Policy for shareholder engagement and responsible investments

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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 activities involving active management of mutual funds and alternative investment funds by funds 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 the assets under management and to promote sustainable development and the 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 goal 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 analyze 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 can be done by gathering information from the portfolio companies and external sources as well as through their own analysis.

The Fund Company 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, fund management shall occur exclusively in the joint interests of the fund unit holders. The Fund Company shall at all times act to attain 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 shall 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 utilized.

1.2 The Shareholder Engagement 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 investments.

The Fund Company's guidelines for corporate governance state how the Fund Company shall, in practical terms, execute its corporate governance and exercise its voting rights, 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 how the Fund Company collaborates with other owners to improve the conditions for corporate governance. Lastly, the guidelines include the overall governance-related principles that the Fund Company shall promote in the companies in which we invest on behalf of the unit owners.

The guidelines for responsible investments determine the direction of the Fund Company's work with responsible investments and the Fund Company’s actions as investors and owners. The guidelines state how the environment, social and corporate governance factors shall be integrated into the Fund Company’s active management operations. The Shareholder Engagement Policy has been adopted by the Board of Directors and is a written policy document that shall be continuously adhered to in the business activities. The Policy will be updated and adopted by the Board at least once a year. The Policy shall also be used for communication with existing and new fund unit holders and shall therefore be published on the Fund Company’s website. (www.handelsbanken.se/aktivforvaltning)

1.3 Applicable rules
The business activities of the Fund Company shall be 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 fund management shall occur exclusively in the joint interests of the fund unit holders. Pursuant to the statutory provisions, the Fund Company shall not acquire equities with voting rights that would give the Fund Company significant influence over the management of a company. Moreover, the management of each fund shall occur in accordance with the fund rules that have been approved by the Financial Supervisory Authority and other applicable laws.

Chapter 2, §17h in the Swedish Investment Funds Act states that a fund management company shall adopt principles for shareholder engagement concerning investments in equities in certain instances. Corresponding rules are stated for the management of non-UCITS funds in Chapter 8, §27a of the Alternative Investment Fund Managers Act.

1 In this document, the term unit holders is also used for investors in alternative investment funds.
The rules within each regulation include information on the scope of the principles. Chapter 4, §17 in the Swedish Investment Funds Act and Chapter 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, Chapter 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 Chapter 4, §24 in the Swedish Investment Funds Act, a management company shall 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 shall be provided in the information brochure or the annual report and shall 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 responsibility.

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 shall, at least annually, take a decision regarding this Policy for Shareholder Engagement. The results of the Fund Company’s corporate governance and responsible investment efforts shall 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 has appointed a corporate governance manager as well as sustainability manager, to lead and coordinate the operational work on behalf of the Fund Company. These responsibilities also include ensuring that the information provided by the Fund Company with regard to responsible investment and the sustainability efforts comply with the requirements imposed in regulations and self-regulations.

Organization 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 the conditions for sustainable good development of the companies in which the fund capital has been invested, and thereby the opportunities for good returns. The ownership role shall be exercised in such a way that the value of the companies, and thus the unit value of the funds, will develop in the best way in the long term in the interest of the unit holders. The Fund Company believes that a conscious, active and responsible corporate governance is an important part of the assignment from the fund unit owners.

Corporate governance should be directed at the companies’ own governance, with the aim that it must comply with the principles that the Fund Company considers apply to efficient and sound corporate governance. Corporate governance should also be used for the purpose of promoting such responsible behavior, that the Fund Company considers to be a basic requirement for creating a profitable long-term value in a company.

The grade of activity in the ownership role shall be determined on the basis of what value is deemed to be achieved. In exercising corporate governance shall the value of the fund company’s freedom of action be taken into account, e.g. the ability to realize a shareholding at any time. The Fund Company must act independently, both in relation to the companies in which the company through the funds is shareholders and in relation to its own owner.

The Fund Company’s corporate governance shall be determined solely of 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 the company’s organisation and governance. Moreover, the Fund Company believes that Swedish listed companies should comply with the Swedish Corporate Governance Code (the “Code”), which complements legislation and other rules by providing a norm for corporate governance with a higher level of ambition, while permitting non-compliance when such deviations can be justified.

