

Lupus alpha

Sustainability Report

2020



Lupus alpha

Table of contents

Preamble	page 3
Entrepreneurial Responsibility	page 4
Lupus alpha - who we are	page 5
Responsibility to customers and business partners	page 6
Responsibility towards employees	page 6
Continuing education	page 7
Health	page 7
Responsibility towards society	page 8
Responsible Investing	page 9
Our approach	page 10
Sustainable investment solutions	page 10
Specific ESG approaches	page 10
Exclusions (negative screening)	page 10
Positive selection and best-in-class	page 10
UN Sustainable Development Goals	page 10
Solutions	page 11
External data sources	page 11
Conclusion	page 11
Our Commitment	page 12
Focus on corporate dialog	page 13
Exercising voting rights	page 13
Sustainability Goals & Changes	page 14
Outlook	page 16
Contact	page 18
Imprint	page 18

Preamble

Dear readers,

the ESG momentum is picking up: In the first quarter of 2021, sustainable products accounted for 41% of inflows to open-ended mutual funds, according to BVI statistics. One driver of this acceleration is the Disclosure Regulation, which came into force in March 2021. The next push will come in 2022 with the new Financial Markets Directive regulation MiFID, as private investors will then have to be asked about their preference for ESG issues. For institutional investors, the growing reputational risk is one of the key drivers of demand.

For Lupus alpha, this means that existing guiding policies in portfolio management will become binding guidelines. Common investor sense become transparent processes. And some sets of criteria can give rise to conflicting goals - for example, when an ore processor uses a lot of energy to produce metals that are essential for the energy transition. Or when, on the one hand, targets have to be met that serve climate protection and, on the other, targets that are intended to provide adequate living space for the world's growing population. This makes it even more important to meet our customers' need for transparency in an open and proactive way. We do this by making all our ESG methodologies available on our website. We always welcome questions about this.

For an asset manager using an active management approach, however, even new opportunities arise. For example, a company might be placed on our watchlist if it is currently not investable from an ESG perspective but has the potential to become investable in the foreseeable future. Ratings



can provide an initial orientation, but are based on public data and are only updated at long intervals. With most recent data and their own assessment, our portfolio managers are better equipped to discover development potential, and to be alert to possible risks. With the growing importance of sustainability ratings, there is also a challenge of recognizing whether a valuation premium based on a good ESG assessment is also fundamentally justified. This must be recognized and implemented in a portfolio before the mass of investors is able to act on such information.

New policy frameworks for ESG are redefining and driving the investment industry. However, while it is important to establish regulatory standards in this regard, we should maintain a sense of proportion: It takes the innovative and intelligent solutions of companies to achieve overall societal goals such as climate neutrality. It is of little help to hamper the innovative strength needed for this task - for example, with more and more government regulations and rules. Real progress can only be achieved by working together with companies, not against them.

Yours,

A handwritten signature in blue ink that reads "Hall Muntz". The signature is written in a cursive, flowing style.

Entrepreneurial Responsibility

Fairness, solidarity and trust characterize our relationship to clients, business partners, employees and society.

LUPUS ALPHA – WHO WE ARE

Lupus alpha was founded in October 2000, being one of the first independent asset managers in Germany. With a corporate structure based on partnership and independence from banks, the founding partners laid the foundation for a special corporate culture that optimally supports a quality and performance orientation and offers top performers a long-term perspective. To this day, this makes Lupus alpha a genuine alternative to its market-dominating competitors.

Since our founding, we have focused on investment approaches in specialized asset classes with particular return drivers. Starting in the segment of European small & mid caps, Lupus alpha was able to add continuous and sustainable value for investors with one of the largest and most experienced teams specialized in small caps in Germany as well as an actively managed bottom-up approach based on fundamental research. Being one of the first providers of absolute return concepts, Lupus alpha continued its specialization in 2003 and expanded its product range to include "Alternative Solutions". This was prompted by the growing demand of institutional clients for liquid alternative investment approaches as well as an expanded legal framework.

Today, the product portfolio comprises investment concepts in the asset classes equities, convertible bonds and collateralized loan obligations. In addition, Lupus alpha is one of the leading providers of volatility strategies. With more than 90 employees - of which 35 are specialists in portfolio management - we systematically identify new alpha sources and sustainable risk premiums for investors with specialized strategies. In this way, we explore innovative paths to broader and deeper diversification of their overall portfolios.

