

Lupus alpha Sustainability Report 2022



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Dear Readers,

Two years of intensive implementation of a new, very comprehensive European framework for sustainable investing are behind us. Since then, ESG has rapidly become the standard in asset management. This has permanently added the fourth dimension of sustainability to the three classic targets of return, risk and liquidity. This can be seen in the investment guidelines of our institutional customers: They almost universally contain corresponding specifications, from the simple exclusion of certain business areas to mandate-specific ESG indicators. The “Principal Adverse Impact Indicators” to be published by pension funds and other trustees as of 2023 will make this even more visible in the overall picture.

The range of client-specific ESG requirements is both good news and an incentive. It is good that it will continue to be possible under the new set of rules to map own values and the always special requirements in individual investment strategies in a differentiated way. At the same time, it challenges us as a provider to be able to map the highly diverse expectations of our customers in the ESG dimension as well.

We are ideally positioned for this with our ESG tool, which we developed in-house. It enables us to directly access all available ESG data on individual companies through to the comprehensive analysis of a portfolio. This enables us to respond to individual inquiries even faster and more efficiently.

However, this is not the end of the story. The complexity of regulation leads to ever new questions. The assessment of what is sustaina-



ble and what is not also changes over time. It is therefore to be expected that financial market participants will have to deal with adjustments, changes and also extensions to the framework more frequently. To strengthen trust in this environment, transparency in the area of sustainability is our top priority. For our investment strategies, we always provide clear and comprehensible information on how our respective ESG approach is designed, what it achieves and which requirements it meets.

We aim to create genuine added value for our investors - with above-average performance over the long term and outstanding service. Careful and comprehensive consideration of ESG factors also enables us to identify investment opportunities and detect sustainability risks at an early stage. In this way, our ESG investments simultaneously contribute to our customers' investment goals and to the necessary change in our economy and society.

A handwritten signature in blue ink, appearing to read 'H. M. Schmid'. The signature is fluid and cursive, written on a white background.

Corporate responsibility

Our relationships with our clients, business partners, employees and shareholders are defined by fairness, solidarity and trust.

LUPUS ALPHA – WHO WE ARE

Lupus alpha was founded in October 2000 as one of Germany's first independent asset management companies. With a partnership-based corporate structure and independence from banks, the founding partners laid the foundation for a unique corporate culture that provides optimum support for a focus on quality and performance and offers long-term prospects for the Company's top performers. This has made Lupus alpha a genuine alternative to the competitors dominating the market to this day. Since the company was founded, we have focused on investment approaches in specialised asset classes with particular return drivers. Starting with the European small and mid caps segment, Lupus alpha succeeded in generating lasting added value for investors with one of the largest and most experienced teams in Germany specialising solely in small and mid caps as well as an active bottom-up approach based on fundamental research. As one of the first providers of absolute return concepts, Lupus alpha continued to specialise in 2003 and expanded its product range into the area of Alternative Solutions. This development was triggered by growing demand for liquid alternative investment approaches among institutional clients and a wider statutory framework.

Today, the product portfolio includes investment concepts in the asset classes equity, convertible bonds, collateralised loan obligations, volatility, capital protection and risk overlay. With almost 100 employees, including 35 portfolio management specialists, we use specialised strategies to systematically uncover new alpha sources and sustainable risk premiums for our investors. By doing this, we create innovative opportunities for them to further diversify their overall portfolio.

Lupus alpha has set itself an ESG mission statement in 2022, which will guide the ESG strategy in the coming years:

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 and joined the Forum Nachhaltige Geldanlagen (FNG) as a member in 2019.

We have defined the key topics and formulated measures for achieving these goals in our ESG-strategy. The Executive Board is responsible for Lupus alpha's ESG-strategy. All employees are responsible for ensuring that it is implemented effectively as part of their respective roles.

