Rising Dispersion in Credit Markets: Capturing Opportunities in Multi Asset Credit

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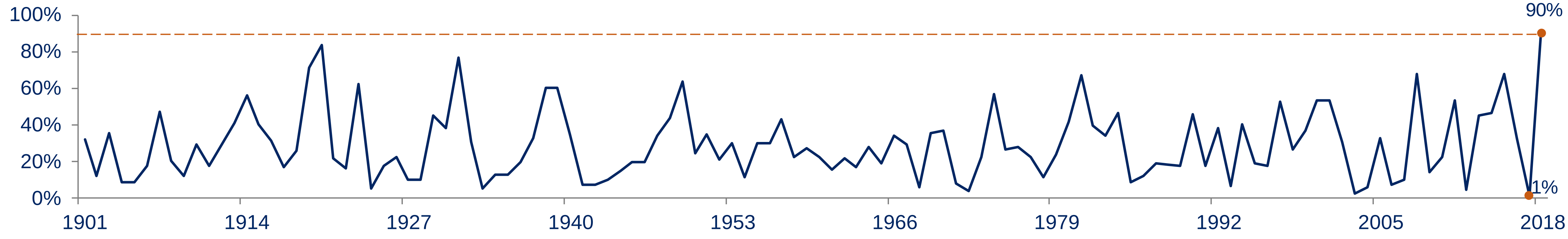
Setting the scene

2018 and Beyond: the Challenges for Pension Fund Assets

Source: Financial Times and Deutsche Bank Research, article headlines Q4 2018.

90% of Asset Returns were Negative in 2018

Percentage of assets with a negative total return in USD[1]



Total Return Performance of Major Global Financial Assets 2018 (in USD)[2]

Sources:[1]Deutsche Bank, Bloomberg Finance LP, GFD. Note, returns for 2018 are calendar year. Total number of assets in 2018 is 70 versus 34 in 1901. [2]Deutsche Bank Research, Bloomberg Finance LP, Mark-It as at 3 January 2019.

1 How can pension funds adapt to the changing environment?

CQS' Solution: Multi Asset Credit

Pension fund challenges

De-risk from equities and deliver attractive returns	Stabilise returns	Avoid defaults	Manage interest-rate risk	Optimise yields and income

Sample MAC solution

Target net return[1] LIBOR+4-5% through cycle	No more than single digit volatility	Low default rates	Interest-rate duration capped 2y	LIBOR plus 4-5%
Annualised Return **4.76%**	Annualised Volatility **2.21%**	Annualised Default Rate **0.13%**	Current Duration **1.32 yrs**	YTM (GBP)[2] **5.37%**

Please note, the Performance Index GBP is a theoretical, non-investable share class. It is made up of a series of share classes in order to demonstrate the longest consistently available track record for the Fund. A breakdown of the index formulation is included at the end of the presentation.

Source: CQS as at 28 February 2019. [1]Target returns are estimated and net of fees, expenses and income reinvested. They are based on long-term performance projections of the investment strategy and market conditions at the time of modelling and are therefore subject to change. There is no guarantee that any target return can be achieved. Investors should not place any reliance on such target return in deciding whether to invest in the Fund. Target returns are for illustrative purposes only. Please refer to the Prospectus and Supplement for finalised risk parameters. [2]Assumes that the coupon payments are reinvested at the yield-to-maturity; if coupons are to be reinvested at lower rates, the yield-to-maturity will be lower.

What are the Building Blocks of Multi Asset Credit?

Asset Class	Market Size
Investment Grade Bonds	~ $9 trillion
High Yield Bonds	~ $2 trillion
Secured Loans	~ $1.4 trillion
Asset Backed Securities (ABS)	~ $4 trillion
Convertible Bonds	~ $400 billion
Emerging Market Debt	~ $5 trillion
Private Sub-Investment Grade Debt	~ $500 billion

Our building blocks at CQS

Source: CQS estimated as at 31 December 2018. ABS excludes Agency.

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How do credit markets look into 2019?

Assessing Fundamentals and Technicals for Credit Markets

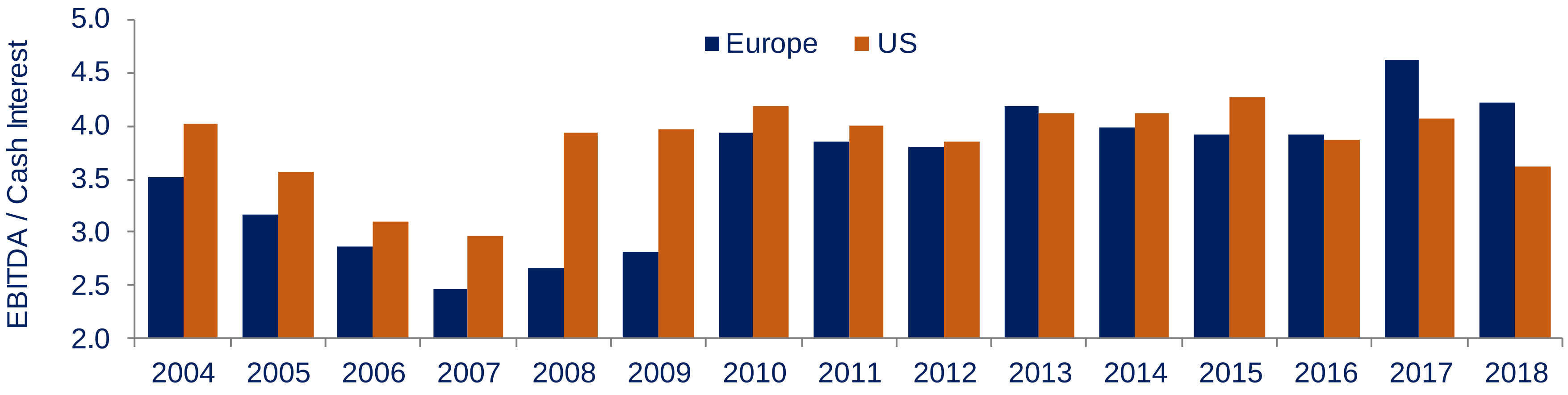
Fundamentals	Technicals
Corporate defaults low but some sectors likely to pick-up	Retail investors represent growing portion of credit markets
Corporate maturity walls extended	Market size – stabilising across sub-investment grade credit
Loans – interest cover ok but US rates rising and leverage rising	High yield correlation with equities rising
High yield – interest cover healthy, but US leverage picking up	Rising interest rates a risk to fixed rate, opportunity for floating
Sector earnings dispersion	
Loan and high yield documentation weak	

