



H2O
Asset Management



The H2O AM Case Explained

How did an investment management company that is a subsidiary of the Natixis group lend nearly €3 billion to a single struggling private player?

Why have the remaining amounts been frozen since August 2020 in “Side-Pockets”?

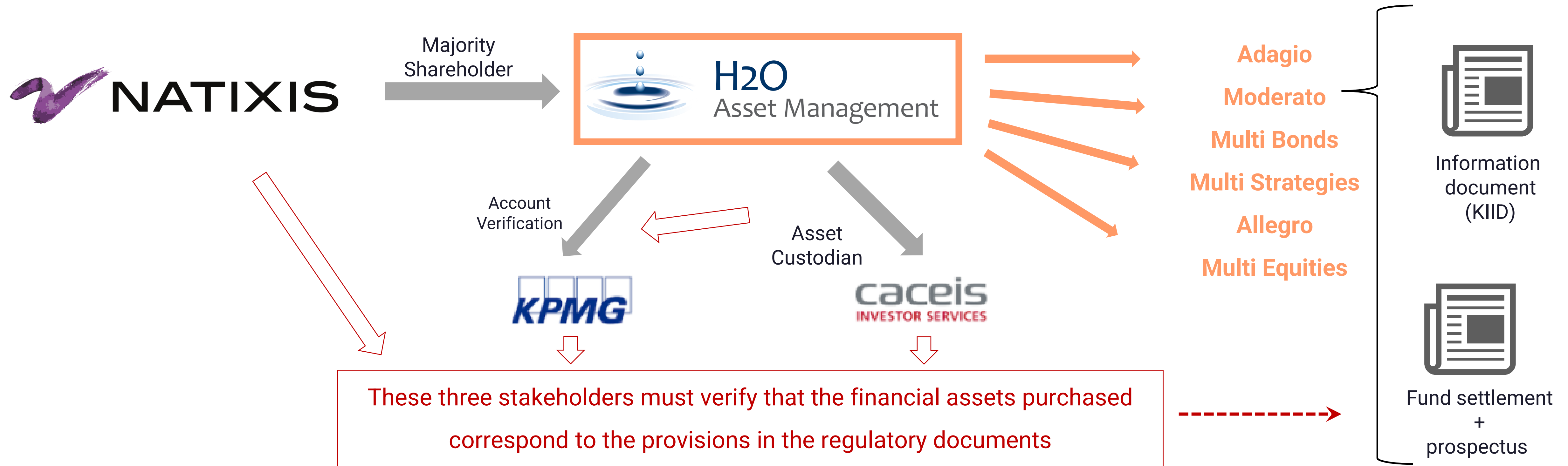
Why will these amounts probably never be repaid?

What is an “asset management company”?



- An asset management company is a group of private or professional investors.
- It centralises all amounts collected and invests them in a Mutual Fund.
- according to investment rules and management guidelines predefined with the investors (Key Investor Information Document)
- The entire process is controlled by the AMF (Autorité des marchés financiers [Financial Markets Authority])

Who is the H2O management company?



- H2O offers Mutual Funds with varying degrees of risk
- But only on simple and “liquid” financial instruments, sellable at any time (hence the name of the management company!!)
- H2O is owned by the Natixis group (51%)
- KMPG audits the accounts
- CACEIS (Crédit Agricole) is the institution where all financial assets are deposited

The H2O Story

2010 – 2015: Golden Years

The company was founded in 2010 and was very successful. The funds were performing well and the assets under management were growing fast.

2015 – 2019: Initial Misguidance

For unknown reasons, H2O began purchasing private debts related to the Tennor Group - in all funds. In small amounts at first, then massively: €400M between 2015 and 2017, €600M in 2018, €350M in the 1st half of 2019 alone

2019 – 2020: The Fall

At the end of June 2019, the Financial Times revealed the extent of the purchases and the links between the H2O directors and Lars Windhorst, the nefarious boss of the Tennor Group. H2O downplayed the issue, and announced figures ... that turned out to be totally false.

