Lupus alpha
Responsible Investing Policy

Lupus alpha

Contents

Introduction

Lupus alpha has stepped up to create value and added value from responsibility: we support people and institutions in shaping their financial future. We are convinced that it is impossible to separate provision for the financial future from responsibility for a future in which we all want to live.

Responsible investing makes an important contribution to this. Since its founding in 2000, Lupus alpha has placed long-term responsibility for achieving superior investment results and building and maintaining trusting and resilient relationships with clients, employees and other stakeholders at the forefront of its actions and investments.

As asset managers, we are aware of our fiduciary responsibility to our clients at all times. Responsible investing is inextricably linked to this fiduciary responsibility. It is our goal to achieve consistently superior returns for our clients and to identify and manage risks at an early stage. By carefully and comprehensively considering ESG factors, we can identify special investment opportunities and detect sustainability risks earlier.

We have signed the UN Principles for Responsible Investment (UN PRI) in 2015, joined the Forum Nachhaltige Geldanlagen (FNG) in 2019 and the Institutional Investors Group on Climate Change (IIGCC) in 2024.

The goal of this policy is to underline our commitment towards responsible investing. It applies to all funds, where we have full management discretion. For mandates of professional investors with individual investment policies, we aim to implement the principles described in this policy to the best of our abilities.

Our Understanding of Responsible Investing

Our understanding of investing responsibly is guided by our most important stakeholders: clients, business partners, employees and shareholders. We do not see sustainability as an end in itself, but as an important factor in managing risks efficiently, seizing opportunities as they arise, and thus achieving long-term success.

As a fiduciary asset manager, we always act in the best interest of our clients, where the long-term value appreciation of their assets is our main priority. The majority of our investors are pension schemes (occupational and private pension provision). Following high ethical standards during this process is a matter of course. In addition, we think that next to making a contribution to the overall economy, we also have a social responsibility to the general public.

We understand responsible investing to mean

- the integration of environmental (E[1]), social (S[1]) and governance (G[1]) factors into the investment process and risk management plus
- the frequent exchange with companies that we invest in, on topics regarding E, S and G factors, asking critical questions and trying to initiate changes.

We believe that these non-financial factors have an impact on a firm's long-term financial performance. Companies with weaker sustainability standards usually have higher E, S and G risks.

In addition to fulfilling our fiduciary obligations to our clients, our goal is to enter into a long-term constructive dialogue with the portfolio companies. These conversations are the core of our equity strategies and we consider them to be essential for our long-term investment success.

In this context, we not only perceive ESG factors as additional risk factors, but also see in particular the opportunities and potentials arising from the restructuring of the economy toward greater sustainability. In particular, companies that can benefit from the underlying structural growth drivers or transform their business model accordingly offer great opportunities.

[1] ESG: Environmental, Social and Governance.

Company-Wide Framework

We apply our understanding of responsible investing throughout the organisation and at the various levels of the investment processes. As a multi-specialist, we are faced with the challenge of taking into account the special requirements of specific asset classes, such as data quality and availability or the handling of derivatives. A universal methodology is therefore difficult to implement. Nevertheless, there are certain minimum standards that are set for us throughout the company.

MINIMUM REQUIREMENTS APPLY TO ALL OUR FUNDS

We exclude all companies involved in the production or distribution of controversial weapons.[2] In doing so, we also take into account the ownership structure and group relationships.

We are orientated towards the following national and international regulations:

- Principles of responsible investing of the United Nations (UN PRI)
- The Oslo Convention on Cluster Munitions
- The Ottawa Anti-Personnel Mine Ban Convention
- The BVI Rules of Conduct

In addition, we exclude companies that manufacture products designed or modified exclusively for use with nuclear weapons at a company-wide level.

IN ADDITION, WE INTEGRATE NON-FINANCIAL INFORMATION INTO OUR INVESTMENT PROCESS

The consideration of ESG factors is of particular importance when managing portfolio risks. These include event risks, reputation risks and regulatory risks. ESG issues are an integral part of any corporate analysis. The responsible portfolio manager considers relevant ESG aspects within the analysis process. The identified topics are also addressed in the company meetings. They are factored into the investment decision as non-financial information.

In the front office, we use an internally developed ESG tool that enables portfolio management to quantitatively check the compliance of its investments with ESG criteria, analyse individual securities in detail and evaluate aggregated portfolio key performance indicators (KPIs). This tool is based on data from an external ESG data provider.

In our annual PAI statement, we disclose the measured PAIs at the company level (https://www.lupusalpha.com/esg/#publications).

