

ESG Methodology

Lupus alpha CLO High Quality Invest

Target

Lupus alpha's corporate culture as an independent, owner-managed / partnership-based asset manager is clearly focused on sustainability. With the *Lupus alpha CLO High Quality Invest* we want to give our investors access to European Collateralized Loan Obligations (CLOs) with an investment grade rating – with the inclusion and transparent disclosure of ESG criteria. The basis comprises ESG data from an external research provider, an internal due diligence of the CLO managers and an internal analysis of the prospectus regarding ESG exclusion criteria.

The fund promotes, in accordance with Article 8 of Regulation (EU) 2019/2088 (“SFDR”), environmental and social characteristics in investment decisions. However, it does not commit to any minimum share of sustainable investments within the meaning of Article 2 (17) or the EU Taxonomy.

As part of an annual review process, we assess the appropriateness of our ESG methodology. All changes to the methodology are documented to ensure transparency.

Methodology

The fund invests at least 51% of its assets in securities and money market instruments that meet the ESG criteria described below.

ESG criteria for CLOs

Consideration of environmental and social characteristics: To assess the environmental and social characteristics, specific metrics are applied, namely the so-called E and S scores.

Meaning of the E and S scores: Since the underlying assets of CLOs are corporate loans, the exposure of a CLO transaction to environmental and social risks corresponds to that of the corporate loans contained within the CLO. The E and S scores indicate the extent to which borrowers are exposed to current and future environmental and social risks, and whether concrete measures have been taken to mitigate these risks or whether potential advantages may arise. The analysis considers various environmental and social themes, focusing on those that are material to the issuer's credit quality (i.e. risks that may materialise during the term of the transaction). Examples of environmental themes include decarbonisation and physical climate risks, while social themes include customer relations and demographic as well as societal trends.

The E and S scores at transaction level therefore reflect the extent to which environmental and social factors could affect credit quality during the term. Scores range from 1 to 5, with a higher value signalling a higher (i.e. worse) risk. The scale is asymmetric, as environmental and social issues are typically more of a risk than an opportunity for the issuer's credit profile.

For a CLO transaction to fulfil the environmental and social characteristics, the following limits must be complied with:

- **E score < 3**
- **S score < 4**

An **E score of 3** indicates that the credit risk linked to environmental factors is to be regarded as moderate. While issuers may have taken measures to mitigate the identified risks, these are not sufficiently material to fully offset the environmental risk.

An **S score of 4** indicates that the credit risk linked to social factors is to be regarded as high. While issuers may have taken some measures to mitigate the identified risks, these have only a limited impact on the risks.

The E and S scores used are provided monthly by an external provider (Moody's*).

Consideration of governance risks: In the case of CLOs, governance risks are primarily determined by the CLO manager. As the central operational entity of the SPVs (special purpose vehicle), the CLO manager is responsible for implementing and complying with the contractually defined control and management mechanisms. The quality of the governance profile of a CLO transaction is therefore directly dependent on the institutional framework, operational integrity and governance culture of the manager. In particular, the effectiveness of the risk management framework and the existence and observance of regulatory and investor-related requirements are of critical importance.

Our highly experienced portfolio management team maintains close contact with all European CLO managers. As part of the investment process, regular due diligence discussions are conducted to always ensure sound governance by CLO managers. The results are documented internally (topics considered include, for example, the composition of the CLO team or the availability of relevant company policies).

Consideration of controversial business areas: In addition to the consideration of E and S scores and the due diligence review of CLO managers, our portfolio managers also carry out a thorough prospectus analysis. Investments in CLOs from issuances dated 2021 onwards only qualify as complying with ESG characteristics if – in addition to meeting the above criteria – their prospectuses contain the following exclusions:

- Involvement in **controversial weapons**
- Violations of the **UNGC principles** and/or the **OECD guidelines**
- Consideration of **tobacco** based on at least one of the following criteria:
 - o Any involvement in tobacco production
 - o Classification as “tobacco” according to the S&P Global Industry Classification Standard (GICS)
 - o Revenues from the sale of tobacco or tobacco products > 5%

For older issuances (prior to 2021), prospectuses are also reviewed for the presence of such exclusions; however, their presence is not a mandatory requirement for compliance with the promoted ESG characteristics. The reason is that ESG-relevant wording in prospectuses has only gained importance in recent years – due to increasing regulatory requirements and market developments. Therefore, steering based on ESG language in prospectuses is only meaningful for more recent issuances.

The prospectus analysis is conducted under the four-eyes principle together with the investment compliance department.

Due to a lack of data for the underlying issuers, Principal Adverse Impact Indicators (PAIs), sustainable investments within the meaning of the SFDR, and taxonomy data are not taken into account. However, data availability is continuously monitored and assessed.

ESG criteria for securities and money market instruments other than CLOs:

If the fund makes investments in securities or money market instruments outside of CLOs, these are also examined for ESG characteristics. If the issuers are companies, a check is carried out for exclusions in controversial business areas according to the criteria described above. For sovereign issuers, the following applies: countries subject to sanctions imposed by the European Union are excluded from investment.

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 selecting investments and ensuring compliance with ESG criteria.

As part of the ESG analysis of CLOs, Moody's is used as an external specialized data provider for ESG research. The E and S scores of the CLO transactions are updated monthly by Moody's and integrated into our internal systems to continuously ensure compliance with the promoted ESG characteristics. Moody's calculates the E and S scores at the company level whenever possible. If this is not feasible, estimates are made based on industry-specific averages. A score is only assigned to a transaction if scores are available for at least 50% of the underlying corporate loans.

In general, the availability and quality of ESG data in the private capital market present a challenge. We consistently pursue the goal of creating the greatest possible transparency and optimally integrating the latest data into our investment process. In doing so, we rely on the most up-to-date information available for CLOs and draw on our many years of expertise in CLO management to actively address ESG issues with data providers and CLO managers. We continuously monitor developments on the data and market side to further develop our methodology as needed and adapt it to new standards.

As part of the ESG analysis of securities and money market instruments other than CLOs, we also use an external specialized data provider (MSCI**).

Selling Discipline

If one or more ESG characteristics of an investment change for the worse (e.g., due to a deterioration in the E or S scores), the portfolio management will, upon becoming aware of this, take measures within the framework of legal requirements to ensure that the promoted environmental and social characteristics at fund level are maintained.

Further information on the topic of sustainability at Lupus alpha can be found at <https://www.lupusalpha.com/esg/>

Date	Version	Description
15.10.2025	1.0	Publication of the ESG methodology
20.08.2026	1.01	Editorial changes

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