Climate report 2022

Act!ons

for the future

In accordance with the recommendations of the Task Force on Climate-related Financial Disclosures

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About this report

The purpose of the Handelsbanken Fonder Climate Report 2022 is to inform stakeholders about our work related to climate change. We also hope to contribute to increased transparency and the continued development of forward-looking information related to climate change within the financial sector, as well as in the wider economy.

The report is prepared in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures. The focus is on how climate change affects us as an asset manager, but also includes comments on the effects that we, as an asset manager, have on the climate. Handelsbanken Fonder AB consists of three business areas: active asset management, passive asset management, and asset allocation management. By the end of 2022, the total assets managed in these funds amounted to SEK 800 billion.

About TCFD

The international Task Force on Climate-related Financial Disclosures (TCFD) was formed in 2015 and tasked with correcting the scarcity of information regarding companies' work on, and management of, climate change. The TCFD has developed a reporting framework focused on providing useful information to lenders, insurers and investors. The widespread adoption of the TCFD framework would allow for climate change to be factored into financial decision making, allowing a more efficient allocation of capital, and help smooth the transition to a low-carbon economy. The TCFD published its final report in June 2017, structuring its recommendations into four areas: Governance, Strategy, Risk Management, and Metrics and Targets. Together with underlying disclosures within each area, the framework provides a standardised and relevant way of helping investors and others understand how the reporting organisation assesses and manages climate-related risks and opportunities.

About risk

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On the journey towards net-zero

Climate change is the biggest challenge of our time and its consequences are increasingly severe and are felt worldwide as heatwaves, droughts, wildfires and floods are becoming more common and widespread. All bodies of society, both public and private, need to do more and accelerate the pace. At Handelsbanken Fonder, we are determined to do our part and support our customers through the climate transition by aligning our investment portfolio with the 1.5°C target and achieving net-zero emissions by 2040.

2022 WAS ANOTHER TUMULTUOUS year both for the financial markets with rising inflation and spiking interest rates but also for the climate with greenhouse gas emissions not reducing at the pace needed to stay below the 1.5°C limit stipulated by the Paris agreement. In a special report, the UN's Intergovernmental Panel on Climate Change (the IPCC) asserts that it is essential to reduce carbon emissions by 50 per cent to 2030 if global warming is to be limited to 1.5 degrees. At this pace we are moving closer to transition outcomes that will likely be costly as a result of stranded assets and adaptions to a warmer climate.

Concidering Handelsbanken Fonder´s global exposure in our investments and our clear ambition to be a part of the climate transition – we have chosen to align our ambitions with those of the IPCC, aiming to reduce emissions from our holdings by 50 per cent by 2030.

This interim target marks a step towards attaining our overarching goal: net-zero emissions from our investment portfolio by 2040.

The path to attaining net-zero emissions is not clear-cut, and there are multiple paths one can take. By only investing in sectors with an inherently low carbon footprint, for example, the goal could be attained relatively quickly. This, however, limits the prospect of making a real-world impact. Achieving ambitious climate goals demands a complete transformation – especially in sectors with historically high levels of emissions. This is a journey all companies need to be a part of and, as a long-term investor, it also applies to Handelsbanken Fonder.

In this spirit, the fund company aims to make broad investments in sectors that drive positive change in society and to use the power of engagement to guide companies in a more sustainable direction. With the end goal of reducing overall emissions, this set of ambitions entails both pushing companies to reduce their emissions, and investing in environmental and climate solutions.

With this TCFD-report we aim to provide transparency regarding our material exposures and our work and progress in attaining or interim targets and overarching goal of net-zero emissions by 2040.

We do so knowing that much work and great challenges lies ahead but with the firm believe that we as a large asset manager need to contribute and do our part on the journey towards net-zero.

Magdalena Wahlqvist Alveskog,
CEO Handelsbanken Fonder

This is a journey all companies need to be a part of.

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We are comitted to **Net zero**

The Net Zero Asset Managers Commitment

In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions, and for asset managers to play our part in helping to deliver the goals of the Paris Agreement and ensure a just transition.

In this context, Handelsbanken Fonder commits to support the goal of net zero greenhouse gas ('GHG') emissions by 2050, in line with global efforts to limit warming to 1.5°C ('net zero emissions by 2050 or sooner'). We also commit to support investing aligned with net zero emissions by 2040.

Our climate goals

We will achieve a

50 %

reduction in the intensity of greenhouse gas emissions across our total assets under managementby 2030

We will

X2

our investments in environmental and climate-related solutions as part of total assets under management by 2030

What does it mean to support investing aligned with net zero emissions by 2040?

For more details about our Climate Goals, see the beginning of the "Strategy" section on page 7 and the end of the "Metrics and Targets" section on page 14.