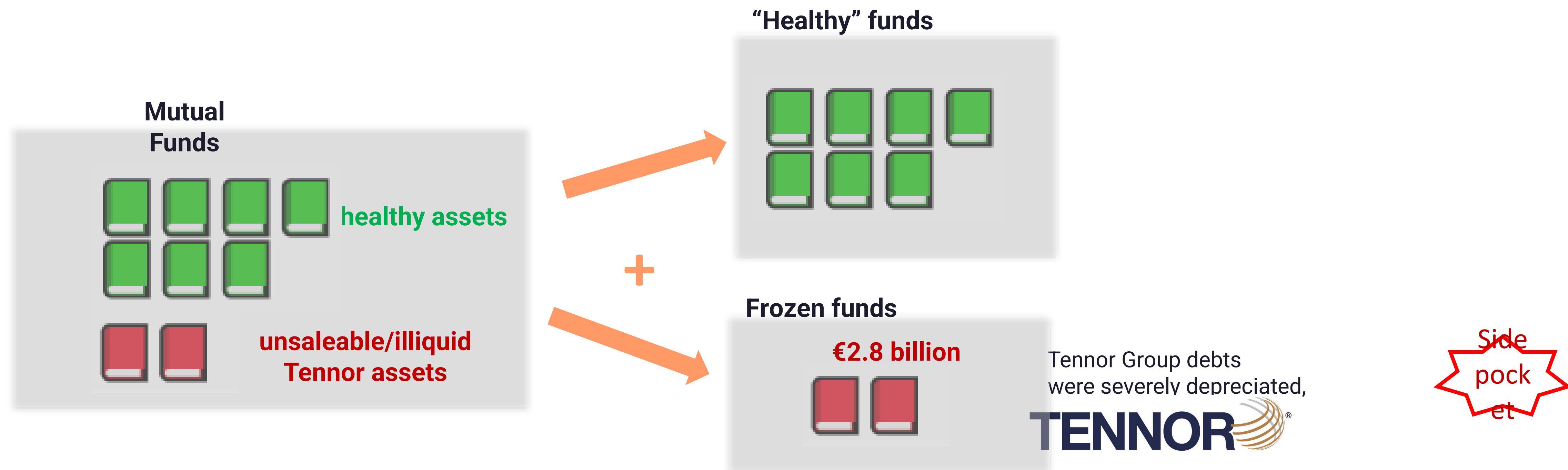
Most importantly, despite all of this, H2O continued to buy up massive amounts of debts from the Tennor Group, for more than €1.2 billion in less than 6 months!!

...using a complex and opaque system called “buy-and-sellback”

The H2O Story – creating side-pockets

October 2020: AMF intervention

Given the magnitude of the problem, the AMF eventually intervened and told H2O to take action. The H2O Mutual Funds were divided into two pockets.



These “new” frozen funds appeared on the statements as “SP” for “side pocket”.

What is the Tennor Group?

Tennor Group (formerly Sapinda Group) is a multi-activity holding company (healthcare, finance, internet, soccer club!!) created by a nefarious German entrepreneur.



Lars Windhorst



- 2 personal bankruptcies
- 1 conviction for fraud and breach of trust
- 9 November 2021: order by the BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht [German financial supervision authority]) to pay €132M for having created an irregular financial arrangement with H2O

- All companies in the Tennor Group have been in serious financial trouble for more than 6 years
- Debts incurred by Tennor with H2O have not been repaid
- Bond coupons are not paid

**In November 2021, the Tennor Group was declared insolvent by a court in Amsterdam ...
before eventually obtaining a 6-month moratorium**

How were H2O managers able to conceal these investments?

