

Policy for shareholder engagement and responsible investments

Adopted by the Board of Directors of the Management Company on 10 March 2020



Innehåll

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Policy for shareholder engagement and responsible investments

1. Introduction

1.1 Handelsbanken Fonder AB

Handelsbanken Fonder AB (referred to below as the Fund Company) conducts business activities involving the active and passive (index-based and rules-based) management of mutual funds and alternative investment funds using assets entrusted to the company by its unit holders. The Fund Company is part of the Handelsbanken Group as a wholly owned subsidiary of Svenska Handelsbanken AB (publ).

The objective of the Fund Company is to generate good returns on its assets under management and to promote sustainable development and a sustainable future. Responsible action is a basic requirement for long-term value creation in a company. Responsible investments are thus an important prerequisite for achieving our objective of generating good long-term returns. Our actions as responsible investors and owners are thus central to our management.

Active management means that the managers carefully analyse each investment (portfolio company) based on relevant issues regarding the companies' strategy, financial and non-financial results and risks, capital structure, social and environmental impact and corporate governance. This is done by gathering information from the portfolio companies and external sources as well as through our own analysis.

Passive management means that the funds invest on the basis of a predetermined index or rules-based approach and have a promise to unit holders to deliver a return in line with this approach. It is essential that the Fund Company chooses an index and strategy that take into account the parameters of the portfolio companies that it determines are relevant in each case, such as sustainability factors, since the choice of index and strategy determines the fund's investments.

The Fund Company's funds invest globally in companies across an extensive number of markets. From an ownership perspective, the Swedish but also the Nordic stock markets are particularly important due to the Fund Company's large capital in these markets. The Fund Company is one of the major owners in the Swedish stock market.

Pursuant to applicable regulations, funds must be managed exclusively in the joint interest of the fund unit holders¹. The Fund Company must always strive to achieve the highest

possible returns on behalf of the fund unit holders, taking into consideration the funds' objectives and investment restrictions. In support of these objectives, the Fund Company must make use of the opportunities for shareholder influence that are linked to equity holdings in the various funds. Even when investing in interest-bearing securities, opportunities for influence linked to this type of financing are utilised.

1.2 About this policy and its purpose

The purpose of this policy is to establish the Fund Company's policy for shareholder engagement, which includes guidelines for the Fund Company's corporate governance and guidelines for responsible investment.

The Fund Company's guidelines for corporate governance state how the Fund Company executes its corporate governance and exercises its voting rights in practical terms, as well as how the Fund Company monitors relevant information with regard to the portfolio management company and manages any resulting and potential conflicts of interest associated with the exercising of ownership. The guidelines also state how the Fund Company conducts dialogues with portfolio management companies and collaborates with other owners to improve the conditions for corporate governance. Lastly, the guidelines include the overall governance-related principles that the Fund Company promotes in the companies in which we invest on behalf of the unit owners.

The guidelines for responsible investment determine the direction of the Fund Company's work with responsible investments and actions as investors and owners. The guidelines state how environmental, social and corporate governance (ESG) factors are integrated into the Fund Company's active and passive management operations.

The Policy for Shareholder Engagement and Responsible Investment has been adopted by the Board of Directors and is a governing document that must be continuously adhered to in business activities. The policy will be updated and adopted by the Board at least once a year. The policy is also used for communication with existing and new fund unit holders and is therefore published on the Fund Company's website at: www.handelsbanken.com/en/sustainability/responsible-investment.

¹ In this document, the term unit holders is also used for investors in alternative investment funds.

1.3 Applicable rules

The business activities of the Fund Company are regulated primarily by the Swedish Investment Funds Act (2004:46) and the Alternative Investment Fund Managers Act (2013:561). Of importance for corporate governance are rules within these regulations that state that the Fund Company's funds must be managed exclusively in the joint interest of the fund unit holders. Pursuant to the statutory provisions, the Fund Company must not acquire equities with voting rights that would give the Fund Company significant influence over the management of a company. Moreover, each fund must be managed in accordance with the fund rules that have been approved by the Swedish Financial Supervisory Authority and other applicable laws.

Chap. 2, §17h of the Swedish Investment Funds Act states that a fund management company must adopt principles for shareholder engagement concerning investments in equities in certain instances. Corresponding rules are stated for the management of non-UCITS funds in Chap. 8, §27a of the Alternative Investment Fund Managers Act. The rules within each regulation include information on the scope of the principles. Chap. 4, §17 in the Swedish Investment Funds Act and Chap. 8, §27b in the Alternative Investment Fund Managers Act also include requirements to annually report the manner in which the adopted principles for shareholder engagement have been applied.

Further, Chap. 15 in the Financial Supervisory Authority's regulations (FFFS 2013:9) on securities funds requires the Fund Company to adopt internal rules which state the strategies the Company will follow when exercising its voting rights. Similar rules are found in Article 37 of the Commission's Delegated Regulation (EU) No. 231/2013.

Pursuant to Chap. 4, §24 in the Swedish Investment Funds Act, a management company must provide the information necessary for the understanding of the fund's management with regard to sustainability for each fund managed by the Fund Company. The information must be provided in an information brochure or annual report and describe the sustainability dimensions taken into consideration in fund management, the method or methods used in the sustainability work, and the follow-up of the sustainability work.

The Fund Company also observes the relevant rules within the sector that have been issued by the Swedish Investment Fund Association, including the Swedish Code of Conduct for fund management companies, Guidelines for marketing and information by fund management companies, and Guidelines for investment fund managers as shareholders, which are reflected in this policy.

1.4 Commitments

The Fund Company supports international initiatives and guidelines that have the common purpose of encouraging and facilitating corporate social responsibility. The guidelines for responsible investment are based on international norms for the environment, human rights, working conditions, anti-corruption and controversial weapons. These norms are expressed in the UN's conventions and agreements and are applicable to the company's environmental and social responsibilities.

The Fund Company, through Handelsbanken, is a signatory of the UN's Principles for Responsible Investments (UN PRI) and also supports the voluntary UN Global Compact initiative. These initiatives and guidelines are indicative of the Fund Company's work and, together with the values expressed in our corporate culture, constitute a clear and common basis for our asset management.