RESPONSIBILITY TOWARDS CLIENTS AND BUSINESS PARTNERS

We place particular emphasis on maintaining a cooperative relationship with our clients to ensure that we can recognise their needs as accurately as possible at all times and offer them a genuinely personalised service. Sustainable investment strategies have long formed part of these client needs and have been gaining significance for some time now. In light of this, our integrated range of services also includes implementing tailored solutions for our institutional investors using our own sustainable investment approaches. We also provide our clients with regular reports and up-to-date information on our investment strategies to ensure maximum transparency with regard to the investment process, performance and relevant ESG indicators. We promptly inform clients of any changes or adjustments on the product side or to processes and keep them up to date with the latest developments at all times. As well as taking comprehensive measures to ensure compliance with laws and regulatory requirements as a matter of course, Lupus alpha also applies the Rules of Conduct issued by the Bundesverband Investment und Asset Management (Federal Investment and Asset Management Association - BVI). Ensuring that our relationships with our clients, business partners and employees are defined by fairness, solidarity and trust and that we communicate transparently with all stakeholder groups is important to us. Lupus alpha expects its employees to behave with integrity towards its clients and business partners to avoid conflicts of interest and act consistently in the interests of the clients. Furthermore, all processes are constantly monitored in accordance with relevant rules. Employees who work with our business partners receive regular training on issues such as preventing money laundering and insider trading in order to become aware of these issues. Individual departments are also subject to regular risk monitoring to ensure that operational and procedural risks are constantly

monitored. As part of our outsourcing partners' risk analysis, we assess how they implement ESG criteria within their companies. If individual criteria are not met, we reserve the right to take further action and terminate existing business relationships in cases of doubt.

RESPONSIBILITY TOWARDS EMPLOYEES

Lupus alpha's corporate culture is defined by open, constructive communication, a high degree of personal responsibility and the satisfaction of our employees. A positive working environment is as crucial as professional development and wellbeing. We help our employees to continually develop their professional and social skills and open up their professional prospects. After all, only highly motivated staff can deliver the best performance for our clients. Dedicated, skilled employees make a decisive contribution to the long-term success of the Company and help us to gain an important competitive advantage in the asset management sector. This means not only attracting the best talent but also motivating them to be top performers and keeping them at the Company in the long term. We treat each other as equals and invest systematically in young talent and leaders who actively take responsibility and drive Lupus alpha forward.

The annual Open Forum employee survey was introduced back in 2000 to promote an open critical exchange of views between employees, management and partners. This communication platform contributes to the internal discussion and helps us to form opinions about issues that are important to our employees, which in turn enables us to respond with specific measures where appropriate. Employees across all departments are also included in the further development of the Company's strategy via the annual targets workshop, where suggestions from our employees are collected, discussed and prioritised. Selected proposals are then in-

corporated into annual target planning and the necessary measures are implemented by cross functional project teams.

In 2021, all employees were also involved in the “Lupus alpha 2025” strategy process. This took place within the framework of an idea competition, an employee survey and several workshops. Due to the very high response, a concept for continuous idea management was developed in 2022 and is currently being implemented.

Professional development

When it comes to professional development, Lupus alpha offers various programs tailored to our employees’ individual roles. In addition to the Introduction Course, which provides an overview of all of the Company’s divisions, additional opportunities are also available to new employees. Every new joiner is assigned an experienced senior manager as part of Lupus alpha’s mentoring program. This program promotes the systematic integration of new colleagues. Internal “lunch & learn” events, where portfolio managers present products to their colleagues in detail, are also held at regular intervals.

A special advanced training programme is also available to employees promoted into leadership roles. Combined with professional external training seminars, the Leadership Program provides new leaders with the best possible preparation for their new role within the Company and their team.

The Company specifically promotes professional development in the area of sustainable investments with CESGA® (Certified ESG Analyst) certification from EFFAS¹. Employees also have the opportunity to make use of the part-time CFA program or MBA degree courses. The aim is to provide the best possible personalised training for our employees that takes

their personal wishes and needs into account while also meeting professional requirements.

Health

Actively promoting the health and wellbeing of our employees is an important issue at Lupus alpha. All staff have access to a fitness studio where they can develop and prepare an individual training plan with a personal trainer. Employee-organised sports groups also meet regularly to prepare for in-house competitions or the J.P. Morgan Corporate Challenge race in Frankfurt.