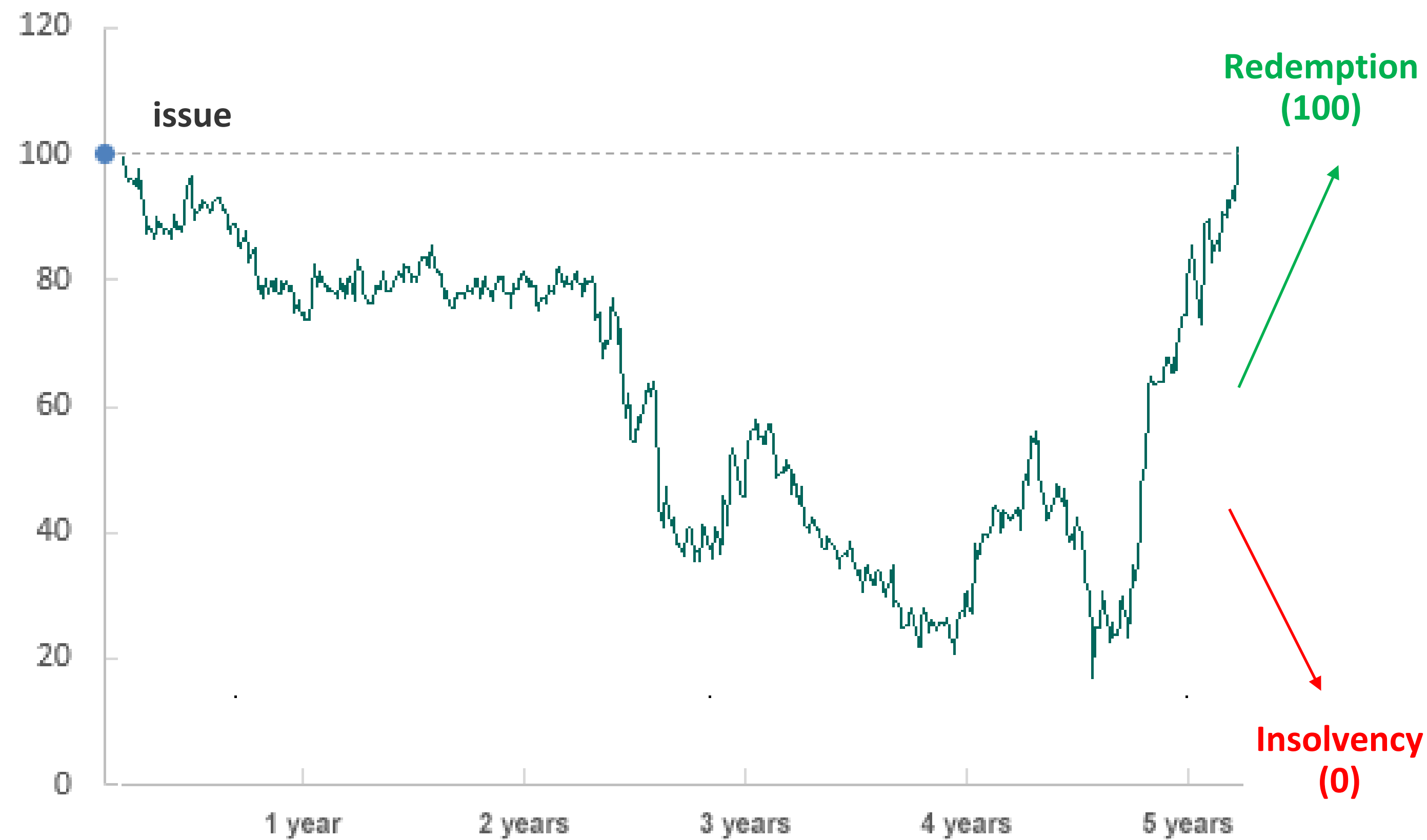
Two techniques were used by H2O's Mutual Funds to minimise and even completely conceal these investments for nearly 5 years

1. Extreme minimisation of the price of purchased assets
2. Use buy-and-sellback method

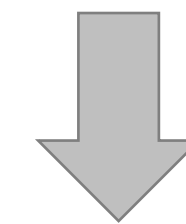
1. Asset price minimisation – Explanation

H2O's investments consisted of purchasing bonds issued by the Tenor Group and its subsidiaries

→ How does the price of a private company bond change?



- The bond is issued at a price of €100
- Every year it issues a fixed coupon
- After 5 years, the bond is redeemed at €100
...unless the issuer becomes insolvent



Depending on this insolvency risk, the bond price changes over the 5 years

1. Asset price minimisation – Explanation

Example of investment made by H2O in the Allegro fund

Tennor Finance bond

- Coupon 5.75% per year
- Issue date: 17/06/2019
- Redemption date: 17/06/2024

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H2O ALLEGRO

ANNUAL REPORT

As of 28 June 2019

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How does the price of this bond change between 17/06/19 and 17/06/24?

...the answer can be found in the fund's annual report (page 34)

*“Securities whose price has not been recorded on the day of valuation ... are valued, **under the responsibility of the management company at their likely trading value**”*

In short, H2O alone decides the value of the bonds it holds in its funds

...and what does H2O do?

1. Asset price minimisation – Explanation

... H2O minimises the price of these bonds

Description of values	Currency	No. or Nominal Qty	Current Value	% Net assets
TENNOR FINANCE BV 5.75% 17-06-24	EUR	34 000 000	7 823 039,62	0,70

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On 17 June 2019, the Allegro H2O fund purchased €34 million in Tennor bonds ... and on 28 June 2019 these bonds were valued by H2O at €7.8 million

...i.e., a 77% drop in 11 days!!

