



H2O
Asset Management



H2O
Asset Management

Global Broker and Counterparty Selection Policy

Each updated version cancels and supersedes any prior version

Attributes

Purpose	To describe global principles for Broker and Counterparty Selection that must be followed by all Entities belonging to Group H2O AM, Employees and any third party representing the Group.
Scope	H2O Asset Management LLP H2O AM Europe H2O Monaco
Last Update	08/12/2022

Document History

Revision	Date	Revision Description	Approved by
11	8/12/2022	Update following new governance and remove scoring escalation	Global Executive Committee

Disclaimer and Copyright Notice

Copyright © H2O

This document is property of H2O Asset Management.

It is restricted to H2O Asset Management internal use only.

No part of this document may be reproduced in any form or by any means, electronic or mechanical, including photocopying and recording, for any purpose without the express written consent of an H2O Asset Management Security Officer.

Contents

1. Key Considerations.....	3
2. Business Structure.....	4
3. Introduction.....	5
4. Brokers Selection Process for Execution	5
4.1 List of brokers and counterparties (“Brokers”).....	5
4.2 Legal framework	6
a) Forex and OTC trades.....	6

4.3	Risk and Compliance approval.....	7
a)	Compliance Checks.....	7
b)	Risk checks.....	7
4.4	Operational Framework.....	8
4.5	Periodicity of Selection	8
4.6	Approval of the Broker list.....	9
4.7	Reporting on activity with brokers & top-five execution venues.....	9
4.8	Exception to the Broker list	9

1. Key Considerations

Summary

This document sets forth the Group H2O AM’s Global Broker and Counterparty Selection Policy

Commitment

H2O AM must act in the best interests of the Funds and Mandates it manages. To ensure the best possible results for the clients, H2O AM carefully selects its permanent brokers.

Clients’ Information

This Policy is made available through the H2O AM’s website.

Document Category within Group H2O AM

Group Policy
 Non- Group Policy
 Group Procedure
 Non- Group Procedure

Scope of Staff/Employees

All Staff
 All H2O AM’s Representatives
 Restricted to:

Key Dates

Publication Date
 20/12/2022

2. Business Structure

H2O Asset Management Group includes 5 entities and 3 of them are asset management companies:

- H2O AM LLP is authorized and regulated by the UK Financial Conduct Authority (“FCA”). H2O AM LLP is also registered with the Securities and Exchange Commission (“SEC”) and is thus subject to the SEC’s rules and regulations governing investment advisers. Therefore all “access persons” of the firm must abide by the SEC’s rules and regulations related to personal account dealing.
- H2O AM Europe, registered in France as an asset management company and regulated by the Autorité des Marchés Financiers (“AMF”);
- H2O Monaco registered in Monaco as an asset management company and regulated by the Commission de Contrôle des Activités Financières (“CCAF”).

Note:

H2O AM Asia has stopped its asset management activities on 31 July 2022.

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”.

- Other subsidiaries: **Prometheus Wealth Management** is an independent wealth management company registered and regulated by the Commission de Contrôle des Activités Financières (“CCAF”); **Poincaré Capital Management** is a Hong Kong based investment management firm licensed and regulated by the Hong Kong Securities and Futures Commission.

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

3. Introduction

H2O AM is an asset manager. H2O AM manages funds and mandates on behalf of a diversified client base.

The nature of the investments, the large volume imposes a large list of brokers and counterparties that should be reviewed periodically.

- Brokers and banks of this list are mainly leaders in their sector of activity.
- Specialized brokers are used mostly in niche markets.

Execution fees when paid by the fund (Futures, Equities) are aligned for all counterparties.

Brokerage paid, given the large volume, is systematically negotiated with our counterparties at the fairest price to benefit the unitholders of the funds.

For the equities & CFD, a decreasing brokerage applies with identical thresholds for all counterparties.

TCA (Transaction Cost Analysis) is periodically undertaken to choose the best vehicle for execution.

Eligible counterparties and brokers must be supervised and regulated.

For OTC transactions subject to ISDA, the banks must be noted.

Last but not least, segregated mandates can also have their own brokers and counterparties list specified on their investment Management Agreement.

4. Brokers Selection Process for Execution

4.1 List of brokers and counterparties (“Brokers”)

The principle at H2O AM is that no transaction can be undertaken for the portfolios under management outside a pre approved list of Brokers.

A list of Brokers is put together by the Counterparty Relationship Manager; this is submitted for approval to the Broker Committee. This Committee comprises the following members:

- Group Chief Risk Officer (Chairman)
- Deputy CEO H2O Monaco (acting as counterparties relationship manager)
- Chief Investment Officer H2O AM LLP or its delegate
- Chief Investment Officer H2O AM Europe or its delegate
- H2O AM LLP COO
- H2O AM LLP CRO
- Co-Head Middle Office
- Head of Trade Flow & Collateral Management
- Lawyer
- Senior Compliance Officer

The broker committee is in charge to review and approve the Broker List. The committee meets at least twice a year. Terms of reference are available.

For mandates and dedicated portfolios, the exclusions required by clients apply, and the list of Brokers will be updated accordingly. The authorised brokers are monitored in the Order Management system of H2O AM to allow for pre trade eligibility controls.