Multi Asset Credit can address concerns through effective credit selection and agile asset allocation

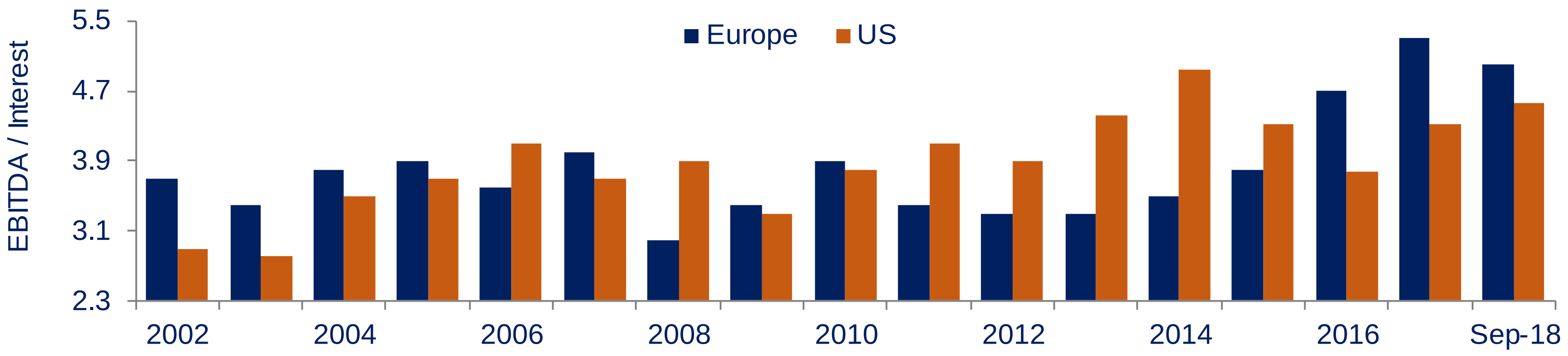
Source: CQS, as at March 2019. Green, amber and red flags express increasing concern over the related fundamental or technical factor, with colour combinations expressing a position in between.

Interest Cover is Healthy

Senior Secured Loans[1]



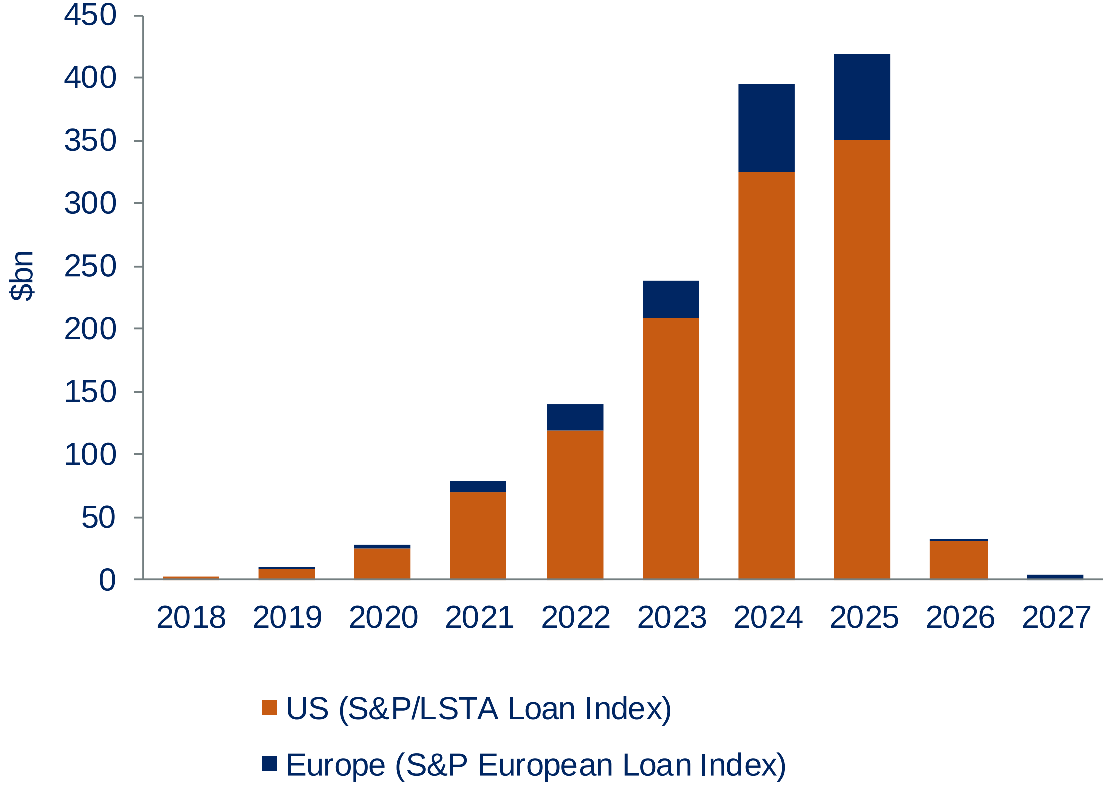
High Yield Bonds[2]