Why?

Never mind the capital loss of -26.2M€ in just a few days ... because the most important thing is that this line now represented only 0.70% of the fund's assets and let it fly under the radar of regulatory audits and ratios.



1. Asset price minimisation – Explanation

...and this is not an isolated case. It is even the general rule

Description of values	Currency	No. or Nominal Qty	Current Value	% Net assets
EVEREST MEDTECH BV 5.0% 29-01-24	EUR	10 000 000	2 710 958,90	0,24
RUBIN ROBOTICS BV 5.0% 29-03-24	EUR	30 000 000	7 889 344,26	0,71
TENNOR FINANCE BV 5.75% 17-06-24	EUR	34 000 000	7 823 039,62	0,70

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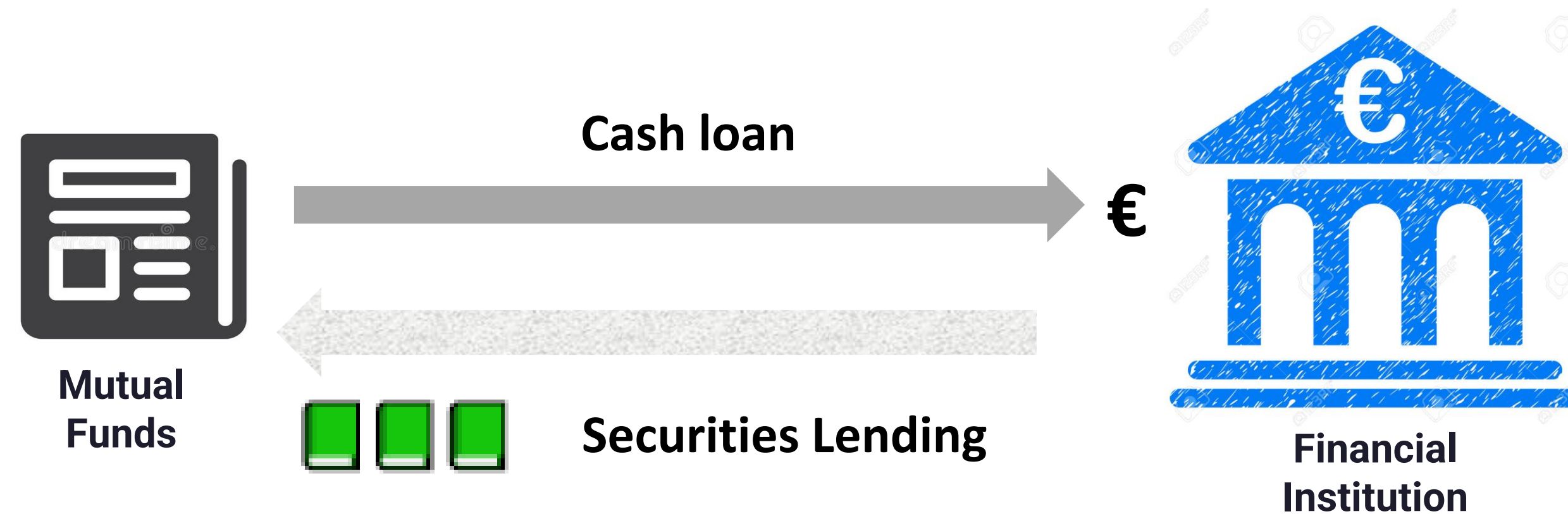
All purchases of the Allegro H2O fund in 2019 were systematically discounted from -70% to -80% in the annual report of 28 June 2019

which allowed H2O to assert without any scruples in a press release dated at the end of June 2019:

“Now, this exposure is distributed over 9 issues, representing 0.2% to 2.7% of the net assets of the funds”

