

## QUESTIONS & ANSWERS

### **Q1 What is the rationale for the launch of the Kempen/SNS Smaller Europe SRI Index?**

A1 There is a clear gap in the market in terms of SRI investment and SRI benchmarking in relation to smallcap companies.

Before the launch of our index, the only option in terms of SRI investment and benchmarking, was with largecap investors - smallcap markets were basically ignored. This is mainly because the type of assessment required for the development of such an index requires a lot of resources. Our index provides:

- a viable option for investors wishing to invest across the whole SRI spectrum
- a benchmark for investors, which monitors SRI compliant smaller companies
- an incentive for smaller companies to become more socially responsible

### **Q2 Why a joint venture between SNS and Kempen ?**

A2 There is a historical link between the two organisations. The idea arose because Kempen recognised that the interest in SRI was increasing but no provider covered the smallcap market, an investment area of specialisation for Kempen. SNS is renowned for its sustainability analysis and hence the two areas of expertise have been combined to create the index.

### **Q3 How many companies make up the Index?**

A3 The index is comprised of 150 companies from 12 countries. At present, Kempen is engaging with 1700 companies and is aiming to add companies that excel in SRI conscious entrepreneurship.

**Q4 What is the criteria for eligibility in the Index?**

A4 Only constituents of the HSBC Smaller European Companies Index are eligible for inclusion in the index. Companies must pass sustainability criteria based on research by SNS. SNS analyses the companies under three major categories: Environmental Performance, Social Performance and Business Ethics.

**Q5 How many companies have been researched and over what period of time?**

A5 In the years that Kempen and SNS have been working on the introduction of the index, more than 1860 companies have been filtered through various stages of the research pipeline. 620 corporations have been assessed, with 310 of these providing positive results. Of this 150 are included in the index

**Q6 Who is the index aimed at?**

A6 The index is aimed at investors interested in monitoring the investment results generated by European Smaller SRI approved companies including consultants and trustees of pension funds . The index can be followed on Bloomberg and Reuters on the following code : KEMSRI

**Q7 What experience does Kempen/SNS have in this field?**

A7 SNS has more than 30 years experience in ethical investment and over nine years in sustainable investments. With a dedicated multi-disciplined team of fourteen sustainability analysts, SNS is a leader of sustainability analysis in the Netherlands and currently manages the oldest SRI fund in the Netherlands.

With an eight strong investment team, with an average of 16 years experience, Kempen has been managing European small company portfolios for ten years and is best known for its Orange European Smallcap Fund and Orange Sense Fund.

**Q8 How often are the constituents of the index revised?**

A8 The index is revised on a quarterly basis

**Q9 How often and who, audits the small companies in Europe?**

A9 SNS will review each company on an bi-annual basis to ensure that companies are compliant with the sustainability criteria. If however, there are special circumstances during that year, for instance, one of the constituent companies is subject to an merger or acquisition, SNS reserves the right to review that company at any time to ensure they still comply with the index criteria.

**Q10 What has been the enthusiasm for the index?**

A10 The whole subject of sustainability is gaining interest with companies, pension funds, consultants and trustees but as far as enthusiasm from the participating companies is concerned, it's really promising. Enthusiasm from SRI investors has also been encouraging – until now they have only had the opportunity of largecap companies so it's almost as if we're redefining the sector by offering our index.

**Q11 Are smaller European companies concerned about SRI issues?**

A11 There is tremendous interest in the subject of SRI and small companies are very keen to demonstrate that they are socially responsible. Many companies want to improve their sustainability performance but require guidance and help in developing their own SRI policy. Part of our role is to engage with companies to identify the areas that they need to improve in and work with them to ensure that they meet the criteria for inclusion in the index.

**Q12 What benefits do smaller companies have by being included in the index?**

A12 It's an enormous bonus for small and large companies in today's competitive age to demonstrate to the outside world that they are socially responsible. By engaging with Kempen and SNS, these companies are telling other institutions that they are making themselves a more attractive prospect to staff, investors, and shareholders.

**Q13 How big is the smallcap SRI universe in Europe?**

A13 In total there are more than 2,800 companies that we can research.

**Q14 Has the index been created to respond to investor needs/interest in SRI or to raise awareness of Kempen/SNS?**

A14 First and foremost, the index has been devised to pre-empt the move for SRI investors from being focussed solely on largecaps caps to focussing on smallcaps too. Kempen and SNS have recognised the gap in the market - the index has been devised in order to fill this gap.

