H2O Communication

London – Wednesday, September 16, 2020

Dear investor, dear partner,

Following our latest communication, we would like to provide you with additional explanations regarding the side-pocketing mechanism, and to give you more details on the Tennor-related instruments, in both asset and risk terms. We will get back to you shortly with more information, especially concerning the reopening timetable.

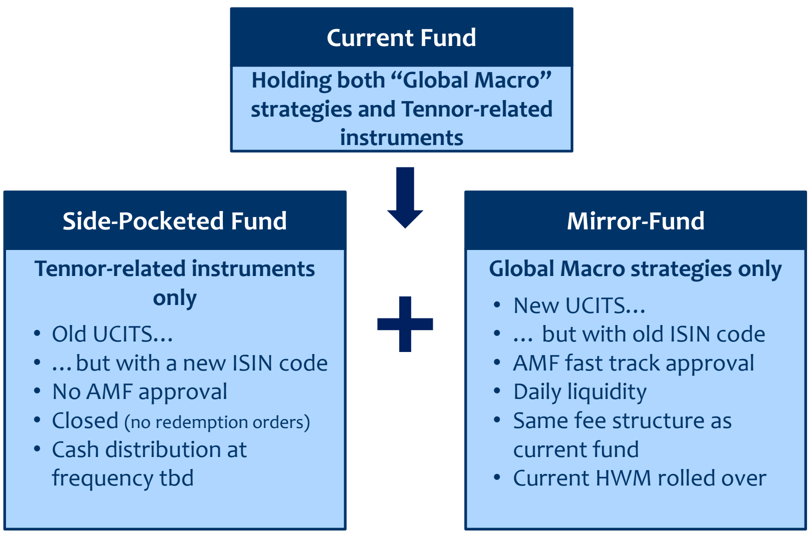
The AMF's request that H2O temporarily suspend three funds, namely H2O MultiBonds, H2O Allegro and H2O MultiStrategies, and consequently H2O's decision to suspend the four other UCITS also exposed to these instruments (H2O Adagio, H2O Moderato, H2O MultiEquities and H2O Vivace), was accompanied by the announcement that H2O would implement side pockets.

The side-pocket mechanism consists in splitting each fund into two UCITS: a mirror UCITS with daily liquidity that will duplicate H2O's Global Macro investment strategies, and a side pocket that will carry the Tennor-related instruments, with the objective to sell them at the best possible price, in the shortest timeframe, and in the best interests of our investors.

The suspension period corresponds to the estimated timeframe needed to set up the new scheme for each suspended fund, and to subsequently segregate the assets. The mirror funds will have the same characteristics and management guidelines as the existing ones; they will also keep the same ISIN codes, but they will carry the suffix "FCP" added to their respective names. New ISIN codes will be created for the side-pocketed funds.

Once the split is effective, a client who currently owns one unit of "H2O MultiBonds", for example, will end up holding one unit of "H2O MultiBonds FCP" (i.e., the mirror fund) and one unit of "H2O MultiBonds SP" (i.e., the side-pocketed fund with the Tennor-related instruments being liquidated).

H2O side-pocketing following temporary suspension



Source: H2O AM. For illustrative purpose only.

The *Evergreen* contract, which specifies the execution timeline, is expected to be fully completed per its terms by the end of June 2021. The time needed to liquidate the side pocket will thus depend largely on the proper completion of this contract. At the time of writing this note, completion is delayed, and we are not able to predict when it will be completed, or whether H2O will have to go through alternative routes to liquidate these positions.

We would also like to bring to your attention the two ways these exposures to the Tennor-related instruments may be assessed, namely in terms of size, and, more importantly, in terms of risk.

The side-pocketed funds will hold both the on-balance-sheet Tennor-related instruments as well as the buy and sell backs. Based on our internal risk analysis, the risk exposure should end up smaller than the estimated asset size of the side-pockets that we have previously communicated. We believe this because, in our view, the buy and sell back exposure is tantamount to the value of the underlying instruments held by the funds minus the value of the extra-collateral.

The extra-collateral is made up of the same Tennor-related instruments, with the same valuation uncertainties. For two of the suspended funds, namely H2O MultiBonds and H2O Allegro, there are also cash provisions in place to cover any shortfall related to the "sell back" valuation, up to the provisioned amount and after taking into account the extra-collateral received in instruments.

Therefore, the risk exposure of the Tennor-related instruments is the sum of their value on the balance sheet plus that of the "buy and sell backs", from which we deduct the extra-collateral in securities and, for both aforementioned funds, the cash provisions.

At present, the valuation of the instruments is already discounted by approximately 60% from their nominal value. In addition, according to our estimates, the extra-collateral instruments (mainly shares of Tennor Group companies) and the cash provisions represent between 35% and 50% of the size of the side-pocketed funds; these estimates could be revised in the event of transactions or new elements leading to a revision of the fair value of the instruments.

Again, the valuation uncertainties surrounding the instruments held on the balance-sheet as well as those providing an extra-collateral to the "buy and sell backs" have been previously highlighted. To be sure, the downside risk is that these estimates could be significantly marked down should the Tennor Group companies come under major difficulties.

It is also important to stress that the mirror-funds will not accrue any performance fees until the 2020 underperformance of the existing funds versus their current High Water Mark is fully recouped. Indeed, we have systematically put in place a HWM scheme with no reset, as described in the fund prospectuses.

The side-pocketed funds will not be neglected; our objective remains to sell their assets in the best interests of our investors, meaning at the best price.

On the day the mirror-funds open, the investor will hold units in both funds. The sum of their values will be equal to the net asset value of the existing fund as at 28 August 2020 plus or minus the performance of the two new funds during the suspension period.

If you would like the proceeds from the reimbursement of your side-pocketed fund to be reinvested, free of charge, in your new mirror fund, we invite you to contact your financial advisor.

We remain fully committed to delivering to all our investors a positive performance at their investment horizon. Our motivation to succeed has been boosted in the face of adversity.

We thank you for your confidence over the past years and particularly for your support during the last few days.

Edited in London on Wednesday, September 16, 2020.