

ACATIS FAIR VALUE SPECIAL

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The challenge of ESG management in small & mid caps

Similarly, the issue of sustainability / ESG management will also play an increasingly (and for many an extremely) important role for small and mid caps (SMID Caps) in the future. While it has largely been the Large Caps that have received much more stakeholder scrutiny due to increasing regulation in the context of ESG, the focus is now turning to SMID Caps.

The requirements of the EU taxonomy and the Sustainable Finance Disclosure Regulation (SFDR) also apply to SMID Caps, and the Corporate Sustainability Reporting Directive (CSRD) will also apply to listed companies with more than 500 employees as of 2025 (and more than 250 employees as of 2027), which will require the companies to report on sustainability activities and performance in accordance with more comprehensive and stricter standards. Some SMID Caps already implement the relevant measures and use a more or less systematic approach when it comes to sustainability management. But the majority of SMID Caps (along with many Large Caps) still views sustainability from a marketing point of view and does not focus on material positive contributions, for example disclosing the impact of the company on the Sustainable Development Goals (SDGs).

However, effective sustainability management primarily focuses on the identification, systematic examination and targeted management of company-specific ESG risks. Materiality, climate, corruption or human rights - often there is a lack of systematic focus on material and therefore important sustainability issues. At present,

materiality analyses still fail to fully consider independent stakeholder perspectives. While climate targets are adopted, this is rarely done on the basis of the scientifically-based 1.5 degree scenario. Moreover, there are no risk analyses and measures for the systematic containment of compliance breaches. And the inclusion of human rights-related due diligence obligations often just focuses on supply chain aspects without considering the employees in the company.

Some of the challenges for SMID Caps have already been noted in previous investment reports. However, large companies must also do more when it comes to systematic sustainability management. Because it is evident that it will be extremely difficult to achieve the required turnaround. The COP27 UN Climate Conference and the CBD COP global climate security summit currently under way in Montreal show how all societal stakeholders must prioritise sustainability issues as soon as possible.

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