RANGER INVESTMENTS

ENHANCING QUALITY

ESG Integration in Small and Micro Cap Strategies

SEPTEMBER 2020

2020 PRI Scores: A+/A+/A

This report is intended for investment professionals only.

ABOUT US

Ranger Investment Management, LP is a 100% employee-owned, long-only institutional investment boutique specializing in U.S. Small and Micro Cap strategies since 2003. We invest in high-quality, growing businesses at compelling valuations and formally integrate ESG analysis into our approach. We are passionate about doing deep original research on smaller companies that are often uncovered by Wall Street.

We believe that companies who consider material ESG risks and opportunities in their businesses are equipped to create shareholder value with less risk over time. Our original ESG analysis and proprietary scoring assessments are integrated into our investment process and directly inform our investment decisions. We believe this is an important tool in our quest to uncover quality companies. Ranger is a signatory to the Investor Stewardship Group (ISG) and the United Nations Principles for Responsible Investing (PRI).

As part of Ranger's commitment to the PRI six principles, we formally report our progress for ESG integration and active ownership annually to the PRI, who evaluates asset managers across three broad categories: Strategy & Governance, Listed Equity – Incorporation, and Listed Equity – Active Ownership. See our 2020 Assessment scores for each category below:

Signatory of:

PRI Principles for Responsible Investment

	Ranger Investments
Strategy & Governance	**A+**
Listed Equities - Incorporation	**A+**
Listed Equities - Active Ownership	**A**

CONTENTS

UNLOCKING SUSTAINABILITY
Exposing Inefficiencies and Opportunities in Smaller Companies

Environmental, social, and governance (ESG) factors are increasingly being considered in the investment process for many asset managers. While there are plenty of obstacles when conducting thorough sustainability analysis, some of these obstacles often depend on the size of companies being analyzed. For global large cap managers, there is no shortage of sustainability information to consider. In fact, one of the rising challenges for large cap managers is sifting through the disparate information being published by companies and aggregated by third-party research, which can lead to information overload. In contrast, small cap investors typically face a deficit of accessible sustainability data, which has fed the perception that smaller companies are "ESG-unaware." This lack of data is a primary obstacle for small cap investors integrating sustainability analysis and likely explains the relatively low number of legitimate ESG efforts in the small cap space.

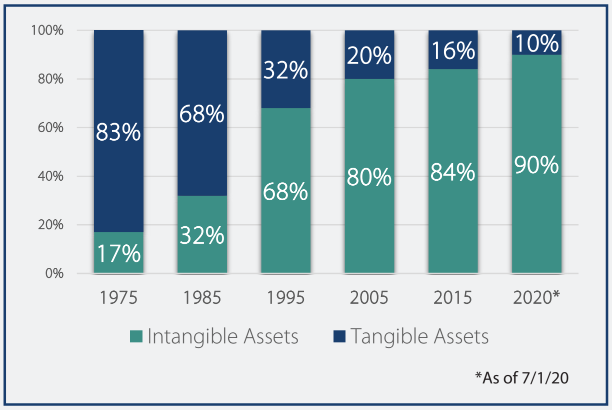
As small and micro cap specialists, ESG integration at Ranger is focused on overcoming these challenges to exploit the information inefficiencies in our portfolios. Markets are inherently less efficient in the small cap universe. A lack of coverage by sell-side firms, lower institutional ownership, and reduced liquidity in the trading of smaller stocks all contribute to this dynamic. These inefficiencies are likely what attracts many investors to the small cap universe in the first place, as they see them as a potential alpha-generating opportunity which underscores the case for bottom-up fundamental research. When considering sustainability data, these inefficiencies become even more pronounced. Ranger believes an opportunity exists to add value and enhance portfolio quality by exploiting these inefficiencies through conducting original research and engaging management teams to form a more comprehensive view of sustainability.

