

THE EUROPEAN SMALLER COMPANIES TRUST PLC

Our approach to environmental, social and governance issues

Responsible investment

The Board believes that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. The Board has engaged Janus Henderson Investors ('the Manager') to manage the Company's portfolio and to consider how best to vote the rights attached to the shares in the portfolio. In adopting this approach, the Board can access the expertise of the Manager's Governance and Responsible Investment team ('GRI team') in evaluating engagement by investee companies and the appropriateness of any resolutions which shareholders may be asked to approve. The Board retains oversight of the process by receiving reporting at each meeting indicating how the Company's shares have been voted and why, as well as by reviewing the Manager's Environmental, Social and Governance ('ESG') Principles at least annually.

Voting decisions are guided by the ESG Principles and with the best interests of the investee companies' shareholders in mind. These decisions are made in consultation with the Fund Manager, who has an in-depth understanding of the respective investee company's operations. The ESG Principles are made available on the Manager's website so that investee companies are able to make themselves aware of our expectations in this respect.

Investment approach and ESG engagement

The Fund Manager and his team employ a bottom-up stock selection approach in constructing the portfolio and continuously monitor the performance of and risks associated with each holding. The approach is designed to deliver the capital growth set out in the investment objective and outperformance against a passive portfolio or the benchmark.

The process involves screening potential investment opportunities, meeting with management teams to understand their businesses and supplementing this with internal and external research. Understanding the business, the threats to its success, its competitive position and quality of the management team in the context of the valuation of the company are key to determining whether an investment is made and also the size of the investment. For businesses in each phase of the company life cycle, the team has clear attributes and valuation metrics for measuring success and seeking out mispriced securities. This is coupled with a sell discipline to ensure underperforming companies are removed from the portfolio.

The approach to incorporating ESG considerations into the stock selection process is pragmatic and focuses on the areas that the fund management team believe are the most material to the long-term success of investee companies. The governance structures within which the management of investee companies operate and the incentives they receive, can determine the success of overall value creation. This can be particularly important when looking at turnaround and recovery situations where management teams are often new to the business and their actions, and calibre, are integral to the investment thesis. In undertaking these assessments, the fund management team accesses the following centralised resources:

- Internal Research Platform: Investment teams share relevant ESG research produced in-house by our analysts across a centralised research platform.
- GRI team: The investment team meets and interacts regularly with the internal GRI team to review portfolio ESG risks, obtain additional perspective on issues for an individual company or industry, and to help stay abreast of changing market developments related to ESG.

- External ESG research, data, and ratings: the Manager subscribes to a broad range of specialist external ESG information providers and this information is utilised by the investment team.

Company engagement forms a further key part of assessing management and their ESG standards. The team engages with the senior management of the majority of holdings at least once, and often more than twice, a year. Meetings incorporate a wide range of topics including business strategy, compensation, capital allocation, risks, management succession and environmental and social issues, where relevant.

Another important factor for consideration is how the investee company treats its shareholders and to what extent shareholders' interests are appropriately protected. The responsiveness of the investee company towards shareholder concerns can be a crucial signal about its ability to unlock value and distribute it to its owners. If shareholder concerns are not appropriately addressed in engagement, the team may consider disinvesting.

Additional information:

Information on the Company's approach to ESG can be found in the latest annual report:

www.europeansmallercompaniestrust.com

The investment manager's ESG Principles are available here:

[https://cdn.janushenderson.com/webdocs/JHI ESG Investment Principles June2021.pdf](https://cdn.janushenderson.com/webdocs/JHI_ESG_Investment_Principles_June2021.pdf)

The Company's appointed investment manager

- supports the Stewardship Code: <https://www.frc.org.uk/investors/uk-stewardship-code>
- and is a signatory of the Principles for Responsible Investment: <https://www.unpri.org/>

Approved: 22 February 2021