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Firm Brochure  
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This brochure provides information about the qualifications and business practices of H2O AM LLP (“H2O AM”). If you have any questions about the contents of this brochure, please contact Jean-Noel Alba, Chief Compliance Officer, at 10 Old Burlington Street, London W1S 3AG, United Kingdom or by telephone at +44 207 292 1610. The information in this brochure has not been approved by the Securities and Exchange Commission or any state securities authority.

Additional information about H2O AM also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration as an investment adviser with the Securities and Exchange Commission does not imply a certain level of skill or training for the Adviser or its employees.

**Material changes**

H2O AM is currently applying for initial registration as a US registered investment adviser; there are no material changes.

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## **Advisory Business**

The Adviser offers mainly investment advisory services to institutional clients through mandates and open ended investment vehicles that we manage. It invests predominantly in fixed income instruments in developed and emerging markets across the globe.

The strategy for investment is Global Macro and GFI relative/absolute return strategy which seeks to maximize returns given a value at risk (VaR) budget to be specified, investing in fixed or floating rate securities and debt obligations issued or guaranteed by Organization for Economic Cooperation and Development ("OECD") government or supranational entity (such as the World Bank) and in equities, as well as high quality bonds denominated in freely convertible currencies, including emerging market bonds and currencies. It also seeks returns using equities, foreign exchange instruments and strategies.

Except as otherwise described herein, each portfolio is managed in accordance with the client's investment objectives, strategies, restrictions and guidelines as communicated to Investments by the client.

In addition to the investment advisory activities described above the adviser also provides discretionary advice to its affiliate, Natixis Asset Management, for the management of one of its European open-ended investment vehicles.

As of December 31, 2012, the Adviser had a total of \$ 2.2 billion of client net assets under management and as of July 31, 2013 has \$3.6 billion in regulatory assets under management. The regulatory assets under management are calculated on a gross basis and include outstanding indebtedness, accrued but unpaid fees and expenses and the amount of any borrowing.

H2O AM is owned 50.1 percent by Natixis Asset Management ("NAM"), a French corporation, and 49.99 percent by its eleven partners, including its 4 founding partners. NAM is 100 percent owned by Natixis Global Asset Management, which is in turn owned by Natixis, a French company owned by the ultimate parent BPCE with 73.3% of its shares and 27.7% comprised of publicly owned and other shareholders.

## **Fees and Compensation**

Fee arrangements with clients will vary and are negotiable based upon specific investment advisory services and the size of the client account, among other factors. H2O AM generally charges clients a management fee based on the percentage of assets under management, according to a breakpoint schedule.

Although the specific fee schedule that H2O AM negotiates with a client may vary, the standard management fee generally ranges from 0.15% to 1.2% of assets under management. H2O AM generally bills clients (and clients generally pay) for fees and expenses incurred or otherwise payable on a quarterly basis, approximately 30 days subsequent to each quarter's end. Fees for partial quarterly periods will be calculated and paid on a pro rata basis.

Clients may obtain a refund of any pre-paid fees if the advisory contract is terminated before the end of the billing period by contacting H2O AM, at the contact information that appears on the cover page of this Brochure.

Clients of H2O AM may bear certain other fees, expenses and costs (in addition to H2O AM's advisory fees) which are incidental or related to the maintenance of an account or the buying, selling and holding of investments including, but not necessarily limited to: (1) custodial charges; (2) brokerage fees, commissions and related costs and expenses; (3) governmental charges, taxes and duties; (4) transfer fees, registration fees and other expenses associated with buying, selling or holding investments; (5) withholding taxes payable and required to be withheld by issuers or their agents; and (6) fees associated with investments in pooled investment vehicles. These fees and expenses would vary, depending on the type of investment mandate.

To the extent practicable, H2O AM is willing to work with any service providers with whom clients might have relationships or preferred rates; however, as a rule H2O AM does not engage in soft commission agreements.