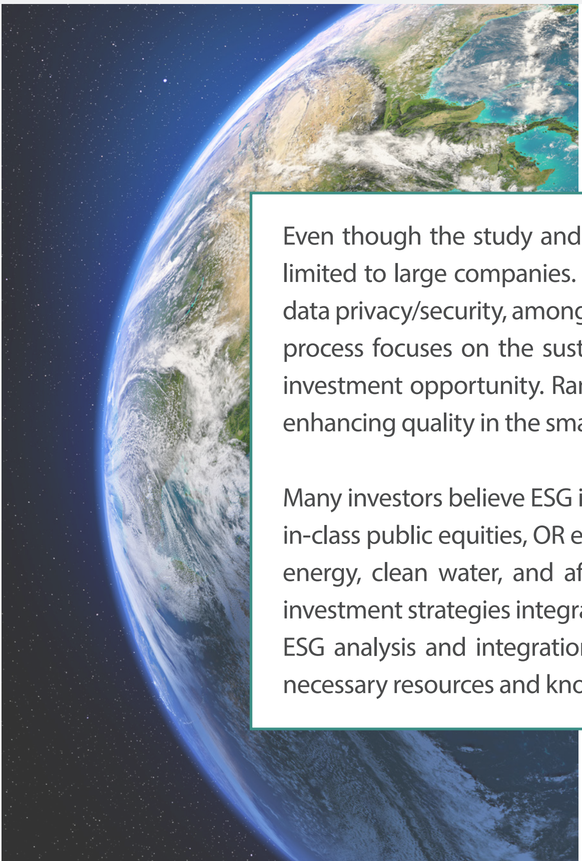
SUSTAINABILITY & SHAREHOLDER VALUE
Creating Value while Reducing Risk

The broader investment community has been increasingly connecting sustainability issues to business issues in recent years, especially as headlines from Equifax, Facebook, PG&E, Vale and other companies have gained attention. More recently, Garmin's multi-million dollar cybersecurity breach in late July shows how companies are under increased scrutiny for their ESG-related practices. A Bank of America study recently found that ESG-related controversies led to $600 billion in lost market cap for the S&P 500 over the last seven years. Investors are searching for ways to mitigate these types of risks and expose opportunities by focusing on sustainability issues in their portfolios. This approach is further supported by the widely recognized seminal research from Harvard Business School in 2015, "First Evidence of Materiality." This report linked *material* sustainability factors with performance, noting that companies who perform well on material issues outperform companies with poor handling of these matters, and suggesting that investments that consider sustainability can enhance shareholder value.

Our summary of the investment landscape indicates that the increased consideration of ESG factors by asset managers stems from one or more of these primary objectives: to better manage risk, to add alpha, or simply to "do good." While these goals are valid, we believe a financially material, accounting-based approach is necessary. As seen in **Exhibit A**, a recently updated study by Ocean Tomo revealed that 90% of the S&P 500 market value was comprised of intangible assets (patents, customer relationships, brand value, etc.), compared to only 17% in 1975. This trend is frequently cited by the Sustainability Accounting Standards Board (SASB), who has observed that traditional financial statements tell an increasingly smaller part of a company's overall story. To form a more complete picture of a company's value and investment opportunity, analyzing material sustainability and other non-traditional data should be considered alongside traditional financial analysis.

Exhibit A: Components of S&P 500 Market Value (Ocean Tomo, 2020)





LOOKING PAST LARGE COMPANIES
ESG Factors Affect Companies of all Sizes

Even though the study and companies cited above are large cap in nature, sustainability issues are by no means limited to large companies. Depending on the business, factors related to climate change, corporate governance, data privacy/security, among others, affect companies of all sizes. As small and micro cap investors, Ranger's research process focuses on the sustainability factors that are financially material to gain a more complete picture of the investment opportunity. Ranger believes that companies who consider these business risks and opportunities are enhancing quality in the small cap universe.

Many investors believe ESG integration is an "either/or" scenario. Based on this philosophy, they can own large, best-in-class public equities, OR employ an impact investing approach by owning small focused businesses in renewable energy, clean water, and affordable housing, for example, which are often private. Indeed, most public equity investment strategies integrating ESG are skewed toward larger cap companies, but this compromise is unnecessary. ESG analysis and integration can occur at all market cap levels if experienced investment managers devote the necessary resources and know to ask the relevant questions.

The prior notwithstanding, obstacles in ESG analysis have fueled another investor perception that ESG integration is close to impossible to achieve in small cap portfolios, especially when compared to large cap strategies. This view mostly likely stems from large asset managers with multiple strategies, who have found that their ESG process is not easily transferable to small cap portfolios, given that small cap disclosures are relatively less robust. Plus, many of the obstacles present in large cap ESG analysis are further pronounced in smaller companies. Disclosures are not standardized and are, therefore, inconsistent, which makes comparability more difficult. These shortcomings have been well-documented, and efforts are underway to address these inefficiencies. Most notable is the recent statement of intent from five of the largest ESG standard-setting institutions to offer guidance on consistent reporting. However, the current reality is likely to remain with us for some time.

