XACT KAPITALFÖRVALTNING AB

POLICY FOR SHAREHOLDER ENGAGEMENT

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SHAREHOLDER ENGAGEMENT POLICY

1. INTRODUCTION

1.1 Xact Kapitalförvaltning AB

Xact Kapitalförvaltning AB (referred below as the Management Company or Xact Kapitalförvaltning) carries out activities that manage index and rules-based securities funds and alternative investment funds in the form of non-UCITS funds. Xact Kapitalförvaltning is included in the Handelsbanken Group as a wholly-owned subsidiary of Svenska Handelsbanken AB (PLC).

The Management Company’s funds invest worldwide in a significant number of companies across an extensive number of markets. In view of this, the annual general meeting is one of the Management Company’s primary tools used to influence the majority of the companies owned by the funds.

Pursuant to applicable regulations, fund management shall occur exclusively in the joint interests of the fund unit holders. The Management 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 Management Company shall make use of the opportunities for shareholder influence that are linked to equity holdings in the various funds.

1.2 The Shareholder Engagement Policy and its purpose

The Shareholder Engagement Policy includes the Management Company’s guidelines for corporate governance as well as the Management Company’s guidelines for responsible investment.

The Management Company’s guidelines for corporate governance state how the Management Company shall, in practical terms, execute its corporate governance and exercise its voting rights, as well as how the Management 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 Management Company conducts dialogues with portfolio management companies and how the Management Company collaborates with other owners to improve the conditions for corporate governance. Lastly, the guidelines include the overall governance-related principles the Management Company shall promote in the companies in which the Management Company invests on behalf of the funds.

The guidelines for responsible investment establish the direction of Xact Kapitalförvaltning’s work with responsible investment and the Management Company’s actions as an investor and owner. The guidelines state how the Management Company integrates the environmental, social and corporate governance dimensions within the context of its index and rules-based fund 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 a minimum of once each year. The Policy shall also be used for communication with existing and new fund unit holders and shall therefore be published on the Management Company’s website, https://www.handelsbanken.se/shb/INeT/IStartSv.nsf/FrameSet?OpenView&id=default&navid=Investor_relations&esa=/shb/INeT/ICentSv.nsf/Default/q43D56511223AFFDDC1257F38094B7F-FA?opendocument&iddef=ombanken.

1 Hereafter referred to as funds.
1.3 Applicable rules

The business activities in Xact Kapitalförvaltning 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 Management Company’s fund management shall occur exclusively in the joint interests of the fund unit holders. Pursuant to the statutory provisions, the Management Company shall not acquire equities with voting rights that would give the Management 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. 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 Management 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 management 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 Management 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 Management 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.

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 direct the Management Company’s work and, together with those values that are expressed in our corporate culture, are a clear and common basis for our asset management.

1.5 Responsibility and organisation

The Board of the Management Company shall take a decision regarding this Policy for Shareholder Engagement at least annually and the results of the Management 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 Chief Executive Officer. The Chief Executive Officer is responsible for the Management Company’s work with corporate governance and responsible investment. However, Heads have been appointed for corporate governance, as well as sustainability, to manage and coordinate the operational work on behalf of the Management Company. These responsibilities also include ensuring that the information provided by the Management Company with regard to responsible investment and the sustainability efforts comply with the requirements imposed in regulations and self-regulations. When dealing with matters relevant to fund management, the Head of Fund Management shall be consulted.

The Management Company’s risk control function follows up the business operations that, pursuant to the Management Company’s guidelines for responsible investment, result in the Management Company’s “exclusion” of companies in its fund management. Any deviations shall be reported to the Board and the Chief Executive Officer within the scope of the day-to-day work of the risk control function.

2. GUIDELINES FOR CORPORATE GOVERNANCE

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, Xact Kapitalförvaltning 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 Management 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

Xact Kapitalförvaltning 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 in which shareholders can exercise their influence.