To the extent a client's assets are managed through a limited partnership or similar vehicle, H2O AM may pay for the organizational costs of establishing such vehicle or such costs may be borne by the investment vehicle, depending on the circumstances and as disclosed to clients and investors. Any ongoing operating costs will be charged to the vehicle and, indirectly, to all clients invested in such vehicle.

Please see "Brokerage Practices" below for additional information regarding brokerage.

### **Performance-Based Fees and Side-By-Side Management**

H2O AM may charge clients a performance fee in addition to a standard management fee based on individual agreements with its clients. The amount charged typically is calculated based on a portfolio's outperformance of a pre-determined benchmark (e.g., JP Morgan GBI Broad), according to a breakpoint schedule based on assets under management. These performance fees are only charged if permitted by the applicable SEC rule. Although the specific performance fee schedule that H2O AM negotiates with a client may vary, the standard performance fee generally ranges from 15% to 20% of performance above the benchmark. H2O AM performance fees generally include a "high water mark" meaning that the performance fee only applies to net profits achieved after previous losses have been recovered.

It is possible that accounts with different performance fee structures will make the same investments. These conflicts are resolved by the Advisers' aggregation and allocation procedures described in the Brokerage Practices section below. Performance fees may be based on absolute return or the fee may be calculated based on performance relative to a benchmark. When a performance fee is calculated based on performance relative to a benchmark, it is possible that a client could pay a performance fee even though its portfolio suffered a loss during the calculation period.

H2O AM seeks to identify potential conflicts of interest and treat all clients and accounts fairly and equitably in resolving potential and actual conflicts of interest. In order to

identify and mitigate such conflicts, H2O AM has adopted and maintains compliance policies regarding the side-by-side management of accounts and maintains compliance and risk management personnel, that monitor these issues. Such policies seek to (i) identify practices that may potentially favor accounts in which H2O AM or its personnel have a greater ownership and/or pecuniary interest over accounts in which H2O AM and its personnel have a lesser (or no) ownership and/or pecuniary interest, (ii) prevent H2O AM and its personnel from inappropriately favoring some accounts over others, (iii) detect potential violations, (iv) provide a process to determine when a particular compliance requirement may conflict with proper and appropriate management of client accounts, and (v) promptly resolve any violations detected.

### **Types of Clients**

The Adviser provides investment services to institutional investors, such as insurance companies, pension plans, U.S. and non-U.S. governmental entities, charitable organizations, other investment advisers and non-US investment vehicles.

Although it does not currently do so, from time to time, H2O AM may impose or, in its discretion, waive, certain requirements for opening or maintaining a separate account, such as a minimum account size.

### **Methods of Analysis, Investment Strategies and Risk of Loss**

#### *Methods of Analysis*

The strategy for investment is a GFI relative/absolute return portfolio aiming to maximize performance given a VaR (yearly, 95%) budget to be specified. This Information Ratio enhancement objective of around 1 is to be achieved through a predominantly relative value management on government and credit bond as well as currency markets.

The strategy uses a global fixed income and multi-currency portfolio or equities, aiming to out-perform a benchmark given an indicative ex-post tracking error budget (typically 6% p.a. over a minimum investment horizon of 3 years). The risk-adjusted excess return (a.k.a. alpha) of the fund is delivered via the implementation of mostly relative value positions and arbitrages between and among the different asset classes making up the investment universe, namely OECD government bonds, corporate and emerging bonds, equities and currencies. Directional positions (G4 duration, exposure to the USD vs. non-USD currencies) are implemented principally as hedges (risk-off) rather than as risk-on positions.

Subject to client constraints, the strategy uses currency commitments and a broad range of instruments, including derivatives, which are permissible for hedging, leveraging as well as for efficient portfolio management purposes.

An investment in the strategy will expose a portfolio to the following main risks:

- Arbitrage Risk
- Counterparty Risk
- Credit Risk

- Currency Risk
- Derivatives Risk
- Interest Rate Risk

**Arbitrage Risk**

Arbitrage is a technique that takes advantage of price differences observed (or anticipated) between markets and/or sectors and/or securities and/or currencies and/or instruments. If there is an unfavorable outcome in such arbitrage transactions and the adviser misjudges the direction of these movements, the value of the portfolio may fall.

