

Policy for Shareholder Engagement and Responsible Investment

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1. Introduction

1.1 Handelsbanken Fonder AB

Handelsbanken Fonder AB (the fund company) conducts both active and passive (index and rules-based) fund management in UCITS funds and alternative investment funds, with assets entrusted to the fund company by its unit holders. The fund company engages in portfolio management and, to a limited extent, investment advisory services for other companies within the Handelsbanken Group. The fund company is part of the Handelsbanken Group as a wholly owned subsidiary of Svenska Handelsbanken AB (publ).

The fund company aims to create good long-term financial returns by, among other things, integrating environmental, social, and corporate governance (ESG) aspects into the investment process. The fund company strives to ensure that its management aligns with the Paris Agreement and contributes as much as possible to the UN's 17 Sustainable Development Goals (defined in Agenda 2030). Acting as a responsible investor and owner is a central part of the fund management. In the view of the fund company, acting responsibly is an essential condition for long-term value creation in a company. Consequently, responsible investments are an important prerequisite for achieving good long-term returns, and the consideration of sustainability risks is an integral component in the management of funds and portfolios as well as in the fund company's investment advisory services. The fund company's views on sustainable development and responsible investment are discussed in more detail in section 3, "Responsible investments".

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

Passive fund management means that the funds invest based on a pre-determined index or rules-based strategy, with a commitment to the fund unit holders that returns will be delivered in line with this. It is essential that the fund company selects an index or strategy that considers the parameters that the fund company finds relevant in each case, such as sustainability risks, given that the selection of the index or strategy governs the fund's investments.

The fund company's funds invest worldwide in companies across a significant number of markets. However, from an ownership perspective, the Swedish and other Nordic equity markets are of particular importance due to the fund company's significant capital under management within these markets. The fund company is one of the major shareholders in the Swedish equity market.

Pursuant to applicable regulations, the fund management is to be conducted exclusively in the joint interest of the fund unit holders¹. The fund company shall always act with the objective of achieving the best possible return for the fund unit holders, taking into consideration the funds' objectives and investment restrictions. In support of these objectives, the fund company makes use of opportunities for shareholder engagement associated with the equity holdings in the various funds. Investments in interest-bearing securities also utilise the opportunities for engagement associated with this type of financing.

1.2 About the policy and its purpose

The purpose of this policy is to establish the fund company's strategies for shareholder engagement and responsible investments, which include both the fund company's corporate governance and responsible investments.

The section "Corporate governance" states how the fund company, in practice, will exercise its corporate governance and exercise its voting rights, as well as how the fund company monitors relevant information regarding the portfolio companies and manages any actual and potential conflicts of interest associated with ownership. The section also describes how the fund company conducts dialogues with portfolio companies and how the fund company collaborates

¹ In this document, the term fund unit holder is also used regarding investors in alternative investment funds.

with other shareholders to improve the conditions for corporate governance. Lastly, the section includes the overall governance-related principles that Handelsbanken Fonder promotes in the companies that the fund company invests in on behalf of the fund unit holders.

The section on responsible investments determines the direction of the fund company's responsible investment efforts and the fund company's actions as an investor and owner in these matters. The section states how the fund company, through both active and passive fund management, integrates environmental, social and corporate governance (ESG) factors into its operations

The Policy for Shareholder Engagement and Responsible Investment has been adopted by the Board of Directors and is a governing document that must be continuously adhered to in the business. The policy is updated and adopted by the Board at least annually. The policy shall also be used as guidance for the companies in which the fund company invests and for communication with existing and prospective fund unit holders and is therefore published on the fund company's website. www.handelsbankenfonder.se

1.3 Applicable Rules

Handelsbanken Fonder's business activities are regulated primarily by the Swedish Investment Funds Act (2004:46) and the Alternative Investment Fund Managers Act (2013:561). Especially important for corporate governance are rules within these regulations that state that the fund company's fund management must occur exclusively in the joint interest of the fund unit holders. According to statutory provisions, the fund company may not acquire equities with voting rights that would enable the fund company to exercise significant influence over the management of a company. Moreover, the management of each fund must occur in accordance with the fund rules that have been approved by the Financial Supervisory Authority.

Pursuant to Chapter 2, §17h in the Swedish Investment Funds Act, a fund management company shall adopt principles for shareholder engagement concerning investments in equities in certain specified instances. Corresponding rules are stated for the management of non-UCITS funds in Chapter 8, §27a of the Alternative Investment Fund Managers Act. The provisions in each regulation specify what the principles shall at least include. Chapter 4, §17 in the Swedish Investment Funds Act and Chapter 8, §27b in the Alternative Investment Fund Managers Act also include requirements for fund companies to annually disclose how the adopted principles for shareholder engagement have been applied.

