Osmosis Investment Management

Stewardship Policy

January 2017

Introduction

The purpose of this policy is to describe the approach taken by Osmosis Investment Management ("Osmosis") to stewardship and in particular how its policies and procedures meet the requirements of the UK Stewardship Code. The purpose of the Osmosis Stewardship Code is to enhance the quality of communication between institutional investors and companies with a particular focus on resource efficiency metrics in the context of the proper exercise of governance responsibilities with a view to helping improve long-term returns to shareholders.

Osmosis acts as a discretionary investment manager for separately managed accounts and advisory accounts and certain collective investment schemes. Where the discretion to vote has been passed to Osmosis, Osmosis places reliance on proxy voting services to administer the proxy voting and stewardship requirements in accordance with the Osmosis investment philosophy where the materiality of the account warrants such independent approach to proxy voting.

Principle 1 - *Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.*

Osmosis Investment Management believes its unique sustainable investment approach places it at the forefront of stewardship in the context of governance and responsibility towards efficient use of resources. Through the allocation of capital that has been entrusted to it, Osmosis is proactively directing capital to companies which are more resource efficient than their sector peers. We believe that efficient use of resources within a company demonstrates good corporate governance and is key to helping these companies maximise returns over time. Through this approach, we believe we will maintain, enhance and protect value to clients over the longer term. Those companies which are model selects for investment display additional characteristics investors deem attractive, as such resource efficiency can be viewed as a proxy for quality.

Osmosis generates portfolios through a proprietary resource efficiency factor. It relies purely on corporate, publicly disclosed and audited data on resource consumption, namely a company's energy and water consumption and the amount of waste it creates. The public disclosure of such data is currently non-mandatory, and so any non-disclosing companies are excluded from further analysis in the creation of our resource efficiency factor. We currently do not engage with companies that do not disclose the requisite data, but as Osmosis grows we intend to embark on a program to encourage greater corporate disclosure and promote the standardisation of such disclosures. We can demonstrate through rigorous independent analysis that those companies which disclose the required information and are therefore within our resource efficiency investable universe have a historically higher correlation to stronger corporate governance. We are not activist owners of companies; our stock selection is based on a systematic quantitative approach - so long as a company meets the selection requirements for the investment we hold the stock until the model tells us to divest. Within our high active share portfolios, there is no partial divestment, no ongoing monitoring of ESG issues.

If a company becomes less resource efficient than its sector peers it is sold down in its entirety. This is a proxy for a natural form of divestment. Within our tight tracking error portfolio, if a company does not disclose the required data into the public domain, they are excluded from our resource efficiency universe which will likely lead to either a complete divestment and significant underweighting to their benchmark weight. The over/underweighting to resource and non-efficient companies respectively ensures that within these portfolios there is also a natural divestment process. These portfolios are also analysed for their environmental footprint to the relevant benchmarks, and all show significant savings in the ownership of carbon, water, and waste.

Osmosis monitors this data on a continual basis with database reviews conducted monthly. Osmosis reviews each company as to why they have been included for investment – independent research is undertaken to examine what a company has done to become more efficient. We regularly publish company case studies, and they are available to download from our website.

Where companies stop disclosing on a data point, or where their numbers fall outside a margin of control, the research team follows up directly with the company to prompt for full disclosure or to understand and correct why there has been a divergence in the reported numbers. This quality oversight acts a further check and balance for the integrity of companies' reports in the broader market.

This fundamental analysis of core resource efficiency metrics as against the return on the value generated by a company forms the basis for the Osmosis investment philosophy through which it discharges its stewardship responsibilities.

We believe that the approach we take enhance and protect value to our clients as our approach targets investments in those companies who already demonstrate strong sustainability leadership. The companies in our portfolios can be shown to deliver a better environmental footprint relative to their sector peers and relative to the revenues they produce, while also managing sustainability issues to the balance sheet. Although not targeted we can also show through academic research that companies who address the issue of resource scarcity successfully, not only tend to generate a superior return on equity over the longer term but also have strong correlations to better corporate governance practices and better social outreach. These combined we believe enhance client and protect client value.

