



**H2O**  
Asset Management

# H2O AM Group

## Proxy Voting Policy

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## I- Business structure and policy coverage

H2O Asset Management LLP (referred to as “H2O AM”, “Firm”, “Entity” or ‘it’) is an asset management company authorized and regulated by the UK Financial Conduct Authority (“FCA”). It’s the parent company of:

- The wholly-owned subsidiaries: (a) H2O AM Europe, registered in France as an asset management company and regulated by the Autorité des Marchés Financiers (“AMF”); (b) H2O AM Asia Pte. Ltd, registered in Singapore as an asset management company and regulated by the Monetary Authority of Singapore (“MAS”); (c) H2O Monaco, registered in Monaco as an asset management company and regulated by the Commission de Contrôle des Activités Financières (“CCAF”).
- Other subsidiaries: (d) Prometheus Wealth Management is an independent wealth management company registered and regulated by the Commission de Contrôle des Activités Financières (“CCAF”); (e) Poincaré Capital Management is a Hong Kong based investment management firm licensed and regulated by the Hong Kong Securities and Futures Commission.

Note : H2O AM and its wholly-owned subsidiaries will be hereafter individually referred to as the “Firm”, “Entity” or “Affiliate” and collectively referred to as the “Group H2O AM”, “Firms”, “Entities” or “we”.

This Proxy Voting Policy (referred to as “Policy”) is applicable to all Entities belonging to Group H2O AM and its Employees (referred to as “Employees” or “Staff”). Where necessary, each Entity may have an additional policies and procedures that will supplement this policy when is required by the local National Competent Authority (referred to as “NCA”).

Subsidiaries that are not wholly owned shall have their own policies that should comply with the key principles of this Policy.

## II- Introduction

As an asset management company, H2O AM LLP has a fiduciary responsibility and duty of care to shareholders to monitor changes in the value of their investments and to exercise the ownership rights attached to the securities held in the portfolios it manages. Therefore, H2O exercises its voting activity in the exclusive interest of its shareholders.

H2O’s investment approach is top-down and global macro. As such, the primary criteria used when making investment decisions relate to macroeconomic themes, market data and broad asset risk considerations rather than a bottom-up analysis of individual corporations and sectors.

- The majority of H2O’s positions are taken through derivatives contracts such as futures, options and CFDs
- A number of H2O’s products have no exposure to equities, however, even for those products in H2O’s product range that do have equity exposure, the stock picking element in the portfolio is small as we implement a top down investment approach across all asset classes. Most of our equity exposure in such funds is through futures on indices or CFDs.

Therefore, the application of proxy voting within H2O’s products may be limited.

Having said that, where the funds do invest in individual equity securities, H2O is committed to engagement with the management of the companies by exercising our proxy voting rights.

H2O AM has defined, since its inception in 2010, a proxy voting policy based on the market best practices and principles defined by the Natixis Group. The principles refer to the best rules for corporate governance as defined by the OECD, “good governance is a cornerstone for improving the efficiency for growth as well as investors confidence”.

The principles set out of this voting policy aim to define H2O’s framework for independently analysing resolutions submitted and exercising voting rights in an informed manner solely in the interest of clients. The principles are reviewed annually to integrate the latest legal and regulatory updates as well as market best practices, based on the use of a third party provider for the analysis of resolutions. In certain countries it may be the case that governance practices are stricter than the proxy voting of our policy. In these cases H2O will adopt the stricter rules, unless it concerns mid-caps, where the voting principles are adapted to the nature and size of the companies of investment.

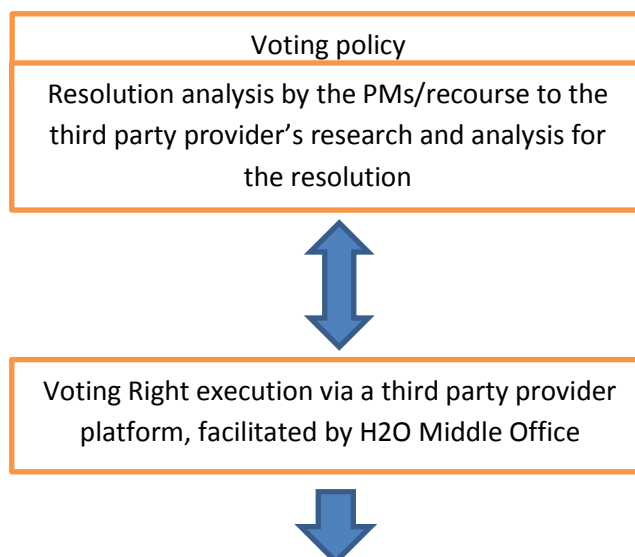
H2O’s primary focus with regards to proxy voting assessment lies with the companies’ governance. However, we also look at ways to integrate Environment and Social considerations into our decisions where it is practicable and appropriate.

### III- Organisation of H2O AM for proxy voting

The proxy voting at H2O AM is based on the expertise provided by a third party provider.

The voting process is organised as follows:

- Shareholder meeting resolution is assessed based on the third party research and the analysis of the relevant portfolio manager where applicable, taking into the account the H2O Proxy Voting Policy and industry’s best practices.
- The Middle Office team is in charge of processing the voting instructions with the relevant custodians, utilising the third party voting service provider. This also allows us to keep record of and aid with the reporting of the voting activities of H2O.



## IV- Operational aspects and framework of proxy voting

It is the policy of H2O AM to use the services of an independent third party provider in charge of:

- Informing H2O AM of shareholder's meetings,
- Analyse resolutions given the voting principles of H2O AM,
- Make available the voting for H2O AM via a voting platform,
- Transmit the voting instructions to the security issuer.

This provider is in direct contact with the custodians and service providers to obtain the holdings of concerned securities. This process is also co-ordinated by our Middle Office team.