One of our key corporate responsibilities is to focus on the needs of our customers while keeping an eye on the risks. As a specialized asset manager, we therefore focus on the continuous development of our investment strategies and on generating long-term returns for our customers. Only in close cooperation with customers, business partners, shareholders and employees we are able to live up to this responsibility and to operate successfully in the long term. Our understanding of responsible conduct and thus also of compliance with ethical business standards is based on these stakeholders. As a company, we bear social responsibility to make valuable contributions to the common good as well as a meaningful contribution to the economy.

Since 2015, we have been a signatory to the Principles for Responsible Investment (PRI). For us, they do not only define a framework for action, but are also an incentive to formulate ambitious goals and to continuously develop our approaches. Since 2019, we have also been a member of the Forum Nachhaltige Geldanlagen (FNG), which is the German representative of EUROSIIF.

In our Corporate Social Responsibility (CSR) strategy, we have defined the key issues for us and formulated measures to achieve these goals. Responsibility for Lupus alpha's CSR strategy lies with the management board. All employees are responsible for effective implementation within the scope of their respective areas of expertise.

RESPONSIBILITY TO CUSTOMERS AND BUSINESS PARTNERS

To ensure that we understand our customers' needs as accurately as possible at all times and are able to offer truly individualized services, we stress the importance of a partnership-based relationship. Our Clients & Markets team regularly analyzes whether we are comprehensively covering our customers' needs.

Sustainable investment strategies have been part of these customer needs for a long time and have been gaining further importance over time. Therefore, one of our integral service offerings is to implement tailored solutions for our institutional investors over and above our existing sustainable investment approaches. We also provide our customers with regular reportings and up-to-date information on our investment strategies to ensure the best possible transparency with regard to the investment process, investment results and relevant ESG indicators. If there are adjustments on the product side or in the processes, we inform customers immediately about these changes and keep them constantly up to date. With comprehensive measures, Lupus alpha not only ensures compliance with laws and regulatory requirements, but also applies the rules of conduct established by the German investment and asset management association (BVI). It is important to us that our relationship with clients, business partners and employees is characterized by fairness, solidarity, and trust and that we communicate transparently with all stakeholders.

Lupus alpha expects its employees to behave with integrity towards customers and business partners in order to avoid conflicts of interest and to always act in the customers' best interests. To this end, all processes are constantly monitored in accordance with the applicable regulations. Employees are regularly trained and sensitized on topics such as avoiding

money laundering or insider trading. In addition, individual departments are subjected to regular risk monitoring to ensure constant monitoring of operational and process risks.

As part of the risk analysis of our outsourcing partners, we evaluate our business partners with regard to the implementation of ESG criteria in their companies. If individual criteria are not met, we reserve the right to take further steps and, in case of doubt, terminate existing business relationships.

RESPONSIBILITY TOWARDS EMPLOYEES

Lupus alpha's corporate culture is characterized by open, constructive interaction, a high degree of personal responsibility and employee satisfaction. A positive working environment is just as important as further training and health. We support our employees in continuously developing their professional and social skills and develop possible career paths. After all, only highly motivated employees deliver top performance for our customers. Competent and committed employees make a decisive contribution to the long-term success of the company and also help to achieve important competitive advantages within the asset management industry. This presupposes that we not only succeed in attracting the best talent, but above all in motivating them to become high performers that stay with the company in the long term. We meet as equals and invest in young talents and leaders who actively take on responsibility and drive Lupus alpha forward.

To promote an open, critical exchange of opinions between employees, managers and partners, an annual employee survey was introduced back in 2000: The "Open Forum". This communication platform simplifies internal discussions on matters that are important to employees, so that

they can subsequently be addressed with concrete measures if deemed necessary.

In addition, employees from all areas are involved in the further development of the corporate strategy via the annual "Targets & Goals-Workshop". Suggestions from among the employees are collected, discussed and prioritized there. Selected suggestions are then incorporated into the annual target planning and the necessary measures are implemented in cross-divisional project teams.