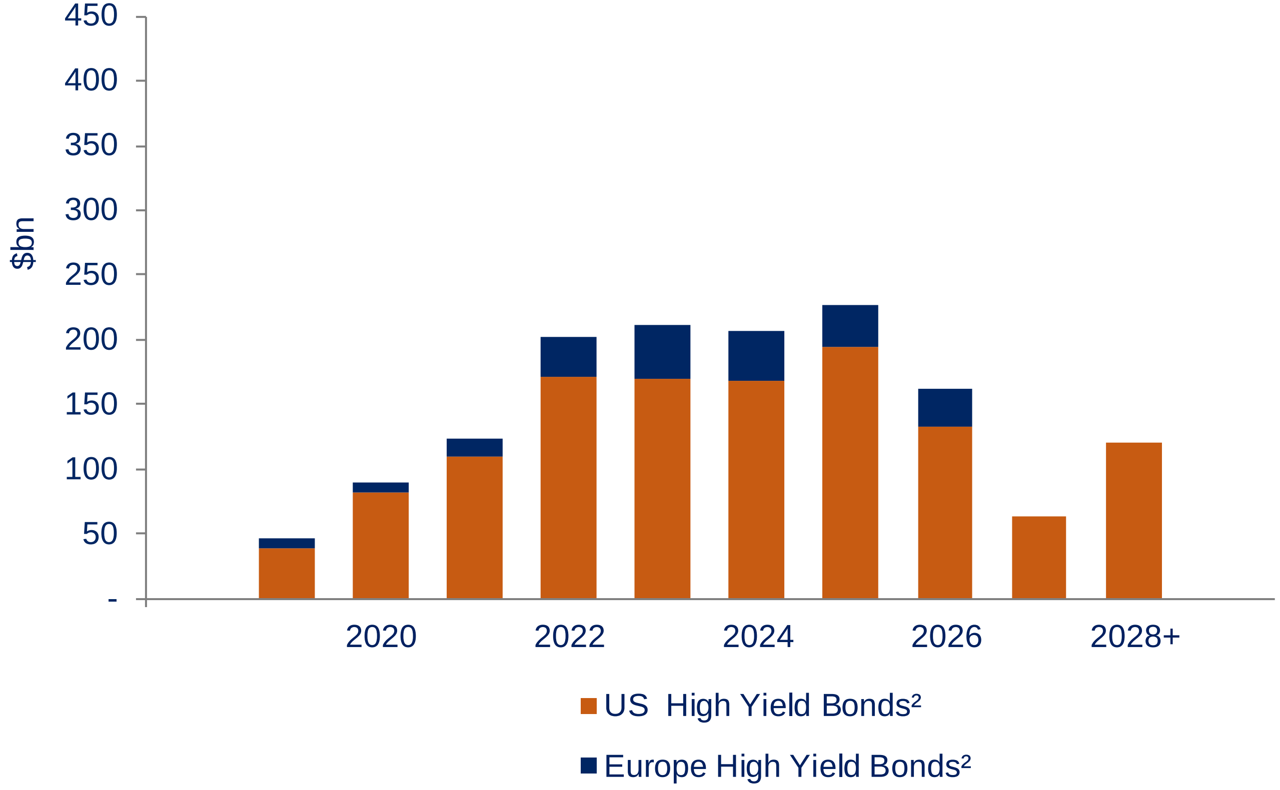
Source: [1]S&P Global Marketing Intelligence – USD Global Leveraged Lending Report 2018 Q4. US is Large Corporate Transactions (more than $50m of EBITDA) on an adjusted basis. [2] Morgan Stanley as at 18 February 2019

Maturity Profiles Have Been Pushed Out

Loans Maturity Profile



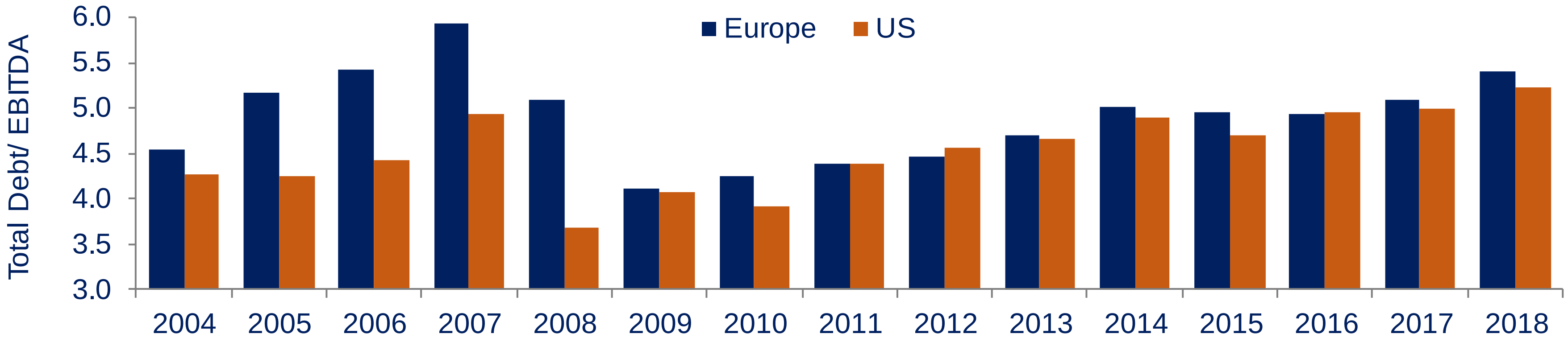
High Yield Maturity Profile



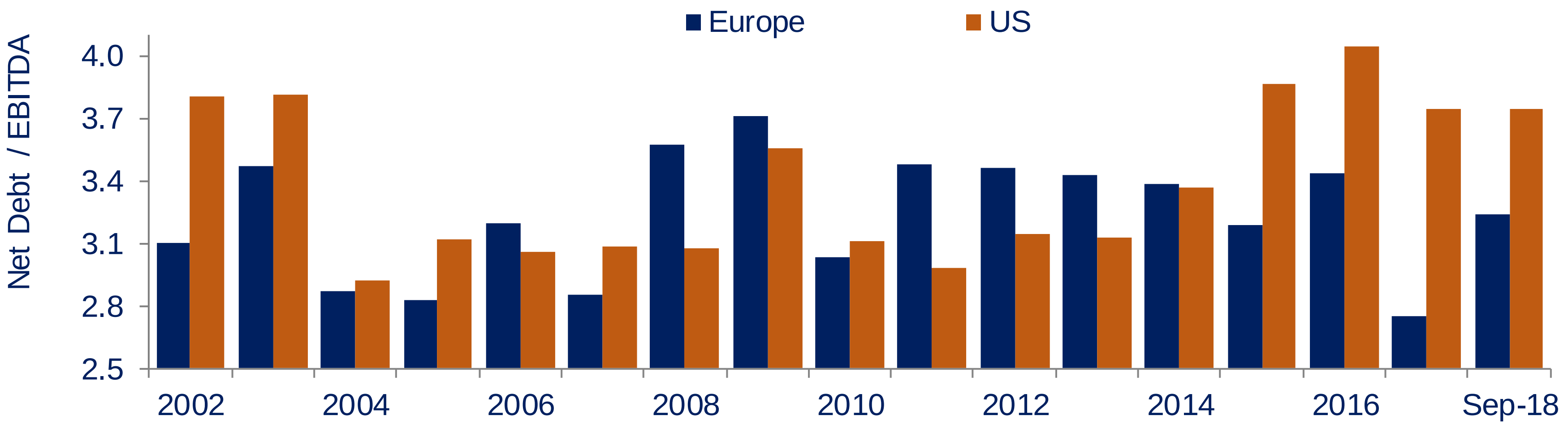
Source: [1]S&P Global Marketing Intelligence – LLI & ELLI maturity breakdown December 2018. [2]Morgan Stanley as at 31 December 2018.