1.5 Responsibility and organisation

The Board of the Fund Company must, at least annually, take a decision regarding this policy. The results of the Fund Company's corporate governance and responsible investment efforts must be reported to the Board at least on an annual basis, and be reported regularly to the CEO. The CEO is responsible for the Fund Company's work on corporate governance and responsible investment, but can appoint a corporate governance manager as well as sustainability manager to lead and coordinate the operational tasks on behalf of the Fund Company. These responsibilities also include ensuring that the information provided by the Fund Company with regard to responsible investments and the sustainability efforts comply with the requirements imposed by regulations and self-regulations.

Organisation and decision-making differ somewhat between ownership, governance and sustainability issues and are therefore reported under the respective sections below.

2. Guidelines for corporate governance

The overall purpose of corporate governance is to promote a positive sustainable development of the companies in which the fund capital has been invested, and thereby the opportunities for good returns. The ownership role is exercised in a way that best promotes the long-term development of the value of the companies, and thus the unit value of the funds, in the interest of the unit holders. The Fund Company believes that conscious, active and responsible corporate governance is an important part of our duty to the fund unit owners.

Corporate governance should be directed towards the companies' own governance, with the aim of complying with the principles that the Fund Company considers should apply to efficient and sound corporate governance. Corporate governance should also be used to promote responsible behaviour that the Fund Company considers to be a basic requirement for creating profitable long-term value in a company.

The level of activity in the ownership role is determined on the basis of what value is deemed to be achievable. In exercising corporate governance, the value of the Fund Company's freedom of action should be taken into account, such as the ability to dispose of a shareholding at any time.

The Fund Company must act independently, both in relation to the companies in which the company is a shareholder through the funds and in relation to its own owner. The Fund Company's corporate governance is determined solely by what is deemed to be the best long-term investment for the fund unit owners and, in this context, identify and manage actual and potential conflicts of interest.

2.1. Principles concerning the Company's governance

Swedish limited liability companies must follow the fundamental rules of the Swedish Companies Act regarding their organisation and governance. The Fund Company believes that Swedish listed companies should also comply with the Swedish Code of Corporate Governance (the 'Code'). The Code complements legislation and other rules by providing a norm for corporate governance with a higher level of ambition while permitting non-compliance when it can be justified.

Similarly, non-Swedish companies must comply with relevant company laws and should also follow or explain any deviation from the corporate codes of conduct applicable to the markets where they are listed.

The principles for corporate governance specified below reflect the principles of the Code, but in certain cases also contain additions or clarifications.

The Fund Company works to ensure that the Swedish Corporate Governance Code is continuously adapted to promote a good development of corporate governance in

Swedish listed companies. This is accomplished primarily through representation on relevant industry bodies, such as the Swedish Institutional Investors Association (IÄF), which is one of the principals of the Association for Generally Accepted Practice in the Securities Market, which operates through these self-regulatory bodies: Swedish Securities Council, Swedish Corporate Governance Board and Swedish Financial Reporting Board.

Information and transparency

The Fund Company promotes transparency and appropriate disclosure from the companies, since both are fundamental for facilitating both effective corporate governance and efficient financial markets, and thus for facilitating management of the fund capital in the best interests of the fund unit holders.

Annual general meeting

The annual general meeting (AGM) is the highest decision-making body and the forum where shareholders can exert their influence. Companies must comply with the rules regarding ownership influence as required by law, relevant codes and guidelines, and otherwise act in accordance with generally accepted market practice. To achieve conditions conducive to ownership influence, notice of the AGM must be made as early as possible within the framework of what is permitted pursuant to legislation and articles of association. Shareholders must receive information well before the meeting so that they can consider the proposals to be presented at the meeting. Proposals that are not customary in nature must be specifically explained in the notice.

Nomination committees

The nomination committee is the preparatory body of the AGM of shareholders for decisions relating to the Board of Directors, auditors and audit fees. The nomination committee must promote the interests of all shareholders. The committee consists of members appointed by the largest shareholders in the company. One Board member, typically the Chairman of the Board, may be included as a member of the nomination committee, but preferably only as an adjunct. The Chairman of the Board should not serve as the Chairman of the nomination committee. The members of the nomination committee must be suitably qualified for their assignment. The nomination committee should pursue diversity through a gender balance, for example.

The members of the nomination committee undertake their work as soon as possible after their appointment and continue until a new nomination committee is appointed. The work of the nomination committee takes place using a well-structured process. The duties include an analysis of the skills and competencies required for the company's Board, as well as an inventory of existing qualifications and an assessment of the suitability of the Board members. A

carefully planned and implemented evaluation of the Board is an important basis for the tasks of the nomination committee. The committee seeks to identify qualified candidates using a broad approach. An external recruitment firm should be retained, when appropriate.

The nomination committee justifies its selection in a concrete and transparent manner and documents its decisions.

Board of Directors

The Fund Company strives to ensure that every company has an effective Board of Directors characterised by diversity and competence relevant for the company. The Fund Company applies a broad interpretation of diversity. Focus is placed on a gender-balanced Board. With regard to small and mid-sized companies, and in industries where women are normally unrepresented on boards, the Fund Company believes that women's representation on boards needs to increase. Overall, each Board of Directors should have the ability to consider and manage relevant sustainability issues.

The Code's rules on independent Board members must be complied with to ensure the Board's ability to govern the company with integrity and efficiency. A special remuneration committee should be formed for boards that include people with executive positions. Board members must not have other assignments that prevent them from dedicating sufficient time to their Board assignment and effectively performing their Board duties.

To enhance the effectiveness of such Board work, efforts should be made to limit the number of Board members, unless the complexity of business operations requires otherwise.

Audits

Auditors are appointed by shareholders and constitute their controlling body. It is therefore important that the auditor has an independent position in relation to corporate management and the Board, and that the nomination process is characterised by transparency and clarity. The information provided by the auditor to the shareholders must be relevant and clear. The audit must be regularly evaluated to ensure high quality. Auditors must clearly state other assignments they have in the company in addition to their auditing assignment.