Furthermore, Chapter 15 in the Financial Supervisory Authority's regulations (FFFS 2013:9) on UCITS funds requires a fund management company to adopt internal rules that state which strategies the company shall follow when exercising its voting rights. Similar rules are found in Article 37 of the Commission's Delegated Regulation No. 231/2013/EU.

Regulation (EU) 2019/2088 of the European Parliament and the Council on sustainability-related disclosures in the financial services sector (SFDR), with related delegated regulations, contain comprehensive requirements on the type of information that a fund management company must provide investors with regard to the sustainability efforts undertaken in its fund management and the manner in which sustainability risks are integrated into the investment and advisory processes. This regulation is supplemented by Regulation (EU) 2020/852, which establishes a framework to facilitate sustainable investments (the Taxonomy). Information under these regulations shall be provided on the fund company's website, in the fund's prospectus and in the annual report.

The fund company also observes relevant rules and guidelines issued by EFAMA (the European Fund and Asset Management Association), including the EFAMA Stewardship Code, and those of the Swedish Investment Fund Association, including the Swedish Code for fund management companies, Guidelines for marketing and information and Guidelines for shareholder engagement, all of which are reflected in this policy.

1.4 Commitments

The fund company supports international initiatives and guidelines with the common purpose of encouraging and facilitating sustainable enterprises. The Policy for Shareholder Engagement and Responsible Investments is based on international norms regarding the environment, human rights, working conditions, anti-corruption and controversial weapons. These norms are expressed in the UN's conventions and agreements and can be applied to companies' environmental and social responsibility.

The fund company is a signatory of the UN's Principles for Responsible Investing (UN PRI), and Handelsbanken and the fund company also support the voluntary UN Global Compact initiative. The fund company is also a signatory of the Net Zero Asset Managers Initiative. These initiatives and guidelines provide guidance for the fund company's work and, together with the values expressed in our corporate culture, constitute a clear and common foundation for our asset management.

1.5 Responsibility and organisation

Handelsbanken Fonder's Board of Directors takes decisions, at least annually, about this Policy for Shareholder Engagement and Responsible Investment. The results of the fund company's corporate governance and responsible investment efforts are reported to the Board at least annually and to the CEO on a regular basis.

The CEO is responsible for achieving the objectives set for the fund company's corporate governance and sustainability work. The CEO is also responsible for adopting and adjusting sub-targets where deemed necessary and may propose changes to the overall sustainability objectives to the Board.

The Head of Legal, Sustainability and Corporate Governance is responsible for leading the corporate governance and sustainability work on behalf of the fund company. This also includes ensuring that the information provided by the fund company regarding responsible investment and the fund company's sustainability efforts complies with the requirements imposed by regulations and self-regulation. The Head of Legal, Sustainability and Corporate Governance may appoint an operational Head of Corporate Governance and an operational Head of Sustainability to lead the operational work.

The CEO shall adopt a voting policy, guidelines for nomination committee work and guidelines for sustainability work to the extent deemed necessary and appropriate. The organisation and decision-making process differ somewhat between corporate governance and sustainability issues and are therefore described in the respective sections below.

2. Corporate governance

The primary objective of a limited liability company is to generate returns for its shareholders. These returns are then frequently used for investments, either directly in the company or through distributions to additional investments in the company or other companies and business operations; all to benefit the development of society at large. It is essential that the company is governed optimally under the prevailing conditions for a company to generate the highest returns possible over the long term and in a sustainable manner.

Given this context, the overall purpose of the fund company's corporate governance is to promote the conditions for a sustainable and sound development of the companies in which the fund capital has been invested, and thereby the potential for good returns. The ownership role shall be exercised in such a manner that the value of the companies, and thus the unit value of the funds, develops in the best possible way over the long term in the joint interest of the fund unit holders. The fund company considers that conscious, active and responsible corporate governance is an important part of the mandate from the fund unit holders.

Corporate governance shall be directed towards the companies' own governance, with the aim that it shall fulfil the principles that the fund company considers should apply to effective and sound corporate governance and meet the requirements set by external regulations. Corporate governance shall also be used with the purpose of promoting the

type of responsible behaviour that the fund company considers to be a fundamental prerequisite for long-term value creation in a company.²

The level of activity in the ownership role shall be determined on the basis of the value that is expected to be achieved. When exercising corporate governance, the importance of the fund company's freedom of action shall be taken into account, for example the ability to divest an equity holding at any time.

The fund company shall act independently, both in relation to the companies in which Handelsbanken Fonder is a shareholder via the funds and in relation to its own owner. The fund company's corporate governance shall be determined exclusively by what is considered to be in the best long-term interest of the fund unit holders and, within this context, identify and manage actual and potential conflicts of interest.

