

## GUIDELINES ON ENVIRONMENTAL FACTORS FOR ESG ASSESSMENTS

This document sets out the parameters and questions we consider when assessing the environmental aspect of ESG reporting for North American listed equities in which we invest. Our focus is on small-cap US equities which do not yet have the depth or frequency of ESG disclosures found in larger and/or 'dirtier' enterprises such as oil and gas, mining, chemicals, industrials. Where company reporting has gaps in its environmental reporting, we will engage with management directly to address these.

**Sources of information:** public disclosures including the company's website, its sustainability reports and/or regulatory filings, notably the 10-K Annual Report; third-party Morningstar/Sustainalytics ESG ratings where available, social media reviews and commentary and focused internet searches.

Our bespoke template covers the main areas of environmental concern focusing on those aspects that are most relevant depending on the sector. We aim to make an assessment of how a company's actions now will likely affect climate change in the future, both in the short and longer term, and what actions it is taking to mitigate global warming. Our scoring takes into consideration direction of travel as well as current position. If the company gives specific targets for improving its environmental performance, we check that progress towards achieving their goal is on track.

### Key priorities:

#### 1. Carbon emissions

The Greenhouse Gas Protocol asks companies to assess three types of emissions:

Scope 1 covers emissions from sources that an organisation owns or controls directly; for example fuel to operate machinery or vehicles;

Scope 2 covers emissions that a company causes indirectly such as those emitted by its energy supplier;

Scope 3 encompasses emissions that the company is indirectly responsible for up and down its supply chain such as when we buy, use and dispose of products from suppliers.

In the US, more companies are reporting Scope 1 and 2 emissions but it is not a Federal or SEC requirement for smaller enterprises. Calculating Scope 3 emissions is more complex and is not commonplace outside of dirty industries.

We look particularly at figures for emissions intensity based on production or income - as opposed to the total expressed in metric tons - as these give a clearer idea of the direction of travel. We also score positively any use of carbon offset schemes.

## **2. Resource use**

We assess energy and water use, efficiency of materials use, and waste disposal (recycling, hazardous materials handling) throughout the company's operations. We expect to see policies in place for conserving resources in each of these areas and detailed plans for further reductions.

## **3. Environmental compliance, damage and nature loss**

We pay particular attention to environmental compliance, regulatory breaches and fines in the high risk sectors, including oil and gas, mining, agricultural products and industrial production. However, this also applies to the clean-up from the building of new homes and warehouses and other investments that develop greenfield sites.

## **4. Working with communities to improve the environment**

We believe companies should respect the environments in which they operate, consider location-specific risks (wildfires, water scarcity, hurricanes) and ideally engage with the local community to improve their neighbourhoods and the surrounding landscape.

## **Engagement strategy**

Where there are gaps in reporting or inadequate information on which to base our own bespoke reporting, we engage with the company usually through the Investor Relations department. In smaller companies, notably community banks, the Chief Financial Officer is usually responsible for sustainability matters.

We initially send in a list of questions to the company that we would like answered. If this does not elicit a response, we start phoning the company to find someone in authority to engage with us. We have found this approach is largely successful though it can take time to obtain the more detailed responses that satisfy us.

Even in cases where we have had limited success, we hope that by pursuing direct engagement with management will encourage the company to start considering ESG issues and publish basic reporting which will satisfy EU and UK investors.

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