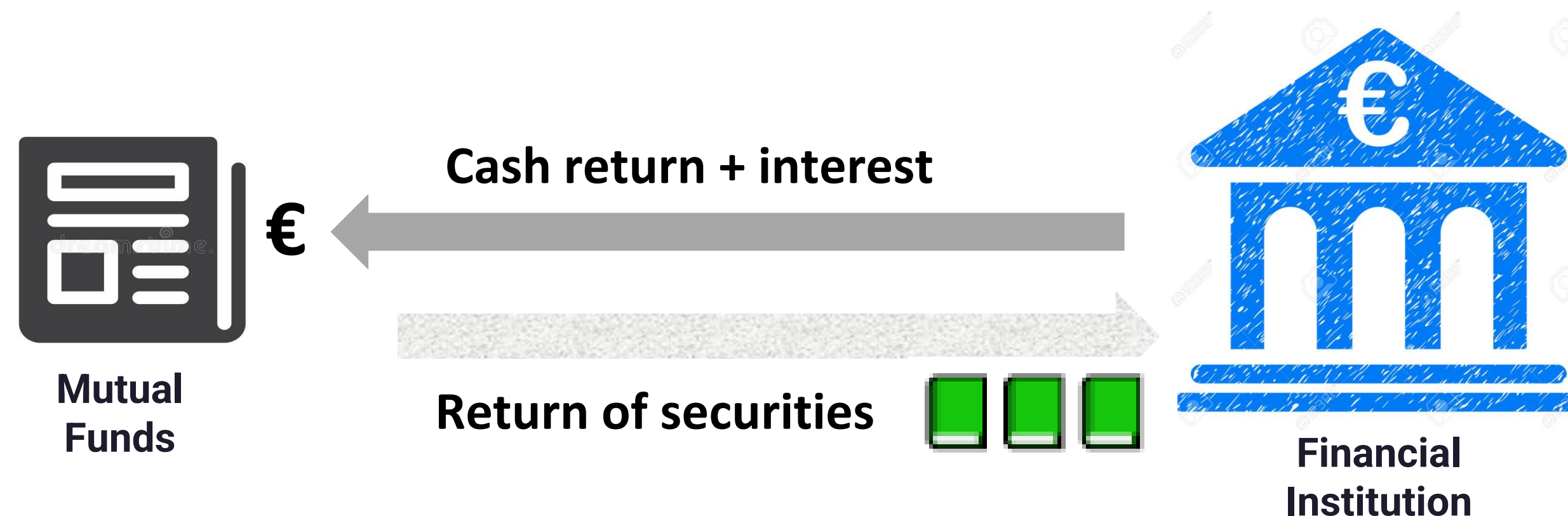
2. “Buy-and-sellback” method

Since this technique had reached its limits as of the summer of 2019, and H2O wanted to lend more and more to the Tenor group, H2O managers used the “*buy-and-sellback*” technique.



- 1) The fund lends cash to a financial institution
- 2) And receives securities as collateral