2.1 Principles concerning the companies' corporate governance

Swedish limited liability companies must follow the basic rules of the Swedish Companies Act regarding the company's organisation and governance. Moreover, it is the view of the fund company 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 corporate law legislation and should also follow, or explain any deviations from, the corporate codes of conduct applicable to the markets in which they are listed.

The following principles for corporate governance reflect the principles of the Code, but in certain cases also contain additions or clarifications. The fund company advocates for the Swedish Corporate Governance Code to be continuously adapted to promote positive development of corporate governance in Swedish listed companies. This is accomplished primarily through representation in relevant industry bodies, for example the Swedish Institutional Owners' Association, one of the principals in the Association for Generally Accepted Practice in the Securities Market, which is active through the self-regulation bodies the Swedish Securities Council, the Swedish Securities Council's Self-Regulation Committee, the Swedish Corporate Governance Board, the Swedish Accounting Supervision Board and the Swedish Financial Reporting Board.

Information and transparency

The fund company promotes transparency and appropriate disclosure from the companies, since both are fundamental for facilitating effective corporate governance and well-functioning financial markets, and thereby for facilitating the opportunity to manage the fund capital in the best interest of the fund unit holders.

The general meeting

The 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, stock exchange agreements, relevant codes and guidelines, and should otherwise act in accordance with generally accepted market practices.

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 according to legislation and articles of association. Shareholders must receive comprehensive information well before the meeting, enabling them to assess the proposals that will be presented at the meeting. Proposals that are not customary in nature must be specifically justified in the notice.

² See section 3.

Nomination committees

The nomination committee is the preparatory body of the general meeting for decisions regarding the Board, auditors and remuneration, as well as instructions for the nomination committee. The nomination committee should promote the interests of all shareholders.

The nomination committee must consist of representatives from the largest shareholders in the company. A board member, typically the Chairman of the Board, may be included in the nomination committee, but preferably only as a co-opted member. The Chairman of the Board should not serve as chairman of the nomination committee. The members of the nomination committee are required to hold skills appropriate for their assignment. The nomination committee should aim for diversity, including a balanced gender distribution.

The nomination committee work shall commence as soon as the largest shareholders have been determined in accordance with the nomination committee instructions adopted by the general meeting, and continue until a new nomination committee has been appointed. It is essential that the work of the nomination committee is conducted as a well-structured process.

The work should 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, as well as interviews with at least incumbent board members and the CEO, is therefore an important basis for the tasks of the nomination committee. The nomination committee strives to identify qualified candidates through a broad approach. If necessary, an external recruitment firm should be engaged. The nomination committee's work should be conducted in such a manner that the members become insiders only in exceptional circumstances and for short periods of time. The nomination committee must justify and document its proposals in a concrete and transparent manner.

Handling insider information

Handelsbanken Fonder works actively to avoid receiving insider information in its asset stewardship. In cases where insider information must be received, the fund company maintains an insider log.

Board of Directors

The fund company works to ensure that each company has an effective Board of Directors characterised by diversity, with relevant expertise for the company. Diversity should be interpreted broadly in this context and its aim is to ensure that the board works with a variety of perspectives on key issues. The fund company's view is that diversity increases value creation and reduces risk. Emphasis should be placed on an equal distribution of gender on the Board, in accordance with the Swedish Corporate Governance Code. This applies to all companies, including those not listed on a regulated market. Overall, each board should have the ability to consider and manage relevant sustainability issues for the company.

For Swedish companies, the rules of the Code regarding independent Board members shall be applied in order to ensure the Board's ability to govern the company with integrity and efficiency. Where members of management are included in the Board, a remuneration committee shall be established. Board members shall not hold other assignments to such an extent that they are unable to devote sufficient time to contribute to effective Board work.

To enhance the effectiveness of the work of the board, efforts shall be made to limit the number of board members, unless the complexity of the business operations requires otherwise. Regulations equivalent to the Code, in addition to established practices, shall be applied to foreign companies as long as these do not conflict with the fundamental principles of this policy.

Auditors

Auditors are appointed by the 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. The auditor must explicitly report on other assignments in the company in addition to the auditing assignment.

Internal control

A well-functioning system for internal control is an important prerequisite 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 sound control environment and promote a good risk culture. The company's reporting must provide an accurate view of the material risks in the business operations and how the company works to monitor and follow up these risks.

Fees and board remuneration

Board fees shall normally be fixed, reasonable and market-based and reflect the Board member's responsibilities and efforts. A variable component may be accepted in exceptional cases if it can be specifically justified for the company. The structure of any variable component must be clear and designed so that the Board's controlling function is not compromised or called into question. Board members shall not participate in employee incentive programmes. The fund company takes a positive view of Board members holding shares in the company.

