



H2O
Asset Management

H2O AM

Best Execution

COMPANY CONFIDENTIAL

Title: Best Execution

Description: This document defines the Best Execution for H2O AM

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10.0	12/04/2022 ¹	Review and Update	Global Executive Committee

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¹ Circulation process with 2 H2O Executive Committee members

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1. Introduction

H2O AM is a management company that manages funds and mandates on behalf of a diversified clients. All H2O clients are classified as “professional” according to Mifid regulation. The relevant requirements deriving from the EU UCITS directive, AIFMD² and other applicable regulations related to Luxembourg, Ireland, France and UK funds domiciliation:

Level 1 – EU MIFID Directive 2014/65 : Article 27

Level 2 – Delegated Regulation 2017/565 (article 64 to 66)

Delegated Regulation 2017/575 (RTS27)

Delegated Regulation 2017/576 (RTS28)

Level 3 -

- CSSF Regulation 10-4 – Article 28 and 29

- CBI Guidance UCITS 16 – Paragraphs 18 to 31

- FCA Handbook – COBS 11.2.B

- AMF General Handbook

- ESMA Q&A

When executing decisions to deal, or when placing orders to deal, H2O AM must act in the best interests of the Funds and Mandates it manages.

Therefore, H2O AM is obliged to establish and implement effective arrangements for complying with best execution and maintain a best execution policy to demonstrate – for example, to investment companies, unit holders and the regulator – that we have executed or placed orders on behalf of Funds/Mandates in accordance with this policy.

This policy is applicable to:

H2O AM LLP

H2O (Monaco) S.A.M.

H2O AM Europe

H2O AM Asia Pte. Ltd

Together “H2O AM”.

2. Execution factors

H2O AM must take all reasonable steps to obtain the best possible result, when executing or placing orders to deal on behalf of the Funds and Mandates it manages. To achieve this, policies and procedures take into account the following execution factors:

- The price and explicit costs of executing the order
- The speed and likelihood of execution
- The likelihood of settlement
- The size of the order
- Any other consideration that we consider relevant at the time

H2O AM expects that price will normally be the predominant factor in obtaining the best possible result for Funds and Mandates. However, the relative importance of the above execution factors will be determined by:

- The objectives, investment policy and risks specific to the Fund, as indicated in the prospectus or the fund rules, Articles of Association of the Fund or offering documents

² Commission Directive 2010/43/EU, Articles 25 and 26 and Commission Delegated Regulation (EU) No 231/2013, Articles 27 & 28

- The characteristics of the order – for example its size or particular instruction
- The characteristics of the financial instruments – which may include not only the type of instrument or asset class but its liquidity and other market characteristics
- The characteristics of the execution venues to which the order can be directed

H2O AM will also consider when choosing an executing counterparty, the explicit cost of a transaction measured against other venues which include:

- Commissions passed on by intermediaries
- Fees
- Taxes
- Exchange fees
- Clearing and settlement cost

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 our funds.

TCA (Transaction Cost Analysis) is periodically undertaken to choose the best vehicle for execution. H2O AM never structure charges or commissions in such a way as to discriminate between execution venues or brokers to the detriment of a Fund.

3. Asset Types

H2O AM trades the following asset types:

Figure 1 Asset Types March 2022:

Asset Type	Number Of Trades	Percentage	Asset Type Description
BondCollateral	562	0.14%	Collateral trades on Fixed Income securities
Bonds	10,683	2.60%	Fixed Income Securities
Cash	84,669	20.59%	Cash transfer (Margin, Collateral...)
CDS	4	0.00%	Credit Default Swaps
Cfd	14,013	3.41%	CFD on Equities
CfdOnBonds	110	0.03%	CFD on Fixed Incomes
Equity	362	0.09%	Listed Equities
EquityStruct	103	0.03%	OTC Derivatives on Equity Markets
FutureEquities	85,893	20.89%	Listed Futures on Equity indices
FutureRates	64,668	15.73%	Listed Futures on Government Bonds
FxFwd	15,377	3.74%	FX Forward
FxHedgedSwap	5,406	1.31%	FX Swap for currency hedged shares
FxHedgingForward	5,259	1.28%	FX Forward for currency hedged shares
FxNdf	26,220	6.38%	Non deliverable forward
FxSpot	28,137	6.84%	FX Spot
FxSpotNdf	101	0.02%	Non deliverable FX Spot
FxSwap	44,388	10.80%	FX Swap
IRS	95	0.02%	Interest Rate Swap
LifeCycleEvent	2,067	0.50%	Actions upon OTC Derivatives (Exercise, Expire...)
ListedOptionComdty	82	0.02%	Listed options on commodities
ListedOptionEquities	13,465	3.27%	Listed options on equity indices
ListedOptionRates	6,475	1.57%	Listed options on gvt bond futures
MutualFund	79	0.02%	Mutual Fund