When using the voting platform, two situations may occur:

- For French securities: Votes are cast by completing the voting form made available on the platform by the proxy and posting or e-mailing the form. The custodians check and adjust the positions in the accounts for which a vote was recorded and send the forms to the issuer. It's also possible to participate in shareholder's meetings.
- Non French securities: Voting instructions are made on the voting platform and the proxy passes the instructions to the service providers.

H2O AM will exercise its voting rights in all situations, except as a consequence of specific factors. The best interests of clients are always a priority.

The selection criteria are as follows:

- France : all securities,
- Europe (ex France), Japan, USA : threshold of 0,01 %,
- Others: threshold > 0.5%

Exceptions: portfolios where the investment process is constrained by the securities having to stay in the portfolio during the voting period, which in turn may prove unfavourable for clients.

## V- Policy for securities lending

For shareholder meetings H2O's policy is to exercise the voting rights and repatriate the securities.

## VI- Principles for the analysis of resolutions

The principles defined in agreement with the third party provider may need to be adapted depending on the country where the companies are based and local regulations, and may concern all securities of the large Cap universe. Transparency, reliability and consistency of the financial information will reinforce the confidence among the various participants with regards to corporate governance.

When the review by the service provider calls for an abstention vote and the local regulation does not allow for this, H2O AM will vote against the resolution.

## A. Shareholders Meetings

### 1. Agenda

Depending of local regulation, the shareholders should validate:

- The opening of the meeting, the agenda, and its compliance with local regulations,
- The required quorum, and the election of a shareholder's chairman,
- The designation of shareholders which will sign the meeting minutes,
- The publication of the minutes.

We usually vote FOR these resolutions.

### 2. Prior Information

As agreed with the third party provider, we will vote AGAINST a resolution of the company that does not provide with sufficient time for the analysis, or proper information to document a voting decision.

## B. Transparency and quality of Financial and extra Financial information

### 3. Financial information, annual reports and auditors' reports

We usually vote FOR the resolutions requesting the approval of the auditor's reports, with the following exceptions:

- If there are reservations on the past decisions of executives of the company;
- If auditors have not certified the accounts or their report is not in the report of the company;
- If an executive of the company is a member of the Audit Committee.

### 4. Net earnings allocation and dividend distribution

#### a. *Net earnings allocation and dividend distribution*

It is the policy of H2O AM to usually support the resolutions for net earnings allocation and dividend distribution, except if the distribution is unusually low or high, which will be subject to a case by case vote, as compared to the history of distribution for the company, the points of the management, and the financial situation of the company. H2O AM seeks not to favour excessive distribution which would hamper the financial strength of companies or their long term investment capacities.

Specific case: Japan

H2O AM does not support any status change allowing the board to determine the net earnings allocation policy and will vote against any such change or resolution.

#### b. *Payment of dividend in shares*

Generally, it is the policy of H2O AM to support the payment of dividends in shares if the shareholder offers the possibility of payment in cash, and if the discount stays within 10 %.

H2O AM will vote against any resolution not offering the possibility of cash payment, except when the management proves that it is preserving the financial strength or solvency of the company.

#### c. *Resignation of the board / Management and Auditors*

H2O AM will vote against the resignation in all countries where the approbation will raise difficulties against any future legal action against the board, the management, or the auditors.



In other situations, H2O AM will vote for the resolutions, unless there is reliable information related to inappropriate conduct or fraud of any board member or company's executive, or if auditors have not certified the accounts.

## **C. Supervision of Internal control and risks**

### ***a. Designation of Auditors***

H2O AM favours to change auditors every six years, unless there are specific situations.

H2O AM supports resolutions for the designation of auditors unless:

- Their identity is not disclosed;
- The auditors are not independent or have interests linked or had previous consulting services to the company;
- The fees paid ex Audit > 50 % Audit fees;
- If there are unexplained difficulties with the accounts or Audit procedures.

H2O AM will not vote if the Audit fees and the breakdown between Audit and consulting fees are not disclosed.

Specific case: Designation of internal Auditor in Italy

This is undertaken using a voting system ("voto di lista"). At least two lists are submitted to the shareholders vote, one list proposed by majority shareholders, one list by minority shareholders.

H2O AM will vote for the minority shareholders list.

H2O AM will vote against the resolution requesting the designation or renewal of internal auditors if the lists are not available ahead of the vote.

### ***b. Remuneration of Auditors***

H2O AM will vote for the resolutions authorising the Board to determine the remuneration of the Auditors, unless the amount is not in line with the size and business of the company, and if:

- If the fees paid ex Audit are > 50 % of the fees paid for Audit purpose
- If there are unexplained difficulties with the accounts or Audit procedures
- If the Auditors have been replaced without any explanations.

H2O AM will vote against any indemnities for the Auditors for risk related to their responsibility.

H2O AM will not vote if the Auditing fees are not disclosed or if the company does not disclose the breakdown of fees between auditing services and consulting.

### ***c. Independence of Auditors***

H2O AM will vote on a case by case basis on shareholders resolutions requesting to forbid one auditor to propose other services than audit services subject to the following information:

- Amount of consulting fees compared to Audit fees (maximum 50% of Audit fees),
- Existing dispositions to prevent conflicts of interests.

## **D. Management of Conflicts on interests**

### ***a. Regulated contracts***

H2O AM does not favour regulated contracts involving board members. H2O AM will vote resolutions requesting the approval of the Auditors report on those regulated contracts based on the followings:

- Who are the people concerned by the regulated contracts,
- The detailed content of the transactions,
- The remunerations agreed for the transactions,
- The interests of the shareholders.

H2O AM will vote against the Auditors report on those regulated contracts if:

- The report is not available 21 days prior to the shareholders meeting,
- There are contracts which are against the interests of shareholders even if they have been approved by prior shareholders meetings.

H2O AM's recommendation is that new regulated contracts should have respective separated resolutions. Where this is not the case, H2O AM would vote against the resolution, as well as any contract not aligned with the interests of the shareholders.

