

## Pre-contractual disclosure

for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name:

**Swisscanto (LU) Equity Fund Small & Mid Caps Japan**

Legal entity identifier: (LEI-Code):

**549300B6H7H8TV6XMI68**

Version:

**August 2024**

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

## Environmental and/or social characteristics

**Does this financial product have a sustainable investment objective?**

Yes

No

It will make a minimum of **sustainable investments with an environmental objective**: \_\_\_\_\_%

in economic activities that qualify as environmentally sustainable under the EU Taxonomy.

in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

It will make a minimum of **sustainable investments with a social objective**: \_\_\_\_\_%

It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of \_\_\_\_\_5% of sustainable investments

with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy.

with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

with a social objective.

It promotes E/S characteristics, but **will not make any sustainable investments**.



## ***What environmental and/or social characteristics are promoted by this financial product?***

The Fund promotes the following environmental and social characteristics:

### **Characteristic 1: Exclusion Criteria**

The Investment Manager negatively screens for investments that:

- conflict with SPARX's exclusion policy (which outlines industries/activities that have potentially negative environmental or social characteristics – for more information, please refer to the binding elements section in this disclosure)
- are exposed to severe controversies

### **Characteristic 2: ESG integration**

The Investment Manager integrates environmental, social and governance factors into the investment decision making process to identify ESG-related risks (and opportunities) prior to any investment decision. The assessment of ESG-related risks is based on data from independent, third-party providers; or in the absence of that, supplemented with a proprietary ESG risk assessment. The average ESG risk rating of the fund is lower than the rating of the benchmark.

### **Sustainable investments**

While the Fund does not have as its objective a sustainable investment, the Investment Manager does assess the share of sustainable investments, by assessing the revenue-weighted contribution of each underlying holding to one or multiple United Nations Sustainable Development Goals and whether the holding does not do significant harm to any environmental or social sustainable investment objective.

In its 'Do No Significant Harm' analysis, the Investment Manager uses a selected set of Principal Adverse Impact (PAI) (mandatory) indicators: in case an investment is active in the fossil fuel sector (PAI 4), has sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas (PAI 7), has been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises (PAI 10), or is involved in the manufacture or selling of controversial weapons (PAI 14), the investment is considered to cause significant harm, and can therefore not be considered a sustainable investment (regardless of its potential contribution).

**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

● ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

The Investment Manager uses several indicators to measure the attainment of the environmental and social characteristics:

**Characteristic 1: Exclusion Criteria**

- Exclusion Policy Analysis
- Occurrence and severity of controversies

**Characteristic 2: ESG integration**

- ESG Risk Rating – Source: Sustainalytics. Sustainalytics' ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. The ESG Risk Ratings are categorized across five risk levels: negligible (0-10), low (10-20), medium (20-30), high (30-40) and severe (40+). Where Sustainalytics does not provide coverage, Investment Manager will construct a proprietary ESG Risk Rating based on a bottom-up analysis of ESG data, resulting in a High, Medium, or Low Risk assessment on Environmental, Social and Governance. This bottom-up analysis is based on desk research and various third-party data sources to supplement our engagement and proprietary research, such as Bloomberg ESG, S&P Trucost. Furthermore, the Investment Manager uses engagement to gather data directly from portfolio companies through direct dialogue with company management.

**Sustainable investments**

- Revenue-weighted share of investments (% of NAV) that contribute to one or multiple United Nations Sustainable Development Goals ('SDGs'), split out by:
  - Revenue-weighted share of investments (% of NAV) that contribute to SDGs with an environmental focus<sup>1</sup>
  - Revenue-weighted share of investments (% of NAV) that contribute to SDGs with a social focus<sup>2</sup>

<sup>1</sup> SPARX is aware that SDGs are heavily interconnected, and there is no such things as environmental or social SDGs. However, for the purpose of this assessment, SPARX consider the following SDGs to have a more environmental focus: SDG6: Clean Water and Sanitation; SDG7: Affordable and Clean Energy; SDG11: Sustainable Cities and Communities; SDG12: Responsible Consumption and Production; SDG13: Climate Action; SDG14: Life Below Water; SDG15: Life on Land

<sup>2</sup> SDGs with a social focus: SDG1: No Poverty; SDG2: No Hunger; SDG3: Good Health and Well-Being; SDG4: Quality Education; SDG5: Gender Equality; SDG8: Decent Work and Economic Growth; SDG9: Industry, Innovation and Infrastructure; SDG10: Reduced Inequalities; SDG16: Peace, Justice and Strong Institutions; SDG17: Partnerships for the Goals

● **What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?**

The Fund uses the United Nations Sustainable Development Goals ('SDGs') as a reference for the sustainable investment objectives. The Fund does not focus on any of the SDGs in particular, as it believes that all SDGs are equally important and deeply interconnected. In its analysis of the SDG contribution, the Investment Manager applies a revenue-weighted approach, where only the proportion of revenue related to activities that contribute to the identified SDG sub targets is taken into account. Due to data availability and quality considerations, the Investment Manager does not apply third-party data for the SDG contribution analysis, but conducts bottom-up research using annual reports and other available documentation, to determine revenue breakdowns of relevant activities.

