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# Exclusion strategy

# Our vision

Handelsbanken Fonder's vision is to generate financial returns while contributing to sustainable development. We do this through management in line with the Paris Agreement's climate goals and contributing as much as possible to Agenda 2030. Our engagement as a responsible investor and owner is essential to our fund management.

The starting point for our work includes the core values of Handelsbanken, our commitments and the international norms and conventions that the fund company respects. The 2030 Agenda and the Sustainable Development Goals (SDGs) provide guidance for our investments. The fund company's long-term investment horizon, our sustainability goals, as well as the insight that sustainability is fundamental to a sound management of both risks and returns, are the foundation of the fund company's exclusion strategy.

**Our sustainability goals**

1. Align our assets under management with the Paris Agreement climate goals and attain net-zero greenhouse gas emissions by 2040.
2. Increase our contributions to the SDGs in the 2030 Agenda.

# Why we exclude

We have a long-term investment horizon and therefore exclude investments in companies with business models that are not sustainable in the long term and might obstruct Agenda 2030 and the SDGs.

*We exclude:*

1. Products and services that entail a high risk of negatively impacting the environment, society and various stakeholders.
2. Investments that are incompatible with our role as responsible investors and our commitment to purpose-driven investing for sustainable development and the future.
3. Certain products and services that involve increased sustainability risks in the companies' value chains. We exclude companies with risks that we assess are not manageable through engagement dialogue.

# How we exclude

**Exclusion of controversial operations**
In line with our Policy for Shareholder Engagement and Responsible Investment, all our funds exclude companies involved in prohibited weapons, nuclear weapons and cigarette production. The funds also exclude companies if more than five per cent of their revenue derives from the extraction of thermal coal or if more than 30 per cent of their revenue derives from coal power generation.

Moreover, the fund company applies additional exclusion criteria to about 99 per cent of the fund volume. This means that the funds exclude companies if more than five per cent of their revenue derives from controversial sectors, or sectors with business models that entail elevated sustainability risks. For services related to these sectors, the maximum limit is 50 per cent. Services include marketing, key components, raw materials, mechanical and technical equipment, technology, IT and support services.

The funds also exclude companies that violate international norms and conventions on human rights, employee rights, the environment, or anti-corruption.

Exceptions to these exclusion criteria apply to certain ETFs.

**Exclusion of fossil fuels**
Our funds exclude companies that derive more than five per cent of their revenue from fossil fuels (oil, gas and coal). For services related to these sectors, the maximum limit is 50 per cent.

For most of our funds, the principle of excluding fossil fuels can be suspended for a period of time if the company meets our requirements for qualifying as a company in transition. For more information, see the section "Application in different asset management strategies".

**Limits for exclusion**
In many industries, it is difficult to ensure a zero-tolerance policy in all parts of the chain, and therefore a limit of five percent applies. Thus, exclusion means that a maximum of five per cent of an investee company's revenue may derive from the business operations in question. It can also be difficult to establish the exact amount of revenue related to a specific sector, which means that the external ESG analysis we rely on is permitted to estimate the level of revenue. As a result, the level may be an underestimate or overestimate of reality.

| Sectors | Max. Revenue, production | Max. revenue, distribution |
|---|---|---|
| Banned weapons[1] | 0% | 0% |
| Nuclear weapons | 0% | 0% |
| Weapons and war materials | 5% | 5% |
| Alcohol | 5% | 5% |
| Tobacco | 0% | 5% |
| Cannabis | 5% | 5% |
| Pornography | 0% | 5% |
| Commercial gambling | 5% | 5% |
| Fossil fuels – extraction | 5% | 5% |
| Fossil fuels – power generation | 5%[2] | 5%[2] |
| Tar sands | 0% | - |

1. Cluster bombs, anti-personnel mines, chemical and biological weapons.
2. For most of our funds, the principle of excluding fossil fuels can be suspended for a period of time if the company meets our requirements for qualifying as a company in transition. For more information, see each fund's prospectus.

The maximum limit is 50 percent for services related to these business operations. Services refer to marketing, key components, raw materials, mechanical and technical equipment, technology, IT and support services.

**Application in different asset management strategies**
*Actively managed equity funds:*
Actively managed equity funds can include (refer to "Inclusion strategy") companies in transition with some exposure to fossil fuels. A company in transition refers to a company that the fund company's Sustainability Committee deems to be in the process of transforming its operations in a way that is expected to contribute, rather than counteract, the attainment of one or several of the SDGs. The limits in the table above do not apply to companies in transition involved in electrical power generation, transmission and distribution.

