



osmosis
INVESTMENT MANAGEMENT



Sustainability & Stewardship

REPORT 2022

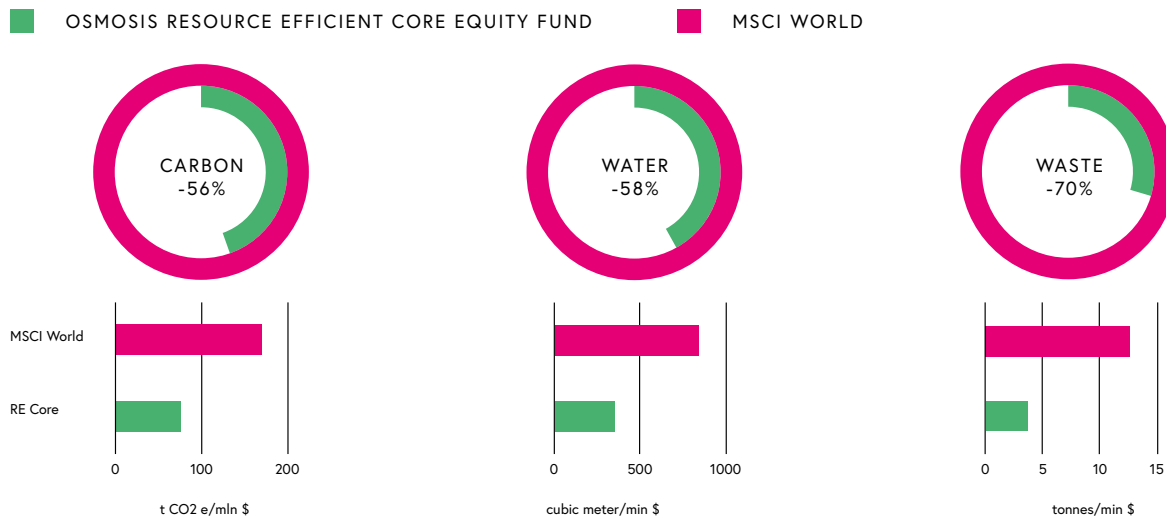
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The Osmosis annual Stewardship Report for the year ended 31 December 2022 was reviewed and approved by the Osmosis ManCo, who consider it to be a complete and accurate report on how we have applied the principles of the Code over the period.

1. Introduction

1.1 2022 in Review



831

SHAREHOLDER MEETINGS

A+

UN PRINCIPLES FOR RESPONSIBLE INVESTMENT RATING 2020*

97%

SHARES VOTED

\$8.3bn**

SUSTAINABLE ASSETS UNDER MANAGEMENT

297

COMPANIES DIRECTLY ENGAGED



BOUTIQUE INVESTMENT MANAGER OF THE YEAR



* <https://www.osmosisim.com/uk/2020/07/06/osmosis-receives-a-rating-from-un-pri-assessment/>

** Osmosis Investment Management UK Ltd ("OIM UK") is an affiliate of Osmosis Investment Management US LLC ("OIM US"). Osmosis Investment Management AUM includes discretionary assets under management of OIM US and OIM UK and assets invested in model programs provided by OIM US and OIM UK.

1.2 To our Clients



Welcome to the second Stewardship Code report from Osmosis Investment Management. This report includes an update to our approach from 2021 along with details of new case studies and examples of how we have applied the code in the twelve months to December 2022.

When we launched Osmosis in 2009, with the financial crisis still very much in our minds, we believed there was an opportunity to change the way capital was utilised as a force for good. This mission, and our firm's philosophy that sustainable investment does not need to come at the cost of financial returns, continues to underpin both our purpose, and our commitment to the fiduciary health of our clients and the planet.

To accelerate the sustainable transition of assets and move them at scale, all responsible investment managers should be targeting and delivering better risk adjusted returns, be able to objectively measure the sustainable outcomes of their investment portfolios and finally, through equitable pricing structures, deliver real value for investors.

In the last year we have seen our sustainable assets under management increase threefold to \$9.4 billion. Our growth can be attributed to delivering on the key tenets above, our proprietary environmental research process combined with our unparalleled approach to managing environmental risk within portfolio construction has delivered both positive financial and environmental outcomes for our clients. In the year to 2022 our strategies were on average 51% more carbon efficient, 57% more water efficient and 68%

more waste efficient than their benchmarks with our Core Suite of equity strategies delivering information ratios of over 1 since their inception.

We have also been recognised through independent research from ClearGlass Analytics as offering the most competitive Fund from a cost/performance analysis in a pool of 80 global equity funds over a five year period to 31 December 2022.*

We firmly believe that active ownership lies at the very heart of responsible investment management. I am therefore delighted to deliver this annual Stewardship and Sustainability Report, which showcases some of the important work we undertook on behalf of our clients and the wider industry in 2022. Over this period, we executed our voting rights across 12,345 issues, at 831 shareholder meetings and engaged with 298 companies to enhance their disclosures and encourage further transparency across their environmental balance sheets, an increase of 68% from 2021. We also increased our engagement participation in industry wide campaigns and have worked as lead campaigners with both the CDP and Share Action.

As we enter the next stage of growth for our business we are determined to lead by delivering innovative solutions that reflect our specialist investment expertise and our detailed attention to risk management. Please do not hesitate to get in touch with Osmosis if you would like more information on anything you read in this report, or to share your thoughts with us more broadly.

Best regards for 2023,



Ben Dear
CEO
April 2023

* Osmosis received the Outcome Variance Analytics in April 2023. Osmosis did not pay to be included in the group of asset managers ClearGlass reviewed, however Osmosis provided compensation to ClearGlass to obtain the Outcome Variance Analytics and report.

1.3 Purpose, Strategy, and Culture



Founded in 2009 privately owned by employees and supported by Oxford Endowment Fund and Capricorn Investment Group



33 staff in UK and US



Global client base including pension funds, family offices and wealth funds



60-70% reduction in Carbon, Water and Waste, relative to benchmark



All portfolios are ex-tobacco and aligned with UN Global Compact Principles for social and governance safeguarding



\$8.3bn* in total assets under management

* As of 31 December 2022 – Osmosis Investment Management UK Ltd ("OIM UK") is an affiliate of Osmosis Investment Management US LLC ("OIM US"). Osmosis Investment Management AUM includes discretionary assets under management of OIM US and OIM UK and assets invested in model programs provided by OIM US and OIM UK.

1.31 Our Purpose, Values and Culture

Osmosis was founded in 2009 to change the way capital is utilised as a force for positive environmental change. Our philosophy has always been that for sustainable investment to gain mainstream adoption, positive environmental impact should not come at the cost of portfolio performance.

Focusing on listed equities, our funds and strategies are focused on delivering three core levels of impact.

- Targeting better risk-adjusted returns for our clients
- Delivering an objective and measurable environmental impact through the reduction in ownership of Carbon, Water & Waste relative to respective benchmarks
- Leading an active engagement program to promote the disclosure of environmental data. We believe that a company that discloses its environmental footprint is more likely to manage, measure and reduce its impact.

Today, Osmosis is at the forefront of transitioning environmental data into traditional portfolio theory and construction. The firm's successful range of Resource Efficient investment portfolios has attracted a global client roster, including government pension funds, insurance companies, foundations, endowments, family offices and banks.

The firm remains majority-owned by its employees and directors. We believe this unites us in a dynamic culture that embraces progressive thinking and inspires the evolution of new ideas and innovation. We seek to recruit people who share our values so that, independent of compensation, they strive to deliver better returns for all our stakeholders, both financially and environmentally.

Osmosis targets three pillars of impact



Superior risk-adjusted returns

Generated through the identification of Resource Efficient Companies



Environmental Impact

All our funds demonstrate tangible reductions in carbon, water, and waste intensity



Active Engagement

We engage with companies to promote transparent disclosure of environmental data

1.32 Serving our clients

To serve our clients' best interest, our products target three pillars of impact: superior risk-adjusted returns, environmental footprint reductions and active engagement.

In 2022, we believe Osmosis successfully implemented all three pillars across our client accounts. Our products have developed mature track records and our resource efficient investment approach continues to deliver a significantly reduced environmental footprint relative to the benchmark. Our flagship Core Equity Fund emitted 56% less carbon, consumed 58% less water, and generated 70% less waste during the year.

Osmosis provides clients with updates which detail the success and efficacy of all three pillars on a quarterly basis. In this report, our focus will be on our active engagement pillar and the importance of our active ownership programme.

1.33 Investment Philosophy

Being a responsible investor lies at the heart of our investment philosophy.

Osmosis believes that to gain mainstream adoption, sustainable investment should not come at the cost of financial returns and that sustainability metrics, if quantifiable and objective in nature, can be applied to mainstream portfolios to generate alpha.

Climate change and pressure on natural resources, coupled with growing societal awareness, are drivers forcing corporates to implement sustainable production and business processes.

We believe that those companies that are more resource-efficient, having effectively monetised sustainability to the balance sheet, are more likely to outperform their peers over the long term.

Quite simply, doing MoRE with less should be rewarded.

1.34 Resource Efficiency – A Sustainable Factor and Source of Uncorrelated Return

The team identified Resource Efficiency as a predictor of firm value and independent source of alpha through in-depth research and can corroborate our research with robust statistical evidence over time across economic sectors and geographic regions. The independent nature of Resource Efficiency as an investment signal allows us to build investment strategies within a risk-controlled framework accounting for common country, industry, and factor biases.

We firmly believe, as responsible asset managers, that integrating any ESG metric should not be done in the absence of risk awareness or an ability to enhance portfolio return. When integrated into a portfolio, we can account through detailed performance and risk attribution the impacts of integrating our Resource Efficiency factor into the portfolio. Building on this, our portfolios aim to provide higher risk-adjusted returns while delivering lower environmental footprints relative to the benchmark.