● **How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?**

In its sustainable investment analysis, the Investment Manager also assesses for each underlying holding, whether the investment does or may cause harm to any environmental or social sustainable investment objective. To do so, 'Do No Significant Harm' analysis, the Investment Manager uses a selected set of Principal Adverse Impact (PAI) (mandatory) indicators is used: in case an investment is active in the fossil fuel sector (PAI 4), has sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas (PAI 7), has been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises (PAI 10), or is involved in the manufacture or selling of controversial weapons (PAI 14), the investment is considered to cause significant harm, and can therefore not be considered a sustainable investment (regardless of its potential contribution).

*How have the indicators for adverse impacts on sustainability factors been taken into account?*

The indicators for adverse impacts on sustainability factors are collected, reported and assessed for the entire portfolio. The indicators are specifically used as input for the sustainable investment analysis, to assess whether underlying holdings may harm any other environmental or social objective. After identifying and prioritising the adverse impacts, the Investment Manager will assess what actions it can take and what targets it can set to mitigate those adverse impacts. When the principal adverse impacts are considered unmanageable, the Investment Manager will consider excluding the investment.

Information on how principal adverse impacts have been considered, including how the indicators for adverse impacts on sustainability factors have been considered, will be disclosed in the Fund's annual report.

*How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

The Investment Manager excludes investments that are exposed to severe controversies, as assessed by Sustainalytics' Controversies Research. The Investment Manager monitors the investments for any violations or breaches of

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

OECD Guidelines and UN Global Principles on Business and Human Rights, considering this as part of its investment decision-making process.

*The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

*The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.*

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



**Does this financial product consider principal adverse impacts on sustainability factors?**

Yes,

The Investment Manager considers principal adverse impacts of its investment decisions on sustainability factors, both when making investment decisions and when evaluating the existing portfolio (as described in the previous section). When making investment decisions, the Investment Manager uses available data and information to inform a high-level assessment of the target investment's level of adverse impacts, and whether or not these impacts can be considered manageable. Data from several sources, including Sustainalytics, Trucost, and own research are combined. Where data is not available, the Investment Manager will apply a best efforts approach, for example by carrying out additional research, cooperating with other third-party data providers, or making reasonable assumptions and/or estimations.

Information on how principal adverse impacts have been considered, including how the indicators for adverse impacts on sustainability factors have been considered, will be disclosed in the Fund's annual report.

No



**What investment strategy does this financial product follow?**

The investment objective of the Fund is to generate long-term capital growth along with an adequate return by investing in the shares of Japanese SMEs. The Fund invests at least 80% of its assets in the equity securities of small and mid-caps whose registered office or primary

business activities are in the Japan region. The market capitalisation of the companies may not account for more than 2% of the market capitalisation of the entire share market in question.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

● **What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

The Investment Manager uses several indicators to measure the attainment of the environmental and social characteristics:

**Characteristic 1: Exclusion Criteria**

The Investment Manager applies the following exclusion criteria:

- **Product-based exclusions:** The Investment Manager excludes, from the scope of investment, businesses with a strong negative impact on society, and businesses whose main sales are derived from controversial business lines that are unsuitable for investment in terms of either stakeholder value or economic value, or both:
  - **Adult Entertainment:** The Investment Manager excludes companies deriving 10% or more of their sales from adult-entertainment / pornography-related activities.
  - **Alcohol:** The Investment Manager excludes companies that generate 10% or more of its sales from the production of alcohol. Retailers are also limited to the 10% threshold.
  - **Conventional Oil & Gas:** The Investment Manager excludes companies that generate more than 10% of revenues from oil & gas sales. Oil & gas is defined as companies operating in the exploration, production, refining, transportation and/or storage of oil & gas assets.
  - **Gambling:** The Investment Manager excludes companies that generate 10% or more of its sales from gambling and/or the production of gambling related components.
  - **Power Production:** The Investment Manager excludes investments in utilities that have: 1) power generation by coal > 10%; 2) power generation by oil and gas > 10%; 3) power generation by nuclear >10%
  - **Thermal Coal and Coal Generation:** The Investment Manager excludes mining companies that generate 10% or more of their revenues from thermal coal, and power producers that generate 10% or more of their revenues from thermal coal. Irrespective of this threshold, companies that are expanding their thermal coal and/or coal generation businesses are excluded.
  - **Tobacco:** The Investment Manager excludes companies where 10% or more of its sales are derived from the production of tobacco and related components. Retailers are also limited to the 10% threshold.
  - **Unconventional Oil & Gas:** The Investment Manager excludes oil & gas companies that are active in unconventional oil and gas extraction. Types of unconventional considered: 1) arctic drilling; 2) shale oil/gas; 3) tar sands. Thresholds: a. revenue share >10%; b. no expansion plans.
  - **Controversial Weapons:** The Investment Manager excludes companies with activities related to the production of controversial weapons, defined as the direct or indirect involvement in the production, manufacture, and sale of weapons that can have a disproportionate and indiscriminate impact on civilian population including anti-personnel mines, cluster munition, depleted uranium and biological & chemical weapons.