In addition to sport, healthcare is also a top priority at Lupus alpha. The healthcare program has been running for many years. It is open to all employees and includes a complete diagnosis day at the DKD Helios Clinic in Wiesbaden every three years, where a comprehensive check-up and specialist care modules are provided.

A mobility budget that can be used, among other things, for the purchase of tickets for public transportation, but also for the leasing of a job bike, gives our employees the opportunity to actively and sustainably shape their commute to work.

RESPONSIBILITY TOWARDS SOCIETY

Since Lupus alpha was founded, we have regularly supported non-profit organisations such as Aktion Mensch, Schritt für Schritt –Hilfe mit System e.V., Oxfam, German Cancer Aid (Stiftung Deutsche Krebshilfe) and other regional institutions. In addition to making annual donations to nationwide organisations, we also support local causes close to our heart such as the winter food program of Frankfurt’s Evangelical Hoffnungsgemeinde. Since 2006, we have provided financial support in Frankfurt and participated in the “Frankfurter Kinderbüro” Christmas

¹The European Federation of Financial Analysts Societies.

campaign to make the wishes of children living in precarious circumstances come true, once again enabling around 50 children to receive their own personal presents shortly before Christmas in 2022. Overall, this initiative, which ran for the 27th time in 2022, has now benefited more than 5,000 children in Frankfurt. We also encourage and support any voluntary work carried out by our employees by granting them leave of absence, for example.

Responsible investment

We systematically integrate ESG factors into the investment process and use a flexible range of tools to incorporate ESG risks.

OUR APPROACH

We understand responsible investing to mean:

- the integration of environmental (E), social (S) and governance (G) 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 potential 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.

SUSTAINABLE INVESTMENT SOLUTIONS

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

- Small & Mid Cap equities
- Convertible Bonds
- CLOs
- Capital Protection
- Volatility
- Overlay

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

SPECIFIC ESG APPROACHES

Exclusions (negative screening)

In all our sustainable funds, 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 sustainable strategies for many years, over and above the minimum requirements - controversial weapons. These concern, among others, companies that are active in the following business sectors:

- Coal mining and power generation
- Fracking
- Nuclear power
- Weapons and armaments
- Alcohol and tobacco

The exact design of the exclusions varies per strategy and fund according to investor preferences as well as regulatory requirements.

Positive screening and best in class

We screen the investable 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.

UN Sustainable Development Goals

With the adoption of the Sustainable Development Goals (SDGs) by the United Nations at the end of 2015, a global agenda for sustainable development was formulated. Based on the 17 Sustainable Development Goals of the United Nations, central topics can be identified which contribute to sustainable development on different levels (economic, social, ecological), e.g.

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

Using external ESG data providers, the products and services of companies can be analyzed with regard to their positive contribution to these topics. It is also possible to identify which of a company's activities have a negative impact on one or more goals. This data can be used to construct portfolios that are specifically targeted at one or more of these objectives. The Lupus alpha Sustainable Convertible Bonds, for example, actively includes the SDG contribution in its investment decision.

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.

For our sustainable strategies, 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 of our sustainable strategies, it is necessary that the required data is available and qualitatively appropriate for a large part of the investable universe. Otherwise, consistent integration into the investment decision is not possible.

ENGAGEMENT

Active dialog with our portfolio companies plays an important role, particularly for our small & mid cap 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 cap 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 dialog, we also conduct formal and documented engagement for our sustainable small & mid cap strategies in relation to selected PAIs (currently CO₂ emissions and diversity). If the agreed improvements or efforts are not achieved, this ultimately results in a divestment.

SOLUTIONS

In special funds and mandates, we implement customized sustainable investment solutions for all asset classes. In this context, all parameters can be defined on a client-specific basis, e.g. revenue limits, thresholds for ESG scores/ratings, CO₂ 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.

INTERNAL AND EXTERNAL DATA SOURCES

In recent years, the scope and quality of available ESG data has steadily increased. We have taken this into account by investing in external research and internal expertise. We are committed to incorporating all available relevant information when managing our funds as well as in client reporting.

In particular, Lupus alpha uses two external data providers with respect to specialised ESG data: MSCI ESG Research and Bloomberg. These providers complement our own fundamental analysis for each company.

