

Xact

Policy for responsible investment

Adopted by the Board of Xact Kapitalförvaltning AB (Management Company or Xact Kapitalförvaltning) on November 19, 2018.

Value base

Within the context of index and rules-based fund management 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 for long-term value creation in a company and the work with responsible investments thereby becomes a vital prerequisite for achieving the objective 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 Investments (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, for example. In addition, climate change represents a serious threat with extreme climatic phenomena, sea level rises and biodiversity loss, 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 Treaty of Paris 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 Treaty of Paris 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 index and through our engagement activities.

Scope

The policy covers direct investments made by funds in Swedish and foreign equities as well as corporate bonds and commercial paper (företagscertifikat). For indirect investments such as holdings in funds, structured products and derivatives, the policy should be applied to the greatest extent possible. For the management of fund-of-funds, the policy is applied to the part of the portfolio comprising funds managed internally by the Handelsbanken Group.

About index funds and sustainability

Xact Kapitalförvaltning manages index funds. A common feature of these funds is that they track a clearly defined index in advance and have made a pledge 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 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 supplier and a supplier of sustainability analyses. The suppliers may vary between different indexes and markets. The Management Company is not able to review or influence the assessment of companies made by the supplier 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.

Responsible investment in practice

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



Inclusion – choosing the right index for our funds as well as for our funds that have been positively selected, include companies with high sustainability ratings.



Exclusion – through our choice of index, we exclude companies whose business operations 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 and 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, for example 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 percent 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 percent 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**.

Application

All of the Management Company's funds with any exposure outside the Nordic region 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, are excluded.

Within the Management Company's funds that do not track sustainability-screened indexes, there are no companies involved in controversial weapons or companies involved in the extraction of combustion

coal or coal power generation to an extent that represents more than 5 or 30 per cent respectively. 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 those companies in which we do not invest fund assets is available on the Management Company's website.

International norms and conventions

All 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 handle the companies identified.

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

A list of those 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 exposures, there is no automatic exclusion, although the Management Company works actively to influence companies. This is because we believe that, in our capacity as a major owner in the Swedish and Nordic markets, 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 Criteria index funds track indexes that exclude companies involved in the production or distribution of controversial weapons, nuclear weapons, conventional weapons and munitions, 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. This means that the funds do not invest in companies with a record of violating international norms with regard to 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 which 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 Ethix SRI Advisors, but also operates through sector initiatives such as PRI and CDP (formerly known as the Carbon Disclosure Project).

Voting at annual general meetings

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. One way of influencing companies to adopt a more sustainable approach is to vote at their annual general meetings. In addition to corporate governance, the Management Company's voting policy covers environmental and social matters and generally supports shareholder motions that advocate improved reporting on matters such as climate impact, human rights and working rights.

Decision-making process and follow-up

Handelsbanken Asset Management has a Responsible Investment Council, which discusses matters of a general nature, such as the views on controversial operations and which companies should be subjected to a separate dialogue. Among those participating in the Council are the Chief Executive Officer of Xact Kapitalförvaltning and a person specifically appointed by the Chief Executive Officer, charged with handling matters relating to responsible investment. 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 those operations we exclude, in accordance with our policy for responsible investment, is carried out by the Management Company's risk control function.

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 munitions 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, Xact Kapitalförvaltning 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.

The Management Company 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, for example 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.

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.

Xact Kapitalförvaltning measures and discloses the funds' carbon footprint 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. The Management Company 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.

Emissions of greenhouse gases are a major reason behind rising global temperatures. Combustion of 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 brown coal or in power companies that use brown coal as a major source of energy.

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 the company's turnover is derived from coal power generation.