Internal control

A well-functioning internal control system is an important prerequisite for a well-run operation. The Board is responsible for ensuring that the company has an effective risk management programme in which relevant risks are identified, managed and followed up. The Board of Directors must secure a good control environment and promote a good risk culture. The company's reports must provide an accurate view of major risks in the business operations and how the company controls and follows up on these risks.

Fees and remuneration to Board members

Board fees must be reasonable and market-based, and must reflect the responsibilities and contributions of the Board members.

Remuneration system and remuneration

The Board of the company is responsible for establishing and evaluating the company's remuneration system. Remuneration and the remuneration system must be reasonable, balanced and adapted to the circumstances of the company.

The company has a remuneration policy that describes the fundamental guidelines compensating the company's employees. The remuneration policy contains the terms and conditions for fixed salary, any variable remuneration, principles for termination benefits and conditions for retirement, as well as any share-based incentive programmes and other benefits. Pension is based on fixed salary and linked to length of employment so that pension expenses can be anticipated. The various components of remuneration to employees should be viewed in their entirety.

Decisions regarding the remuneration policy are taken at the annual general meeting based on proposals substantiated by the Board.

In certain cases, share-based incentive schemes can complement other types of remuneration. The purpose of a share-based incentive scheme, in addition to being part of the total remuneration, is to create a common interest between shareholders and employees with regard to share price performance. The scheme is expected to stimulate extra effort among participants to achieve defined performance targets. One way to strengthen the stakeholder relationship is to require private investments from those who participate in the scheme.

The Fund Company has the following general requirements for share-based incentive schemes:

- They are characterised by simplicity, clarity, transparency and measurability.
- There is a clear relationship between shareholder returns and participant distributions.
- Performance targets are set and adjusted based on special circumstances applicable to the company and the sector in which the company operates. Sustainability dimensions are an expressed part of the targets.
- Performance is evaluated over the long term.
- The cost is well balanced between owner demands for low cost and employee expectations for performance-based compensation.

Capital structure

The company strives to achieve an effective capital structure. Matters related to capital structure are typically handled by the Board and senior management in order to promote the development of the company over time.

Decisions linked to company equity, such as decisions about dividends, equity issues or repurchase of equities, are made by the shareholders. Authorisation for changes in the capital structure must be of limited duration. Proposals from the company's Board regarding such changes must be transparent and clearly describe the reasoning behind the proposed measures. The company should normally have a dividend policy, and proposals for dividends should be in accordance with this policy.

New share issues should normally take place with pre-emption rights for existing shareholders.

Equal treatment of shareholders

The equal treatment of shareholders is an important foundation of Swedish company law. The Fund Company works to ensure that equities with the same financial rights in the company are always treated equally in financial terms, e.g., in connection with distributions, acquisition of all equities or liquidation. The Fund Company also believes that the principle of one share, one vote is normally preferable, i.e., there is a direct link between financial ownership and influence. Deviations from this principle must be justifiable. In general, the Fund Company is positive to decreasing the current differences in voting rights, under the condition that this occurs with respect to the existing ownership rights.

Shareholder motions

Each individual shareholder motion is evaluated on the basis of several factors, such as how the proposal affects short-term and long-term shareholder value, how the company acts in relation to its competitors and whether the issues addressed in the proposal are best handled via legislation or company-specific actions.

2.2. The Fund Company's means for exercising corporate governance

The Fund Company exercises its governance in a way that best promotes the long-term development of the value of the companies, and thus the unit value of the funds. The extent and selection of activities within our ownership role are determined based on the assessed opportunity for engagement and value creation. Corporate governance can differ between active management and passive management because, for example, the customer promise can differ in terms of scope for negotiation.

A prerequisite for sound, effective corporate governance is a good understanding of the companies, their strategies and challenges. Fund management involves monitoring and analysing the development of the companies held by the fund. It is especially important to monitor the companies' actions with regard to relevant codes, as well as from a sustainability perspective, to ensure alignment with the Fund Company's Guidelines for Responsible Investment.

Governance activities primarily focus on holdings in companies in which the Fund Company is a major owner, where the conditions for achieving a beneficial effect for fund unit holders are greatest. The Fund Company's shareholding is normally greater in companies in Sweden and the rest of the Nordic region. However, even with a lower shareholding in companies listed on foreign exchanges, the Fund Company takes action if it assesses that a beneficial effect can be achieved for fund unit holders.

The Fund Company regularly monitors major corporate events in relevant companies in which the Fund Company is an owner. From an ownership perspective, the annual general meetings and extraordinary general meetings are the central events for which the Fund Company ensures the availability of relevant information to support analysis and vot-

ing decisions. This is primarily done through contact with the companies, third-party analyses, market information, or proxy advisor analyses. The Fund Company then makes independent decisions on questions that will be voted on or decided.

Annual general meetings

The Fund Company normally votes at the annual general meetings (AGMs) of the companies in which the Fund has substantial holdings and at the AGMs which for other reasons are considered significant. The Fund Company exercises its voting rights in a way that promotes the best long-term development of the unit value of the funds. Normally, the Fund Company votes for all shares in each fund. In markets where the shares are locked for a longer period of time in order to be registered for voting at an AGM, freedom of action with regard to the possible disposal requirement is weighed against the importance of ownership influence.

According to the Fund Company's fund rules, it is possible to practice stock lending to a certain extent in the management of assets. In each individual case, the Fund Company assesses whether or not stock lending is appropriate from an ownership perspective. To enable possible voting for all shares, they are normally withdrawn ahead of the AGM. In some cases, parts of the loans may remain if they do not have a significant impact on our ability to exercise ownership influence.

Nomination committees

The Fund Company exercises long-term ownership through participation in nomination committees. Although the Fund Company cannot guarantee long-term ownership in individual companies due to the nature of its business, the nomination committee's work is always conducted for the long term in accordance with this policy regardless of the specific company.