Continuing education

In the area of further training, Lupus alpha offers various programs tailored to the individual position of the employee. In addition to an "Introduction Course", in which all of Lupus alpha's business areas are presented, other programs are available to new employees. Each new colleague is assigned an experienced senior manager through the Lupus alpha mentoring program. The aim of this program is to systematically promote the integration of new colleagues. Internal "Lunch & Learn" events are also held at regular intervals, during which Portfolio Management presents products in detail to all colleagues.

A special training program is available for employees moving up to management positions. In combination with professional, external training seminars, the "Leadership Program" serves to prepare new managers in the best possible way for their new role in the company and in the team.

Further training in the area of sustainable investments is specifically promoted through CESGA certification (Certified ESG Analyst). In addition, employees have the opportunity to take advantage of the CFA program or MBA courses. The aim here is to ensure the best possible individual qualification measures for our employees, taking into account both personal desires and needs as well as professional requirements.

Health

Lupus alpha puts great effort in actively promoting the health of its employees. Employees have access to a fitness room for personal training. Together with a personal trainer, individual training plans can be developed and worked out. In addition, self-organized sports groups meet regularly to prepare for joint competitions or the J.P. Morgan Corporate Challenge run in Frankfurt.

In addition to sports, Lupus alpha also attaches great importance to preventive health care. The "Preventive Health Care Program" has been in place for several years. Every three years, this program includes a complete diagnostic day at the Helios DKD Clinic in Wiesbaden for all employees aged 35 and above, which includes a comprehensive check-up as well as special preventive modules. In addition, employees can take advantage of various offers from the occupational health service (B·A·D Gesundheitsvorsorge und Sicherheitstechnik GmbH) throughout the year, such as vision and hearing tests, workshops on ergonomic sitting or flu vaccinations. Since 2018, Lupus alpha has also offered all employees employer-funded supplementary private health insurance.

RESPONSIBILITY TOWARDS SOCIETY

Since the inception of Lupus alpha, we have regularly supported charitable organizations such as Aktion Mensch, Schritt für Schritt - Hilfe mit System e.V., Oxfam and other regional organizations. In addition to our annual donations to national organizations, we are also committed to supporting local organizations, such as Krebshilfe Frankfurt e.V.

Together with the Economic Development Corporation Frankfurt, we have participated in the annual Christmas campaign of the Frankfurter Kinderbüro since 2006, fulfilling Christmas wishes for children in precarious situations. In this way, around 50 children were once again able to receive personal Christmas presents shortly before Christmas 2020. In total, this initiative, which took place for the 25th time in 2020, has now reached around 5,000 children in Frankfurt. Finally, we welcome and support any volunteer work by our employees, for example by giving them time off.

Responsible Investing

We systematically integrate ESG factors into our investment process and consider ESG risks using a flexible set of tools.

OUR APPROACH

We understand responsible investing to be the integration of Environmental (E), Social (S), and Governance (G) factors and the consideration of ESG risks in the investment process. We believe that these non-financial factors have an impact on the long-term financial performance of companies. Companies with weaker sustainability standards regularly have higher risks in these areas.

At the heart of our equity strategies lies an ongoing and constructive dialogue with the companies in which we invest. In this context, we also critically scrutinize E, S, and G risks in order to help initiate changes. Company meetings are in any case a key component of our investment strategies, because we consider them to be decisive for our long-term investment success.

SUSTAINABLE INVESTMENT SOLUTIONS

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

- Small & Mid Cap equities
- Alternative Solutions
- Convertible Bonds
- CLOs

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

SPECIFIC ESG APPROACHES

We have been managing funds and mandates using sustainability approaches for over 15 years. Below is an overview of the approaches we offer, which can also be combined:

Exclusions (negative screening)

In these strategies, filters are used to exclude investments in companies that are active in certain business areas or sectors.

In the small & mid cap sector, for example, we have been implementing further exclusion criteria in various funds for many years, over and above our minimum requirements (no controversial weapons). These relate, among other things, to companies that are involved in the following business areas:

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

In 2020, we introduced a binding ESG methodology for three of our mutual funds in the small & mid cap segment, which have been published transparently and comprehensibly on our homepage.