Leverage Is Creeping Up

Senior Secured Loans[1]



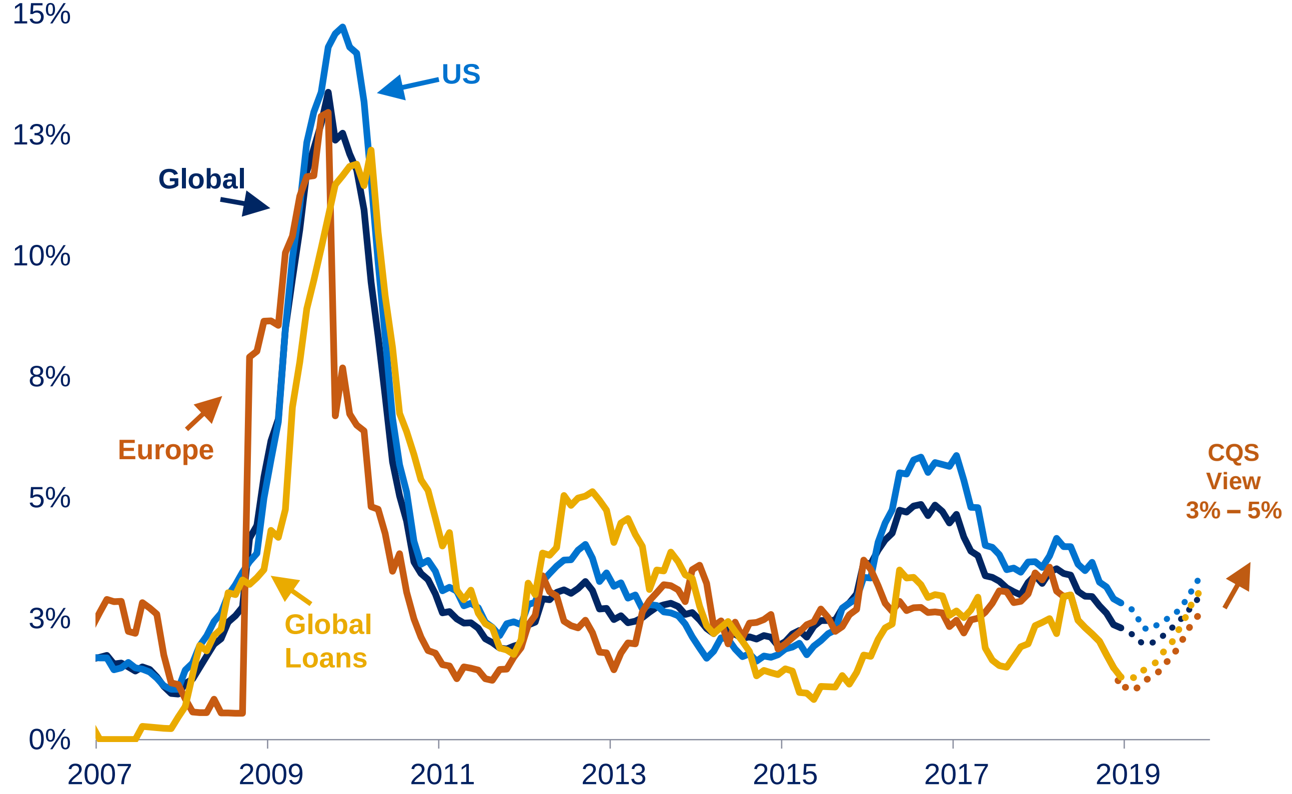
High Yield[2]



Source: [1] S&P Global Marketing Intelligence – USD Global Leveraged Lending Report 2018 Q3. US is Large Corporate Transactions (more than $50m of EBITDA) on an adjusted basis. [2] Morgan Stanley as at 18 February 2019.

Corporate Default: Concentrated in Certain Sectors

Global Default Rates[1]



Defaults clustering[2]