Companies must comply with the rules regarding ownership influence as required by law, stock exchange agreements, relevant codes and guidelines, and otherwise act in accordance with generally accepted market practices.

To achieve conditions conducive to ownership influence, the notice of the annual general meeting must be made as early as possible within the scope of what is permitted pursuant to legislation and articles of association.
Shareholders must receive information well in advance of the meeting, thus allowing them to consider the proposals presented at the meeting. Proposals that are not customary in nature must be specifically substantiated as part of the general meeting 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 nomination committee should 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 Management Company shall work to ensure that every company has an effective Board of Directors characterised by diversity and competence relevant for the company. The term "diversity" should 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 unrepresented on boards, Xact Kapitalförvaltning 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 good level of quality.

**Internal control**
A well-functioning system for internal control is an integral prerequisite for well-managed business operations. It is the responsibility of the Board to ensure that the company has an effective risk management process in which risks are identified, managed and followed up. The Board shall ensure a good control environment and work to establish a good 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 severance benefits, as well as terms for pension, any equity-based incentive programmes 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, equity-based incentive schemes may supplement other types of remuneration. In addition to being a part of the total remuneration, the purpose of an equity-related 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 efforts among participants in the scheme to reach defined performance targets. One way of increasing a common interest is to require an individual investment to participate in the scheme.

The Management Company shall promote the following general principles:

- That equity-related 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.
- That the costs for an equity-related incentive scheme are well-balanced between shareholder requirements for low costs and the employees’ expectations for compensation based on performance.

**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. Authorisation 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-emption rights for existing shareholders.

*Equal treatment of shareholders*

The equal treatment of shareholders is an important foundation in Swedish company law. The Management 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 Management 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, Xact Kapitalförvaltning 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 based on several factors, such as how the proposal impacts the short- and long-term shareholder value, how the company acts relative to its competitors, as well as how the issues addressed in the proposal would be best managed through legislation or company specific actions.

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

Xact Kapitalförvaltning 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, within the limits of index- and rule-based fund management. 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. When exercising corporate governance, the Management Company's freedom to act shall be taken into consideration, e.g., the freedom to be able to sell an equity holding at any point in time.

*Annual general meetings, monitoring of corporate events and other relevant matters*

The primary focus of the corporate governance work is on holdings in companies in which Xact Kapitalförvaltning is the largest owner or on companies that have deficiencies in their sustainability efforts. Voting occurs primarily through proxy voting, although the Management Company also participates through representation at the annual general meetings where appropriate.

The Management Company normally votes for all of the equities in each fund, although exceptions exist in such markets where equities are locked for a longer period to be registered for voting at the annual general meeting. Any equity loans are normally recalled prior to the annual general meeting to allow voting for all equities. However, if it is deemed to be in the best interest of the shareholders and will not have a significant impact on ownership influence, an equity loan may remain during the annual general meeting in certain cases.

Xact Kapitalförvaltning regularly monitors important company events in relevant companies in which the Management Company has ownership. From an ownership standpoint, the annual general meetings and extraordinary general meetings are the key events for which the Management 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 or contact with the company. The Management Company then takes independent decisions on those matters where votes will be cast or when other decisions occur.
Xact Kapitalförvaltning also monitors other relevant matters related to the companies, such as the companies’ social and environmental impact as well as corporate governance. Most notably, the companies’ actions shall be monitored based on international norms and conventions, as well as other relevant codes, to ensure that the companies’ actions and business operations are in line with the Management Company’s guidelines for responsible investment. This occurs primarily through external sustainability analyses. Given that the Management Fund operates index and rules-based management, there is no day-to-day monitoring of the companies’ strategy and financial/non-financial results.

**Dialogue and collaboration**

The Management Company uses dialogues with companies when exercising its ownership role, e.g., with regard to responsible behaviour or in conjunction with various proposals from the company to the general meeting (such as incentive programmes), where deemed relevant.