H2O AM will vote against one resolution related to the severance indemnities of one executive of the company not aligned with the voting principles of H2O AM.

## **VII- Structure of Governance**

H2O AM considers that the board of directors' role is key in the long term growth strategy and risk management of the company. In this order, H2O AM seeks that companies should have robust governance in place, with an adequate balance of powers and controls, as well as transparency for each internal body. Those principles apply in agreement with the third party provider.

H2O AM considers that the composition of the Board is key: the capacity of its members to understand strategic issues, control the implementation of the executive decisions, have complementary expertise and experiences in terms of nationalities, gender, past professional cursus as well as initial university background, is a pre-requisite for efficient governance.

It is also a recommendation of H2O AM that a regular evolution of the governance should be in place.

### **i. Quality of the Governance structure**

#### **1. Modification of the governance structure of the company**

H2O AM does not recommend any particular governance structure.

H2O AM will vote for the modification of the governance structure allowing for a segregation of duties. Any other situation will be reviewed on a case by case basis.

Specific Case: Japan

H2O AM will vote for the modification of the governance structure with statutory auditors towards an organisation based on Committees, apart if the board does not include at least two independent members (with the application of the specific criteria defined for Japan board members).

#### **2. Cumulating of Chairman of the Board functions with CEO functions**

H2O AM favours the segregation of those functions. It is a sound principle to separate executive and control functions. In case of a cumulating of functions, H2O AM vote for the resolutions based on the following:

Rational put forward by the company for such organisation,

Governance principles and practice of the company, including the controls implemented within its committees,  
Controls implemented to manage the conflicts of interests generated by the cumulating of functions.

In case of such combined functions, H2O AM recommends that a specific independent vice president (VP) should be appointed at the Board level, whose responsibilities would include the following:

- Monitoring of the governance bodies,
- Monitoring of the chairman's evaluation,
- Management of conflicts of interests situations that may arise
- Monitors the agenda of the board and raise governance topics
- Organise a board meeting in the absence of executive management

The role of this independent VP should be defined in the status of the company or terms of business of the board.

### **3. Size of the Board**

H2O AM will vote against resolutions proposing to cut the number of board members below 3 or increasing it above 18. H2O AM votes in favour of other resolutions on the number of members unless:

- It reduces the quality of the composition or the independence of the board or related committees
- It favours the control of the company by its executive management or its major shareholders against the interests of other shareholders.

Specific case: Japan

If the size of the board is important, H2O AM will vote for the reduction of the size, unless there are no independent board members, or if it does not allow for enough flexibility.

#### **ii. Quality of the composition of the Board and its committees.**

H2O AM will vote for the designation of a Board member based on the transparency of the designation process, the qualities of the person, its independence, competencies and expertise, and global added value to the company and the board.

##### **1. Designation of Board members**

###### ***a. Transparency of the designation process***

H2O AM recommends that boards should be transparent regarding the board members selection process and criteria. H2O AM will vote against the designation or election or re-election of board members if the candidates are not available or do not dedicate enough time to their functions.

###### ***b. Renewal and annual vote***

H2O AM will vote for resolutions organising the progressive renewal of board members at several stages, apart when this scheduling may be assimilated to anti IPO measures (ex USA).

###### ***c. Proposals linked to the board members election or designation***

H2O AM vote against all linked propositions which could be voted separately especially when it concerns board members as it is a way to strengthen the board powers at the detriment of the shareholders. H2O AM considers that the election of the board members should be made under a separate vote for each of them with no linked propositions.  
H2O AM will vote against the election or re-election if there is a unique list of candidates.

Specific case: Italy with the “voto di lista”:

H2O AM will vote for the list of the minority shareholders, unless:

- The lists are not published within sufficient time to allow for a voting decision ;
- H2O AM does not have enough information on the candidates.

## **2. Independence of the Board and Committees**

### ***a. Independence of the Board***

- For controlled companies: H2O AM recommends that the Board should be comprised of at least 33.3 % independent members. Otherwise, H2O AM will vote against the election of not independent members (except for the CEO)
- For companies not controlled: H2O AM recommends that the Board should be comprised of at least 50 % independent members, and that when Chairman and CEO functions are split, the Chairman should be independent. Otherwise, H2O AM will vote against the election of not independent board members. (With CEO exception).

Specific case: German companies

In this case, as the board is comprised of at least 50 % of employees’ representatives, H2O AM recommends that the board should be comprised of at least 33.3 % independent members.

### ***b. Designation of controller at the board***

H2O AM does not favour the designation of controllers at the Board and will vote against any such resolution, unless it is exceptional and temporary.

### ***c. Independence of committees***

H2O AM recommends that boards should have committees for Audit and remuneration as well as designation. The terms of reference of those committees should be defined by the board status. H2O AM recommends that those committees should have independent members (at least 2/3 for Audit) and be chaired by independent chairman.  
H2O AM will vote against the election or re election of any executive board member if he is a member of the Audit or remuneration Committee.

## **3. Complementarity of the Board**

### ***a. Competencies***

H2O AM recommends that board members have necessary competencies to understand the business of the company and its environment.  
H2O AM will vote against the election of a board member if the company does not provide the information required for evaluating his competencies.

### ***b. Diversity***

H2O AM recommends having a board composition allowing for diversity in terms of background, training, nationalities, balance of gender, and expertise complementarities.

### ***c. Ethics***

H2O AM will vote against the election of a board member who would not have demonstrated good governance in his previous responsibilities.

## 4. Availability of Board members

### *a. Length of a Board member mandate*

In order to favour a one third renewal every year, H2O AM recommends a length of three years for a board member mandate. H2O AM will vote against the election or re-election of a board member (except for the CEO), if the length of the mandate is above 4 years or not disclosed. When relevant, H2O AM will apply a stricter rule should this be a local regulation requirement.

### *b. Cumulating of board members or chairman mandates*

H2O AM includes in its evaluation of the availability of board members, the number of mandates of each candidate as well as controller functions.