1.35 A Broad Economy Solution

To effectively address the climate crisis and environmental pollution, we believe all industries need to transition to form part of a greener economy. Our strategies target a just transition by taking responsible exposure to all sectors (ex-tobacco) and overweighting those efficient companies at the forefront of this transition while underweighting their inefficient peers. This whole economy approach enables a just economic transition and effectively deals with both supply and demand issues of natural resources in the broader economy. Measuring and managing the non-trivial use of environmental resources are also often proxies for the effective management of other hard financial metrics.

1.36 Significant Reductions in Three Environmental Metrics

Unlike one-dimensional carbon optimised portfolios, our multi environmental factor-based approach results in a significant reduction in environmental intensity. In all our portfolios relative to their benchmarks. Our flagship Core Equity Fund demonstrated a reduction in the ownership of carbon (-56%), water (-58%) and waste (-70%)*

*as of end December 2022

1.4 Our Approach to Stewardship

We recognise that our duty extends beyond being responsible investors to acting as responsible owners of the companies and assets in which we have invested, and active ownership is fully integrated into our investment process. We believe that, alongside capital allocation, engagement, active ownership, and stewardship are essential tools to help steer and influence the direction of company management. As stewards of our clients' capital, we seek to:

1.41 Promote Improved Disclosure

Our active engagement program seeks to promote greater environmental transparency, and more informed and robust disclosure and encourages companies and issuers to become more resource-efficient over time. Encouraging companies to develop more granular and robust sustainability reporting has been a long-term focus for Osmosis. Our research demonstrates that a company that discloses its environmental footprint is more likely to manage, measure and reduce its impact.

1.42 Work in Collaboration

We recognise the benefits of working with like-minded peers to advocate for change at a broader market level. Osmosis maintains active relations with key organisations in the responsible investment community. We were part of an early practitioners' group on the EU Taxonomy with the UN PRI (United Nations Principles of Responsible Investment), serving as an unofficial try-out of the new proposed EU regulation on sustainable investment. We were also part of GRI's (Global Reporting Initiative) technical expert group on waste, developing a new reporting standard for corporates. Additionally, Osmosis is a signatory of Climate Action 100+, and collaborates with the CDP (Carbon Disclosure Project) in regular non-disclosure campaigns, urging companies to disclose environmental data. In 2022, we also joined a \$3.2 trillion coalition, convened by ShareAction, to support their work on pressuring for decarbonisation in the European chemical sector. Descriptions of our collaborative engagement work on these projects are stated in section 3.2.

1.43 Be Active Owners

We operate a climate orientated voting policy across all our pooled funds. The policy utilises independent proxy advisory firm ISS to promote our sustainable climate ambitions and support best practices regarding all environmental, social and governance issues.

ISS' (Institutional Shareholder Services) specialty Climate Voting Policy is based on principles consistent with good stewardship that incorporate specific climate change relevant information, flags, and voting recommendations, which institutional investors can use to apply their views on a portfolio company's climate performance and disclosure. In the case of individual mandates, Osmosis works with investors, where desired, to ensure that their proxy voting strategies are enacted.

2. Investment Approach

2.1 Client and Beneficiary Needs

Our clients lie at the heart of our business and are central to how we develop our strategies, conduct our business and manage our internal operations. All our strategies are developed to consider our clients' stewardship, investment, and longer-term fiduciary needs. In building our strategies we were conscious of the importance of controlling for the active risk that environmental investing brings into portfolios. To protect the fiduciary duty of our clients and encourage a mainstream take up of sustainable investing it is fundamental that environmental risk is managed correctly and not left unrewarded. We also wanted to build cost-effective portfolios, believing that to drive change at scale in the industry, we needed to price the products accordingly.

In a recent survey by leading Cost Transparency Initiative (CTI) ClearGlass Analytics, the Osmosis Resource Efficient Core equity Fund was placed in the best quartile across every mandate for both ongoing charges and performance.*

* ClearGlass collected and compared data from 80 asset managers in Active Equity or Active ESG Equity Funds, for the annual period 2022. Osmosis received the Outcome Variance Analytics in April 2023. Osmosis did not pay to be included in the group of asset managers ClearGlass reviewed, however Osmosis provided compensation to ClearGlass to obtain the Outcome Variance Analytics and report.

Central to all our products are two objectives – to target better risk-adjusted returns, and to mitigate long-term environmental threats to portfolio performance and the planet. Using key resource efficiency indicators on the use of carbon and water and on the production of waste, all Osmosis strategies demonstrate significant reductions in resource intensity.

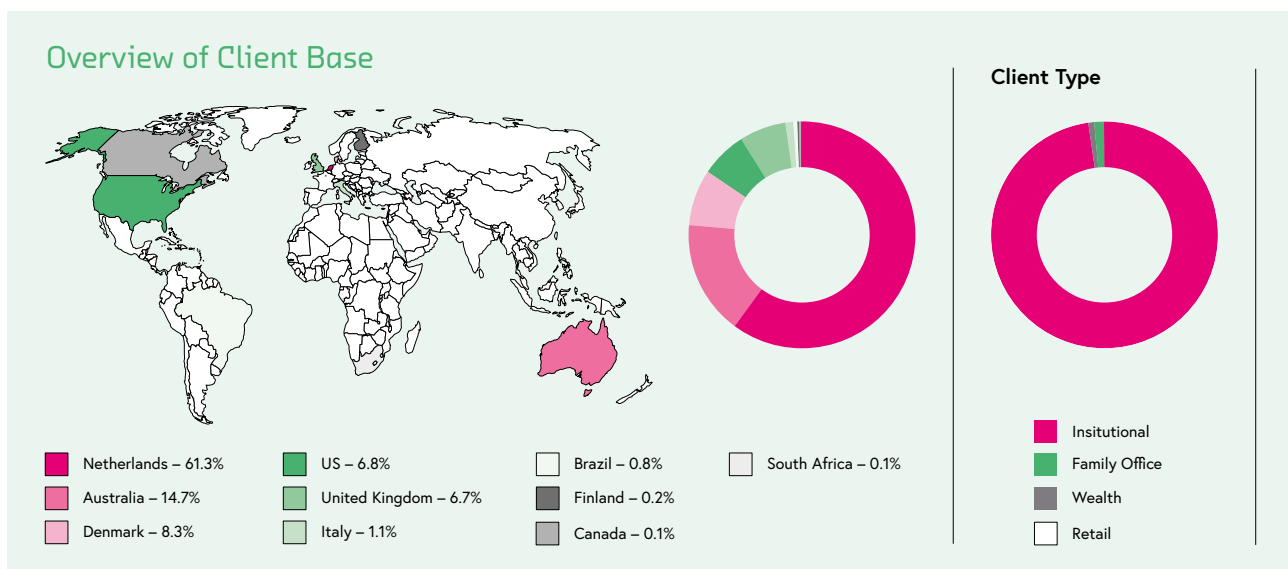
From a fiduciary perspective, resource efficiency is a medium to long term signal, and we consider a three to five-year investment horizon appropriate to meet the needs/expectations of our clients.

2.11 A Global Client Roster

Osmosis's environmental focus has attracted a global client roster that includes pension funds, insurance companies, foundations, family offices and banks. We manage a range of systematic funds and strategies and have considerable experience customising solutions for clients targeting different risk and style exposures.

As of the end of December 2022, Osmosis had over \$8.3 billion** in sustainable assets under management. A breakdown is provided below.

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Source: Osmosis IM

The Osmosis Resource Efficient (ex-fossil fuels) Fund** was developed in collaboration with the IMAS Foundation

Objective:

- To address the supply side of fossil fuels through divestment but also uniquely, the demand side through the targeting of Resource Efficient companies
- To mitigate potential value destruction as regulatory and financial pressures on the fossil fuel industry intensify
- To limit the economic impact of potential energy price reflation in a post-Covid recovery
- To reduce the environmental footprint of the portfolio.

Method:

- Quantitative Screen to remove companies that generate more than 5% of revenue from nuclear energy, nuclear weapons, controversial weapons, civilian firearms, tobacco, thermal coal, and oil sands
- Target maximum exposure to Osmosis' proprietary Resource Efficiency Factor to address concerns that fossil fuel divestment products simply underweight energy and overweight tech sector exposures
- Companies in the utilities sector which generate more than 50% of energy from renewable sources, are eligible for re-introduction if they also have a positive resource efficiency score. This allows investors to capture the value added by transitioning companies.

Outcome:

- Portfolio delivers significant reductions in ownership of Carbon (-67%), Water (-69%) and Waste (-46%) relative to the parent index
- By re-weighting the post fossil fuel exclusion portfolio to resource efficient companies the Fund was able to control and mitigate the industry bet that occurs through excluding fossil fuel-related companies.

** The Osmosis Resource Efficient (ex-fossil fuels) Fund is not available for US investors.

2.12 A Focus on ESG integration and Risk

Osmosis believes that the integration of sustainability into portfolio construction requires an in-depth understanding of a client's risk parameters as well as their different values and priorities. Osmosis collaborate with all our clients to integrate ESG considerations into their portfolio whilst maintaining traditional risk exposures aligned with the underlying client mandate. Examples include customised single stock exclusion, sector exclusion and faith-based exclusions. We recently worked with a client to aid in their development and implementation of a fossil fuel exclusion policy. See case study above.

In addition, Osmosis can re-optimize customised ESG benchmarks to Resource Efficiency, allowing clients to clearly attribute their ESG benchmark performance relative to the traditional benchmark whilst also attributing the performance of the optimisation towards Resource Efficiency.

2.13 Client Reporting

We believe that two-way communication with our clients, both seeking their views and reporting to them, is vital for our stewardship activity.