For our strategies with ESG characteristics, PAIs from the areas E, S and G are an integral part of the respective ESG methodology. For our strategies without ESG characteristics, the consideration takes place in risk management and reporting only.

DIALOGUE STRATEGIES AND ENGAGEMENT, WHEREVER POSSIBLE AND REASONABLE

Constructive dialogue with the companies in which we invest is an essential part of our investment processes. Our Small & Mid Caps team completes around 1,500 company meetings each year. Our aim is to bring relevant ESG issues to the attention of the companies

[2] Under controversial weapons we rank among others: anti-personnel mines, biological weapons, chemical weapons, cluster bombs, weapons with depleted uranium, blinding weapons.

and to exert influence in order to address corresponding risks and initiate positive developments. Governance issues traditionally play a particularly important role in this context.

For our Small & Mid Caps strategies with ESG characteristics, we also conduct formal and documented engagement with regard to selected PAIs (see page 8).

In our convertible bond strategies, we also use dialogue strategies with the portfolio companies despite the lack of voting rights and the associated reduced opportunities to exert influence. We also engage in CLO strategies. However, due to the structure (structured product), this relates to the individual CLO manager or the individual CLO deal and not to the underlying loan issuers. We are increasingly talking to CLO managers about opportunities for ESG integration in the selection of underlying loans.

Lupus alpha attaches great importance to representing the interests and voting rights of its investors vis-à-vis stock corporations. The voting right is one of the most valuable rights of the shareholder and obligates him to use it responsibly. Lupus alpha thus sees responsible corporate governance as playing a key role in the sustainable value enhancement of its investments. Accordingly, we exercise our voting rights in the funds that we manage as a capital management company. In doing so, we are guided by international and recognised standards.

Voting rights are generally exercised for positions above a certain threshold (taking into account costs and expected benefit) in order to promote sustainable corporate development of the portfolio companies. Voting rights for assets below the thresholds are only exercised when critical agenda items or decisions with a significant impact on corporate governance or business policy are to be voted on.

Our principles for exercising voting rights can be found here:
https://www.lupusalpha.com/esg/#publications

Due to the close contact of our portfolio managers to the portfolio companies, potential concerns can be discussed with the companies at an early stage. Concerns and agenda items at the annual general meetings are thus often addressed and discussed before the vote.

Prior to each AGM vote on shareholdings above the threshold described above, the agenda items are also subjected to a thorough analysis and reviewed with the help of our voting rights philosophy. In addition, Lupus alpha receives independent analyses of agenda items from one of the leading external research providers in this field. These analyses and recommendations are then also reviewed on the basis of Lupus alpha’s voting rights philosophy and are incorporated into the voting decision-making process. However, the final voting decision remains entirely at the discretion of Lupus alpha at all times. Due to our close contact with companies, Lupus alpha may also deviate from the guidelines described below in exceptional cases, provided that the company can credibly assure us that it has addressed any concerns or that it will comply with the request in a timely and binding manner.

When engaging with companies, we also work with other investors on a case-by-case basis in order to exert a stronger influence. In general, however, our goal is to address the important ESG issues in advance, i.e., in regular company meetings, to initiate changes through dialogue, and thus to achieve good results together with the companies.

Sustainable Investment Solutions

As a specialised active asset manager, we focus on the following areas:

- Small & Mid Caps Equities
- Convertible Bonds
- CLOs
- Value Protection
- Volatility Strategies
- Risk Overlay Management

Here we choose specific solutions for dedicated sustainability funds and mandates, depending on the respective investment approaches and individual client needs.

SPECIFIC ESG APPROACHES

We have been managing funds and mandates which are subject to sustainability approaches for over 20 years. Below is an overview of the approaches we offer, which can also be combined:

Exclusions (negative screening)

In all our funds with ESG characteristics, filters are used to exclude investments in companies that are active in certain business areas or in certain sectors.

For example, we have been implementing further exclusion criteria in our funds with ESG characteristics for many years, over and above the minimum requirements – controversial weapons. These criteria are specific to each fund and may include, for instance:

- Coal mining and power generation
- Fracking
- Nuclear power
- Conventional weapons
- Civilian firearms
- Alcohol and tobacco

Positive screening and best in class

We screen the investible universe with respect to a wide range of ESG criteria. ESG scores and ratings can be used, but also data on controversies or the carbon footprint might be considered. In portfolio construction, preference is given to companies that have superior ESG profiles in relation to one or more of these factors, e.g. by giving them a higher weighting as in the Lupus alpha Sustainable Return fund. In addition, these factors can be optimised at the overall portfolio level to outperform a benchmark.

