

#### Contents

Foreword	Page	3
Corporate responsibility	Page	4
Lupus alpha – who we are	Page	5
Responsibility towards clients and business partners	Page	6
Responsibility towards employees	Page	6
Professional development	Page	7
Health	Page	7
Responsibility towards society	Page	8
Responsible investment	Page	9
Our approach	Page	10
Specific ESG approaches	Page	10
Exclusions (negative screening)	Page	10
Positive selection und best-in-class	Page	11
UN Sustainable Development Goals	Page	11
Consideration of principal adverse impacts on sustainability factors (PAIs)	Page	11
Engagement	Page	11
Solutions	Page	11
Internal and external data sources	Page	12
Summary	Page	12
Our Engagement	Page	13
Focus on Corporate dialogue	Page	14
Formal engagement regarding CO <sub>2</sub> and board gender diversity	Page	14
Our formal engagement activity in 2024	Page	15
Examples of our engagement	Page	15
Exercising voting rights	Page	16
Sustainability goals and changes in our approach	Page	18
Strategies and funds	Page	19
Regulation and reporting	Page	19
Data and tools	Page	
Risk Management	Page	21
Outlook	Page	22
Contacts	Page	25
Legal notice	Page	25

#### Dear Readers,

While the past few years have been characterised by a massive expansion of new ESG standards, regulations and initiatives, we are now seeing a clear change of course – especially on the other side of the Atlantic. The withdrawal from the Paris Climate Agreement announced by the US government and the motto "Drill, baby drill" are signalling a departure from previous climate policy. In the wake of the political reassessment, major US financial players – asset managers and banks – are retreating from their climate targets and established sustainability initiatives.

The issue of sustainability is also being re-evaluated in Europe. However, the headwind from the USA has not yet reached the EU with comparable intensity. Sustainability remains firmly anchored in the political objectives and the Green Deal for climate neutrality by 2050 is still on the political agenda.

At the same time, however, the focus is shifting. The focus is increasingly on issues such as competitiveness, growth and defence. At the same time, the increased regulatory burden on companies is being discussed – in particular the reporting obligations of the CSRD (Corporate Sustainability Reporting Directive) with the ESRS (European Sustainability Reporting Standards) and the CSDDD (Corporate Sustainability Due Diligence Directive).

In the case of investment products, we see a consolidation and clarification of existing regulations. The SFDR (Sustainable Finance Disclosure Regulation) will be revised in 2025, but by no means weakened. In addition, the ESMA guidelines on fund names place new, stricter requirements on ESG products.

Although these regulations create more transparency for private and institutional investors,



we are observing a growing desire for individual solutions beyond standardised categories, particularly in the institutional business. Institutional investors are looking for approaches that are tailored to their self-imposed goals and their specific ethical understanding. This relates to questions such as: Which sectors are considered ethically acceptable? How do we position ourselves on topics such as armaments and nuclear power? Are we focussing on ESG pioneers or on companies in transition?

Flexibility and adaptability are more in demand than ever in this complex landscape. The trick is to keep an eye on both the changing regulatory framework and the individual needs of our clients. We see it as our task to support our clients in navigating this landscape and achieving their very specific sustainability goals.

Yours sincerely

h. Mundial

Responsible investment
Our Engagement
Sustainability goals and changes
Outlook

# 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. Lupus alpha started out in the European small & mid cap segment with one of the largest and most experienced teams in Germany specialising purely in this asset class. With its active, bottom-up approach based on fundamental research, the young asset manager was able to continuously and sustainably generate added value for investors. As one of the first providers of absolute return concepts, Lupus alpha continued its specialisation in 2003, initially expanding its product range to include value protection strategies and, in 2007, volatility strategies. 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, value 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 state-

ment 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. We aim to deliver above-average performance and outstanding service to our investors over the long term, thereby creating real added value. By carefully and comprehensively considering ESG factors, we can identify special investment opportunities and detect sustainability risks earlier.