H2O AM recommends:

- For board members with no executive functions, a limitation of the number of mandates to 5 in total or 4 if the board member is a Chairman of any board. In case of 2 chairman mandates cumulating, the number should be restricted to 3 including the two Chairman positions.
- For board members with executive functions, there should be a limitation of the number of mandates to 3 in total. In the case of a chairman, the limitation should be at 2 in total including the chairman position. In this case, H2O AM is not in favour of the cumulating with another mandate.

### *c. Crossed Mandates*

H2O AM does not favour crossed board members, unless it is part of a strategic partnership.

### *d. Attendance*

H2O AM will integrate for the evaluation of a candidate, its effective presence and participation to board meetings.

## 5. Election of shareholders' representatives

### *a. Election of shareholders' representatives unemployed by the company*

H2O AM will vote for the election of shareholders' representatives unemployed by the company if:

- Their nomination is a real added value for the governance of the board;
- Their nomination does not jeopardise the balance of the board with regard to its independence.
- The principle of proportionality between the equity shares and the number of mandates should be implemented.

H2O AM will vote against any candidate election if it is a representative of another corporate body or if the name of the candidate has not been communicated in advance.

### *b. Election of representatives of employed shareholders*

H2O AM is in favour of the presence of representatives of shareholders employed within the company at the board. H2O AM recommends a full transparency of their selection, and will vote for the representative with the highest number of votes among the shareholders employed by the company.

## 6. Specific cases: board members in the UK and in Japan

H2O AM applies the best practice as set up by the UK governance code.

### Japan:

Companies with statutory auditors (“Kansayaku-kai”)

#### Designation of board members:

H2O AM recommends that the board should be comprised of at least two independent members, and will vote for the appointment of a director, unless:

- The Director is not independent and the board has less than two independent directors;
- The board member has a proven track record of poor governance practices;
- The attendance rate of the board member to the board is below 75 % (in case of re-election)

#### Nomination of statutory auditors:

H2O AM votes the designation of statutory auditors unless:

- The statutory auditor is considered as non-independent as per the criteria defined in Japan;
- The statutory auditor has an attendance rate < 75%.

#### Companies with board and committees structure:

H2O AM will apply the same principles as per its general policy, with a focus on the definition of independence as per the criteria implemented in Japan.

## **VIII- Shareholder rights**

Companies should implement the appropriate steps and principles to ensure a fair treatment to all shareholders. It is the policy of H2O AM to encourage companies to implement the « one share-one voting right » principle, and not have any recourse to arrangements to avoid IPOs or any control change. H2O AM considers that companies should seek an appropriate alignment of their long term strategies and interests, the interests of their shareholders and stakeholders, and the anti IPOs measures.

### **a. Fair and equitable treatment of shareholders: voting rights**

H2O AM is in favour of fair treatment of the shareholders, as based on the following principles:

- « 1 share - 1 voting right »,
- The absence of voting right limitations,
- The absence of special rights.
- H2O AM evaluates in each case the resolutions deviating from those principles, taking into account:
  - The rationale behind the non respect of the equality of treatment of shareholders,
  - The risk generated for minority shareholders, and mitigation steps taken to preserve their interests
  - The added value generated with a long term durable growth perspective for the company,
  - Governance practices for the company.

H2O AM will vote against resolutions giving a discretionary power to the board to restrict the shareholders rights.

### **b. Respect of the shareholders' rights**

#### **i. Disclosure of shareholders regulatory levels**

H2O AM will vote against any resolution seeking to lower below 5 % the level where it is compulsory to declare a shareholding or participation.

## **ii. Necessity of qualified vote to modify charts or status**

H2O AM will vote against such resolutions and will vote for lowering the number of votes required to modify charts or status.

## **iii. Necessity of qualified vote from shareholders to approve a merger**

H2O AM will vote against such resolutions and will vote for lowering the number of votes required to approve a merger.

## **iv. Necessity of qualified vote from shareholders to dismiss a board member**

H2O AM will vote against resolutions.

## **v. Change in country headquarters, development of company**

Such propositions are reviewed on a case by case basis.

## **vi. Cancellation of the shareholders' approval for the issuing of bonds**

H2O AM will vote against such cancellation resolutions.

## **vii. Amendments for management buy-out (Japan)**

In Japan, H2O AM will vote against such amendments when used as poison pills.

## **viii. Other status modifications**

They will be reviewed on a case by case basis, with the following criteria:

- Preserve the shareholders rights
- Incidence of the status modification on the shareholders' value,
- Rationale provided by the management,
- If the company has to comply with a new law or regulation.

## **c. Anti Takeover Measures**

### **i. Poison pills**

H2O AM is not favourable to poison pills. H2o AM recommends that such poison pills should be approved by the general shareholders' meeting, and will consider on a case by case the poison pills propositions, within the specific situation of each company and its impact on minority shareholders or other stakeholders.

#### Specific case: France

Under the Florange law, H2O AM will consider on a case by base basis the quality of the practices of the corporate governance. H2O AM will assess financial authorisations that do not specify the exclusion of use during a takeover bid period according to the guarantees provided by the board regarding the use of such authorisations in the long-term interest of the company.

#### Specific case: Japan

H2O AM will consider on a case by case the poison pills propositions and vote against if:

- The board is comprised of less than 20 % of independent members;
- The attendance rate of independent board members is < 75 %;

- When shareholders do not vote every year for board members
- A member of the takeover bid evaluation committee is not independent;
- The trigger level for is low (below 20 % capital controlled by the aggressor);
- The poison pill exceeds three years;
- Other protection arrangements have been set up: agreement with company's partners with controlling shares, elimination of board vacancies, change to dismiss a board member etc...)
- The company has not communicated the documentation at least three weeks before the shareholders meeting;
- The company has not communicated in a transparent way on its financials;
- The company has demonstrated a poor track record governance for its shareholders;
- The performances of the company have been poor for several years.