H2O AM Portfolio Managers can request adding new or cancelling Brokers from the approved list. This should be approved by Risk and Compliance teams and consequently the list of authorised brokers will be updated at the following broker committee. The Risk Control Team can decide to cancel a broker due to information regarding the risk profile or solvency of the Broker as well as Compliance & Internal Control team if suspicious or fraudulent behaviour or indicia appear. Such decision is escalated to the Broker Committee.

4.2 Legal framework

Any dealing activity with Brokers should be undertaken within an adequate legal framework:

- a) Forex and OTC trades

ISDA and CSA (credit support annex) agreements must be in place before trading

- For specific managed accounts requiring prime brokerage agreements, the selection of the prime broker will follow the same process and specific ISDA/CSA shall be in place between the prime broker and the executing brokers.
- b) Repos: A Global Master Repurchase Agreement (GMRAs or French equivalent when adequate, available & relevant) must be in place.
 - c) Securities lending: ISDA agreements must be in place (French document when adequate, available & relevant).
 - d) Futures: Give up agreements must be in place with executing brokers and clearing agreement with the clearing broker.
 - e) Interest rate swaps (IRS): Cleared Derivatives Execution Agreement (CDEA) must be in place.
 - f) For any other financial asset class, the corresponding legal documentation must be in place.

4.3 Risk and Compliance approval

All Brokers are approved by H2O Risk & Compliance before being integrated into a selection process.

a) Compliance Checks

Compliance team will perform due diligence from a KYC/AML perspective according to the Global CDD/KYC Standards and will therefore consider:

- Shareholding structure,
- Identification of directors,
- Companies house registration or equivalent certification of incorporation,
- Regulatory authority registration including scope of permission and individual approved persons, Trading licences when relevant for broker dealers,
- Financial results for last two years,
- Sanctions & embargos lists, including sensitive and banned countries,
- Peps (politically exposed persons),
- Negative news etc..

In addition, Compliance MIFID diligences will include:

- Best execution policy.
- Conflicts of Interest Policy.
- Quality of service: continuity of service, commercial relations, market information.
- Execution: dealing functions, liquidity depth offered, price, costs, speed of execution, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.
- Processing: STP, proportion of failed trades.

b) Risk checks

For ISDA counterparties, Risk team will assess the creditworthiness of brokers and will consider:

- Financial criteria : Tier 1 capital base
- Market data : level of CDS 5 years spread
- External public info : agencies rating

For all brokers and counterparties, the risk team will provide a risk-based exposure limit for each individual counterparty according to the nature of the asset, the settlement risk and the solvency of the counterparty.

4.4 Operational Framework

Before inception of a new Broker, the Middle Office Department of H2O AM makes sure that all SSIs (Standard Settlement Instructions) and BIC Code are available and have been added to the operational platform used.

If the respective Heads of the Middle-Office Operations evaluate that the operational risk associated with the new Broker cannot be reasonably mitigated, they will have a right of veto. This may change if the technical details or parameters of the Broker's Process are improved and tested.

It is also under the responsibility of the Head of Trade Processing Operations to manage the give-up agreements and documentation with the relevant clearing brokers or prime brokers. This applies to all Funds portfolios, segregated mandates and managed accounts at H2O AM. One pre-requisite is that Brokers use delivery versus payments mechanisms or platforms when they are available, such as for securities, or Forex matching platforms. As a standard rule, bonds and equities must be settled with DVP systems. Any exception must be submitted to the Chief Risk Officer before trading.

4.5 Periodicity of Selection

The list of Brokers is revised at least once a year or when needed if a Compliance breach or an important event is detected (poor quality of service, bad reputation news, sanctions etc...). Either the Portfolio Managers or the H2O Risk can trigger a revision process.

4.6 Approval of the Broker list

The updated list of Brokers as it is approved by the Broker Selection Committee, is signed by the Group Chief Risk Officer and the Counterparty Relationship Manager, and submitted to Middle Office for implementation in H2O AM internal systems.

4.7 Reporting on activity with brokers & top-five execution venues

The reporting of activity with brokers is available online, in a dedicated database developed by H2O, with direct feed from the record keeping tools used, allowing for a daily update of all the data and transactions. A formal reporting is also provided to the Broker Selection Committee. It is the responsibility of the Counterparty Relationship Manager to maintain the broker data / transactions database.

4.8 Exception to the Broker list

Any exception to the Broker list has to be requested by Portfolio Managers and submitted to the approval of the Compliance department. This is related to specific trades where liquidity or opportunities may justify using such a Broker and these concerns only trades on securities that can settle DVP. The Broker is not however included in the H2O AM Authorised Brokers List on a permanent basis, as this requires the approval of the Broker Selection Committee. Therefore, once the Compliance Department has given its approval to the Portfolio Managers, the authorisation to trade with the Broker is effective only for the specific trades. Following the trades' execution and settlement, the Broker is no longer authorised for other trades. In case the Portfolio Managers would need to trade again with the Broker, they need to seek for another authorisation from the Compliance Department.