In our sustainable investment strategies, we make targeted use of the weight of the capital that we manage in trust for our clients: For us, sustainable investing, which takes into account environmental and social aspects as well as responsible corporate behaviour, is a decisive key to forward-looking active investment decisions. Our ESG investments thus make a contribution to the necessary change in our economy and society.

We have been a signatory to the Principles for Responsible Investment (PRI) since 2015. They not only define our framework for action, but are also an incentive for us to formulate ambitious goals and continuously develop ourselves further. We have also been a member of the Forum Nachhaltige Geldanlagen (FNG) since 2019 and a member of the Institutional Investors Group on Climate Change (IIGCC) since 2024.

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. If adjustments are made to the product side or in the processes, we inform our customers immediately about these changes and thus keep them constantly up to date. 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 German Investment Funds 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 incorporated into annual target planning and the necessary measures are implemented by cross functional project teams.

In 2021, all employees had the opportunity to contribute to the "Lupus alpha 2025" strategy process. This was done through an ideas contest, an employee survey, and several workshops. Due to the very high response, the concept for a continuous ideas management system was developed in 2022, which went live for the first time in 2023. Since then, employees have had the opportunity to submit ideas throughout the year as part of an ideas competition. All ideas are evaluated and the best three are awarded a prize at the end of the year. The programme was again very well received in 2024: around 60 ideas were submitted in a wide variety of categories - including ideas for product concepts, sustainable approaches to operational business and the optimisation of internal processes and procedures.

#### **Professional development**

When it comes to professional development, Lupus alpha offers various programs tailored to our employees' individual roles. In addition to the "Introduction Day", which provides an overview of all 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. In addition, internal "Lunch & Learn" events are organised at which various departments present investment strategies, processes, or background knowledge to all interested colleagues.

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 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 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 diagno-

sis day at the DKD Helios Clinic in Wiesbaden every three years, where a comprehensive check-up and specialist care modules are provided.

Additionally, employees can participate in various services offered by the medical service (B·A·D Gesundheitsvorsorge und Sicherheitstechnik GmbH) throughout the year, such as vision and hearing tests, workshops on ergonomic seating, or flu vaccinations. Since 2018, Lupus alpha has also provided all employees with an employer-funded private supplementary health insurance.

An individual mobility budget that can be used, among other things, for the purchase of public transport tickets or for the leasing of a job bike, gives our employees the opportunity to actively and sustainably organise their commute to work according to their own preferences.

#### **RESPONSIBILITY TOWARDS SOCIETY**

Since Lupus alpha was founded, we have regularly supported charitable organisations. These include organisations such as Aktion Mensch, Médecins Sans Frontières, Oxfam and the German Cancer Aid Foundation. In addition to annual donations to organisations that operate nationwide, we are also committed to providing local support. We also welcome and support the individual voluntary work of our employees, for example by giving them time off work.

# Responsible investment

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

We understand responsible investing to mean

- the integration of environmental (E), social (S) and governance (G) factors into the investment process and risk management as well as
- the frequent exchange with companies that we invest in, on topics regarding E, S and G factors, asking critical questions and helping 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.

#### **SPECIFIC ESG APPROACHES**

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

- Small and mid caps
- Convertible bonds
- CLOs
- Derivative Solutions (value protection, volatility, risk overlay)

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

#### **Exclusions (negative screening)**

In all our strategies, we employ revenue-based and norm-based filters. This excludes investments in companies engaged in specific industries or sectors, and/or proven to violate social standards and principles of good corporate governance. The exact exclusions vary depending on the strategy and fund in accordance with investor wishes and regulatory requirements.