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Governance

Governance is the foundation of our work around climate change. Through the integration of climate change into policy, strategy and business development, we aim to ensure that Handelsbanken Fonder supports the goal of net zero greenhouse gas emissions by 2040.

Board's oversight of climate-related risks and opportunities
Handelsbanken Fonder's board of directors is in charge of overseeing the sustainability strategy, which incorporates climate change. Climate change factors into decisions relating to overall strategic direction, the adoption of policies and the formulation of annual business plans. The board is continually informed by the business operations on matters of strategy implementation and business progress.
The board also reviews and approves policy development, including the Policy for Shareholder Engagement and Responsible Investments, which governs all our assets under management. The Policy includes specific criteria relating to climate change, such as the ambition to align portfolios with the Paris Agreement. The Policy also lays out the strategic direction for our voting at AGMs and work in nomination committees.

How management assesses and manages climate-related risks and opportunities
Management is in charge of monitoring and developing the work around climate change, which includes governance and strategy development. The Head of Sustainability is part of the management team and reports directly to the Chief Executive Officer. The Head of Sustainability is responsible for the development of strategies and policies, and also methods and tools, relating to climate change, including keeping the organisation informed about global trends and industry developments relating to climate change. The respective heads of active and passive asset management and asset allocation management are responsible for the integration of climate risks and opportunities in accordance with the policies and strategies in their respective business areas.

Our governance structure for climate-related risks and opportunities going forward
The Committee for Sustainability Risks is tasked with analysing and evaluating sustainability risks and opportunities, including climate change, for each fund. The Committee also monitors the progress towards our climate goals. The Committee consists of the CEO, CIOs, Head of Risk, and Head of Sustainability. The Sustainability Committee is a forum to discuss, inform and make decisions on methodology developments and other sustainability-related issues. The CEO is the ultimate decision maker in this forum, guided by the recommendations of the participants.

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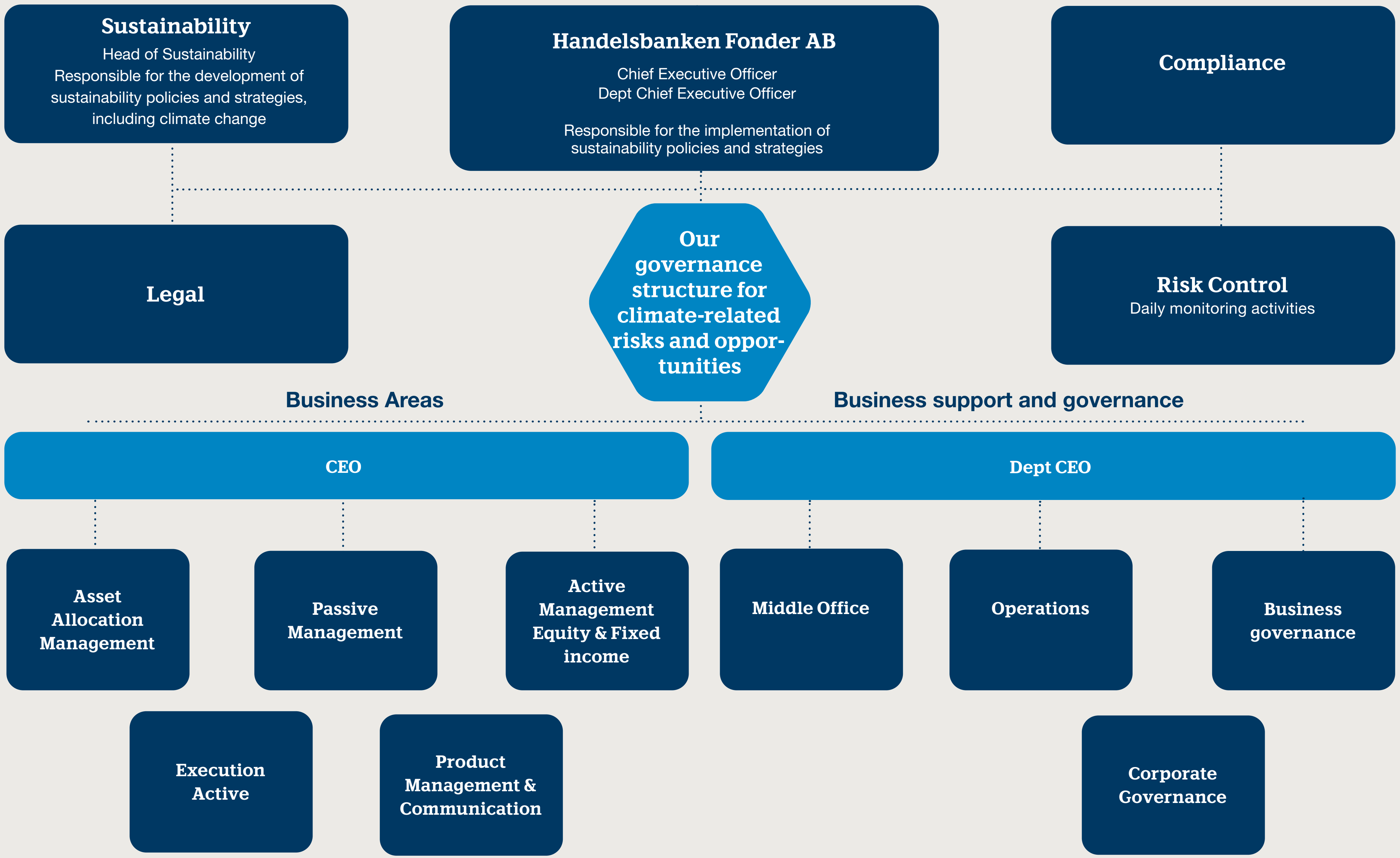