Sustainable Investments

For all our funds, we measure the share of sustainable investments as defined by Regulation (EU) 2019/2088 (SFDR). In our dedicated sustainable funds as well as in our Small & Mid Caps funds with ESG characteristics, there is also an obligation to maintain a minimum quota of sustainable investments. For example, with the Lupus alpha Sustainable Convertible Bonds, we commit to investing at least 50 per cent of the fund's assets in sustainable investments. Sustainable investments must meet additional criteria; in other words, not every investment screened based on ESG characteristics is automatically classified as sustainable. Instead, three key requirements must be met:

1. **Positive contribution to a sustainability objective**
2. **No significant harm** (compliance with the so-called "Do No Significant Harm [DNSH] principle")
3. **Good governance**

The **United Nations Sustainable Development Goals (SDGs)** play a particularly important role in this context. These 17 goals help identify key areas that contribute to sustainable development on various levels (economic, social and environmental), e.g.

- renewable energy,
- medical technology,
- water supply.

Through external ESG data providers, we analyse companies' products and services in terms of their positive contribution to these areas. It also becomes evident whether a company's activities have a negative impact on one or more goals. Based on this analysis, we can assess criteria **(1) positive contribution to a sustainability objective** and **(2) no significant harm (DNSH principle).** Additionally, to verify compliance with the DNSH principle, we consider all relevant **Principal Adverse Impacts (PAIs)** using defined criteria and thresholds. The governance assessment of a company is determined through its **ESG rating.**

Consideration of Principal Adverse Impacts on sustainability factors (PAIs)

In principle, we consider or measure key indicators of adverse impacts of our investment decisions on sustainability factors for all our funds or asset classes.[3]

For our strategies with ESG characteristics, selected PAIs from the areas E, S and G are explicitly included in the investment process via exclusions and engagement. For explicit inclusion in the investment processes, it is necessary that the required data is available and qualitatively appropriate for a large part of the investible universe. Otherwise, consistent integration into the investment decision is not possible.

Engagement

Active dialogue with our portfolio companies plays an important role, particularly for our Small & Mid Caps strategies. We therefore also consciously use this approach when implementing the topic of sustainability in order to strive for improvements together with the companies. In principle, our Small & Mid Caps portfolio managers also talk and discuss sustainability with all companies. The intensity and specific topics always depend on the relevant sector and business model. In addition to this informal dialogue, we also conduct formal and documented engagement for our Euroland and Pan European strategies in the Small & Mid Caps segment in relation to selected PAIs (currently CO_2 emissions and diversity). If the agreed improvements or efforts are not achieved, this ultimately results in a divestment.

SUSTAINABLE INVESTMENT SOLUTIONS

In special funds and mandates, we implement customised sustainable investment solutions for all asset classes. In this context, all parameters can be defined on a client-specific basis, e.g. turnover limits, thresholds for ESG scores/ratings, CO_2 data or SDG contributions. In this context, we are also prepared to develop and implement approaches that are new to us with our customers. In addition to company- and sector-related requirements, control variables can also be determined at portfolio level. In this context, we focus on the compatibility of performance targets with the selected sustainability approach. We continuously develop our processes and analysis methods and draw on additional external data sources, provided they are of appropriate data quality.

[3] CLOs excluded, as there is insufficient data here.

Sustainability Risks

Consideration of sustainability risks in the investment decision-making process

We identify and analyse sustainability risks as part of our overall risk management process and integrate them into our investment decision-making process, as we believe this integration could help improve long-term risk-adjusted returns for investors in line with the investment objectives and investment guidelines of the investment assets. In general, sustainability risks refer to environmental, social or governance events or conditions that, if they were to occur, could have an actual or potential material adverse effect on the value of the investment of our investments.

Sustainability risks can either represent a risk in their own right or have an impact on other types of risk – such as counterparty risks, market risks, liquidity risks, operational risks, strategic or reputational risks.

Consideration of Principal Adverse Impacts on sustainability factors

Consideration of adverse impacts on sustainability factors is of particular importance to us when managing portfolio risks. We have defined the minimum standards for sustainable consideration in our investment decisions for all asset classes in which we invest, as set out in the chapters above. When analysing sustainability risks, including the adverse impact of investment decisions on sustainability factors, it is necessary to take a differentiated view of the various asset classes with their different characteristics. The focus is therefore on analysing sustainability risks and factors before making investment decisions and considering the results for investment activities. For all of our strategies[4], we measure the adverse impact of our investment decision. For our strategies with ESG characteristics, selected PAIs from E, S and G are directly incorporated into the investment decision.