Industry	US HY Default Rates LTM
Broadcasting	31.21%
Retail	8.34%
Consumer Products	4.70%
Diversified Media	3.77%
Automotive	3.39%
Energy	3.02%
Utility	2.37%
Mining	0.97%
Paper/Packaging	0.61%
Financial	0.45%
Industrials	0.28%
…	…
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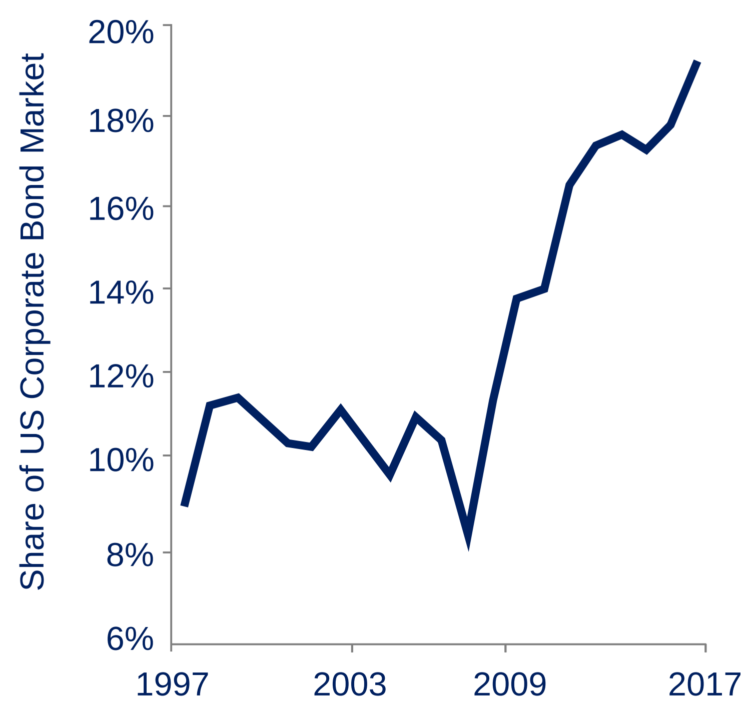
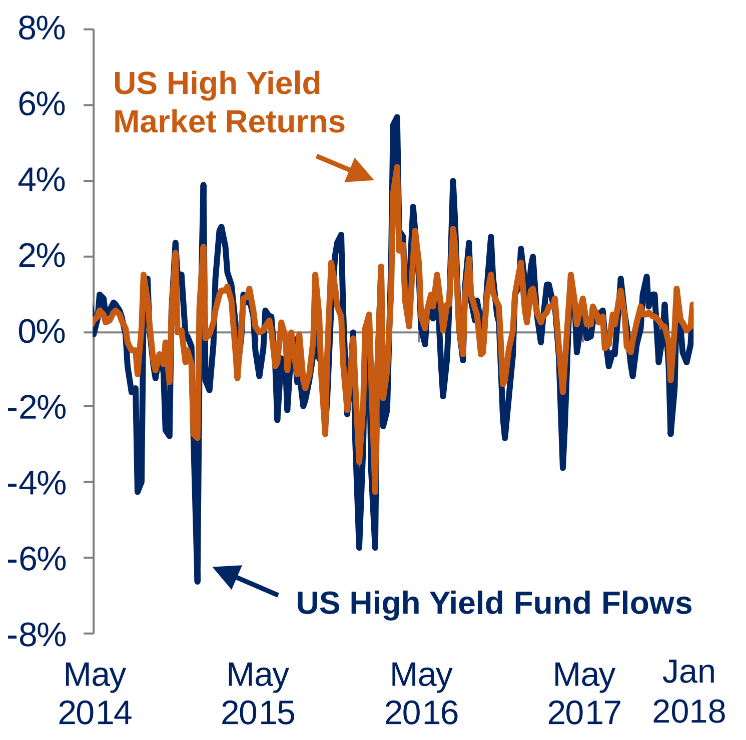
Source: [1]Moody's as at December 2018. Please note that the dotted lines represent Moody's baseline forecast. [2]JP Morgan as at 2 January 2019.

The Rise of the Retail Investor

Daily Liquidity Now 20% of US Credit Markets

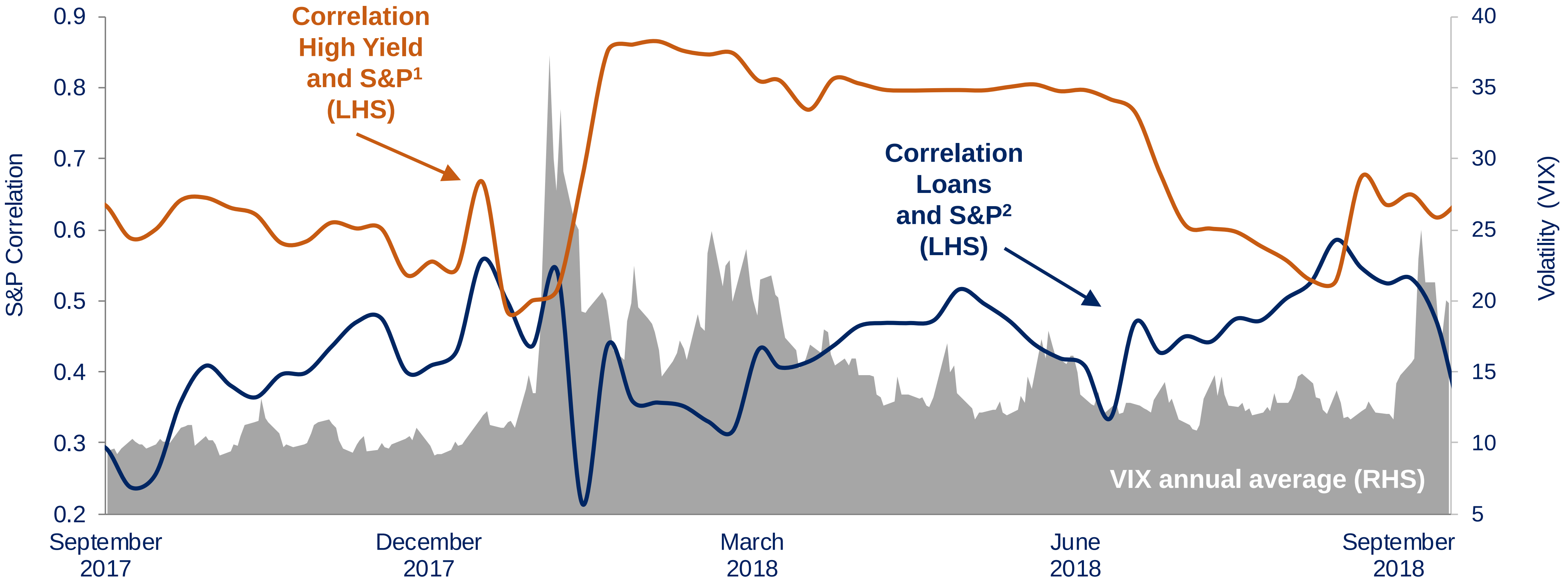


High Correlation Between High Yield Flows and Market Returns



Source: JP Morgan, Lipper as at 1 June 2018.