**Counterparty Risk**

The Adviser uses over-the-counter financial contracts and/or temporary purchases and sales of securities to effect its strategies for clients. These transactions, entered into with one or more counterparties, potentially expose the fund to a risk of failure of one such counterparty, which may cause the latter to default on payment and a decrease in the value of the portfolio. Secured settlement risk systems are used to mitigate the risk for portfolios and counterparty currency transactions.

**Credit Risk**

Credit risk refers to the risk that the issuer of fixed-income securities held by a portfolio may default on its obligation or decline in credit quality, thereby resulting in a loss to the portfolio.

By nature of the characteristics of this strategy, there is substantial credit risk. Valuations may fluctuate widely under impaired market conditions, with an adverse impact on net asset value. This risk may be intensified by a lack of liquidity on the market for all bonds, particularly speculative bonds.

In the case of ABSs (Asset Backed Securities) and MBSs (Mortgage Backed Securities), credit risk results from both the intrinsic quality of the underlying assets, which may be of various types (consumer, mortgage, small business loans, trade receivables etc.) and from specific risks, such as those which may arise from the complex legal structures and the parties involved in the transactions.

**Currency Risk**

Non-U.S. securities that trade in, and receive revenues in, non-U.S. currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. As a result, investments in non-US. dollar-denominated securities and currencies may reduce returns of a portfolio.

**Derivatives Risk**

Derivatives are instruments whose value depends on, or is derived from, the value of an underlying asset, reference rate or index. Derivatives are volatile and may involve significant risks, including (i) credit risk; (ii) currency risk; (iii) liquidity risk; and (iv) index risk. In addition, the use of derivatives involves inherent leveraging risks. Most of the

derivatives used by H2O AM are listed derivatives operated on official exchanges with a clearing house.

### **Emerging Markets Risk**

Foreign markets, particularly emerging markets, can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments and can perform differently from the U.S. market. Emerging markets can be subject to additional risks, including: a risk of loss due to political instability; exposure to economic structures that are generally less diverse and mature, and to political systems which may have less stability, than those of more developed countries; smaller market capitalization of securities markets, which may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment; and possible repatriation of investment income and capital.

### **Index Risk**

If an instrument such as a derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, a portfolio could receive lower interest payments or experience a reduction in the value of the derivative to below what the portfolio paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.

### **Interest Rate Risk**

When interest rates increase, the market value of fixed-income securities tends to decrease, and vice versa.

### **Issuer Risk**

The value of an individual security or particular type of security can be more volatile than, and can perform differently from, the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers.

### **Leverage Risk**

Leverage exposes an instrument or portfolio to the risk that relatively small market movements may result in large changes in the value of an investment. Certain investments or trading strategies that involve leverage can result in losses that greatly exceed the amount originally invested.

### **Liquidity Risk**

The market for certain investments may become illiquid under adverse or volatile market or economic conditions, making those investments difficult to sell. The market price of certain investments may fall dramatically if there is no liquid trading market.

### **Overexposure Risk**

As part of the strategy there will be different levels of exposure to the various types of risk, while remaining in compliance with the guidelines established with the clients for the range of modified duration. The level of exposure depends on how the strategies are implemented, but also on market conditions. The level of exposure to the various risks may cause the net asset value to fall faster and/or to a greater extent than the markets underlying these risks.



**Prepayment Risk**

Certain fixed income securities are subject to the risk that early principal payments made on the underlying obligations will result in the return of principal to the investor, causing it to be invested subsequently at a lower current interest rate. Alternatively, in a rising interest rate environment, security values may be adversely affected when prepayments on underlying obligations do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instruments.

**Reliance on Portfolio Managers Risk**

The Adviser's Portfolio managers are experienced in the strategy and the Adviser provides them with the tools and resources to facilitate sound investment management decisions. However, portfolio managers may not correctly anticipate market movements or other factors which may bear upon investment performance and result in losses to the portfolio.