Remuneration systems and remuneration

The Board is responsible for designing and evaluating the company's remuneration system. The remuneration structure shall support the company's objectives and strategy, while ensuring that the company can attract and retain the right competence. A balance between financial, environmental and social considerations is an important prerequisite for long-term value creation. Sustainability aspects that are material to the company's long-term financial development should therefore be reflected in remuneration programmes.

In addition, the remuneration system should be reasonable, balanced and adapted to the conditions of the company. Remuneration shall be market-based and reasonable.

The company shall have a remuneration policy describing the main principles for employee compensation. The policy shall include terms for fixed salary, variable remuneration, severance pay, pension conditions, share-related incentive programmes and other benefits. Pension shall be based on fixed salary and linked to employment duration so that costs are predictable. Remuneration shall be viewed as a whole.

The general meeting adopts the remuneration policy based on a justified proposal from the Board. Share-related incentive programmes may complement other forms of remuneration. Their purpose is to create alignment between shareholders and employees and to encourage efforts to achieve defined performance targets. One way to strengthen this alignment is to require a personal investment in order to participate in the programme. The fund company shall promote the following general principles:

- Equity-related incentive programmes must be characterised by simplicity, clarity, transparency and measurability.
- Incentive programmes must have a clear relationship between the shareholders' returns and the participants' distributions.
- Performance targets shall be set and adapted based on the specific circumstances applicable to the company and the sector in which the company operates. Sustainability aspects should be an explicit part of these targets. This means that relevant, measurable, transparent, monitorable and value-creating sustainability targets should form part of an incentive programme. These targets may also be applied in short-term programmes where appropriate.
- The incentive programme shall be designed so that performance is evaluated over the long term.
- The cost of the equity-related incentive programmes shall be appropriately balanced between the shareholders' requirement for low cost and employees' expectations of performance-based remuneration.

If the basis for decisions regarding the company management's remuneration and equity-related incentive programmes is insufficient in terms of structure, evaluation and transparency, the fund company will abstain from voting or vote against the proposal. As a general rule, the fund company will vote against long-term incentive programmes that do not include relevant, measurable, transparent, monitorable and value-creating sustainability targets. If a company has acceptable reasons, for example that sustainability targets are included in short-term incentive programmes, the fund company may accept long-term programmes without sustainability targets. For foreign companies, the fund company shall adapt its position regarding sustainability parameters in incentive programmes to the prevailing best practice in the relevant country.

Capital structure

Companies should strive for an effective capital structure. Matters related to capital structure are typically handled by the Board of Directors and senior management with the aim of promoting the company's development over time.

Decisions relating to equity, such as decisions on dividends, share issues or share repurchases, shall be made by the shareholders. Authorisations relating to changes in the capital structure shall be time-limited. Proposals from the Board of Directors regarding such changes shall be transparent and clearly describe the reasons for the proposed measures. Companies should normally have a dividend policy, and proposals for dividends shall be made in accordance with this policy.

Share issues shall normally be carried out with preferential rights for existing shareholders. The right to subscribe may instead be granted to one or more shareholders or external parties (so-called directed share issue), provided that this is permissible under company law, i.e. that there are objective grounds for deviating from preferential rights in the interest of the shareholders. In such cases, the Board of Directors shall provide a detailed justification for the proposed deviation.

The fund company determines on a case-by-case basis which type of share issue is in the interest of the shareholders and thereby the fund unit holders. General authorisations to the Board of Directors in Swedish companies should not exceed ten per cent of the company's capital at the time of the general meeting, unless otherwise justified in the individual case. In foreign companies, the fund company shall adapt its position regarding authorisations to the best practice prevailing in the relevant country.

Equal treatment of shareholders

The equal treatment of shareholders is an essential principle in Swedish company law. The fund company works to ensure that shares with the same financial rights in a company are always treated equally in financial terms, for example in connection with distributions, acquisition of all shares or liquidation. The fund company also considers that the principle of "one share, one vote" is generally preferable, i.e. that there is a direct link between financial ownership and influence. Deviations from this principle must be justified. The fund company normally votes against the introduction of different voting rights and is generally in favour of reducing existing differences in voting rights, provided that this can be done with respect for existing ownership rights.

Shareholder motions

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

2.2 Handelsbanken Fonder's means for exercising corporate governance

The fund company shall conduct its corporate governance in such a manner that the value of the companies, and thereby the unit value of the funds, develops in the best possible way over the long term.

The level of activity within the ownership role, and the selection of activities, shall be determined based on the opportunities for influence that are considered to exist and what is considered to be effective for value creation.

Corporate governance may differ between active fund management and passive fund management since, for example, the scope of action based on customer commitments may differ.