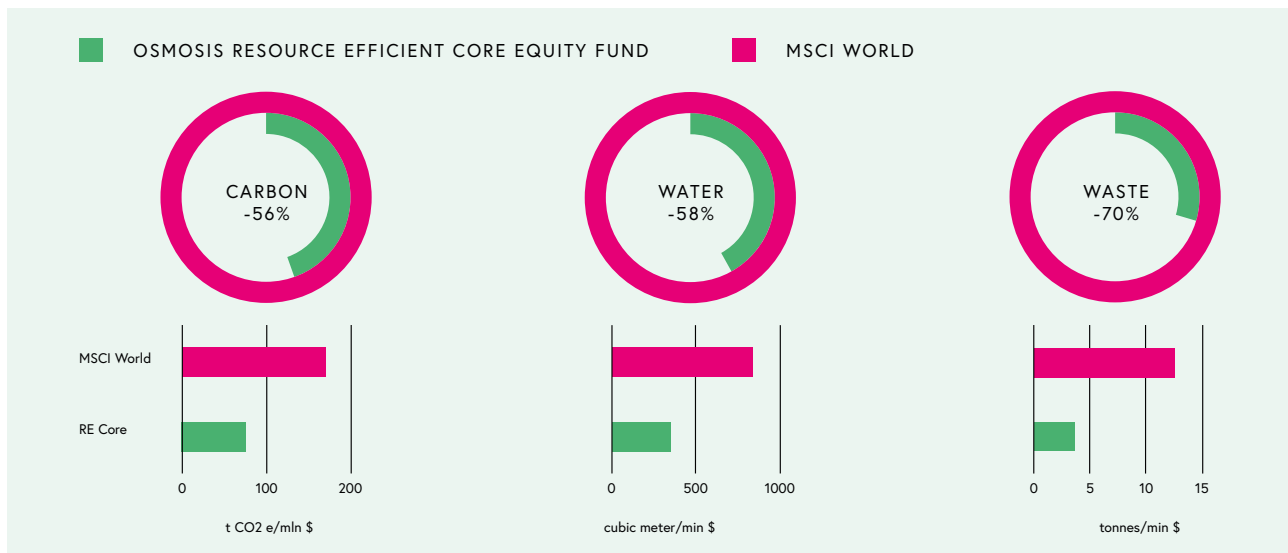
Osmosis collaborates with our clients to deliver bespoke reporting solutions and can incorporate detailed financial, environmental, and ethical considerations. Reporting frameworks, which consider the client's stewardship and investment policies, are agreed upon pre-activation of the mandate and can be further customised at a client's request.

Osmosis's client relationship management team comprises experienced client directors, each with regional expertise. Every client is allocated a dedicated client director who works towards forming a trusted partnership with them, alongside day-to-day handling enquiries and attending client review meetings with the portfolio managers.

Osmosis provides all our clients with monthly and quarterly reports covering the strategies' financial and non-financial performance. We produce detailed quarterly reports that provide comprehensive coverage of our voting and active ownership initiatives. Last year we updated our website to include monthly proxy voting updates, detailing the outcomes of Osmosis' climate focused voting policy.

2.14 Portfolio Foot Printing

The Osmosis environmental database is updated monthly to account for different corporate reporting cycles and allows us to aggregate individual corporate impacts and environmentally footprint all our portfolios. By combining the individual environmental factor scores, balance sheet information, the financial balance sheet and portfolio holdings data, a total portfolio carbon, water and waste footprint can be calculated. Clients are sent this data monthly and can access it on our website.



Source: Osmosis IM, Bloomberg, MSCI. Data as at end December 2022.

2.15 Thought Leadership

Osmosis produces periodical thought pieces and case studies on themes that we have identified as useful and meaningful for our clients. We also hold webinars on current events or themes. For example, in 2022, we produced influential white papers on the merits and pitfalls of Paris-aligned benchmarks as well as a

research paper on the unintended consequences of incorporating estimated Scope 3 data into portfolio construction. The latter was subsequently rolled out into a series of education webinars.

Please visit our [website](#) to see further examples of our thought leadership.

2.2 Stewardship, Investment and ESG Integration

2.21 The Environment is Integral to our Investment Approach

The integration of environmental factors into our investment process has been core to our approach since the firm's launch in 2009. As a firm, we are focused on the productive use of natural resources to generate greater economic value. We do not view Resource Efficiency independently of traditional financial criteria but as a complementary factor as we target maximum returns from the most sustainable companies in all economic sectors.

Osmosis' Model of Resource Efficiency covers the whole economy, both high-intensity and low-intensity sectors. We believe this encourages all sectors of the economy to adopt more climate resilient business models. We do not differentiate between regions. Similarly, our approach to stewardship does not differ across geographies.

2.22 Governance, Resources and Incentives

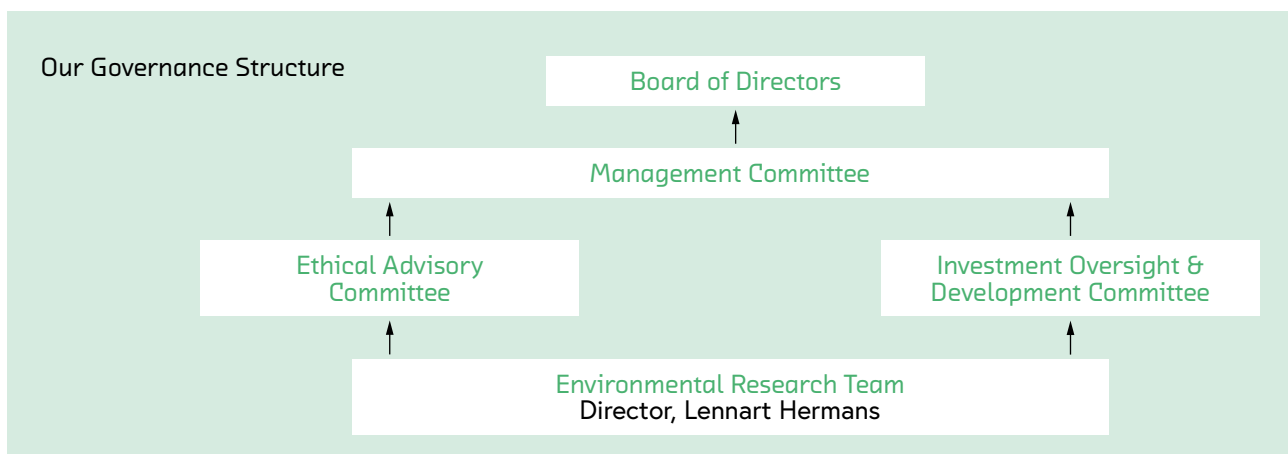
All stewardship activities are conducted by Osmosis's Environmental Research Team.

As a majority employee and director owned firm, we find it a point of pride that a belief in the central importance of environmental stewardship in the investment decision process is an important element of our hiring process. As a result of this combination, we have a team that, independent of compensation, is always inspired and motivated to deliver better financial and environmental returns for all stakeholders.

Environmental stewardship is embedded in our investment decision-making process through our proprietary quantitative model, the Model of Resource Efficiency (MoRE). This model is built, maintained, and utilised by our broader Investment Research team, headed by our CIO. The Environmental Research team, made up of experienced environmental specialists, leads the collection and assessment of the environmental data that feeds the MoRE model and oversees our active engagement projects and proxy voting.

Given that the integration of environmental data into the investment process is central to Osmosis' investment thesis, our stewardship activities fall under the same governance structure as our investment activities. The activities of the Investment Research Team are supervised by the Investment Oversight & Development Committee which is chaired by the CIO, and the Ethical Committee which is chaired by the Director of Environmental Research. These committees scrutinise and monitor how stewardship is built into our investment decision making.

We believe that this governance model is the most appropriate and effective structure for a firm of our size and focus. Osmosis is a small but growing firm, making improvements in governance a constantly evolving process. Osmosis' Management Committee (ManCo) bears responsibility for the governance structure, overseen by the Board of Directors. It is ManCo's role to oversee where improvements in the governance structure can be made both by mitigating foreseen risks and reacting to identified issues. In 2022, no issues arose regarding our governance structure; we therefore believe our approach is both effective and robust.



2.23 Climate Change

Osmosis' approach focuses on environmental stewardship. Environmental data, namely carbon emissions, water consumption and waste creation, form the basis for our measurement of corporate Resource Efficiency and therefore drive the returns of our investment products. Resource Efficiency is directly linked to climate change from both a causal and impact perspective, i.e., Resource Efficient companies have a direct impact on reducing climate change through efficient use of carbon-based fuels, but also insulates companies from the effects of climate change by reducing their reliance on scarce natural resources.

While Osmosis primarily targets financial returns for investors through the identification of Resource Efficiency, we also aim for our portfolios to be aligned with the Paris 1.5-degree climate accord. The EU sustainable finance directive specifies that investment portfolios should demonstrate a 50% carbon reduction relative to a benchmark. Since Osmosis' long-only funds have carbon reductions of approximately 65% today, along with similar water and waste reduction, we are comfortably exceeding this target.

2.24 Good Stewardship Informs our Investment Universe

All our strategies exclude tobacco. In addition, we align our portfolios with the [UN Global Compact Principles for social and governance safeguards](#). This means any company in breach of these principles will be automatically excluded from portfolio selection.

To be eligible for investment in our portfolios, companies must disclose at least two of the environmental metrics of Carbon, Water and Waste. We believe that companies that disclose, manage, and reduce their inputs are often better managed. Those that take a proactive economic approach to environmental and social issues tend to generate greater shareholder value.

Our belief in the importance of a firm's environmental footprint to its economic sustainability is also reflected in the proxy voting and engagement we undertake on behalf of our clients. Osmosis' Proxy Voting Policy

seeks to actively manage and mitigate exposure to climate-related risks in portfolio companies, accurately reflecting Osmosis' belief in the long-term materiality of climate and environmental issues to shareholder value.

We work with all our clients to ensure their portfolios are run in accordance with their financial and non-financial investment guidelines. In addition to our in-house policies, we recognise the stewardship requirements of our clients are diverse, and that additional screens or exclusions may be required.

A regionally adjusted Osmosis Resource Efficient Core Equity Strategy was developed in collaboration with a large Dutch Pension Fund in December 2022.

Objective

- To significantly reduce the environmental footprint of a global core passive equity exposure which integrates a client specific ESG exclusion policy.

Method:

- Manage the active risk through targeting maximum exposure to the Osmosis proprietary Resource Efficiency Factor while replicating the style, industry, currency, and risk exposures of the custom client benchmark.
- Add additional social and governance screens to remove companies on our client's exclusion list and to align with Osmosis' in-house exclusions which include tobacco and companies that are in breach of UN Global Compact Principles.