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, analyze individual securities in detail, and evaluate aggregated portfolio key performance indicators (KPIs). This tool is based on data from an external ESG data provider MSCI ESG Research. For issuers not covered by MSCI, we collect the required ESG data ourselves in direct company contact. In addition, we can also overwrite the MSCI data in our internal systems if we determine that it is incorrect or outdated. This process is always carried out under the dual control principle and must be fully documented.

When it comes to portfolio implementation, we use SimCorp Dimension software. This enables us to consistently block excluded issuers, meaning that portfolio managers and implementers can be reliably stopped from acquiring shares in blocked companies.

SUMMARY

We incorporate ESG criteria into our investment process in a number of different ways.

By:

- integrating these criteria into fundamental analysis,
- applying exclusions and carrying out norms-based screening, and
- carrying out best-in-class or positive screening,

Lupus alpha has various tools at its disposal for incorporating ESG criteria into the portfolio construction process as necessary to achieve a positive and informed outcome. We implement tailored sustainable investment solutions for all asset classes in our special funds and mandates, including via a combination of different instruments.

Our Engagement

Our ESG insight is based on constructive dialogue with companies.

FOCUS ON CORPORATE DIALOG

Constructive dialogue with the companies in which we invest is an essential part of our investment processes. Our Small & Mid Cap team completes around 1,500 company meetings each year. Our aim is to bring relevant ESG issues to the attention of the companies 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 explicitly sustainable small & mid cap strategies, we also conduct formal and documented engagement with regard to selected PAIs.

Governance issues play a particularly important role here, as the quality of corporate governance is crucial to a company's long-term success. In this area, we focus on the individuals acting on behalf of the company, the independence of its supervisory bodies and how the company avoids conflicts of interest. Issues concerning the configuration of remuneration systems for management are equally important when it comes to aligning the interests of management with those of shareholders and other legitimate stakeholders. It is also important to ensure that management has a transparent information policy.

Questions concerning the environmental sustainability of production, working conditions and occupational safety as well as compliance with legal standards – including along the supply chain – also play a crucial role. These issues can pose both direct economic and reputational risks with the potential to damage a company's brand and threaten its business model. Other topics discussed include resource consumption, production processes, growth plans and the company's climate strategy as well as the configuration of outsourcing relationships and employee participation. In addition, our

portfolio managers also keep in touch with their portfolio companies on an ad-hoc basis as required, particularly in the event of new controversies. The companies' responses and measures are monitored and documented, and these findings are taken into account when we review our investment decisions.

Even in strategies where we do not have voting rights, we rely on dialog strategies despite the reduced opportunities to exert influence. In our convertible bond strategies, we also use dialog 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.

EXERCISING VOTING RIGHTS

For Lupus alpha, responsible corporate governance plays a key role in the sustainable value creation of its investments. 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 recognized standards.

Voting rights are generally exercised for positions above a certain threshold (taking into account costs and expected benefits) in order to promote sustainable corporate development

of the portfolio companies. Voting rights for stocks 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 reviewed by Lupus alpha 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 dialog, and thus to achieve good results together

with the companies. 2022 In 2022, Lupus alpha voted at 309 Annual General Meetings. In 57 cases, we actively exercised our voting rights by having the responsible portfolio manager decide in detail how to vote.

EXAMPLES OF OUR ENGAGEMENT

Engagement example Dürr

Dürr was the first convertible bond issuer of an ESG-linked interest rate swap. In a discussion with the company, we suggested linking the sustainability link directly to the convertible bond in the future. We used examples from other issues to show that such sustainability-linked convertible bonds can also be well placed in the niche market. Since Dürr handles the issue of sustainability very transparently in our view, we do not see any disadvantages for investors here. Together with Dürr, we held a webinar on the topic of sustainable convertible bonds. Here, in addition to the placement of the above-mentioned convertible bond, the focus was in particular on the sustainability focus of Dürr. In addition to the ESG-linked interest rate swap, Dürr's sustainable products and their contribution to environmental protection through new innovative investments were also presented.