**Volatility Risk**

Markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Different parts of the market can react differently to these developments. Volatile financial markets can result in greater market and liquidity risk and potential difficulty in valuing portfolio instruments.

**An investment with H2O AM is speculative and involves substantial risk, including the risk of loss of an investor's entire investment. Investments are subject to those market risks common to investing in all types of financial instruments. Such investments are subject to investment-specific price fluctuations as well as macro-economic, market and industry specific conditions, including, but not limited to national and international economic conditions, domestic and international financial policies and performance, conditions affecting particular investments such as the financial viability, sales and product lines of corporate issuers, national and international politics and governmental events, and changes in income tax laws.**

**Disciplinary Information**

A registered investment adviser is required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of the adviser or the integrity of the adviser's management. The Adviser is not and has not been the subject of any legal or disciplinary events required to be disclosed.

**Other Financial Industry Activities and Affiliations**

H2O AM is authorized and regulated by the Financial Conduct Authority in the United Kingdom since December 17, 2010.

H2O AM benefits from the IT, trading and middle office tools developed at NAM, as well as its legal services, under a service level agreement in place between the two companies.

H2O AM may use an affiliated broker, Natixis Securities London Limited, on certain transactions (See below). The ultimate parent of Natixis Securities London Limited is Natixis, the ultimate parent of H2O AM.

## **Code of Ethics**

H2O AM has adopted a Code of Ethics (the “Code”) in accordance with Rule 204A-1 under the Investment Advisers Act of 1940. The Code requires that the Adviser and its staff affirmatively exercise authority and responsibility for the benefit of clients, and not participate in any activities that may conflict with the interests of clients except in accordance with the Compliance Manual. In addition, Employees (as defined below) must avoid activities, interests and relationships that might interfere or appear to interfere with making decisions in the best interests of the Adviser’s clients.

The Code of Ethics contains policies and procedures that, among other things:

- prohibit Employees from taking personal advantage of opportunities belonging to clients,
- prohibit trading on the basis of material non-public information,
- place limitations on personal trading by Employees and impose preclearance and reporting obligations with respect to trading,
- require initial and annual reports of securities holdings and monthly transaction reports by Employees,
- place limitations on gifts and entertainment received,
- place limitations on the outside business activities conducted by Employees, and
- require Employees to maintain in confidence, information about the Adviser and investors.

With regard to personal securities transactions, the Code of Ethics governs personal trading by the Adviser’s principals, employees and related accounts (“Employees”). Employees are allowed to maintain personal securities accounts. Employees declare existing investments at the time of signing a working contract with H2O AM for employees or the partnership terms of admission for partners. These investments may be maintained. Decisions to disinvest must be pre-approved and declared to the compliance officer of H2O AM LLP.

New investments are allowed the following, provided that such accounts are disclosed to the Adviser:

- pooled vehicles, such as mutual funds, including the funds managed by H2O AM LLP
- retirement accounts such as an IRA
- ETFs
- accounts over which a third party has complete discretion

All other investments must be pre-approved by H2O AM’s compliance officer.

All investments are subject to a 14 day holding period.

The Adviser’s Code of Ethics is available upon request by contacting Jean-Noel Alba, the Adviser’s Chief Compliance Officer at 011 44 207 292 1610 or by email at [jean-noel.alba@h2o-am.com](mailto:jean-noel.alba@h2o-am.com)

### *Conflicts of Interest Created by Contemporaneous Trading*

The Investment Adviser manages investments on behalf of a number of clients. Certain clients have investment programs that are similar or overlap and may, therefore, participate with each other in investments. It is the policy of the Adviser to allocate investment opportunities among all clients fairly, to the extent practical and in accordance with each client's applicable investment strategies, over a period of time. The Adviser will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any client solely because the Adviser purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the client.

If it is determined by H2O that it would be appropriate for one or more clients to participate in an investment opportunity, the Adviser will seek to execute orders for all of the participating clients on a fair and equitable basis, taking into account such factors as the amounts of capital available for new investments and the investment programs and portfolio positions of clients for which participation is appropriate. Orders may be combined for all such clients, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one client cannot be fully executed under prevailing market conditions, securities may be allocated among the different clients on a basis which the Adviser considers equitable.