Outcome:

- The portfolio closely replicates the risk characteristics of the benchmark while delivering significant reductions in ownership of Carbon, Water and Waste.

2.25 Our Investment Thesis

Corporate sustainability performance is neither well understood nor efficiently priced by markets. Our research shows that Resource Efficiency can be used to target excess returns while having a low correlation to other common factors.

Osmosis targets excess returns through the identification of Resource Efficiency in listed companies. We define Resource Efficiency as the carbon emitted, waste generated, and water consumed relative to value creation.

Therefore, resource-efficient companies are those that most efficiently use fewer resources than their same sector peers to create economic value. Our long-only strategies overweight efficient and underweight inefficient companies as identified by the Osmosis Model of Resource Efficiency (MoRE). Osmosis also runs a Market Neutral Fund, which takes long exposure to efficient companies and short exposure to inefficient companies.

2.26 The Model of Resource Efficiency (MoRE)

Osmosis pioneered a unique research process to standardise unstructured corporate environmental data, enabling the construction of our proprietary sustainable investment factor.

Utilising publicly disclosed corporate environmental data from 2005 onwards, our in-house research team standardises carbon, water, and waste data to sector-specific frameworks. Our stock-specific resource efficiency factor score provides context and relative comparability to the environmental balance sheets of companies within 34 sectors. We believe this three-factor model delivers a comprehensive approach to environmental investment.

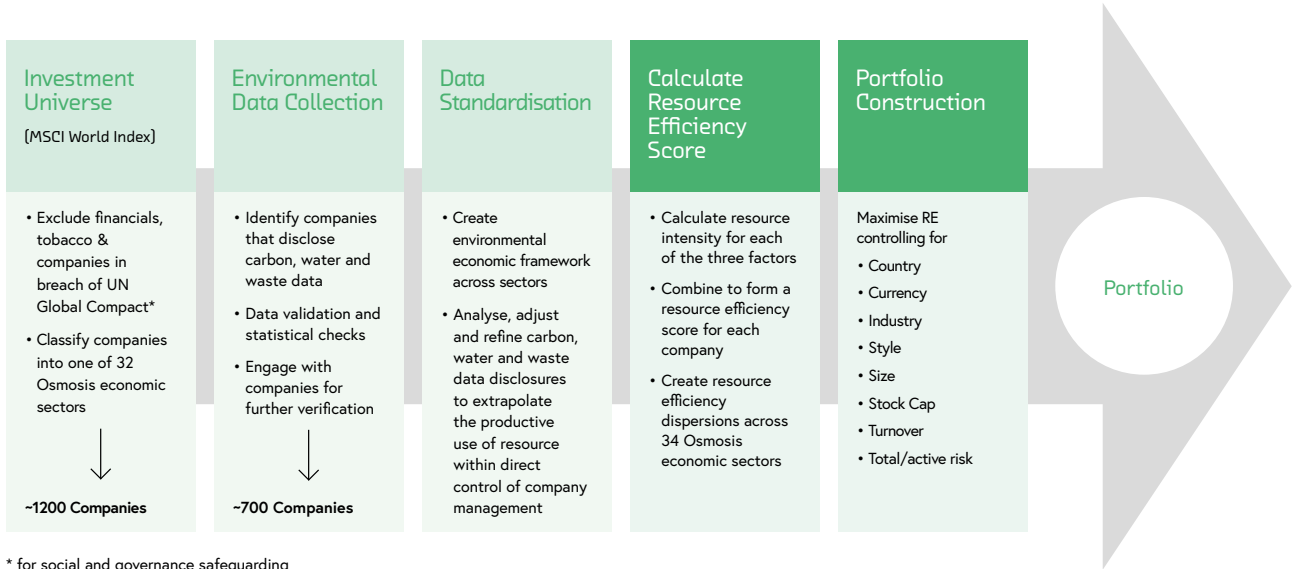
“We evaluate a company on its sustainable actions rather than its intentions. We believe that those companies that are more efficient will outperform their sector peers over the long term.”

Our environmental database is updated monthly to account for different corporate reporting cycles. This proprietary database allows us to aggregate individual corporate impacts and environmental footprint of the entire portfolio. By combining the individual environmental factor scores, balance sheet information, the financial balance sheet and portfolio holdings data, a total portfolio carbon, water and waste footprint can be calculated.

2.27 Investment Process

Our portfolios are constructed to capture Resource Efficiency as the key driver of return. We maximise Resource Efficiency while controlling for traditional risk factors. These include regional, sector, and style exposures governed by the strategy or client mandate.

Due to the uncorrelated nature of Resource Efficiency to other common factors, our strategies can be used to enhance the return profile and reduce the environmental footprint of an investment portfolio without diluting existing exposures.



2.28 Environmental Outcomes

All our portfolios target superior risk-adjusted returns and greater environmental benefit, mitigating long-term threats to portfolio performance and the planet. The Resource Efficiency Signal significantly reduces the resource footprint of all our portfolios relative to their benchmarks. The savings for our flagship Core Equity Fund at the end of December 2022 are shown below.

“We are confident that through our academic and quantitative approach to sustainable investment, we can offer investors the enhanced financial returns required to meet long term fiduciary responsibility combined with the environmental savings required to positively impact climate change and address the longer-term pressure on natural resources.”

Ben Dear, CEO



-56% Carbon

CO2e emissions Per Unit of Revenue VS. MSCI World Index



-58% Water

Water Consumption Per Unit of Revenue VS. MSCI World Index



-70% Waste

Per Unit of Revenue VS. MSCI World Index

3. Active Ownership & Stewardship

3.1 Engagement

Active engagement is one of the three core pillars of our investment approach. We believe we have a duty to deliver holistic outcomes for our clients that go far beyond the financial. Corporate environmental data, including carbon emissions, water consumption and waste generation, are explicitly integrated into our entire investment decision-making process, and lie at the heart of our purpose, strategy, and corporate culture. Throughout all our engagement with corporates we aim, primarily, to promote greater environmental transparency together with more informed and robust disclosures, and secondly to encourage companies and issuers to take action to become more resource efficient over time. Any increase in publicly available environmental data allows us to refine our investment model, and improve the efficacy of our carbon, water, and waste signals, enabling us to better meet our clients' objectives. Simultaneously, the actions undertaken by companies to reduce their natural resource consumption should positively impact their balance sheets and their bottom line.

Engagement allows us to:

- Enhance the efficacy of our internal research and model of Resource Efficiency
- Improve sustainability reporting; promote better disclosure, transparency and resilience
- Provide corporations with the tools and know-how to measure, manage and reduce their environmental footprint
- Promote our client's climate ambitions and support best practices regarding all ESG issues.

Encouraging companies to develop more granular and robust sustainability reporting has been a long-term focus for Osmosis. We believe that a company that discloses its environmental footprint is more likely to manage, measure and reduce its impact.

We engage with companies to discuss the materiality of their environmental data to the balance sheet and the accuracy of their disclosure. As disclosure becomes more prevalent and more granular in nature, our portfolios will benefit from the enhancements made to our research model.

We also interact with companies that are part of our target group but are not disclosing (sufficient) environmental data. Through regular non-disclosing campaigns and ad hoc company targeting, we explain the importance of environmental data/reporting and the consequences of non-disclosure. By sharing the investor perspective, we can provide feedback to improve future iterations of sustainability reports or correct errors in current reports.

Osmosis engages with companies throughout our research process. Our engagement process is the same for all companies in our target universe: our engagement process is not run on a fund or regional level.

Once a relationship has been established, companies often reach out to Osmosis to request further input or additional guidance.

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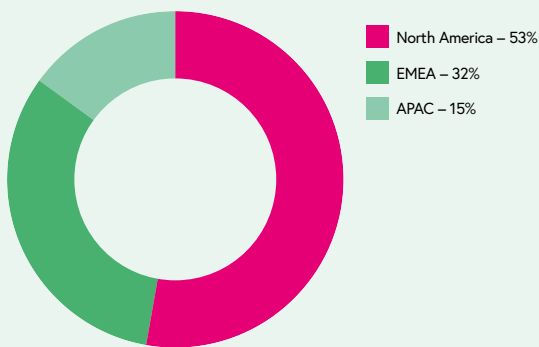
Osmosis achieved top score for individual and collaborative engagement from the PRI in this year's assessment. [Click here for the full report.](#)

Osmosis also engages on specific themes. These may be associated with improving the efficacy of our models, for example engaging with the electricity sector to understand their water use but can also be deemed of general importance from a stewardship point of view. For example, our recent campaign to encourage Automobile companies to understand their exposure to forced Uyghur labour in their supply chains.

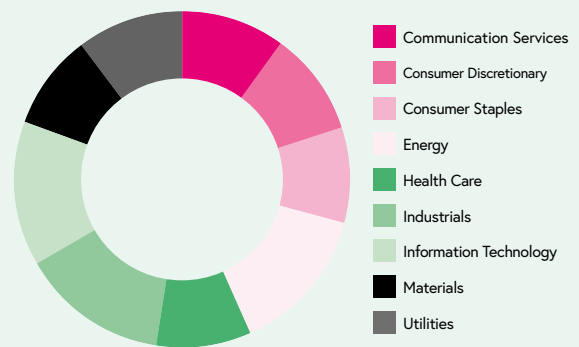
We do not believe in a one-size-fits-all approach to engagement and draw on several approaches to achieve our aims. First contact is made over email to investor relations, but we will push for a direct conversation with members of a firm's sustainability team.

Osmosis is continuously developing its engagement strategy. In 2023, we aim to further develop our engagement capacities, broadening our target universe to include developing markets. In 2022, Osmosis engaged with 298 individual companies on environmental topics.

Geographical spread of engagement efforts



Sectoral spread of engagement efforts



Case Study: Data errors

Issue:

Company A, a large, Swedish Industrials company, has a long history of sustainability reporting. Regardless, our analysts spotted inconsistencies in their latest sustainability report, with a water consumption figure much lower than expected. We suspected an error with the reported units and engaged with the company to clarify.