The Management Company may collaborate with other owners on one or several matters when this is deemed to improve the conditions for corporate ownership in accordance with policy. This may also occur through bi-lateral contacts or through industry organisations.

The Management Company may also communicate with other parties and stakeholders in the portfolio management companies. Examples include communicating with the customers of the portfolio management company, union organisations, stakeholder organisations or individuals that can impact the operations of the portfolio management company in some other manner.

**Board representation and nomination committees**

The Management Company shall exercise its ownership role without requirements for Board representation in those companies’ equities in which the fund has invested. Board representation can hinder the Management Company’s ability to carry out effective fund management and it is difficult to combine this with the requirement of potentially needing to redeem the assets of fund unit holders at any point in time.

The Management Company does not normally participate in nomination committees.

**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 Management 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 objective 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 Management 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 Management Company. Most notably, this applies to the Management 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 Management Company has significant business relationships. As a result of any of these ties, the Management Company could be guided by other considerations than those that are in the best interest of the unit holders.

The Management Company manages these conflicts of interest in numerous ways to ensure that the Management 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 Management Company makes the same type of judgments and positions in its analyses and in its actions, irrespective of the relationship the Management Company has to the company concerned. The Management Company’s Policy for Shareholder Engagement, which has been adopted by the Board of the Management 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. This approach ensures that the Management Company’s actions are always made on the basis of what is in the best interest of the unit holders.

A minimum of 50% of the Board members of the Management Company shall be independent of the Handelsbanken Group. Corporate governance matters shall be reported to the Board at least annually. Thus, in the event the Management Company acts in a manner that is considered to have a negative impact on unit holders, the Board will be provided with this information.

Pursuant to regulations, the Management Company shall also annually report how it has cast its votes at the general meetings. This disclosure requirement means that the Management Company is unable to covertly act in a manner inconsistent with the best interest of the unit holders.

The Management Company also utilises a proxy advisor, whose advice can provide guidance to the Management Company in sensitive matters.
3. GUIDELINES FOR RESPONSIBLE INVESTMENT

3.1. Value base

Within the context of index and rules-based fund management, Xact Kapitalförvaltnings uppfattning är att ett ansvarsfullt beteende är en grundförutsättning för långsiktigt värdeskapande i ett företag. Xact Kapitalförvaltning shall integrate sustainability into its business operations as well as encourage and contribute to sustainable development. It is the opinion of the Management Company that responsible behaviour is essential to long-term value creation in a company. Responsible investments are therefore a vital prerequisite for achieving our goal of generating good long-term returns in the best interest of the fund unit holders.

Handelsbanken and the Management Company support 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 expressed in the UN's conventions and agreements and are applicable to the company's environmental and social responsibility. Through Handelsbanken, Xact Kapitalförvaltning is a signatory of the UN’s Principles for Responsible Investment (UN PRI) and both Handelsbanken and the Management Company support the voluntary UN Global Compact initiative.

Stable, productive and resilient ecosystems are the foundation for a secure and sustainable development. These systems are currently under a great deal of strain due to 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.

As an asset management company, Xact Kapitalförvaltning plays a key role, for example in the realisation of the Paris Agreement, to direct capital towards investments that contribute to the attainment of the Sustainable Development Goals and the transition to a sustainable development. At the same time, the Management Company strives to minimise the negative impact of our investments on the environment and climate. Through our index and rules-based funds, we do this primarily through the funds we offer, in our selection of indexes and through our engagement activities.

3.2. Scope

The policy covers the funds’ direct investments in Swedish and foreign equities, as well as in corporate bonds and commercial paper. For indirect investments such as holdings in exchange-traded funds (ETFs) and derivatives to manage flows or corporate events in a fund, the policy should be applied to the greatest extent possible, unless stated otherwise in the fund rules or information brochure for the fund concerned.