### *Cross Trades*

H2O AM may determine that it would be in the best interests of certain clients to transfer a security from one client to another (each such transfer, a "cross trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the clients, or to reduce transaction costs. If H2O AM decides to engage in a cross trade, it will determine that the trade is in the best interests of each client involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those clients. All cross trades are subject to prior written approval of the Compliance Officer, following review of documentation including a price quote comparison and rationale for the transaction.

The execution of cross trades is always done in the market by the close of the market on the day the order is placed with a broker from the authorized broker list.

Cross trades are recorded and monitored post-execution on a weekly basis by H2O AM compliance and at monthly Risk and Compliance committee meetings with NGAM.

## **Brokerage Practices**

### *Broker Selection*

H2O AM only uses brokers on a pre-approved list selected by a Selection Committee comprised of H2O AM's Chief Executive Officer and Deputy Chief Executive Officer, the Chief Investment Officer, portfolio managers, the head of the middle office and the head of risk control. The Selection Committee meets twice yearly to review and revise the list, or more often as needed. Brokers are subject to selection only once they have been assessed by the risk control department of H2O AM. In cases where liquidity or opportunities may justify using a broker not on the list, the portfolio may request an exception from the risk and compliance department of H2O AM after approval by the Chief Investment Officer. The exception applies only in the specifically approved case, and the broker may not be used otherwise until approved by the broker Selection Committee.

H2O AM, in accordance with best execution principles, is able to negotiate low trading costs, especially for listed derivatives which are the main instrument used for the management of portfolios. Foreign exchange instruments and fixed income securities are traded on a net price basis and do not support brokerages. H2O AM traders are in constant contact with the market and are equipped with sophisticated information and analysis systems.

Specific brokerage fees per trade will generally vary by geographic region especially for equities, execution channel and of the types of securities involved. In executing portfolio transactions, the Adviser seeks to obtain the best net result for a client. Prices paid to dealers for fixed income securities and certain other securities usually include a "spread," which is the difference between the prices at which the dealer is willing to purchase or sell a specific security at the time. H2O AM may invest a client's portfolio in securities traded in over the counter markets and will engage primarily in transactions with dealers who make markets in such securities, unless a better price or execution could be obtained by using a broker. Although the Adviser generally seeks competitive commission rates (see below) and dealer spreads, payment of the lower commission or spread is not necessarily consistent with obtaining the best net results.

In choosing brokers and dealers, H2O AM is not required to consider any particular criteria. H2O AM seeks "best execution." What constitutes "best execution" and determining how to achieve it are inherently uncertain. In evaluating whether a broker or dealer will provide best execution, H2O considers a range of factors. In addition to quantitative factors such as transaction costs, the Adviser may consider a number of other factors, including, among others, (1) the size and type of transaction; (2) access to liquidity; (3) execution efficiency; (4) capital utilization; (5) the value and quality of brokerage and services provided by the broker; (6) clearance and settlement services; (7) financial responsibility/counterparty credit statistics; (8) responsiveness to inquiries or issues; (9) confidentiality; (10) knowledge of the specific security and its industry group; (11) the availability of securities to borrow for short sales; (12) block trading capabilities; (13) access to markets; and (14) the ability to limit

market impact. As discussed below, H2O AM may effect transactions which result in a commission or “spread” in excess of a commission or spread which another broker-dealer would have charged for the transaction, if H2O AM determines such commission or spread is reasonable in relation to the value of the brokerage, performance measurement service and other services provided by that broker-dealer and not inconsistent with applicable law, notwithstanding that the client charged such commission may not be the direct or exclusive beneficiary of such services.

H2O AM may use an affiliated broker, Natixis Securities London Limited, on certain transactions. Such affiliates will be entitled to earn customary fees and expenses in relation to the services performed by them and such fees may increase overall expenses for a client. The ultimate parent of Natixis Securities London Limited is Natixis, the ultimate parent of H2O AM.