In our strategies with ESG characteristics, we have applied additional exclusion criteria beyond minimum requirements (excluding controversial weapons) for many years. These relate, for instance, to the following business areas:

- Coal mining and power generation
- Fracking
- Nuclear power
- Conventional weapons and armaments
- Firearms and ammunition for civilian use
- Alcohol and tobacco

Norm-based exclusions include:

- Violations of the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
- Violations of the UN Global Compact (UNGC)
- Violations of international human rights conventions and inadequate response/ accountability by the company
- Violations of ILO core labour standards within the company and its supply chain, and inadequate response/accountability by the company
- Very severe controversies

#### Positive screening and best in class

In strategies that explicitly target a positive selection, we analyse the universe that is generally investable for a Lupus alpha strategy with regard to a large number of ESG criteria. ESG scores and ratings are used here, as well as data on the company's contribution to the Sustainable Development Goals (SDGs) or its carbon footprint. In portfolio construction, for example, companies with particularly good ESG profiles for one or more of these factors are favoured. In addition, these factors can be optimised at the level of the overall portfolio in order to outperform the ESG profile of a benchmark index.

#### **UN Sustainable Development Goals**

With the adoption of the United Nations' 17 SDGs, at the end of 2015, the international community formulated a global agenda for sustainable development. On this basis, central topics can be identified which contribute to sustainable development on different levels (economic, social, ecological), e.g.

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

ESG databases from external providers make it possible to analyse companies' products and services in terms of 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 of companies in investment decisions.

## Consideration of principal adverse impacts on sustainability factors (PAIs)

In principle, we measure the PAIs of the portfolio companies in all our funds. 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 consideration in the investment processes, it is necessary for the relevant data to be available and of appropriate quality for a large part of the investable 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- and 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- and midcap 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 maintain a formal and documented engagement process regarding selected PAIs (CO<sub>2</sub> emissions and diversity) in our small- and mid-cap strategies with ESG characteristics and in our sustainable convertible bond strategy.

#### **SOLUTIONS**

In special funds and mandates, we implement customised sustainable investment solutions for all asset classes. Clients can define all parameters according to their guidelines, for example revenue limits, thresholds for ESG scores/ratings, CO<sub>2</sub> data or SDG contribution. We are also able to develop and implement new approaches with our clients. In addition to company and

sector-related requirements, we can also define performance indicators at portfolio level, whereby we always focus on the compatibility of the performance targets with the chosen sustainability approach. We are constantly refining our processes and analysis methods and utilise additional external data sources, provided they meet our data quality requirements.

#### **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 MSCI ESG Research as an external data provider to obtain ESG data. This complements our own fundamental analysis of the respective companies.

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 our external ESG data provider MSCI ESG Research. For issuers not covered by MSCI, we collect the required ESG data ourselves via alternative data providers or by contacting the company directly. 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 (SCD) 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:

- Integration in fundamental analysis,
- Exclusions via revenue-based and normbased screening,
- Best-in-class or positive screening,
- Engagement.

With these approaches, Lupus alpha has various instruments 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 DIALOGUE**

Constructive dialogue with the companies in which we invest is an essential part of our investment processes. Our small- and 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. For our small- and mid-cap strategies with ESG characteristics, 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 dialogue strategies despite the reduced opportunities to exert influence. In our convertible bond strategies, this is possible directly with the portfolio companies. In our CLO strategies, as we have no direct influence on the underlying loan issuers, we talk to the CLO managers about opportunities for ESG integration in their selection criteria for loans.

## Formal engagement regarding CO<sub>2</sub> and board gender diversity

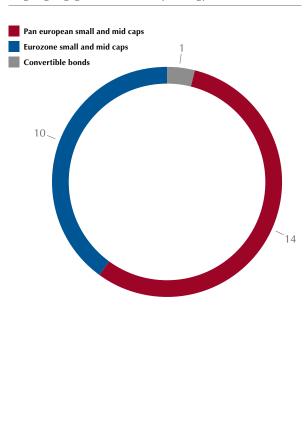
In our small- and mid-cap strategies with ESG characteristics and our sustainable convertible bond strategy, we consider selected ESG criteria in the form of formal and documented engagements. These criteria include CO<sub>2</sub> metrics and board gender diversity.

