BRIGHT
CAPITAL

ESG Integration and Investment Stewardship

Encouraging environmental and social sustainability

We believe that the integration of effective ESG practices and investment stewardship by actively encouraging environmental and social responsibility substantially contributes to generate resilient long-term value.

Leadership statement

Responsibility is an important core value at Bright Capital. Bright Capital engages in responsible investment considering a continuously growing global consciousness for environmental, social and governance (ESG) factors and the corresponding value-add for the long-term development of an asset portfolio. We strongly believe that by improving access to data, insights, and information regarding ESG challenges and opportunities in all areas of the investment process delivers sustainable long-term value.

For Bright Capital, responsible investing does not only mean gathering data on ESG factors. By implementing investment stewardship, we support sustainable businesses with excellent management teams that are committed to act responsibly and to create value for all stakeholders, including employees, owners, and the society.

We partner with long-term oriented companies with strong ESG practices. Bright Capital's commitment and approach to responsible investing reflects industry best practices for integrating ESG factors throughout the investment lifecycle.

Bright Capital beliefs that addressing ESG matters in the investment decision making process helps to reduce investment risk, may enhance long-term value, generates alpha, and ensures that investor capital is used effectively and ethically.

Bright Capital’s approach to ESG integration

ESG is an integral part of Bright Capital’s investment process, portfolio management and day-to-day management practices. Bright Capital engages with portfolio companies on ESG matters on a regular basis. ESG senior ownership ensures organisation-wide awareness and collaboration to share best practices.

Bright Capital’s ESG processes are built to identifying key risk factors, opportunities, and materiality thresholds tailored to each company and sector. Bright Capital’s approach avoids “ticking the box” and brings expertise when analysing ESG matters relevant to portfolio companies and the markets in which they operate.

Practices

Bright Capital has implemented a firmwide ESG guideline covering the investment processes, investment decisions, as well as portfolio management and exit management. ESG integration is a core part of the investment process and is the responsibility of our investment team. All investments are expected to integrate ESG matters, meaning that each investment undergoes a comprehensive ESG due diligence based on a standardised scoring with strict exclusion criteria. Investment decisions will be denied if exclusion criteria or material ESG risks are recognised. Portfolio companies must define measures to mitigate potential ESG findings that are deemed acceptable. Portfolio managers are accountable for monitoring and managing exposure to potential ESG risks, meaning that portfolio managers test the portfolio company for identified ESG risks on a regular basis as well as for new potential ESG risks.

Transparency

We believe that companies that operate sustainably on the back of ESG strategies generate long-term value. Taking this into account, we strive to provide transparency about ESG matters across our portfolio and about how we incorporate ESG in our investment processes. Bright Capital reports ESG matters to its clients on a regular basis. The regular investor reporting and the Annual General Meeting (AGM) include an ESG section. The purpose of the AGM's ESG section is to share knowledge, experience and best practices amongst Bright Capital's portfolio companies, clients, and industry experts.

Ownership

ESG is a mandatory workstream of the investment process and as such a major part of the investment decision. The oversight of ESG practice has been assigned to a member of the Investment Committee to ensure highest level of senior leadership. Bright Capital has implemented a Sustainable Investing Team that has the ownership of the ESG processes and guidelines. The Sustainable Investing Team coordinates the firm-wide approach to incorporating ESG into the investment lifecycle and day-to-day management.

Bright Capital’s investment stewardship

As an investment manager and investment advisor, we understand that performance is the paramount parameter. We believe that considering ESG matters over the lifetime of an investment is a vital part to achieve this goal.

We have established an investment stewardship approach that aims to create sustainable long-term value for our clients. We believe that the companies in which we invest should adhere to act responsibly and to include Sustainable Development Goals (SDGs) in their strategy.

For us, investment stewardship is not about the implementation of ESG processes and adhering to one set of guidelines, nor simply “ticking the box”. We strive to understand how ESG factors that have an impact on sustainability are financially significant to companies over time and consequently deliver long-term yield and value. We view purposeful leadership and strong corporate governance as vital to achieving these goals. We encourage our portfolio companies to continuously improve ESG compliance and governance. Where such ESG matters are discovered lacking, we actively engage with portfolio companies to improve governance.

We seek to maintain a consistently high level of engagement and collaboration with our portfolio companies to share best practices for sustainable management.