Outcomes and next steps:

The company confirmed this issue was indeed a unit mistake. We ensured the right data was updated within our environmental database to calculate new Resource Efficiency scores.

Case Study: Best-practice reporting

Issue:

Company B, a Swiss food and drinks processing company, reported their sustainability using outdated GRI G4 standards on a hard-to-find webpage. Using outdated reporting standards meant that the necessary information available was not enough for us to create its environmental balance sheet.

Outcomes and next steps:

The company pointed us to an appendix with updated figures and acknowledged that their reporting approach could be improved. It also assured us it was working on these legacy issues and would streamline their reporting in the next year.

Case Study: Incomplete reporting

Issue

Company C, a German industrial transportation company, only provided water consumption figures for its domestic operations, and failed to produce any waste generation figures. We reached out to voice our concerns and explain the benefits of more comprehensive environmental reporting.

Outcomes and next steps:

The company ensured it would take onboard our feedback; however, we were given no guarantees that it would change its reporting approach in the future. Osmosis will continue to engage with the company. In the meantime, we are unable to calculate a Resource Efficiency score for the company, impacting its ability to feature in our portfolios.

Case Study: Year-on-year resource consumption reduction

Issue

When collecting and validating environmental data, unexplained year-on-year changes are fully investigated before the figures are accepted into our environmental database. Company D, a British online marketplace business, reported significant Scope 1 and 2 emissions reductions compared to previous years, both domestically and internationally. Osmosis queried these reductions to fully understand what was behind the reductions over the reporting period.

Outcomes and next steps:

The company explained that reduced activity and business travel contributed heavily to this decrease and added that migrating of some of their physical data centres to the cloud contributed to a 50% reduction in Scope 1 emissions. We were therefore able to accept the datapoint into our database.

Case Study: Incomplete reporting

Issue

Company E, a Belgian utility company, only produced waste data for its German sites, and did not include their Belgian operations. Additionally, the company failed to produce any water consumption data, something quite unusual for a company within this sector. We had highlighted this to the company in a previous engagement.

Outcomes and next steps:

The company directly provided us with waste generation data for their Belgian operations, enabling us to accept this datapoint into our environmental database. We encouraged them to add this data to future sustainability reports.

Case Study: AGM feedback

Issue

Osmosis voted against management at a British Oil and Gas major's annual shareholder meeting for specific environmental reasons and notified the company of our voting rationale. We believe it is important to share with companies the reasons for our vote, especially on issues closely aligned with our investment thesis.

Outcomes and next steps:

The company did not respond to our outreach on this occasion; however, we will continue to engage with companies when we disagree with their approach.

Case Study: Forced Uyghur labour in Automobile supply chain

Issue

In May 22, Sheffield Hallam University published a report that indicated that "practically every major car brand has supply chain links to the abuses in the Uyghur Region". In November 2022, a major German automobile manufacturer was judged to have breached the UN Global Compact because of direct use of labour from Uyghur and other ethnic minorities in an owned factory in Xinjiang province, China. Osmosis promptly divested from this company and started an engagement campaign to discover the extent of which this labour is used in other companies.

Outcomes and next steps:

Of the 23 Automobile manufacturers in our investment universe, we were able to contact 13, from which we received five useful replies and four holding emails. The responses indicated to us that the sector itself was surprised at the report's conclusion and that firms had a poor understanding of the corporate behaviour of their supply chains. Osmosis continues to monitor the responses to this campaign and investee firms' compliance with the UN Global Compact.

Case Study: Ghost flights

Issue

The COVID-19 pandemic was marked by a significant drop in air passenger numbers. To maintain landing slots at airports, in compliance with EU Commission rules, journalists reported several airlines were continuing flights to fill these slots, despite carrying few or zero passengers. These 'ghost flights' are contrary to the environmental efficiency we believe sustainable companies possess in producing their goods and services. To discover the extent of 'ghost flights' in European firms, we contacted three large European airlines.

Outcomes and next steps:

We discovered that companies have attempted to be as efficient as possible in an unfriendly policy environment. However, we sent a final letter to these companies highlighting the need for a more coordinated response to pressure for change in the adverse policy conditions.

Case Study: Case Study: Osmosis non-disclosure campaign

Issue

Environmental data is integral to Osmosis' investment process. Improving the extent of disclosure in our investment universe is therefore extremely important to us. We believe that companies that measure their impact on the planet are best placed to begin to manage it effectively. For these reasons non-disclosure is Osmosis' flagship stewardship topic and drives our biggest yearly engagement campaign. In 2022, we contacted 151 companies that we considered to be non-disclosing or insufficiently disclosing across our material metrics.

Outcomes and next steps:

22% of companies responded to our engagement. Some companies directly shared data, allowing us to add several new companies to our active investment universe. We held follow-up conversations with four companies that allowed us to explain the importance of accurate, robust, and comparable data. This was fed back to reporting teams, and our own team were able to learn more about some of the challenges firms face in disclosure. We will continue this campaign with a new set of non-disclosing companies in 2023.

Case Study: Electric vehicles in Mining, Construction, Telecommunications, and Food & Drug Retailers

Issue

The above sectors have large vehicle fleets but are rarely seen as targets for electric vehicle integration. At the end of 2022, we embarked on a fact-finding engagement campaign to assess the current state of integration in these sectors and discover the opportunities and roadblocks for a future engagement campaign pressuring for integration. For this project, we contacted 85 firms across these sectors.

Outcomes and next steps:

We have continued to receive responses from companies in these sectors and are currently preparing a report on the conclusions that we can draw from this information and how this can define Osmosis' future work on the topic.

Case Study: Oxford Martin Principles engagement with the oil & gas industry

Issue

The Oxford Martin Principles describe a framework for climate-conscious engagement with highly polluting sectors. The principles focus on establishing a commitment to net-zero emissions, a business plan to move to a profitable net-zero business model, and quantitative medium-term targets for decarbonisation.

Initiative and role:

In 2022, Osmosis was asked by one of our clients to utilise the principles to guide engagement with firms in our investment universe associated with oil & gas production, transportation, service provision, refining and marketing. To establish the direction of this continuous engagement, we began by contacting 48 firms in our investment universe to enquire about the state of progress on each of the principle's focus areas.

Outcomes and next steps:

We received a 32% response rate to these letters and performed several follow-up calls. We discovered that there is strong diversity in the progress both between companies and between the focuses of the principles in the individual firms. From the process, we were able to identify several laggards that will define the focus of the next round of engagement in 2023.

3.2 Collaboration

Osmosis recognises that we can amplify our voice and increase our impact through collaboration with other like-minded investors. Osmosis actively participates and collaborates with broad market coalitions to improve investment practices across the industry, in line with the UN's Sustainable Development Goals.

In 2022, Osmosis actively engaged with CDP Worldwide, the Science Based Targets Initiative, ShareAction, and Climate Action 100+. We hope that our influence in this field will lead to more robust, transparent, and environmentally resilient companies in the foreseeable future.

Case Study: Science-Based Targets Campaign

Issue

The Science-Based Targets (SBTs) Campaign offers an investor the opportunity to play a key role in accelerating the adoption of science-based climate targets in the corporate sector through collaborative engagement. SBTs are GHG emission reduction targets that are consistent with the level of decarbonisation that, according to climate science, is required to keep global temperature increase within 1.5C compared to pre-industrial temperature levels. 1,610 high-impact companies were selected for this campaign.

Initiative and role:

Osmosis was eager to join this ongoing campaign when launched as one of the 220 investors. The 1,610 companies targeted cover over 25% of global GHG emissions through their scope 1 and 2 emissions. Following the campaign launch, CDP's global corporate engagement team actively engaged these companies to inform, educate and support them to commit to setting SBT.

Outcomes and next steps:

Since the campaign was launched, 213 companies have committed or set a target through the SBTi. This represents 8.4% of the targeted companies.

Case Study: CDP's Annual Non-Disclosure Campaign

Issue

Our investment approach is fully based on objective, measurable and self-reported environmental data. CDP is a major force in encouraging voluntary environmental disclosure. Aiming to encourage disclosure, CDP coordinated a financial institution-led global engagement campaign in which Osmosis participated as one of the 168 institutions, with a combined AUM of nearly \$30 trillion USD. Over 1,400 companies worldwide were targeted.

Initiative and role:

A total of 260 institutions from around the world took part in 2022. Osmosis was a lead engager. Our objective was to encourage four assigned target companies to start participating in one of CDP's reporting programs, which include Climate Change, Water Security and Deforestation. Success is measured through the percentage of companies submitting a response to CDP at the end of the disclosure period.

Outcomes and next steps:

Our engagements lead to a 50% disclosure rate for our target companies on the climate change questionnaire, compared to a CDP average of 28%. We will join the campaign again in 2023.

Case Study: Climate Action 100+

Issue

Climate Action 100+ is a voluntary initiative that brings together – and builds on – several pre-existing, investor-led engagement initiatives operating in different regions of the world. In signing up to Climate Action 100+, investors commit to engaging with at least one of 166 focus companies that are strategically important to the net-zero emissions transition and to seek commitments on the initiative's key asks:

- Implement a strong governance framework on climate change
- Take action to reduce greenhouse gas emissions across the value chain.
- Provide enhanced corporate disclosure.

Initiative and role:

Osmosis has been part of this initiative in a supporting role for several years. The engagement of investors is assisted by five investor networks from various parts of the world: the Asia Investor Group on Climate Change (AIGCC), Ceres, the Investor Group on Climate Change (IGCC) and Principles for Responsible Investment (PRI). There are currently 700 signatories.

Outcomes and next steps:

Throughout the year, investors across the initiative engaged companies on critical actions around short-, medium- and long-term emissions targets, corporate lobbying disclosure and board climate competence. The progress being achieved by investors through Climate Action 100+ is emblematic of how times have changed and reinforces the vital role of large investors in addressing climate change as a financial risk.

The initiative resonated across global financial media markets. Influential finance and business media outlets worldwide, including the Financial Times, Reuters, Bloomberg, Wall Street Journal, Forbes, and the Sydney Morning Herald, have covered the initiative's key achievements and successes.