Third-party research can be a helpful tool in ESG analysis by aggregating much of the company-reported data. However, investors who rely solely on third-party scoring for their ESG assessments will likely find those scores uninspiring as companies get smaller in size because standard third-party ESG scores are typically biased in favor of larger companies. We see this large cap bias in Ranger's portfolios, and also within broader indices such as the MSCI USA IMI Index.

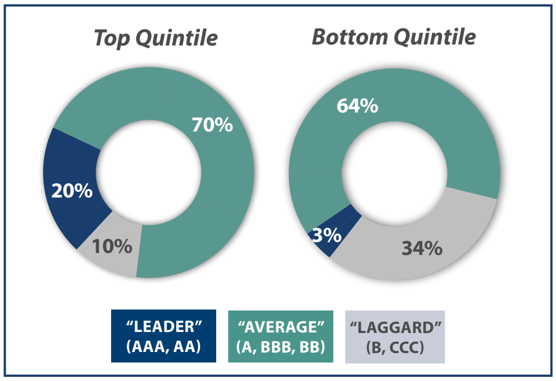
This index consists of ~2,300 U.S. companies above $100 million in market cap. Ranked by market capitalization (**Exhibit B**), the top quintile of the index has an average MSCI score in the middle of the "BBB" range, while the bottom quintile scores at the low end of the "BB" range (MSCI scores range from CCC to AAA, worst to best). About 20% of the top quintile is rated "AA" or higher compared to only 3% of the bottom quintile. Meanwhile, 34% of the bottom quintile is classified as "Laggards" by MSCI compared to only 10% of the top quintile. Plus, many micro cap companies are not covered at all by third-party research, making quick assessments even more difficult. In fact, out of the roughly 600 companies in the MSCI USA IMI Index with market caps below $1 billion, about 8% of them are not scored by MSCI. This bias reflects higher-quality disclosures in larger companies, which likely indicates that those companies have greater resources dedicated to ESG.

Scores from third-party research are often based on peer comparisons, in which a company is portrayed against a peer group that typically includes large global companies with best-in-class ESG initiatives and disclosures. This can result in unrealistic comparisons. For example, comparing a small software company with a market cap less than $1 billion to giants like Salesforce, Oracle, and SAP is fraught with difficulty. It is obvious that the smaller company with a few hundred employees will not have the same level of resources dedicated to gathering and disclosing large amounts of ESG data as this best-in-class peer group. *However, this does not necessarily indicate that the company is proportionately less aware of sustainability issues impacting its business or does not have initiatives in place to address them.*

Further, there is often a time lag for third-party research providers to update their ESG viewpoints, particularly for smaller companies. This can result in stale ratings that do not reflect the most current view. Other shortcomings include potentially losing focus on financially material issues and the highly subjective weightings of each pillar (environmental, social, and governance) among research providers which can lead to inconsistent scores between providers. In fact, a study from State Street Global Advisors looked at ESG scores from MSCI and Sustainalytics (the two largest providers) across the MSCI World Index and found a correlation of only 0.53, meaning the scores were only consistent across roughly half of the index.

These shortcomings mean that third-party research is best used as a complement to original analysis, not a replacement. Relying solely on outside ESG research would be akin to relying solely on sell-side buy/sell/hold ratings. Most asset managers take pride in their differentiated viewpoints to form an investment thesis, so why should they ignore that discipline when considering ESG factors? In fact, the SEC chair recently warned about this approach of what is essentially fully "outsourcing" ESG research, which he said can result in over-inclusive and imprecise analysis. This enables *greenwashing,* a term describing asset managers or company issuers who are overplaying their ESG practices. It remains a problem and the SEC is soliciting feedback from managers about how to improve the accuracy of ESG ratings.