While for some criteria, such as controversial weapons or severe violations of the UN Global Compact, only a strict exclusion is considered appropriate, CO<sub>2</sub> metrics and diversity provide a good basis for engagement. In line with the transition concept, we aim to positively influence companies and initiate improvements based on these two criteria. We believe this approach is more suitable than relying solely on strict exclusions. We conduct formal and documented engagements with companies that rank in the lowest quartile of their industry peer group in terms of CO<sub>2</sub> footprint and intensity (small- and mid-cap strategies with ESG characteristics) or in the lowest decile (sustainable convertible bond strategy), or where their board lacks female representation. However, if both criteria apply simultaneously to a company, it is deemed ineligible for investment by us.

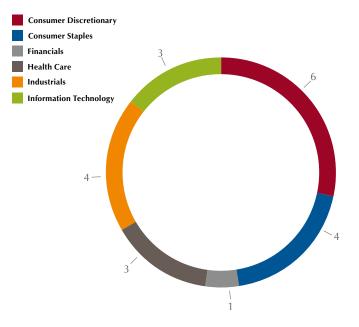
#### Our formal engagement activity in 2024

In the reporting year, we carried out formal engagement processes with 21 companies, initiating new engagements with 11 and continuing 10 from the previous year. Apart from one engagement case, the focus was on CO<sub>2</sub> metrics. The following figures illustrate the engagements categorized by different criteria.

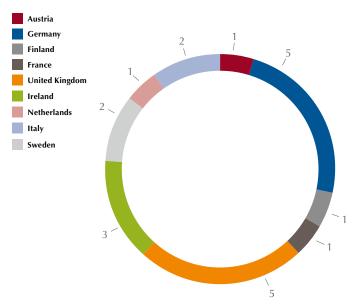
#### Ongoing engagements in 2024 by strategy<sup>2</sup>



Ongoing engagements in 2024 by sector<sup>3</sup>



Ongoing engagements in 2024 by country



#### **Examples of our engagement**

**Verbio SE** is a German company that specializes in the production of biofuels and biomethane. At the company's initiative, a meeting was held with the Head of Investor Relations in September 2024 to discuss, among other things, the inclusion of Verbio in our Article 8 funds. The

<sup>&</sup>lt;sup>2</sup>An engagement case was assigned to a strategy if the company in question was included in the portfolio of that strategy during the current calendar year after the engagement began. Consequently, an engagement case may be assigned to multiple strategies.

<sup>&</sup>lt;sup>3</sup> For the classification of sectors, we follow the GICS sectors.

focus was on questions regarding the calculation of the sustainable investment ratio - whether based on the EU taxonomy or the SFDR – as well as the company's classification with our data provider regarding relevant ESG data points. The dialogue underlines our role as an active partner to the companies in which we invest: As direct dialogue between companies and data providers is often difficult due to potential conflicts of interest, we take on a mediating role. This creates transparency for the companies as to which information is particularly relevant for investors - which in turn supports our fundamental analysis in the ESG context. We have received confirmation that this dialogue is particularly valuable for smaller companies, as it helps them to prioritize the relevant data in the context of increasing regulatory requirements.

Eckert & Ziegler is an internationally active German company that specialises in radioactive components for medical, scientific and industrial applications. We entered into dialogue with the company in the first quarter of 2024. The background to this was weak CO<sub>2</sub> data compared to the industry, which was based solely on estimates from our data provider, as the company had not yet published its own emissions data. In the dialogue, we looked in particular at the question of why CO<sub>2</sub> emissions – especially Scopes 1 and 2 – had not yet been recorded. We discussed both the specific challenges of a medium-sized company with numerous locations when collecting data and the areas in which the company suspects the highest emissions. Eckert & Ziegler also informed us about measures already taken and planned to reduce emissions. The company promised to record and disclose CO<sub>2</sub> emissions for the first time in the course of 2025 with the support of external consultants. This commitment was confirmed again later in the year. We will carefully analyse the published data.

