



H2O  
Asset Management

H2O AM LLP

## H2O AM LLP

Simplified Outsourced Service Providers Policy  
for publication on H2O website

PROPRIETARY

## H2O AM POLICY & PROCEDURES ON OUTSOURCED SERVICE PROVIDERS

### 1. Selection of Third Party Providers

For each external service provider relationship entered into, H2O proceeds with an initial and ongoing due diligence, selecting and monitoring the on-going performance of the specific provider.

#### a. Policy for selecting key vendors

H2O has implemented a procedure which applies to third party vendors providing a significant service on which it depends for its business (e.g. distribution, transfer agency etc.), and which service could cause severe damage (in terms of financial or client loss, regulatory sanction, legal liability, business disruption) if it is not performed. The responsibility of the implementation of this procedure is under the Deputy CEO. All new third parties and contracts should be approved by the Executive Committee.

H2O is responsible for deciding if a service provider is a Key Vendor, in a manner consistent with its business and regulatory constraints. Key Vendors include: sub-advisors; fund administrators, transfer agents and custodians; IT service providers to whom IT systems are outsourced, or to whom maintenance of books and records have been outsourced; payroll and corporate tax service providers; corporate auditors.

H2O ensures that Key Vendors are selected in a reasonable manner. The selection is tailored to the business and complies with local regulations, using the following criteria:

- Qualitative information; such as the reputation, track record, control environment and expertise of the Key Vendor, non-financial contractual terms offered, conflicts of interest, and factors to evaluate the capabilities of the Key Vendor to meet the needs and expectations.
- Quantitative information; such as the human, technological or other resources in relation to the Key Vendor's ability to perform.
- Business information (e.g. financial terms available) and other business considerations: ability to take advantage of volume or pricing power, build new or enhance existing vendor relations, diversify existing relations, address client needs, access to certain opportunities, etc.).

#### b. Due diligence on key vendors

During the selection process, H2O performs a due diligence based on the nature and scope of the business and the services to be performed, including the complexities involved and the consequences of non-performance or negligent performance, the vendor's size, history and reputation, existing relationships and experiences with the vendor.

In performing due diligence, H2O ensures that:

- The Key Vendor has the adequate means and resources in order to:
  - Provide the expected quality of service;
  - Report periodically to the affiliate on the performed activities;
- a business continuity plan is in place;
- Confirm that there is a process in place to protect confidential and personal data;
- Perform adequate Risk and Compliance controls.
- The Key Vendor has the appropriate regulatory licensing or authorization.
- H2O, its internal auditors and regulators will have reasonable access to the Key Vendor's records on premises, as appropriate.

## 2. Monitoring and control Process at H2O AM

This section reviews how any outsourced functions are managed: how they are regulated, managed and monitored.

The terms of service are detailed in a written contract which may include the following:

- Definition of the mutual rights and obligations of the parties;
- Provisions of adequate remedies at law or equity in case of breach by the Key Vendor;
- Assurance that the Key Vendor is able to comply and demonstrate its compliance, with applicable regulatory requirements; and
- Specification of appropriate incentives, penalties, and termination rights of H2O, to ensure service quality and compliance.

Throughout the duration of the contract, H2O will maintain adequate oversight of the Key Vendor's activities and services provided. To meet this obligation, H2O will maintain sufficient resources and expertise. The relations with the Vendor are reviewed at least annually.

The monitoring procedure is as follows:

- Review information reported by Key Vendors (e.g.: ISAE 3402 Type II reports, internal compliance reports, financial statements, service level reports, etc.);
- Review Key Vendor Compliance Policies and Procedures Manuals Service Level Agreements (SLAs) and other types of contracts and testing results;
- Conduct regular oversight meetings with Key Vendors as necessary, and Performing on-site visits to Key Vendors as necessary, either directly or through agents;
- Review data and metrics designed to assess the overall effectiveness of the Key Vendor relationship and the performance and quality of services provided by the Key Vendor;
- Consider events potentially having material legal or regulatory consequences;
- Review material changes in Key Vendor organization and/or personnel;
- Review information obtained from Key Vendor during regular interactions;
- Review the safeguards in place at the Key Vendor to protect confidential information and personal data;
- Review the Key Vendor's business continuity plans and results of testing, if available;
- Identify alternative vendors to replace key vendors if appropriate.

## 3. Reporting

The Deputy CEO will report to the Executive Committee at least once a year, with an update on the service providers. They will also inform the Audit Committee on Compliance and Risk (CCR). The format and content of the reporting should be consistent with the requirements of NIM's Enterprise Compliance Program, as amended from time to time.