OTCEquity	54	0.01%	OTC option on equity indices
OTCOption	2,843	0.69%	OTC option on FX
Repo	48	0.01%	Repo and Reverse Repo
Swaption	12	0.00%	Swaption
Grand Total	411,175	100.00%	

Listed market and Fx transactions account for more than 75% of total volume. IRS, Swaptions and OTC derivatives account for less than 1.35% of total number of trades.

4. Execution venues

Execution venues include regulated markets, multilateral trading facilities, market makers or other liquidity providers.

H2O AM trades on multiple markets across different trading venues. Trades are directly executed by portfolio managers (PMs). As there is no execution desk, PMs have direct access to various trading venues where they can execute and allocate their trades. Our trade repository (H2O Blotter) is fed either automatically with executed allocations (from most trading venues) or manually by PMs. The execution venues chosen must be those likely to achieve the best possible result for the funds having regard to the execution factors.

For each financial instrument there must be sufficient choice of venues to facilitate best execution, taking account the nature of the instrument and market concerned.

Electronic platforms currently represent up to 90 % of trades for listed derivatives and Forex trades, including spot, forwards, swap.

All trades are executed as much as possible on electronic platforms, in order to provide an audit trail, with all relevant data stored and made available, including the amount, price, time stamps and allocation.

Portfolio Managers input into the platforms all portfolios which may be eligible to their trades, i.e. all portfolios which are covered by the ISDA governing the relations with the bank providing the electronic platform. Portfolio managers are requested to make their electronic platforms available for audit purposes to H2O Risk and Compliance.

The operational platform and controls have been organised to adapt to the break own of by instrument type as futures listed derivatives and forex represent up to 90% of the total trades depending on portfolios, and are traded on electronic platforms provided by investment banks, the execution and controls processes have been built based on the connectivity with those platforms.

The other transactions are cash management transactions including repos and short term instruments, OTC derivatives, as well as cash bonds and cash equities which are mostly executed using electronic platforms and venues as well.

Since all trades are executed directly by Portfolio Managers, it is their initial responsibility that an audit trail is made available for all trades. Additionally, as all trades are processed on trade date, all trade details are input into the systems before matching with counterparties by the operations of H2O AM.

H2O AM places significant reliance on the following execution venues:

- Frankfurt Stock Exchange
- Bourse Suisse - SWX
- Chicago Board of Trade
- Chicago Mercantile Exchange

- Dublin (Irish SE)
- EUREX-DTB
- EURONEXT AMSTERDAM
- EURONEXT BRUXELLES
- Euronext Lisbonne
- EURONEXT PARIS
- ICE Futures Europe Equity Products Division
- LSE
- MEFF (Mercado Español de Futuros Financieros)
- MILAN
- NASDAQ Stock Market
- New York Mercantile Exchange
- NEW YORK STOCK EXCHANGE
- SIMEX
- Tokyo (Tokyo Shoken Torihikijo)
- XETRA

Figure 2 Trading Venues

Platform Name	Percentage	Description	Counterparty	Asset Class	Allocation
CSV_JPMM	0.47%	JP Morgan FX	JP Morgan	FX	Post
CSV_Neovest import	2.78%	JP Morgan Listed Derivatives	JP Morgan	Listed Derivatives	Post
CSV_Other	24.14%	Caceis, Trioptima, SG London/Paris	Multiple	Multiple	Pre or Post
Total CSV	27.38%	Flat file import			
BIDFX	7.09%	Trading Screen Platform	Multiple	Multiple	Pre or Post
BLP	17.31%	Bloomberg Platform	Multiple	Multiple	Post
BNPLDDC	8.87%	Fidessa BNP Listed Derivatives & FX	Multiple	Multiple	Pre or Post
FXALL	22.49%	Bloomberg FX All Platform	Multiple	FX	Pre
Marketax	0.49%	Market Access	Multiple	Fixed Income	Post
MSFX (Matrix)	0.00%	Matrix Platform	Morgan Stanley	FX	Pre or Post
SocGen	15.38%	Fidessa SG Listed Derivatives	SG	Listed Derivatives	Pre or Post
Total FX	71.63%	FIX connection			
Manual	0.99%	Using Blotter Application	Multiple	Multiple	Post
Total Manual	0.99%	Manual booking			