The policy is supplemented by appendices related to:

1. Armaments and defence industry, controversial weapons
2. Climate impact and coal
3. Tobacco industry
4. International norms and conventions

3.3 About index funds and sustainability

Xact Kapitalförvaltning manages index funds. A common feature of these funds is that they track an index clearly defined in advance and have made an undertaking to the fund unit holders to
deliver returns in line with this. With this type of fund management, there is no exclusion of companies based on the Management Company’s own views regarding specific sustainability matters.

Instead, exclusion may arise as a result of the Management Company deciding that its funds shall track indexes where the methods, and thereby the composition, reflect the Management Company’s core values regarding sustainability. Xact Kapitalförvaltning is therefore of the opinion that an important part of the work with responsible investment is to take a long-term approach that encourages more indexes to be created and tracked on the basis of sustainability criteria.

These sustainability-adapted indexes are produced as part of a collaboration between an index provider and a provider of sustainability analyses. The providers may vary between different indexes and markets. The Management Company is not able to review or influence the assessment of companies made by the provider of sustainability analyses in indexes.

The above-mentioned limitations, insofar as they concern the Management Company’s own assessment of companies with regard to sustainability matters, apply specifically to the Management Company’s index funds and do not relate to the other rules-based funds managed by the Management Company.

3.4. Methods for sustainability work

The Management Company’s work with responsible investment is centred around three pillars:

- **Inclusion** – choose the right index for our funds and include companies with high sustainability ratings for our funds that have been positively selected.

- **Exclusion** – through our choice of index, we exclude companies with business operations that are incompatible with our policy for responsible investment, as well as companies that do not meet the specific sustainability criteria in our Criteria range.

- **Engagement** – through dialogue and active ownership, we influence companies to comply with and respect international norms and conventions, as well as to conduct their operations in a more sustainable manner.

**Businesses we exclude**

*Armaments and defence industry, controversial weapons*

Xact Kapitalförvaltning does not invest fund assets in securities issued by companies that are involved in the manufacture or distribution of weapons prohibited by international law, e.g., cluster munitions, anti-personnel mines, biological weapons and chemical weapons. Nor does the Management Company invest in companies that are involved in the production or distribution of nuclear weapons. A more detailed description of the Management Company’s policy on such matters is available in Appendix 1.

*Climate impact and coal*

Xact Kapitalförvaltning does not invest fund assets in securities issued by companies in which more than 5% of the company’s turnover is derived from the mining of coal for combustion.

Nor does the Management Company invest in companies in which more than 30% of turnover is derived from coal power generation. A more detailed description of the Management Company’s policy on such matters can be found in Appendix 2.

*Tobacco industry*
Xact Kapitalförvaltning does not invest fund assets in securities issued by tobacco companies involved in verified violations of international norms and conventions, as well as in violations of national or local legislation, and where acceptable measures have not been taken. Examples include:

- The World Health Organisation (WHO) Framework Convention on Tobacco Control
- International conventions within the environment, labour law or health
- Companies involved, directly or indirectly, in child or slave labour
- Companies that actively market their products to minors
- Companies that violate national or local legislation

Nor does Xact Kapitalförvaltning invest fund assets in securities issued by companies involved in the production of cigarettes. A more detailed description of the Management Company’s policy on such matters can be found in Appendix 3.

Application

The Management Company excludes funds with exposure outside the Nordic region that track indexes where companies involved in controversial weapons, if more than 5% of turnover is derived from the mining of coal for combustion, or if more than 30% of the turnover is derived from coal power generation, as well as companies involved in the production of cigarettes.

Within the Management Company’s funds that do not track sustainability-screened indexes, there are no companies involved in controversial weapons or the mining of combustion coal or coal power generation to an extent that represents more than 5 or 30 percent, respectively, or in the production of cigarettes. In the event that a link to such operations arises at an index company in the future, the Management Company will change its index to one that fulfils the Management Company’s requirements with regard to sustainability. As a result, there may be companies in an index that do not meet the standards of the Management Company with regard to sustainability during the transition period, until such time as a change of index has been accomplished.