Normally, the Fund Company participates in nomination committees when the Fund Company is one of the major owners, and is therefore invited to propose a nomination committee member. The Fund Company does not participate in the nomination committee in Handelsbanken or in companies that can be considered inappropriate due to conflicts of interest or similar reasons. The corporate governance manager is responsible for deciding which nomination committees to join and who will represent the Fund Company. The Fund Company's representatives must have the expertise and experience that make them suitable for their nomination committee assignment. The nomination committee representatives, who can be internal or external, work according to the guidelines and directives produced by the Fund Company's corporate governance committee.

According to the Fund Company's fund rules, it is possible to practice stock lending to a certain extent in the management of assets. Stock lending does not normally take place in companies where the Fund Company has a seat in the nomination committee.

As far as possible, the nomination committee must conduct its work in a way that does not limit the Fund Company's freedom of action with respect to the funds' shareholdings.

Board representation

In the companies whose shares the funds invest in, the Fund Company must exercise its governance without the requirements for its own board representation. Board representation complicates the Fund Company's ability to conduct active and efficient management, and is also difficult to reconcile with the requirement that the funds' assets can be redeemed at any time by the unit holders.

Dialogue with the companies and communication with other stakeholders

The Fund Company uses dialogues with companies when exercising its ownership role when deemed relevant, for example with regard to responsible behaviour or in conjunction with various proposals from the company for the AGM, such as incentive programmes.

The Fund Company can also communicate with other parties and stakeholders in the portfolio companies where such contact can be considered as promoting the long-term development of the investment. Examples include communicating with the customers of the portfolio company, union organisations, special interest organisations or individuals who can impact the portfolio company's business.

Cooperation with other shareholders

If it is considered to improve the conditions for ownership in accordance with this policy, the Fund Company can cooperate with other owners on one or more issues. This can be done through bilateral contacts or industry organisations such as the Swedish Institutional Investors Association.

Disputes and settlements

Occasionally, fund assets are invested in companies that violate different rules. These can include violations of marketplace rules (unsatisfactory or incorrect disclosure), violations of competition rules, fraud, corruption, etc.

These violations can result in legal processes against the company in question, and often take the form of a class action suit. Such a process often leads to a settlement and compensation to shareholders for incurred losses. The settlements can also include requirements for changes to the company's corporate governance, such as changes in management or the board of directors, or requirements for new or amended internal rules or control systems.

When conditions allow, the Fund Company will, of its own accord or using legal counsel, actively participate in the class actions, processes involving competition violations and similar disputes, seek the best possible outcome in the settlements, and assist in making the necessary changes in the corporate governance of the company at fault.

The aim of monitoring companies and participating in processes and settlements is twofold: to ensure that the affected funds and their shareholders receive remuneration when a company has committed a remuneration-based rules violation, and to ensure that the Fund Company is actively engaged in improving the corporate governance of the company at fault.

2.3. Conflicts of interest

A number of conflicts of interest can arise in the corporate governance of the Fund Company. Most notably, this applies to the Fund Company's relationship to its owner, Svenska Handelsbanken AB (publ), as well as companies that have ownership ties or personal ties to Handelsbanken. This could also apply to other companies that have a significant business relationship with the Fund Company. As a result of any of these ties, the Fund Company could be guided by other considerations than those that are in the best interest of the unit holders.

The Fund Company manages these conflicts of interest in numerous ways to ensure that it always takes actions related to ownership matters in the best interest of the unit holders.

The Fund Company does the same type of assessments and position-taking in its analyses and actions, regardless of the relationship the Fund Company has to the company concerned. The Policy for Shareholder Engagement and Responsible Investments, which has been adopted by the Board of the Fund Company, and its principles apply to all companies in which the funds are invested, regardless of any association with the Handelsbanken Group or other companies.

At least half of the Fund Company's Board of Directors must be independent in relation to the Handelsbanken Group. Corporate governance issues are reported to the Board at least annually. Should the Fund Company have acted in a manner considered inconsistent with the best interests of the unit holders, the Board will receive this information.

The Fund Company has formed a corporate governance committee consisting of a corporate governance manager in the Fund Company, managing director, chairman of the Board, two of the independent Board members, and the Board secretary of the Fund Company. In order to manage the risk of conflicts of interest in relation to the Fund Company's owners, at least one of the independent members must support a decision of the committee in order for it to be valid.

Pursuant to regulations in Chap. 2, §17h of the Swedish Investment Funds Act, the Fund Company must also annually report on how it has voted at the AGMs. This disclosure requirement means that the Fund Company is unable to covertly act in a manner inconsistent with the best interests of the unit holders.

The Fund Company also utilises a proxy advisor, whose advice can provide the Fund Company with guidance in sensitive matters.

According to the variable remuneration model for the Fund Company's active management, managers are evaluated exclusively on the performance of the funds they manage over a period of several years. When managers take a position on how the Fund Company should vote at AGMs in the portfolio companies, they thus have a clear incentive to support the proposals that are best assessed to favour the company's development from a shareholder perspective.

2.4. Governance organisational structure

Corporate governance issues of a substantial and principled nature are decided on by the Board of Directors. The Board of Handelsbanken Fonder consists of six members, three of whom are independent in relation to the Handelsbanken Group. Substantial and principled decisions refer to decisions about the Policy for Shareholder Engagement and Responsible Investments, the formation of a corporate governance committee and the nomination information for the committee (see below).

The corporate governance committee consists of the corporate governance manager of the Fund Company (who is also the committee chair), CEO, chairman of the Board, two of the independent Board members, and the Fund Company's Board secretary. The Committee is tasked with preparing key corporate governance issues, such as:

1. Ongoing updates of the Policy for Shareholder Engagement and Responsible Investments prior to Board decisions.
2. Instructions for nomination committee activities (decided by the committee).
3. View of principled issues in the ongoing activities (decided by the committee).

To manage the risk of conflicts of interest in relation to the Fund Company's owners, among other purposes, at least one of the independent members must support a decision of the committee in order for it to be valid.

The committee normally meets once a year, ahead of the AGM season (usually in September) and when any of the above points are updated.

