Sustainability-related disclosures on website

For financial products according to Article 8 of Regulation (EU) 2019/2088

Swisscanto (LU) Equity Fund Small & Mid Caps Japan

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Swisscanto
Asset Management
International S.A.

swisscanto

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Summary

1. No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective a sustainable investment. Although it does not have sustainable investment as its objective, it has a minimum 5% share of sustainable investments.

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, a selected set of Principal Adverse Impact (PAI) indicators (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).

2. Environmental or social characteristics of the financial product

☒ Exclusion criteria	☒ ESG integration
☐ Reduction of CO_2e intensity	☒ Sustainable investments

3. Investment strategy

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.

In its sustainable investment analysis, the Investment Manager assesses for each underlying holding, whether the investment follows good governance practices (such as sound management structures, employee relations, remuneration of staff and tax compliance).

4. Proportion of investments

The Fund does not pursue sustainable investments in line with the EU Taxonomy. While the Fund does not have as its objective a sustainable investment, it will have a minimum proportion of 5% of sustainable investments. The Fund does not focus on a minimum share of environmentally (that are not aligned with the EU Taxonomy) or socially sustainable investments, as long as the combined figure is at least 5% of the portfolio.

5. Monitoring of environmental or social characteristics

The Investment Manager uses several indicators to measure the attainment of the environmental and social characteristics and to ensure on an ongoing basis that the binding elements of the Fund are met throughout the lifecycle of the Fund.

Sustainability indicators integrated with the investment process are then used to assess the attainment of the characteristics promoted:

☒ Exclusion criteria	☒ ESG integration
☐ Reduction of CO_2e intensity	☒ Sustainable investments

6. Methodologies

The following methodologies are used for the Fund, and measure how the social or environmental characteristics promoted by the financial product are met; these are based on data from third-party providers as well as desk research:

☒ Exclusion criteria	The Investment Manager excludes investments that conflict with its exclusion policy:

	Product-based exclusions: 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. Conduct-based exclusions: 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 endeavour during the investment period to engage for improvement.
☐ Reduction of CO_2e intensity	
☒ ESG integration	The Investment Manager excludes investments that are exposed to severe controversies, as assessed by Sustainalytics' Controversies Research. Exposure to controversies is continuously monitored by the portfolio managers. The Investment Manager values companies that use this as a learning experience to improve the robustness of its governance and controls.
☒ Sustainable investments	Sustainable investments in the Fund are assessed by contributing to one or multiple SDGs, not doing significantly harm any environmental or social sustainable investment objective and following good governance practices.

7. Data sources and processing
The Investment Manager uses data from the following providers: Sustainalytics, Bloomberg ESG, S&P Trucost. It combines data from independent, third-party providers with own desk research.
8. Limitations to methodologies and data
There are limitations with respect to the data coverage of the listed sustainability indicators for Japanese Small- and Mid-cap investments. Where data is lacking, the Investment Manager will apply a best effort approach, for example by carrying out additional research, cooperating with other third-party data providers, or making reasonable assumptions and/or estimations.
9. Due diligence
The investment team of the Investment Manager works in a collaborative manner, and knowledge sharing between team members is encouraged. Internally, team members will discuss the findings of their due diligence to ensure their findings are interpreted consistently among the team. The conclusions made as part of the overall investment analysis process, incorporating ESG and sustainability factors, is included as consideration by the Investment Committee before a final investment recommendation is made.
10. Engagement policies
The engagement policies of the Fund cover the following areas:

☒ Engagement	☐ Exercise of voting rights

11. Designated reference benchmark
No designated reference benchmark is used.

1. No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective a sustainable investment. Although it does not have sustainable investment as its objective, it has a minimum 5% share of sustainable investments.

The Fund promotes the following environmental and social characteristics:

Characteristic 1: Sustainable investment assessment
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 contribution of each underlying holding to one or multiple United Nations Sustainable Development Goals; whether the holding does not do significant harm to any environmental or social sustainable investment objective; and whether the holding follows good governance practices.

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, 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).

Characteristic 2: ESG risk and impact screening
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 unmanageable sustainability risks, informed by Sustainalytics ESG Risk Ratings and/or a proprietary ESG Risk assessment
- are exposed to severe controversies, as assessed by Sustainalytics' Controversies Research
- with principal adverse impacts are considered unmanageable, based on an assessment of the 14 mandatory principal adverse impact indicators

2. Environmental or social characteristics of the financial product

The Fund promotes the following environmental and social characteristics:

The Fund pursues an investment strategy that considers environmental and social characteristics. These characteristics include exclusion criteria, integration of ESG considerations and sustainable investments.

