Lupus alpha

ESG Methodology

Lupus alpha Sustainable Smaller Champions

Target

Lupus alpha's corporate culture as an independent, owner-managed / partnership-based asset manager is clearly focused on sustainability. With Lupus alpha Sustainable Smaller Pan European Champions, Lupus alpha Sustainable Smaller Euro Champions and Lupus alpha Dividend Champions, we want to give our investors access to European small & 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 equity strategies, 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 internally.

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 shares in the portfolio:

Environment:

- Mining of thermal coal > 5% revenue
- Power generation from thermal coal > 10% revenue
- Production and sale of nuclear power > 5% revenue
- Products and services for the nuclear industry > 5% revenue
- Mining and exploration of oil sands & oil shale

Social:

- Violations of the UN Global Compact
- Violations of international human rights conventions and inadequate response of the company
- Violations of ILO core labor standards in own company and supply chain and inadequate response/resolution of the company

Governance:

- 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
- Production & distribution of military goods > 5% revenue
- Production of tobacco > 5% revenue

In addition, investable companies must not have any very severe controversies.

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 the entire NAV:

Environment:

- **Carbon footprint**
- Activities negatively affecting **biodiversity**-sensitive areas

Social:

- Violations of **UN Global Compat** 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** (if 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 one PAI. If an investee company requires engagement in more than one PAI, we refrain from making an investment.

The aforementioned turnover limits, norm-based violations / controversies and PAIs 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.

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. In particular, ESG ratings and positive contributions to the SDGs should be mentioned here. However, these criteria do not lead to explicit exclusions, but are an integral part of the overall analysis. In principle, however, a better ESG rating and a higher contribution to the SDGs are evaluated positively.

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 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/msci-esg-manager

Exceptions & Sell 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 the best interests of the investor, but at the latest within three months of portfolio management becoming aware of the change.

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

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