ESG Risk Integration at Osmosis IM NL – December 2025

At Osmosis Investment Management NL (Osmosis IM NL), the integration of Environmental, Social, and Governance (ESG) risks is foundational to the firm's investment process across all managed assets, including Alternative Investment Funds (AIFs) and discretionary portfolio management. This integration is formalised in the Investment Due Diligence & ESG Policy, aligned with the Sustainable Finance Disclosure Regulation (SFDR), the Alternative Investment Fund Managers Directive (AIFMD), and other applicable European Union regulatory frameworks.

Our Approach to Sustainable Investing

At Osmosis IM NL, we view the global sustainability transition not as a constraint but as an investment opportunity. Sustainability is fundamentally reshaping economic theory: negative externalities such as carbon emissions, pollution, and social inequalities are increasingly priced into markets, creating new risks and opportunities. We believe that integrating sustainability into financial analysis is essential for avoiding stranded assets and unlocking alpha. Our philosophy is clear: sustainability drives performance, it does not limit it. This requires rigorous, science-based research and proprietary metrics that go beyond generic ESG ratings.

The sustainable transition is multidimensional. To understand how companies are positioned for the future, investors must look beyond carbon footprints and consider the broader set of transformations reshaping our world. We focus on six interconnected transitions that are critical for achieving global sustainability objectives:

1. **Energy and Industry:** Decarbonisation and resource efficiency in energy and industrial processes.

2. **Food, Land, and Water:** Sustainable agriculture and water stewardship to preserve biodiversity.

3. **Health and Well-being:** Improving healthcare access and addressing demographic shifts.

4. **Education, Equality, and Opportunity:** Promoting inclusive growth through education and fair employment.

5. **Cities and Communities:** Enabling sustainable urbanisation and infrastructure.

6. **Digital Transformation:** Leveraging technology for transparency, inclusion, and green innovation.

To navigate these transitions, we have developed the Transition Investment Framework, a proprietary research tool that integrates sustainability science with financial analysis. Unlike conventional ESG ratings, our framework is forward-looking and designed to identify companies that are both future-fit and financially resilient. It evaluates companies across three dimensions: Current Impact, Future Impact, and Financial Health Impact.

Current Impact. We assess how a company's products and operations affect sustainability today. This includes breaking down companies' revenues into thousands of product lines and evaluating their impact on the six transition pathways; screening general and sector-specific operational impacts; and evaluating potential controversies.

Future Impact. We analyse whether companies are credibly transitioning toward sustainable business models. This involves assessing green investments, sustainable innovation (e.g., patents), and revenue momentum in sustainable products. We also consider technological feasibility and time horizons to gauge the credibility of transition plans.

Financial Health Impact. We evaluate how the sustainability transition affects a company's financial health. Our credit model embeds transition risks and opportunities into cash flow analysis, ensuring that sustainability is treated as a material risk factor driving returns.

This framework is not static. Over time, it will be continuously expanded by adding new data and aligning with new scientific or regulatory insights.

Our framework delivers proprietary metrics that translate insights into actionable signals:

- **Transition Value:** Captures both current and future sustainability impact, rewarding leaders and credible transitioners. This metric is scored on a range from -10 (low performance) to +10 (high performance).

- **SDG Score:** Measures alignment with the UN Sustainable Development Goals. This metric is scored on a range from -10 (low performance) to +10 (high performance).

- **Resource Efficiency:** Evaluates how effectively companies use scarce resources (carbon, water, waste), linking operational sustainability to financial performance. This is a best-in-class scoring method developed by Osmosis UK's proprietary Model of Resource Efficiency.

These metrics allow us to design tailored investment strategies, whether focused on impact, alpha, or specific sustainability themes. They also enable granular portfolio construction and reporting, ensuring transparency and credibility for clients.

Overall, at Osmosis IM NL, we aim to advance the frontier in sustainable investing, combining thorough investment expertise, technology, and a science-based approach to sustainability.

ESG Integration in Public and Private Credit

The integration of ESG risks is embedded in our bottom-up research process. Applied consistently across public and private strategies, analysts score companies along five standardized pillars: Business, Strategy, Sustainability, Structure, and Financials. The impact on the C score of ESG factors is analysed in the Sustainability pillar and partly in the Financials pillar modelling. Analysts assign C-scores (assessing credit fundamentals) in credit committees. These scores range from -3 to +3 and represent the expected fundamental credit quality over the next 12 months given the rating and across sectors. It incorporates ESG factors and is informed by the outcomes of our Transition Investment Framework. Portfolio managers then determine trade implementation. These reports include backward-looking ESG data (such as Scope 1–3 emissions), as well as forward-looking modeling of transition-related costs and opportunities (such as green capital expenditures, green patents or environmental taxes).

Private credit strategies involve more direct engagement, including borrower interviews and questionnaires. When data is scarce, analysts use estimation techniques. Despite these differences, both public and private portfolios use the same assessment logic and Transition Investment Framework methodology.

