

Osmosis Investment Management – Approach to the Financial Reporting Council’s Stewardship Code

January 2011

A statement of seven principles, with regard to shareholder engagement, was issued by the Financial Reporting Council (‘FRC’) in July 2010.

The Code sets out best practice for engagement by institutional investors with the companies in which they invest. The FRC recognises that not all parts of the Code will be relevant to all institutional investors and that smaller institutions may judge some of the principles and guidance to be disproportionate. The seven principles of the Code are:

1. Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly.
3. Institutional Investors should monitor their investee companies.
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.
5. Institutional investors should be willing to act collectively with other investors where appropriate.
6. Institutional investors should have a clear policy on voting and disclosure of voting activity.
7. Institutional investors should report periodically on their stewardship and voting activities.

Osmosis Investment Management is an independent asset management firm focused on long term performance and growth. We believe that well governed companies with strong management, a sustainable strategy and proactive approach to environmental issues are more likely to outperform as the world addresses the challenges of transitioning to a more efficient, low carbon future. Osmosis welcomes the publication of the Stewardship Code and sets out below how it is applying the principles.

Principle 1 - Stewardship policy: Osmosis recognises the importance of its stewardship responsibilities towards its clients with regard to investment and performance. The Osmosis Climate Solutions ETF is managed by Osmosis as a passive investment fund which aims to match as closely as possible the performance of the reference index. This poses certain challenges as the rules that govern the construction of the reference index may not explicitly examine the governance or the social or environmental performance of these companies. Osmosis therefore has established a detailed policy on proxy voting in order to protect clients’ interests.

Principle 2 - Conflicts of interest: The partners of Osmosis will consider all potential conflicts of interest relating to proxy voting and will determine whether a material conflict of interest exists, which may have the potential to influence Osmosis’s decision making in the proxy vote. The conflict will be reviewed with the voting service provider and resolved to ensure fair treatment of all of our clients. Disclosure of the conflict to the affected clients will be made, where appropriate.

Principle 3 – Monitoring investee companies: Osmosis monitors investee companies, and where necessary, utilises external research, to determine whether the companies’ board and governance structures are effective. Proxy voting decisions are determined by a detailed policy framework based on the UK Corporate Governance Code.

Osmosis also monitors individual investee companies and potential reference index constituents on a regular basis. As part of this monitoring, Osmosis seeks to satisfy itself to the extent reasonably practical, that these companies provide sufficient disclosure of policies relating to, and the management of, environmental issues.

Principle 4 – Escalation: Initial discussions with companies are undertaken confidentially. If there is no resolution of Osmosis’s concerns, a decision will be taken whether to escalate the action. Examples of the way in which such matter could be escalated include:

- Holding additional meetings with management
- Expressing concerns through advisers
- Meeting with chairman or other independent directors
- Intervening jointly with other investors
- Making a public statement in advance of the AGM or an EGM
- Submitting resolutions at shareholder’s meetings
- Requisitioning an EGM

Principle 5 – Acting collectively: Osmosis is supportive of working with like-minded investment houses, and does so through collaborative organisations.

Principle 6 – Voting: Osmosis aims to exercise all proxy voting rights on shares held on behalf of clients. Osmosis does not automatically support the Board of our investee companies. Voting decisions are framed by the UK Corporate Governance Code, and departures from this will be based on a reasoned judgement on a case by case basis.

Principle 7 – Reporting: Osmosis retains a log of proxy voting. Osmosis does not automatically publish the voting log but activity reports are available to individual clients who wish to see them.

For further details on any of the above information, please contact one of the Partners at Osmosis Investment Management.