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 essentially corresponds to that of the corporate loans contained within the CLO. The E and S scores indicate the extent to which companies 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 (so-called key issues), which are weighted according to how strongly the industry contributes to the respective environmental or social issue and the time frame within the risk is expected to materialize. Examples of environmental themes include carbon emissions, vulnerability to climate change and water stress. Social themes include, among others, labor conditions, health and safety, product safety and data protection. The E score and S score are the weighted averages of the assessments of all environmental and all social key issues, respectively.
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> Scores range from 0 to 10. A higher value signals a lower risk or better risk management.
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> The E and S scores at CLO transaction level are calculated based on MSCI* data. Where possible, each loan issuer in the CLO is matched to a company rated by MSCI. The E and S scores of that company are then used for the issuer. For issuers not covered by MSCI, proxies

are derived from industry and country classification. The scores of the individual issuers are then aggregated into an E score and an S score for the transaction, weighted by their share in the CLO.

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

- **E-score > 2.857**
- **S-score > 2.857**

The limit is based on the MSCI ESG rating scale, which divides the range from 0 to 10 into seven levels from CCC to AAA. On this scale, a value of 2.857 marks the lower bound of the BB level. The E and S scores at CLO level are calculated by Lupus alpha and do not constitute an MSCI rating.

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:
    - Any involvement in tobacco production
    - Classification as “tobacco” according to the S&P Global Industry Classification Standard (GICS)
    - 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, which is independent of portfolio management.

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, MSCI is used as an external specialized data provider for ESG research.

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 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
22.10.2026	1.02	Adjustment of the E and S Score assessment based on MSCI data

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