3. Guidelines for responsible investment

3.1. Core values

The Fund Company believes that responsible behaviour is a fundamental prerequisite for long-term value creation in a company. Consequently, responsible investment becomes an important prerequisite for achieving our objective of generating healthy long-term returns.

The Fund Company aims to integrate financial, social and environmental sustainability in its management practices. This means that the company conducts a financially sound, sustainable investment business as well as encourages and contributes to sustainable development.

Handelsbanken supports international initiatives and guidelines that have the common purpose of promoting and facilitating sustainable business. This policy takes as a starting point international norms regarding the environment, human rights, working conditions, corruption and controversial weapons. These norms are expressed in the UN's conventions and agreements and are applicable to the company's environmental and social responsibilities.

The Fund Company is a signatory to the UN's Principles for Responsible Investment (UN PRI), and Handelsbanken and Handelsbanken Fonder are signatories of the UN's voluntary Global Compact initiative.

These initiatives and guidelines provide guidance for the Fund Company's work and, together with the company's core values, represent a transparent and common foundation for our asset management.

Stable, productive and resilient ecosystems are fundamental to achieving secure, sustainable development. Today, these systems are under pressure caused by pollution, acidification, depletion of natural resources and eutrophication, which affect land use and freshwater supply. Climate change also poses a serious threat, with extreme weather events, rising sea levels and the loss of biodiversity that already impact our world today. This has implications for both the regional and the global economy.

Agenda 2030 and the UN's Sustainable Development Goals (SDGs) provide a clear direction and targets related to the environment and climate. Furthermore, the Paris Agreement constitutes a global agreement for managing, slowing down and mitigating climate change.

The objective of the Fund Company is to generate good returns on the assets under management and to promote sustainable development and as sustainable future. As a significant investor, the Fund Company has an important role to play in the realisation of the Paris Agreement: to drive capital into investments that contribute to achievement of

the SDGs and the transition to sustainable development. The Fund Company therefore strives to increase investments in companies that offer solutions to global sustainability challenges and contribute to achieving the SDGs. At the same time, the Management Company strives to minimise the negative environmental and climate impacts of our investments.

3.2. Scope

This policy applies to the Fund Company's managed funds and the funds' direct and indirect investments in Swedish and foreign equities and corporate bonds. In the case of indirect investments for purposes such as managing liquidity or regional allocations, the policy applies to the extent possible. For external funds in the Fund Company's fund-of-funds, this policy applies in full.

The policy is supplemented with appendices regarding the following:

1. Weapons and defence industries, controversial weapons
2. Climate impact and coal
3. Tobacco industry
4. International norms and conventions
5. Extended exclusion criteria
6. Companies in transition

3.3. Sustainability integration

In our daily operations, the approach to sustainable integration differs depending on whether we are choosing individual companies to invest in or funds that will be included in fund portfolios. The choice of asset classes and management orientation also affects this approach.

3.4. Methods for sustainability work

The Fund Company's work on responsible investments rests on three pillars: exclusion, inclusion and engagement.

ESG² is an integral part of investment analysis and decisions, but in day-to-day operations the approach may differ depending on the choice of individual companies to invest in, the choice of indices or the choice of funds to be included in the fund portfolios. The choice of asset classes and management orientation also affects this approach.



Exclusion

Handelsbanken Fonder does not invest in some businesses. The basis for this exclusion is the Fund Company's core values and commitments, as well as our policies and internal guidelines for the environment and climate. This position is based on the following reasoning for certain products and services:

- They are at high risk of having negative effects on the environment, society and various stakeholders.
- They are incompatible with our role as a responsible

² ESG stands for Environmental, Social and Governance.

investor, our long-term perspective and investing for a sustainable development and future.

- They involve increased sustainability risks in companies' value chains which we assess bring unmanageable risks.

Handelsbanken Fonder does not invest in the following businesses:

- Companies involved in the production or distribution of weapons that are prohibited under international law, such as cluster weapons, anti-personnel mines, biological weapons and chemical weapons. The Fund Company also does not invest in companies involved in the production or distribution of nuclear weapons. See Appendix 1.
- Companies with significant operations in thermal coal mining or power companies that use thermal coal as a major source of power generation. In practice, this means that no more than 5 per cent of a company's turnover may be derived from the extraction of thermal coal. As regards power generation, no more than 30 per cent of the power companies' turnover may be derived from coal. See Appendix 2. For the majority of funds with extended exclusion requirements, stricter criteria apply (see below).
- Companies involved in cigarette production (see Appendix 3).

Extended exclusion requirements

In addition to the above, the majority of the Fund Company's funds apply an extended exclusion, which means that the Fund Company excludes additional industries from our portfolios. These include companies involved in the production or distribution of:

- Conventional weapons and military equipment
- Alcohol
- Tobacco
- Cannabis
- Gambling
- Pornography
- Fossil fuels, including the extraction of oil sands.

Furthermore, extended exclusion also includes companies that have been confirmed to act in violation of international norms and conventions. See Appendix 5 for definitions regarding controversial industries and Appendix 4 regarding norm breakers.

All corporate holdings are analysed regularly to identify those companies that deviate from international norms regarding the environment, human rights, working conditions and corruption. This means that all holdings are reviewed in order to identify any possible crimes or violations of international norms according to the UN Global Compact's four fundamental principles.

Application

In some cases, we can accept deviations from any of our exclusion requirements, such as fossil fuels (see Appendix 6).

Potential deviations from the policy are managed within the framework of the sustainability committee (see Section 3.4). This can lead to non-permitted holdings remaining in the portfolio during a transitional period.



Inclusion

The Fund Company strives to invest in companies that align with or contribute positively to sustainable development in accordance with Agenda 2030 and the goals of the Paris Agreement. The Fund Company strives to increase investment in solutions to global sustainability challenges, thereby contributing to the achievement of the sustainable development goals and the transition to a low-carbon economy.

- The Fund Company actively seeks to invest in companies that conduct their business in a sustainable way or companies whose products and services contribute to sustainable development.
- The Fund Company actively seeks to invest in companies that contribute to the transition to a low-carbon economy in line with the Paris Agreement.

