

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

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: Sustainable investment assessment

While the Fund does not have as its objective a sustainable investment, it 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.

Characteristic 2: ESG risk and impact screening

The Fund 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
- are exposed to *unmanageable* controversies
- with principal adverse impacts are considered *unmanageable*

Characteristic 3: ESG integration to drive environmental and social progress

The Fund integrates ESG considerations throughout the investment decision making process and the ownership period, including engagement in the form of coaching, to drive environmental and social progress within its holdings.

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 Fund uses several indicators to measure the attainment of the environmental and social characteristics:

Characteristic 1: Sustainable investment assessment

- 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 focus¹
 - Share of investments (% of NAV) that contribute to SDGs with a social focus²
- 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

¹ 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

² 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

- 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 impact screening

The following sustainability indicators are used to assess the ESG risk and impact for each underlying holding.

- ESG Risk Rating³
- Occurrence and severity of controversies⁴
- Principal adverse impact indicators⁵

Characteristic 3: ESG integration to drive environmental and social progress

To measure if underlying holding are realising environmental and/or social progress, the Fund uses the following indicators:

- Scope 1+2 carbon intensity⁶
- Share of investments (% of NAV) that express support to the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations

³ 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, SPARX will construct a proprietary ESG Risk Rating based on a bottom-up analysis of ESG data.

⁴ 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.

⁵ Source: combining data from several sources, including Sustainalytics, Trucost, and own research. Where data is not available, SPARX 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.

⁶ Source: Trucost, in Tonnes CO₂e/USD mn. Trucost also provides data on Scope 3 carbon intensity, however, due to data quality considerations, SPARX chooses not to include this indicator.

● ***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')⁷ 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 contribution of underlying holdings towards one or multiple of the 17 SDGs, SPARX identifies the relevant sub targets that the holding contributes to.⁸ While the analysis is based on a high-level and desk-research based approach, the Fund ensures the analysis is carefully tracked, and a rationale for each selection is provided.

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.

● ***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 Fund also assesses for each underlying holding, whether the investment does or may cause harm to any environmental or social sustainable investment objective. SPARX considers the sustainability indicators listed to measure the attainment of *Characteristic 2: ESG risk and impact screening*, including ESG risk ratings, occurrence and severity of controversies, and principal adverse impact indicators, when assessing whether the underlying holding may harm any other environmental or social objective.

In the case of doubt, the investment will not qualify as a sustainable investment.

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

The indicators for adverse impacts on sustainability factors are 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, SPARX 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 Fund 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.

⁷ Business cannot thrive unless people and planet are thriving. This includes ensuring that the world is on a path to meet all 17 Sustainable Development Goals. The 2030 Agenda for Sustainable Development (2030 Agenda), with 17 SDGs and 169 targets, is a plan of action for people, planet and prosperity. The SDGs are universal, transcend borders and apply across the workplace, marketplace and community. The SDGs are deeply interconnected – a lack of progress on one goal hinders progress on others.

⁸ Source: combining data from several sources, including companies, Sustainalytics or Trucost, and own research. Where data is not available, SPARX 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.

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 fund excludes investments that are exposed to severe controversies, as assessed by Sustainalytics' Controversies Research. We monitor our investments for any violations or breaches of OECD Guidelines and UN Global Principles on Business and Human Rights and consider this as part of our investment decision-making process.



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

☒ Yes,

SPARX 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, SPARX 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.

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. SPARX will begin reporting on the indicators for adverse impacts on sustainability factors, as set out in Table 1 of Annex I of the Regulatory Technical Standards of the Regulation, by 30 June 2023 at the latest.

☐ 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 identifying and acquiring undervalued Japanese equities by capitalizing on the Investment Manager's intensive in-house research expertise and extensive information network established through independent investment experience in Japan since 1989.

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 Fund will normally invest at least 80% of its assets in equity securities of Japanese companies.

The Fund sees sustainability as a long-term driver for structural change and research shows that companies with sustainable business practices are more successful. The Fund therefore adheres to the approach of building a portfolio by selecting individual stocks through bottom-up research. The Fund emphasizes companies with high stakeholder value and economic value when selecting portfolio companies. 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 Fund incorporates non-financial information, such as ESG, in addition to financial information, into its research and analysis.

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 Fund uses several indicators to measure the attainment of the environmental and social characteristics:

Characteristic 1: Sustainable investment assessment

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, and follow good governance practices) should be at least 5%.

Characteristic 2: ESG risk and impact screening

The fund excludes investments that conflict with SPARX's exclusion policy:

- *Product-based exclusions:* The fund 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 both⁹.

⁹ Product-based exclusions:

- Adult Entertainment: The Funds exclude companies deriving 10% or more of their sales from adult-entertainment / pornography-related activities.
- Alcohol: The Funds exclude 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 Funds exclude 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 Funds exclude companies that generate 10% or more of its sales from gambling and/or the production of gambling related components.
- Power Production: The Funds are allowed to invest 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 Funds exclude 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 Funds exclude 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 Funds exclude 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 Funds exclude 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 fund excludes, from the scope of investment, businesses with that have been through any conduct-based issues¹⁰ 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.

In addition, the fund excludes investments that that are exposed to severe controversies, as assessed by Sustainalytics' Controversies Research. In cases where a violation or breach has occurred, SPARX 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, we also consider the company's response to a controversial event. Where the company has used this as a learning experience to improve the robustness of its governance and controls, we would view this in a positive light.

Finally, the fund 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 Fund.

Characteristic 3: ESG integration to drive environmental and social progress

No binding elements available.

- ***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.