Engagement example Altair Engineering

Altair Engineering supplies engineers with software solutions for simulations, among other things. With their use, automotive manufacturers, for example, can significantly reduce the number of test drives. This is not only significantly more cost-effective, but also saves CO₂ emissions. At a Nasdaq conference in London, we spoke directly with management and suggested that these CO₂ emissions savings should be calculated and reported in the future. This

should probably be published for the first time in the next Sustainability Report. From our point of view, this would be very helpful to quantify the impact of Altair Engineering's products and thus become even more transparent in the area of sustainability.

Engagement example Interpump

Interpump has published its ESG roadmap in 2022, defining the main objectives in E, S and G for the next five years. In the Environment area, Interpump wants to define a "Carbon Neutrality" strategy, reduce CO₂ intensity and increase the use of renewable energy. In the Social area, the company wants to improve its accident rate and evaluate its supply chain in terms of ESG. At the governance level, Interpump wants to establish an ESG committee on the board of directors. We see the publication of the ESG roadmap as a great success of our engagement. We have discussed these issues regularly and intensively with Interpump and pushed for a clear formulation of their ESG goals.

Engagement example Cewe Color

In 2022, we were in exchange with the management and supervisory board of Cewe Color after a corporate governance problem arose that had a strong negative impact on the share price. The company is managed by a foundation board of trustees over which shareholders have no direct influence. There are two camps with differing opinions about the CEO in office. In a letter to the Board of Trustees, we have worked towards a solution for the good of the company without taking sides with either camp. In this way, we hope to have a positive influence on the governance of the company and its further business development. As an experienced investor, Lupus alpha also feels it has a responsibility to give companies helpful impetus in such situations.

Engagement example DO & CO

We have long had a close exchange with the management of the catering company DO & CO, whose activities include the operation of restaurants, bars and hotels as well as international catering and airline catering services. In 2022, the company asked us to contact MSCI regarding their industry classification. It was classified in the "Commercial Services & Supplies" industry, although we collectively believe it should be classified as "Restaurant." Due to this, DO & CO's ESG rating was always in the worst range (CCC). We brought this to MSCI's attention in October, citing peer companies. MSCI followed our reasoning and changed DO & CO's classification, whereupon the ESG rating was raised to BB before the end of Q4 2022. This is also a form of engagement where we work with our portfolio companies to improve their sustainability visibility. This can be done either through better reporting by the company itself, but also by fixing flawed data in critical exchanges with external data providers.

Formal engagement regarding carbon footprint and diversity in governance bodies

As part of our sustainable small & mid cap strategies, we take two PAIs into account in the form of a formal and documented engagement. These are carbon footprint and diversity in supervisory bodies. While for some PAIs, such as controversial weapons or serious violation of the UN Global Compact, only a hard exclusion comes into question for us, the carbon footprint and diversity in particular provide a good basis for engagement. Having transition in mind, we try to use these two PAIs to positively influence companies and initiate improvements. We believe this is the more appropriate way to go, rather than acting through hard exclusions. We conduct formal and documented engagement with companies that are either in

the worst quartile of their respective industry in terms of carbon footprint or do not have a woman on their board. However, if both PAIs apply to a company at the same time, it is not investable for us. In 2022, we initiated a total of 35 formal engagement processes. 32 cases related to carbon footprint and one to diversity. In addition, we conducted one formal engagement related to industry classification and another formal engagement related to improved ESG and carbon reporting/transparency.

Sustainability goals and changes

We are prepared for the growing requirements in the area of sustainability.

In 2022, our focus was on adapting to the new regulatory requirements (RTS of SFDR, taxonomy, MiFID, etc.). To this end, we adapted our product range (where necessary and appropriate) to the new requirements and supported our sales partners in providing sufficient data (e.g. via the European ESG Template or EET for short). Internally, we worked to raise awareness of sustainability issues among our employees, for example through training courses. In particular, the areas of sales and portfolio management were the focus of training on regulatory changes. The training measures were carried out both internally and externally.