The inclusion of investments is based on two dimensions: the company's operational sustainability performance and its products and services. In our daily operations, the approach differs depending on whether we are selecting individual companies to invest in, indices, or funds that will be included in fund portfolios. The choice of asset classes and management orientation also affects the approach.

Within active management, companies that meet the requirements for qualifying as a company in transition can be included (see Appendix 5).



Engagement

As a significant investor, the Fund Company has a responsibility and an opportunity to engage with companies to act responsibly and conduct their business in a sustainable manner as well as to encourage the asset management industry to develop its sustainability efforts. The Fund Company engages through corporate dialogue, corporate governance and investor networks. Our engagement activities are grounded in Handelsbanken's core values, commitments, and the international norms and conventions that the Fund Company supports.

The Fund Company proactively attempts to influence companies to improve their sustainability efforts, and to comply with international norms and conventions or within specific issues. Through our corporate governance, we influence companies through participation in nomination committees and voting at general meetings. Read more under the section Guidelines for corporate governance.

Engagement dialogues

Dialogue is an important method for engaging companies. This applies to proactive dialogues aiming to influence companies to improve their sustainability activities as well as dialogues with companies we consider do not comply with international norms and conventions.

The Fund Company conducts engagement either directly with companies on its own behalf or through collaboration together with other investors. The dialogues can be classified as follows:

- Targeted proactive dialogues: Direct contact between the Fund Company and the company. In active management, we have continuous contact with the companies and are well positioned to directly influence the companies. Listed below are various reasons why the Fund Company can initiate a dialogue.
- Dialogues together with other investors: These dialogues are conducted with other investors and facilitated by an external service provider. The starting point for dialogue is often suspected or confirmed cases of violations of international norms and conventions, but in some cases can also be thematically oriented.
- Partnerships and industry initiatives: These dialogues focus on specific industries and specific sustainability issues.

Investor networks

The Fund Company actively participates in investor networks to contribute and promote the development of the asset management industry in terms of sustainability. Participating in networks is also important to the Fund Company's learning and development within the rapidly evolving area of sustainability. Examples of collaboration in which we are involved in working groups are the IIGCC, SISD and UNPRI.

Shareholder motions on sustainability issues

Engagement can also be exercised through the Fund Company's corporate governance work associated with the annual general meeting of the portfolio companies. The Fund Company generally supports shareholder motions which seek to promote sustainable operations and strive for greater transparency in accounting for and reporting a company's climate impact, human rights and working conditions initiatives, etc.

3.5. Decision organisation in sustainability matters

The CEO of the Fund Company is responsible for its implementation of sustainability activities related to policies and strategies. The business area managers for active and passive management and for asset allocation management are responsible for integrating sustainability issues, both risks and opportunities, into the investment process, the analysis and investment decisions in accordance with policies and strategies. This work is guided by the Head of Responsible Investments within Asset Management, who is responsible for coordinating the work and developing policies and strategies related to sustainability for the entire asset management and thus also the Fund Company.

The Fund Company has a Sustainability Committee that prepares and decides on overall sustainability issues. Decisions are taken by the CEO. The purpose of the Sustainability Committee is to take decisions regarding the assessment of companies in relation to extended exclusion criteria (activities and norm breakers) and companies that are selected according to special criteria for companies in transition.

The Sustainability Committee also takes a position on methodology development regarding the analysis and assessment of these criteria. The CEO also decides on the exclusion list that will apply to the Fund Company's investments.

The Fund Company's risk control function follows up the fulfilment of its exclusion criteria on a daily basis. Any deviations are reported to the Board and the CEO within the framework of the risk control function's ongoing work.

4. Follow-up, reporting and communication

The following describes how the Fund Company monitors, follows up, reports and communicates information on corporate governance and responsible investments.

4.1. Follow-up

The actions taken by the Fund Company on corporate governance and sustainability are followed up at different intervals depending on the area. The Fund Company's risk control function monitors the funds on a daily basis to ensure their adherence to the fund rules and the promises made to customers regarding the exclusion of companies.

A special forum – the Risk Forum for Sustainability – follows up on a quarterly basis whether the funds individually and the fund company as a whole are making progress on the established sustainability goals.

The corporate governance manager continuously monitors the nomination committee's work with the Fund Company's appointed representatives. This takes place in joint meetings where guidelines and current issues are reviewed.

Voting at annual general meetings is followed up on an ongoing basis during the season by the corporate governance team. All voting is recorded digitally. The Fund Company uses its voting rights to encourage the companies to comply with the corporate governance principles in the Fund Company's guidelines. Any votes cast that conflict with the guidelines are documented with a specific justification.

4.2. Reporting

Each year, the Fund Company presents the follow-up of its corporate governance and sustainability work in the funds' annual report or in a separate report. The reports include a general description of the Fund Company's voting in the portfolio companies, e.g., the number of annual general meetings, geographic distribution and a compilation of the votes cast by the Fund Company at the annual general meetings of the portfolio companies. The reports also states

whether there were any critical votes during the period, for example where the Fund Company was a major owner or where a critical or controversial matter was subject to a decision at the annual general meeting. Information is submitted about cases in which the Fund Company engaged advisory services or obtained voting recommendations from a proxy advisor. With regard to sustainability efforts, the report includes information about the sustainability dimensions that are taken into consideration in the management of the fund, the methods used for the sustainability work and the work carried out by the Fund Company to influence the companies in which the funds invests. The reports for engagement efforts include information concerning the dialogues conducted with the portfolio companies, how they have been conducted and, when appropriate, the results.

At least once a year, the Board of the Fund Company receives a report on the corporate governance and sustainability efforts as well as compliance with this policy.

4.3. Communication

An important part of the Fund Company's shareholder engagement is communicating the company's position on corporate governance and responsible investment to various shareholders. This policy for shareholder engagement, which expresses the Fund Company's view on matters of principle, is published and made available on the Fund Company's website. This information can be used for communication with investors.

A summary report is produced that describes the Fund Company's overall actions related to corporate governance throughout the year.

Voting at annual general meetings is also reported annually, retroactively, on the website. Some of the Fund Company's responsible investment efforts are also communicated in Handelsbanken's annual sustainability report.

