.
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