# SFDR - Sustainability definitions and methodologies

## Background

Since 10 March 2021, Handelsbanken Fonder reports in accordance with Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) and the related regulations. The purpose of this reporting is to provide investors with information on how sustainability risks are integrated into investment decisions, how principal adverse impacts on sustainability factors are considered and whether a fund has a sustainable investment objective or promotes environmental or social characteristics. In order to harmonize the disclosure of information on sustainability-related disclosures, the regulatory framework also includes a definition of what constitutes a sustainable investment, requiring, among other things, that the companies in which investments are made follow good governance practices and that the precautionary principle of Do No Significant Harm is ensured, so that neither the environmental nor the social objective is significantly harmed.

On the other hand, the regulatory framework does not contain detailed guidance, which means that every fund company needs to independently develop criteria for the specification of these definitions and set appropriate thresholds where necessary. The purpose of this document is to describe, at an overall level, Handelsbanken Fonder's definitions, applied thresholds and methods – all based on the fund company's current interpretation of the SFDR.

## Sustainable investment

A sustainable investment is, as defined under the regulatory framework, an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

### *Contributes to an environmental or social objective*

According to the criteria established by Handelsbanken Fonder, in order to achieve the requirement of contributing to an environmental or social objective, an investee company must meet at least one of the following criteria:

- At least 25% of the company's or issuer's revenue must contribute to an environmental or social objective towards attaining the Sustainable Development Goals (SDGs) in the 2030 Agenda.
- The company or issuer has at least a 20% EU taxonomy-aligned revenue.
- The investment is a sustainable bond or a sustainability-linked bond where the financial and/or structural characteristics of the fixed income instrument are linked to predefined sustainability objectives.
- The company has been assessed as an impact investment in one of our impact categories.

  Each company is analysed based on a framework that aims to evaluate what the company does, for whom, to what extent as well as the impact of the company and us as investors. This framework aids in identifying who will benefit from the company's solutions or activities, where the stakeholders vary and may range from local inhabitants in regions where social challenges remain in the efforts to achieve the SDGs, to specific groups that lack access to basic human needs as well as climate solutions in general. Analysing companies from an impact perspective in this way is closely tied to generally accepted frameworks and initiatives in the area.

  The company has been assessed as an impact investment in the **growing impact** category according to the fund company's impact investment framework. This framework encompasses companies whose activities contribute to achieving the SDGs in the 2030 Agenda. In addition to having 10% revenue derived from economic activities that contribute to environmental or social objectives defined in the 2030 Agenda (SDG contribution), these companies or issuers must be assessed as contributing to these objectives based on other factors too, such as capital expenditure (CAPEX) or operational expenditure (OPEX), with the aim of increasing contributions to the Agenda.

  The company has been assessed as an impact investment in the **operational impact** category according to the fund company's impact investment framework. This framework encompasses companies whose activities contribute to achieving the SDGs in the 2030 Agenda. Operational impact includes companies whose operations are conducted in an inclusive or innovative way that contributes to creating a positive and tangible impact for people or the environment in line with identified and unaddressed needs.

- Funds whose objective is to reduce carbon dioxide and greenhouse gas emissions and that are reported pursuant to Article 9.3 SFDR must, in order to be considered as having sustainable investments as their objective, be managed in line with an index that is a registered EU benchmark for alignment with the Paris Agreement, a so-called Paris Aligned Benchmark, in accordance with Regulation (EU) 2016/1011 (the Benchmark Regulation). Index funds that track a Paris Aligned Benchmark are, at the fund/product level, considered to meet the requirement of contributing to an environmental objective and for this reason constitute a sustainable investment as defined in the SFDR. The objective of reducing emissions of carbon dioxide and other greenhouse gases thus applies to the fund as a whole and not to each of the constituent companies in the fund.

### *Do No Significant Harm*

To ensure that the Do No Significant Harm (DNSH) principle is followed, Handelsbanken Fonder considers and assesses the following:

- That the company does not have activities linked to controversial sectors such as fossil fuels and controversial weapons.
- That the company does not have confirmed violations of international norms and conventions.
- That the investment complies with established thresholds for biodiversity and high-emission sectors.
- Which products and services the company is otherwise involved in and whether these can be significantly considered to counteract sustainable development as expressed in the SDGs in the 2030 Agenda.

The assessment is conducted using a model developed by the fund company where the above-mentioned criteria are systematically identified and verified to ensure that the sustainable investment meets the DNSH requirements.

### *Good governance practices*

Good governance practices, as defined under the regulatory framework, include sound governance structures, employee relations, staff remuneration and compliance with tax legislation. To determine whether the investee companies meet good governance practices, they are assessed for compliance with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the ILO's eight core conventions, and the UN Universal Declaration of Human Rights. Investee companies with confirmed and unresolved breaches of these principles and conventions are considered to be in noncompliance with the requirement of good governance.

All companies held by funds reported as Article 8 or 9 under the SFDR are subject to an assessment of good governance practices.

### Consideration of principal adverse impacts on sustainability factors

Handelsbanken Fonder considers the principal adverse impacts on sustainability factors (PAI indicators) through an internally developed process where potential adverse impacts are identified and analysed.

Companies deemed to have high risks in regard to PAI are managed through exclusion or active engagement. Certain adverse impacts on sustainability factors are considered by excluding investments linked to fossil fuels (PAI 1.4[1]), banned weapons (PAI 1.14), as well as companies that according to the fund company's assessment have been confirmed to act in violation of international norms and conventions related to human rights, labour law, or anti-corruption and bribery (PAI 1.10).

[1] For most of our funds, the principle of excluding fossil fuels can be suspended if the company meets our requirements for qualifying as a company in transition. For more information, see each fund’s prospectus.

For funds reported according to Article 9.2, there are established threshold values for biological diversity (PAI 1.7) and high-emitting sectors which are of particular relevance for PAI 1.1-1.4.

For index funds, the exclusions are made in the index methodology and for fund-of-funds we ensure that the same exclusion requirements apply, irrespective of whether these are Handelsbanken Fonder's own funds or funds managed by external fund managers.

Other adverse impacts on sustainability factors are managed through active asset stewardship and dialogue. Handelsbanken Fonder has developed a process for prioritizing the adverse impacts for sustainability factors. The process for considering PAI indicators takes into account how prioritized the various indicators are for each sector. In its own tool, Handelsbanken Fonder has made a mapping at a granular sector level to ensure that the right PAI indicators are prioritized for each sector. Several indicators are considered prioritized regardless of sector, such as climate impact and greenhouse gas emissions. In the assessment process, the fund company receives an indication of whether an individual company or an issuer has any PAI indicators that indicate that the company should take measures to strengthen its work in this particular area. Such indications form the basis for follow-up measures within the framework of Handelsbanken Fonder's active engagement process.

Data quality and data availability currently also affect the integration of principal adverse impacts on sustainability factors in the fund management.

**Reporting**

For information on sustainability-related disclosures for an individual fund, refers to the fund's prospectus and its appendix containing sustainability-related disclosures, the fund's annual report as well as sustainability-related disclosures on the fund company's website (handelsbankenfonder.se).