Similarly, non-Swedish companies must comply with relevant company law legislation and should also follow or explain any deviation from the corporate codes of conduct applicable to the markets in which 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 shall work 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 in relevant industry bodies.

Information and transparency

The Fund Company shall promote 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 is the highest decision-making body and the forum where shareholders can exercise 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, the notice of the general meeting 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, thus allowing them to consider the proposals presented at the meeting. Proposals that are not customary in nature must be specifically justified in the notice.

Nomination committees

The nomination committee is the preparatory body of the annual general meeting for decisions regarding the Board, auditors and fees. The nomination committee shall promote the interests of all shareholders. The nomination committee shall consist of representatives from 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, if deemed appropriate. The Chairman of the Board should not serve as the Chairman of the nomination committee. The members of the nomination committee shall hold skills suitable for their assignment. The nomination committee shall pursue diversity through gender distribution, for example.

The members of the nomination committee shall undertake their work as soon as possible after their appointment and continue with this work until a new nomination committee has been appointed. The work of the nomination committee shall be carried out using a well-structured process. The duties shall include an analysis of the skills and competencies required for the company’s Board, as well as an inventory of the 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 no-
The nomination committee shall also interview individual Board members at appropriate intervals to obtain a clear picture of the state of the Board. The nomination committee shall strive to identify qualified candidates through a broad-based approach. An external recruitment firm should be retained, where appropriate.

The nomination committee shall justify their selection in a concrete and transparent manner as well as document their decisions.

**Board of Directors**

The Fund Company shall work to ensure that every company has an effective Board of Directors characterised by diversity and competence relevant for the company. The concept of diversity shall be broadly interpreted. Particular emphasis shall be placed on equal gender distribution on the Board. With regard to small and mid-sized companies, as well as in branches where women are normally under-represented on boards, the Fund Company believes that the proportion of women 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 shall be complied with to ensure the Board’s ability to govern the company with integrity and efficiency. Board members shall not have other assignments to the extent that the member is unable to dedicate a sufficient amount of time to the assignment to be able to contribute to the effective work of the Board.

To enhance the effectiveness of the work on the Board, efforts should be made to have a limited number of Board members, unless the complexity of the business operations requires otherwise.

**Auditors**

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 shall be relevant and clear. The audit must be regularly evaluated to ensure high quality.

**Internal control**

An efficient internal control system is an important requirement for a well-managed business. 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 shall ensure a sufficient control environment and promote a sound risk culture. The company’s reporting shall provide an accurate view of the important risks in the business operations and how the company works with the control and follow-up of these risks.

**Fees and remuneration to Board members**

Board fees shall be reasonable and market-based, as well as reflect the responsibilities and the work efforts of the Board members.

**Remuneration system and remuneration**

The Board of the company is responsible for establishing and evaluating the company’s remuneration system. The remuneration system shall be reasonable, balanced and adapted to the circumstances of the company. Remuneration shall be market-based and reasonable.

The company shall have a remuneration policy that describes the fundamental guidelines for compensation to the employees within the company. The remuneration policy shall include 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 programs and other benefits. Pension shall be based on fixed salary and be linked to length of employment in order to anticipate pension expenses. The various components of remuneration to employees shall be viewed in their entirety.

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

In certain cases, share-based incentive schemes may complement other types of remuneration. In addition to being a part of the total remuneration, the purpose of a share-based incentive scheme 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 a private investment to participate in the scheme. The Fund Company shall promote the following general principles:

- Share-based incentive schemes shall be characterised by simplicity, clarity, transparency and measurability.
- That the incentive scheme shall have a clear relationship between the shareholders’ returns and participants’ distributions.
- That performance targets are set and adjusted based on special circumstances applicable to the company and the sector in which the company operates. Sustainability dimensions should be an expressed part of the targets.
- That the incentive scheme is constructed so that performance is evaluated over the long term.
- The cost of the share-based incentive scheme shall be well balanced between owner demands for low cost and employee expectations for performance-based compensation.

**Capital structure**

The company shall strive for an effective capital structure. Matters related to capital structure shall typically be handled by the Board and senior management for the purpose of promoting the development of the company over time.