**Q15 What is the due diligence to screen prospective companies?**

A15 Companies in the HSBC Smaller European Companies are sent a research document to complete. Once this has been done and all the relevant documents submitted, SNS analyses all the information as well as collaborating with public sources, for instance, report & accounts and information resulting from NGOs. The process of engagement is thorough. Only after this process has been carried out is a decision reached as to the inclusion of a company in the index.

**Q16 How do you ensure that the answers given are correct?**

A16 By research and contact with suppliers etc it is a relatively straightforward process to verify the information provided by a company.

**Q17 How much does Kempen and SNS manage in this sector?**

A17 Kempen manages more than €1 billion in European smallcaps. SNS has been a manager/analyst of ethical/sustainability funds for over 30 years. The company manages €9 billion, of which €2 billion is in SRI. Both organisations have the largest analytical teams in their respective areas.

**Q18 Is SRI investment profitable for investors?**

A18 It is our belief that those companies interested in SRI are the ones that have innovative and creative managements and who are very much in SRI for the long term.

**Q19 How many countries are included in the Index?**

A19 12

**Q20 Which smallcap sector/countries have been best for SRI?**

A20 SRI as a force is moving at different speeds in different countries so at the moment, it's all pretty fluid.



**What is the purpose of the Index?**

*The purpose of the Index is to provide its users with detailed and objective information on the SRI performance of smaller European companies. Additionally, the Index will increase awareness of SRI and act as an incentive for other smallcaps to adopt responsible policies. Finally, the Index is a relevant benchmark for investors, providing a clear indication of the performance of their investments.*

**What does it represent?**

*The Index represents a subset of SRI companies from the HSBC Smaller European Companies Index. The Sustainability Consultant aims to research the top 80% of the HSBC Smaller European Companies Index by full market capitalisation, by SRI criteria. All companies that pass certain SRI criteria are eligible for inclusion.*

**Why did you create the Index?**

*We created the Index in order to provide a performance comparison between sustainable smaller European companies and the broad market on a like-for-like basis.*

**What sets your Index apart?**

*To the best of our knowledge this is the first and only index of smaller European SRI companies.*

**Why is this an exciting development?**

*First of all we believe that with the development of this Index, the incentive for smaller companies to act responsibly will increase. In time, this will contribute to substantiate the claim that SRI investing does not compromise on performance. Finally, the Index can serve as*

*a relevant benchmark for investors in smaller European SRI companies.*

### **Who owns the Index?**

*The Index is a joint initiative between Kempen Capital Management and SNS Asset Management.*

### **Can you tell me more about Kempen Capital Management?**

*Kempen & Co is one of the leading Dutch asset management, securities and corporate finance firms. It provides a range of speciality financial services to a client base that includes corporations, financial institutions, (semi-) governmental organisations and high net worth individuals.*

*Founded in 1903, Kempen & Co has developed a tradition of combining high-quality advice with personal, long-term relations. In a world of abundant global information flows, the Kempen team is selective and eclectic, in particular, by focusing its services in areas where in-depth research and advice can really add value, such as smaller capitalised companies and property companies..*

### **Can you tell me more about SNS Asset Management?**

*SNS Asset Management is an asset manager for institutional investors and an independent department of the SNS Bank, which is part of SNS Reaal Groep. It manages portfolios for pension funds, social organisations and other institutional investors. SNS Asset Management also manages the investment portfolios of the insurance companies of SNS Reaal Groep. With invested capital of nearly 10 billion Euro, the organisation is a medium-sized Dutch asset manager.*

*Sustainable, or socially responsible, investment is the core specialisation of SNS Asset Management. With the help of SNS Asset Management, institutional clients can express their social involvement through their investment strategies. Pension funds, social organisations and other institutions with a strong social involvement can, therefore, invest in stocks or bonds of leading, often multinational, companies on the basis of the triple bottom line (People, Planet and Profit). For more information, see the SNS Asset Management contact details on the final page of this document.*