Exhibit B: MSCI USA IMI Index ESG Ratings* by Market Cap

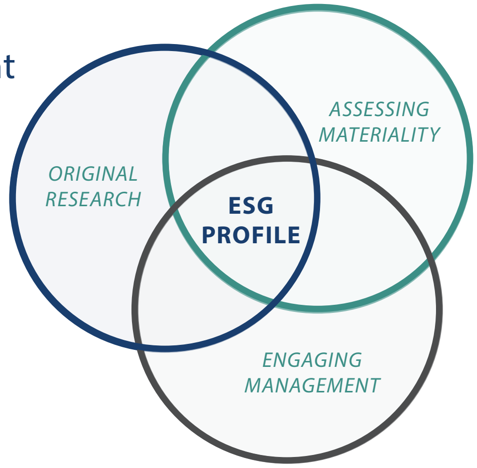


*Using MSCI ESG Scores

INTEGRATION IN PRACTICE

Enhancing Quality through Ranger's Sustainability Assessment

ESG research is a cornerstone of Ranger's search for high quality, growing companies. In the early days of the firm's life, before the term ESG was even coined, the investment team's analysis was more focused on corporate governance. Consideration of environmental and social matters primarily took the form of avoiding businesses that presented excessive social or environmental risks. As ESG has evolved over the years, this analysis has grown more robust and today every company under consideration for inclusion in our portfolios is subject to our proprietary Sustainability Assessment. Below, we discuss how conducting original research, assessing materiality, and engaging management are the three cornerstones of our process to analyze ESG factors and inform our proprietary analysis.



ORIGINAL RESEARCH

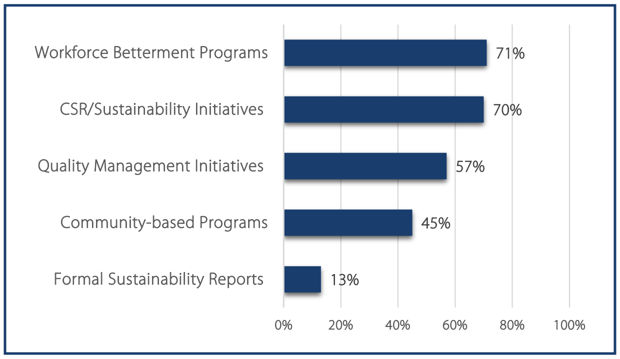
While sustainability information disclosures at smaller companies may be thinner and less consistent than disclosures by global peers, there is often plenty of information disclosed to form a more robust view than the surface-level disclosures reflected in third-party scores. Many small companies are disclosing ESG data, just not always as overtly as larger ones. While many large companies now break out sustainability information in their financial filings, publish a separate Corporate Sustainability Report, or both, small company data is more often found in footnotes, risk sections, and company websites. Even though this data may not include metrics as suggested by frameworks like SASB, the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD), this information can still be useful in forming a robust ESG profile.

Ranger believes conducting original research on sustainability factors is essential to forming a value-added viewpoint. This allows for a more nuanced approach, where special consideration is placed on each company and its underlying business to get a better understanding of its material ESG risks and opportunities in the context of fundamentals. This is in contrast to third-party research which tends to distill information down to as close to a one-size-fits-all approach as possible, which can result in empty data points and therefore lead to losing sight of the true impact to the specific underlying business.

While corporate governance data and disclosures are relatively homogeneous across companies of all sizes, other sustainability data points at small companies often require more digging. Many small companies publish their corporate codes of conduct/ethics, data privacy policies, anti-corruption policies, whistle-blower policies, and supply chain initiatives on their corporate websites. Many more highlight their employee relations and community involvement initiatives.

In fact, **Exhibit C** shows how the vast majority of Ranger's small and micro cap portfolio holdings (which together contain ~90 stocks) have disclosures on their websites that discuss one or more of these topics. Corporate responsibility and/or sustainability statements, employee relations and support initiatives, community involvement programs, and quality management initiatives are common topics that, while surface-level, can open the door toward deeper analysis. Although corporate sustainability reports are uncommon for smaller companies, 13% of the companies in the portfolios have published reports in the past year and those typically contain significantly more information.

Exhibit C: ESG Disclosures (% of Ranger Portfolios)



Ranger believes this data dispels much of the notion that small companies are "ESG unaware," and expect these numbers to trend upward in coming years. While there may not always be hard data and metrics associated with these initiatives, a small cap investment analyst can get a sense of what companies are doing to address these factors in their businesses, which can act as a data point when plotting improvements while informing peer comparisons and management engagements.

ASSESSING MATERIALITY

Ranger's research process typically begins by assessing financial materiality which is largely dependent on SASB resources[1]. Each sector, industry, and company have a unique set of ESG risks and opportunities and understanding what those are can inform the original research process. SASB is the leading resource in assessing the financial materiality of sustainability information for investors. They have developed industry-specific standards across 77 industries, each comprised of key disclosure topics and metrics for sustainability factors that are rigorously determined to be financially material. These are designed to be cost-effective for companies to implement and are decision-useful for both companies and investors. Each one of the sustainability metrics identified by SASB can be traced to one or more areas of financial impact: revenues, costs, cost of capital, and valuation of assets and liabilities.

