ESG Methodology

Lupus alpha Equity Protect

Target

Lupus alpha's corporate culture as an independent, owner-managed / partnership-based asset manager is clearly focused on sustainability. With Lupus alpha Equity Protect we would like to give our investors access to the global volatility and stock markets - considering environmental, ethical, social and governance standards (ESG). Therefore, the objective in this fund is to invest exclusively in stocks and stock options 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.

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, bonds and the stocks underlying the individual stock options 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** (if in the bottom decile of corresponding IVA-industry)[1]
- 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** (no female board members)
- 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.

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.

Best-in-class approach for stocks

All companies that do not violate any of the above exclusion criteria are in principle eligible for investment. However, the individual stocks are selected and weighted using a best-in-class approach. This means that companies with a better ESG rating tend to be more heavily weighted in the portfolio than companies with a poorer ESG rating.

[1] If no carbon footprint data is available for an issuer, we expect it to have a minimum E rating (which is part of the overall ESG rating) of BB.

Engagement

The decision as to whether the voting rights are exercised depends on the expected benefit. That is, considering the weighting of voting rights and the costs incurred, Lupus alpha sets threshold values to define the assets that the portfolio management deals with individually for the general meetings. For this purpose, either an in-house process is used, or an external service provider is commissioned. The threshold is currently 1% of the outstanding voting rights of the company under review.

Use of derivative strategies

The portfolio management uses derivative strategies for both hedging and investment purposes. When using individual stock derivatives, the criteria for the underlying stocks or companies described under "Methodology" are applied. The portfolio management is also dependent on the use of liquid index derivatives for the successful implementation of the strategy. The criteria mentioned are not currently applied to these instruments, since the portfolio management has no influence on the composition of the underlying non-ESG-compliant indices. The use of derivatives on sustainable indices is possible in principle, but there is currently insufficient liquidity for these instruments. The portfolio management monitors the development of liquidity in this area.

For hedging purposes, portfolio management is also free to use single stock futures. In this case, the criteria for the underlying shares or companies described under "Methodology" are also applied.

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 and the compliance with ESG criteria. As part of the ESG analysis, external specialized data providers (in particular MSCI) are 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
17.05.2022	1.0	Publication of English version
01.08.2022	1.01	Inclusion of PAIs; inclusion of 'Exceptions & Sell Discipline'; editorial changes
04.10.2022	1.02	Extension of methodology from single stock options to all single stock derivatives

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