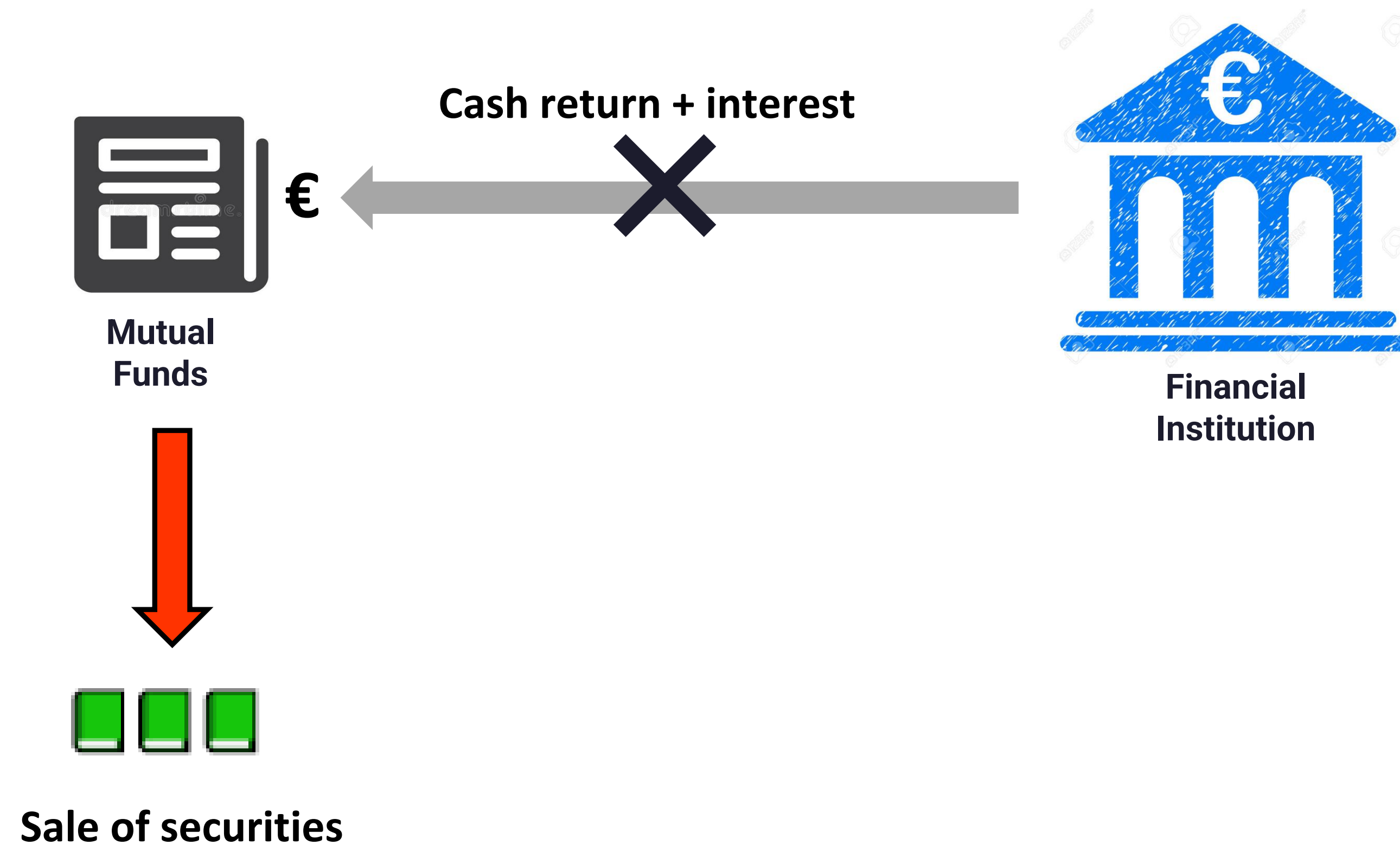
... a few weeks later



- 3) The fund recovers its cash + interest
- 4) And returns the securities taken as collateral

