

ESG Methodology

Lupus alpha Sustainable Return

Target

Lupus alpha's corporate culture as an independent, owner-managed / partnership-based asset manager is clearly focused on sustainability. With Lupus alpha Sustainable Return we want to give our investors access to downside protection approaches – without compromising on sustainability. Therefore, the objective in this fund is to invest exclusively in stocks, stock derivatives and bonds 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 this strategy, we apply sustainability filters that meet high standards and are based on the current FinAnKo¹ guidelines. We review the appropriateness of our ESG methodology in an annual review process. We document changes to the methodology internally.

Methodology

All investable companies (stocks or stock derivatives) as well as bond issuers 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 stocks, bonds, money market instruments and the stocks underlying the individual stock derivatives in the portfolio.

Environment:

- Revenue from nuclear power activities > 10%
- Share of nuclear power of total energy > 10%
- Extraction, exploration and services for oil sands & oil shale (shale gas)
- Revenue from exploration and production of oil & gas > 5%
- Revenue from mining & sales of thermal coal > 0%
- Power generation from fossil fuels (excl. gas) > 10%
- Share of energy production from thermal coal > 10%

Social:

- Violations of the UN Global Compact
- Violations of international human rights conventions and inadequate response/appraisal of the company

¹ Richtlinie Ethische Geldanlagen der Österreichischen Bischofskonferenz und der Ordensgemeinschaften Österreich

- Violations of ILO core labour standards in the company and the supply chain and inadequate response/appraisal of the company

Governance

- Very severe controversies
- Ongoing, structural and severe controversies
- Violations of international corruption conventions and poor response/appraisal of the company

Ethics

- Production/distribution/services of cluster munitions, anti-personnel mines and other controversial weapons
- Production of nuclear weapons or systems used for their transport etc.
- Revenue from production & distribution of military goods > 10%
- Production of tobacco
- Revenue from distribution of tobacco > 10%
- Revenue from production, distribution etc. of alcohol > 10%
- Revenue from gambling > 10%
- Breast milk substitutes
- Stem cell research with human embryos
- Companies related to abortion (also hospitals)
- Turnover from production, distribution etc. of contraceptives > 10%
- Production of pornographic content
- Turnover from distribution of pornographic content > 10%
- Revenue from activities involving genetic manipulation of plants, food etc. > 5 %
- Production, distribution etc. of fur
- Animal testing for non-medical purposes
- Commercial/industrial (mass) animal husbandry for the purpose of food production or fur farming
- Revenue from production of biocides > 5%
- Sector: Interactive Home Entertainment / Video Games

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 & carbon intensity** (if both metrics are in the bottom decile of corresponding IVA-industry)²
- Activities negatively affecting **biodiversity**-sensitive areas

² 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.

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** (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. Information provided by MSCI is also reviewed internally.

Best-In-Class for stock selection

All companies that do not violate any of the aforementioned exclusion criteria are basically eligible for investment. However, the selection and weighting of individual stocks is based on a best-in-class approach. This means that companies with a better ESG rating tend to be weighted higher in the portfolio than companies with a worse ESG rating.

Voting Rights

Voting rights arising from the stocks in the portfolio are actively exercised at the general meetings. For this purpose, either an in-house process is used, or an external service provider is commissioned. When exercising voting rights, we follow the FinAnKo guidelines as closely as possible.

Use of derivatives

The portfolio management commits to only use derivatives for hedging purposes.

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 of sustainability at Lupus alpha, please visit <https://www.sustainability.lupusalpha.com/>.

Date	Version	Description
25.10.2021	1.0	Start of versioning
09.02.2022	1.01	Sector "Home Entertainment Software" was removed due to inactivity
01.08.2022	1.02	Inclusion of PAIs; inclusion of 'Exceptions & Sell Discipline'; editorial changes
01.04.2023	1.04	Inclusion of additional turnover criteria Editorial changes
11.10.2023	1.05	Adding of carbon intensity

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