



H2O

Asset Management

Exclusions Policy

July 2023

1. About H2O Asset Management (H2O)

Founded in 2010 and with offices in Paris, Monaco, London, Geneva and Singapore, H2O AM is an independent European asset management house specialising in global macro as well as euro and global fixed income strategies.

H2O AM's mission is to assist investors in achieving their objectives by placing performance and risk over the investment horizon at the heart of their considerations. H2O AM is guided by a strong corporate culture that emphasises performance, passion and fortitude, with an unwavering commitment to our clients' needs.

H2O AM's belief is that value diversification by arbitraging investors' market perception and biases offers a robust source of alpha over time. Fortified by nearly three decades of experience, the H2O AM investment process follows a top-down, long-term relative value approach relying in particular on in-depth macroeconomic analysis, precise evaluations of capital flows and rigorous assessments of relative market valuations. The process is backed up by solid quantitative engineering, with the aim of controlling the volatility and correlations of positions and balancing the risk of multi-scenario portfolios.

Diversification is targeted not only across assets, but also by investment horizons. H2O AM's manager expertise focuses on market equilibria with the aim of reducing risk across a defined investment horizon.

2. Scope

The Policy applies to open-ended funds as listed under (6), with direct investments for which H2O AM acts as asset management company.

For discretionary mandates and client-specific funds, H2O AM will only apply restrictions following applicable sanctions, rules and regulations. In addition, H2O AM can apply further restrictions and/or implement any exclusion list if agreed with a client.

3. Excluded activities

H2O has decided to exclude a certain number of sectors and activities. H2O AM will exclude from the eligible universe of our funds the following sectors/activities and companies:

Sectors	Exclusionary thresholds
Controversial Weapons (a)	Total exclusion
Tobacco (b) - Production; - Distribution.	Production >0% Distribution where >10% of revenues are derived directly from the activity.
Adult Entertainment (c) - Production; - Distribution.	Production >0% Distribution where >10% of revenues are derived directly from the activity.

Relevant screens with these specific thresholds are provided by an external third-party data provider.

a. Controversial Weapons

H2O decided to extend the scope for its controversial weapons exclusions in 2023 and go beyond the pledges already set out to comply with the Ottawa Treaty (1993) and the Oslo Convention (2008) on anti-personnel mines and cluster munitions.

H2O now excludes from its investments all issuers involved in the development, production, acquisition, stockpiling, retention, or transfer (and assistance in any of these activities) of anti-personnel mines, biological weapons, chemical weapons, cluster munitions, depleted uranium ammunition and armour, incendiary weapons, nuclear weapons (outside the Non-Proliferation Treaty), and white phosphorus weapons.

It covers companies that are verifiably involved in controversial weapons through its own operations, through a subsidiary (majority ownership/controlling shareholder), through a joint venture (regardless of ownership stake) or as a bond issuer issuing debt for a company that is verifiably involved in controversial weapons. This covers controversial weapons and key components thereof.

Issuers that have a verified involvement as flagged by our external third-party data provider will be systematically excluded.

b. Tobacco

H2O no longer invests in companies involved in the tobacco industry. The use of tobacco products in any quantity causes major health problems and deaths. According to the World Health Organisation (WHO), tobacco use is responsible for more than 8 million deaths each year, making it the leading cause of preventable death in the world. It considers that a company is “involved in the tobacco industry” when the company:

- Produces tobacco;
- Distributes tobacco: where 10% of a company's revenue or more is derived directly from this activity.

c. Adult Entertainment

H2O does not invest in companies involved in the adult entertainment industry. Adult entertainment has been linked to domestic and international human trafficking, sexual exploitation and underage pornography. It considers that a company is “involved in the adult entertainment industry” when the company:

- Produces pornographic materials;
- Distributes pornography: where 10% of the company's revenue or more is derived directly from this activity.

4. Approach

The responsibility for the definition and production of the exclusion list lies with the ESG Steering Committee. This exclusion list includes all the companies that fall under an exclusion as defined by the Policy. All company-related investment instruments (i.e. equity, single-name equity derivatives and corporate bonds) are in scope. Derivatives on indices, ETFs and funds* are not in scope of this Policy, as H2O AM does not look at indices/funds transparently for these operations.

The content of the exclusion list is rigorously updated monthly by our third-party data provider.

To ensure full compliance with the Policy at any time, H2O AM has implemented the list into management systems that controls any investment in issuers involved in the above-mentioned activities, both ex-ante and ex-post.

If an existing security in the portfolio becomes ineligible with regard to the exclusion rules set, a roadmap for the disposal of the position will be established with the portfolio manager:

For both equity and fixed income, the positions must be sold as soon as possible ensuring the protection of investors' interest, but at the latest three months after the decision to exclude a company. During this time, no increase in position is allowed.

If the grounds for a violation by a previously identified company lapse, it is removed from the list and re-classified as investable with immediate effect.

*other than H2O AM funds.

5. Revision and Approbation

This Policy and any amendments thereof shall be finalised and developed by the ESG Steering Committee, which is composed of H2O AM Executives. It shall be approved and reviewed by the relevant local Executive Committees, following consultation with the Global Executive Committee where this is deemed necessary.

6. Products covered by this Policy

This Policy covers the following open-ended funds with direct investments for which H2O AM acts as asset management company:

- H2O Adagio FCP
- H2O Allegro FCP
- H2O Largo
- H2O Moderato FCP
- H2O Vivace FCP
- H2O MultiBonds FCP
- H2O MultiStrategies FCP
- H2O MultiEquities FCP

H2O AM is in the process of expanding the scope of this Exclusions Policy to all its open-ended funds with direct investments for which H2O AM acts as asset management company and will update it hereafter in due course.