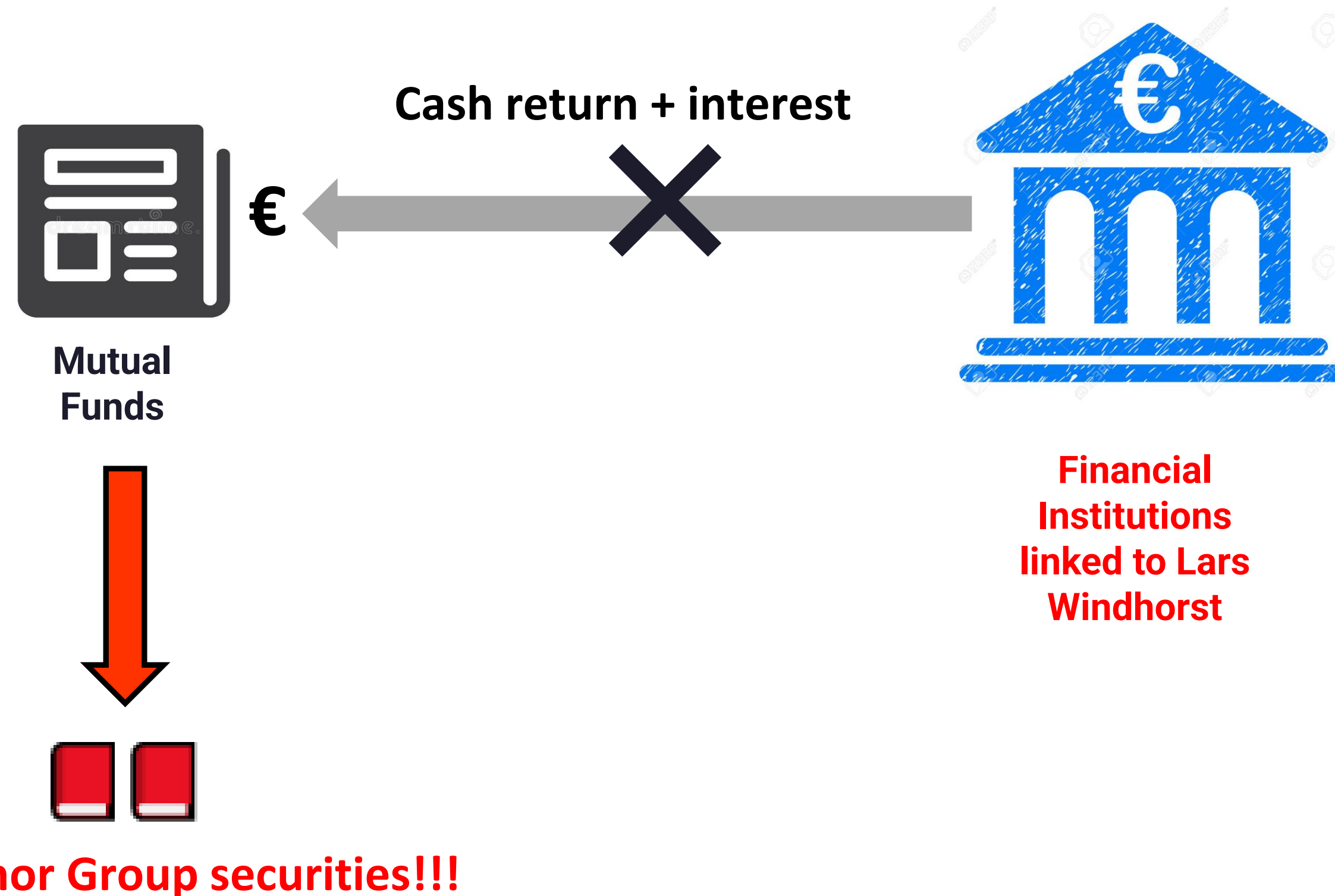
2. “Buy-and-sellback” method

This technique allows a fund to remunerate its cash at no risk because if the financial institution does not return the cash, the fund sells the securities taken as collateral



2. “Buy-and-sellback” method

What did the H2O managers do?



- 1) H2O's funds lent cash to financial institutions linked to Lars Windhorst (see BaFin order in November 2019 – slide 6)
- 2) The funds took Tennor Group bonds as security
- 3) Obviously, after a few weeks, the financial institutions did not return the cash
- 4) H2O funds ended up with Tennor bonds

Through this ingenious system, H2O funds became Tennor bond owners, without formally purchasing them



Using this technique, 5 H2O funds purchased €1.2B in Tennor bonds ... in less than 6 months (July to December 2019)

Will Tennor bonds be redeemed one day?

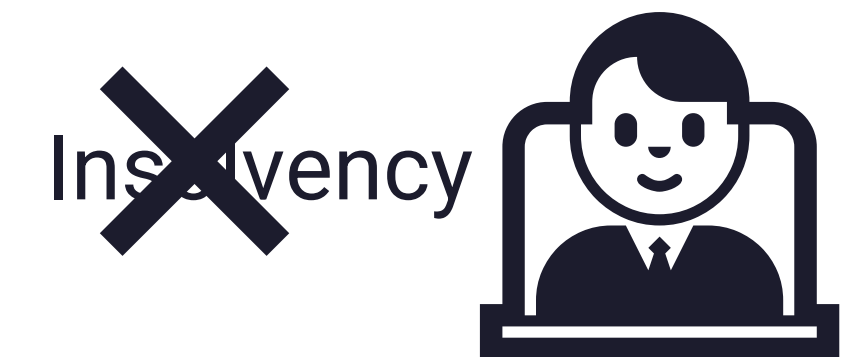
- ❑ In November 2021, the Onassis Foundation had the Tennor Group declared insolvent for an outstanding debt of ... €30M

→ The Tennor group owes 100 times more to the H2O funds!



- ❑ Eventually, in December 2021, the Amsterdam Court lifted the insolvency order in exchange for an additional 6 months' moratorium

- ❑ In all, the Tennor Group's debts are estimated to amount to some €5 billion.



...but Lars Windhorst just acquired for €125M



37.5% in the German football club "Hertha Berlin" through its Tennor company

...but is H2O really in a hurry to redeem the side-pockets?

It may seem surprising, but reading the H2O Multi Bonds Fund's annual report is interesting:

“the management company made the decision to waive its remuneration for this financial year up to a limit of €150,000,000, if, at the time of the final winding up of the “sellback” transactions, an impairment of their value should be recognised after taking into account all the collateral already received in securities”

Excerpt from the H2O Multi Bonds annual report

What company would be in a hurry to write a cheque for €150M?