#### *Client Directed Brokerage Arrangements*

At this time, the Adviser does not accept client directed brokerage arrangements.

#### *Aggregation and Allocation of Orders*

H2O AM seeks to aggregate trade orders in a manner that is consistent with its duty to (1) seek best execution of client orders; (2) treat all clients fairly and equitably over time; and (3) not systematically advantage or disadvantage any single client or group of clients.

H2O AM may combine orders on behalf of an account with orders for other accounts for which it or its principals have trading authority, or which it or its principals have an economic interest. When it does, H2O AM will allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on a standard split basis, based on consideration of the size of the portfolios and risk profile among the various participants. H2O AM believes combining orders in this way will, over time, be advantageous to all participants.

Clients of H2O AM may be following the same or similar strategies at the same or different times as those being followed by H2O AM’s other clients. Because different portfolio construction processes are used for different types of accounts, allocation of trading opportunities may not be granted to certain accounts with similar strategies where the portfolio manager in good faith determines that such opportunity may not be appropriate for certain such accounts.

#### *Soft Dollar Practices*

H2O AM does not use soft dollars in the management of client accounts.

#### **Review of Accounts**

At an initial level, the portfolio managers and their investment teams and trading desk continuously review account compositions for performance and consistency with the investment mandate and authorized risk limits of that particular account.

H2O AM has implemented a daily control on trades, undertaken by the operations department on a random sample of trades, with emphasis on controlling the following:

- That trades are executed with authorised counterparties or brokers
- Trades are executed by only authorised people (portfolio managers) at H2O AM
- The timely execution of trades: timestamps for execution
- The allocation of trades with details of the final portfolio allocation
- The price execution with comparison of the price of execution against open, close, high, low.

Beyond this daily control which is available on internal systems for management oversight, the controls are also reviewed during the weekly risk and compliance meeting at H2O AM, with the external compliance advisor of H2O AM. This is reported to the group Audit Committee.

There are reviews conducted on a daily basis by risk/compliance to assess:

- Portfolio and benchmark performance data over multiple periods
- Tracking error
- Risk budget
- Asset type breakdowns
- Performance attribution
- Statistical indicators
- Compliance with any investment restrictions/guidelines
- Market timing activity

H2O AM also reviews investor accounts upon the occurrence of an event which would have a significant impact on a portfolio's performance.

H2O AM generally provides investors with monthly written reports, normally within 10 business days of the end of the month. These reports cover an investor's current portfolio holdings and performance information. Additional written and oral reports may be negotiated with investors from time to time.

### **Client Referrals and Other Compensation**

The Adviser may enter into selling agreements with third parties to solicit investors for the Funds. In consideration for such services, the Adviser will compensate such third parties. Such compensation generally will be an amount equal to a percentage of the assets of the investors referred by the third party.

All third parties engaged to sell the Adviser's products or services must have appropriate licenses in the jurisdictions targeted for marketing activity.

## **Custody**

The Adviser is deemed to have custody of investor assets because the Adviser is authorized to deduct fees from private fund accounts and because the adviser provides payment instructions to the custodian for its private fund clients. Actual custody of fund and investor assets is at a broker dealer bank or other qualified custodian. The Adviser does not hold client money. The Adviser does not currently manage any private investment funds that are US domestic funds. No funds currently managed by the Adviser are available or offered for investment to US investors.

The Adviser will give investors in the funds it manages notice in writing of the name and address of the qualified custodian used and the manner in which the assets are maintained. Monthly, the administrator sends a statement of account to each investor in the non-US funds it manages. The statement shows the investor's holdings, the details of any transactions during the period, the closing balance including NAV per share and the total portfolio amount. Investors are encouraged to carefully review the statement.