*Actively managed fixed income funds:*
Actively managed fixed income funds can include (refer to “Inclusion strategy”) bonds from an issuer with some exposure to fossil fuels if the issuer is a company in transition. A company in transition refers to a company that the fund company’s Sustainability Committee deems to be in the process of transforming its operations in a way that is expected to contribute, rather than counteract, the attainment of one or several of the SDGs. The limits in the table above do not apply to companies in transition involved in electrical power generation, transmission and distribution.

*Actively managed fund-of-funds:*
The starting point for the active management of the fund company’s fund-of-funds is the fund company’s exclusion strategy. If a fund-of-funds invests in a fund that includes holdings in companies that violate the limits stated in this document, the fund company will initiate a divestment dialogue with the investee fund company with the aim of the underlying fund selling its holdings. If the dialogue does not yield results, the underlying fund will be sold. An underlying fund may also invest in companies in transition involved in power generation, transmission and distribution of electricity from fossil fuels (refer to “Inclusion Strategy”). When a fund-of-funds invests directly in transferable securities or in money market instruments, the exclusion limits stated will be applied.

Derivatives based on broad liquid indices are instruments that are necessary to manage risks, positions and liquidity in the portfolios of the fund-of-funds. As a result, these derivatives can be used to address both short-term and long-term portfolio strategies in an adequate manner. The following is applicable to a fund-of-funds’ investment in derivatives and other index products: the fund will primarily invest in sustainability-oriented index derivatives and index products; in the absence of such instruments, the fund will invest in other index derivatives and index products; in such index derivatives and index products, exposure may arise to companies that are not permitted under the exclusion criteria referenced above.

*Index funds:*
Our index funds integrate the sustainability requirements regarding exclusion into the index methodology. The scope of and further details regarding these sustainability requirements are available in each fund’s prospectus under the section “Sustainability requirements in index”.

*Passively managed fund-of-funds:*
The fund company’s passively managed sustainability-oriented fund-of-funds are managed on the basis of the fund company’s exclusion strategy. The funds invest exclusively in other mutual funds managed in the Handelsbanken Group that fulfil the fund-of-funds sustainability requirements.

# Justification for exclusion requirements

| Sector | Examples of adverse impacts | Risk of obstruction |
|---|---|---|
| Tobacco | Increased production risks in the production and consumption stages, negative health effects, negative impacts on society in terms of higher consumption of healthcare resources. | 3 GOD HÄLSA OCH VÄLBEFINNANDE; 8 ANSTÄNDIGA ARBETSVILLKOR OCH EKONOMISK TILLVÄXT |
| Pornography | Risks associated with employee rights issues and overall increased sustainability risks. | 5 JÄMSTÄLLDHET; 8 ANSTÄNDIGA ARBETSVILLKOR OCH EKONOMISK TILLVÄXT |
| Alcohol, Cannabis, Commercial gambling | Negative health risks at the individual level, increased resource consumption for society overall resulting from addiction and negative health effects. | 3 GOD HÄLSA OCH VÄLBEFINNANDE |
| Weapons and munitions | Increased sustainability risks in sales and use due to lack of transparency. Conflicts and wars have a negative impact on society, and children are particularly affected. | 1 INGEN FATTIGDOM; 16 FREDLIGA OCH INKLUDERANDE SAMHÄLLEN |
| Fossil fuels | Negative climate and environmental impact, and climate change has a particularly grave impact on the poor of the world. | 1 INGEN FATTIGDOM; 13 BEKÄMPA KLIMATFÖRÄNDRINGARNA |

# Follow-up and monitoring

On a daily basis, the fund company's risk control monitors whether the funds comply with their regulations on the exclusion of companies. This verification concerns sectors we exclude and which we believe risk counteracting sustainable development. We also monitor that the investee companies do not violate international norms and conventions based on the four principal areas of the UN Global Compact initiative: human rights, labour law, the environment and anti-corruption.

# Scope and limitations

Handelsbanken Fonder focuses on the inclusion of companies. All companies that are included need to pass the fund company's review of applicable exclusion criteria to be approved for investment. Because we focus on inclusion, we have chosen not to publish a complete list of the companies we exclude based on our review. We do, however, publish a list of the companies that are excluded based on norm violations. Our starting point is that we take responsibility for the companies we are invested in.

In order to provide an insight into how our investment universe is affected by the strategies for exclusion, we describe below how three indices in different geographic regions are affected by the requirements. Approximately 17 per cent of the companies are excluded in a global index. A majority of the companies are excluded due to exposure to fossil fuels. Approximately 18 per cent of the companies are excluded in an emerging market index, also primarily due to exposure to fossil fuels. In a Swedish index, approximately 3 per cent of the companies are excluded, and it is primarily companies involved in fossil fuels and commercial gambling that are excluded.