Divestment Challenges

Defining Fossil Fuel Exposure.

One of the first hurdles in divestment is defining what constitutes fossil fuel exposure. Fossil fuel exposure refers to the extent to which an investment portfolio, company, or economy is reliant on or involved with fossil fuels. This can include direct investments in fossil fuel companies, such as those involved in the extraction, production, and distribution of coal, oil, and natural gas, as well as indirect exposure through companies that rely heavily on fossil fuels for their operations or generate significant revenue from fossil fuel-related activities.

For most investors it's a question of risk. This is especially true when considering an ex fossil fuel allocation as part of a core or passive portfolio. Tracking and managing risk exposure while divesting requires a thoughtful reallocation strategy.

A complex Industry

The fossil fuel industry is complex, with various types of associated business models (extraction, refining, petrochemicals, marketing, electricity generation, etc.) that different companies may use in various combinations. Sometimes this includes wholly unrelated business models, as with fuel stations owned and operated by retail stores, or with operations that are climate-positive, such as renewable generation.

The Osmosis Approach

Osmosis screens companies on a variety of metrics which determines whether they are allowed into our ex-Fossil Fuel products.

As a starting point, we exclude all companies that have any involvement in oil sands and thermal coal, in particular reserve ownership and production, and in the case of thermal coal also power generation.

We then screen our universe for companies that have more than 5% of their revenues derived from fossil fuel-related activities. This includes distribution, retail, equipment and services, extraction and production, pipelines and transportation and refining, but excludes petrochemicals. We believe that the 5% rule and petrochemicals exception allows our products to take a reasonable approach to the central role that fossil fuels play in our lives and economy.

Osmosis ex-fossil fuel solutions also allow for the re-inclusion of utility companies that are in the process of transitioning away from fossil fuels. We recognise that decarbonisation can be a long and difficult process, and want to allow companies that have shown commitment and past action back into the selection universe. If a utility company generates more than 50% of its electricity from renewable energy (including hydropower), and has a positive resource efficiency score it is returned to the selection pool.

Finally, we also apply a strict ethical exclusion screen on our ex-Fossil Fuel approach. Companies that are in breach with the United Nations Global Compact 10 Principles, and companies that have any involvement in controversial or nuclear weapons, civilian firearms or tobacco production are not allowed in the portfolio.

The Osmosis Strategy

- Companies with ties to thermal coal or oil sands**
- Companies with revenues from oil & gas (ex. petrochemical) >5% of total revenues
- Companies found to be in breach of the UN Global Compact
- Companies involved in the manufacturing of tobacco
- Companies that have any revenues from controversial weapons and civilian firearms
- Companies with >5% revenues from nuclear power generation

Re-inclusion

Companies in the utility sector with revenues from oil & gas (ex. petrochemical) >5% of total revenues but that have >50% energy generation from renewable sources (such as hydroelectric and solar/wind) can be included if they have a positive Resource Efficiency (RE) score.

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None of the company examples referred to above are intended as a recommendation to buy or sell securities.

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