

## SMALL- AND MID-CAP APPROACH TRANSITION APPROACH

Small- and mid-caps might only receive limited coverage by external rating agencies or they may be restricted to a form of technical coverage via a sector or subsector comparison. These approaches do not fully reflect the underlying ESG factor risks and exposure. To counter misleading “top-down” ratings, we perform a detailed analysis of small- and mid-caps to provide a more comprehensive ESG overview.

### Structure of the ESG small- and mid-cap approach

- Interaction: what was the point of interaction with the company?
- Summary of the business model and reference to ESG reports, including sources.
- How does the company rate in the “best-in-class” screening approach?
- Minimum ESG factor analysis includes screening for the following criteria:

#### ENVIRONMENTAL

Criteria	Compliant (further explanation if there is exposure)
Coal	Yes/No
Unconventional Oil & Gas	Yes/No
Nuclear Energy	Yes/No
Environmental Pollution	Yes/No

#### SOCIAL

Criteria	Compliant (further explanation if there is exposure)
Controversial Weapons	Yes/No
Human Rights	Yes/No
Labour Standards	Yes/No
Tobacco	Yes/No
Adult Entertainment	Yes/No

#### GOVERNANCE

Criteria	Compliant (further explanation if there is exposure)
Corruption	Yes/No
Shareholder Structure	Yes/No
Board Structure	Yes/No
Conflicts of Interest	Yes/No



- Engagement process and escalations steps, if there is any non-compliant behaviour or certain ESG risk exposure.
- Tracking improvements on a yearly basis.

Our individual impact-based assessment should not only improve but also overcome the drawbacks of limited small- and mid-cap coverage by Sustainalytics.

## Structure of the ESG transition approach

Oil and utility companies that undergo a fundamental transition from an unsustainable legacy business model to one that is sustainable will need to meet the following criteria in order to be eligible for investment:

- A clear transition path (business plan) with a time horizon.
- Initiatives that are compliant with the Paris Agreement or other appropriate environmental initiatives (peer-based comparison).
- The company should reinforce its efforts in terms of renewable energies with limited research and development expenditures into the legacy business while, at the same time, boost the transition into sustainable technologies.

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