While adoption of the SASB framework by public companies has increased dramatically in recent years, this disclosure is still mostly limited to large cap companies. However, SASB metrics can still be a useful tool for small cap investors, even if companies do not report the metrics that the standards suggest. The standards can offer a starting point for investors and guide them toward researching the appropriate topics and engaging corporate management teams. This can be helpful when sustainability disclosures are thin or scattered throughout multiple documents. For example, SASB has identified the "Environmental Footprint of Hardware Infrastructure" as a disclosure topic for software companies. Small companies are less likely to disclose quantitative data for the amount of energy and water their data centers consume, but an analyst who is focused on this topic may discover that the company does indeed describe initiatives to improve efficiencies and reduce energy usage at its data centers. This qualitative information can still be helpful not only in comparing against peers, but also enacting as a baseline for tracking potential disclosure improvements going forward. Meanwhile, third-party research providers would typically punish this hypothetical company with a lower score because they do not quantify and disclose these metrics in the same way their larger cap peers do.

[1]Ranger Investment Management licenses and applies the SASB Materiality Map® General Issue Categories in our work.

ENGAGING MANAGEMENT

Discussing sustainability issues with corporate management teams is crucial in helping to fill the information gap inherent in smaller companies. A management team's approach to its ESG responsibilities shows how seriously management takes its relationship with it's employees, customers, community and shareholders. SASB standards are an important tool in these conversations and can identify material factors for each industry. These factors can lead to more productive management engagements, but there can often be unique company-specific factors that need to be considered. Engagement allows small cap investors the opportunity to ask management teams what they believe are the most important sustainability issues affecting their company and learn first-hand how they are addressing those risks and opportunities.

This prompts a wide range of responses, which can give investors an idea of how deep the management of sustainability factors are ingrained in an organization. For small cap companies, this offers management teams an opportunity to control their own narrative as to which sustainability topics are priorities and how they manage them. For small cap investors, this conversation allows them to communicate how sustainability issues are integrated into the investment process, which can help inform companies on their sustainability disclosures going forward. Through this give and take, engagement can be a value-added experience for both parties.

Engagement also provides clarification during the proxy voting process. Active ownership is a vital element for managers who integrate sustainability analysis into their process, and we believe that voting practices and management engagement go hand-in-hand. Even though most managers use a third-party proxy advisory service for this process, engagement can provide further context and offer a direct line of dialogue on the matters under consideration. While shareholder proposals that address environmental and social issues are less common in the small cap universe, proxy voting matters are usually more concerned with typical governance topics. However, Ranger considers the proxy process and accompanied management engagement as an opportunity to share its views on advancing sound corporate governance principles and other ESG matters. This can lead to a better understanding of company actions and allow for better-informed decisions when voting proxies.

IT'S ALL ABOUT IMPROVEMENT
Big Steps for Small Companies

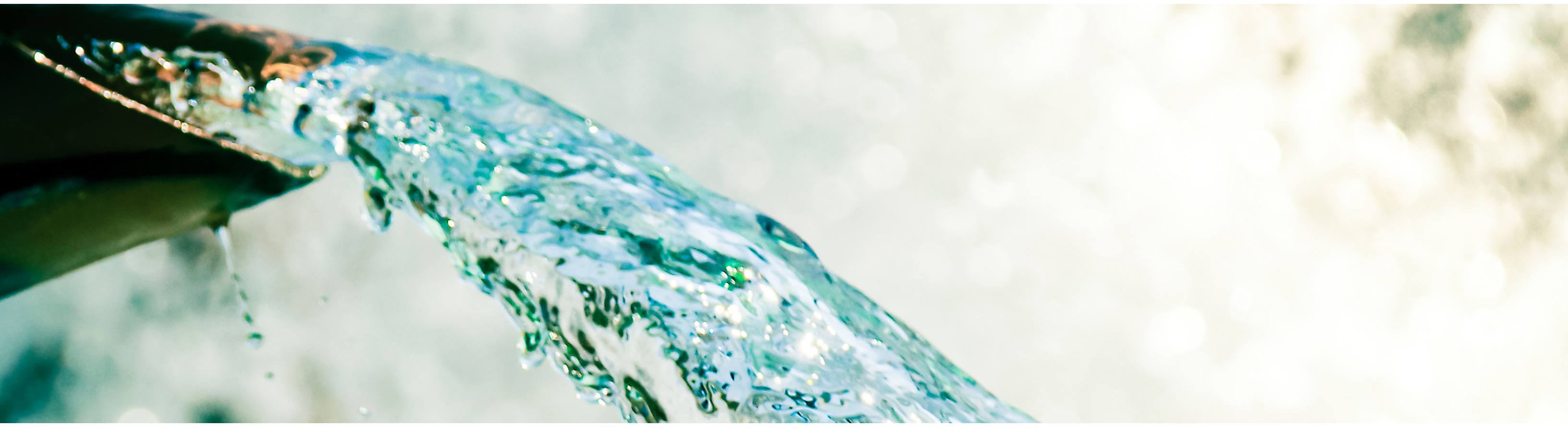
Investors can further exploit inefficiencies by focusing on small companies making improvements in their ESG initiatives and disclosures. Many of these companies are relatively early in their life-cycles and likely experiencing high revenue and profit growth. Combining that growth with new or improved ESG initiatives can be a powerful dynamic that will have positive consequences over time.

