



1) Non-rated corporate bond exposure calibration & risk/return benefits

- As clearly indicated on page 2 of our monthly factsheets, the current exposures of H2O Adagio, H2O Allegro, and H2O MultiBonds to non-rated corporate bonds amount to 4.3% 9.7%, and 8.3% of these funds' net assets as at 20/06/19¹.

As a reminder, H2O's positions are mostly financed through futures contracts and currency forwards, which makes a lot of cash available in the funds (e.g. cash & money market placements at 56% in H2O Adagio).

Also, in terms of commitment and risk consumption, these exposures are marginal in comparison with those generated by our global macro views on sovereign bonds and currency markets.

- The calibration of these exposures is binary in the sense that the lower volatility UCITS are app. 5% exposed, and the higher volatility ones are app. 10% exposed;
- Today, this exposure in turn splits across nine (9) issues ranging from 0.2% to 2.7% of net assets per fund. These include:
 - a. Chain Finance 7.75% 2020 collateralized by Sapinda Group portfolio companies including Smashcast (the world's largest independent E-Sports internet broadcasting platform outside of Asia), Avatera Medical (a German medical equipment manufacturing company specializing in robot-assisted surgery devices), and Fyber N.V. (a mobile-phone advertising technology company);
 - b. Civitas Properties Finance 4% 2022, backed by German residential real estate;
 - c. DeGros Holding 6.5% 2023, issued by a logistics services cy. operating in Germany;
 - d. ADS Securities Funding 6.5% 2023, a Abu-Dhabi-based financial services company;
 - e. La Perla Fashion Finance 7.25% 2023, the renowned Italian luxury-lingerie maker ;
 - f. Trent Petroleum Finance 8.5% 2023, an energy cy. operating oil fields in the North Sea;
 - g. Everest MedTech B.V. 5% 2024, backed by Avatera Medical (see above);
 - h. Voltaire 7% 2023, Wild Bunch, a French film distribution company;
 - i. Rubin Robotics B.V. 5% 2024, a convertible bond collateralized by Avatera Medical.

¹ These exposures have been systematically and fully disclosed in our monthly factsheets, in the fund's semi-annual & annual reports, and in regular notes issued by H2O in February, August and October 2018, as well as more recently in May 2019. They have from time to time been discussed in client meetings. It was never H2O's intention to hide these investments away from our clients' knowledge and scrutiny.

- These private placements are “Lars Windhorst-related” in the sense that the bond offerings have indeed been referred to us by Lars Windhorst whose holding company, Tennor Holding (previously known as Sapinda Holdings), owns the issuing corporations equity wise, save for ADS Securities;
- The above companies which are managed independently issue private bond placements with a seniority linked to a fixed income investment, and with distinct guidelines (covenants, collateral and coupons). H2O is exposed to these private placements which are all securitized with unique ISIN codes;
- These private placement securities offer a similar profile as that of collateralized securities where cash flows are distributed regularly and bonds repaid at maturity. In case of a credit event, these bonds may deliver lower coupons or have their maturities extended;
- H2O’s private placements relate to totally independent European companies ranging from a German medical equipment manufacturer to an Italian luxury lingerie maker, and include film distribution, oil field operations, real estate and e-commerce among other sectors. As a consequence, they expose the funds to a portfolio of diversified high-yielding short-dated bonds that can be either traded later or held to maturity, even though we rely for the time being upon one single referral agent (more below);
- These securities provide genuine diversification from our other (sovereign & corporate) fixed income positions especially when our funds incur drawdowns in risk-off market environments;
- For reasons explained hereunder, H2O may have decided to buy significant amounts of the bonds issued by the above listed companies to increase the ability to negotiate better terms with detailed information. The holding ratios per issue and per fund are monitored to be aligned with the regulatory 10% ceiling.

2) Contribution to performance

- Since 2015, these private placements have provided a significant source of diversified carry, at the logical expense of liquidity. Please find below their contribution to the performance of H2O Adagio, H2O MultiBonds, and H2O Allegro since 2015:

	2015	2016	2017	2018	2019
H2O Adagio	0.22%	0.29%	0.87%	0.75%	0.17%
H2O MultiBonds	0.23%	0.17%	1.55%	1.70%	0.36%
H2O Allegro	0.42%	0.15%	1.18%	1.34%	0.13%