- *Conduct-based exclusions:* The Investment Manager excludes, from the scope of investment, businesses with that have been through any conduct-based issues in the past, and that have not been able to confirm that the issue has been completely resolved, is unlikely to recur, and will endeavor during the investment period to engage for improvement.
  - Companies critical of protecting human rights or complicit in human rights violations
  - Companies that exclude the formation of labour unions and/or collective bargaining or practice forced labour, child labour, and/or discrimination in workplace/jobs
  - Companies that are critical of prevention of environmental problems or hinder the dissemination of environmental technologies
  - Companies that engage in extortion or corruption
  - Companies that sacrifice biodiversity
  - Companies with a negative impact on water resources
  - Companies that intentionally evade taxes
  - Company with an autocratic governance system

In addition, the Investment Manager excludes investments that are exposed to severe controversies, as asses by Sustainalytics' Controversies Research. Controversies are deemed as severe when it is given a controversy rating of 5 by Sustainalytics (on a scale from 1 to 5).

These criteria used in Sustainalytics' Controversies Research are in line with the United Nations Global Compact (UNGC) principles to assess the behaviour of companies.

The Investment Manager then assesses how recently it occurred, the severity of the violation of the breach, and what actions were taken to remedy this feed into our assessment of current governance practices. If the severity of the controversy is minor (i.e. Sustainalytics Score <5), the company will be put under observation and engagement activities will be conducted to seek improvement.

If a portfolio company is categorized having exposures to severe controversies (i.e. a Sustainalytics Score of 5), all the shares held within the Fund will be sold within a reasonable period of time.

Exposure to controversies is continuously monitored by the portfolio managers. Besides the effect of the controversy itself, as above, the company's response to a controversial event is also monitored. The Investment Manager values companies that use this as a learning experience to improve the robustness of its governance and controls.

## **Characteristic 2: ESG integration**

The average ESG Risk Rating of the Fund, calculated at quarter ends 31 March, 30 June, 30 September and 31 December, is lower than the average ESG Risk Rating of the benchmark of the Fund.

Sustainalytics' ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. The ESG Risk Ratings are categorized across five risk levels: negligible (0-10), low (10-20), medium (20-30), high (30-40) and severe (40+).

### **Sustainable investments**

The share of sustainable investments in the fund (% of NAV, that contributes to one or multiple SDGs, do not do significant harm to any environmental or social sustainable investment objective) is at least 5%.

- ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

The Fund pursues an active investment strategy without a reference universe. It is not possible to quantify the minimum rate of change in the extent of investable assets.

- ***What is the policy to assess good governance practices of the investee companies ?***

To assess whether each underlying holding follows good governance practices, the Investment Manager assesses whether the holding has at least four out of the following eight policies in place: Ethics Policy, Employee Protection / Whistle Blower Policy, Equal Opportunity Policy, Health and Safety Policy, Human Rights Policy, Policy Against Child Labour, Training Policy, Anti-Bribery Ethics Policy. In case the holding has three or less policies in place, the Investment Manager will conduct a closer due diligence on the holding's governance structure.

In addition, the Sustainalytics Controversies Research, used to measure attainment with Characteristic 1: Exclusion Criteria, assesses controversies related to Business ethics, Bribery and Corruption, Anti-Competitive practices. Accounting and taxation, and Corporate Governance.