Positive selection and best-in-class

We screen the investable universe against a broad variety of ESG criteria. ESG scores and ratings are used as well as data on controversies or the company's carbon footprint. In the portfolio construction process, preference is given to companies that have particularly good ESG profiles in relation to one or more of these factors, e.g. by assigning a higher weighting as done by the Lupus alpha Sustainable Return. Moreover, these factors can be optimized at the overall portfolio level to outperform a given 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, key impact topic areas can be identified.

Using external ESG data providers, the products and services of investee companies can be analyzed with respect to their positive contribution to these factors. The higher the proportion of a company's revenue accounted for by these products and services, the higher the positive social and environmental impact. 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 specifically target an impact on one or more of these goals.

SOLUTIONS

In separately managed accounts and mandates, we implement customized sustainable investment solutions for all asset classes. Here, all parameters can be customized, e.g. revenue limits, thresholds for ESG scores/ratings, CO₂ data or SDG contributions. In addition to company- and sector-related requirements, control parameters can also be determined at portfolio level. Here, we focus on the compatibility of performance targets with the selected sustainability approach.

We continuously develop our analysis and research procedures and explore additional external data sources, given they meet our high data quality requirements. Our aim is to offer the best possible risk and return profile for an investment over the long term, taking into account all available information.

EXTERNAL DATA SOURCES

In recent years, the volume and quality of available ESG data has steadily increased. We have taken advantage of this development by investing in external research and internal expertise. Our aspiration is to take all available and relevant information into account when managing our funds or preparing client reporting.

Lupus alpha uses two external data providers to obtain specialized ESG data: MSCI ESG Research and Bloomberg. Their data input supplement our own fundamental analysis of the respective companies.

For portfolio implementation, we use the software of SimCorp Dimension. It enables the automated blocking of excluded issuers. This reliably prevents the acquisition of securities from blocked issuers by both the portfolio manager and the portfolio implementer.

CONCLUSION

In the investment process, we use a range of options to take ESG criteria into account. Lupus alpha's approaches include the following tools to incorporate ESG requirements into the portfolio construction process in the way necessary to achieve a good and well-founded result:

- Integration into fundamental analysis
- Exclusions and standards-based screening
- Best-in-class or positive screening

In separately managed accounts and mandates, we implement customized sustainable investment solutions for all asset classes, whereby a combination of the various instruments is also possible.

Our Commitment

Our understanding of ESG thrives on constructive dialogs with companies.

FOCUS ON CORPORATE DIALOG

Lupus alpha systematically addresses material ESG issues in company discussions. Constructive dialogue with the companies in which we invest is an essential part of our investment processes. Our Small & Mid Cap team completes around 1,000 company meetings every year. In doing so, we bring relevant ESG issues into the focus of the companies and thus exert influence to address risks and initiate positive developments.

Governance issues play a particularly important role, as the quality of corporate management is crucial to the company's long-term success. Here our focus is on the people acting, the independence of the supervisory bodies and the avoidance of conflicts of interest. Equally important are issues relating to the design of management compensation systems in order to achieve alignment of management interests with those of shareholders and other stakeholders. A transparent management information policy is also important.

Issues relating to the sustainability of production, working conditions and occupational safety, as well as compliance with legal standards - including along the supply chain - play an important role. In addition to direct economic risks, there may be potential reputational risks here, which may damage the corporate brand and pose a threat to the business model. Other areas discussed include resource consumption, production processes, growth plans and the company's climate strategy, as well as the design of outsourcing relationships and employee participation. In addition, our portfolio managers contact their portfolio companies on an ad hoc basis as needed, particularly in the event of newly emerging controversies. Company responses and actions are tracked and documented, and the results are incorporated into the review of investment decisions.

EXERCISING VOTING RIGHTS

As a capital management company, we also exercise voting rights in the funds we manage in order to promote a sustainable corporate development of the portfolio companies. Based on clearly defined criteria summarized in the "Voting Rights Policy", Lupus alpha exercises shareholder voting rights on a fiduciary basis for investors. In this context, shareholder and creditor rights are exercised independently of the interests of third parties and exclusively in the interests of the investors in the respective investment fund.

As a matter of principle, we support all measures that serve to maintain and increase the long-term value of the company. Our good knowledge and careful analysis of a company's management and its strategy lead us to vote in favor of the management in most cases. In selected cases, when we expect certain measures to harm the long-term value of the company, we vote against the management or try to bring about change as active shareholders.

