Sustainability-related disclosures on website

For financial products as referred to in Article 9 of Regulation (EU) 2019/2088

Swisscanto (LU) Equity Fund Sustainable Digital Economy

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Swisscanto
Asset Management
International S.A.

Swisscanto

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Summary

1. No significant harm to the sustainable investment objective
With this sub-fund, the adverse impacts on sustainability factors (principal adverse impacts) are also considered. The mandatory indicators in Annex I to Regulation (EU) 2019/2088 are used for this purpose.In addition, any breaches of the following standards are considered when analysing investments for inclusion as sustainable investments: The UN Global Compact (UNGC), UN Guiding Principles on Business and Human Rights (UNGP), and the International Labour Organization (ILO) Conventions.
2. Sustainable investment objective of the financial product
The Asset Management focuses 80% of the net assets of this sub-fund on the securities of companies which, based on its assessment, make a contribution to sustainable objectives (sustainable investment within the meaning of Article 2(17) SFDR) relating to one or more of the digital economy-related United Nations Sustainable Development Goals (hereinafter the "SDGs").
3. Investment strategy
The sub-fund invests at least 80% of its net assets in equities and other equity securities and participation rights of companies from all over the world which are committed to sustainable business models in the fields of digital technology and infrastructure. Good governance is considered when analysing investments by verifying compliance with the following global standards: UNGC, UNGP and ILO.
4. Proportion of investments
The Asset Management invests at least 80% of the net assets of the sub-fund in sustainable investments in accordance with Article 9(2) SFDR.
5. Monitoring of sustainable investment objective
The Asset Management uses a range of data points to measure the attainment of its sustainable investment objectives. It uses data from independent, third-party providers and proprietary qualitative and quantitative research in this process. Sustainability indicators integrated with the investment process are then used to assess the attainment of the sustainable investment objectives:

☒ Sustainable investments in accordance with Article 9(2) SFDR	☒ Extensive exclusion criteria
☒ Reduction of CO_2e intensity	

6. Methodologies
The following methodologies are used for the sub-fund, and measure how the sustainable investment objectives are met; these are based on data from third-party providers as well as in-house analysis:

☒ Sustainable investments in accordance with Article 9(2) SFDR	The Asset Management invests in securities which, in its opinion, make a contribution to one or more digital economy sustainable objectives. The sustainable solutions of companies are examined with regards to their contribution to the SDGs using the data of independent third-party providers.
☒ Reduction of CO_2e intensity	The Asset Management's investment activity is focused on a continuous reduction in the CO_2e intensity of investments in accordance with the 2 degree target of the Paris Climate Agreement.
☒ Extensive exclusion criteria	The Asset Management uses extensive exclusion criteria to identify an increased risk of harm to environmental and social characteristics. These exclusion criteria are also used to establish an investment universe focused more specifically on investments that are aligned with these values.
☒ Investments in SDG leaders	When constructing the investment universe, the Asset Management considers the securities of issuers whose products and services make a significant contribution to the SDGs ("SDG leaders").
☒ ESG integration	The Asset Management integrates environmental (E), social (S) and governance (G) factors for companies into the investment process (ESG integration) in order to identify opportunities and risks prior to any investment decision.

7. Data sources and processing

The Asset Management uses data from the following providers: MSCI-ESG, ISS ESG, IMF. It combines data from independent, third-party providers with proprietary qualitative and quantitative research in this process.

8. Limitations to methodologies and data

Limitations to methodologies and data, e.g. in relation to the use of estimate models or fundamental analysis, managing statistical outliers or the definition of system limits, exist in the following areas: in relation to the reduction of CO_2e intensity, definition and application of exclusion criteria, evaluation of the sustainable investments pursuant to Article 9(2) SFDR and implementation of ESG integration. The Asset Management does not currently incorporate any Scope 3 data. We review the data offering in this area on a regular basis, while the Asset Management incorporates Scope 3 data into the climate strategy (reduction of CO_2e intensity) as soon as quality meets the minimum standards.

9. Due diligence

Various procedures are used to ensure due diligence in relation to existing and potential investments, e.g. control procedures in asset management, risk management processes and regular reviews of external data providers.