A prerequisite for sound and effective corporate governance is a good level of knowledge regarding the companies and their strategies and challenges. The active fund management follows and analyses the development of the companies included in the funds. In particular, it is important to monitor how the companies act in accordance with relevant codes and from a sustainability perspective, and that this is in line with the section “Responsible investments” in this policy.

Corporate governance efforts are primarily focused on holdings in companies where the fund company is a major shareholder in terms of voting rights, as the potential for a favourable outcome for fund unit holders is greatest in these companies. The fund company’s ownership is generally larger in Swedish and other Nordic companies, but the fund company may also act in relation to companies listed on foreign markets where favourable conditions are considered to exist for fund unit holders.

The fund company continuously monitors important corporate events in relevant companies in which the fund company is a shareholder. From an ownership perspective, general meetings and extraordinary general meetings are key events for which the fund company ensures that relevant information is available as a basis for analysis and voting decisions. This is achieved through contact with the companies, third-party analysis, market information and analysis from proxy advisors. The fund company then makes independent decisions on matters where voting or other decisions are required.

General meetings

The fund company shall normally vote at annual general meetings in companies where the funds hold significant positions, and otherwise at meetings considered important for other reasons.

The fund company shall exercise its voting rights in the manner that is considered to lead to the best long-term development of the funds’ unit value. The fund company normally votes for all shares held in each fund.

In markets where shares are blocked for a longer period in order to be registered for voting at general meetings, a balance is made between the freedom of action with regard to potential divestments and the importance of exercising ownership influence.

In accordance with the fund rules for many of the fund company’s funds, securities lending may be used to a limited extent in the management. The fund company assesses in each individual case whether securities lending is appropriate from an ownership perspective.

Nomination committees

The fund company exercises long-term ownership through participation in nomination committees. As a consequence of the fund company’s operations, long-term ownership in individual companies cannot be guaranteed, but the nomination committee work is always conducted with a long-term perspective in accordance with this policy and the guidelines for nomination committee work adopted by the CEO.

The fund company normally participates in nomination committees when Handelsbanken Fonder is one of the larger shareholders and is offered the opportunity to propose a nomination committee member. The fund company does not participate in the nomination committee in Handelsbanken or in other companies that may be considered inappropriate due to conflicts of interest or similar reasons.

The operational Head of Corporate Governance is responsible for deciding which nomination committees are to be staffed and who shall represent Handelsbanken Fonder. Handelsbanken Fonder’s representatives shall have the competence and experience that make them suitable for their assignments in nomination committees.

The nomination committee representatives, who may be both internal and external individuals, shall act in accordance with the policies, guidelines and directives adopted by the fund company's Board or established by the fund company's Corporate Governance Committee.

The funds managed by the fund company have, to some extent, the possibility to use securities lending. Securities lending shall normally not be carried out in companies where the fund company has representation in the nomination committee work shall, as far as possible, be conducted in such a way that the fund company's freedom of action with regard to the funds' shareholdings is not restricted.

Board representation

The fund company shall exercise its corporate governance without requiring its own representation on the boards of the companies in which the funds are invested. Board representation limits the fund company's ability to conduct active and efficient management and is difficult to reconcile with the requirement that a fund company may not obtain significant influence and that the funds' assets must be redeemable at any time by the unit holders.

Dialogues with companies and communication with other stakeholders

The fund company shall also use dialogues with companies when exercising its ownership role, for example regarding responsible behaviour or in connection with various proposals from the company to the general meeting, such as incentive programmes, where this is considered relevant.

Dialogues with representatives of the companies are conducted either on the initiative of the fund company or of the company's representatives, and the meetings may be either regular or initiated on an ad hoc basis as required.

The fund company may also communicate with other parties and stakeholders in the portfolio companies in matters where such contact is considered to promote the long-term development of the investment. Examples include communication with the portfolio company's customers, trade unions, stakeholder organisations or individuals who are otherwise affected by the company's operations.

Collaboration with other shareholders

If it is considered to improve the conditions for corporate governance in accordance with this policy, the fund company may collaborate with other shareholders on one or several issues. This may take place through bilateral contacts or via industry organisations such as the Swedish Institutional Owners' Association.

Disputes and settlements

From time to time, the funds' assets are invested in companies that violate various types of rules. This may include violations of marketplace rules (for example deficiencies in or incorrect disclosure), violations of competition rules, fraud, corruption, etc.

Such violations may result in legal proceedings against the company in question, often in the form of class actions, which are most common in North America. These proceedings often lead to settlements, whereby the company is required to compensate shareholders for losses incurred. Settlements may also include requirements for changes in the company's corporate governance, such as changes in management or the Board of Directors, as well as requirements for new or amended internal rules or control systems.

Where conditions exist, the fund company, either on its own initiative or through external legal expertise, shall actively participate in class actions, proceedings relating to competition law violations and similar disputes, in order to seek the best possible outcome in settlements and contribute to necessary changes in the corporate governance of the company concerned.