Case Study: ShareAction European Chemical Decarbonisation Campaign

Issue

The chemicals sector accounts for more than 6% of greenhouse gas emissions and is an essential target for decarbonisation for global attainment of a limit to global warming of 1.5C, but progress remains slow.

Initiative and role:

In 2022, we joined a \$3.2 trillion coalition, convened by ShareAction, to encourage European chemicals firms to commit to the decarbonisation process. Osmosis' role in the process has been to review, comment, and sign letters sent to each of the companies targeted and to attend or support any follow up meetings with these firms.

Outcomes and next steps:

This campaign is ongoing in 2023.

3.3 Escalation

We aim to engage constructively, hoping to shift corporate behaviour in line with our philosophy and investment approach. Ultimately, failing to meet our disclosure requests or failure to improve environmental management will lead to exclusions, underweight, or short positions within our portfolios. We apply this approach throughout our global investment model and do not differentiate between geographies.

Even resource-efficient firms may breach certain social or governance minimum safeguards. In this case, companies can be excluded from our portfolios if they breach the United Nations Global Compact (UNGC) Principles.

As detailed in the proxy voting section of this report, when companies are failing to achieve minimum ESG criteria in our portfolios, we have the option to vote against the responsible board members. This is followed by direct engagement with the company. If portfolio companies fail to engage with us constructively, we will consider escalating the issue through some of the following approaches:

- Writing to, or meeting with, the company to emphasise our concerns
- Collaborating with like-minded investors to push for change
- In extremis, filing shareholder resolutions.

Osmosis is working to further develop this area. In the future, Osmosis would like to enhance our engagement with companies by raising its concerns at annual shareholder meetings, either individually or through collaboration with other investors.

Case Study: UNGC Exclusion

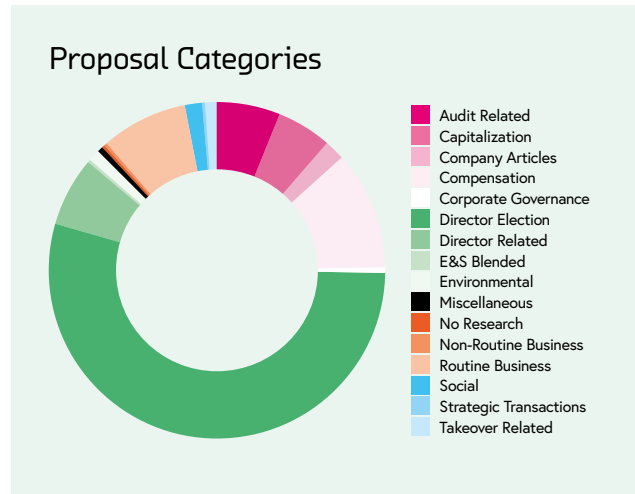
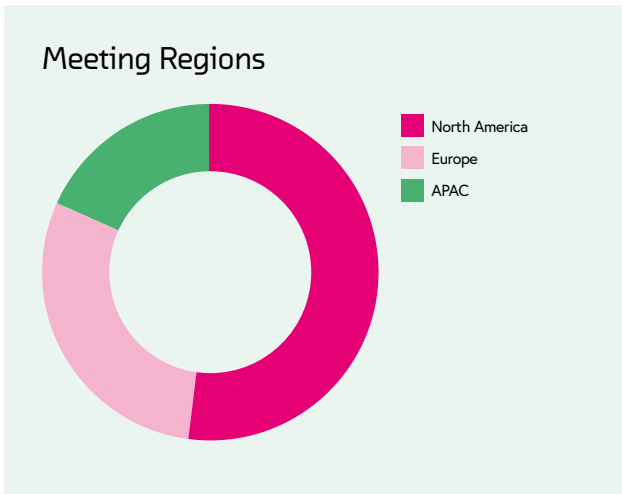
Issue

Company E, a US retailer, was excluded from all of Osmosis' portfolios due to its failure to adhere to the Social and Governance principles set forward by the United Nations Global Compact. Osmosis reaches out to all the companies excluded from our portfolios through these principles and tries to encourage a resolution to the underlying issues. Since our last report, the company made changes to its business model and is now deemed to no longer breach the UNGC principles. The company has been removed from our exclusion lists and is back in the investment pool.

Outcomes and next steps:

Osmosis keeps screening our investment universe for breaches against the UNGC principles and excludes any company that does not adhere to these principles from all our portfolios.

3.4 Exercising Rights and Responsibilities



Votable Meetings	841
Meetings Voted	831
Proxy Contests Voted	4
Meetings with Against Management Votes	436
Proportion of Shared Votes	97%*

* Osmosis does not vote in share-blocking markets. Voting data includes securities in Osmosis Investment Management US LLC and Osmosis Investment Management UK Ltd vehicles.

Osmosis actively collaborates with our clients to provide them with the best possible strategy with regards to proxy voting. Where clients have their own bespoke proxy voting guidelines which they want to enact, we work with them to apply this to their specific investments. Some clients prefer to take back the ability to vote proxies themselves, which we also facilitate.

Across all our pooled funds, where clients have not provided us with their own proxy voting guidelines, Osmosis operates a climate orientated voting policy. Our belief in the importance of a firm's environmental footprint to its economic sustainability is reflected in the proxy voting we undertake on behalf of our clients. The policy utilises independent proxy advisory firm ISS (Institutional Shareholder Services) to promote our sustainable climate ambitions and support best practices regarding all environmental, social and governance issues. This policy actively manages and mitigates exposure to climate-related risks in portfolio companies, accurately reflecting Osmosis's belief in the long-term materiality of climate and environmental issues to shareholder value.

ISS' specialty Climate Voting Policy is based on principles consistent with good stewardship that incorporate specific climate change relevant information, flags, and voting recommendations, which institutional investors can use to apply their views on a portfolio company's climate performance and disclosure. The voting policy can be found on our [website](#).

Our proxy advisor's extensive and unique climate data and proprietary research, along with issue expertise, are used to provide a model for assessment of a company's climate-related performance and disclosures that, in turn, are used to inform climate-based proxy voting recommendations for subscribing clients. It includes a view of a company's greenhouse gas (GHG) emissions, its climate strategy, and the impact of its activities on climate, putting these into context within its sector and incident-based climate risk exposure. The model also draws on widely recognised frameworks including the Task Force on Climate-related Financial Disclosures (TCFD) and balances the need for good disclosure on climate-related risks with a company's performance on key climate-related factors.

Osmosis keeps a record of shares held and voting rights for each company across our portfolio. From within the ISS platform, our voting instructions are also conveyed to the relevant custodian or sub-custodian for each fund, that will then execute our instructions.

3.41 Factors used to Evaluate a Company's Climate Related Performance

Factors used to evaluate a company's climate-related performance fall under five primary categories: climate norms violations; disclosure indicators; current performance indicators including greenhouse gas emissions data; future performance indicators drawing from the Carbon Risk Rating (CRR); and Carbon Risk Classification. The factors are used to assess a company's risks associated with the impacts of climate change, along with its preparedness to face and mitigate those risks in an increasingly carbon-restricted economy. The model's expectations used to assess performance practices are defined by industry groups, based on the specific climate risks identified in industry and multistakeholder initiatives and reflected in authoritative standards such as the Global Reporting Initiative, the Sustainability Accounting Standards Board

Given the importance of this research to our voting behaviour, we maintain an active dialogue with ISS to provide our feedback and views on their research. Osmosis retains the final voting decision on all issues and can vote against the policy if we disagree with ISS' recommendation.

Osmosis actively communicates voting outcomes on request to clients and provides a summary in its regular quarterly reporting. Since last year we have made all voting decisions publicly available on our [website](#).

In the case of individual mandates, Osmosis works with investors, where desired, to ensure that their proxy voting strategies are enacted. Osmosis does not partake in stock lending practices.

3.42 Climate Change

Anthropogenic climate change is an era-defining threat to the planet and its people. In financial terms, it presents an extreme risk to shareholders. Through our voting, we aim to reduce climate risk for our shareholders by voting for proposals that seek information on the risks companies foresee from climate change and the plans they must address them. For example, we will always support resolutions that call for greenhouse gas (GHG) emissions reductions when called upon. However, because the issue is of such importance, we are also discriminating against management proposals on climate action that we deem unsatisfactory and will vote against such proposals accordingly.

Chevron

Methane is one of the most potent greenhouse gases and is a common fugitive gas in the oil & gas sector. Given its importance, accurate estimation of methane emissions is crucial for combatting climate change. We therefore supported, along with management and 98% of other stockholders, a shareholder proposal to review the reliability of Chevron's current calculation-based estimation of methane emissions. This proposal passed.

ConocoPhillips, Phillips 66, BP, Shell, and Chevron

These five companies' actions in the coming decade will be one of the strongest determinants of the planet successfully reaching Net Zero by 2050. Hence, we supported shareholder proposals in these five companies for reports on or the setting of greenhouse gas emissions targets that are in-line with Paris Agreement's aim to keep global warming well below 2 degrees Celsius. None of these proposals passed but many received support from more than a third of shareholders.

3.43 Directors and Boards

We believe that board members and chairs are responsible for a company's climate and ESG impacts, and we vote to hold them to account. We vote for directors who are accountable and responsive to shareholders, add value to the boards, and maintain sufficient independence from management. Within these considerations, we have a specific focus on directorship votes in companies that are significant emitters of GHGs and those where there is evidence of poor oversight and management of material environmental risks.

Alphabet

We supported a shareholder proposal to establish a dedicated Environmental Sustainability Board Committee at Alphabet. We strongly believe that the creation of a centralised device to continue, ensure, and promote Alphabet's environmental policies and initiatives can lead to more successful enactment of these policies and initiatives throughout the company, helping it to manage significant environmental risks. This proposal did not pass.

Exor

At EXOR, we voted against the discharge of both executive and non-executive directors. We believe that Exor's board has not instituted sufficient policies and mechanisms to mitigate the significant risks from climate change that it faces as a company. Neither proposal passed.