**Daiwa House,** Japan's largest construction group based in Osaka, specializes in the con-

struction and renovation of residential and commercial properties. In conversation with the company, it became clear what contribution it is making to a more sustainable economy: For example, we talked about the fact that over 75% of warehouses and factories in Japan are more than 20 years old and no longer meet current ESG standards; many are also empty. Through targeted renovations, Daiwa House is improving earthquake safety and helping to alleviate the housing shortage. In new construction, the focus is on climate neutrality over 98% of newly constructed buildings are Net Zero houses. In addition, the company implements strict guidelines for dealing with asbestos, a particularly relevant issue in Japan due to the late ban. We have suggested calculating the potential savings of the climate-neutral new buildings and making them transparent. This example shows how ESG priorities depend heavily on the geographical context - and how we support companies in identifying and disclosing key figures that are relevant to investors.

#### **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

In the small- and mid-cap segment, regular and direct contact between our portfolio managers and the portfolio companies means that any concerns can be communicated to the company 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 annual general meeting for shareholdings above the threshold described above, the agenda items are 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. Our in-depth engagement with selected companies and the increased level of scrutiny applied to individual voting items mean that we participate in fewer annual general meetings. However, we place particular importance on substantive analysis and targeted influence before and during the annual general meetings, rather than aiming to maximise the number of votes cast.

These analyses and recommendations from the external research provider 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 investee companies, Lupus alpha may also deviate from the guidelines 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.

In general, our goal is to address 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.

In 2024, Lupus alpha actively voted at 103 Annual General Meetings (relating to 101 companies). At 67 meetings, i.e. in around 65% of cases, we voted against the management on at least one agenda item or abstained. At 36 Annual General Meetings, we were therefore in full agreement with the resolutions put forward by management.

# Sustainability goals and changes in our approach

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

The topic is evolving dynamically, both from a regulatory and market perspective, which is why it is essential to continuously review and develop our sustainability approaches. In 2024, the focus was on the following developments in particular: the ESMA guidelines on fund names (driven by regulation), a rethink of the concept of sustainability on the market side and the increasing availability of relevant ESG data (also influenced by regulation).

We are also observing that the term "sustainability" is being interpreted more and more individually in an institutional context. Accordingly, it is crucial for us that our strategies fulfil these different expectations.

#### **STRATEGIES AND FUNDS**

We did not make any significant changes to our sustainability strategies in 2024. Nevertheless, we worked intensively on the further development of our approaches in the context of the ESMA guidelines and the draft regulatory technical standards (RTS) developed by the European Supervisory Authorities (ESAs) – particularly with regard to the more specific definition of sustainable investments as defined in the SFDR. The focus was on the three strategy areas of small and mid caps, convertible bonds and derivative solutions.

The process involved collecting and understanding relevant data points, analysing the impact on individual funds and discussing possible adjustments across departments. The aim was to establish approaches for all strategies that were compliant with regulatory requirements and at the same time further developed in terms of content and in line with current market standards. This was an iterative process in the course of which we arrived at viable solutions towards the end of 2024. The concrete implementation of these further developments is planned for 2025.

Our sustainable convertible bonds fund Lupus alpha Sustainable Convertible Bonds received the FNG sustainability label for the seventh time in a row and was also awarded two out of three possible stars. We see these awards as confirmation of the quality of the ESG investment approach. The award of stars makes it clear that we not only fulfil the FNG minimum standards, but also comply with additional criteria in the areas of institutional credibility, product standards (such as the ESG research process) and portfolio focus (e.g. exclusions that go beyond the minimum criteria).

#### REGULATION AND REPORTING

Last year, the regulatory focus in the ESG area was on the ESMA guidelines on fund names. These guidelines define binding criteria for funds that use sustainability-related terms in their names. The aim is to prevent greenwashing through misleading names. Fund companies were therefore faced with the choice of either adapting their investment processes to the guidelines or changing the names of the funds concerned by 21 May 2025 at the latest.

We are also affected by this regulation: Four of our mutual funds had the term 'sustainable' in their names in 2024 and had to be reviewed accordingly and any adjustments had to be prepared in terms of content and systems.