Principle 2 - *Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship, and this policy should be publicly disclosed.*

The Osmosis investment philosophy underpins all of our investment products. We are quantitative asset manager relying on our proprietary resource metrics in the investment process. We have no internal products that diverge from this philosophy. A separation of proxy voting and client functions are intended to eliminate potential conflicts in the proxy voting process. Osmosis has delegated the day to day operations of its proxy voting process to an independent proxy voting firm.

We integrate our Resource Efficiency factor to drive portfolio returns within all our portfolios and so maintain a consistent approach and philosophy across all our clients' portfolios. This outcome can be clearly seen through all of the Osmosis portfolios whereby the resource intensity of the portfolios is significantly reduced relative to their respective benchmarks. Please see the website for our investment philosophy and each respective portfolio and its resource efficiency impact.

This systematic investment process in conjunction with the appointment of a proxy voting firm is designed to avoid conflicts of interest arising.

At a more direct level, Osmosis is majority owned by its directors and employees with a small number of external investors (who have no access to the investment decisions of Osmosis or its clients). Osmosis does not hold capital for proprietary investment and undertakes no dealing activities on its own account. Osmosis has a stringent personal dealing policy which requires prior approval of any dealing activities that might give rise to a conflict and such approval is unlikely to be granted even if there is only a perceived or potential conflict. This policy is applied to all members of staff who are required to make an annual statement including disclosure of all brokerage accounts (and private equity holdings). Those employees who undertake personal dealing activities are required to provide contract notes (typically direct from a broker) and quarterly brokerage statements. This robust approach is designed to avoid any conflicts arsing in the dealing activities of Osmosis and its staff.

Principle 3 - *Institutional investors should monitor their investee companies.*

Osmosis has a dedicated research team that monitors the largest 3,000 companies globally for their public disclosure on environmental matters (specifically a company's energy and water consumption and the amount of waste it createsThe Model of Resource Efficiency database is updated on a monthly basis as and when companies disclose such data within their normal reporting cycle. Osmosis seeks to satisfy itself to the extent reasonably practical, that these companies provide sufficient disclosure of specific environmental information. Within this research process, Osmosis continuously analyses the universe of disclosing companies on their relative resource efficiency. As the driver of portfolio returns, Osmosis acts directly on the outcome of such information. We will actively engage with potential investee companies when inconsistent, insufficient or ambiguous information is publicly disclosed.

The results of engagement will not halt the systematic process whereby resource efficient companies will be rewarded with investments, and non-disclosure and resource inefficiency is penalised with underweighting or full divestment. We believe that efficient use of resources within a company demonstrates good corporate governance and social responsibility.

Osmosis employees may come across confidential information about a portfolio company that is not otherwise generally available to the public, although this is very unlikely given the systematic nature of our investment approach. All employees are subject to a Code of Ethics and policies and procedures regarding insider trading and ethical walls, which are designed to prevent the misuse of such confidential information. Failure by any employee to adhere to the Code of Ethics or policies and procedures regarding insider trading and ethical walls may result in sanctions that may include, without limitation, bans on personal trading, disgorgement of trading profits, and personnel action, including termination of employment, where appropriate. Any questions with respect to this policy should be addressed to Graeme. Stehpen@osmosisim.com

Principle 4 - ***Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.***

The Osmosis Model of Resource Efficiency ("MoRE") systematically identifies relative resource efficiency amongst global large cap companies. MoRE uses publicly available data on resource consumption and is updated on a monthly basis. We utilise MoRE to positively screen for those companies that are generating the most revenue relative to their resource input. We believe that by selecting these companies for investment that they will generate greater shareholder value over the longer term. Independent academic analysis has validated our approach. Osmosis believes the actions of managements speak louder than words. Those companies that achieve a negative resource efficiency score, or are not in the top decile or quartile ranking in their respective sectors, are divested from or underweighted to the benchmark. Our expertise lies in identifying resource efficiency and our systematic investment process naturally, tilts our exposures to the highest quality companies. We do not actively engage with companies on broader issues relying on more general policies established with a proxy voting firm appointed for this purpose. Hence we are limited in our ability to engage with a company to enhance shareholder value except in the context of improving its resource efficiency. As an example, our top decile ranking for sustainability on Morningstar for our World portfolio demonstrates that despite only targeting resource efficiency we have a high correlation to other sustainability factors.