Funds, strategies and companies

In the ESG methodologies of our sustainable funds (art. 8 SFDR), we included some of the principal adverse impacts on sustainability indicators of investment decisions (PAIs), from the E, S and G areas. We implement this via exclusions and, for our Small & Mid Cap products, via formal engagement for certain PAIs. The relevant information is now also reflected in the sales prospectuses and annual financial statements. Through the EET, investors can see exactly which PAIs we take into account.

In addition, we ourselves as a company have complied with the regulatory requirements and published our first PAI statement. This deliberately did not comply with the RTS requirements, as these are not mandatory to implement until 2023.

Our funds again received several awards in relation to sustainability. For example, the Lupus alpha Sustainable Convertible Bonds fund was awarded the FNG label with two out of three possible stars for the fifth time in a row. In addition, the fund was again awarded the Austrian Ecolabel. Furthermore, we again applied for the FNG label with two other mutual funds from the European small & mid caps

sector. As in the previous year, both funds were awarded both the [FNG label](#) and one star. We see these awards as confirmation of the quality of our fundamental investment approach.

With regard to the exercise of our voting rights, we published new guidelines on the exercise of voting rights in 2022 and have since been working with one of the world's largest research providers in this area. We use their data and analyses to support the exercise of voting rights. However, the final decision is still the responsibility of the portfolio management.

In order to offer our clients and interested parties maximum transparency, we publish both our product- and fund-specific ESG methodologies and fund-specific ESG reporting on our [homepage](#).

Regulation

In regulatory terms, the requirements of the SFDR were successively worked through in 2022. A PAI statement was prepared as well as RTS annexes for pre-contractual information and annual financial statements of our sustainable funds (Article 8). These will be published for the first time in 2023. In addition, the measurement of PAIs for all funds started. This is necessary as a PAI statement (including figures for the indicators) prepared in accordance with RTS requirements is to be published in 2023 for the year 2022, which is the average of the four quarters. The necessary infrastructure for this is in place.

The sustainability preference query under MiFID II led to an expansion of the ESG methodologies of our sustainable funds to include selected PAIs from the E, S and G areas. The change came into effect in August 2022, in line with the regulation.

Also in 2022, the European ESG Template (EET) was filled for the first time and made available to our distribution partners. This enables sales partners and investors to automatically read out which PAIs, exclusions and shares of sustainable investments Lupus alpha implements in its various funds. In 2023, we will also enter the corresponding key figures for the PAIs into the EET for the first time.

Data and tools

For the application of the RTS from January 1, 2023, it was already necessary to collect and evaluate certain data in 2022. To ensure this, we had already conducted a vendor screening for this data in the third and fourth quarters of 2021 and decided on a supply by MSCI ESG Research.

After signing the contract, we had extended the existing data supplies (ESG scores, controversies, etc.) with the new data and integrated them into our systems. This enabled us to perform the first trial evaluations as early as December and ensure that all the necessary data was available from January 1, 2022.

We had defined the aggregation at portfolio level and the integration of the data into the investment processes as a target for 2022 and successfully implemented it. To this end, we expanded our database systems accordingly to be able to serve queries within a few seconds. In addition, we have developed an ESG tool for the front office, with which portfolio management can check the compliance of its investments with the applicable ESG guidelines (by asset class and strategy), analyze individual securities in detail with regard to ESG, evaluate portfolio key figures and document engagement at the push of a button.

The various applications are also interlinked. For example, the result of an engagement

flows directly into the compliance check. A so-called override system has also been introduced, which allows selected employees to overwrite data from our ESG data provider MSCI if it is incorrect or out of date. This process is documented in detail and runs on a dual control basis with compliance. Portfolio management has the ability to trigger and view the overrides, but not create them autonomously.

The changes in ESG methodologies have also been implemented by Compliance in our Sim-Corp software. Among other things, new exclusions and alerts on required exposure regarding the newly introduced PAIs have been implemented. This is controlled pre- and post-trade. Thus, investments that contradict the ESG methodology of the fund concerned are not possible.

Risk Management

The further development of the ESG methodology was also driven forward in risk management. Based on regulatory requirements and market standards, a detailed and intelligent concept for the consideration of various ESG risks was developed and subsequently implemented.