10. Engagement policies

The engagement policies of the sub-fund cover the following areas:

☒ Engagement	☒ Exercise of voting rights

The Asset Management has commissioned an external engagement services provider, as well as an independent shareholder adviser, to implement the engagement policies of the sub-fund.

11. Attainment of the sustainable investment objective

No designated reference benchmark is used.

1. No significant harm to the sustainable investment objective

The indicators for adverse impacts on sustainability factors are taken into account as follows for sustainable investments: Issuers with a negative net contribution to the United Nation's Sustainable Development Goals (hereinafter the "SDGs") are removed from the investment universe of the financial product. The sub-fund also considers adverse impacts on sustainability factors (principal adverse impacts, hereinafter "PAIs"). The mandatory indicators in Annex I of the commission delegated regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 (hereafter "Annex I to Regulation (EU) 2019/2088") are used for this purpose. Issuers who breach the following PAIs, 7 (biodiversity), 10 (the UN Global Compact (UNGC)/OECD Guidelines for Multinational Enterprises) or 14 (controversial weapons involvement), receive a PAI score of zero. A PAI score is calculated from the remaining PAI indicators. Instruments from issuers with a score < 10 are not factored into the sustainable investments.

Any breaches of the following standards are considered when analysing investments for inclusion as sustainable investments: The UN Guiding Principles on Business and Human Rights (UNGP) and the International Labour Organization (ILO) Conventions. Serious breaches of these standards result in the exclusion of any sustainable investments of the issuer.

2. Sustainable investment objective of the financial product

2.1 Sustainable investments in accordance with Article 9(2) SFDR

The Asset Management focuses 80% of the net assets of this sub-fund on the securities of companies which, based on its assessment, make a contribution to sustainable objectives (sustainable investment within the meaning of Article 2(17) SFDR) relating to one or more of the digital economy-related United Nations Sustainable Development Goals (hereinafter the "SDGs").

3. Investment strategy

The sub-fund invests at least 80% of its net assets in equities and other equity securities and participation rights of companies from all over the world which are committed to sustainable business models in the fields of digital technology and infrastructure.
Good governance is considered when analysing investments by verifying compliance with the following global standards: UNGC, UNGP and ILO. Any breach of these standards results in the exclusion of the issuer from the financial product's universe of investee companies.

4. Proportion of investments

The Asset Management invests at least 80% of the net assets of the sub-fund in sustainable investments in accordance with Article 9(2) SFDR.

5. Monitoring of sustainable investment objective

The Asset Management uses a range of data points to measure the attainment of its sustainable investment objectives. It uses data from independent, third-party providers and proprietary qualitative and quantitative research in this process.

Sustainability indicators integrated with the investment process are then used to assess the attainment of the sustainable investment objectives:

5.1 Sustainable investments in accordance with Article 9(2) SFDR

The Asset Management focuses on the securities of companies which, based on its assessment, make a contribution to sustainable objectives relating, in particular, to one or more digital economy-related SDGs. The products and services of companies (hereinafter "sustainable solutions") are assessed with regards to their contribution to the SDGs using the data of independent third-party providers.

5.2 Exclusion criteria

The Asset Management uses exclusion criteria to identify an increased risk of harm to environmental and social values, or business activities that are considered high risk. These exclusion criteria are also used to establish an investment universe focused more specifically on investments that are aligned with these values.

The following activities correspond to the exclusions described in Delegated Regulation 2020/1818. The Portfolio Management has also determined other additional activities which result in the exclusion of companies from the investment universe:

- The production of weapons and munitions, including the following banned weapons:
  - Cluster bombs and munitions
  - Anti-personnel and landmines
  - Biological and chemical weapons
  - Nuclear weapons systems *
  - Nuclear weapons material *
  - Enriched uranium *
  - Blinding laser weapons
  - Incendiary weapons
- Manufacture of war technology
- Behaviour-based exclusions including those included in the list of the SVVK-ASIR (Swiss association for the promotion of responsible capital investment)
- Breaches of the UN Global Compact.
- Exploitative Child labour
- Production of pornography
- Coal mining (ex metal production)
- Operation of nuclear plants
- Uranium extraction
- Production of nuclear reactors
- Genetic engineering: human medicine
- Production of tobacco products and cigarettes
- Alcohol production (> 5% turnover)
- Gambling (> 5% of turnover)
- Factory farming
- Coal reserves
- Operation of fossil fuel power plants (>5% turnover)
- Natural gas extraction
- Oil extraction
- Conventional car manufacturers that do not have a comprehensive strategy for the transition to the use of alternative more environmentally friendly motors
- Aircraft production
- Airlines
- Cruise ship operators
- Genetic engineering (release of GMOs)
- Unsustainable fishing and fish farming
- Unsustainable forestry management
- Non certified palm oil (<50% RSPO)

* Only in the case of proliferation contrary to the Non-Proliferation Treaty (NPT).