A list of the companies in which we do not invest fund assets is available on the Management Company’s website.

International norms and conventions

All of the companies in our funds are analysed regularly with the aim of identifying companies that fail to meet international norms for the environment, human rights, working conditions, anti-corruption and controversial weapons (i.e., norms-based screening). An appropriate course of action is then determined for each fund to address the companies identified. The principles that guide the analyses are stated in Appendix 4.

All of the Management Company’s funds with any exposure outside the Nordic region track indexes that exclude companies with verified violations of international norms. The assessment of whether a verified violation of international norms has taken place often differs considerably between different sustainability analysis providers and experts. For the Management Company’s funds, it is therefore important to stress that the assessment made by the provider of the sustainability analysis in an index is always the assessment that is applicable.

A list of the companies in which we do not invest fund assets is available on the Management Company’s website.

For the Management Company’s funds with Swedish and Nordic exposure, there is no automatic exclusion, although the Management Company works actively to influence companies. In our capacity as a major owner in the Swedish and Nordic markets, we believe we are in a better position to influence companies to adopt a more sustainable approach.

Criteria Funds – Funds with specific sustainability criteria
The Management Company also offers index funds with specific sustainability criteria, which we refer to as Criteria Funds. All of the Criteria index funds track indexes that exclude companies involved in the production or distribution of controversial weapons, nuclear weapons, conventional weapons and war materials, alcohol, tobacco, gambling, pornography and fossil fuels. Further, the Criteria Funds avoid companies that have a proven track record of contravening international norms and conventions. As a result, the Management Company does not invest on behalf of the funds in companies with a record of violating international norms concerning human rights, the environment, anti-corruption or working conditions.

Engagement activities

Influence through dialogue

Dialogue is an important method for contributing to sustainable development. This applies to both proactive dialogues aimed at influencing companies to improve their sustainability activities, and to dialogues with companies we feel are not complying with the international norms and conventions we wish to safeguard.

Xact Kapitalförvaltning initiates dialogues aimed at influencing companies primarily for the following reasons:

1. The company has been reported for violating, or is at risk of violating, international norms and conventions.
2. The company operates in a sector or market with high sustainability risks.
3. The company has been identified as lagging behind its competitors in terms of its sustainability performance in a manner that could affect the value of the company.
4. There is a call for an increase in transparency and reporting from the company regarding specific sustainability matters.

Xact Kapitalförvaltning is of the view that an effective approach is to co-ordinate the dialogues with other parties. For this reason, the Management Company holds dialogues with the assistance of ISS ESG, but also operates through sector initiatives such as PRI and the Carbon Disclosure Project (CDP).

Shareholder motions in sustainability matters

Xact Kapitalförvaltning’s underlying approach to governance is that a company should create value for its owners, but in a socially and environmentally responsible manner. In general, the Management Company supports shareholder proposals that seek to promote corporate sustainability and strive for greater transparency in recording and reporting the company’s climate impact and work with human rights and labour law.
4. FOLLOW-UP, REPORTING AND COMMUNICATION

The process for how the Management Company follows up, reports and communicates with regard to corporate governance and responsible investment is described below.

4.1. Follow-up

The follow-up of the actions taken by the Management Company within corporate governance and sustainability occur at different frequencies depending on the area. The Management 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.

Handelsbanken Kapitalförvaltning has a Responsible Investment Council that meets on a quarterly basis to discuss matters of a general nature, such as the views on controversial operations and which companies should be subjected to a specific dialogue. Among those participating in the Council are the Chief Executive Officer of the Management Company and the Head of Sustainability. However, decisions in matters regarding the funds’ activities with regard to responsible investment are taken by the Chief Executive Officer of Xact Kapitalförvaltning in consultation with the Head of Fund Management.