There were also important developments in the context of the Disclosure Regulation (SFDR). For example, we published our second PAI statement, which transparently sets out how we deal with material adverse sustainability impacts (principal adverse impacts) at company level. For the first time, the statement also included a mandatory comparison with the previous year - a significant step towards sharpening the informative value, as the figures for the 2022 and 2023 reporting years can now be compared. In order to communicate these changes in a comprehensible manner – both internally and externally – we have developed an internal attribution analysis. This makes it possible to quantitatively identify and categorize the causes of changes at company and fund level. This is because there can be many reasons for changes in PAI values – for example:

- At company level: changes in fund weighting, changes in data coverage or changes in methodology at the data provider
- At fund level: reallocations in the portfolio or actual changes to the PAI figures by the companies themselves

The ability to analyse and communicate these developments in a comprehensible manner is essential for a meaningful PAI statement and meets our own high standards. In addition, we have carefully reviewed the guidance from the ESAs on new calculation logic and integrated it into our processes. Finally, we have made formal adjustments to our website to fulfil the requirements of the SFDR's RTS.

In addition to ESG reporting, which is mandatory under regulatory requirements, we continue to provide fund-specific ESG methodologies on our website. We also prepare customized ESG reports (e.g. monthly) - with the clear aim of creating transparency for our clients, considering current data availability and addressing individual information needs in a tailored manner. A key development in reporting was the integration of taxonomy key figures: These key figures are particularly relevant at fund level for some of our institutional clients, who will have to fulfil their reporting obligations under the Corporate Sustainability Reporting Directive (CSRD) for the first time in 2025. In this context, we have systematically integrated around 1,000 available data points into our systems and analysed them to present aggregated key figures at fund level and answer future enquiries more efficiently.

#### **DATA AND TOOLS**

The regulatory changes mentioned in the course of the ESMA guidelines on fund names also require consistent integration into our internal systems – in particular into our data warehouse (DWH), SimCorp Dimension (SCD) for compliance checks and our internal ESG tool. In the run-up to the guidelines coming into force, we specifically checked:

- The availability and quality of relevant data points
- The technical integration of these data points into existing systems. However, the new requirements will not be implemented until 2025.

In addition to the information relevant to the ESMA guidelines, other databases were also analysed and integrated:

- Around 1,000 taxonomy data points
- Around 1,500 newly acquired data points on physical and transitory climate risks. Although data on climate risks was already available, the new information provides a much more differentiated view.

Our internally developed ESG tool has been successfully established across teams. New ideas for the further development of this tool are constantly emerging from interdisciplinary dialogue in order to improve internal reporting and the use of ESG data and ESG risks.

On the one hand, further development includes the useful preparation of new data. For example, we have created a new report that makes taxonomy data available for customer enquiries and regulatory reporting. The data on physical and transitory climate risks is already integrated in risk management, but we are still in the process of preparing it in order to make specific data available to the relevant group of people.

In addition, we are constantly implementing

new functionalities in the ESG tool based on existing data. In 2024, for example, we began adapting our internal structure so that key existing functions can also be used for CLO ESG data. Although the data situation in this area is still patchy, it is now possible to systematically record changes in data availability, at least for information purposes, and to make the functions available company-wide for the CLOs for which the data is available. In addition, the aforementioned attribution analysis for analysing changes in PAIs has been prepared in the ESG tool and is therefore widely accessible internally.

In parallel, we continued our active dialogue with various data providers in 2024. We hold regular discussions with our existing partners to stay informed about current developments, initiate data-related improvements, and communicate our own requirements. At the same time, we continuously explore the market through discussions with additional providers in order to remain up to date on data availability, data quality, and emerging market standards.

#### **RISK MANAGEMENT**

The consideration of ESG risks is an integral part of our risk management. 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 rating
- Carbon footprint
- Implied temperature rise<sup>4</sup>
- Proportion of companies with severe and very severe UN Global Compact violations
- Proportion of companies with active exposure to fossil fuels.

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
  - List of companies with an ESG rating below 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 footprint (Scope 1, 2 and 3) over time
- Implied temperature rise
  - Distribution by temperature
  - Implied temperature rise<sup>4</sup>
- Controversies (violations of 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 chart

Physical and transitory sustainability risks are also covered by a monthly report that includes all Lupus alpha funds. This is based on models developed in-house. In modelling climate risks, we incorporate scenarios from the Network for Greening the Financial System (NGFS).