ESG risk management

ESG integration does not only take place in the investment process through exclusion lists, turnover limits, positive criteria, consideration of PAIs or engagement, but especially in risk management. And this not only for the dedicated sustainable funds, but for all funds managed by Lupus alpha.

First, our daily general risk reports, which are sent to the responsible portfolio managers and CIOs, include, among others, the following ESG scores and PAIs at fund level and for the benchmark:

- ESG score
- Carbon footprint
- Implied temperature rise[5]
- Proportion of companies with violations agains the OECD guidelines (this includes the review of UNGC, ILO, UNGP)
- Proportion of companies with active exposure to fossil fuels

In addition to this, a detailed ESG risk report is prepared and evaluated on a monthly basis at fund level. This is distributed to the Executive Committee (incl. Chief Investment Officers) and portfolio managers. The report contains the following information for fund and benchmark:

- ESG rating:
  – List of companies with an ESG rating worse than BB
  – ESG rating distribution
  – ESG score and components (E, S and G) over time
- Carbon footprint:
  – Distribution of carbon footprint deciles
  – List of companies in the fund in the worst decile
  – Evolution of carbon footprints (scope 1, 2 and 3) over time

[4] CLOs excluded, as there is insufficient data here.
[5] Implied temperature rise is a forward-looking metric, expressed in degrees Celsius, designed to show the alignment of companies, portfolios and funds with global temperature targets.

- Implied temperature rise:
  – Distribution by temperature
  – Implied temperature rise over time
- Controversies (violations of the OECD guidelines):
  – Distribution by severity of controversy
  – Percentage of companies with serious controversies over time
  – List of companies in the fund with severe controversy
- Active exposure to fossil fuels:
  – List of companies in the fund with active exposure to fossil fuels
  – Exposure to fossil fuels over time
- Analysis of correlation of ESG score to market risk/credit risk/liquidity risk:
  – Correlation table
  – Regression graph

Physical and transitory sustainability risks are covered by a monthly report that includes all Lupus alpha funds.

By taking ESG into account in both the investment process and risk management, sustainability risks can be addressed at all relevant levels. This also allows any negative financial impacts to be identified and avoided at an early stage.

Reporting

At company level

Reporting on our sustainable investment activities is part of our fiduciary responsibility. To create transparency for our stakeholders, we report on our activities and the main developments annually in our sustainability report. This also describes our engagement activities.

In addition, we report on the relevant impacts of our investment decision at the corporate level in the statement on Principal Adverse Impacts of investment decisions on sustainability factors (PAI statement).
Both documents can be found here:
https://www.lupusalpha.com/esg/#publications

At fund level

For our strategies with ESG characteristics, we integrate ESG key figures into the regular fund- and mandate-related reporting. As an example, please refer to the fact sheets of the following three mutual funds, which can be accessed on our homepage:

- Lupus alpha Sustainable Convertible Bonds
- Lupus alpha Smaller Pan European Champions
- Lupus alpha Sustainable Return

Individual reportings for investors is a matter of course for us – accordingly, we can also offer this in the sustainability area. We are able to evaluate and report on a wide range of ESG key figures at the push of a button, both at individual stock and fund level.