-
- Military Contracting and Small Arms: The Funds exclude 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

¹⁰ Conduct-based exclusions:

- 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

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

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

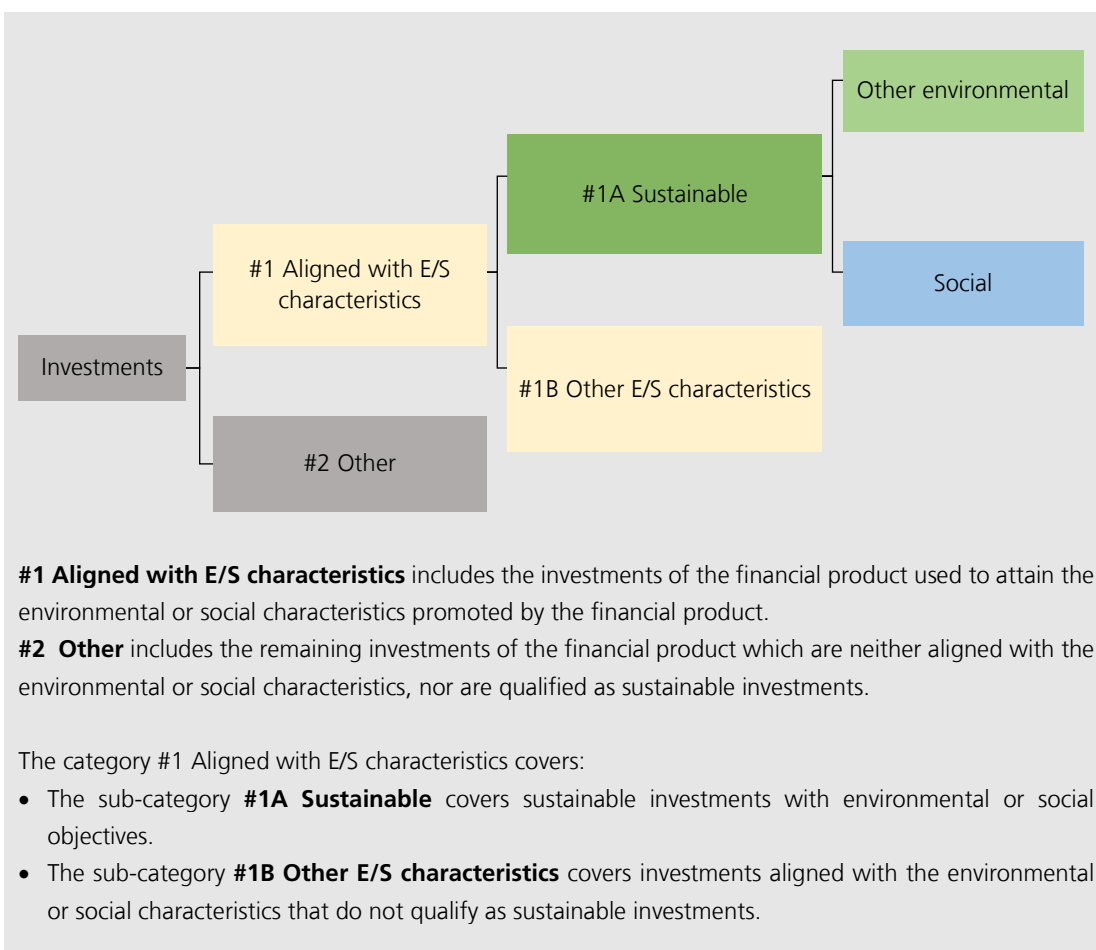
In its sustainable investment analysis, the Fund also assesses for each underlying holding, whether the investment follows good governance practices (such as sound management structures, employee relations, remuneration of staff, and tax compliance).

Analysis of good governance practices begins already pre-investment and continues throughout the holding period of the investment through our engagement activities. Elements that are taken in consideration include, but are not limited to, 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.



What is the asset allocation planned for this financial product?

All investment decisions within Fund are made according to the binding elements of the investment strategy used to attain the listed environmental and social characteristics of the Fund. While the fund does not have as its objective a sustainable investment, it will have a minimum proportion of 5% of sustainable investments.



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

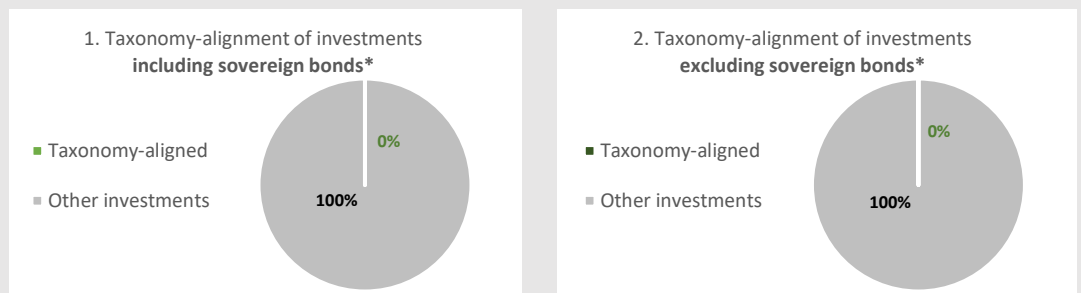
Derivatives are only used, if any, to a limited extent for hedging purposes and do not pursue any environmental and/or social characteristics.



- **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 sustainable investments in line with the EU taxonomy.

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.



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?
Weitere produktspezifische Informationen sind abrufbar unter:

More product-specific information can be found on the website:

<https://products.swisscanto.com/products/product/LU0123487463>



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