The objective of monitoring companies and participating in proceedings and settlements is to ensure that the affected funds and their unit holders receive compensation when a company has committed a compensable violation of rules, and that the fund company contributes to improving the corporate governance of the company at fault. Ultimately, active participation in these types of processes contributes to maintaining confidence in the equity markets.

In normal cases, the fund company participates passively in these types of processes by ensuring that the affected funds receive a financial share of the settlements reached.

2.3 Conflicts of interest

A number of conflicts of interest may arise in the fund company's corporate governance work. Most notably, this concerns the fund company's relationship with its owner, Svenska Handelsbanken AB (publ), as well as companies that have ownership or personal connections to Handelsbanken. It may also concern other companies with which the fund company has significant business relationships. As a result of such relationships, the fund company could be guided by considerations other than what is in the best interest of the unit holders.

The fund company manages these conflicts of interest in several ways to ensure that its actions in corporate governance matters always are based on what is best for the unit holders.

In its analysis and actions, the fund company makes the same type of assessments and takes the same positions regardless of the relationship the fund company has with the company in question. The fund company's Policy for Shareholder Engagement and Responsible Investments, adopted by the Board, and the principles set out herein apply to all companies in which the funds are invested, regardless of any connections to the Handelsbanken Group or other companies.

The fund company has a Board of Directors in which at least half of the members shall be independent in relation to the Handelsbanken Group. Corporate governance matters are reported to the Board at least annually. If the fund company has acted in a manner that is not in the best interest of the unit holders, the Board of Directors shall be informed accordingly.

The fund company has established a Corporate Governance Committee consisting of the operational Head of Corporate Governance (also serving as Board Secretary), the Head of Legal, Sustainability and Corporate Governance, the CEO, the Chairman of the Board and two of the independent Board members. In order to manage, among other things, risks of conflicts of interest in relation to the fund company's owner, at least one of the independent members must support a decision for it to be valid.

Furthermore, pursuant to Chapter 2, §17i of the Swedish Investment Funds Act, the fund company shall annually disclose how votes have been cast at general meetings. This transparency means that the fund company cannot act in a manner inconsistent with the best interest of the unit holders without such actions becoming visible. The fund company also uses proxy advisors, whose recommendations may provide guidance in these matters.

The variable remuneration model for the fund company's active equity managers entails that they are evaluated exclusively based on the performance, over a multi-year period, of the funds they manage. Where a manager takes a position on how the fund company shall vote at general meetings in portfolio companies, this creates a clear incentive to support proposals that are considered to best promote the company's development from a shareholder perspective.

2.4 Decision-making body for corporate governance

Decisions related to corporate governance issues of a material and fundamental nature are taken by the Board of Directors. The Board of the fund company consists of five members, three of whom are independent in relation to the Handelsbanken Group. Material and fundamental decisions include decisions on the Policy for Shareholder Engagement

and Responsible Investments, the establishment of a Corporate Governance Committee and the preparatory tasks assigned to the committee (see below).

The Corporate Governance Committee shall consist of the operational Head of Corporate Governance in the fund company (who is also chairman of the committee), the Head of Legal, Sustainability and Corporate Governance, the CEO, the Chairman of the Board and two of the independent Board members.

The committee's task is to prepare more significant corporate governance matters such as:

1. Continuous updates of the Policy for Shareholder Engagement and Responsible Investments prior to decisions by the Board.
2. Positions regarding fundamental issues arising in the ongoing work (to be decided by the committee).

The committee is convened when any of the above matters arise.

3. Responsible investments

3.1 Core values

The fund company's view is that responsible actions constitute a fundamental prerequisite for long-term value creation in a company. Consequently, responsible investments are an important prerequisite to attaining the objective of generating good long-term returns.

The fund company's primary objective is to create financial returns through management that promotes the objectives of the Paris Agreement and, given the fund company's operations, contributes to the UN's 17 Sustainable Development Goals (defined in Agenda 2030).

As a significant investor, the fund company has an important role to play in the realisation of the Paris Agreement, in directing capital to investments that contribute to the achievement of the Sustainable Development Goals and in the transition to sustainable development. This is reflected in Handelsbanken Fonder's overall sustainability objectives:

- Net-zero greenhouse gas emissions from the total investment portfolio by 2040
- To make investments that contribute to the objectives of Agenda 2030

Handelsbanken supports international initiatives and guidelines with the shared purpose of encouraging and facilitating sustainable enterprises. The sustainability work is based on international norms regarding the environment, human rights, working conditions, anti-corruption and controversial weapons. These norms are expressed in the UN's conventions and agreements and can be applied to companies' environmental and social responsibility.

