



H2O AM LLP

Swing Pricing Policy FAQs Protection for investors against the dilution effect of the funds

Fundamental Principles adopted by H2O AM LLP

Since 24th June 2014, the AMF has authorized Swing Pricing in France for UCITS and FIA. H2O AM LLP has chosen to deploy this mechanism in accordance with the terms and conditions set out in the AFG charter, in line with these regulatory developments and in order to safeguard the interests of its holders over the long term.

Implementation of swing pricing concerns only those funds that have an interest in benefiting from this mechanism. In particular, holders may consult the prospectus for this information.

This Frequently Asked Questions (FAQ) aims to answer the various questions of the investors concerning the functioning of the mechanism and its impacts. It applies to both professional and non-professional clients within the meaning of MiFID.

This document is available on the H2O AM LLP website and is also available on request from H2O AM LLP by sending an e-mail to clientservices@h2o-am.com or by mail to: H2O AM LLP - Portfolio Management Services, 10 Old Burlington Street W1S 3AG London United Kingdom.

Glossary

Bid-Ask Range: The amount by which the price of the application exceeds the bid price. This is essentially the difference between the highest price a buyer is willing to accept for a security and the lowest price a seller is willing to accept to sell that same security. The size of the range depends mainly on the liquidity available on this security.

Ask Price: This is the price that a seller is willing to accept for trading on a security, (also referred to as the offer price). The quote will generally stipulate the amount of the security willing to be sold at the price.

Bid Rating: This is the price that a buyer is willing to accept for a trade in a security (bid price). As with the Ask Price, it also includes the number of securities available for purchase at that price.

Net collection: This is the net value of subscriptions, redemptions and transfers received by the Centralizing Agent on a fund at a given date.

Swing Total: With this model, the NAV is adjusted whenever there are movements in the liabilities of the fund, regardless of the size of the redemption orders received. The direction of Swing (up or down) is determined by the amount of the net collection of the day (positive or negative).

Partial swing: With this model, the fund's NAV is swung only when the net collection for a given day exceeds a certain threshold (i.e. the trigger threshold).

Net Asset Value (NAV): The Net Asset Value of a Fund is the net assets divided by the number of units outstanding.

Swing factor: The adjustment figure (which is normally expressed as a percentage) is the amount by which the NAV is adjusted to protect the existing holders of the fund from the dilution effect

caused by movements in the liabilities of the fund. The Swing factor is applied when the trigger threshold is reached (for partial Swing) or for any movement in the passive (for the Swing total). The swing factor can also be considered as an adjustment tool.

Trigger threshold: This is the level of net capital activity expressed as a percentage of the Net Asset Value or an absolute monetary amount of the fund (sometimes both). It is from this threshold that the partial Swing Pricing mechanism will apply. The elements that influence the determination of this threshold are described below in this document.

How does H2O AM LLP define dilution?

Within a fund (or portfolio), the purchase and sale of securities involve transaction costs such as intermediation costs, taxes and related liquidity.

Different effects occur between the quotation prices (mid) on each line of the portfolio and those treated by the portfolio manager when buying or selling securities corresponding to the subscriptions / redemptions movements. When the portfolio manager buys securities: he buys them on the basis of the Ask rating; and when he sells securities in his portfolio: he sells them on the basis of the Bid rating.

Clients investing in a fund are diluted as a result of the Manager's trading activities to achieve the investment objectives set out in the fund's prospectus.

How does swing pricing protect the present shareholders?

The objective of swing pricing is to offset the dilution effect for the existing non-trading investors, by making trading investors share in the transaction and liquidity costs. Swing pricing is a mechanism by which the NAV is adjusted upward (or downward) if the net cash flow received is positive (respectively negative) from a trigger threshold at the NAV calculation frequency.

Assuming that a small amount of subscriptions/redemptions of the shareholders does not entail significant transaction costs, H2O AM LLP opted for a partial swing pricing model with trigger threshold.

Swing pricing will therefore only trigger at a certain trigger threshold (ie, considering the net subscription/redemption balance of all shareholders) as a percentage of the fund's net assets.

In practice this means that if the net fund-raising for a relevant fund does not reach the triggering threshold, the NAV will not be "swung".

Net Inflows or Net Outflows below the Threshold: No Swing
Net Inflows above Threshold: Swing up

At H2O AM LLP, dilution is intended to always protect the interests of investors already in the fund.

When an investor redeems his or her units on a day when the net fund-raising exceeds the redemption trigger threshold, the price he receives will be adjusted downwards.