Decisions linked to company equity, such as decisions about dividends, equity issues or repurchase of equities, shall be made by the shareholders. Authorization for changes in the capital structure shall be of limited duration. Proposals from the company’s Board regarding such changes shall be transparent and clearly describe the reasoning for 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 be made with pre-emptive rights for existing shareholders.

**Equal treatment of shareholders**

The equal treatment of shareholders is an important foundation in Swedish company law. The Fund Company works to ensure that equity 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 substantiated. 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.

### 2.2. The Fund Company’s means for exercising corporate governance

The Fund Company shall exercise its corporate governance in such a manner to optimize value growth of the company and, thereby, the long-term growth of the funds. The extent of the activity within the ownership role and selection of activities shall be determined based on the assessed opportunity to influence and what is deemed to be effective for the value creation. The active investment process that characterizes the investment management is a very good basis for relevant ownership influence. The investment process contains the ownership steps described below.

A prerequisite for a solid and efficient corporate governance is good knowledge about the companies, their strategies and challenges. The Fund Company must therefore continuously monitor and analyze the development of companies that are part of the Funds portfolio. In particular, it important to follow how the companies act on the basis of relevant codes and also from a sustainability perspective so that it is in line with the Fund Company’s Guidelines for Responsible Investments.

Ownership management primarily focuses on holdings in companies in which the Fund Company is the major owner, since the conditions for a beneficial effect for fund unit holders are best. 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 acts as the prerequisites for a beneficial effect for fund unit holders.

The Fund company monitors continuously important corporate events in relevant companies in which the Fund Company has ownership. 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 voting decisions. This is primarily conducted by analyses from proxy advisors, as well as through market information, third-party analyses, contact with the company or from voting advisors. The Fund Company then makes independent decisions on those issues where votes will be cast or when other decisions occur.

**Annual general meeting**

The Fund company shall normally vote at annual general meetings of the companies in which large holdings exist in the funds, and at the AGMs which for other reasons considered being of significance. The Fund company shall exercise its voting rights in such a way that it shall lead to the best long-term development of the unit value of the funds. The fund company normally 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 a general meeting, a discretion is made between freedom of action with regard to the possible disposal requirement and the importance of ownership influence.

According to the fund regulations of the Fund Company, it is possible to practice stock loans in the investment management to a certain extent. In each individual case, the Fund Company makes an assessment of whether a stock loan is appropriate or not from an ownership perspective. In order to possibly vote for all our shares, they are normally withdrawn before the General Meeting. In some cases, parts of the stock loans may remain if it does not have a significant impact on our ability to exercise ownership influence.

**Nomination committees**

The Fond Company exercises long-term ownership through participation in nomination committees. The Fund Company’s operations mean that long-term ownership in individual companies cannot be guaranteed, but the nomination committee’s work is always conducted in the long term in accordance with the Policy for shareholder engagement regardless of which company it refers to.

Normally, the Fund Company participates in nomination committees when the Fund Company is one of the major owners, and is therefore offered to propose a member to the nomination committee. The Fund Company does not participate in the nomination committee in Handelsbanken, nor in companies that can be considered inappropriate due to conflicts of interest or for similar reasons. The Corporate Governance Manager is responsible for deciding which nomination committees shall be joined and who will represent the Fund Company. The Fund Company’s representatives shall have the expertise and experience that make them suitable for their assignment in the nomination committees. The Nomination Committee representatives, who may be internal or external, shall work on the basis of the guidelines and directives that have been produced by the Corporate Governance Committee of the Fund Company.

According to the fund regulations of the Fund Company, it is possible to practice stock loans in the investment management to a certain extent. Stock lending does not normally take place in companies where the Fund Company has a place in the Nomination Committee.

The Nomination Committee’s work shall, as far as possible,
be conducted so that the Fund Company’s freedom of action regarding the funds' shareholdings is not limited.

**Board representation**

In the companies whose shares the funds invested in, the Fund Company must exercise its ownership control without the requirements for its own board representation. Board representation complicates the Fund Company’s opportunities to conduct an active and efficient management, and it 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, e.g. with regard to responsible behavior or in conjunction with various proposals from the company to the general meeting, such as incentive programmes, where deemed relevant.

