Policy on the integration of sustainability risks and principal adverse impacts

April 2025

In application :

- From Article 3 of Regulation (EU) 2019/2088 of the Parliament and of the Council of 27 November 2019 on sustainability disclosures in the financial services sector (so-called "SFDR");
- From Article 4 of Regulation (EU) 2019/2088 of the Parliament and of the Council of 27 November 2019 on sustainability disclosure in the financial services sector.
- Article L.533-22-1 of the Monetary and Financial Code (resulting from article 29 of the Energy and Climate Law)

ABOUT H2O AM

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 passion, fortitude and performance, with an unwavering commitment to its clients.

H2O AM’s belief is that value diversification by arbitraging market biases offers a robust source of alpha over time. Drawing on an investment process developed over more than thirty years and on solid quantitative engineering, the teams implement discretionary management using a top-down and value approach. Through in-depth macroeconomic analysis, a fine-tuned assessment of capital flows and relative value strategies on bonds, credit, currencies and equities, H2O AM offers its clients the benefits of diversified alpha with an assumed and controlled risk over a given time horizon.

Diversification is targeted not only across assets and strategies, but also by investment horizons. H2O AM’s manager expertise focuses on market equilibria with the aim of controlling risk across the investment horizon of each fund.

SUSTAINABILITY RISKS

According to the SFDR, a 'sustainability risk' refers to an environmental, social, or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

The process for taking sustainability risk into account in H2O AM funds is based on its Exclusions Policy and Voting Policy. No analysis of extra-financial factor is currently implemented.

1. Exclusions Policy

Sustainability risks are taken into account by means of exclusions based on current regulations, sectors and countries subject to international sanctions (governance), and the Exclusions Policy implemented by H2O AM (social risks).

H2O AM requires additional monitoring and approval from Compliance for any investments linked to issuers based in countries identified as "high risk" from an anti-money laundering and combating the financing of terrorism (AML/CFT) perspective. This includes, but is not limited to, countries considered by the Financial Action Task Force (FATF) to have strategic deficiencies in their anti-money laundering and combating the financing of terrorism (AML/CFT) systems, the European Union's lists of high-risk countries and jurisdictions that are non-cooperative for tax purposes, etc.). This approach is consistent with the risk-based approach to AML/CFT defined in articles L.561-4-1, L.561-32 and L.561-33 of the Monetary and Financial Code.

H2O AM also excludes all actors involved in the production, use, stockpiling, marketing and transfer of anti-personnel mines and cluster bombs, in line with the Oslo and Ottawa Conventions.

Finally, H2O AM excludes the following sectors/activities from the eligible universe of its funds: controversial weapons, tobacco, pornography. Relevant controls with specific thresholds are provided by an external third-party data provider. Our Exclusions Policy is available here.

2. Voting policy

H2O AM's investment approach is top-down and global macro. As such, the main criteria used to make investment decisions are linked to macroeconomic themes, market data and general asset risk considerations, rather than bottom-up analysis of individual companies and sectors.

- The majority of positions in funds managed by H2O AM are taken through derivative contracts such as futures, options and CFDs (*Contract For Difference*).
- A number of funds managed by H2O AM are not exposed to equity risk.

As a result, voting rights in funds managed by H2O AM may be limited.

For the funds concerned, the H2O AM uses the services of Institutional Shareholder Services (ISS) to exercise voting rights.

ISS exercises H2O AM's voting rights by proxy, in accordance with the Voting Policies to which H2O AM has subscribed. ISS voting policies (which vary by region) are available on its website.

ISS's approach is not uniform and takes into account relevant market-specific factors in its research and recommendations, including sustainability risks. This is why ISS distinguishes between different markets.

CONSIDERATION OF THE PRINCIPAL ADVERSE IMPACTS

According to SFDR, a Principal Adverse Impact (PAI) is any impact of an investment decision that results in negative effects on sustainability factors.

H2O AM does not currently take into account principal adverse impacts (Article 4, SFDR) due to a lack of reliable data available to enable us to calculate the PAI.