While some small companies have quality ESG initiatives woven into their DNA, others are adopting formal sustainability practices for the first time. Consider a small industrial company that has introduced new quality control initiatives into its manufacturing, which includes certifying facilities to third-party ISO standards and requiring its suppliers to have similar certifications. This type of improvement is meaningful. It can reduce the risk of recalls, lower the risk of employee health and safety issues, and perhaps benefit its brand's reputation for quality and positioning versus its peers – all of which can be financially material over the long term. Another company may have begun to increase its use of renewable energy, leading to greater efficiencies and potentially lower costs. Compared to the improvements being made at many large companies which are less likely to move the needle given how they are typically further along with sustainability initiatives, these are giant steps, and therefore should be evaluated as such.

MSCI conducted a study that assessed "ESG momentum," which measures the 12-month change in ESG score as defined by MSCI (**Exhibit D**). The results for a hypothetical market cap-weighted portfolio compare the performance of the top quintile of ESG momentum to the bottom quintile. The top quintile showed significant outperformance. This was further supported by the aforementioned Harvard study "First Evidence of Materiality," in which the authors used ESG score changes that were neutralized by a variety of factors including market cap, and found statistically significant predictive power of ESG momentum for stock returns. If sustainability improvements at small companies are mostly going unrecognized, this could create even more potential for those companies to outperform once these improvements are identified by the market. Original research seeking to identify these improvements is a key part of Ranger's process.

Exhibit D: Financial Performance of Top vs. Bottom ESG Momentum Quintile

*Cumulative performance differential of the top ESG momentum quintile vs. the bottom ESG momentum quintile. ESG momentum is defined as the 12-month change in ESG score.



Select Energy Services

Market Cap: $550 Million
MSCI ESG Rating: BB

Select Energy Services is a provider of oilfield water supply chain and logistics services. The company handles water for energy clients in all stages of the drilling and production cycle. Select fits Ranger's definition of a quality business in several respects. The company provides services that are essential to an energy company's operations, but outside the core competency of even the largest participants in the industry. Select also has a strong balance sheet with no debt and a history of generating free cash flow. They have an A-list customer base which we view as impressive for a company its size.

Select is rated "BB" by MSCI, who highlights the company's strong ethics policies and management of corruption risks, but notes the company falls below peers on health and safety practices and its high risk of operational disruptions due to water shortages. Although these topics align relatively closely to SASB standards, the ratings miss the material improvements that the company has been making in these areas, as well as the fact that much of the company's business is centered on helping its customers reduce the environmental footprint of their operations. In addition, the company's peer group is comprised of much larger players with market caps of $15-25 billion that are rated as high as AAA, compared to Select's $500 million size, which we believe are unrealistic comparisons.

Select helps customers meet environmental goals in addition to day to day business needs. Drilling completions today require significant amounts of water, and reducing water consumption and disposal costs can provide customers with a meaningful competitive advantage. Select helps companies reduce their fresh water usage by supplying brackish, industrial or produced water for drilling operations where available. On the production side, Select reduces environmental waste by providing water handling services that increase the amount of water recycled for other uses. Beyond environmental topics, SASB has identified workforce health and safety as material factors for the company. With a quality customer base that has been increasingly emphasizing safety records for their service providers, Select Energy has robust initiatives that include multiple levels of training, a career progression program, and an employee safety recognition program that has been in place since 2016. Disclosures have also improved, as Select provides Lost Time Incident Rates and Total Recordable Incident Rates for the previous five years, per SASB. Both metrics have shown meaningful improvements over that time period, which can directly affect labor productivity and reduce the likelihood of fines and payouts of medical benefits, while improving employee morale.