## **Investment Discretion**

H2O AM generally has complete discretion over the selection and amount of securities to be bought or sold for clients (within the parameters established by the relevant investment management agreement or other governing document and subject to any possible legal investment restrictions). In carrying out the mandate, the Adviser may rely on research by affiliates or by third parties. Depending on the terms of the client's written agreement with H2O AM, H2O AM's authority may include the ability to select brokers and dealers through which to execute transactions on behalf of its clients, and select the commission rates, if any, at which transactions are effected. In making decisions as to which securities are to be bought or sold and the amounts thereof, H2O AM is guided by the mandate selected by the client and any client-imposed guidelines or restrictions. Unless H2O AM and a client have entered into a non-discretionary arrangement, H2O AM generally is not required to provide notice to, consult with, or seek the consent of its clients prior to engaging in transactions.

## **Voting Client Securities**

H2O AM is generally responsible for voting proxies with respect to securities held in client accounts. H2O AM's Proxy Voting Policies and Procedures are designed to ensure that proxies are voted in the best interests of its clients. As an investment adviser with a fiduciary responsibility to its clients, H2O AM generally seeks to vote proxies in a manner that maximizes the economic value of companies whose securities are held in client accounts for which H2O AM has been delegated voting discretion.

H2O AM benefits from the expertise of NAM to effect proxy voting for clients. There are two teams within NAM responsible for the exercise of the voting rights. There is a Governance and Commitment team within financial research which defines the voting policy, analyses the resolutions, challenges the financial analysts and portfolio managers, talks to the concerned companies, and coordinates the voting policy for specific resolutions. The Middle

Office Trade Processing team is in charge of processing the voting instructions with the relevant custodians.

Centralization makes it possible to control the enforcement of voting policy, as well as the geographic and quantitative coverage, or to intervene in case of any dysfunctions in the voting chain of events.

A Voting Committee that includes portfolio managers, the Chief Investment Officer for equities, the head of Socially Responsible Investment and the governance analysts meet to consider and decide on shareholder meetings which have been submitted to its authority. If a consensus cannot be achieved during the meeting, the final voting decision will be taken by the Chief Investment Officer.

H2O AM's policy is in line with NAM's policy is to exercise voting rights, unless otherwise decided according to specific criteria. The selection criteria are geographically based and as follows: in France, where NAM is based and has in depth coverage across the market, all voting rights are exercised. In Europe (ex. France), Japan and the USA, there is a threshold of 0.01% of voting shares before rights are exercised. For issues located in other countries, the threshold is 0.05%. The thresholds shall be subject to periodic review and were updated as of 01 01 2013.

There also may be exceptions made where the investment process requires the securities to remain in the portfolio during the voting period, which could generate a prejudice for clients.

In most cases, all shares are voted. In some countries, however, the share-blocking period may put investors at a disadvantage by reducing the manager's necessary room for maneuver. Exceptionally, H2O may not be able to ensure effective voting for some or all of the position held in a specific company.

During the proxy voting process, H2O AM may be confronted with conflicts of interest, especially with entities within their group. To avoid such problems, a procedure allows analysts to alert lead portfolio managers in cases where conflicts of interest have been identified. Where such a situation arises, the following procedure is followed:

1. The lead portfolio managers are warned that certain resolution(s) are in conflict with H2O AM's voting policy.
2. An explanatory document is prepared.
3. A meeting of the lead portfolio managers, the compliance and legal departments is organized.
4. This committee of senior managers makes the final voting decision, but if the various parties cannot reach an agreement, the decision goes to a specific committee.

H2O AM has developed a voting policy which sets out in detail the Adviser's policies about what considerations shall be involved in determining how the Adviser will vote, based on the facts and circumstances of each item put to proxy.

The Adviser's voting policy is available upon request. An investor also may obtain a record of the Adviser's voting for such client by contacting Jean-Noel Alba, the Adviser's Chief Compliance Officer, at [jean-noel.alba@h2o-am.com](mailto:jean-noel.alba@h2o-am.com) or 011 44 207 292 1610.



**Financial Information**

The Adviser has no financial commitments that would impair its ability to meet its contractual and fiduciary commitments to clients, and is not and has not been the subject of any bankruptcy proceeding during the past ten years.