

## 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 downside protection approaches – without compromising on sustainability. Therefore, the objective in this fund is to invest exclusively in stocks, stock options 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 FinAnKo<sup>1</sup> 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 options) 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 shares and underlyings 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 > 30%
- Revenue from mining & sales of thermal coal > 0%
- Revenue from energy production from thermal coal > 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
- Violations of ILO core labour standards in the company and the supply chain and inadequate response/appraisal of the company

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

## **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:
  - o Interactive Home Entertainment / Video Games
  - o Home Entertainment Software

Both the aforementioned revenue limits and norm-based violations / controversies are reviewed with the help of our external research provider MSCI. Companies for which MSCI has not yet produced an 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.

## **Engagement**

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 stock selection and compliance with ESG criteria. External specialised data providers for sustainability research, in particular MSCI and Bloomberg, are also used as part of the ESG analysis:

<https://www.msci.com/msci-esg-manager>

<https://www.bloomberg.com/professional/solution/esg/>

For more information on the topic of sustainability at Lupus alpha, please visit <https://www.sustainability.lupusalpha.com/>.

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25.10.2021	1.0	Start of versioning

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