Sustainability reporting is rapidly becoming a standard procedure for exploration and production companies. As sustainability reporting becomes more common, the comparability across the industry should improve making Select's services even more valuable over time.

e.l.f. Beauty

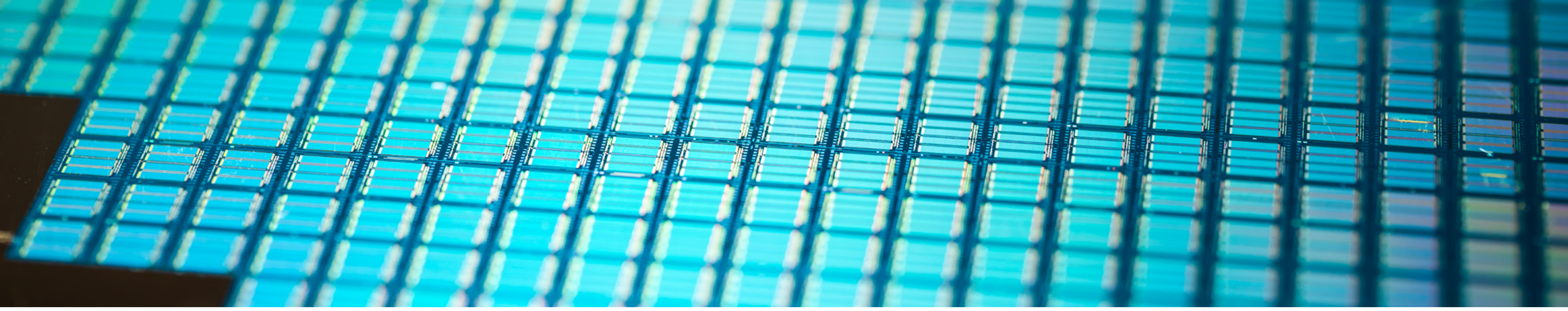
Market Cap: $900 Million
MSCI ESG Rating: B

e.l.f. Beauty, a manufacturer and marketer of beauty products, is the fastest growing company in market share among the top color cosmetic brands in the United States. By offering prestige quality cosmetic products at an affordable price, the company presents a value proposition to consumers that drives strong demand for the brand. The company's digitally native roots make e.l.f. Beauty a leader in digital marketing and online sales through their viral campaigns for their products. The brand's website is the #1 mass cosmetics e-commerce site and saw double digit growth in traffic and new consumers in fiscal year 2020. e.l.f. Beauty's innovative products and expansion into various cosmetic categories like skincare along with their evolving marketing strategies contribute to increasing shelf space at large retailers like Walmart and Target.

e.l.f. Beauty receives low marks from third-party ratings agencies like MSCI, who cites a lack of disclosures on sustainability issues such as using "green chemistry" principles in product design and how palm oil - an environmentally sensitive raw material - is sourced compared to peers. The peer group that the company is benchmarked against are all global giants that include L'Oreal, Estee Lauder, Procter & Gamble, and Unilever – most of which have market caps above $100 billion and best-in-class sustainability disclosures. Indeed, compared to that peer group, e.l.f. Beauty's sustainability initiatives and disclosures fall short, and an analyst relying solely on the low MSCI score may determine that the company is not effectively managing ESG risks and opportunities in its business.

However, a deeper look reveals that e.l.f. Beauty is managing these risks and opportunities quite well for a company of its size and is continuing to make improvements to its sustainability profile. All of the company's products are hypoallergenic, non-comedogenic, and vegan, with no animal-derived ingredients, and PETA has designated e.l.f. Beauty as a "cruelty-free" company. While e.l.f. Beauty cannot yet claim that it sustainably sources 100% of the palm oil used in its products as many of the large cosmetics companies have certified, this is something the company is aware of and will likely continue to improve upon. Its clean beauty products are being further expanded with the recent acquisition of W3LL People, a company that offers plant-based, non-toxic cosmetics with no petroleum-based products, and includes 40 products that are certified by the Environmental Working Group, a clean beauty standard. With the increasing consumer focus on sustainability issues in cosmetics, e.l.f. Beauty should be better poised to benefit from this demand trend through increased market share, especially with products that are generally sold at a lower price point than many of the prestige beauty brands.