Data as of 20/06/2019. Source: CACEIS & H2O

3) The H2O-Lars Windhorst partnership

- Lars Windhorst has over the past four years referred valuable investment opportunities to us, and has proven to be a reliable business partner. In addition, the constructive collaboration that we have built over time has enabled us to enter into transactions on terms which we would consider favourable for our funds. In line with our investment process, we like to calibrate our strong convictions on few but fairly sized positions;
- H2O has been offered to subscribe for short-dated (maximum 5 years) bonds issued by these different European corporations. In this respect, Tennor's and H2O's interests are fully aligned. There is no financial remuneration/compensation between the two companies in any shape or form at a personal or corporate level;
- This does not imply that H2O invested in these deals blindfolded. Back in 2015, following the arrival of corporate-credit specialist Pascal Dubreuil in the investment management team, the decision was taken by the company's Executive Committee to increase and diversify its portfolios' bond holdings away from govies into corporate bonds (AT1 & Cocos), including private-equity-kind of placements. The choice was made to opt, not for the then expensive, highly intermediated, and crowded US market, not for the UK one that was getting engulfed in PM Cameron's 2016 Brexit referendum decision, but for the European one that offered very good value but much less liquidity;
- Due diligence investigations have been conducted in situ by H2O to assess the business plan and the creditworthiness of the companies targeted. For instance, Pascal Dubreuil travelled to Bologna last year to inquire on La Perla: ditto for Avatera in Jena, Germany. Last but not least, as a major investor in these deals, H2O is totally involved in the negotiation of the covenants and of the level of collateralization of the bond issues;
- Earlier this year, Bruno Crastes requested the setting up of an Advisory (non-Executive) Board at Tennor Holding on which he is now sitting. This move was justified based on the need to closely monitor H2O's investments in these different companies in terms of governance. Bruno Crastes carries no personal interest in this position: no remuneration, no contract, and not intervention in the running of the companies. On this Advisory Board, no confidential information is shared ;

4. Valuation Policy

The H2O FCPs valuation policy is entrusted to CACEIS Administration, the funds accountant, and relies on available market prices quoted by third parties. For listed derivatives, they are extracted out of exchanges. For OTC products, valuations may be obtained from counterparties or third party pricing sources, as per the requirements of UCITS Directives. When such prices are not available, H2O's Valuation Committee, which is totally independent from the portfolio managers, decides on the best valuation methodology or on the appropriate pricing sources so as to publish a fair value of the related security as per the UCITS directive requirements.

Out of the nine bonds enumerated on page 1, five are Level 3 securities, meaning that they are:

- ✓ either not listed officially (*this is not related to the fact that they are not rated*) so their price has to be assessed daily by H2O's Risk Department in accordance with its Fair Value Pricing policy, and submitted to CACEIS;
- ✓ or listed but discounted by H2O.

The daily quotations of these securities are sent to CACEIS Administration via the so-called "Price List."

Out of these five bonds, three (Chain, DeGros & Trent) are listed (Bloomberg quotation), but they are voluntarily discounted by H2O, 5% to 15% off their Bloomberg quotations in order to increase their liquidity premium and to protect the fund's shareholders in the case of market liquidity traps.

The two others (Everest and Rubin) are not listed and thus valued by H2O at a discount.

In H2O Adagio, the exposure to Chain, DeGros, Everest, Trent and Rubin Robotics amounts to a total of 2.8%, 6.5% for H2O Allegro and 5.8% for H2O MultiBonds as of 20/06/2019;

H2O's Fair Value Pricing policy is conducted by the credit management team. Based upon our expectations of future cash flows, it consists in quoting these private placements in-between their issue price (at which they will very likely be reimbursed at maturity) and their stressed price in the case of early redemptions in dire market liquidity conditions.

5. Liquidity of the funds

The Risk department at H2O monitors the liquidity risk of all portfolios by estimating the cost of liquidating a proportion of the portfolio within different time frames.

Under normal market conditions, the cost of liquidating a portion of the portfolio is based on the prevailing bid-ask spreads.

To compute the cost of liquidating a portion of a portfolio under extreme market conditions, the risk department partitions the portfolio into different categories and applies a discount to all assets based on their respective category. The discount is calculated based on the widest mid-bid spreads observed between 2010 and 2019.

As of March 29th, 2019,

H2O MultiBonds	Relative loss (in basis points)		
	20% redemption	30% redemption	40% redemption
Normal market conditions	-4	-6	-8
Stressed market conditions	-31	-47	-62

Source: H2O Risk Department.

Please note that a Swing Pricing policy is also in place across most of our UCITS (including H2O Adagio & H2O MultiBonds) so as to activate an equitable allocation of entry/exit costs between the old and new unitholders. It is conducted by H2O's CIO jointly with the Head of H2O's Risk dpt.

Edited by H2O AM in London on Thursday 20 June, 2019.

This document is intended for professional and non-professional clients. It cannot be used for any purpose other than that for which it was intended and cannot be reproduced, distributed or communicated in its entirety or in part to third parties without prior written permission from H2o Asset Management LLP. This document has been produced purely for informational purposes. It consists of a presentation conceived and created by H2o Asset Management LLP using sources that it regards as reliable. H2o Asset Management LLP will not be held liable for any decision taken or not taken on the basis of the information contained in this document, nor for any use that a third party might make of this information.

Additional Notes

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Italy:** Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente, 1 - 20122, Milan, Italy. **Germany:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands:** Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. **Spain:** Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006, Madrid, Spain.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom:** this material is intended to be communicated to and/or directed at investment professionals and professional investors only; **in Ireland:** this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; **in Jersey:** this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Office 603 - Level 6, Currency House Tower 2, PO Box 118257, DIFC, Dubai, United Arab Emirates.

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only.

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, oficina 102B, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.