5.3 Continuous assessment

Investments that no longer comply with the characteristics described in points 1–2 are removed from the portfolio by an appropriate deadline.
The sub-fund does not use a reference benchmark to meet the described sustainable investment objectives.

6. Methodologies

6.1 Sustainable investments in accordance with Article 9(2) SFDR

The Asset Management invests in securities which, in its opinion, make a contribution to one or more digital economy related sustainable objectives.The sustainable solutions of companies are examined with regards to their contribution to the SDGs using the data of independent third-party providers. For this purpose, a proprietary model examines around 800 product and service solutions for their contribution to one or more of the SDG targets. This results in a matrix with approximately 85, where 70 are positive and 15 are negative solutions for the 169 SDG targets or the 17 SDGs. For this assessment, the proportion of a company's turnover is verified that has a positive or negative impact on one or more of the SDGs. Qualitatively, this impact is divided into five categories and ranges from strongly positive, positive, neutral, negative to strongly negative. Turnover is also classified according to its contribution to environmental or social objectives.The main focus is on companies offering technologies, products or services related to the digital economy. In particular, companies in the Agriculture Technology, Healthcare & Life Sciences, Cybersecurity, Digital Banking, Could Computing, and IT Services segments will be targeted. Sustainable investments are companies, which contributes with at least 40% of turnover from sustainable solutions with a positive contribution, or 20% of turnover from a sustainable solution with a strongly positive contribution. Companies that have optimized their value chain with regard to the digital economy are also counted as sustainable investments. Such companies are included as so-called Digital Economy Adopters based on a fundamental analysis. Accordingly, criteria from the area of operations and policy are taken into account. policy area, such as the level of investment to promote the company's digital digital transformation of the company, the integration of a digital strategy into the the company's entire business model, the degree of process automation in customer and employee activities, a Digital Economy Adopters Score is determined. Companies with an above-average score qualify as Digital Economy Adopters.

6.2 Exclusion criteria

The consideration of sustainability aspects includes the definition of exclusion criteria for business activities that the Asset Management judges to be high-risk (see above). The exclusion criteria are verified at least once a year for any changes or new information and adjusted accordingly.

6.3 Reduction of CO_2e intensity

The Asset Management's investment activity targets a continuous reduction in the CO_2e intensity of investments as follows: The Asset Management defines a guideline for the average CO_2e intensity of the sub-fund's assets on an annual basis. The Asset Management defines the relevant guideline each year on the basis of the target for the global reduction in CO_2e emissions (at least 4% annually), which is based on the Paris Climate Agreement of 12 December 2015. The guideline for the average CO_2e intensity of the sub-fund's assets is calculated by discounting the CO_2e intensity of the assets included in the reference benchmark as at the end of 2019 annually by the target value (4%) and global economic growth. The Asset Management uses a rolling arithmetic average of nominal economic growth over the last three years to calculate economic growth.

6.4 Investments in SDG leaders

When constructing the investment universe, the Asset Management considers the securities of issuers whose products and services make a significant contribution, particularly to digital economy-related SDGs ("SDG leaders").A significant contribution means at least 40% of turnover from a sustainable solution with a positive contribution, or 20% of turnover from a sustainable solution with a strongly positive contribution. In exceptional cases, an issuer may qualify as an SDG leader if it produces a key component of a sustainable solution, even if the 40% or 20% threshold is not met. As a result of the turnover requirements for inclusion in the investment universe, SDG leaders generally account for a high proportion of sustainable investments.