If it is considered to improve the conditions for ownership in accordance with this ownership policy, the Fund Company can cooperate with other owners on one or more issues. This can either happen through bilateral contacts or through industry organizations.

The Fond Company may 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 organizations, stakeholder organizations or individuals that may impact the operations of the portfolio management company.

**Shareholder motion**

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.

**Cooperation with other shareholders**

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

**Disputes and settlements**

Occasionally, fund assets are invested in companies that violate various types of rules. These can include violations of marketplace rules (e.g., deficiencies in or incorrect disclosure), violations of competition rules, fraud, corruption, etc.

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

Where conditions allow, the Fund Company will, on its own accord or through the use of legal expertise, actively participate in the class actions, processes involving competition violations and similar disputes, seek the best possible outcome in the settlements and also 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 to ensure that the affected funds and their shareholders receive remuneration when a company has committed a remuneration-based rules violation, as well as that the Fund Company shall be 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 work of the Fund Company. Most notably, this applies to the Fund Company’s relationship to its owner, Svenska Handelsbanken AB (PLC), as well as companies that have ownership ties or personal ties to Handelsbanken. This could also apply to other companies with which the Fund Company has significant business relationships. 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 the Fund Company's actions related to ownership matters shall always be made on the basis of what is in the best interest of the unit holders.

The Fund Company makes the same type of judgments and positions in its analyses and in its actions, irrespective of the relationship the Fund Company has to the company concerned. The Fund Company’s Policy for Shareholder Engagement, which has been adopted by the Board of the Fund Company, and the principles therein, apply to all companies in which the funds have invested, regardless of any association with the Handelsbanken Group or other companies.

The Fund company has a Board of Directors where at least half of the board members shall 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 that is contrary to what can be considered the best interests of the unit holders, the Board will thus receive this information.

The Fund Company has established an Ownership/Corporate Governance Committee consisting of a corporate governance manager in the Fund Company, the managing director, the chairman of the board and two of the independent board members. In order to, among other things, manage risks for conflicts of interest in relation to the Fund Company's owners, at least one of the independent members is required to assist a decision of the Committee in order for it to be valid.
Pursuant to regulations, Chapter 2, §17h in the Swedish Investment Funds, the Fund Company shall also annually report how it has cast its votes at the general meetings. This disclosure requirement means that the Fund Company is unable to covertly act in a manner inconsistent with the best interest of the unit holders.

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

The variable remuneration model for the Fund Company means that they are evaluated exclusively on the result, over a period of several years, in the fund or funds they manage. When the investment management takes a position on how the Fund Company should vote at general meetings in the portfolio companies, it thus has a clear incentive to assist the proposals that are best judged to favor the company’s development from a shareholder perspective.

2.4. The organization of decisions for Corporate governance issue

Corporate Governance issues of essential and fundamental nature, are taken by the Board. The Board of Directors of Handelsbanken Fonder consists of six members, three of whom are independent in relation to the Handelsbanken Group. Essential and principal decisions refer to decisions on the Corporate governance policy, the establishment of a Corporate Governance Committee and the task preparations for the Committee (see below).

The Corporate Governance Committee shall consist of the Corporate Governance manager of the Fund Company (who is also chairman of the committee), the CEO, the chairman of the board and two of the independent board members. The Committee’s task is to prepare more important Corporate Governance issues such as

1. Continuous updates of the Corporate Governance policy prior to decision by the Board.
2. Instructions for election committee work (to be decided by the committee)
3. Attitude regarding fundamental issues in the ongoing work (to be decided by the committee).

In order to manage risks of conflicts of interest in relation to the Fund Company’s owners, at least one of the independent members requires a decision by the committee for it to be valid.

The committee normally meets twice a year, usually once before and once after the election committee season.
3. Guidelines for responsible investment

3.1. Value base
The Fund Company strongly believes that responsible behaviour is a fundamental prerequisite for creating long-term value in a company. Therefore, responsible investments are essential for achieving our goal of generating good long-term returns.

The Fund Company aims to integrate financial, social and environmental sustainability into its management practices. This means that the company will conduct a financially sound, sustainable investment business as well as encourage and contribute to sustainable development.