The company has product quality initiatives that include inspections and audits of manufacturers, components, and packaging suppliers, as well as third-party validation of testing results in labs. e.l.f. Beauty's governance is also relatively strong and improving. Despite having a classified board structure and combined CEO/chair roles, the company has shown that it is receptive to shareholder interests with a recent announcement of "say-on-pay" regarding executive compensation. It has also improved its board independence and diversity by recently adding another woman to the board with ESG expertise. There are now six women who sit on the board (out of nine total), and management claims it is one of only ten public companies with a board that is at least 60% female. Diversity in leadership roles can be a competitive advantage for a company like e.l.f. Beauty, as it can improve brand value and reputation to better capture demand. These factors are largely not reflected in third-party assessments and show that e.l.f. Beauty has a strong awareness of the sustainability risks and opportunities in its business, and management continues to make improvements to how it executes on those issues, which we believe can be additive to shareholder value.



Cabot Microelectronics

Market Cap: $4.3 Billion
MSCI ESG Rating: BB

Cabot Microelectronics is a leading producer of specialty chemicals primarily for the semiconductor fabrication industry. It also has a presence in oil pipeline chemicals. The company has a strong, sustainable market position across all of its segments, develops high-value, high-margin products, and generates high returns on capital. We believe the ever-increasing volumes of chipsets in the growing Internet of Things (IOT) segment is a strong secular tailwind for Cabot that will lead to increased demand for its products.

Cabot is an example of a company with unique business and sustainability characteristics within its industry. When assessing ESG characteristics for semiconductor companies, the typical determination that needs to be made is whether or not the company operates its own manufacturing facilities, as “fabless” companies are not exposed to the same level of risks. However, despite being classified as a semiconductor company, Cabot is even more narrowly focused within the industry given its niche in making slurries, lubricants, cleaners, sealants, and other materials that go into semiconductor manufacturing along with other end uses. This should be reflected in an ESG assessment, as Cabot is more closely aligned with a chemicals or materials company than a traditional semiconductor company. While SASB materiality standards are not dramatically different between those two industries, SASB encourages using multiple industry standards if needed. Cabot is a good example of this and underscores how analyzing sustainability factors should not be a “one size fits all” approach.

Cabot receives a score of BB from MSCI, who does not detail much supporting evidence for the score but focuses on three primary issues in its assessment – corporate governance, opportunities in clean tech, and human capital development. The peer group is made up of global giants that include Intel, ASML, Taiwan Semi, and Nvidia – all with market caps above $100 billion. However, a closer look shows Cabot as a company that is deeply committed to sustainability with a culture of continuous improvements across a wide array of issues that are generally not recognized by third-party research. Ranger believes Cabot is “punching above its weight.”

Even at the surface level, Cabot appears to have robust sustainability initiatives, which are not accounted for in third-party scoring. Whether looking through the lens of a semiconductor company or a chemicals company, environmental issues are front and center, and Cabot’s disclosures and initiatives rival companies that are ten times as large and show that the company is committed to minimizing waste, conserving energy and preventing pollution. The company established 5-year goals in 2015 to reduce landfill waste, electrical usage, water usage, incineration waste, solid waste, and greenhouse gases and has quantified its progress on these initiatives each year with hard data showing substantial improvements. These disclosures are in alignment with SASB standards. Looking deeper, Cabot even appears to have extended its sustainability commitment to M&A. KMG Chemical was a private company that Cabot acquired in 2018. KMG has reported sustainability initiatives and performance on par with Cabot since 2015, which is highly unusual for a private company of its size. This underscores the culture of quality and corporate responsibility throughout the organization, and given the size of the acquisition, should allow for more pronounced sustainability improvements going forward.

All of Cabot’s major operations around the world are ISO and OHSAS-certified for environmental and safety and health standards, and Cabot wins various environmental and safety awards each year through a variety of organizations, with all initiatives, certifications, and metrics documented on the company’s website. The commitment to these initiatives has improved energy efficiency and reduced risks in its operations that should manifest in a lower cost structure and a lower cost of capital over the long-term, which is helpful when building a fundamental investment thesis.

LOOKING FORWARD

We hope this paper provides you with helpful information on the challenges and opportunities associated with ESG analysis in the small and micro capitalization universe. We welcome your feedback and engagement on Ranger's ESG initiatives. Please see us as a resource and feel free to reach out to our client relations team to set up a further conversation with key members of the investment team and ESG committee. We look forward to further dialog on this important component of our investment process.

Ranger Investment Team

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