Governance and Decision-Making Structure

Our sustainable investment approach is governed by a robust structure involving the Management Board, Investment Committee and Sustainable Investing Committee. The Management Board holds ultimate responsibility for the philosophy and implementation. The Investment Committee, chaired by the CIO, includes key heads of research, credit, sustainability, IT and client relationships. It meets on a six week basis to review frameworks and evaluate legal, commercial or academic feedback.

The Sustainable Investing Committee is chaired by the Head of Sustainable Investing and meets on a quarterly basis at minimum. It focuses on the development of sustainable investment IP, the maintenance of our Transition Investment Framework, the use of sustainable investment IP in investment processes, thought leadership, and regulatory updates. Analysts, data scientists, and sustainability experts collaborate to ensure models are academically grounded, relevant, and up to date.

Technology and Automation

Osmosis IM NL makes extensive use of technology to scale research production. Our research process is heavily automated and supported by artificial intelligence tools and large language models (LLMs). A significant part of a credit research report is generated through semi-automated workflows, with quality controls performed by senior analysts and cluster heads.

The process begins with fundamental analysts and portfolio managers defining the credit drivers, based on a limited set of 1,800 economic activities a company may engage in (Bloomberg BICS data). Each revenue line is linked to a specific series of questions around these credit drivers, enabling any company—public or private—to be dissected into revenue lines and credit drivers.

The second step involves large language models and proprietary tooling searching for answers in documents made available to our system, called Sequoia (named after the slow but ever-growing tree). Sequoia continuously evolves and can process vast amounts of input, including annual reports, broker research, regulatory filings, agency reports, expert networks, and even web-based sources.

The third step focuses on refining Sequoia's output. Fundamental analysts and portfolio managers review, interpret, and finalize the report, ensuring that the opinionated and decision-making aspects remain firmly in the hands of investment professionals—just as they were at the starting point.

Our Sequoia model significantly enhances research productivity, accelerates execution, and effectively removes coverage limitations. It enables second opinions for clients, rapid assessments of new issues, and more creative, high-quality research—resulting in better and more cost-efficient service.

Bloomberg's AIM, PORT, and OMS systems, combined with the Buy-Side Solutions platform, provide an integrated environment for data sourcing, risk management, and compliance monitoring. All steps of the asset management process are based on a single security master, eliminating the need for interfaces between different databases or software solutions. This turnkey, integrated front- and middle-office system reduces errors and omissions, lowers total IT ownership costs, and strengthens cybersecurity.

With all activities hosted on Bloomberg or Microsoft Azure (Sequoia), Osmosis IM NL ensures robust security across all processes.

The implementation of the Transition Investment Framework is part and parcel of our firm's belief that technology can make a large company big. Using automated processes, we ingest massive amounts of data to evaluate companies' current, future, and financial health impacts in relation to the six sustainability transition pathways. The calculation is based on rules-based and replicable processes, executed by the Head of Data Science and validated by the Head of Sustainable Investing and the broader Sustainable Investing Committee.

Regulatory Compliance and SFDR Classification

All Osmosis IM NL investment strategies qualify under SFDR as Article 8 products, meaning they promote environmental and/or social characteristics. To maintain this classification, we apply three binding ESG elements across all strategies:

- Mandatory exclusions (e.g., tobacco, controversial weapons, fossil fuels without credible transition plans).
- Minimum allocation of at least 10% to Green, Social, or Sustainability-Linked Bonds.
- Portfolio limits on low-scoring companies within our proprietary Transition Investment Framework and the SDG scores it creates.

These rules are embedded in pre-trade compliance systems and monitored through Bloomberg AIM, ensuring real-time risk oversight and full adherence to regulatory requirements, fund prospectuses, and investment management agreements.

Exclusions and Governance

The exclusion policy applies to both corporate and sovereign issuers. Corporate exclusions are based on sanction lists, international norms (ILO, UNGC, OECD), and our proprietary Transition Investment Framework. Sovereign exclusions are primarily driven by sanctions and severe violations of international norms, aligned with the most serious measures—such as asset freezes—issued by the EU, UN, UK, and US.

As a principle, Osmosis IM NL screens countries for EU sanctions and adheres to them. Exception: if an EU sanction is not supported by the UN, UK, US, or FATF, Osmosis IM NL will reassess the rationale for the exclusion.

Decisions on exclusions are made by the Sustainable Investing Committee and communicated to the Investment Committee and Management Board. These decisions are implemented within one month, assuming normal market conditions.

Principal Adverse Impacts (PAIs)

Although supportive of the PAI regime's goals, Osmosis IM NL has opted not to consider PAIs at the entity level due to practical limitations and organisational scale in accordance with article 4 paragraph 1 (b) of SFDR. Instead, the firm integrates sustainability impacts through its Transition Investment Framework, which implicitly addresses many PAI indicators in a more forward-looking and financially material way. This decision is reconsidered annually.

Conclusion

At Osmosis IM NL, ESG is not an auxiliary process - it is embedded throughout the investment lifecycle. By combining strong governance, deep research, automation, and a proprietary sustainability philosophy, Osmosis IM NL delivers portfolios that aim to maximise financial return while accelerating the global transition toward sustainable societies. The result is a differentiated, forward-looking approach to ESG integration, aligned with regulatory expectations and client demands.