



Best Execution and Best Selection Policy

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Attributes

Purpose	This document sets forth the Best Execution and Best Selection Policy
Scope	H2O AM Europe H2O Monaco H2O Asset Management LLP
Last Update	13/03/2024

Clients' Information

This Policy is available through the H2O's Intranet website.

Document Category within Group H2O

☒ Group Policy ☐ Non- Group Policy
☐ Group Procedure ☐ Non- Group Procedure

Scope of Staff/Employees

☒ All Staff ☐ All H2O's Representatives ☐ Restricted to:

Key Dates

Publication Date :

Business Structure

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

- **H2O AM Europe**, registered in France as an asset management company and regulated by the Autorité des Marchés Financiers ("AMF");
- **H2O Monaco SAM** registered in Monaco as an asset management company and regulated by the Commission de Contrôle des Activités Financières ("CCAF");
- **H2O AM LLP** is authorized and regulated by the UK Financial Conduct Authority ("FCA").

H2O AM Asia has stopped its asset management activities on 31 July 2022. H2O Asia is not regulated – marketing and distribution only.

H2O AM Switzerland is a subsidiary of H2O Europe and is not regulated – marketing and distribution only.

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

1. Objective

This document is made available to the public to present the approach adopted by H2O Asset Management Group (hereinafter “H2O AM”) to guarantee the best possible execution results and to act in the best interests of the Funds and Mandates the company manages.

2. Regulatory framework and references

Regulatory framework

Best execution of orders is an essential part of Markets in Financial Instruments Directive (Directive 2014/65/EU, known as MiFID II), mainly designed to improve security, transparency, and the functioning of financial markets and to reinforce protection of investors.

Best execution is defined in Article 27(1) of the MiFID II directive as the obligation to « ... take all sufficient steps to obtain, when executing orders, the best possible result for their clients... ». In line with this article, the best possible result is based on seven factors listed by the ESMA authority: price, costs, speed, likelihood of execution and settlement, size, nature of the order or any other consideration relevant to the execution of the order.

Regulatory references

➤ FCA Handbook COBS 11.2B – Best execution for UCITS management

companies

- MiFID II directive: Directive 2016/61034/EU of the European Parliament and of the Council of 23 June 2016 modifying Directive 2014/65/EU – in particular articles 64 to 66
- Article L.533-22-2 of French Financial and Monetary Code.
- Articles 321-110 to 321-114 of AMF General Rules
- AMF Position – Recommendation N° 2014-07 updated on 27 July 2020: Guidance for best execution.

3. Best Selection

a. Principle

H2O AM is not a market member and, as such, does not execute itself orders relating to financial products traded on the organized or regulated markets. The "**best execution**" principle then takes the form of "**best selection**", and consists in selecting, for each class of financial instrument, the entities to which orders are transmitted for execution.

H2O AM has generally opted for the status of "**professional client**" by market intermediaries within the meaning of MiFID2, to benefit from a sufficient level of protection and assurance as to the best execution of orders it transmits to them.

The Best Selection Policy applies to the following asset types:

- **Listed Derivatives:** Futures, Options,
- **Cleared OTC incl.** IRS, Swaption
- **OTC incl. FX** (Fx spot, Fx forward, Fx swap, NDF, FX option), TRS, CFD
- **DVP** -Delivery Versus Payment: Bonds, Equities

This list is not exhaustive, it states most representative asset types traded.

H2O AM cannot transmit any order for execution to a broker/counterparty that is outside the list of authorized brokers or on an exceptional basis as part of a one-off procedure.

H2O AM does not receive any payment or non-monetary benefit from third parties in connection with the execution of its orders that would be contrary to Article 24(9) of Directive 2014/65/EU.

b. Selection of market intermediaries

The selection of market intermediaries is based on their ability to meet the following criteria:

- ✓ Reputation, experience, financial solvency and recognition to guarantee a continuity of the execution service (pre-requisite: entities must be supervised & regulated)
- ✓ Quality and transparency of Pricing / execution (TCA -Transaction Cost Analysis)
- ✓ Coverage: time zone coverage or not/ sales service/quality of trading information/ Market info/ideas
- ✓ Quality of operational support (Legal and Middle-Office)

The quality of research - when provided by brokers that execute orders - to support investment decision is not part of the criteria as research fees are entirely supported by the company, not by the funds themselves.

The execution fees paid by the funds are aligned, they are negotiated with counterparties the same way, at the fairest prices to benefit the unitholders of the funds.

For the equities & CFD, a decreasing brokerage applies with identical thresholds for all counterparties. Considering this similar pricing applied by all brokers, the costs are not a differentiation criterion.

NB: Listed market transactions often bear commissions and fees that are billed in addition to the execution price.

Market intermediaries are selected according to each asset class. For each asset type, H2O AM defines the venues and criteria influencing the choice of execution system, so that, the best possible result can be obtained for order execution.

See *factor matrix* at the end of this policy (section 5).

The on-boarding of a new market intermediary is possible only after completion of due diligence procedures, confirmation legal contracts, Give-Up Agreements and operational set-up are in place, and then, approval of the Broker Committee¹ organized semi-annually.

Removal from the list of authorized brokers between two Broker Committees is possible if H2O AM is aware of any significant information affecting the relationship with the broker or main deficiencies in quality of service provided. In such case, the broker committee members are informed and decision to remove the broker from the list can take effect immediately without waiting until the next committee.

¹ Broker Committee Terms of Reference are available.

On exceptional basis², a new broker could also be used during the year and between two committees, but this must be reported to the Broker Committee for approval by broker committee members.

The exclusions required by clients who entrusted H2O AM with a mandate apply.

The updated list of counterparties is maintained in our systems to guarantee trades only occur with authorized counterparties.

