

## Lupus alpha

Statement on principal adverse impacts of investment decisions on sustainability factors

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### Summary

Lupus alpha, consisting of Lupus alpha Asset Management AG and Lupus alpha Investment GmbH, believes it bears a responsibility to consider the most significant adverse sources of impacts on sustainability. In concrete terms, this means that we integrate the environmental (E), social (S) and good corporate governance (G) factors into the investment process and seek exchanges on ESG issues with the companies in which we invest. We do not see sustainability as an end in itself, but as an important factor in managing risks efficiently and providing room for investment success in the long term.

### Strategies for identifying and weighting the principal adverse impacts on sus-tainability and sustainability indicators

In order to uphold our due diligence, we consider the key adverse sources of impact on sustainability factors throughout the organisation and at different levels of the investment processes. As a basis for this, we have defined minimum requirements for all our funds that ensure the exclusion of companies involved in the production or distribution of controversial weapons and the associated negative im-pact on social factors. In doing so, we also look at ownership and group relations. We are guided by the following national and international regulations:

- United Nations Principles for Responsible Investment (UN PRI)
- Oslo Convention on the Prohibition of Cluster Bombs
- Ottawa Convention on the Prohibition of Anti-Personnel Mines
- BVI Code of Conduct

The exclusions apply to the following controversial weapons:

- Anti-personnel mines
- Biological weapons
- Chemical weapons
- Cluster bombs
- Nuclear weapons
- Weapons with depleted uranium
- Blinding weapons

Further comprehensive exclusion criteria are applied to our sustainable investment solutions.

The consideration of adverse effects on sustainability factors is of particular importance to us in the management of portfolio risks. Therefore, for all funds, we integrate further non-financial information into the investment process beyond the exclusion criteria, by seeing ESG issues as an integral part in the company analysis. Lupus alpha takes into account relevant ESG aspects and adverse sources of impact on sustainability within the investment analysis process and, in the equity sector, addresses

these identified issues in the company discussions. Adverse sources of impact on sustainability factors are weighted equally in the sustainability assessment.

External, specialised data providers for sustainability research, in particular, MSCI and Bloomberg, are also used as part of the analysis. The consideration of adverse sources of impact on sustainability factors depends on the data availability and quality of information in the market. Currently, not all relevant information is available to the same extent for all our investment solutions. We regularly analyse and evaluate developments in the market with regard to data availability and quality.

## **Key adverse sources of impact on sustainability and measures taken in this context**

In our investment analysis, consideration of the most significant adverse sources of impact within our investments on sustainability factors is an elementary component. By sustainability factors, we primarily mean aspects relating to our environment and climate, social issues such as respect for workers' and human rights, and fundamentals of good corporate governance – such as preventing and combating corruption and bribery. Adherence to strict ethical business standards is essential.

In order to reduce (or avoid) potential negative impacts of our investments on sustainability factors, we apply three different measures.

1. **Defined minimum requirements for all our funds**  
The exclusion criteria described above apply to all our funds. In addition, our sustainable investment solutions embrace further extensive exclusion criteria, such as coal mining and power generation, fracking, nuclear power, weapons and defense, alcohol or tobacco. The integration of exclusion criteria into our investment process is a first step towards excluding serious violations and sources of adverse impact on sustainability factors.
2. **ESG strategy**  
For our sustainable investment solutions, we screen the investment universe against a variety of ESG criteria. ESG scores and ratings can be used, as well as data on controversies or the carbon footprint. The portfolio's conceptualisation also takes into account companies that have particularly good ESG profiles with regard to one or more of these factors. Furthermore, in individual approaches, these factors can be optimised at an overall portfolio level, in order to outperform a performance benchmark.
3. **Dialogue strategies and commitment**  
We engage in direct and constructive dialogue with the companies in which we invest or plan to invest. In doing so, we address ESG issues and adverse sources of impact on sustainability factors that we have identified. In addition, we also include these topics in our voting in the equity sector and thus strive to exert influence on issuers to prevent or reduce adverse sources of impact on sustainability.

## **Participation policy**

Constructive dialogue with the companies in which we invest is an essential part of our investment process. Our Small & Mid Cap team completes more than 1,000 company meetings each year. In doing so, we strive to bring relevant ESG issues into the focus of those companies, and to exert influence, in order to address corresponding risks and initiate positive developments. Governance issues traditionally play a particularly important role here. In addition, we exercise our voting rights for positions above a certain threshold in the funds we manage as a capital management company, to promote sustainable corporate development of the portfolio companies. In principle, we support all

measures that serve to maintain (and increase) the long-term value of the company. Good knowledge and careful analysis of a company's management and its strategy lead us to vote in their favour the majority of the time. In selected cases, when we expect certain measures to be detrimental to the long-term value of the company, we vote against, or try to bring about change as active shareholders. The essential condition for us to vote against as an active investor is materiality in terms of

- the importance of the respective topic for the corporate development expected by us, as well as
- our share in the company.

This is how we want to ensure that our commitment delivers an impact for us and our clients. A sufficiently large share is necessary for us to be heard with our concern. Our principles for exercising voting rights can be found at <https://www.lupusalpha.de/institutioneller-investor/service/> in the "Mandatory Disclosures" section. When engaging with companies, we also work with other investors on a case-by-case basis, in order to be able to exert a stronger influence. In general, however, it is our goal to address the important ESG issues in advance, i.e. in the regular company meetings, to initiate changes in dialogue and thus achieve good results together with the companies.

## **Responsible corporate governance and internationally recognised standards**

As the fiduciary manager of our clients' investments, our top priority is the long-term achievement of sustainable growth in the value of their investments. We implement our understanding of responsible investing throughout the organisation and at different levels of the investment process.

Beyond the application of regulatory requirements, we are guided by the following leading national and international regulations:

- United Nations Principles for Responsible Investment (UN PRI): Signatories since 2015.
- Forum "Nachhaltige Geldanlagen" (FNG): Member since 2019.
- BVI Code of Conduct.

These sets of rules serve as a benchmark for decisions and derive the most significant adverse sources of impact on sustainability for us. Our commitment applies to all funds we manage ourselves. In the case of mandates from professional investors that are awarded to us with individual investment guidelines, we strive to also take the principles and processes described here into account to the greatest extent possible.