6.5 ESG integration

As part of the investment process, the Asset Management follows an approach which integrates environmental, social and governance (ESG) aspects. This means that environmental and/or social characteristics are automatically considered in addition to traditional financial analysis when selecting investments, in order to guarantee a positive contribution (opportunities) to ESG criteria and where applicable investment returns. There are therefore limited investments in ESG laggards. ESG laggards are companies within a specific sector or industry branch with particularly poor ESG scores versus their peers based on proprietary ESG scores.
The weighting of all positions in ESG laggards in the sub-fund is the same or lower than the weighting of all positions in ESG laggards in the sub-fund's benchmark.

7. Data sources and processing

The Asset Management uses data from the following providers:

- **MSCI ESG:** Qualitative and quantitative environmental, social and governance data for companies and governments. Used for calculating the ESG and SDG scores and controversies for companies.
  www.msci.com/esg-integration
- **ISS ESG:** CO_2e and controversy data for companies. Used for CO_2e reduction for companies.
  Climate Solutions – ISS (issgovernance.com)
- **IMF:** Global GDP growth, used for CO_2e reduction.
  www.imf.org

The data obtained by the aforementioned external data providers is fed into a proprietary portfolio management system. Before the data is released for production, systematic quality controls and plausibility checks are carried out. Estimates are made for company greenhouse gas data. Scope 1 & 2 data is around 90% data reported by companies to one of the external data providers, around 10% is estimated (basis: MSCI All Country World). Scope 3 data is currently not taken into account. In a further step, the raw data is aggregated according to specific methods, models and algorithms. More detailed information on these processes is provided in Chapter 8.

8. Limitations to methodology and data

There are limitations to methodologies and data in the following areas:

8.1 Reduction of CO_2e intensity

The basis for the database are the greenhouse gases regulated in the Kyoto Protocol. Scope 1 emissions come from emission sources within the observed system boundaries. Scope 2 emissions come from the generation of energy sourced from outside. Scope 3 emissions are any other emissions that are generated by the company's activity but not directly controlled.

As regards emissions data for companies, until now far too few Scope 3 emissions have been reported through a recognised standard (e.g. Carbon Disclosure Project). Most of the available data sets therefore stem from complex estimate models, which do not yet provide the required minimum quality for use in the climate strategy. As a result, only Scopes 1 and 2 are currently taken into account for companies. However, the Asset Management reviews the data offering in this area on a regular basis and will incorporate Scope 3 data into the climate strategy as soon as the quality meets the minimum standards. Nonetheless, Scope 3 considerations are already integrated into the investment process today in the form of fundamental analyses. This does not jeopardise the achievement of the sustainable investment objectives. If data were used that did not meet the minimum standard, there would be a risk that they would have to be corrected regularly, which would jeopardise the continuous achievement of a sustainable investment objective.

Data providers also use estimate models for Scope 1 and Scope 2 emissions data for companies. These estimate models lead to statistical outliers, which are dealt with in an internal quality control. The maximum CO_2e intensity for companies whose data was estimated may not exceed the maximum reported value within a comparison group. Values above this maximum value will be overwritten with the maximum reported CO_2e intensity from the comparison group. Furthermore, data may be missing for a company. In such cases, the Asset Mangement uses the median of the comparison group's CO2e intensity. The use of data from a peer group means that, despite the use of estimation models, the availability and quality of the data is high enough not to compromise the achievement of the sustainable investment objective.

8.2 Exclusion criteria

The Asset Management uses data from independent third-party providers for the exclusion criteria. This data is used to calculate a company's turnover from controversial business activities so that it can be compared with the total turnover. The data is determined using a combination of sector classifications, business descriptions and keyword searches in selected company documents. If this process reveals that the company has no involvement in controversial business activities, the company is deemed investible. If the company does not provide any information on this turnover area and the latter cannot be ascertained from other publicly available sources, the data provider submits a turnover estimate. These turnover estimates may diverge from reality. As the data provider relies on comparative figures for the relevant sector and other available information from the company, it is assumed that such estimates do not impair the achievement of the long-term investment objectives.

8.3 Sustainable investments in accordance with Article 9(2) SFDR

Data on sustainable investments is collected on the basis of MSCI-ESG business segment turnover data. The data provider does not provide business segment turnover data for all issuers. The granularity of the turnover data may not be sufficient to link it with one or more SDGs. Missing business segment turnover data can be added later on the basis of publicly available data. If no relevant business segment turnover data is available, the issuer's turnover is not factored into the sustainable investments, so that it does not lead to any impairment of the sustainable investment objectives.

