**ESG Methodology**

# Lupus alpha Dividend 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 Dividend Champions* we want to give our investors access to European small and mid caps - considering environmental, ethical, social and governance standards. Therefore, the objective of this fund 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 strategy, the responsible portfolio managers conduct a large number of company meetings as part of the fundamental investment process: Sustainability issues, especially governance-related issues, 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 mining and exploration 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 continues to comprise:
    - 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 PAIs 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 the 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 metrics 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.

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 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 |
|---|---|---|
| 06.03.2025 | 1.00 | - Creation of an independent ESG methodology for the *Lupus alpha Dividend Champions*<br>- Removal of the exclusion criterion “Production & distribution of military goods” in the “Ethics” category<br>- Removal of the exclusion criterion “Products and sale of nuclear power” in the “Environment” category<br>- Removal of the exclusion criterion “Products and services for the nuclear industry” in the “Environment” category |
| 21.05.2025 | 1.01 | - Editorial changes |
| 16.04.2026 | 1.02 | - Clarification: The PAIs are applied to all securities and money market instruments. Bank deposits that the fund holds for liquidity purposes are not subject to the assessment.<br>- Editorial changes |
| 20.08.2026 | 1.03 | - Editorial changes |



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