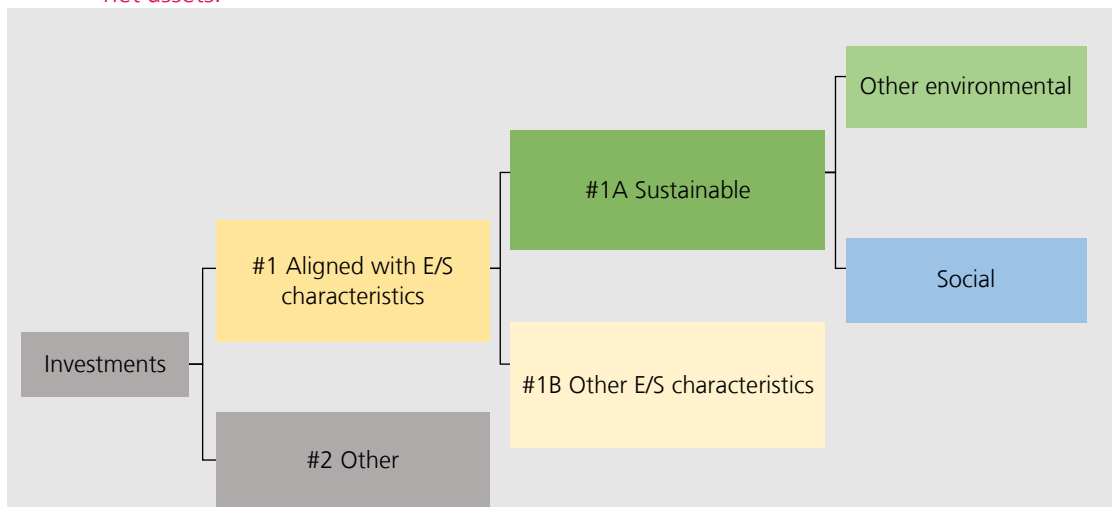
**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.





## What is the asset allocation planned for this financial product?

The Asset Management ensures that at least 67% of the net assets of the sub-fund pursue the promoted environmental and social characteristics in accordance with the table below (#1 Aligned with E/S characteristics). Thereof, a minimum of 5% sustainable investments are made (#1A Sustainable), which are split as a minimum of 2.5% Other Environmental and 2.5% Social. The rest of the investments are made in #1B Other E/S characteristics. The Asset Management restricts investments in other assets (#2 Other) that do not pursue environmental and/or social characteristics to 33% of the sub-fund's net assets.



**Asset allocation**  
describes the share of  
investments in specific  
assets.

**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category #1 Aligned with E/S characteristics covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

- **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

Derivatives are not used.



- **To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

0% of the portfolio. The Fund does not pursue a sustainable investment aligned with the EU Taxonomy.

- **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU taxonomy<sup>1</sup>?**

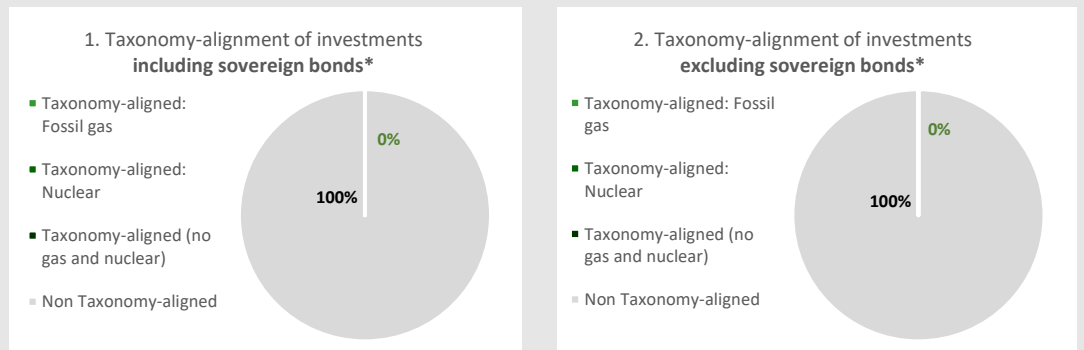
- Yes
  - In fossil gas
  - In nuclear energy
- No

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to fully renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

**The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.**



\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

- **What is the minimum share of investments in transitional and enabling activities?**

0% of the portfolio.

 are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.



**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

The Fund does not focus on a minimum share of environmentally or socially sustainable investments, as long as the combined figure is at least 5% of the portfolio. The minimum share of environmentally sustainable investments should be of approximately 2.5%.



**What is the minimum share of socially sustainable investments?**

The Fund does not focus on a minimum share of environmentally or socially sustainable investments, as long as the combined figure is at least 5% of the portfolio. The minimum share of socially sustainable investments should be of approximately 2.5%.



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

While the Fund aims to be fully invested, at times the Fund may hold cash for subscription redemption purposes. In case of cash holdings, minimum environmental and social safeguards are not relevant.



**Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

No index has been determined as a benchmark to determine whether this financial product is aligned with the promoted environmental and/or social characteristics.



**Where can I find more product specific information online?**

More product-specific information can be found on the website:  
<https://products.swisscanto.com/products/product/LU0123487463>.