When an investor subscribes on a day when the net fund-raising exceeds the underwriting trigger threshold, the price he pays will be adjusted upward on the Ask quote.

When an investor subscribes on a day when the net fund-raising exceeds the trigger, the price he pays will be adjusted downward on the Swing Factor (ie. in his favour).

When an investor redeems his or her units on a day when the NAV price is increased due to subscriptions generated by other investors, he will redeem his units at an increased NAV to his advantage.

What is the methodology for calculating the "swing" net asset value?

At the frequency of calculation of the NAV, the net subscription/redemption amount is calculated as a percentage of the net assets of the fund. If this amount exceeds a predefined threshold, the mechanism applies at the fund level. As part of the implementation, all classes of shares/units of the fund are adjusted in the same direction, up or down, and for the same percentage.

If the trigger threshold is exceeded (in percentage), the fund is subject to a normal valuation in accordance with the valuation policies set out in the fund's prospectus. The swing factor is then applied to adjust the net asset value upwards in the case of net inflows, or downwards in the case of net redemptions.

In practice, holders will not know when the net asset value has been adjusted in order to preserve the equality of the holders. If adjusted, it is included in the published net asset value. At the frequency of calculation of the NAV, holders will continue to have the published net asset value, whether or not it has been adjusted. No information will be provided to indicate whether the NAV has been adjusted or not.

How are the levels of the swing factor and trigger threshold set?

H2O AM LLP has set up a committee dedicated to valuations in its weekly Risk and Compliance committee, which is responsible for managing Swing Pricing and validating the calibration of Swing Pricing parameters including triggering thresholds and adjustment figure of the funds concerned.

The amount by which the net asset value is adjusted (swing factor) varies according to the type of fund and is reviewed at least quarterly.

The trigger threshold is also reviewed at least quarterly. The Committee therefore defines the trigger level at a level that can protect the shareholders while minimising the volatility of the net asset value and ensuring that the net asset value is not adjusted when the dilution effect on the fund is considered insignificant.

The Swing Pricing Committee is chaired by the Deputy CEO in charge of Compliance and Risk Controls at H2O AM LLP and is governed by a well-defined policies and procedures (Pricing Policy, Operating Procedures, Confidentiality Management, etc.)

Swing Factor: This is the amount by which the NAV is adjusted. It may be different depending on the type of fund concerned, depending on the management theme. For example, an emerging bond fund is likely to have a larger Swing Factor than a euro zone sovereign bond fund in terms of liquidity and the costs of purchasing securities in their respective markets.

To determine the Swing factor, the following elements are taken into consideration:

- The Bid-Ask range, which is the key factor to include in the adjustment amount,
- The net brokerage fees paid by the fund,
- The transaction costs of the custodian,
- Any taxes and taxes on transactions,
- Subscription fees or redemption fees on the underlying funds, if any,
- Any Swing Factor, diluted amount or spreads applied to underlying funds or derivative instruments where applicable.

Adjustment thresholds

The Swing Pricing Committee determines the thresholds for the relevant funds at a level where it believes that this protects existing shareholders while minimising volatility on the NAV and ensures that the NAV is not adjusted when the dilution impacts on the fund are not significant. Each fund may have a different trigger threshold. To determine the triggering thresholds, the following elements are taken into consideration:

- The size of the fund
- The type and liquidity of the securities in which the fund invests
- Costs and therefore the impact of dilution, relative to the markets in which the fund invests
- The investment policy of the fund and to what extent it may hold cash (where assimilated) or, conversely, be fully invested in securities.

Can we get swing pricing settings?

In accordance with the regulations, H2O AM LLP will not disclose the parameters of swing pricing and has put in place procedures to restrict access to the parameters and flows of subscriptions/redemptions and to identify potential conflicts of interest.

Does the implementation of swing pricing generate additional costs?

Swing pricing does not generate additional costs for the holders. The mechanism only results in a different allocation of costs between the holders.

This tool is intended to ensure that the shareholders present do not bear the transaction costs when the manager is required to make transactions as a result of subscriptions/redemptions made by the holders in and out of the fund.

What is the impact of swing pricing on the risk and performance measures reported in the reporting?

The performance and risk indicators are calculated on the basis of the single net asset value that can be "swung". The application of the mechanism thus has an impact on the level of volatility displayed by the portfolio as well as on the calculated performance level.

Since the one-off effect of swing pricing on the net asset value is not linked to management, the outperformance fee is calculated before the application of this method.

How do I find out about swing pricing?

Investors are invited to contact clientservices@H2O-am.com for additional information.