The above table lists the source of trades booked in the blotter. Most of them are booked via straight through processing (STP). As of March 2022, 72% of transactions are processed real-time via FIX, 27% are imported via flat file transfer and only 1% are booked manually into the system.

Figure 3 Trading Venue per Asset Type

Row Labels	CSV_JPMM	CSV_Neovest import	CSV_Other	CSV Total	BIDFX	BLP	BNPLDDC	FXALL	Marketax	MSFX (Matrix)	SocGen	FIX total	Manual	Manual total	
Fixed Income	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.49%	0.00%	0.00%	0.49%	0.00%	0.00%	0.49%
FX	0.47%	0.00%	0.00%	0.47%	0.00%	0.00%	0.00%	22.49%	0.00%	0.00%	0.00%	22.49%	0.00%	0.00%	22.96%
FX	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Listed Derivatives	0.00%	2.78%	0.00%	2.78%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	15.38%	15.38%	0.00%	0.00%	18.16%
Multiple	0.00%	0.00%	24.14%	24.14%	7.09%	17.31%	8.87%	0.00%	0.00%	0.00%	0.00%	33.26%	0.99%	0.99%	58.39%
Grand Total	0.47%	2.78%	24.14%	27.38%	7.09%	17.31%	8.87%	22.49%	0.49%	0.00%	15.38%	71.63%	0.99%	0.99%	100.00%

5. Broker selection where orders to deal are placed with other entities to execute

The nature of the investments, the large volume imposes a large list of counterparties that should be reviewed periodically. Please refer to the H2O Broker Selection policy for further information.

6. Order outside trading venue

Following the entry into force of MiFID II on January 3rd, 2018 several counterparties of H2O reached out to us to get our express consent on the execution of trades outside of trading venues (A Trading Venue means a Regulated Market, Multilateral Trading Facility (MTF) or an Organised Trading Facility (OTF), as defined under MiFID II and, in particular, related national implementing measures). H2O gave such consents to the counterparties.

7. Arrangements for ensuring compliance with best execution

H2O AM has a strong commitment to implement best execution for all trades and instruments. This part is now documented in the Control Trades procedure owned by H2O Compliance.

- For Forex and futures trades, as the trading pools offer deep liquidity, and the Bid/Ask spread is narrow (usually one or two pips), it is assumed that the best execution control is not as relevant as is the case for securities. But it is nevertheless monitored against various benchmarks, such as open, close high and low, every day.
- For equities, the execution is monitored against a basket of open, close, high and low prices, as appearing on Bloomberg. TCA monitoring is undertaken by the Portfolio Manager when relevant, i.e. when the price action slippage may be significant given the market knowledge of the Portfolio Manager.
- For bonds or other fixed income securities, the control shows that the Portfolio Manager has requested two or three different prices from various sources, and executed the trade at the best price.

When Portfolio Managers undertake transactions, they have to check that an audit trail is available. Controls on execution aim at controlling that an audit trail is available for each trade, and that all trades are undertaken by authorised persons at H2O AM within the list of brokers, or authorised exceptions, with a timely execution and allocation, and ensure best execution.

Portfolio Managers undertaken transactions must notify H2O Compliance immediately of significant breaches of this policy.

8. Policy review of this policy

a) Material changes leading to a reassessment and update of the policy

The following, non exhaustive, list shows some situations that could lead to an update of the policy:

- Regulatory updates
- Substantial changes to the counterparties used
- Substantial changes in trading workflow
- Substantial changes to the operational framework

b) Methodology for the update

The procedure is updated every 3 year at least unless material changes occur. To perform the updates, the different teams of H2O AM will reflect in the most accurate way the relevant changes relative to the use and trading venues. They will also base their review on the outcome of relevant audits and on regulatory updates.