# Outlook

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

#### **Regulatory requirements**

At the beginning of 2025, our primary focus is on the timely implementation of the new **ESMA guidelines on fund names**. In December 2024 – around four months after the guidelines were published on ESMA's website – ESMA released a Q&A document providing clarifications, in particular regarding the previously undefined term "invest meaningfully" in sustainable investments for funds referencing "sustainability" in their names. This minimum proportion has now been set to at least 50% of the fund's assets.

Implementation will include both the revision of regulatory documents (e.g. prospectuses, key investor information) and the adaptation of internal tools and processes. Furthermore, we will transparently reflect these changes in our fund-specific ESG methodologies as well as in marketing and sales materials.

In parallel, we will refine our definition of sustainable investments in line with the latest RTS update issued by the ESAs in December 2023. In particular, the requirements for assessing compliance with the "Do No Significant Harm" (DNSH) principle have been tightened. Going forward, we will systematically include all relevant Principal Adverse Impacts (PAIs) in the DNSH assessment and disclose the thresholds and evaluation criteria used. These details will be published in both our ESG methodologies on the website and in Annex IV of the annual reports of the affected funds. While the new methodology has already been defined and tested from a data perspective, it will only be applied once the ESMA guidelines come into force to ensure a consistent transition.

We continue to closely monitor regulatory developments in order to respond quickly and knowledgeably if necessary. In 2025, particular attention will be paid to the revision of the SFDR. Originally conceived as a pure transparency regulation ("if a fund claims sustainability, it must

disclose how it achieves this"), the SFDR has, in market practice, evolved into a de facto product classification system. Terms such as "Article 8" (light green) and "Article 9" (dark green) have frequently been used in marketing contexts. Against this backdrop, the Platform on Sustainable Finance, an advisory body to the European Commission, proposed a new categorization system in December 2024. This framework foresees classifying funds into four groups: Sustainable, Transition, ESG Collection, and Unclassified. Whether and how this system will replace the current Article 6/8/9 classifications remains the subject of intense market debate.

Note: Contrary to the information provided in the previous sustainability report, Lupus alpha will not be subject to CSRD reporting obligations in 2026 for the 2025 reporting year.

#### Improvement of data structure, reports and tools

The evolution of our data structure, ESG reports, and internally developed front office ESG tools is an ongoing process, as the availability and quality of ESG data continue to improve. At the same time, we are seeing a significant increase in the individualisation of sustainability approaches requested by our clients. As a result, we will further develop our internal tool to ensure it provides cross-departmental transparency regarding these client-specific requirements. This will enable all employees to conduct ESG analyses consistently with individual client needs in mind. In addition, the evaluation of further data providers will remain an ongoing process in 2025.

#### **MEMBERSHIPS**

2015 Principles for Responsible Investment (PRI)2019 Forum Nachhaltige Geldanlagen (FNG)2024 The Institutional Investors Group on Climate Change (IIGCC)

#### **COMPANY-RELATED DOCUMENTS WITH ESG FOCUS**

Responsible Investing Policy Principles for Exercising Voting Rights

#### **PRODUCT-RELATED DOCUMENTS WITH ESG FOCUS (extract)**

#### **Lupus alpha Sustainable Convertible Bonds**

- Factsheet, including ESG reporting
- ESG methodology
- Company portraits

#### **EMPLOYEE QUALIFICATIONS**

CESGA®(Certified ESG Analyst) certification from EFFAS

# CONTACTS



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



Sustainability Officer Eva Kehrbusch Telephone: +49 69 365058-7448 Eva.Kehrbusch@lupusalpha.de



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

#### **LEGAL NOTICE**

#### **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, Vorsitzender des Aufsichtsrates Ralf Lochmüller, CEO Dr. Götz Albert, CIO Michael Frick, CFO

#### **Responsible for content**

**Executive Board** 

We would like to thank all colleagues involved in the preparation of this report for their kind support.