Appendix 1

Weapons and defence industries, controversial weapons

In accordance with the United Nations Charter, every nation has the right to defend itself. The production and trade of weapons and other war materials is regulated by national legislation, intergovernmental regulations, international conventions and weapon embargos issued by the UN Security Council or EU.

In addition to the obvious risks that exist in cases of human rights violations related to the use of different types of weapons, the defence sector is characterised by a risk for corruption, according to the independent international organisation Transparency International.

In its dealings with companies in the defence industry, the Fund Company is responsible for verifying that they do not constitute an offence of a UN or EU weapon embargo, and

that the company operates in accordance with national and international regulations.

Handelsbanken Fonder also evaluates and takes into account the guidelines of the company to counteract any human rights violations and corruption, as well as monitors and takes into consideration how well the company follows these guidelines.

Handelsbanken Fonder does not invest in securities issued by companies involved in the production or distribution of weapons prohibited under international law, such as cluster weapons, anti-personnel mines, biological weapons and chemical weapons. Nor do we invest in companies involved in the production or distribution of nuclear weapons. A list of the companies in which we do not invest is available on the Fund Company's website.

Appendix 2

Climate impact and coal

Handelsbanken Fonder strives to understand the impact of our investments on climate change and to take action to reduce this impact. Greenhouse gas emissions are a major contributing factor to accelerating global temperatures.

Handelsbanken Fonder measures and publicly discloses the carbon footprint of its funds. The company supports the Montreal Carbon Pledge, an initiative within the scope of PRI (Principles for Responsible Investment) in which holders of capital and fund managers commit to measure and publicly disclose the carbon footprint of their portfolios. Handelsbanken Fonder is also a signatory of CDP (Carbon Disclosure Project), an independent, international non-profit organisation that encourages greater transparency and dialogue among companies regarding CO₂ emissions and climate strategies. The Fund Company also supports the recommendations of the Task Force on Climate-related

Financial Disclosure (TCFD) and presents the Fund Company's climate-related risks and opportunities in accordance with TCFD recommendations.

The burning of brown coal is a major source of the energy sector's greenhouse gas emissions. Accordingly, Handelsbanken Fonder has decided not to invest in companies whose main business activities include mining of coal for combustion or in power companies that use coal as a major source of power generation. In practice, this means that no more than 5 per cent of a company's turnover may be derived from the extraction of coal for combustion. Nor does the fund management company invest in companies if more than 30 per cent of the company's turnover derives from coal power generation. For the majority of the Fund Company's funds, the extended exclusion criteria are applied, which means that power generation from coal power must not exceed 5 per cent of the power companies' turnover.

Appendix 3

The tobacco industry

Agenda 2030 and the UN's sustainable development goals provide a clear direction and goals in terms of human rights, working conditions, human health and the environment. The tobacco industry has a well-documented negative impact on sustainable development which can be linked to several stages of the life cycle of tobacco products. Examples are:

- Tobacco cultivation has been linked to deforestation, pesticide use, human rights violations, health problems and child labour.
- The production of cigarettes results in large amounts of non-recyclable and chemical waste.
- Cigarette smuggling is a source of income for organised crime and results in a loss of tax revenue.
- Smoking is one of the world's biggest public health problems and leads to the untimely death of millions of people, including non-smokers.
- Cigarette butts are the most common form of littering in the world.

Handelsbanken Fonder does not invest fund assets in securities issued by tobacco companies that are involved in verified violations of international norms and conventions or of national or local laws and that have not taken acceptable corrective measures. Examples are:

- World Health Organization (WHO) Framework Convention on Tobacco Control for the tobacco industry.
- International conventions related to the environment, labour law or health.
- The company is involved, directly or indirectly, in child or forced labour.
- The company actively markets its products to minors.
- The company violates national or local laws.

The Fund Company also does not invest the funds' assets in securities issued by companies involved in cigarette production.

Appendix 4

International norms and conventions

All of the companies in which we invest are analysed regularly to identify those companies that deviate from international norms regarding the environment, human rights, work conditions, corruption and controversial weapons.

UN Global Compact – Ten principles

Handelsbanken is a signatory of the UN Global Compact. We monitor how the companies in which we invest conform to international norms and conventions through a norms-based screening process. The ten principles are described below.

The norms-based screening also evaluates the company's actions based on the fundamental principles described in the UN's Guiding Principles on Business and Human Rights as well as in other relevant guidelines (e.g., International Finance Corporation Performance Standards on Environmental and Social Sustainability (IFC), World Commission on Dams Best Practice Framework (WCD), Forest Stewardship Council (FSC), and Roundtable on Sustainable Palm Oil (RSPO)).

Human rights

Principle 1: Support and respect the protection of internationally proclaimed human rights.

Principle 2: Make sure that they are not complicit in human rights abuses.

Examples of the norms and conventions that are relevant to the company analysis:

- UN International Covenant on Civil and Political Rights.
- UN International Covenant on Economic, Social and Cultural Rights.
- UN Convention on the Rights of the Child.
- UN Convention on the Elimination of All Forms of Racial Discrimination.
- UN Convention on the Elimination of All Forms of Discrimination against Women.
- UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.
- ILO convention (no. 169) on indigenous and tribal peoples.

International humanitarian law

- The Geneva Convention I-IV

Working conditions

Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining

Principle 4: Uphold the elimination of all forms of forced and compulsory labour.

Principle 5: Uphold the effective abolition of child labour.

Principle 6: Uphold the elimination of discrimination in respect of employment and occupation.

Examples of the norms and conventions that are relevant to the company analysis:

- The core conventions of the International Labour Organization (ILO).

- Convention (no. 29) concerning Forced or Compulsory Labour.
- Convention (no. 87) concerning Freedom of Association and Protection of the Right to Organise.
- Convention (no. 98) concerning the Application of the Right to Organise and to Bargain Collectively.
- Convention (no. 100) concerning Equal Remuneration for Men and Women for Work of Equal Value.
- Convention (no.105) concerning the Abolition of Forced Labour.
- Convention (no. 111) concerning Discrimination in Respect of Employment and Occupation.
- Convention (no. 138) concerning Minimum Age for Admission to Employment.
- ILO Convention (no. 182) concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour.

