

## ESG Methodology

# Lupus alpha Sustainable Return

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### 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 value protection approaches – without compromising on sustainability. Therefore, the objective of this fund is to invest exclusively in financial assets 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.

For this fund, we apply sustainability filters that meet high standards and are based on the current FinAnKo<sup>1</sup> guidelines. 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 (stocks or stock derivatives) as well as issuers of bonds and money market instruments 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 investments that do not meet certain minimum standards.

In doing so, the **PAB** (Paris-aligned benchmark) **criteria**<sup>2</sup> developed by the EU, which are in line with the Paris Climate Agreement, are taken into account. This means that an investment is excluded if at least one of the following criteria applies:

- Activities related to **controversial weapons**
- Cultivation and production of **tobacco**
- 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 (**UNGPR**)
- Exploration, mining, extraction, distribution or refining of **hard coal and lignite** ≥ 1% revenue
- Exploration, extraction, distribution or refining of **oil fuels** ≥ 10% revenue

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<sup>1</sup> Richtlinie Ethische Geldanlagen der Österreichischen Bischofskonferenz und der Ordensgemeinschaften Österreich

<sup>2</sup> The PAB criteria are applied to the entirety of the fund's assets. A description of the criteria can be found in Art. 12(1)(a)-(g) of the Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1818>).

- Exploration, extraction, manufacturing or distribution of **gaseous fuels**  $\geq 50\%$  revenue
- Electricity generation with a GHG intensity of more than 100 g CO<sub>2</sub> e/kWh

In addition, the following exclusion criteria are considered for all securities, money market instruments and the companies underlying the stock derivatives:

## **Environment:**

- Revenue from nuclear power activities  $> 10\%$
- Share of nuclear power of total energy  $> 10\%$
- Revenue from conventional extraction and production of oil & gas  $> 0\%$
- Revenue from unconventional extraction and production of oil & gas (incl. oil sands, oil shale & fracking)  $> 0\%$
- Revenue from mining & sales of thermal coal  $> 0\%$
- Revenue from power generation from liquid fossil fuels  $> 10\%$
- Revenue from power generation from thermal coal  $> 10\%$
- Share of energy production from thermal coal  $> 10\%$

## **Social/Ethics:**

- Activities related to nuclear weapons
- Revenue from production of military goods and related services (e.g., research)  $> 10\%$
- Revenue from production or sale of firearms and ammunition for civilian use  $> 5\%$
- Revenue from distribution etc. 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)
- Revenue from production, distribution etc. of contraceptives  $> 10\%$
- Revenue from production of pornographic content  $> 0\%$
- Revenue from distribution etc. 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
- Revenue from production of biocides  $> 5\%$
- Sector: Interactive Home Entertainment / Video Games

## **Governance:**

- Very severe, ongoing controversies for which the company is directly or indirectly responsible
- Very severe, partially concluded controversies for which the company is directly responsible
- Severe, ongoing controversies for which the company is directly responsible
- Violations of international corruption conventions and poor response/appraisal of the company

## **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, money market instruments and the companies underlying the stock derivatives:

### **Environment:**

- **Carbon footprint & carbon intensity** (if both metrics are in the bottom decile of the corresponding IVA industry)<sup>3</sup>
- 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** (no female board members)
- Cases of insufficient action taken to address **breaches of standards of anti-corruption and anti-bribery**

In addition, the following PAI is considered for government bonds:

- Investee countries subject to social violations

If an investee company or country has principal adverse impacts on the sustainability factors mentioned, this generally leads to exclusion.

## **Additional criteria for explicitly sustainable investments**

In addition to the standards, revenue limits and consideration of PAIs, we commit to invest **at least 50% of the fund's assets** in securities and money market instruments that qualify as **sustainable investments**. For this, we examine three criteria:

- 1. Positive contribution to an environmental or social objective:** We consider an investment/a company to be sustainable if its products or its operational behaviour are aligned or strongly aligned with at least one of the 17 Sustainable Development Goals (SDGs)<sup>4</sup>, and at the same time its products and operational behaviour are not misaligned or strongly misaligned with any of the other SDGs.<sup>5</sup>
- 2. Do No Significant Harm (DNSH):** Investments/companies must adhere to the principle of causing no significant harm. For this assessment, we analyse: (1) extended exclusion criteria and (2) all relevant PAIs.