#### **ii. Utilisation of instruments for shares subscription exchange or creation**

H2O AM does not approve the creation of such instruments, unless it may create value for minority shareholders as they may use them to strengthen their positions.

H2O AM will require that the following principles apply:

- Limitation of capital dilution to 25 %,
- The independence level of the Board
- The information and guarantees of the board that it will take its decision in full independence.

In case such criteria are not fulfilled H2O AM will vote against the resolutions.

#### **iii. Specific case: Netherlands (Protective Privileged Shares)**

H2O AM will evaluate the propositions on a case by case based on the following:

- The board approves the scheme and shares issuing, provided that the board is independent as per H2O AM criteria and the Netherlands governance code;
- There should be no warehousing or pact between the company and the foundation
- The authorisation for the issuing should not go beyond 18 months maximum;
- There are no priority shares, as well as no other protection or poison pills;
- The foundation's board should be 100 % independent ;
- Confirmation by the company that it is not intended to block an IPO.

The PPS are issued for 6 month maximum (general shareholders meeting to extend the scheme).

#### **iv. Specific case: United States (Proposal of shareholders)**

We vote Against any proposal to restrict the ability of shareholders to act by written consent.

We vote Against any proposal to limit the ability of shareholders to convene a general meeting.

We vote Against any proposal to voting by qualified majority

## **IX- Principles of remuneration: policies and System**

The remuneration system of executives may directly influence the strategy of the company and the level of risk taken. The various remuneration mechanisms in place should be correlated to the financial and non financial performances and integrate the long term value creation for the company. The



performance criteria should be measurable, adapted and consistent. Employees should be associated to the results of the company.

## **a. Transparency and quality of the policy remuneration**

### **i. Composition of the remuneration committee**

H2O AM will consider if the committee is mainly independent and chaired by a director with no interest. H2O AM does not favour the presence of executive directors on the remuneration committee.

### **ii. Transparency of remuneration**

H2O AM is in favour of an annual shareholder vote on remuneration policies and will vote for any measure to that effect.

H2O AM is in favour of any proposal aimed at improving the transparency of remuneration, particularly any proposal to better assess the remuneration systems and policies in force within a company.

### **iii. Report on remuneration (excluding UK)**

H2O AM will look on a case by case basis at the propositions of the board on the approbation of the report on remunerations. The remuneration policy should be aligned with the long term performance of the company and should avoid excessive risks.

H2O AM can vote against remuneration resolutions when:

- The remuneration policy and report have not been made available with sufficient time to review.
- The remuneration policy information is not transparent with regard to good practices.
- The breakdown of the executives' remuneration between fixed and variable, short term and long term is unbalanced and not focused on long term value creation
- The board wants a discretionary power to modify its remuneration policy: salary increases, pension plan increases, modification of remuneration plans without proper rationale.
- For short term horizon remuneration:
  - The short term remuneration policy is not aligned with the strategy of the company.
  - There is no clear and consistent information on the performance criteria, parameters and triggers
  - There is no correlation between the variable remuneration allocated and the evolution of the results of the company, with no clear rationale provided.
  - There is no consistent information on the targets set up for the previous years or the level reached.
- For long term horizon remuneration (in shares):
  - There are existing allocation plans with a dilution effect > 10 %.
  - There are stock options plans with a discount.
  - There is no information on the allocation to top executives, or it is not aligned with practices.
  - The period for the allocation and the non-exercise of free allocation shares plans is < 4 years; the allocation period for stock options is < 3 years.
  - For « matching shares », the end of the vesting period is not subject to additional performances criteria.

- The performance criteria (financial or not) are not mentioned or documented or transparent, or may lead to excessive risk taking for the company.
- The evaluation period of the performance is <3 years, and can be modified or postponed.
- The performance criteria can be revised after the end of the plan if they have not been matched.
- The allocation share rule is not disclosed or strict enough.
- Regarding previous plans, the company does not disclose consistent information on the realisation of targets and the allocation of shares.
- The payment allocated as part of a long term remuneration plan was not linked to satisfactory performance.
- There is no correlation between the evolution of stock options allocated or free shares allocations, and the evolution of the company's results with no sufficient rationale.
- For Executives' severance indemnities:
  - The indemnities are > 24 months of remuneration (fixed + bonus + non competitive clause). NB: H2O AM will apply stricter regulations when it is relevant (ex. UK).
  - The allocation of indemnities is not restricted to the change of shareholders control or strategy.
  - The indemnities are not linked to performance criteria with full transparency.
- Other practices:
  - The company does not provide explanations for non-contractual payments
  - The company grants loans, guarantees or equivalents which are not standard business practice without approbation of the board.
  - The Company has paid or subscribed to long term commitments for an executive who resigned voluntarily from the company and this was not communicated or justified to shareholders
- Regarding the remuneration of non-executive board members: Non-executive directors may receive awards of stock options or shares, or any similar compensation plan.

#### **iv. Report regarding remuneration (UK)**

One resolution aiming at the approval of the remuneration report is compulsory under the UK law, and should be approved under a separate resolution by a general shareholders meeting.

H2O AM will vote against it in case:

- Regarding the executives' contracts:
  - Executives are hired without a contract or they do not reflect their effective responsibilities.
  - The contracts integrate a notice period of more than one year (inc. non competitive clause)
- Regarding the bonuses: The Company paid bonuses integrated for the pension plan calculation.
- Long term remuneration plans: The performance parameters are not increased every year throughout the multiyear plan.
- Indemnities for Severance :
  - The indemnities are not scheduled along the notice period.
  - For executives with one year contracts, the severance indemnities are not limited to one year global remuneration (inc. benefits and pension); there is no explanation for to the calculation and payment.
  - The contracts include global remuneration clauses of more than one year in case of a control change.
  - The indemnities paid after the executive left are not limited to one year of global remuneration.