If a company were to stop disclosing its resource consumption data into the public domain on all or a single resource metric (water, energy or waste), Osmosis would look to divest its holding subject to consideration of the reasons for non-disclosure and whether the company has an intention of re-instating its disclosure process. Osmosis will engage with the relevant company to encourage the disclosure of such data, and it is our intention as we grow to play a larger role in encouraging companies to standardise and disclose. A company will only ever be invested into that is disclosing the data required to enable us to properly score their resource efficiency based on objective numbers. We will not utilise estimated data in determining whether a company is eligible for investment though we might rely on extrapolated data for a company already in a portfolio while assessing whether or not to divest.

Principle 5 – ***Institutional investors should be willing to act collectively with other investors where appropriate.***

Osmosis has always engaged with the investment community as a whole to further heighten their exposure to sustainable investing. Osmosis is supportive of organisations like the SASB and the IIRC in their efforts to bring greater order and harmonisation to public disclosure of resource metrics.

Osmosis is a member of investment organisations such as the UNPRI and UKSIF, and we have worked with academia from Cambridge and Cardiff Universities. Osmosis aided the latter in a research piece titled "Resource Efficiency & Firm Value." Osmosis also aided the UK Parliament under the previous government, with research on the benefits to the UK economy of Resource Efficiency.

As Osmosis is at the forefront of sustainable investing through its proprietary resource efficiency factor, we have engaged with institutional investors at conferences both attended and held by Osmosis in Stockholm, Zurich, and London, as well as working with institutions on bolstering their sustainable investment offerings.

We are particularly focussed on collective engagement as and when it relates to the public disclosure of companies on their resource consumption data. New initiatives in this field are currently being developed, and we aim to work in conjunction with clients and where viable peers to further facilitate this action. Interested parties should in the first instance contact ben.dear@osmosisim.com

Osmosis will review on a case by case basis other collective engagement efforts where it is deemed in the best interests of our clients and our firm, but predominantly on environmental issues.

Principle 6 - *Institutional investors should have a clear policy on voting and disclosure of voting* Proxy Voting

Osmosis has historically not voted proxies due to the prohibitive financial cost required to undertake this function professionally as against the benefits of undertaking such a proxy voting program. Due to a significant rise in our AUM and following through on our intention to vote proxy shares once our assets had reached a minimum threshold, we have now commenced the process of voting our proxies. The primary policy at Osmosis is to apply the principles provided to us by our clients. If no policies are provided, Osmosis relies on its investment philosophy as outlined above to invest/divest in a company based on our analysis of its environmental responsibility but otherwise defaults to voting with management. Moving forward as its AUM becomes more material in the context of corporate governance, Osmosis will focus its efforts on proxy voting around areas of immediate concern relative to our investment philosophy, with an emphasis on environmental performance. Our proxy voting guidelines can be found here (please click link) *[do we have proxy voting guidelines and if so where are they?]* whereby the “triple bottom line” can be used as a framework. We provide our investors will full transparency of our voting records if requested.

Principle 7 - *Institutional investors should report periodically on their stewardship and voting activities.*

Where applicable Osmosis adopts its clients’ proxy voting instructions. Osmosis has appointed a 3rd party to conduct such proxy voting activities (Proxy Voting Service Provider) to implement each clients’ proxy voting mandate. Proxy voting reports on the issues identified by each client are provided to clients in accordance with their respective mandates. Osmosis recognises that the content and direction of such mandates are confidential and will only be disclosed to the extent that its clients have formally approved such disclosure.

In addition to the foregoing, Osmosis advises a number of collective investment schemes. Osmosis is in the process of agreeing on a formal proxy voting mandate with its appointed Proxy Voting Service Provider. Such mandate reflects Osmosis’ default position on any proxy voting matter when it has the appropriate authority for proxy voting.

Proxy Voting Records will be retained for five years and will be made available, upon request to such institutional client’s named fiduciary or authorised representative. The Legal/Compliance Department will be responsible for notifying each new institutional client how it may obtain copies of voting records.