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<sup>3</sup> If no carbon 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.

<sup>4</sup> [www.un.org/sustainabledevelopment](http://www.un.org/sustainabledevelopment)

<sup>5</sup> We apply MSCI ESG methodology when considering contribution to the SDGs (Sustainable Impact Metrics: <https://www.msci.com/our-solutions/esg-investing/impact-solutions>).

The extended exclusion criteria comprise:

- Production of military goods and related services (e.g., research) > 5% revenue
- Production and sale of nuclear power as well as products and services for the nuclear power industry > 5% revenue
- Activities related to tobacco > 5% revenue

For all relevant PAIs, we define specific criteria and thresholds. If a company violates at least two of these criteria or thresholds, it cannot be classified as sustainable. Due to the still insufficient data quality, non-sustainability is only determined after two violations. This minimizes the risk of excluding investments due to potential data errors. However, for PAIs that we classify as particularly critical (e.g., involvement in controversial weapons), a more detailed examination is carried out in advance to ensure exclusion in the event of a breach (see above).

We consider the following ten mandatory PAIs for companies as well as one PAI for sovereigns and supnationals, including their corresponding criteria and thresholds. For numerical PAIs, we calculate the percentile within the IVA industry of the respective company.

PAI	criteria/ threshold
PAI 2: Carbon footprint	90%-percentile
PAI 3: GHG intensity of investee companies	90%-percentile
PAI 4: Exposure to companies active in the fossil fuel sector	Yes
PAI 5: Share of non-renewable energy consumption and production	90%-percentile
PAI 6: Energy consumption intensity per high impact climate sector	90%-percentile
PAI 7: Activities negatively affecting biodiversity-sensitive areas	Yes
PAI 9: Hazardous waste and radioactive waste ratio	90%-percentile
PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Yes
PAI 13: Board gender diversity	0%
PAI 14: Exposure to controversial weapons (anti-personal mines, cluster munitions, chemical weapons and biological weapons)	Yes
PAI 16: Investee countries subject to social violations	Yes

When determining the relevant PAIs, we take potential overlaps (e.g., between PAI 1 and PAI 2) into account, as well as the general availability of data for a given PAI. The goal is to avoid disadvantaging issuers that provide data. However, data availability is continuously monitored and evaluated so that our approach can be promptly adjusted in response to changes.

Since the fund does not invest in real estate assets, PAIs for this asset class are not considered.

- 3. Good governance:** Companies must have a minimum ESG rating of BB to ensure good corporate governance.

If an investment fulfils all three criteria, it can be rated as a sustainable investment according to its share of the fund's assets.

The aforementioned revenue limits, norm-based violations/controversies, the consideration of PAIs, ESG ratings as well as the SDG alignment are analysed 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.

## **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/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 investment that means that the criteria/thresholds described above are no longer met in the medium term, the corresponding financial asset will be sold in compliance with legal requirements after the portfolio management has taken notice.

For more information on the topic of sustainability at Lupus alpha, please visit

<https://www.lupusalpha.com/esg>.

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	1.03	Inclusion of additional turnover criteria; editorial changes
11.10.2023	1.04	Adding of carbon intensity
12.07.2024	1.05	Inclusion of OECD screening outside the PAI screening; editorial changes
30.04.2025	1.06	<ul style="list-style-type: none"> <li>- Inclusion of the PAB criteria</li> <li>- Introduction of a minimum proportion of sustainable investments (50%)</li> <li>- Deletion of the best-in-class stock selection approach</li> <li>- Editorial changes</li> </ul>
16.04.2026	1.07	<ul style="list-style-type: none"> <li>- Reduction of the revenue threshold for the exclusion criterion "Revenue from conventional extraction and production of oil &amp; gas" from 5% to 0%</li> <li>- Editorial changes</li> </ul>

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