Handelsbanken supports international initiatives and guidelines that have the common purpose of encouraging and facilitating corporate social responsibility. This policy is based on international norms for the environment, human rights, working conditions, anti-corruption and controversial weapons. These norms are stated in the UN's conventions and agreements and can be applied to corporate environmental and social responsibility.

The Fund Company has signed the UN's Principles for Responsible Investment (UN PRI), and Handelsbanken as well as the Fund Company 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 for achieving secure and sustainable development. These systems are currently under strain caused by pollution, acidification, depletion of natural resources and over-fertilization that impact land usage and access to fresh water. In addition, climate change represents a serious threat with extreme climatic phenomena, higher sea levels and a loss of biodiversity, which is already impacting the world today. This has implications for both regional and global economies.

Agenda 2030 and the Sustainable Development Goals provide a clear direction and targets with regard to the environment and climate. Furthermore, the Paris Agreement constitutes a global agreement to manage, slow down and mitigate climate change.

The Fund Company's aims for creating healthy returns on managed capital and to promote a sustainable development and future. As a significant investor, the Fund Company has an important role to play in the realization of the Paris Agreement: to drive capital into investments that contribute to achievement of the global goals 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 global goals. At the same time, the Fund Company strives to minimize the negative environmental and climate impacts of our investments.

3.2. Scope
This policy applies to the Fund Company's actively 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.

The policy is revised annually or as needed. The policy is decided upon by the Fund Company's Board of Directors and is a governing document that ensures ongoing compliance in the business.

The policy is supplemented with appendices regarding the following:
1. Weapons and defence industries, controversial weapons
2. Climate impact and coal
3. International norms and conventions
4. Extended exclusion criteria

3.3. Sustainability integration
Along with financial criteria, the fund managers integrate environmental, social and governance (ESG) criteria for better decision-making in the investment process. ESG criteria are commonly used standards for screening investments with regard to ethics and sustainability. This means that our fund managers take into account sustainability risks as well as opportunities related to the different ESG criteria. Sustainability issues are important for enabling better investment decisions and are an important prerequisite for generating healthy long-term returns.

In our daily operations, our 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
ESG is an integral part of the investment analysis and investment decisions. The sustainability effort can be complemented by the following three methods:

Inclusion
We strive to select companies that align or contribute positively to a sustainable development as set out in Agenda 2030 as well as the Paris Agreement. We aim to increase investments in solutions to global sustainability challenges, and thereby contribute to the achievement of the Sustainable Development Goals and to the transition to
a low carbon world.
- We actively seek to invest in companies that conduct their business in a sustainable way or companies whose product and services contribute to sustainable development.
- We actively seek for investments that contribute to the transition to a low carbon economy that aligns with the Paris Agreement.

**Exclusion**
The Fund Company 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 munitions, anti-personnel mines, biological weapons and chemical weapons. Nor do we 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.

**Extended exclusion criteria**
The majority of the Asset Management funds apply an extended exclusion based on sustainability aspects which means that we exclude certain industries from our portfolios. See Appendix 4.

The basis for the exclusion is based on the Fund Company’s values and commitments, as well as our policies and internal guidelines for environment and climate. This position is based on the following reasoning:
- We assess that certain products and services have or risk having negative impact on the outside world, society and other stakeholders
- They are considered being incompatible with our role as a responsible investor, our long-term investment perspective and our aspiration to invest for a sustainable development and future.
- Some products and services involve increased sustainability risks in the companies’ value chains, of which the assessment is made that the risks are not manageable.

All corporate holdings are regularly analyzed in order to identify those companies that do not meet international standards and conventions for the environment, human rights, working conditions, corruption and controversial weapons (so-called norm-based analysis). This means that all holdings are reviewed to identify possible crimes or violations of international norms based on the UN Global Compact initiative’s four principal areas: human rights, working conditions, environment and corruption. See Appendix 3.

In some cases, we can accept deviations from any of our exclusion strategies. See Appendix 4.

