ESG Methodology

Lupus alpha Smaller Champions

Target

Lupus alpha's corporate culture as an independent, owner-managed / partnership-based asset manager is clearly focused on sustainability. With the *Lupus alpha Smaller Pan European Champions* and the *Lupus alpha Smaller Euro Champions* we want to give our investors access to European small and mid caps - considering environmental, ethical, social and governance standards (ESG). Therefore, the objective in these funds is to invest exclusively in stocks that meet the criteria mentioned below.

Responsible investing makes an important contribution to making capital investments sustainable. As an investor with a fiduciary mandate from our clients, we therefore want to make our contribution and only invest in companies that pay sufficient attention to certain sustainability criteria.

In the aforementioned funds, the responsible portfolio managers conduct a large number of company meetings as part of the fundamental investment process: Sustainability issues, especially governance, are an integral part of the company analysis.

We review the appropriateness of our ESG methodology in an annual review process. Any changes to the methodology are documented continuously.

Methodology

All investable companies are classified according to environmental, social, ethical and governance criteria. The analysis includes social standards, environmental management, product portfolio and corporate governance. A comprehensive negative screening process excludes stocks that do not meet certain minimum standards. These apply to all securities (such as equities) and money market instruments in the portfolio:

Environment:

- Mining of thermal coal > 5% revenue
- Power generation from thermal coal > 5% revenue
- Unconventional extraction and production of oil & gas (incl. oil sands, oil shale & fracking) > 0% revenue

Social:

- Violations of the Organisation for Economic Cooperation and Development (**OECD**) Guidelines for Multinational Enterprises. This audit also includes:
  - Violations of UN Global Compact (**UNGC**)
  - Violations of **ILO** core labour standards in the company and the supply chain and inadequate response/appraisal of the company
  - Violations of UN Guiding Principles on Business and Human Rights (**UNGP**)

Governance:

- Very severe, ongoing controversies for which the company is directly responsible
- Very severe, partially concluded controversies for which the company is directly responsible
- Violations of international corruption conventions and inadequate reaction/resolution of the company

Ethics:

- Production/distribution/services of cluster munitions, anti-personnel mines and other controversial weapons (without tolerance limit)
- Production of tobacco > 5% revenue

Consideration of Principal Adverse Impacts on Sustainability Factors (PAIs)

In addition to the aforementioned criteria the following principal adverse impacts on sustainability factors are material and binding for all securities and money market instruments:

Environment:

- **Carbon footprint** & **carbon intensity**
- Activities negatively affecting **biodiversity**-sensitive areas

Social:

- Violations of **UN Global Compact** principles and Organisation for Economic Cooperation and Development (**OECD**) Guidelines for Multinational Enterprises
- Exposure to **controversial weapons** (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)

Governance:

- **Board gender diversity**
- Cases of insufficient action taken to address **breaches of standards of anti-corruption and anti-bribery**

If an investee company has principal adverse impacts on the sustainability factors mentioned, this generally leads to exclusion. However, in order to offer companies the opportunity to improve on certain factors over time (“transition”) we start an engagement process with companies concerning

- **carbon footprint** & **carbon intensity** (if both metrics are in the bottom quartile of corresponding IVA-industry)

or

- insufficient **board gender diversity** (no female board members).

We can only invest in the investee company if there are comprehensible plans for improving on these principal adverse impacts or if plans can be agreed on with the company in a direct dialogue. For these companies, we document the plans as well as the desired and implemented changes. If the desired targets are not met or if the company does not show the agreed willingness towards change, the position is sold as a last resort after several escalation levels.

The engagement process described above can only ever be applied to carbon related PAIs or to board gender diversity. If an investee company requires engagement in both areas mentioned, we refrain from making an investment.

All companies that do not violate any of the above exclusion criteria are in principle eligible for investment. In order to arrive at a final investment decision, a central, fundamental analysis of the companies is carried out. Sustainability criteria are also included in this process. However, these criteria do not lead to explicit exclusions, but are an integral part of the overall analysis.

Additional criteria for explicitly sustainable investments

In addition to the standards, revenue limits and consideration of PAIs that apply to all securities and money market instruments, we commit to invest **at least 20% of the fund's assets in explicitly sustainable investments** with environmental and/or social objectives. For this, we examine three criteria:

1. **Positive contribution to an environmental or social objective**: We consider an investment/a company to be sustainable if its products or its operational behavior are aligned or strongly aligned with at least one of the 17 Sustainable Development Goals (SDGs)[1], and at the same time its products and operational behavior are not misaligned or strongly misaligned with any of the other SDGs.[2]
2. **Do No Significant Harm (DNSH)**: Investments/companies must adhere to the principle of causing no significant harm. For this assessment, we analyze: (1) extended exclusion criteria and (2) all relevant PAIs.