A follow-up of the votes cast at general meetings is conducted regularly during the season by the Head of Corporate Governance. All of the votes are registered digitally. The Management Company’s voting rights should be used as a means for the company to live up to the principles for corporate governance stated in the Management Company’s guidelines for corporate governance. Any votes cast that are in conflict with the guidelines shall be documented with a specific justification.

4.2. Reporting

The Management Company 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 Management 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 Management Company. The reports shall also state whether any critical votes occurred during the period, e.g., in which the Management 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 Management 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 Management 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 Management 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 integral part of the Management 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 Management Company’s view on matters of principle, shall be published and made available on the Management Company’s website. This information can be used for communication with investors.

A summary report shall be produced that describes how the Management Company acted overall in its corporate governance work throughout the year.
Voting at general meetings shall be reported annually, retrospectively, on the Management Company’s website. A portion of the Management Company’s work with responsible investment is also communicated via Handelsbanken’s annual sustainability report.
Appendix 1 - Armaments and defence industry, controversial weapons

Under the Charter of the United Nations, every country has the right of self-defence. The manufacture of and trade in weapons and other war materials are regulated by national legislation, intergovernmental regulations, international conventions and weapons embargoes issued by the UN Security Council or the EU.

In addition to the obvious risks of human rights violations regarding the use of various types of weapons, the defence industry is characterized by a risk of corruption, according to the independent organisation Transparency International.

In its business relations with companies operating in the defence industry, the Management Company must verify that the business does not constitute a breach of the UN or EU weapons embargoes, and that it is conducted in accordance with national and international regulations.

Xact Kapitalförvaltning must also evaluate and take into account the companies’ guidelines for counteracting human rights violations and corruption, and must also monitor and pay particular attention to how the companies comply with these guidelines.

Xact Kapitalförvaltning does not invest fund assets in securities issued by companies that are involved in the manufacture or distribution of weapons prohibited by international law, e.g., cluster munitions, anti-personnel mines, biological weapons and chemical weapons. Nor do we invest in companies that are involved in the production or distribution of nuclear weapons. A list of the companies in which we do not invest is available on Xact Kapitalförvaltning’s website.
Appendix 2 - Climate impact and coal

Xact Kapitalförvaltning aims to understand how our investments affect the climate. We also want to play an active part in reducing our impact on the climate. Emissions of greenhouse gases are a major reason behind rising global temperatures.

Xact Kapitalförvaltning measures and discloses the funds’ carbon footprints and supports the Montreal Carbon Pledge, an initiative supported by PRI, whereby asset owners and investment managers undertake to measure and disclose the carbon footprint of their investment portfolios. Xact Kapitalförvaltning also supports the CDP (Carbon Disclosure Project), an independent, international non-profit organisation that works to promote transparency and a dialogue concerning companies’ carbon dioxide emissions and climate strategies.

Combustion of brown coal accounts for a high proportion of the energy sector’s greenhouse gas emissions. Xact Kapitalförvaltning has therefore decided not to invest in companies whose main business activities include the mining of coal or in power companies that use coal as a major source of energy.

In practice this means that a maximum of 5% of a company’s turnover may be attributed to coal mining. With regard to power generation, a maximum of 30% of the power company’s turnover may be attributed to coal power generation.
Appendix 3 – Tobacco industry

Agenda 2030 and the Sustainable Development Goals provide a clear direction and targets with regard to the human rights, work conditions, human health and the environment. The tobacco industry has a well-documented negative impact on sustainable development and this negative impact can be linked to several stages in the tobacco product’s life cycle. Examples include: ns negativa påverkan på hållbar utveckling är väl dokumenterad och kan kopplas till flera steg av tobaksprodukters livscykel, till exempel:

- The cultivation of tobacco has been linked to deforestation, the use of pesticides, violations of human rights, health issues and child labour.
- The production of cigarettes results in significant amounts of non-recyclable and chemical waste.
- The smuggling of cigarettes is source of revenue for organised crime and results in lost tax revenues.
- Smoking is one of the world’s major public health concerns and leads to the premature death of millions of people, including non-smokers.
- Cigarette butts are the most common form of litter worldwide.