**Engagement**
As a significant investor, the Asset Management has a responsibility and an opportunity to engage with companies to act responsibly and conduct their business in a sustainable manner. The Fund Company does this through corporate dialogue and corporate governance. Our engagement activities are grounded in Handelsbanken’s core values, commitments, and the international norms and conventions we support.

We proactively attempt to influence companies to improve their sustainability efforts, to comply with international norms and conventions or within specific issues.

Throughout our corporate governance, we influence companies through participation in nomination committees and voting at general meetings. Read more under section Guidelines for corporate governance.

**Engagement**
Dialogue is an important method to influence companies. This applies to both proactive dialogues aiming to influence companies to improve their sustainability activities, as well as dialogues with companies we consider not complying to international norms and conventions.

The Fund Company conduct engagement either directly with companies or through collaborations and initiatives and/or together with other investors. The dialogues can be classified as follows:
- Targeted proactive dialogues: Direct contact between the Asset Manager 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 that may justify the Fund Manager initiating dialogue.
- Dialogues together with other investors: These dialogues are conducted with other investors and facilitated by an external service provider. The dialogues are reactive and the starting point for dialogue is suspected or confirmed cases of violations of international norms and conventions.
- Partnerships and industry initiatives: These dialogues focus on specific industries and specific sustainability issues.

**Reason for dialogue**
The Fund company initiates engagement with companies primarily for the following reasons:
- The company has been reported to violate or threaten to violate international norms and conventions.
- The company operates in a sector or market with high sustainability risks.
- The company has been identified as lagging behind its competitors with regard to sustainability.
- The company has controversies regarding specific ESG issues.
- The company has deficit/lack of transparency and reporting on significant sustainability issues.
- Sustainability themes that are considered to represent high risk or high potential impact.
- Specific issues prioritized by customers and beneficiaries.
- Important sustainability issues for individual companies.
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 business and seek greater transparency in recording and reporting the company’s climate impact and work on human and labor rights etc.

3.5. Decision organisation in sustainability matters
In the Fund Company there is a Sustainability Committee where overall sustainability issues are prepared and decided, the decisions are taken by the CEO. The purpose of the Sustainability Committee is to make 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 our analysis and assessment of these criteria. The CEO also decides on the exclusion list that will apply to the Fund Company’s investments.

The Sustainability Manager is responsible for ensuring that the operational function that drives the work of incorporating sustainability into the investment process while the management organization, ultimately the Chief Investment Officer, is responsible for the actual implementation of sustainability in the investment process, the analysis and the investment decisions.

The Fund Company’s risk control function follows up on a daily basis that the exclusion criteria are fulfilled. Any deviations shall be reported to the Board and the CEO within the framework of the risk control function’s ongoing work.
The following describes how the Fund Company monitors/ follows up, reports and communicates regarding corporate governance and responsible investments.

4.1. Follow-up/Monitoring
The Follow-up of the actions taken by the Fund Company within corporate governance and sustainability occur at different frequencies depending on the area. The Fund Company’s risk control function monitors the funds on a daily basis to ensure their adherence to the find rules and the promises made to customers regarding the exclusion of companies.

Quarterly follow-up takes place in a special forum - Risk Forum for Sustainability - whether the funds individually and the fund company as a whole are working on the goals set for sustainability.

The Head of Corporate Governance continuously monitors the Nomination Committee’s work with the Fund Company’s appointed representatives. This happens in joint meetings where guidelines and current issues are reviewed.

Follow-up of voting at company meetings is made on an ongoing basis during the season by the corporate governance team. All voting is recorded digitally. The Fund Company’s voting rights shall be used in order for the companies to comply with the corporate governance principles stated in the Fund Company’s guidelines. Any votes cast that are in conflict with the guidelines shall be documented with a specific justification.

4.2. Reporting
Handelsbanken Fonder shall annually report the follow-up of the corporate governance and sustainability work in the funds’ annual report or in a separate report. The reports shall include a general description of the Fund Company’s voting in the portfolio companies, e.g., the number of general meetings, geographic distribution and a compilation of the votes cast at the general meetings of the portfolio companies by the Fund Company. The reports shall also state whether any critical votes occurred during the period, e.g., in which the Fund Company was a major owner or where a critical or controversial matter was subject to a decision at the general meeting. Information shall be submitted concerning those cases where the Fund Company availed itself of advisory services or voting recommendations from a proxy advisor. With regard to the sustainability work, the report shall include 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 invest assets. The reports for the engagement work shall include information concerning the dialogues conducted with the portfolio companies, how they have been conducted and, where appropriate, the results of the dialogues.