Environment

Principle 7: Support a precautionary approach to environmental challenges.

Principle 8: Undertake initiatives to promote greater environmental responsibility.

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Examples of the norms and conventions that are relevant to the company analysis:

- The UN Convention on Biological Diversity.
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.
- The Kyoto Protocol to the UN Framework Convention on Climate Change of 9 May 1992.
- Rio Declaration – UN Conference on Environment and Development (note that this is a declaration which, unlike a convention, is not legally binding).
- UNESCO Convention concerning the Protection of the World Cultural and Natural Heritage.
- Convention on Wetlands of International Importance especially as Waterfowl Habitat (RAMSAR).
- Convention on International Trade in Endangered Species (CITES).
- Convention on the Conservation of Migratory Species (CMS).
- The Paris Agreement.

Anti-corruption

Principle 10: Business shall work against all forms of corruption, including extortion and bribery.

Examples of the norms and conventions that are relevant to the company analysis:

- UN Convention against Transnational Organised Crime.
- UN Convention against Corruption.
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Control of weapons

- Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction.
- Convention on Cluster Munitions.
- Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction.
- Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction.

Appendix 5

Extended exclusion criteria

Extended exclusion criteria mean that the fund does not invest in securities issued by companies whose turnover exceeds 5% from the production and/or distribution of tobacco, pornography, alcohol, cannabis, gambling, weapons and military equipment or the extraction of fossil fuels.

The fund has a restrictive attitude towards companies that are involved in services related to these operations and companies that are involved in power generation from fossil fuels. Below is a brief description of the various activities.

Weapons and military equipment

Refers to combat equipment and other equipment designed or modified on the basis of military specifications.

- Development and production of military equipment, such as tanks, military aircraft, radar and simulation systems, and certain components and subsystems thereof.
- Services, including maintenance, repair, and logistics services for military equipment, as well as certain components and subsystems for this equipment.

Alcohol

Alcohol refers to alcoholic beverages.

- Production refers to the fermenting or distilling of alcoholic beverages.
- Distribution refers to the retailing, wholesaling or provisioning of alcoholic beverages and includes liquor stores, supermarkets, bars, and restaurants.
- Services refers to marketing and other ancillary services for the promotion of alcoholic beverages.

Tobacco

Tobacco refers to tobacco products such as cigarettes, cigars, snuff, and pipe tobacco.

- Production refers to the production of cigarettes, cigars, snuff, and pipe tobacco.
- Distribution refers to the retailing or wholesaling of tobacco products and includes supermarkets.
- Services refers to marketing and other ancillary services for the promotion of tobacco products.

Cannabis

Cannabis refers to cannabis and cannabis products.

- Production refers to manufacturers or growers.
- Distribution refers to distributors or resellers.
- Services refers to supply and packaging services, suppliers of goods or technologies specifically for the cannabis industry, marketing, funders of cannabis producers, or distributors.

Pornography

Pornography refers to explicit images of sexual behaviour intended to cause sexual excitement.

- Production refers to the publication through print or film of material labelled 'erotica', 'porn', or 'adult entertainment'.

- Distribution refers to the sale and retail through media (broadcasting, newspapers, and online retail). Active (or direct) distribution designates the distribution of pornographic material through media (e.g. broadcasting, newspapers, and online retail). Passive (or indirect) distribution designates the facilitation of distribution (e.g. hotels, telecommunications).

Gambling

Gambling refers to the wagering of money on a game or event such as sports, cards or dice games, gaming machines, and lotteries.

- Production refers to the operation or management of any activity involving the wagering of money on a game or event.
- Distribution refers to the retailing of low-risk gambling items such as lottery tickets.
- Services refers to the provision of services to and development of platforms for activities involving wagering money (software, gaming machines). Additional services include marketing or ancillary services that promote gambling activities.

Fossil fuels

Fossil fuels refers to any of class of materials of biological origin within the Earth's crust that can be used as a source of energy, with oil (petroleum), natural gas, and coal being the three major types of non-renewable energy sources. It covers production, distribution, services, and exploration.

- Production refers to any activity pertaining to the generation, extraction, and processing of fossil fuels.
- Distribution refers to any activity pertaining to the retailing, marketing, and distribution of fossil fuels.
- Services refers to any activity pertaining to the provision of relevant services to fossil fuel operations and other logistical activities relating to it. These include transportation, shipping, and storage of fossil fuels.
- Exploration refers to any activity involving the investigation, work, or act to determine the process or methodology in extracting and processing fossil fuels.

Oil sands

Oil sands refers to a type of petroleum deposit consisting of a mixture of sand, clay or other minerals, water, and bitumen. Bitumen refers to a thick, black and highly viscous liquid or semi-solid type of petroleum.

- Production refers to the various stages and processes employed to extract, upgrade and refine bitumen.
- Exploration refers to methods for the exploration of areas for extraction, such as test drilling and soil exploration.

Appendix 6

Companies in transition

Background

As a significant investor, Handelsbanken Fonder has an important role to play in the realisation of the Paris Agreement. We do this by driving capital to investments that contribute to the UN Sustainable Development Goals and by increasing investments in companies that offer solutions to global sustainability challenges. Another way to accelerate the transition to a more climate-neutral society is to invest in companies that strive to transition their business in a more sustainable direction, so-called companies in transition. One example is companies that switch from fossil energy production to renewables.

Investing in the transition for a world with a small carbon footprint

We wish to be part of the transition to a low-carbon world, and today we see several investment opportunities in companies that are shifting their business from energy production based on fossil fuels to renewable sources. We have therefore decided that we can accept a certain exposure to fossil fuels if the company meets the criteria defined below.

Criteria for companies in transition – companies producing and/or distributing electric power

1. The company's planned development of the business must be aligned with a global warming of no more than 2°C.
2. The company's current operations must not consist mainly of fossil-based energy.
3. The company's current investment rate supports the transition from fossil fuels to renewable energy.