Kraft Heinz, Alphabet, and Tesla

We voted in support of three shareholder proposals that sought information on how each of these companies are managing water-related risks. All three, given their operations, have significant exposure. Unfortunately, none of these proposals were passed.

Kansai Electric Power

At KEP, we supported a resolution to tie executive compensation to ESG factors in order that sustainability factors be valued alongside financial factors in the running of the company, to the long-term benefit of shareholders. This proposal did not pass.

3.44 Social Issues

While our focus at Osmosis is on the environmental aspects of sustainability, we support social proposals that we believe will enhance long-term shareholder value by aligning company interests with those of society at large. We are particularly supportive of those proposals seeking more information on pertinent topics and those that would encourage adherence to the internationally recognised standards and principles.

3.45 Water

A key metric in assessing a company's environmental sustainability at Osmosis is the usage of water. We take on this issue in our proxy voting as we believe good management of water is a driver of long-term shareholder value.

Microsoft

We support well-functioning and transparent markets. Therefore, we voted to support a shareholder proposal for a report on Microsoft's global tax practices. This proposal did not pass.

The investments noted above should not be considered a recommendation to buy or sell any specific securities.

3.5 Promoting Well-functioning Markets

From an investment perspective, asset managers need to consider whether their portfolios are resilient to future market shocks to guard against a possible failure in investment returns.

3.51 Climate Change

Climate change, water security and pressure on natural resources are era-defining systemic risks to our economy and planet.

At Osmosis, these climate risks are integrated into our day-to-day risk management processes. We assess climate risks in all our strategies via the corporations we invest in, focusing on Carbon emissions, Water consumption, and Waste generation. The last 12 months have continued to demonstrate the virtues of investing in Resource Efficient businesses with strong business models and robust environmental balance sheets.

We are vocal in our external communication to stakeholders and broader society about the environmental risk our economy and planet face. This has included working collaboratively with other investors to encourage a responsible corporate response to the challenges posed by climate change. For, example during 2022 we worked as lead campaigners for a non-disclosure campaign with CDP and we also joined a \$3.2 trillion coalition, convened by ShareAction to support their work on decarbonisation.

In 2022 we published various thought pieces and insights. We produced a whitepaper on the unintended consequences of Paris Aligned Benchmarks which was featured in Responsible Investor. We also took the opportunity to highlight the importance of waste efficiency, with a focus on the increase in commodity prices and the high inflationary environment. This research was featured by Environmental Finance.

Other published thought pieces included 'The Time value of Carbon,' which highlights the importance of cutting emissions today versus a point in the future and a look at the unfortunate consequences of short-term government intervention on the energy transition.

3.52 Social and Governance Risks

All our strategies exclude tobacco. In addition, we align our portfolios with the UN Global Compact Principles for social and governance safeguards. This means that any company in breach of these principles will be automatically excluded from portfolio selection.

Osmosis works closely with clients to integrate ESG considerations into their portfolio whilst maintaining traditional risk exposures aligned with the underlying client mandate. Examples of this include customised single stock exclusion, sector exclusion and faith-based exclusions.

3.53 Other Systemic Threats

The Osmosis board regularly engages with senior leaders in all departments to ensure that wider systematic and systemic risks are identified and addressed. It is the role of senior leaders to identify market-related risks/opportunities and report these back to the board, which will then implement the agreed-upon risk management measures together with the Investment Oversight and Development Committee (IODC), to ensure adequate resources, including staff, training, and budget, are available to assess, implement and monitor market-related risks and opportunities and measures.

3.54 Energy Crisis

We recognise our fiduciary responsibility to better understand the implications of the global energy crisis following Russia's invasion of Ukraine – both its potential to impact wider financial markets and its impact on our clients' portfolios.

As a result of Russia's invasion of Ukraine – the global energy transition we had hoped for is simply not happening.

Governments worldwide face unprecedented domestic challenges. Geopolitical tensions, that have developed as a result of the war, not only threaten international climate co-operation, but the trade and supply flows on which a sustainable energy transition is dependent have rapidly deteriorated.

Inter-related energy and cost of living crises now dominate political agendas, and securing near-term energy supplies has become a number one priority. Meanwhile, as price pressures mount on households and businesses, governments need to offer rapid assistance without destabilising public finances and investor confidence.

Perhaps the most publicised example of a negative environmental outcome following government mitigation is the recommissioning of many 'ready-to-be-decommissioned' power plants, which have had their life extended due to energy security concerns. In Germany, RWE's Neurath D and E coal power plants have had their decommissioning dates pushed back from the end of 2022 to the beginning of 2024, leading to an increase in carbon emissions from one of the EU's most carbon-intensive power plants. Similarly, in the UK, the government is temporarily relaxing permitting conditions for coal-fired power plants for the winter. France, facing problems with its nuclear fleet, has joined the list of countries considering bringing retired coal-fired power plants back online.

Rocketing energy prices should be causing a massive drive towards energy efficiency. After all, the cheapest energy is the energy you do not use. Additionally, the business case for transitioning faster towards renewable energy becomes stronger with every day the war continues. Higher fossil fuel prices should lead to a transition towards cheaper, renewable energy. Instead, governments are prioritising existing fossil fuel assets, further locking businesses into using these carbon-intensive fuels and hindering the efficiency of market forces from doing their work.

Above all, the current energy crises highlight that energy efficiency is not only an environmental must but also an economic must. While we fully support government action to shield the most vulnerable and support them through this crisis, policies should be designed to harness the economic pull towards efficiency while supporting those in need. Subsidising fossil fuels or opening coal-fired power plants might have short-term gains but will hinder our long-term goals drastically.

3.55 Inflation

Commodity prices are running rampant. Fuelled by the war in Ukraine and pandemic supply chain disruptions, everything from oil to wheat and coffee has fallen prey to extraordinary inflationary price rises. Indermit Gill, the World Bank's vice president for Equitable Growth, Finance, and Institutions said that "this amounts to the largest commodity shock we've experienced since the 1970s".

There is little doubt that this commodity shock will continue to impact the entire economy, but our research demonstrates that it will not be felt uniformly across companies. As commodity prices increase, so does the importance of using them wisely.

The importance of using materials wisely is not isolated to manufacturers. Commodity price increases have been felt across the entire economy. The World Bank's Food Commodity Price Index is up more than 60% over the last two years, having far-reaching impacts on consumers and food producers. The price of coffee has increased by 72%, corn by 42% and cotton by 40% (down from highs in mid-2022 of 100%, 89%, and 101% respectively). Comparing two multinational food producers with similar product mixes, our model shows that Kellogg produces 17% more waste per unit of revenue than General Mills. By producing 17% more waste, Kellogg will feel these soft commodity price increases 17% more strongly, directly, and significantly negatively impacting their bottom line.

If companies are as efficient as possible with the resources they use, they not only minimise their waste output – but also improve their financial performance and simultaneously reduce their environmental impact. In times of commodity price rises, minimising waste is important but, even more so is a company's waste production relative to their economic value creation. If a company can create a given product using fewer resources and producing less waste than their peers, they will need to purchase a smaller quantity of commodities. A 26% increase in the price of iron ore, as we have seen in the year to date, is clearly a larger issue for companies wasting iron than companies that can create value with all of the iron they have

purchased. Commodity price rises will increase the cost of goods sold more for inefficient companies than efficient, leaving efficient companies with better margins and inefficient companies with increasingly valuable unutilised waste streams.

A report from Bank of America found that "the raw material cost in an average U.S. vehicle has been steadily rising, increasing ~87% from a low point of approximately \$2,200/unit in Apr '20 to roughly \$4,125/unit in May '21". With the global automotive steel market valued at just over \$100bn, a 26% increase in the price of iron ore is clearly a massive expense for the automotive industry, however, automotive manufacturers will be hit less hard if they are more efficient with their use of commodities.

For example, according to the Osmosis Model of Resource Efficiency (MoRE), Renault uses its materials effectively in comparison to other automobile producers. In 2020 the company produced around 230kg of waste per vehicle sold. By comparison BMW produced 45% more, at 330kg. The impact of this 100kg difference will be directly influenced both by the material mix and the cost of the materials. An increase in the price of any wasted materials will be felt 26% more strongly by Renault than by BMW, making Renault more exposed to volatility in commodity prices.

While the price of commodities is one of the levers prompting companies to be more efficient with their use of resources, it is not the only factor. Another factor is the cost of waste disposal and, while this is not considered material for the public disposing of personal waste, the same cannot be said for companies. Since our models began, Osmosis has witnessed a significant increase in waste disclosure within the MSCI World. Crucially, these disclosure improvements have been seen across the whole economy with 'higher' waste impact sectors increasing their disclosure in line with (and often better than) the rate of 'lower' waste impact sectors, improving the efficacy of the MoRE over time across sectors and geographies.

The investments noted above should not be considered a recommendation to buy or sell any specific securities.

4. Governance

4.1 Conflicts of Interest

We ensure our clients' interests remain at the heart of our business.

Following Financial Conduct Authority requirements, Osmosis has established, implemented, and maintains an effective conflict of interest policy that is appropriate for our size and organisation.

Our conflicts of interest policy describes how we place our clients' interests ahead of our own and undertake activities and cast proxy votes in a manner consistent with the best interests of all clients. The Engagement policy is freely available on our website.

Due to the nature of our business, the main types of conflict we are likely to encounter are those between the interests of Osmosis or its employees and the interests of clients (firm and client) and conflicts between clients (client and client). For example:

- Price sensitive information/confidential information
- Employee directorships
- Personal Trading
- Voting.

All Osmosis employees are responsible for identifying any actual and potential conflicts and notifying these to the Compliance Department which maintains a log of all conflicts and has procedures in place to manage the conflicts identified.

4.12 Review

We review our Conflicts of Interest Policy annually to ensure it adequately reflects the types of conflicts that may arise so that we can ensure that they are appropriately managed and as far as possible mitigated.

4.13 Conflicts of Interest Approach in Practice

Our policy on conflicts may be best understood by considering its impact in practice. The following are examples of how we have approached these issues.