3.2 Scope

This policy applies to the fund company's fund management and the funds' direct investments in Swedish and foreign equities and corporate bonds.

In the case of indirect investments, the policy shall be applied to the greatest extent possible. The policy also applies to the investment advisory services provided by the fund company.

3.3 Sustainability risks and transparency related to adverse impacts on sustainable development

Within the scope of the fund company's fund management, sustainability risks are an integral and ongoing component of the investment and advisory processes as well as the decision-making in the fund management.

In general, sustainability risks are managed within the fund company's fund management by selecting companies based on sustainability analysis, excluding companies and through engagement in the form of dialogues and active corporate

governance. Depending on the management focus – active fund management, passive fund management or allocation management – the methodologies and tools for the integration and management of sustainability risks differ.

The fund company considers that the integration of sustainability risks has a positive impact on returns in the funds and the advisory services provided, while contributing to a more sustainable development. The fund company provides further information in the funds' prospectuses and on its website on how sustainability risks are integrated and their likely impact on returns.

In its fund management, the fund company takes into account the principal adverse impacts of investment decisions on sustainability factors. Similarly, the fund company considers principal adverse impacts on sustainability factors in its advisory processes. The fund company has established due diligence procedures and indicators to identify and prioritise principal adverse impacts on sustainability factors. A description of the principal adverse impacts on sustainability factors in the fund company's operations is available on the fund company's website, together with information on planned and implemented measures related to these impacts. The description also includes information on how the fund company, on behalf of the funds, engages with companies through dialogue and active corporate governance.

More detailed information on how principal adverse impacts on sustainability factors are taken into account for each individual fund is provided in the respective fund's prospectus.

3.4 Sustainability methodologies

The fund company's responsible investment efforts are based on three pillars: exclusion, inclusion and engagement.

Sustainability is an integrated part of investment analysis and decisions, although the approach may differ in practice depending on whether the selection concerns individual companies, an index or funds for inclusion in portfolios. The choice of asset classes and management focus also affects the approach applied.

Exclusion

The fund company does not invest in certain business activities. The fund company's position is based on the following:

- Certain products and services entail a high risk of negatively affecting the surrounding environment, society and various stakeholders.
- Such activities are incompatible with the role of a responsible investor, a long-term investment perspective and investing for sustainable development.
- Certain products and services involve elevated sustainability risks in the companies' value chains, and these risks are assessed not to be manageable.

The fund company excludes investments in:

- companies involved in the production or distribution of weapons that are prohibited under international law, such as cluster weapons, anti-personnel mines, biological and chemical weapons.
- companies involved in the production or distribution of nuclear weapons.
- companies whose revenue exceeds 5% from thermal coal extraction or 30% from coal power generation
- companies involved in cigarette production.
- companies that, according to the fund company's assessment, are confirmed to act in violation of international norms and conventions.

In addition to the exclusions above, the fund company offers funds with different levels of exclusion. For information about each fund's exclusions, refer to the fund's prospectus.

All company holdings are regularly analysed in order to identify companies that do not comply with international norms and conventions regarding the environment, human rights, working conditions and anti-corruption. This means that all holdings are reviewed to identify potential violations based on the UN Global Compact's four principle areas.

If an existing holding is assessed to violate the exclusion criteria, the holding shall be divested as soon as possible. There may, however, be temporary exposure between assessment and divestment. In certain cases, deviations from the exclusion criteria may be accepted following review by the Sustainability Committee (see section 3.5).

For further information, see the fund company's strategies for exclusion on the fund company's website, www.handelsbankenfonder.se.

Inclusion

The fund company strives to select investments that align with, or contribute positively to, sustainable development in accordance with Agenda 2030 and the objectives of the Paris Agreement. The fund management aims to invest in solutions to global sustainability challenges and thereby contribute to the achievement of the Sustainable Development Goals and the transition to a low-carbon economy.

- The fund management actively seeks to invest in companies that conduct their operations in a sustainable manner or whose products and services contribute to sustainable development.
- The fund management actively seeks companies that contribute to the transition to a low-carbon economy and support the objectives of the Paris Agreement.
- Similarly, allocation management seeks fund managers and fund products that operate in line with the above.

Investments may be selected based on two sustainability dimensions: the company's operations and its products and services.

For more information, refer to Handelsbanken Fonder's strategies for inclusion on the fund company's website, www.handelsbankenfonder.se.

Engagement

As a significant investor, the fund company has a responsibility and an opportunity to influence companies to act responsibly and conduct their operations in a sustainable manner, as well as to promote the development of sustainability work in the asset management industry. The fund company engages through company dialogues, corporate governance work and investor networks. The engagement efforts are based on Handelsbanken's core values, the fund company's commitments and the international norms and conventions the fund company supports.