## **v. Remuneration of executives, board members, statutory auditors (Japan)**

### ***1. Increase of remuneration ceiling for executives and board members and statutory auditors***

H2O AM will vote for the increase unless:

- The company does not provide with sufficient rationale for this increase;
- The remuneration of executive board members does not include a variable part;
- There are serious doubts regarding the behaviour of board members.

### ***2. Yearly Bonus of board members and statutory auditors***

H2O AM do not vote for the allocation of short term remuneration linked to the company's performance as it may compromise their independence.

H2O AM will vote for the proposed bonus unless if beneficiaries include non-executive board members or statutory auditors.

## **b. Vote on specific remuneration policy elements**

### **i. Remuneration of executives**

#### ***1. Stock options plans and performance allocation shares***

These are incentive plans approved by the board for the management to seek a durable performance of the company and align the interests of the executives and shareholders.

For H2O AM, the incitation should be only directed with the long term value creation of the company in mind.

H2O AM recommends that:

- Stock options and performance allocation shares are approved by separate resolutions depending on their beneficiaries (executives, employees, etc....),
- Plans for executives are subject to performance criteria that are transparent, measurable and comparable,
- Performance conditions should be considered over a significant period not below 3 years,
- Performance conditions should be in line with strategic objectives and with extra financial criteria,
- The period for acquisition and holding of securities within the performance plan should be > 4 years,
- The total amount should be limited to a percentage of the fixed remuneration,
- The dilution due to all existing and new performance plans should stay <10 %,
- The executives should keep one part of their shares until the end of their mandates.

H2O AM will evaluate the stock options plans on a case by case basis and will vote against any proposal:

- Authorising the options issuing at a strike below the market price;
- Giving the discretionary power to allocate options for its own account;
- Including the possibility to modify the issuing initial conditions;
- Allow stock options or performance allocation shares when beneficiary leaves the company;
- Authorise the allocation to executives without performance criteria;
- Authorise a quicker exercise of options apart from a change of control.

H2O AM recommends that companies include in their reports:

- How performance targets are achieved from one year to another,
- At maturity of the plan : the final rate of achievement,
- After the plan: how the final allocations reflect the value creation for the company.

For companies operating a restructuring, H2O AM will vote against the stock options plans or shares allocation, unless they are part of the restructuring measures (new executives, etc.....)

## ***2. Severance Indemnities***

H2O AM recommends that resolutions on the indemnities for executives should be submitted to the general shareholders meeting and during each renewal within 18 month after the signature of the contract.

H2O AM will review those resolutions on a case by case basis, based on the:

- Intrinsic value of the company during the mandate of the beneficiary,
- Proportionality of indemnities with the length of presence in the company and global remuneration,

H2O AM will vote for the approval of the indemnification clauses if:

- Payment of indemnities can only occur when forced dismissal (no fraud) or if control or strategy change.
- The indemnities will not exceed twice the global remuneration of the executive (fixed+ variable+ non compete)
- The allocation of indemnities is linked to highly demanding performance criteria.

H2O AM does not recommend combining an executive role with an employee one/ or a board member role and employee one, and will vote against indemnity propositions if the two roles are maintained within a new contract or its renewal.

## ***3. Pension plans***

H2O AM will review on a case by case basis pension plans with a view to determine if:

- Companies are transparent in the way they set up the parameters to calculate the pension plans;
- Beneficiaries of the pension plans include a larger population than the executives ;
- Beneficiaries have been with the company for at least five years;
- The calculation of potential rights and reference period is based on several factors over several years;
- The additional pension benefit is capped at 50 % of the fixed remuneration;
- The allocation is subject to the presence of the person in the company when retiring

### **Specific Case Japan:**

H2O AM will vote in favour of pension plans or compensation bonus unless if:

- Beneficiaries are non executives board members or statutory auditors;
- The company neither communicates on the individual amounts nor on the aggregated;
- Beneficiaries are subject to public legal action or can be held responsible for bad past financial results of the company.

## **ii. Remuneration of Board member**

### **1. Remuneration**

H2O AM recommends that the remuneration of board members should be linked to the responsibilities and attendance to board meetings and committees. H2O AM will vote for the resolution of remuneration of Board members provided they do not generate an excessive amount and no abuse. H2O AM will vote against propositions when:

- There is no indication of the aggregated amount for the remuneration
- There is an allocation of options or incentive instruments to non-executive board members.

H2O AM recommends that the board members invest part of their remuneration in shares of the company (equivalent to one year of remuneration) that they keep throughout their mandate.

### **2. Protection of board members and executives against actions linked to their responsibilities**

Propositions related to the indemnities and protection of Board members and executives are analysed on a case by case basis. H2O AM will vote against propositions aiming at or fully eliminating the responsibilities of Board members and executives in case of lack of duty and care, or extending the protection of Board members and executives beyond the reimbursement of legal fees in case of obvious lack of fiduciary duty and their consequences.

### **3. Plans for employees**

H2O AM recommends that companies implement incentive plans for employees linked to the performances of the company.

H2O AM will vote for capital increases reserved for employees, provided that they stay < 10 % of the current shareholders equity, and the discount is < 20 % or 30 % if the retention period for the shares is of at least 10 years. If the employees have more than 10 % of the capital, H2O AM will vote on a case by case basis.

## **X- FINANCIAL STRUCTURE**

### **a. Capital increase and reduction**

#### **i. Request for Capital increases without a specific project**

Capital increases may be requested as a way of having the possibility to finance the growth of the company.

##### ***a. Increases with preferential or priority subscription rights***

H2O AM will vote for those increases without specific projects if the capital stays < 50 % of existing shareholders equity. If the capital goes > 50 %, H2O AM will vote on a case by case basis.

##### ***b. Increases without priority subscription rights***

H2O AM will vote for those increases if the capital stays < 10 % existing shareholders equity. If the capital goes > 10 %, H2O AM will vote on a case by case basis.