Xact Kapitalförvaltning does not invest fund assets in securities issued by tobacco companies involved in the verified violations of international norms and conventions, as well as in violations of national or local legislation, and where acceptable measures have not been taken. Examples include:

- The World Health Organisation (WHO) Framework Convention on Tobacco Control
- International conventions within the environment, labour law or health
- Companies involved, directly or indirectly, in child or slave labour
- Companies that actively market their products to minors
- Companies that violate national or local legislation

Nor does Xact Kapitalförvaltning invest fund assets in securities issued by companies involved in the production of cigarettes.
Appendix 4 – International norms and conventions

Norm-based screening
All of the companies in which we invest are regularly analysed to identify those companies that do not fulfil international norms for the environment, human rights, work conditions, anti-corruption and controversial weapons.

UN Global Compact – Ten principles
Handelsbanken is a signatory of the UN Global Compact. Through the norm-based screening we track how the companies in which we invest relate to international norms and conventions. The ten principles are listed below.

The norm-based review also evaluates the companies’ actions based on the basic principles described in the UN Guiding Principles on Business and Human Rights and 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), Roundtable on Sustainable Palm Oil (RSPO).

Human rights
Principle 1: Support and respect international human rights within the company’s sphere of influence;
Principle 2: Ensure that their own company is not complicit in human rights abuses.

Examples of norms and conventions that are relevant for the company analysis include:
- UN’s international convention on civil and political rights
- UN’s international covenant on economic, social and cultural rights
- UN’s convention on the rights of the child
- UN’s convention on the elimination of all forms of racial discrimination
- UN’s convention on the elimination of all forms of discrimination against women
- UN’s convention against torture and other cruel, inhuman or degrading treatment or punishment
- ILO’s convention (No. 169) on indigenous and tribal peoples in independent countries

International humanitarian rights
- Geneva Convention I-IV

Work conditions
Principle 3: Uphold the freedom of association and recognize the right to collective bargaining;
Principle 4: Eliminate all forms of forced and compulsory labour;
Principle 5: Abolish child labour;
Principle 6: Eliminate discrimination in respect of employment and occupation.

Examples of norms and conventions that are relevant for the company analysis include:
- International Labour Organization’s (ILO) core conventions
- 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 principles of the right to organise and to bargain collectively
• Convention (No. 100) concerning equal remuneration for men and women workers 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’s 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 combat environmental challenges;
Principle 8: Undertake initiatives to promote a greater environmental responsibility;

Examples of norms and conventions that are relevant for the company analysis include:
• UN’s convention on biological diversity
• The Basel convention on the control of transboundary movements of hazardous wastes and their disposal
• The Kyoto protocol to the UN’s framework convention on climate change, dated May 9, 1992
• The Rio declaration – UN’s conference on environment and development (note that this is a declaration, not a convention, and is not legally binding).
• UNESCO’s convention concerning the protection of world cultural and natural heritage
• The convention concerning wetlands of international importance, especially waterfowl habitat (Ramsar)
• The convention concerning trade in endangered species (CITES)
• The convention concerning the conservation of migratory species of wild animals (CMS)
• The Paris Agreement

Anti-corruption
Principle 10: Businesses shall work against corruption in all its forms, including extortion and bribery.

Examples of norms and conventions that are relevant for the company analysis include:
• UN’s convention against transnational organized crime
• UN’s convention against corruption
• OECD’s convention concerning combating bribery of foreign public officials in international business transactions

Weapon control
• The convention on the prohibition of the use, stockpiling, production and transfer of anti-personnel mines (land mines) and on their destruction
• The convention on cluster munitions
• The convention on the prohibition of the development, production and stockpiling of bacteriological (biological) and toxin weapons and on their destruction
• The convention on the prohibition of the development, production, stockpiling and use of chemical weapons and on their destruction