   The extended exclusion criteria comprise:

   - Mining of thermal coal > 1% revenue
   - Activities related to nuclear weapons (without tolerance limit)
   - Production of military goods and related services (e.g., research) > 5% revenue
   - Production or sale of firearms and ammunition for civilian use > 5% revenue
   - Production and sale of nuclear power as well as products and services for the nuclear power industry > 5% revenue
   - Tobacco production (without tolerance limit)
   - Revenue from tobacco > 5%

   For all relevant PAIs, we define specific criteria and thresholds. If a company violates at least two of these criteria or thresholds, it cannot be classified as sustainable. Due to the still insufficient data quality, non-sustainability is only determined after two violations. This minimizes the risk of excluding companies due to potential data errors. However, for PAIs that we classify as particularly critical (e.g., involvement in controversial weapons), a more detailed examination is carried out in advance to ensure exclusion in the event of a breach (see above).

[1] www.un.org/sustainabledevelopment
[2] We apply MSCI ESG methodology when considering contribution to the SDGs (Sustainable Impact Metrics: https://www.msci.com/our-solutions/esg-investing/impact-solutions).

We consider the following ten mandatory PAIs for companies, including their corresponding criteria and thresholds. For numerical PAIs, we calculate the percentile within the IVA industry of the respective company.

PAI	criteria/ threshold
PAI 2: Carbon footprint	90%-percentile
PAI 3: GHG intensity of investee companies	90%-percentile
PAI 4: Exposure to companies active in the fossil fuel sector	Yes
PAI 5: Share of non-renewable energy consumption and production	90%-percentile
PAI 6: Energy consumption intensity per high impact climate sector	90%-percentile
PAI 7: Activities negatively affecting biodiversity-sensitive areas	Yes
PAI 9: Hazardous waste and radioactive waste ratio	90%-percentile
PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Yes
PAI 13: Board gender diversity	0%
PAI 14: Exposure to controversial weapons (anti-personal mines, cluster munitions, chemical weapons and biological weapons)	Yes

When determining the relevant PAIs, we take potential overlaps (e.g., between PAI 1 and PAI 2) into account, as well as the general availability of data for a given PAI. The goal is to avoid disadvantaging companies that provide data. However, data availability is continuously monitored and evaluated so that our approach can be promptly adjusted in response to changes.

Since the funds in question are equity funds, PAIs for states, supranational organizations, and real estate are not considered.

3. **Good governance**: Companies must have a minimum ESG rating of BB to ensure good corporate governance.

If an investment/company fulfils all three criteria, it can be rated as a sustainable investment according to its share of the fund assets.

The aforementioned revenue limits, norm-based violations / controversies, the consideration of PAIs, ESG ratings as well as the SDG alignment are analyzed and checked with data of our external research provider MSCI. Companies for which MSCI has not previously provided analysis are reviewed internally. Information provided by MSCI is also reviewed internally, as portfolio management usually has direct access to the management of the companies under review and can critically review this information. In general, it can be said that the "coverage" of smaller and medium-sized companies in external ESG analyses is worse than that of large companies.

Developer of the strategy, users and data used

The strategy / methodology described above was developed by Lupus alpha. The portfolio management team is responsible for the stock selection in the European small- and mid-cap segment and the compliance with ESG criteria. As part of the ESG analysis, external specialized data providers (in particular MSCI) are also used for sustainability research:

https://www.msci.com/our-solutions/sustainable-investing

Exceptions & Selling Discipline

In justified and documented individual cases, there may be exceptions to the methodology described above. However, these are to be avoided by the portfolio management.

If there is a change in an invested company that means that the criteria / thresholds described above are no longer met in the medium term, the corresponding stock will be sold in compliance with legal requirements after the portfolio management has taken notice.

For more information on the topic, please visit https://www.lupusalpha.com/esg

Date	Version	Description
25.10.2021	1.0	Start of versioning
01.08.2022	1.01	Inclusion of PAIs
31.12.2022	1.02	Adding of minimum proportion of sustainable investments for affected funds, editorial changes.
15.03.2023	1.03	Adjustment of the revenue limit for power generation from thermal coal from 10% to 5%
11.10.2023	1.04	Adding of carbon intensity
12.07.2024	1.05	Inclusion of OECD screening outside the PAI screening; editorial changes
30.04.2025	1.06	- Removal of the exclusion criterion “Production and distribution of military weapons > 5% revenue” in the “Ethics” category and inclusion in the DNSH review - Removal of the exclusion criterion “Production and sale of nuclear power > 5% revenue” in the “Environment” category and inclusion in the DNSH review - Removal of the exclusion criterion “Production and services for the nuclear industry > 5% revenue” in the “Environment” category and inclusion in the DNSH review - Inclusion of extended exclusion criteria in the DNSH review: nuclear weapons, military weapons, civilian firearms - Inclusion of all relevant PAIs in the DNSH review - Removal of the *Lupus alpha Dividend Champions* from this methodology following the publication of a separate ESG methodology for this fund - Change of fund names to which the methodology is applied - Editorial changes

Lupus alpha Investment GmbH
Speicherstraße 49–51
D-60327 Frankfurt am Main