8.4 ESG integration

Most ESG rating agencies collect data from public channels such as web pages, annual reports, etc. Primarily data which is publicly available and in English is collected. Whereas large companies employ teams that focus exclusively on ESG reporting, this is generally impossible for companies with smaller market capitalisations. As a result, the availability of data in different segments is not comparable, resulting in much lower ESG ratings in the field of Small Cap Emerging Markets than in the field of Large Cap Developed Markets. When determining ESG ratings and ESG laggards, this problem should be counteracted by comparing companies with a representative comparison group. A relative assessment within sectors, capitalisation groups and regional groups should ensure that companies are not given preferential treatment or disadvantaged due to static characteristics which are not relevant to ESG. This approach is intended to ensure that the sustainable investment objectives are not jeopardised.

9. Due diligence

The following procedures are used to ensure due diligence in relation to existing and potential investments:

9.1 Development of the sustainability policy

The ESG strategy team is responsible for developing the sustainability policy. Its responsibilities also include determining the operational implementation so that an investment can be classified as a sustainable investment within the proprietary portfolio management system.
This determination is based on the applicable legal regulations so that the legal framework is set for the existing and potential investments. This framework is checked regularly to ensure that it is up to date by the legal department and the compliance function.

9.2 Control process for asset management

This control procedure includes, inter alia, scenario analyses, daily pre- and post-trade transaction checks and monitoring compliance of investment guidelines with the portfolio management system, as well as daily performance checks, including checking individual positions for relative outliers. All portfolios are checked on a regular basis. This process involves identifying any deviations from the given strategy, scrutinising the reasons for this and intervening if necessary.
The decision-making bodies of the Asset Management's sustainability policy (ESG committee, the Asset Management's governing body) also take part in this process.

9.3 Risk management

Preventive risk management is carried out by the Management Company's risk management department in conjunction with the Asset Management's risk management department. Risk management specialists formulate and implement the risk policy and the risk strategies for asset management. They identify, assess, measure and monitor the risks and are also responsible for the risk management function with respect to supervisory authorities and auditors.

9.4 Due diligence regarding external data providers:

When selecting external data providers, the following key aspects are taken into account: data coverage, data quality assurance (data management and governance, data quality audits), process and/or business continuity management, IT/cybersecurity and test/inspection procedures for the software used. These topics are addressed on an annual basis with the external data providers. Special attention is paid to which changes have taken place since the previous reporting period and which specific improvement measures and/or adjustments have been taken.

10. Engagement policies

10.1 Engagement

The Asset Management actively encourages companies which it conducts dialogue to define ambitious CO_2e reduction targets and to implement them consistently. It maintains continuous dialogue with the management of the larger invested companies and plays a proactive role via the UN's PRI Collaboration Platform as well as investor initiatives. Sustainable business practices are promoted which aim to protect the environment and the climate and to encourage biodiversity, fair working practices, discrimination-free work and the protection of human rights and which are aligned with international standards such as the UN's 17 Sustainable Development Goals (UN SDGs), the Science Based Targets Initiative (SBTI) and the UN Global Compact Principles. Furthermore, companies should consistently disclose their climate-related financial risks to investors, lenders, insurance providers and other stakeholders in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). To supplement its own global and thematic engagement activities, and above all to commit to its strategy to reduce GHG emissions on a global scale, the Asset Mangement has commissioned Sustainalytics, an external engagement services provider.

The engagement guidelines are available at: www.zkb.ch

10.2 Exercise of voting rights

The Management Company's exercise of voting rights is based on Swiss and international corporate governance rules, generally accepted ESG best practice standards and the UN's Principles for Responsible Investment (UN PRI). The voting conduct will be communicated in a timely and transparent manner at: swisscanto.com/voting. The relevant voting policy is available for inspection on this website. To exercise voting rights, the Management Company has commissioned an independent proxy adviser: Institutional Shareholder Services (ISS).

The voting policy is available at: https://www.swisscanto-fondsleitungen.com/en/investment-stewardship.html
We publish our voting conduct at swisscanto.com/voting.

11. Attainment of the sustainable investment objective

No designated reference benchmark is used.

Version History in accordance with Art. 12 of Regulation (EU) 2019/2088

August 2024	Launch of the sub-fund