3. Investment strategy

The investment objective of the Fund is to generate long-term capital growth along with an adequate return by identifying and acquiring undervalued Japanese equities by relying on the Investment Manager's intensive in-house research expertise and extensive information network established through independent investment experience in Japan since 1989. The Investment Manager 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 Manager sees sustainability as a long-term driver for structural change and research shows that companies with sustainable business practices are more successful. The Investment Manager therefore adheres to the approach of building a portfolio for the Fund by selecting individual stocks through bottom-up research. When selecting portfolio companies, companies with high stakeholder value and economic value are emphasized. These companies are able to generate stable, profitable, and growing profits by utilizing a solid business foundation built by rewarding not only shareholders but also customers, employees, business partners, local communities, the global environment, and other stakeholders. To identify such companies, the Investment Manager incorporates non-financial information, such as ESG, in addition to financial information, into its research and analysis.

Policy to assess good governance practices of the investee companies: In its sustainable investment analysis, the Investment Manager assesses for each underlying holding, whether the invest-ment follows good governance practices (such as sound management structures, employee relations, remuneration of staff, and tax compliance). In addition to the approach as described in section 1, the Investment Manager takes into consideration the track record, experience, diversity and composition (e.g. share of independent directors) of board and management, controversies (covering accounting and taxation, and corporate governance), employee relations, remuneration of staff, and tax compliance. The analysis is based on publicly available information and/or direct dialogue with the management teams of portfolio companies.

4. Proportion of investments

All investment decisions are made according to the binding elements of the investment strategy used to attain the environmental and social characteristics of the Fund. The Fund does not pursue sustainable investments in line with the EU Taxonomy. While the Fund does not have as its objective a sustainable investment, it will have a minimum proportion of 5% of sustainable investments. The Fund does not focus on a minimum share of environmentally (that are not aligned with the EU Taxonomy) or socially sustainable investments, as long as the combined figure is at least 5% of the portfolio. While the Investment Manager aims to invest 100% of the net asset value of the Fund in accordance with the environmental and social characteristics, at times the Fund may hold cash for sub-scription redemption purposes. The environmental and social characteristics of this product do not apply to cash.

5. Monitoring of environmental or social characteristics

The Investment Manager uses several indicators listed out in section 1 to measure the attainment of the environmental and social characteristics and to ensure on an ongoing basis that the binding elements (referred to in section 6) of the Fund are met throughout the lifecycle of the Fund.

The indicators are monitored quarterly for all underlying holdings in the Fund, in line with requirements for the calculations of principal adverse impact indicators (requiring indicators to be calculated as the average of impacts on 31 March, 30 June, 30 September and 31 December of each period from 1 April to 31 March).

The Investment Manager continuously monitors the portfolio holdings in relation to data, news, or any other kind of information that provides an indication of an investee company's performance in relation to its management of ESG and sustainability risks and opportunities and engage with investee companies on a regular basis as part of its responsible stewardship activities.

Revenue exposure to the activities and industries set out in the Investment Manager's exclusion policy is monitored on a monthly basis, and reported to the Investment Committee, to ensure that an investee company is not approaching a threshold that would result in the position no longer qualifying for investment in the Fund. If a threshold is passed, the position would be exited in an orderly manner within a specific time.

6. Methodologies for environmental or social characteristics

The Investment Manager uses as proprietary methodology to assess the attainment of the listed environmental and social characteristics, largely centred around an analysis of different sustainability indicators. The methodologies can be summarised as follows:

The proprietary sustainable investment analysis consists of three elements: a sustainable investment contribution analysis, a Do Not Significantly Harm (DNSH) analysis, and a good governance analysis. The analyses are supported by listed sustainability indicators based on third-party data sources. The validity of certain methodological choices, such as the Pass-Fail approach regarding SDG contribution, the use of a selected set of principal adverse impact indicators for the DNSH analysis, and the number of policies threshold for the good governance analysis, will be reviewed on an annual basis.

Where data is not available, the Investment Manager will conduct further due diligence to fill the gaps. For example, where Sustainalytics does not provide coverage regarding ESG Risks, the 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.

The Investment Manager applies the following binding elements to select investments to attain each of the environmental or social characteristics promoted by this financial product:

Characteristic 1: Sustainable investment assessment
The share of sustainable investments in the Fund that contributes to one or multiple SDGs, do not significantly harm any environmental or social sustainable investment objective, and follow good governance practices is at least 5%.

Characteristic 2: ESG risk and adverse impact screening
The Investment Manager excludes investments that conflict with its exclusion policy:

Product-based exclusions: 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: companies deriving 10% or more of their sales from adult-entertainment / pornography-related activities.
- Alcohol: 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: 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: companies that generate 10% or more of its sales from gambling and/or the production of gambling related components.
- Power Production: utilities that have: 1) power generation by coal >90%; 2) power generation by oil and gas >90%; 3) power generation by nuclear >90%
- Thermal Coal and Coal Generation: 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: 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: 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: 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.
- Military Contracting and Small Arms: companies that generate 10% or more of its sales from Military Contracting and/or the production of small arms. This is defined as the involvement in the production, research

and development, management / services / maintenance, integration or customization, testing and/or sales / trade of weapons of war that are the subject to arms export regulations.