The fund company works proactively to influence companies to improve their sustainability performance, comply with international norms and conventions or address specific issues. Through corporate governance, the fund company influences companies through participation in nomination committees and voting at general meetings.

Engagement dialogues

Dialogues are an important tool for influencing companies. This applies both to proactive dialogues aimed at improving companies' sustainability work and to dialogues with companies that the fund company considers not to comply with international norms and conventions or not to manage their sustainability risks adequately.

The fund company conducts engagement both independently through direct contact with companies and in collaboration with other investors. The dialogues can be classified as follows:

- Targeted dialogues: conducted through direct contact with the company.
- Dialogues together with other investors: conducted together with other investors and, where applicable, coordinated through external service providers or investor collaborations.

- Partnerships and industry initiatives: focusing on companies within specific sectors and sustainability issues.
- Investor networks: collaboration with other investors with the aim of contributing to the development of sustainability work within the asset management industry.

Shareholder motions on sustainability issues

Engagement is also exercised through corporate governance in connection with general meetings in portfolio companies. The fund company generally supports shareholder proposals aimed at promoting sustainable business practices and increased transparency regarding climate impact, human rights and labour rights.

For further information, see the fund company's strategies for engagement on the fund company's website, www.handelsbankenfonder.se.

3.5 Decision-making body for sustainability work

The CEO of the fund company is responsible for implementing a sustainability perspective in policies and strategies, and for adopting guidelines for the sustainability work.

The Head of Legal, Sustainability and Corporate Governance leads the sustainability work and is responsible for proposing the development of policies and strategies related to sustainability.

The heads of asset management for active, passive and allocation management are responsible for the integration of sustainability issues, including risks and opportunities, into the investment process, analysis and investment decisions, in accordance with the policies and strategies.

The operational Head of Sustainability, who is also responsible for the sustainability function, supports the heads of asset management in the integration of sustainability issues.

The fund company has a Sustainability Committee in which sustainability matters are prepared and decided, with the CEO as the decision-maker.

The purpose of the Sustainability Committee includes preparing and making decisions on sub-targets within sustainability, methodologies and definitions, assessments of individual companies and issuers, as well as strategic initiatives and investor collaborations.

The fund company's risk control function monitors on a daily basis that the exclusion criteria are complied with. Any deviations are reported to the Board and the CEO within the framework of the ongoing work of the risk control function.

4. Follow-up, reporting and communication

Below is a description of how the fund company follows up, reports and communicates regarding corporate governance and responsible investments.

4.1 Follow-up

The follow-up of how the fund company has acted within corporate governance and sustainability is carried out at different intervals depending on the area.

The fund company's risk control function monitors on a daily basis that all funds comply with their fund rules and customer commitments regarding the exclusion of companies.

Quarterly follow-up takes place in a dedicated forum – Sustainability Risk Forum – regarding whether the funds individually and the fund company as a whole are working towards the established sustainability objectives.

The operational Head of Corporate Governance continuously follows up the work of the nomination committees together with the fund company's appointed representatives. This takes place in joint meetings where guidelines and current issues are reviewed.

Follow-up of voting at general meetings is carried out continuously during the season by the operational Head of Corporate Governance. All voting is registered digitally.

The fund company's voting rights shall be exercised to ensure that companies comply with the principles of corporate governance set out in section 2 of this policy and the fund company's Voting Policy. Any votes cast that deviate from this policy or the Voting Policy shall be documented with a specific justification.

4.2 Reporting and communication

An important part of the fund company's shareholder engagement is that its positions on matters concerning corporate governance and responsible investments are communicated to various stakeholders.

This Policy for Shareholder Engagement and Responsible Investments, which expresses the fund company's views on matters of principle, shall be made public and kept available on the fund company's website. The policy may be used for communication with investors.

The report shall include a general description of the fund company's voting in portfolio companies, for example the number of general meetings, geographic distribution, and a summary of how the fund company has voted.

The report shall also state whether any important votes have taken place during the period, for example where the fund company was a significant shareholder or where material or controversial matters were subject to decision at a general meeting.

Information shall be provided on cases where the fund company has used advice or voting recommendations from proxy advisors.

With regard to sustainability work, the report shall include information on the sustainability aspects considered in the management of the fund, the methodologies used and the work carried out by the fund company to influence the companies in which the funds are invested.

The report on engagement shall include information on dialogues conducted with portfolio companies, how these were carried out and, where relevant, the outcomes of the dialogues.

A summary annual report shall be prepared describing how the fund company has conducted its corporate governance work overall during the year.

Voting at general meetings shall also be reported annually, retrospectively, on the fund company's website.

The Board of Directors of the fund company shall receive a report on the corporate governance and sustainability work, as well as compliance with this policy, at least annually.