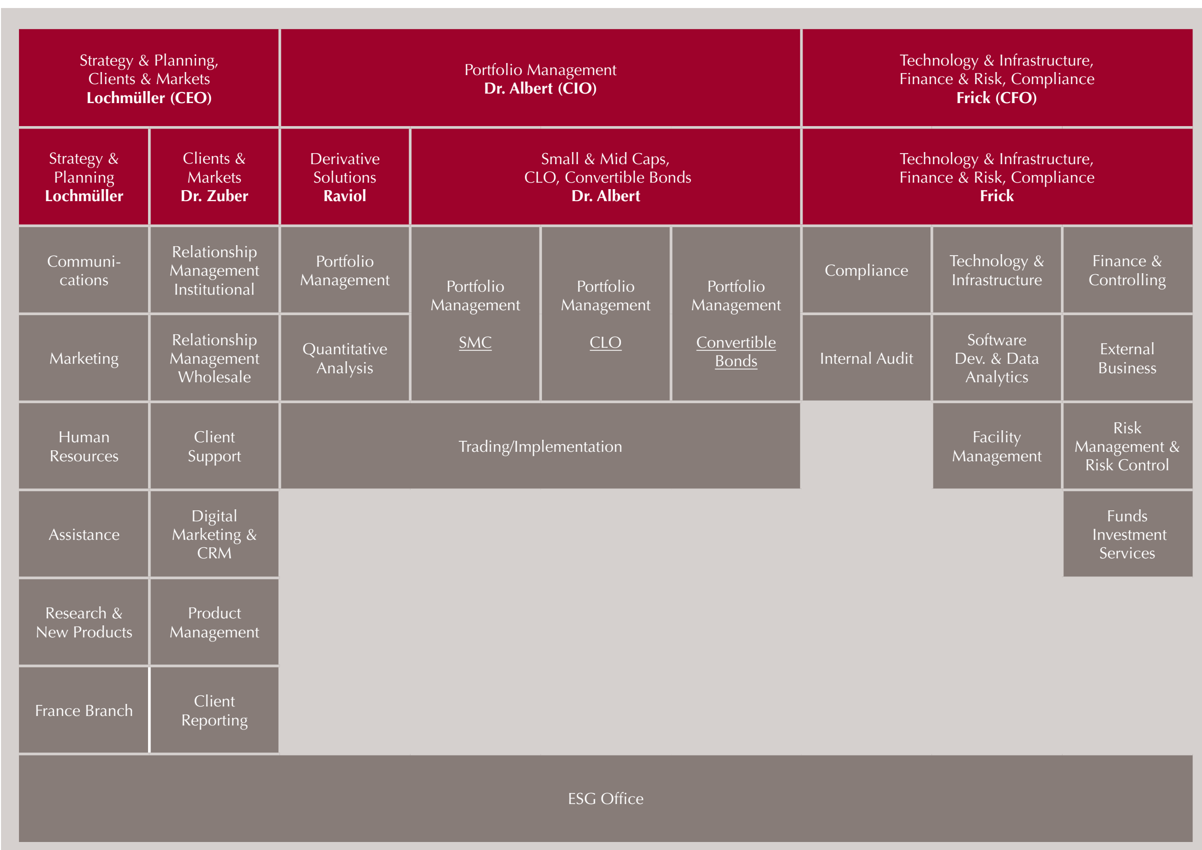
Further relevant information on sustainability issues can be found on our sustainability website: https://www.lupusalpha.com/esg/

Organisation

Dr. Götz Albert, member of the Board of Management, is responsible for the creation, further development and monitoring of this policy. Within the individual teams and asset classes, the respective senior managers, together with the interdisciplinary ESG Office, are responsible for the implementation and, if necessary, further development of the applicable ESG requirements and ESG methodologies. In day-to-day business, the respective portfolio managers are responsible for the ESG analysis of the individual stocks and portfolios. The ESG Office is managed and coordinated by Product Management. This department is represented in the ESG Office by two members (including lead). In addition, the ESG Office currently consists of colleagues from the following departments:

- Communications
- Compliance
- External Business
- Portfolio Management
- Reporting
- Risk Management
- Other departments (for ad hoc issues)

Organigram



The environment for sustainable investing is developing dynamically, and regulatory changes are also an important influencing factor. For this reason, this policy is reviewed annually and adapted as necessary. Our aim is to address important issues promptly and incorporate them into our processes in the interests of our stakeholders.

AMENDMENTS

Date	Version	Description of amendments
01/12/2020	1.00	
01/03/2021	1.01	Adding the description of handling sustainability risks; deletion of the term 'Impact' on page 7; expansion of the 'Reporting' section; editorial changes
07/06/2023	1.02	Revision of our understanding of responsible investing (page 4); inclusion of the consideration of PAIs at company level (pages 5 and 8); expansion of the explanation and reference to the principles of exercising voting rights (page 6); expansion of the description of considering sustainability risks; editorial changes
23/01/2024	1.03	Publishing of amendments record
25/03/2025	1.04	Adding our membership in the IIGCC (page 3); revision of our company-wide exclusion criterion regarding nuclear weapons (page 5); deletion of the subchapter "UN Sustainability Goals" and instead inclusion of the subchapter "Sustainable Investments"; distinction of the funds into "Funds with ESG characteristics" and "Dedicated sustainable funds"; update of the organigram (page 12); change of the fund name from "Lupus alpha Sustainable Smaller Pan European Champions" to "Lupus alpha Smaller Pan European Champions" (page 11); editorial changes

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