- All personal trading of equities by staff is subject to pre-approval by the Chief Compliance Officer. As a matter of policy, approval will not be given if such stock is in the Osmosis selection pool of companies thereby avoiding any conflict of interest or even the perception of a conflict.
- Employees are required to get approval before taking on any external directorships (such approval will not be given in the event there is any actual or perceived conflict with the Firm or its business).

Disclosure and Monitoring

Upon the start of employment, and on an annual basis thereafter, Supervised Persons are asked to complete a conflicts of interest questionnaire/certification for review by the CCO.

Directorships

As part of the identification process, employees are required to disclose details of directorships and interests in other companies. The register is provided to the Board for review and challenge.

Trading

Osmosis' Personal Account Trading Policy requires that employees act according to the highest ethical standards and practice, and that they seek to minimise the risk of conflicts of interests with clients, the misuse of privileged or confidential information, or any involvement in insider trading, market abuse or interception of corporate opportunities.

Illustrative Case Study 1

Potential conflict of interest management in trading

The Osmosis Personal Account Trading Policy requires all staff to submit a pre-authorisation request for personal investments. All such investments will be implemented, where practical, within 24 hours. Such authorisation will NOT be given if the proposed investment is into a company/stock that Osmosis trades in its funds or for its clients. This approach avoids potential (or perceived) conflicts.

Breaches of the policy would be escalated to the Head of Compliance and, if determined to be material, to the management committee. A material breach would result in disciplinary action, which if serious, could result in summary dismissal (through the Company's formal processes).

4.2 Review and Assurance

4.21 Review of ESG Related Investment Policies

Responsible investment is driven from the top of the business and embedded across everything we do. The research team, which oversees ESG implementation, is managed by the Head of Environmental Research who reports to the Investment Oversight and Development Committee (IODC). The two teams work closely together and currently have 16 experienced and dedicated employees. The IODC provides oversight of the research and investment process, and this scrutiny drives the continuous improvement of stewardship policies and processes, under an established change control policy. As an example, following feedback from clients, the research team proposed two additional negative screens across Osmosis' funds and strategies which targeted cluster munition manufacturers and anti-personnel landmines producers. These exclusions were approved and signed off by the IODC and implemented into the investment process.

As part of such processes, the Investment Risk Review Committee (IRRC) is required to sign off on all material changes to investment strategies and investment processes, as well as issues arising in the resource efficiency data collation and analysis. In addition to the foregoing, the IRRC meets monthly to review investment and operational risk issues arising within the funds and SMAs operated by the firm and broader risk and compliance issues. The formal decision-making process lies with the firm's Management Committee, which includes two directors and reports to the Board.

An enterprise risk committee is responsible for maintaining a risk register where material risks to the firm are considered, assessed, monitored, managed and/or mitigated. All significant events are notified to the relevant committee. If an event is material to the firm and requires a board response, it is notified to the board, and the appropriate action is initiated.

The IODC and the IRRC also meet on an ad hoc basis as and when circumstances demand to address urgent issues that might arise between the regular monthly meetings.

4.22 Model Checks and Balances

Osmosis' data collection is a manual process whereby individual corporate reports are reviewed, and relevant data is extracted. Our data comes directly from corporate reporting, with no third party data sources used. Osmosis' research team has sectoral analysts with expertise in environmental reporting within their respective sectors.

Every month, companies that have produced new environmental data are identified and analysed by the relevant analyst. The research process uses various tools to identify which companies have released new data points, including notifications sent directly by corporate sustainability teams to our research team and specialised CSR (Corporate Sustainability Report) alert tools, as well as insights about when and where companies will release new reports based on their reporting history.

Once new reports are identified, the relevant data is extracted and then standardised to our sector economic frameworks.

Before data is permitted into our database, it must be manually collected, verified, and standardised by a research analyst following strict research guidelines and ensuring the data's origin is fully documented.

Each new data point is subjected to a series of statistical checks, including calculating and flagging any large year-on-year changes in the company's absolute research consumption and any year-on-year changes in its efficiency. Any values that exceed the acceptance threshold are further investigated, and where no explanation can be found, company management is contacted directly to explain and clarify anomalies. Only when a satisfactory resolution can be documented is the value added to our database.

The Director of Environmental Research must approve all data before final submission. Any changes to the database are discussed monthly during the Investment Oversight and Development Committee.

As part of ongoing quality assurance, we continuously liaise and engage with companies regarding their environmental metrics. This is a key step in our monthly data validation process and enables company management to provide clarity or context to disclosures.

4.23 External Benchmarking

Osmosis participates in the external benchmarking and annual assessment process of the PRI (Principles for Responsible Investment). Since our initial membership in 2014, we have consistently been evaluated with above-average scores in the PRI's core modules.

We believe that through these external initiatives, we provide the market with a fair, balanced, and understandable report. We complement these reports with stewardship-focused client reporting, where we try to follow UK Stewardship Code Principles ensuring fair and balanced views.

In its most recent assessment, for 2020, Osmosis Investment Management was awarded the highest score of A+ was achieved for our approach to Strategy and Governance. In addition, we received A+ ratings for screening, individual engagement and collaborative engagement and an A score for integration. All key areas in which we continue to strive for excellence.

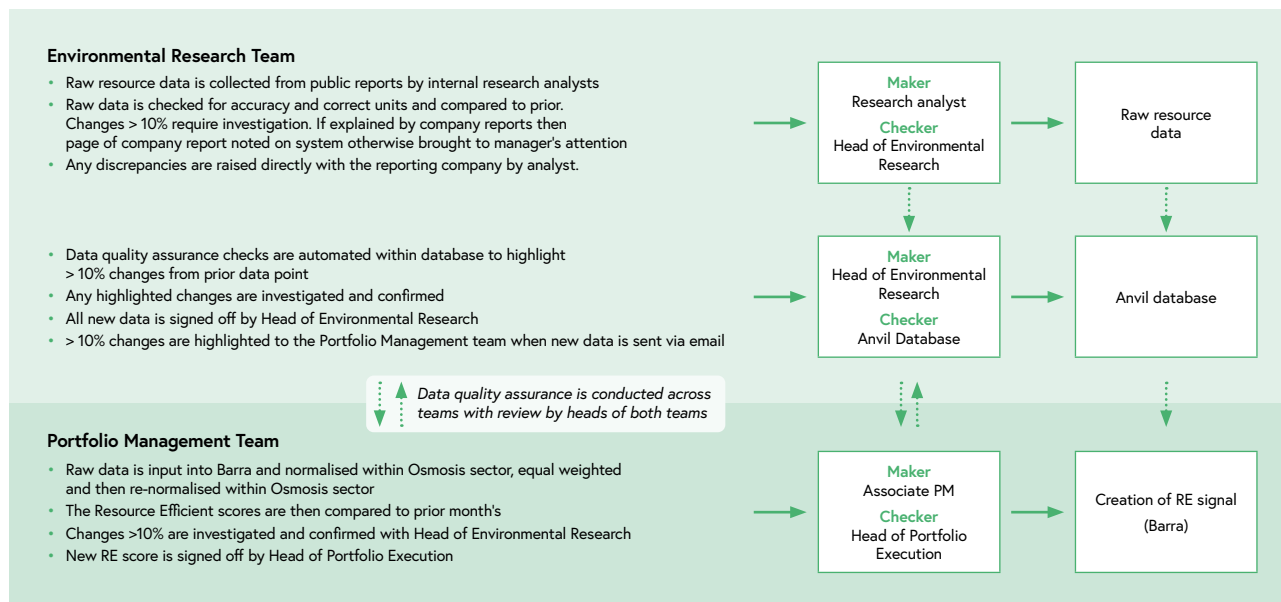
These scores put Osmosis above our asset management peers, and well above the investment industry median.

Summary

- A+ score awarded again for Strategy and Governance
- A+ score awarded for Engagement
- A+ score awarded for Screening
- A score awarded for integration.

4.24 Assurance of report

This report has been seen and approved by Osmosis' Management Committee (ManCo) as well as its Board of Directors.



4.3 Monitoring Managers and Service Providers

As a boutique investment manager, Osmosis's environmental footprint is very low compared to our larger peers; however, we recognise that firms of all sizes and industries will be impacted in the transition to a net-zero economy. Just as climate risk is at the heart of our investment strategies, we also make sure that climate risk is considered in our firm's daily running and future planning.

4.31 Environmental Impact

Our in-house environmental programme focuses on measuring, managing, and reducing our most significant impacts. From an energy perspective, this includes scope one emissions (fuel), scope two emissions (energy for buildings) plus business travel, as well as supplier-related emissions. We aim to reduce carbon intensity from energy use and business travel. Operational waste and water consumption in the office is targeted through enhanced recycling and paper consumption reduction efforts. At the same time, water-based filtration systems have been installed to negate the use of plastic bottled water.

4.32 Responsible Procurement

Our responsible purchasing approach aims to promote environmentally friendly products and services by screening for suppliers that take ESG considerations into their business operations.

4.33 Collaborative Engagements

Osmosis actively participates and collaborates with broad market coalitions to improve investment practices across the industry, in line with the UN's Sustainable Development Goals. We are active partners of the CDP (Carbon Disclosure Project), PRI (Principles for Responsible Investment), GRI (Global Reporting Initiative), and Climate Action 100+, and aim to use our expertise to advance responsible investment.

4.34 Our Communities

Giving back and supporting local charities and community projects are becoming an increasingly important part of our culture. We provide the opportunity for our employees to receive paid time off for skills-based volunteering in the local community. We are also launching a scheme to match employee donations for individual fund-raising initiatives.

4.35 Our Service Providers

Osmosis relies on certain service providers within our investment process, including proxy voting agents, data providers and trading platforms. Osmosis conducts an annual review of all service providers, ensuring their services have been delivered and continue to meet the needs of the business. From a stewardship perspective, the main service providers are ISS and MSCI ESG. The research team continually monitors the service they deliver, and with regard to the latter, the data used for creating exclusion lists.

Important Disclosure Information and Disclaimers

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