##### ***c. Increase reserved***

H2O AM will vote against an increase reserved to one single category of shareholders.

##### ***d. Limitation for increases***

H2O AM recommends capping the increases to 50 % of existing shareholders' equity.

### ***e. Creation / issuing of preferred shares***

H2O AM will vote for the creation or issuing of convertibles preferred shares if the amount of ordinary shares that may result from the conversion stays within the guidelines of H2O AM for capital increases. H2O AM will vote against the creation of new shares that would be allocated more voting rights than ordinary shares. In all other circumstances, H2O AM will vote on a case by case.

### ***f. Share Classes***

H2O AM will vote against the creation or extension of different share classes with voting rights.

#### **ii. Request for Capital increases with a specific project**

They will be analysed within each specific situation or project, given their perspective for the long term growth and value creation of the company, as well as environmental impacts and governance risks.

#### **iii. Request for Capital increases with incorporation of reserves**

H2O AM will vote for them as they generate free shares or nominal increases of existing shares.

#### **iv. Request for Capital increases authorised (specific case Japan)**

H2O AM does not favour such capital increases with no specific details, and will vote against them if:

- The capital increase represents more than 50 % of the existing shareholders equity and that it also includes a priority subscription right
- The capital increase is a poison pill.

#### **v. Capital reduction**

H2O AM will vote for capital reduction triggered by accounting regulations unless they are not in favour of the shareholders. In other circumstances, H2O AM will consider each specific situation.

## **b. Transactions on existing shares**

### **i. Buy Back programs**

#### **1. General**

H2O AM will vote for shares buy back program concerning all shareholders if they match the followings:

- The percentage of shares buy back stays within 10 % of the existing shareholders equity (15 % for UK)
- The length of the program is limited to 18 months.

H2O AM will vote against buy back shares programs if:

- The program can operate during an IPO,
- If there has been any abuse of such possibility in the past,
- If such a buy back would jeopardise the development of the company as it would tighten up its cash.

H2O AM can vote for buy back beyond 10 % in case of exceptional circumstances (e.g. capital restructuring). H2O AM will vote on a case by case considering the rationale of the management, which will be made public in the annual report. H2O AM will vote for the buy back if:

- The buy back is made in the interest of the shareholders,
- The proposal maintains the maximum percentage of treasury shares at 10%.

H2O AM will vote against any resolution giving a discretionary right to the board for buy back shares.

## ***2. Utilisation of derivatives for buy back shares programs***

H2O AM will vote for the use of derivatives within buy back shares programs if:

- The percentage of capital which can be bought back is < 5% of the capital,
- The transaction is undertaken by an Independent Financial intermediary.

### **ii. Other transactions on existing shares**

#### ***1. Reintroduction of shares bought back to the market***

H2O AM will vote for those reintroduction to the market unless there have been abuse in the past.

#### ***2. Capital reduction after cancellation of shares not issued***

H2O AM will vote for the reduction by authorising the management to cancel shares never issued.

#### ***3. Shares Merger***

H2O AM will vote for the merger if the shares are adjusted in due proportion.

#### ***4. Shares split***

H2O AM will vote for the split as long as the number of shares is not too high for a capital increase (see section VIII. a.).

#### ***5. Modification of the nominal value of ordinary shares***

H2O AM will vote for the reduction of the nominal value of ordinary shares.

## **c. Borrowing / Debt / Financing / Affiliation**

### **i. Debt management**

H2O AM will consider on a case by case the propositions to restructure the debt, with the following:

- Dilution: are the existing shareholders diluted and to which extent?
- Control change: will the transaction trigger a change in the control of the company?
- Legal action administration: is the bankruptcy threat the main driver for the debt restructuring?

H2O AM usually approves debt restructuring unless it may lead to obvious abuse.

### **ii. Request for debt issuing**

H2O AM will vote for such resolutions if the debt to equity ratio stays at sustainable levels, as compared to competitors, and what rating agencies expect. H2O AM will vote for convertible issuing only if the ratio after conversion stays within the rules set up by H2O AM for ordinary shares.

### **iii. Increase of the borrowing limit for a company**

H2O AM will vote on a case by case basis on the total borrowings that a company is authorised to do.

### **iv. Financing plan**

H2O AM will vote for financing plans if they serve the interests of the shareholders.

### **v. Agreements on the control and transfer of earnings (affiliation contract)**

H2O AM will vote for the propositions of agreement on the control and transfer of net earnings between a parent company and its affiliates.

## **d. Merger and restructuring of companies**

### **i. Merger and acquisitions**

We will review on a case by case merger and acquisitions taking into account

- Strategic focus: consistency of purpose, commercial products, complementarities, etc.
- Financial focus:

- Valuation of assets merged including securities, shares and liabilities, global price of the offer,
- Forecasts of financial results, costs synergies, sustainability of additional debt level.
- **Governance of the company:**
  - Structure of the governance of the new entity, impact on minorities shareholders,
  - Environmental and social impact where applicable

## **ii. Restructuring and demerger or split of companies and spinoff**

### **1. Restructuring**

H2O AM will consider long term value creation beyond cost cutting effects, including the environmental and social impacts where applicable.

### **2. Demerger, split, spinoff**

H2O AM usually approves such resolutions, unless there are conflicts of interest which may damage the rights of existing shareholders, or that certain shareholders may have a more favourable treatment.

## **iii. Assets Liquidation or disposal**

### **1. Asset disposal**

H2O AM will vote on a case by case basis on assets disposal, taking into account their impact on the business and financial structure of the company, with a focus on the value creation and the cost cutting effects.

### **2. Liquidation**

H2O AM will vote on a case by case basis on assets liquidation, looking at the rationale of the management, the expertise used for the assets valuation, the remuneration of the executive liquidating the assets.

## **iv. Use of expert for asset evaluation**

H2O AM will vote for propositions giving the right to shareholders to use experts to value assets.