ESG integration in Bright Capital's long-term investment strategy

We believe that our collaborative approach to ESG will allow us to integrate ESG into our investment strategy and to support our portfolio companies in responding to ESG challenges and opportunities. Our today's strategy strives to clearly commit to ESG and to anticipate and to respond ambitiously to ESG risk. New investments must be considered through the lens of the United Nations Sustainable Development Goals (SDGs) and portfolio companies are encouraged to voluntarily implement and report SDGs. The ESG risk assessment is based on sector insights and on an understanding of current and future challenges.

Global Risk Horizon

Degree and horizon of global risks

	1st	2nd	3rd	4th	5th
0–2 years Short-term risks	Infectious diseases	Livelihood crises	Extreme weather	Cybersecurity measures	Digital inequality
3–5 years Medium-term risks	Asset bubble burst	IT infrastructure breakdown	Price instability	Commodity shocks	Debt crises
5–10 years Long-term risks	Weapon of mass destruction	State collaps	Biodiversity loss	Adverse tech advances	Natural resource crises

Economic · Environmental · Geopolitical · Societal · Technological

Source: World Economic Forum Global Risks Report 2021

Bright Capital's commitment to the Principles for Responsible Investment

As a signatory of the United Nations Principles for Responsible Investments (UN PRI) we commit to the respective values and principles. Bright Capital's approach to ESG reflects our core values and long-term strategy. ESG is an integral part of the investment process, portfolio management, and exit management as well as of our day-to-day practices.

Principles for Responsible Investment (PRI)

We will incorporate ESG issues into investment analysis and decision-making processes.	We will be active owners and incorporate ESG issues into our ownership policies and practices.	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
We will promote acceptance and implementation of the Principles within the investment industry.	We will work together to enhance our effectiveness in implementing the Principles.	We will each report on our activities and progress towards implementing the Principles.

ESG over the lifetime of an investment

Bright Capital's framework for integrating ESG matters over the lifetime of an investment incorporates three stages: pre-investment due diligence, portfolio holding period, and exit. Our standard ESG procedures are determined by a firm-wide ESG guideline.

Each investment undergoes a comprehensive ESG due diligence based on a standardised scoring with strict exclusion criteria. Investment decisions will be denied if exclusion criteria or material ESG risks are recognised. Portfolio managers are accountable for monitoring and managing exposure to potential ESG risks, meaning that portfolio managers test the portfolio company for identified ESG risks on a regular basis as well as for new potential ESG risks.

ESG stages

Stage 3: Exit

Encourage the company to further engage with ESG matters and to commit to Sustainable Development Goals.

Stage 1: Due diligence

- Pre-investment due diligence, initial ESG assessment
- Alignment with management on ESG approach and reporting

Stage 2: Portfolio

- Regular and ad-hoc reporting on ESG incidents
- Quarterly reporting of ESG challenges and opportunities
- Annual ESG reporting and questionnaire
- Annual ESG Review Meeting
- Bright Capital Monthly Portfolio Review meeting
- Regular investor reporting and Annual General Meeting

ESG in the investment process

During the pre-investment due diligence phase the investment team identifies whether there are any ESG-related risks or opportunities within the business or external factors affecting the business or the markets in which the company operates. The initial ESG assessment is an integral part of the due diligence and overall risk and opportunities assessment and includes strict exclusion criteria based on sectors and the identified long-term risks with a potentially significant impact.

Identification and assessment of risks and opportunities

Based on in-depth knowledge and best practices, the investment team identifies the key ESG risk and opportunity areas for each investment. If ESG issues are identified, the investment team initialises internal discussions with the Sustainable Investing Team and members of the Investment Committee to determine on a case-by-case basis whether risks can be mitigated, or further assessment is required. Bright Capital has created standardised ESG and SDG questionnaires to ensure highest level of objectivity and consistency.

Presentation of ESG risks and mitigants to the Investment Committee

ESG considerations are included in investment papers, presented to, and considered by the Investment Committee. A detailed section of ESG is required in all Investment Committee papers. The Investment Committee must provide its unanimous approval.

Bright Capital subsequently considers if there are any ESG risks which are deemed unacceptable, and thus will reject the investment or determines that any risks identified need to be addressed, managed, or improved during the holding period.

Engagement activity

Bright Capital actively engages with the portfolio company's management to monitor and manage ESG matters. In cases where material ESG risks are identified and deemed acceptable, a plan is developed and agreed with the management to improve or remedy the issue. In addition, the portfolio company is required to commit to relevant compliance and information undertakings.

Contact

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