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

- ESG Score
- Carbon footprint
- Implied temperature rise²
- Proportion of companies with severe and very severe UN Global Compact violations
- Proportion of companies with active exposure to fossil fuels

²Implied 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.

In addition, 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
 - 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 footprint (Scope 1,2&3) over time
- Implied Temperature Rise
 - Distribution by temperature
 - Implied Temperature Rise over time
- Controversies (violations of UN Global Compact)
 - 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 chart

Physical and transitory sustainability risks are also covered by a quarterly report that includes all Lupus alpha funds. This is based on models developed in-house.

In addition to the regulatory innovations, we have further developed our internal ESG analysis tools and ESG competencies and integrated (fund-)specific key figures into risk manage-

ment. The same applies to customer-specific reporting.

With the measures taken and the introduction of new tools and reports, we will meet the ever-increasing regulatory requirements. We are confident that we have laid the appropriate framework for further development in the area of sustainability in the coming years.

Outlook

We are expanding our expertise in the area of sustainability and acting as a solution provider for our customers.

In 2023, our sustainability focus will be on implementing regulatory requirements, further improving our data structure, reports and tools, expanding our engagement and voting capabilities, and building an interdisciplinary ESG office.

Regulatory requirements

In 2023, we will populate the EET with data for the first time and make it available to our customers. Similarly, we will publish the PAI statement at the company level, showing the adverse impact our investment decisions have on sustainability factors. Furthermore, we will continue to closely monitor regulatory developments in order to be able to react quickly and appropriately if necessary (e.g. minimum share of sustainable investments by the European Securities and Markets Authority).

Improvement of data structure, reports and tools

We continue to work on our data structure, the ESG reports we produce (both in client reporting and risk management), and our in-house developed front-office ESG tools. Our ambition is to stay on the cutting edge of data use and analysis. In 2023, we will also analyze the extent to which it makes sense to expand our ESG data base.

Engagement and exercise of voting rights

The engagement and voting processes set up and launched in 2022 will be further developed and expanded as necessary. As an active asset manager, we see this as a great opportunity to deliver real added value in the area of sustainability.

Creation of an interdisciplinary ESG Office

In 2022, we decided to create an interdisciplinary ESG Office. This will meet for the first time at the beginning of 2023. The ESG Office reports directly to the Executive Board. The ESG Office will be led 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
- Ext. business
- Portfolio Management
- Reporting
- Risk Management
- Additional departments for ad hoc issues

The ESG team that existed until then will thus be formally and permanently integrated into the corporate structure and sustainability will become an integral part of Lupus alpha's corporate identity. The ESG Office is where Lupus alpha's ESG strategy will be brought to life and implemented.

MEMBERSHIPS

2015 Principles for Responsible Investment (PRI)
2018 European SRI Transparency Code
2019 Forum Nachhaltige Geldanlagen (FNG)

INTERNAL DOCUMENTS

Responsible Investing Policy
CSR Strategy
Principles for Exercising Voting Rights

EMPLOYEE QUALIFICATIONS

CESGA[®](Certified ESG Analyst) certification from EFFAS

DOCUMENTS FOR PRODUCTS WITH AN ESG FOCUS (extract)

Lupus alpha Sustainable Convertible Bonds

- Factsheet, including ESG reporting
- ESG methodology
- Transparency Code
- FNG Sustainability Profile

CONTACTS



Sustainability Officer

Michael Lichter
Telephone: +49 69 365058-7452
Michael.Lichter@lupusalpha.de



Sustainability Officer

Simona Papenbrock
Telephone: +49 69 365058-7261
Simona.Papenbrock@lupusalpha.de



CIO

Dr. Götz Albert
Telephone: +49 69 365058-7165
Goetz.Albert@lupusalpha.de

CREDITS

Lupus alpha Asset Management AG

Speicherstraße 49–51
60327 Frankfurt am Main
Telephone: +49 69 365058-7000
Fax: +49 69 365058-8000
E-mail: service@lupusalpha.de

Supervisory Board and Executive Board

Dr. Oleg de Lousanoff, Supervisory Board Chairman
Ralf Lochmüller, CEO
Dr. Götz Albert, CIO
Michael Frick, CFO

Responsible for content

Executive Board

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