Correlation with Equities



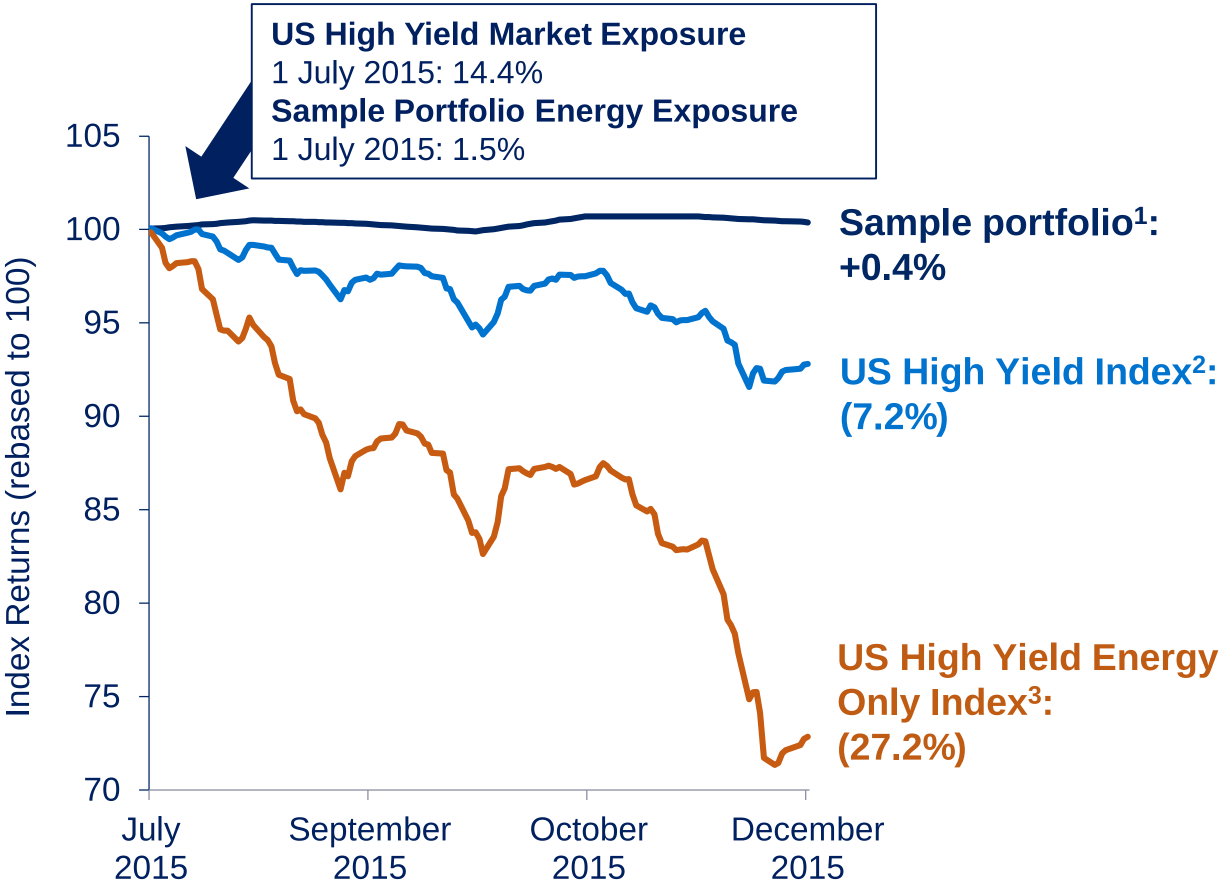
Favours agile asset allocation approach

Source: Bloomberg. LCD and CQS analysis as at 19 October 2018. [1]Bloomberg, BofA Merrill Lynch Global High Yield Index (HW00) and S&P 500 Index returns. [2]50/50 Index is a blended benchmark return comprising the US LLI (Leveraged Loan Index) and the ELLI (S&P European Leveraged Loan Index). Global High Yield Index (HW00) and S&P 500 Index returns expressed in USD.

1 Avoiding pitfalls and capturing opportunities

Avoiding Sector-Specific Pitfalls

Avoiding Pitfalls: Energy Exposure in 2015



Top-Down Input

- Oil and commodity price concerns

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Fundamental Analysis

- Poor fundamentals
- High default risk
- Potentially very high loss given default

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Resultant Asset Allocation

- Deliberate avoidance of energy issuers
- Reduction in high yield exposure
- Slight geographic bias toward Europe

Source: [1]CQS as at 30 December 2015. Returns represent the Performance Index GBP – please refer to the end of the presentation for details how this index is constituted. [2]BofA Merrill Lynch Index (H0A0) as at 30 December 2015. [3]BofA Merrill Lynch Index (H0EN) as at 30 December 2015. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

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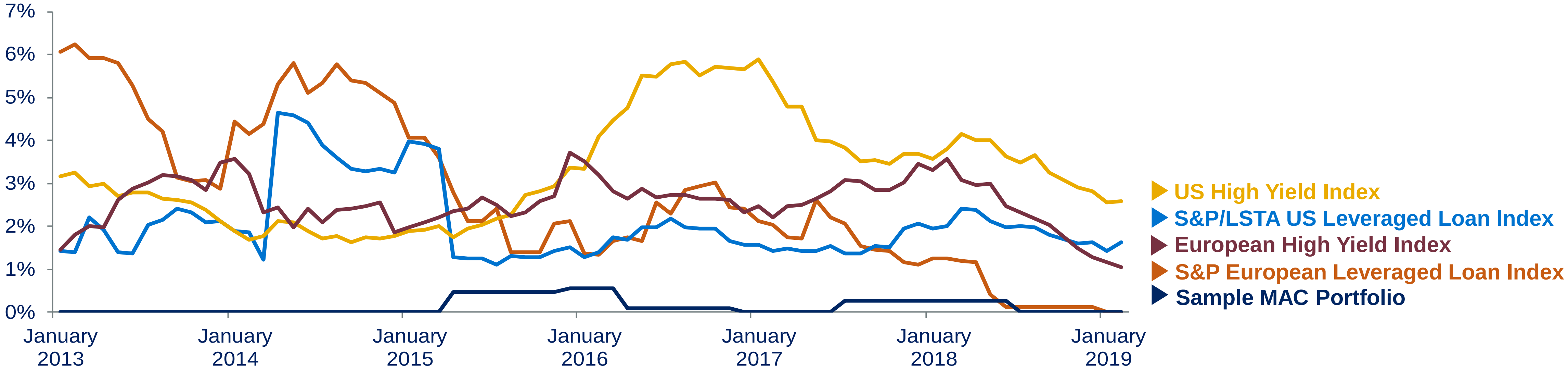
Active Credit Selection can Avoid Defaults

12m Trailing Issuer-weighted High Yield, Loans and Sample MAC Default Rate[1]