For us, the essential prerequisite for voting against management as an active investor is materiality. This relates on the one hand to the importance of the issue in question for the development of the company that we expect, and on the other hand to our stake in the company. In this way, we want to ensure that our concerns are heard and that our involvement has an impact for us and our customers. On a case-by-case basis, we also work together with other investors in order to increase our influence.

In general, however, our goal is to address the important ESG issues in advance in the course of an open dialog, e.g. in the regular company meetings, to initiate changes and thus to achieve the desired results by interacting directly with the companies. In 2020, Lupus alpha voted at around 180 annual general meetings. In 18 cases, we actively exercised our voting rights, i.e. the responsible portfolio manager decided in detail how to vote.

Sustainability Goals & Changes

We expanded our product range with new sustainable funds.

Our sustainability goals for the year 2020 included further integration of ESG issues into our investment processes in Alternative Solutions, our shareholder policy, intensification of communication with investee companies regarding sustainability, and implementation of the Lupus alpha Corporate Social Responsibility concept.

In 2020, we were able to further improve our ESG activities both quantitatively and qualitatively:

Data & Tools: After successfully integrating the data feed from our ESG research provider (MSCI ESG Research) into our internal data warehouse in 2019, we started to use this data to improve our existing tools or create new tools. All tools are based on the same data set and follow the same logic. However, they are customized and can be used for the needs of the respective departments, such as portfolio management, research, reporting and risk management. In addition, we offer our customers more customization options and flexibility of the analysis. Examples are the calculation of the carbon footprint, ESG scores on fund level or the documentation of controversies on individual level.

Funds & Strategies: Our Lupus alpha Sustainable Convertible Bonds fund received the FNG label with two out of three stars for the third time in a row. For three of our investment funds in the listed equity segment, we have introduced a formal and legally binding set of minimum ESG criteria to complement the company-wide exclusion list.

Although the thresholds and requirements used there were not mandatory prior to introduction, we had voluntarily applied most of them before.

In order to provide maximum transparency to our customers and prospects, we publish both our product / fund-specific ESG methodologies and fund-specific ESG reporting on our homepage.

Employees: In 2020, two employees participated in dedicated ESG programs, one of whom has graduated as a Certified ESG Analyst (EFFAS). Our cross-departmental ESG team is now fully established. Team meetings have been institutionalized and facilitate communication and decision-making for companywide ESG issues.

Outlook

We are consistently aligning our investment processes to ESG requirements.

Over the next two years, we intend to apply for additional ESG labels and ratings for our funds. This will allow us to publicly demonstrate our belief and commitment to sustainability and our progress in ESG integration. The focus in the coming year will be on improving and formalizing our ESG methodologies in the area of more complex strategies (CLO and derivative strategies). We also aim to increase the

breadth and depth of our ESG reporting - with a focus on client-specific customer reporting. Alignment with and implementation of national and international regulations (SFDR, API, etc.) will also be a key driver of our ESG efforts.

To further expand the voting policy, we will set up and implement the process including a voting agent.

MEMBERSHIPS

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

INTERNAL DOCUMENTS

Responsible Investing Policy
CSR Strategy
Principles for the exercise of voting rights

EMPLOYEE QUALIFICATION

EFFAS CESGA Certification (Certified ESG Analyst)

DOCUMENTS FOR PRODUCTS WITH ESG FOCUS (excerpt)

Lupus alpha Sustainable Convertible Bonds

- Factsheet incl. ESG Reporting
- ESG Methodology
- Transparency Code
- FNG Sustainability Profile

CONTACT



Sustainability Officer

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



Sustainability Officer

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



CEO

Ralf Lochmüller
Ralf.Lochmueller@lupusalpha.de

IMPRINT

Lupus alpha Asset Management AG

Speicherstraße 49-51

60327 Frankfurt

Tel.: +49 69 365058-7000

Fax: +49 69 365058-8000

E-Mail: service@lupusalpha.de

Supervisory and Management Board

Dr. Oleg de Lousanoff, Chairman of the supervisory board

Ralf Lochmüller, CEO

Dr. Götz Albert, CIO

Michael Frick, CFO

Responsible for the content

Management Board

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