## **v. Name modification of a Company**

H2O AM will vote for the name modification of a company.

## **vi. Derogation to the obligation to launch an IPO**

H2O AM will vote on a case by case basis on request to avoid launching an IPO.

## **vii. Joint Venture**

H2O AM will vote on a case by case basis on joint venture propositions, with the following criteria:

- The control percentage,
- Financial and strategic added value,
- Conflicts of interests,
- Governance,
- Costs synergies.

## **XI- Commitment**

### **a. Our vision of the Corporate Governance**

Corporate Governance refers to the bodies, principles and rules applying to how a company is managed and controlled, for the protection of the interests of minority shareholders, and how it manages the conflicts of interests arising when the interests of the company's stakeholders are not aligned (cf Jensen M. and Meckling, 1976).



The long term growth and sustainability of the company is subject to a balance and alignment of interests of the stakeholders. On top of financial targets, companies should take into account environmental and social considerations.

The role of corporate governance is to ensure the following:

- Consistency of financial and extra financial information with efficient control and audit systems,
- A better control of companies with a balance of powers between management and supervision,
- The respect of shareholders' rights and the means to fulfil those rights,
- A balance between the search for performance and risk control with adequate incentives and checks

### **b. The Commitment view at H2O AM**

For H2O AM, good governance is key to risk monitoring and improvement of the long term performance of companies. H2O AM will take into account for its investment decisions:

- All financial and non- financial factors that may impact the investments value,
- Promote good governance in the companies of investment through the effective practices of its proxy vote.
- This commitment to use its voting rights is how H2o AM will be a responsible investor, encouraging strong governance culture. The voting policy is regularly revised.

### **c. The commitment implementation**

It is based upon a permanent way of improving our knowledge of the companies of investment, around:

- The exercise of the voting rights
- The vote of sustainability orientated resolutions at general shareholders meetings
- The integration of sustainable development considerations in the knowledge and contacts that H2O AM has with companies, either directly or indirectly through adequate documentation.

In addition, H2O AM is part of Natixis, where sustainable and durable development actions are implemented:

- Participation to initiatives or consultations where the objectives of the group are aligned with SRI principles.
- The realisation of studies and reports on sustainable and durable development thematic, as well as contacts with companies and bodies involved in those fields.
- Dialogue and commitment with corporates for
  - A better understanding on our part
  - An improved practice of sustainable and durable development for them

### **d. The thematic of commitment and the proxy voting**

Those thematic are linked to the main principles determining the voting policy, based on criteria which are tailored to each company due to its sector of business, size, history, shareholders structure, etc.

#### **i. Thematic I: Financial and extra financial information, internal control system, and risk monitoring**

The consistency of financial and extra financial information is key to efficient financial markets. The same applies to governance, where a poor risk monitoring will have negative long term impacts on the value creation of the company, and for shareholders as well as bond holders. Companies should have in place risk mitigation processes to monitor operational risks, regulatory risks, legal, and reputation, and to improve the quality of financial information.

## **ii. Thematic II: Structure of control and balance of responsibilities**

The Board is key in monitoring the strategy and the effective controls within the company. Its role is to take care of the company's interests, its stakeholders, and focus on long term value creation. It is at the Board that all key arbitrages are taken especially when they may have an impact on the long term strategy of the company.

The quality of the governance structure and the composition of the board are the two keys, to encourage:

- A balance of responsibilities between the executive management and the control bodies,
- A management designation process taking into account the board needs for expertise, competencies, and diversity,
- The independence and complementarity of the board members and committees,
- The integration of its environmental responsibilities in its strategic decision making process.

## **iii. Thematic III: Shareholders rights**

The respect of shareholders' rights is a fundamental principle for sound corporate governance. The commitment of H2O AM is to monitor that all shareholders should be treated fairly. Any divergence from the principle of equitable treatment of shareholders can only be justified by the general long term interest of shareholders.

## **iv. Thematic IV: Remuneration System**

The remuneration system of executives and board members may impact the decisions made as well as the risks taken. It should incentivize the management to seek long term growth for the company. H2O AM will encourage:

- Transparency on remuneration policies,
- Transparency on financial incentives and their consistency with the value creation for the company,
- The integration of environmental and social stakes in the remuneration systems and policies.

## **e. The scope of the Commitment**

The commitment focus is primarily towards the core values of the investment universe, which are the main investments of the portfolios managed by H2O AM.

## **f. The Commitment process and the voting rights**

### **i. Step: preparation**

H2O AM will revise every year its voting policy to include new regulations and governance practices. It provides the guidance for the vote of the resolutions during the general shareholders meetings.

### **ii. Step 2: identification of the key topics**

The portfolio manager will use the services of the third party service provider and their research on "governance and commitment"» to monitor the companies of the core universe. The topics reviewed are: governance, using the information from companies, brokers, databases, etc.

### **iii. Step 3: Result**

Based on the research provided by the third party provider, H2O proxy voting policy and the assessment of the relevant PM where applicable the decision on the vote for a resolution will be made and communicated via the voting platform.

### **iv. Step 4: reporting**

H2O AM will use the services of the third party service provider to produce the annual voting report. H2O AM can also produce specific reports as requested by its clients.

## **XII- Procedures for the identification, prevention and management of conflicts of interests**

H2O AM exercises the voting rights for the exclusive interests of its clients as it has no proprietary holdings in the companies where it invests the money managed for clients and third parties. H2O AM seeks to manage them:

- If a conflict of interest were to occur between H2O AM and one of its clients, the compliance officer of H2O AM would decide after consultation of all parties involved about the right attitude for the vote.
- If one person in charge of the vote would be in a conflict of interest situation about a vote, the compliance officer of H2O AM should be immediately contacted and the person would not be part of the voting process.
- In case the vote would expose H2O AM to a conflict of interest, H2O AM would request its compliance officer to decide on the position of the company, and whether H2O AM should participate or not to the vote.