The Board of the Fund Company shall receive a report on the corporate governance and sustainability work, as well as the compliance to this policy, at least annually.

4.3. Communication
An important part of the Fund Company’s shareholder engagement is the communication to various shareholders regarding the company’s position on matters concerning corporate governance and responsible investment. This Policy for Shareholder Engagement, which expresses the Fund Company’s view on matters of principle, shall be published and made available on the website. This information can be used for communication with investors.

A summary report shall be produced that describes how the Fund Company acted overall in its corporate governance work throughout the year.

Voting at general meetings shall also be reported annually, retrospectively, on the website. A portion of the Fund Company’s work with responsible investment is also communicated via 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. The Fund Company 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.

The Fund Company 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
The Fund Company 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.

The Fund Company 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. The Fund Company 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 burning of brown coal is a major source of the energy sector’s greenhouse gas emissions. Accordingly, the Fund Company 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 percent of a company’s turnover may be derived from the extraction of coal for combustion. Nor does the Fund Company invest in companies if more than 30 per cent of the company’s turnover derives from coal power generation.

We also want to encourage companies to take steps towards the transition to renewable energy, for example by switching from coal to other energy sources over time. Therefore, we have the option of including companies that are moving in the right direction in their transition to renewable energy and are demonstrating a positive trend in their production mix. Decisions on investments in this type of company are made by the Fund Company’s Committee for Responsible Investments.
Appendix 3

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: Businesses should 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.
- The 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 the Conservation of Migratory Species (CMS).
- The Paris Agreement.
Anti-corruption
Principle 10: Businesses shall work against corruption in all its forms, 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.

Weapon control
- 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.
Appendix 4

Extended exclusion criteria

Extended exclusion criteria implicate 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 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, as well as certain components and subsystems thereof.
- Services, which refers to, among others, 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, which refers to the fermenting or distilling of alcoholic beverages.
- Distribution, which refers to retail, wholesale or provision of alcoholic beverages, including liquor stores, supermarkets, bars and restaurants.
- Services, which refers to the marketing and promotion.

Tobacco

Tobacco refers to tobacco products such as cigarettes, cigars, snuff and pipe tobacco.
- Production referring to the production of cigarettes, cigars, snuff and pipe tobacco.
- Distribution, which refers to retail or wholesale of tobacco products, including supermarkets.
- Services, which refers to the marketing and promotion of tobacco products.

Cannabis

Cannabis refers to cannabis and cannabis products
- Production: Identifies companies that are engaged in or own entities operating as cannabis growers, manufacturers or cultivators. This covers both botanical cannabis and its derivative products.
- Distribution: Identifies companies that are engaged in or own entities operating as distributors or retailers of botanical cannabis or any of its derivatives.
- Services: Identifies companies involved in cannabis operations in relation to any, but not limited to, the following: delivery and packaging services;
- Providers of supplies or technologies specifically for the cannabis industry. Marketing or branding services for the cannabis industry. Funders for cannabis producers and/or distributors.

Pornography

Pornography refers to explicit images of sexual behavior that are intended to cause sexual excitement. This includes products labelled as:
- Production, which refers to the publication through print or film of material labelled ‘erotica’, ‘porn’ or ‘adult entertainment’.
- Distribution, which refers to the sale and retail through media (broadcasting, magazines, and internet retail). Active (or direct) distribution designates the distribution of pornographic material through media (e.g. broadcasting, magazines, and internet 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 which refers to the operation or management of any activity involving the wagering of money on a game or event.
- Distribution, which refers to retail of low-risk gambling items such as lottery tickets.
- Services, which refers to the provision of services to and development of platforms for activities involving wagering money (software, gaming machines). Additional services include the marketing or promotion of wagering money on a game or event.

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, extractions 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 transport, 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 refer 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.
- Extraction refers to methods of extracting oil sand, including surface mining and in-situ recovery.