Conduct-based exclusions: 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 endeavour 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 assessed by Sustainalytics' Controversies Research. In cases where a violation or breach has occurred, the Investment Manager 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. 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.

Finally, the Investment Manager also excludes investments that are exposed to sustainability risks or cause principal adverse impacts that are considered unmanageable. Whether sustainability risks or principal adverse impacts are considered unmanageable is a discretionary decision made by the Investment Manager.

7. Data sources and processing

Characteristic 1: Sustainable investment assessment
Sources: United Nations Sustainable Development goals, desk research

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

- Share of investments (% of NAV) that contribute to one or multiple United Nations Sustainable Development Goals ('SDGs'), split out by:
    - Share of investments (% of NAV) that contribute to SDGs with an environmental focus
    - Share of investments (% of NAV) that contribute to SDGs with a social focus
- Share of investments (% of NAV) that do not do significant harm to any environmental or social sustainable investment objective
- Share of investments (% of NAV) that follow good governance practices
- Share of sustainable investments (% of NAV) that contribute to one or multiple SDGs, do not do significant harm to any environmental or social sustainable investment objective, and follow good governance practices

Characteristic 2: ESG risk and adverse impact screening

- Exclusion policy analysis - Source: Sustainalytics
- ESG Risk Rating – Source: Sustainalytics. The ESG Risk Rating score corresponds to the Sustainalytics ESG Risk Exposure Category of the Fund. This exposure is defined by Sustainalytics and considers a company's sensitivity or vulnerability to ESG risks. 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.

- Occurrence and severity of controversies – Source: Sustainalytics. Sustainalytics' Controversies Research identifies companies involved in incidents and events that may pose a business or reputation risk to a company due to the potential impact on stakeholders or the environment. Controversies are rated on a scale from 1-5, with 5 denoting controversies that have the most severe impact to stakeholders and the environment. This rating is accompanied by an in-depth qualitative assessment.
- Principal adverse impact indicators – Sources: combining data from several sources, including Bloomberg, Sustainalytics, and own research. Where data is not available, 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.

8. Limitations to methodologies and data

There are limitations with respect to the data coverage of the listed sustainability indicators for Japanese Small- and Mid-cap investments. Where data is lacking, the Investment Manager will apply a best effort approach, for example by carrying out additional research, cooperating with other third-party data providers, or making reasonable assumptions and/or estimations.

The use of estimations in lieu of observed data may be potentially less reliable than observed data, so extra caution is taken to ensure they portray an accurate picture. Estimations are always clearly indicated to avoid misrepresentation and aim to reflect the true economic reality as closely as possible.

9. Due diligence

The investment team of the Investment Manager works in a collaborative manner, and knowledge sharing between team members is encouraged. Internally, team members will discuss the findings of their due diligence to ensure their findings are interpreted consistently among the team. The conclusions made as part of the overall investment analysis process, incorporating ESG and sustainability factors, is included as consideration by the Investment Committee before a final investment recommendation is made.

If data from external data providers is used, the Investment Manager takes into consideration its quality and that it is up to date.

The Investment Manager ensures that the investments comply with the requirements of the sales prospectus and the applicable legal provisions. Pre- and post-trade checks in this regard are made.

10. Engagement policies

Engagement is a key aspect of the Investment Manger's approach to responsible stewardship, and the Investment Manager's engagement activities predominantly relate to increasing portfolio companies' awareness of the ESG and sustainability-related issues that are most material to their business.

Through engagement activities, the Investment Manager aims to form strong relationships with the management teams of the investee companies, believing that this will facilitate more constructive and productive dialogue between the two parties. In their engagement a holistic stakeholder perspective is applied, and focus is placed on the impacts that a business may have on its stakeholders, including but not limited to shareholders, employees, customers, partners, local communities and the environment.

Pre-investment: The Investment Manager seeks to capture sustainability-related value by using its influence as an investor on behalf of the Fund to encourage portfolio companies to improve their performance in relation to their carbon emission profiles and the impact they have on their stakeholders and society overall. Therefore, the engagement process begins before a company is invested in, as the Investment Manager's ability to influence performance begins with understanding of the company's starting point. At this stage, a potential investee company's response to their engagement is reflective of its willingness to change and its ability to adapt in relation to sustainability risks and opportunities.

Post-investment: Engagement is conducted with portfolio companies throughout the holding period of each investment, whether that be a number of months or a number of years. Topics for engagement are determined by the Fund's portfolio managers, who establish what they key material ESG and sustainability-related themes facing the business are. Engagement is intended to drive improvement in performance against the identified material themes, and in some cases, to address broader, more systemic issues such as climate change. In doing so, the Investment Manager seeks to influence portfolio companies in addressing both the sustainability risks that affect the business, and the principal adverse impacts that the business may have on sustainability factors. Each engagement is recorded in the Investment Manager's internal database so that progress and success can be tracked over time.

11. Designated reference benchmark

No sustainable benchmark index is used.