### **You mention the Orange SeNSE Fund - what's this and how do I find out more?**

*The Orange SeNSE Fund is a joint initiative between Kempen Capital Management and SNS Asset Management. The Orange SeNSE Fund offers investors a well-diversified portfolio of listed small and medium-sized European companies, which adhere to sustainability criteria. The aim of the fund is to outperform the HSBC Smaller European Companies Index, adjusted by reducing the UK component by half.*

*The Orange SeNSE Fund applies a bottom-up approach to the selection of smaller and medium-sized companies, which adhere to sustainability criteria. Whilst focused on profitability and investor returns, the management of these companies is also aware of the ethical, social and environmental aspects of their operations (People, Planet, Profit). The Orange SeNSE Fund selects these stocks by combining the investment expertise of the smaller companies team in Edinburgh (Kempen Capital Management UK) with the expertise of SNS Asset Management in the area of sustainability analysis.*

## **SRI Questions**

### **Will your Index have an impact on company conduct (i.e. will greater visibility generate better SRI practice)?**

*The inclusion of a company in the Index will lead to greater visibility of a company's responsible behaviour, resulting in the further development of policies and awareness.*

*Furthermore, the existence of this Index will encourage other smallcaps to adopt responsible policies and to focus on sound business conduct.*

*There is a theory that companies with good SRI practice, good Corporate Governance etc. tend to out-perform on the basis that these companies are already well run. What are your views on this? Would you agree?*

*Responsible companies generally tend to focus on both long-term and short-term continuity. We therefore believe that it is likely that these companies will out-perform their peers in the long term. This Index is an initiative that intends to contribute to substantiating this.*

## **Technical SRI Questions**

### **How did you go about compiling your extensive research?**

*Research on SRI smaller companies started in 2001. It took until almost 2003 to arrive at a universe with reasonable coverage.*

*The methods applied to assess smaller companies on their SRI performance were specifically developed for this category. Not only does the assessment take into consideration the size of these companies, but also their relatively limited resources. By means of an active dialogue with the researched companies, there is a constant, and very strong focus, on the continuous development of their policies and responsible conduct.*

### **How exactly are constituents selected? (perhaps also explain 'rejected', 'provisional', and 'passed' here).**

*Companies that meet, or exceed, minimum ethical, social and environmental performance standards are included in the investment Universe. The Sustainability Consultant quantifies the performance of the companies, sets the minimum standards and determines the rating of companies. This occurs by assigning specific weights to all performance indicators used in the analysis. For each company, aggregated, weighted, averaged scores are calculated for the three major indicator categories: environmental performance, social performance and business ethics. Minimum standards are set for each category by taking half (50%) of the maximum possible score (aggregated, weighted and averaged) on each category. Those companies that meet, or exceed, these minimum standards for at least two of the three major indicator categories are included in the Index. Companies that do not meet the formulated standards will not be included in the Universe. Audits to review a company's performance will be held frequently. Should a company which previously passed the assessment, then fail following this review, it will be encouraged to improve its performance. Ultimately, if efforts to enhance the company's performance to the required minimum standards fail, and the company demonstrates no signs of significant progress, the Sustainability Consultant will exclude the company from the universe within a period of one month after the final determination of its status.*

**How and by whom is the Index calculated?**

*The index is calculated in exactly the same way as the HSBC Smaller European Companies Index. This is described in the index methodology document, 'HSBC Smaller European Companies Index'. The Quantitative Techniques Division of HSBC Bank plc, based in Edinburgh, Scotland, calculates and maintains the Index on behalf of Kempen Capital Management and SNS Asset Management. For more information please contact The Quantitative Techniques Division of HSBC Bank plc in Edinburgh.*

**How frequently are the constituents reviewed?**

*The review of the constituents takes place on an ongoing basis. The aim is to review each company bi-annually.*

**How frequently are constituent changes implemented?**

*The Index will be rebalanced on a quarterly basis. Possible changes resulting from alteration to the socially responsible status or changes in the Eligible Universe will therefore also be quarterly.*

**Can I see the Index on data vendor services?**

*Yes. The Index will be published by several data vendors (see above). In addition to the vendor outlets specified above, it is the intention to approach information services generally with a view to disseminating the Index to as wide an audience as possible. We therefore expect that the list of information services carrying the Index will increase over time.*

**How do I see what's in the Index?**

*Data on an aggregate level will be publicly available each month. For further information, please contact Kempen. For SRI research on the Index constituents, please contact SNS Asset Management.*