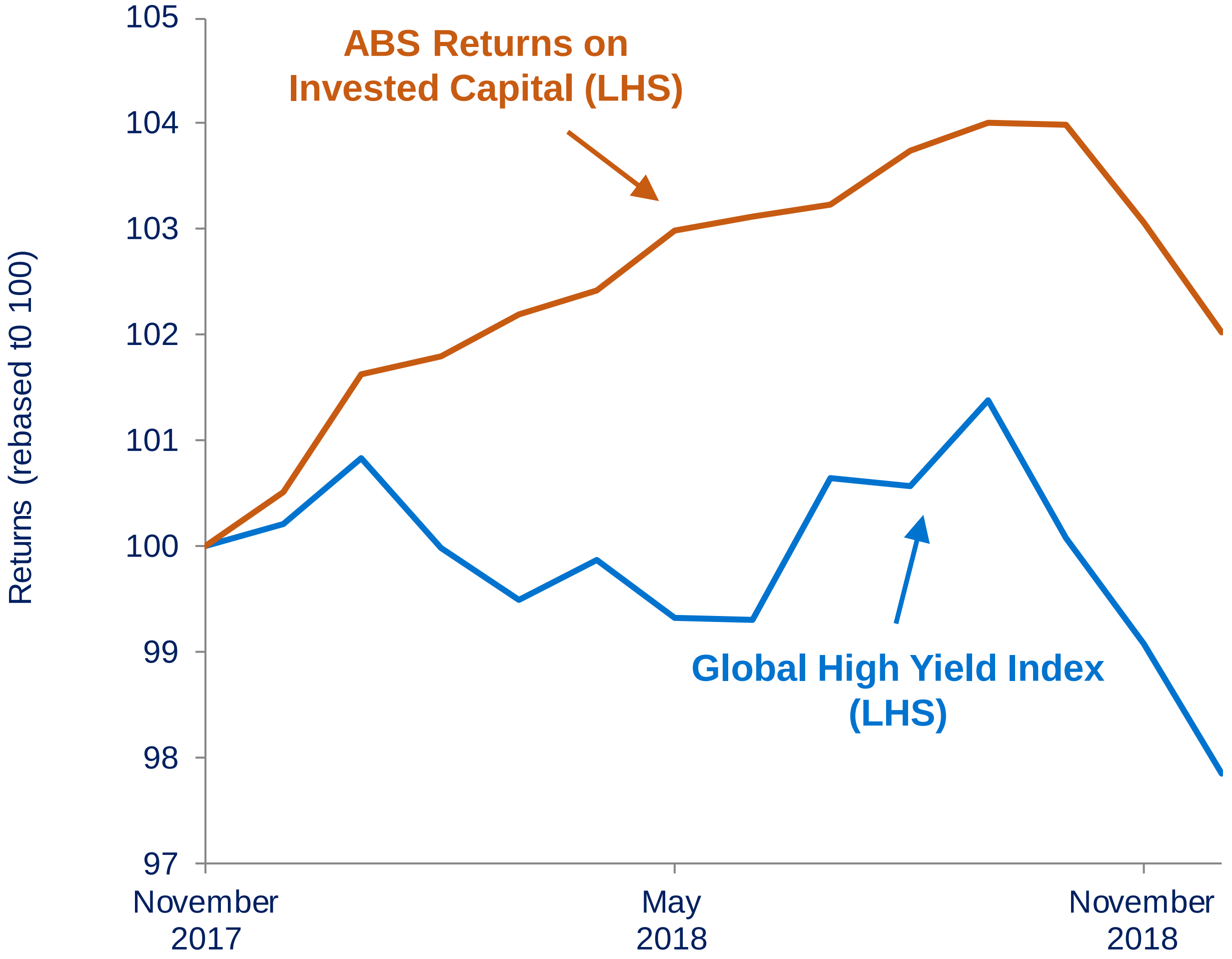
Sample MAC Default Rate vs. Markets[2]

	S&P European Leveraged Loan Index	S&P/LSTA US Leveraged Loan Index	European High Yield Index	US High Yield Index	Sample MAC Portfolio
Maximum Default Rate	6.23%	4.64%	3.71%	5.87%	**0.55%**
Average Default Rate	2.70%	2.06%	2.56%	3.28%	**0.13%**

Source: [1]Moody's, LCD as at 28 February 2019. [2]CQS estimated as at 28 February 2019. Default rates are trailing 12-month dollar-weighted par value default rates. EU and US HY time series start in November 2013. All others start at CMA inception (21 January 2013).

Avoiding Negative Technicals and Capturing Opportunities

Capturing the Benefits of ABS



Avoiding Impact of Retail Investors

- ABS – improving technicals; floating rate
- High yield – vulnerable to fund flows (record outflows of $46.3bn in 2018)

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Fundamental Analysis

- ABS – improving fundamentals in US housing
- High yield – concerns around peak cycle

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Capturing Opportunity Set

- Reallocation into ABS from High Yield: stable returns for lower risk
- Balanced ABS portfolio; higher volatility EU CLO liabilities offset by US RMBS

Source: [1]CQS as 31 December 2018. ABS Return on Invested is an extract of the CMA Fund, and is based on performance statistics of the component ABS allocation, gross of fees and expenses, and unaudited. It is important to note however positions in the CMA Fund are sized in the context of overall Fund NAV rather than invested capital, and this extract may not reflect CQS' ability to construct standalone portfolios nor be representative of a portfolio that would be managed either in composition or risk. The size of allocations may have led to different sub-portfolios being constructed leading to different risk and performance characteristics. [2]Bloomberg, BofA Merrill Lynch Global High Yield Index (HW00) as at 31 January 2010. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