This list of authorized market intermediaries is available on request.

c. Periodic assessment

List of Market intermediaries is reviewed twice a year by the "Broker Committee", made up of representatives of the Investment Management, Middle Office, Legal, Risk Management and Compliance teams plus the Counterparties Relationship Manager.

4. Best Execution

a. Scope

As mentioned previously, H2O AM has no direct membership with exchanges (CME, EUREX, NYSE...). For Over-The-counter "OTC" transactions, H2O Portfolio Managers are requested to select venues and methods of execution that ensure the best possible results. For transactions on listed markets, when executed through a broker, H2O AM relies on brokers best execution policies.

b. Best execution modalities

H2O AM enters into OTC financial contracts only with authorized counterparties, i.e. with whom ISDA/CSAs have been concluded. Trading execution is mainly made under a competitive basis, where best price available, is the first criteria considered in the choice of counterparty. Other criteria are disclosed in the factor matrix. In some situations, the best execution requires to ask for execution price on a non-competitive basis, i.e. to only one selected counterparty; for instance, when there is a reduced liquidity due to some market contexts or counterparties risk management. Portfolio managers are required to select between competitive or non-competitive price requests, to the best of their sole assessment, in a view to execute the trade in the best possible way while always keeping in mind the ultimate interest of the funds holders.

c. Periodical assessment

Main Counterparties on each asset class are assessed on a semi-yearly basis during the "Broker Committee". H2O AM considers the results of the assessment in the allocation

² A dedicated procedure is in place for a one-off request

of OTC volumes and the continuation of its business relationships with the referenced counterparties, a control is in place to check the counterparty exposure.

5. Factor Matrix

H2O AM takes all necessary measures to ensure the best execution of orders. The criteria are:

- prices offered,
- associated costs,
- speed of execution,
- probability of execution and outcome,
- size and nature of the order,
- any other consideration related to the execution of the order.

The factors are detailed in the following table by asset type.

Asset type	Trading Venue ³	Execution strategy	factors by relative importance (1. High; 2. To be considered; 3. Low)
Cash Equities	Orders sent to brokers and banks who execute mainly on Regulated markets (ex: Euronext; LSE...) but also have access to multi trading facilities ⁴ such as dark pool (rarely) to provide additional liquidity when needed	Orders transmitted either by trading platform EMSX or by electronic connection (IB chat)	1. Type of order <ol style="list-style-type: none"> US market => Give up agreement Algorithm Other types: market orders, limit orders, stop orders... The broker is selected at initial stage, so best selection applied
Bonds	Multi trading facilities OTC	<ul style="list-style-type: none"> Request For Quotes (RFQ) sent directly to selected intermediaries (mini 3 when possible) Expl of channels: Bloomberg Allquotes / IB chat/ MARKET AXESS	1. Price 1. Broker reactivity/ execution speed 2. Order size 3. Likelihood of execution
Auction/Syndication (primary market)	Market dealers	Order sent to one bank (auction) or to the pool of banks (syndication) Channels: IB chat	1. Likelihood of execution and/or settlement Volume 1. volume

³ The Directive (EU) 2014/65 on markets in financial instruments defines three types of trading venues: the regulated markets (RM) operated by a market operator, the multilateral trading facilities (MTF) and the organised trading facilities (OTF) operated by a market operator or an investment firm.

⁴ Multilateral Trading Facility is a system used to organize the confrontation of buy/sell orders on Financial Instruments without having the quality of a regulated market.

			The price is part of investment decision process
Listed derivatives Futures Options	Regulated markets (ex: Euronext Liffe, Eurex) Multilatera trading facilities	<ul style="list-style-type: none"> • Market Makers solicited by selected broker on options strategies. • Trades executed in platform (Expl: FIDESSA , Bloomberg...) 	1. Order size 2. quality of execution 1. type of order:
FOREX products SPOT Forward SWAP FX OPTIONS	OTC Multilateral trading facility	<p>According to currency pair liquidity, the process may vary. Both seek best exe via RFQ process.</p> <ul style="list-style-type: none"> - For liquid currencies, the FX authorized brokers are in competition in FXALL or BIDFX, both are multi-brokers platforms. - For less liquid currencies or large-size orders, the portfolio manager privileges trades via IB chat or - FX all 	1.total price 1.counterparty risk management 1.speed 2.liquidity offered FXALL, BIDFX or any other platforms ensure the best execution, list of competitors' quotes are accessible to challenge the best execution application

6. Monitoring

a) At each Broker Committee, the main counterparties are assessed by Investment, Operations and Compliance Teams according to the following criteria:

1. Quantitative aspects *(provided by Compliance)*

- Analysis based on reputational checks or results of broker due diligence if this review took place before the broker committee.

2. Qualitative aspect *(provided by Investment teams)*

- Pricing: best execution
- Sales service/ Coverage: quality of interaction, responsiveness, 24h coverage
- Information provided : quality and quantity of highlighted market information (news, primary market, flow analysis, ...)

3. Technical rating⁵ *(provided by the Middle Office)*

- Quality of confirmations (matching and give ups)
- Settlement quality
- Claim management
- Regulatory reporting
- Quality of billing updates

⁵ Ratings may differ according to the asset class

The criteria provided by the Investment team are preponderant as well as Compliance analysis if red flags are identified. Operational ratings provided by middle office are taken into consideration in the decision to decrease counterparty exposure / trading activity. However this is discussed by the broker committee members and shall remain discretionary.

b) The monitoring of levels of brokerage fees is also ensured once a year in Broker committee.

7. Policy revision

This policy is reviewed once a year and when necessary if there is a significant change affecting the ability to ensure the best possible result in terms of execution.