Until the losses are recognised, H2O and Natixis have nothing to pay

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H2O MULTIBONDS

ANNUAL REPORT

As of 31 December 2019

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Statutory Auditor: Kpmg Audit

Why did H2O funds invest in these securities?

For the high performance they could provide, you might think?

...but that argument doesn't hold water

H2O MultiBonds Fund
average return between
2010 and 2015

+12.80% per annum

Average Tennor Bond yield

**between 5.0%
and 8.5% per annum**

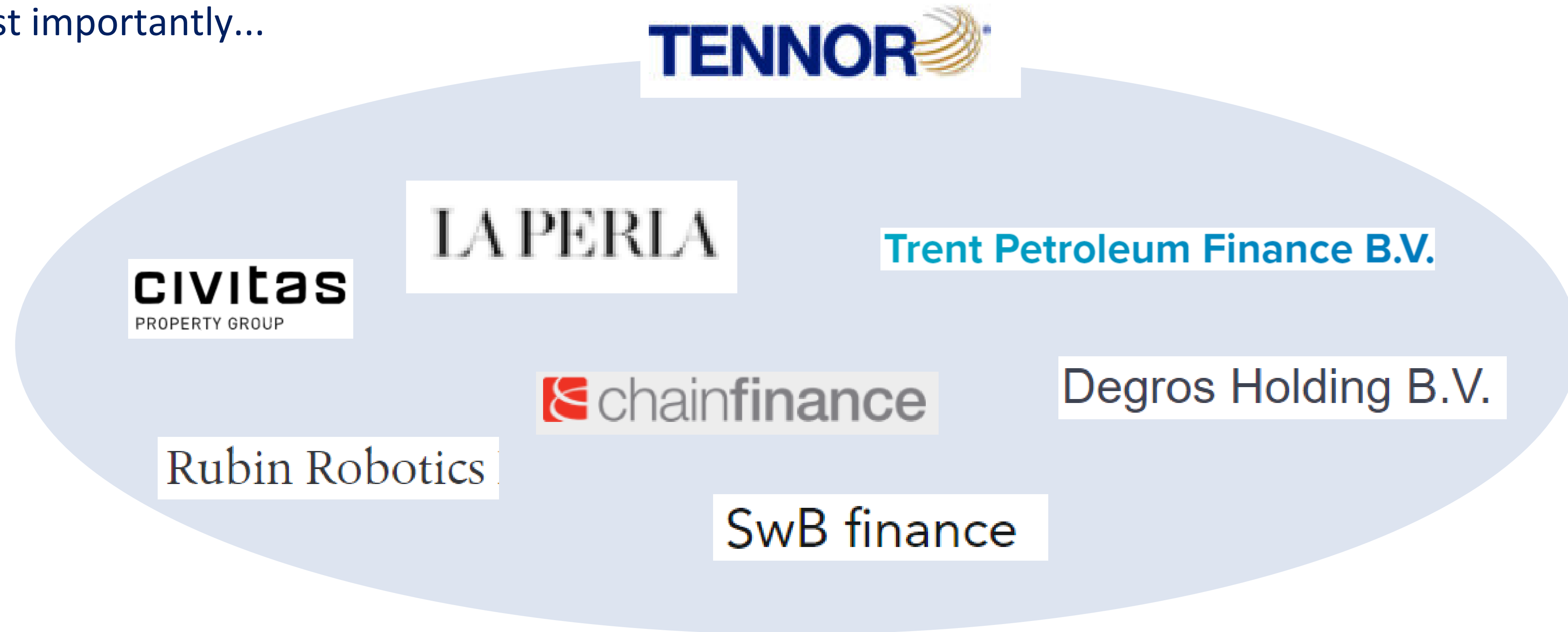
Average return on private
bonds in markets (2010-
2015)

**between 9.0%
and 15% per annum**

- H2O invested in a type of asset that it did not manage well
- For lower returns than they obtained with their other strategies (that they managed very well)
- And with yields far below those of the market

Why did H2O funds invest in these securities?

And then most importantly...



All companies financed by the H2O funds are subsidiaries of the Tennor Holding Group!!

→ Unthinkable when you know that the 1st rule of any investment is to diversify your risks

So why loan €3B to the Tennor Group? Only Bruno Crastres and Lars Windhorst can answer that

...unless one day the courts force them to provide the answer!!