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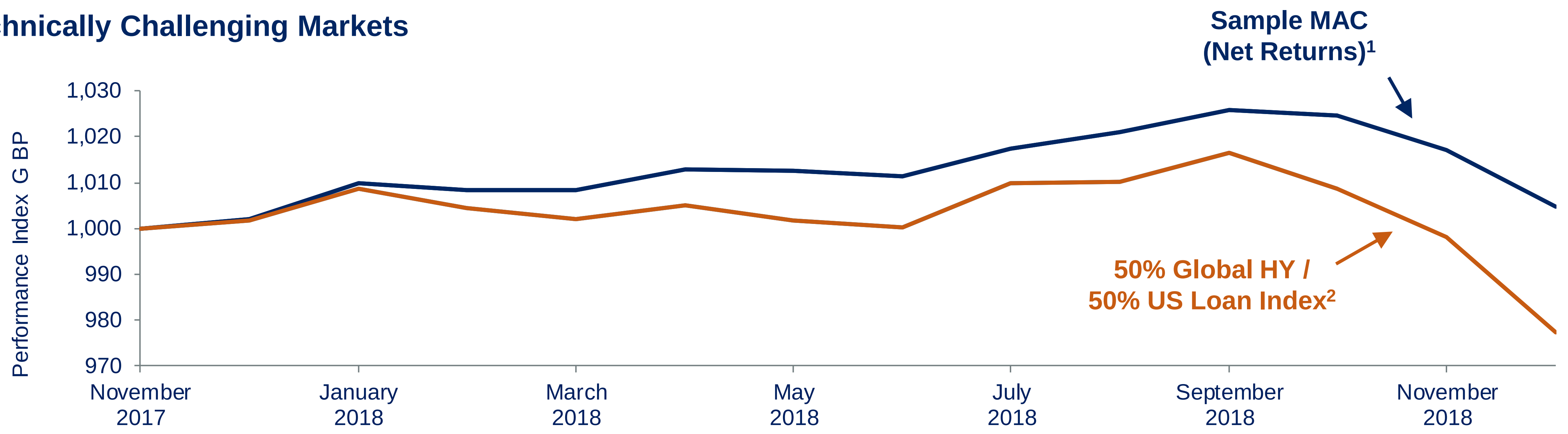
Conclusion: can multi asset credit outperform the broader market?

Capital Preservation in Recent Challenging Markets

Technically Challenging Markets

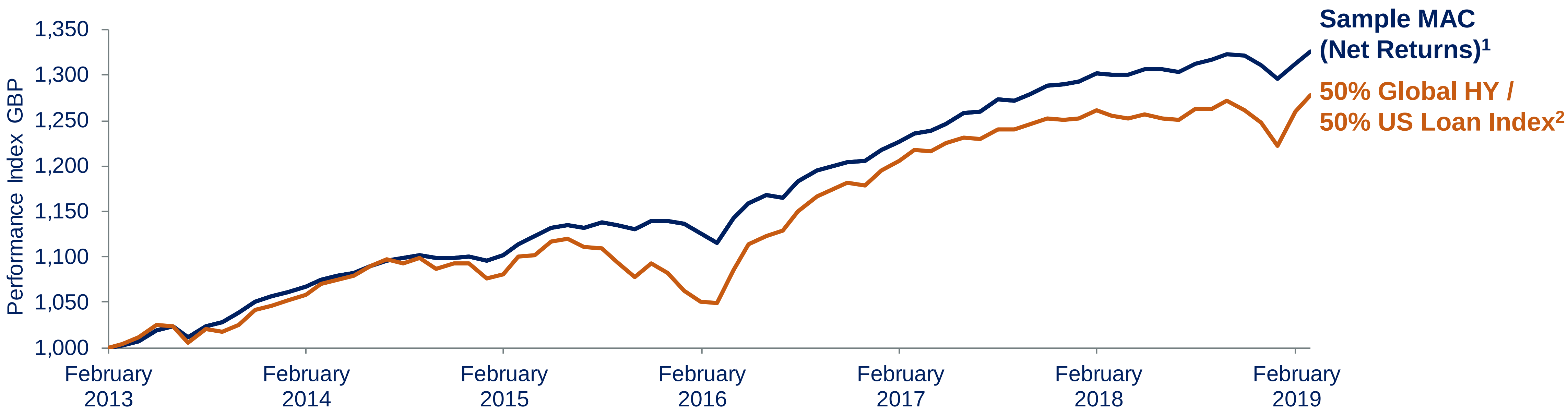


	Return[3]	Annualised Volatility[3]	Sharpe Ratio
Sample MAC Fund[1]	0.47%	2.16%	0.42
50% Global HY / 50% US Loan Index[2]	(-2.27%)	2.82%	(0.95)

Please note, the Performance Index GBP is based on a theoretical, non-investable share class. It is made up of a series of share classes in order to demonstrate the longest consistently available track record for the Fund. A breakdown of the index formulation is included at the end of the presentation.

Source: CQS as at 31 December 2018. [1]Returns reference the Performance Index GBP. [2]50/50 Index is a blended benchmark return comprising of the US LLI (Leveraged Loan Index) and the Global High Yield Index (HW00) expressed in Hedged GBP terms. The index is included merely to show the general trends in the period indicated and is not intended to imply that the fund is similar to the index in composition or risk. [3]Estimated returns and annualised volatility over the period starting from 1 September 2017 to 31 December 2018. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

Multi Asset Credit: Adding Value over the Long Term



Annualised Return LTD	**4.76%**
Annualised Return (Index)	**4.11%**
Annualised Volatility LTD	**2.21%**
Annualised Volatility (Index)	**3.65%**
Sharpe Ratio LTD	**1.91**
Sharpe Ratio (Index)	**0.99**

Please note, the Performance Index GBP is based on a theoretical, non-investable share class. It is made up of a series of share classes in order to demonstrate the longest consistently available track record for the Fund. A breakdown of the index formulation is included at the end of the presentation.

Source: CQS as at 28 February 2019. [1]Returns reference the Performance Index GBP. [2]50/50 Index is a blended benchmark return comprising the US LLI (Leveraged Loan Index) and the Global High Yield Index (HW00) expressed in Hedged GBP terms. The index is included merely to show the general trends in the period indicated and is not intended to imply that CMA is similar to the index in composition or risk. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

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The S&P European Leveraged Loan Index (ELLI) covers the European market back to 2003 and currently calculates on a weekly basis

Barclays US High Yield ex-Energy Index is a subset of the Barclays US High Yield Index excluding all energy related issuers. The index is weighted by the market value of each bond issue.

BofA Merrill Lynch US High Yield Index (H0A0) tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

BofA Merrill Lynch US High Yield Constrained Index (HUC0) tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market but caps issuer exposure at 2%.

Index Descriptions: It is not possible to invest directly in an index (continued).

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