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Strategy

In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions, and for asset managers to play our part in helping to deliver the goals of the Paris Agreement and ensure a just transition. Not only because it is our responsibility, but because it is our financial imperative as well.

How do we respond to climate change?

Climate change has been a strategic focus within Handelsbanken Fonder for many years. We have been excluding investments in companies dependent on coal since 2015 and have taken a precautionary approach to the entire fossil fuel industry for several years. In 2018, we made a policy commitment to the Paris Agreement and took the strategic decision to widen our fossil fuel exclusion strategy to the absolute majority of our funds. In 2020 we participated in the launch of the Net Zero Asset Managers Commitment and committed to support investing aligned with net zero emissions by 2040. In 2022 we have strengthened our engagement processes and priorities, and engagement continues to be one of our key factors in achieving net zero. We engage both through dialogue and voting.

Paris aligned portfolios

Investing aligned with net zero emissions by 2040

Progress

GHG emission intensity:
49.2 $tCO_2e/mSEK$ 2021 to 50.2 $tCO_2e/mSEK$ 2022
See pageXX

Environmental and climate-related solutions:
22.7% 2022
See page XX

Targets

-50% Achieve a 50% reduction in the intensity of greenhouse gas emissions

x2 Double our investments in environmental and climate-related solutions

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Target 1

50 %

reduction in the greenhouse gas emissions

We will achieve a 50% reduction in the intensity of greenhouse gas emissions across our total assets under management by 2030

What, how and why

- Engage with key emitters and continue to increase investments in companies with credible net zero emissions plans.
- The world needs to decarbonise, and as a significant asset manager we have the responsibility as well as the opportunity to do our fair share, by an ambitious greenhouse gas emission intensity reduction.
- We need a reduction target to hold us accountable. In the end, this is what it comes down to.

What is the rationale for the goal?

What we want to contribute to is driving decarbonisation in the real economy. However, we need something to hold us accountable and we need a direction. We also know that if we are successful in our engagement efforts and our secondary influence via allocating capital to climate leaders in key sectors, then we will see a decrease in our emission intensity. Therefore, we have set a greenhouse gas intensity reduction target for 2030, to help guide our way towards complete net zero by 2040.

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Target 2

X2

our investments in environmental and climate-related solutions

We intend to double our investments in environmental and climate-related solutions as part of total assets under management by 2030

What, how and why

- During 2022, we expanded the scope of our target to include environmental solutions in order to align with the SFDR. In the future, we will report the combined figure for both environmental and climate solutions.
- To achieve our goal, we must define what environmental and climate solutions are. For us, these terms refer to a company that, through its products and services, helps to reduce carbon dioxide emissions, contributes to climate adaptation, or preserves and utilises ecosystems, biodiversity and natural resources in a sustainable way.
- In order to identify companies contributing with solutions, one key component is that we visit and meet with companies and relevant stakeholders and experts. Constant improved data is also key when identifying relevant companies.

What is the rationale for the goal?

Getting businesses to reduce their emissions is only one part of reducing actual emissions in society. The other part involves investing in environmental and climate solutions. By investing in companies that develop products and services that enable the climate transition, participating in new share issues and IPOs, and investing in various sustainable bonds, we help drive the growth of these environmental and climate solutions and the companies behind them.

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Climate-related risks

Climate-related risks and opportunities and our resilience towards different outcomes

CLIMATE-RELATED RISKS are diverse, complex and often hard to measure. They are unevenly spread geographically and are related to both the transition away from, and the physical consequences of, emissions of greenhouse gases. The basic principle is that a faster and more significant reduction in greenhouse gas emissions results in more significant transition risks and less physical risk, and conversely, a slower and less significant reduction of greenhouse gas emissions results in higher physical risk. However, even if we stopped carbon emissions today, physical climate risks would still be significant due to the accumulated carbon in the atmosphere.

For 2022, we analysed all our portfolios with the help of the scenario stress test tools by ISS ESG, for both climate related physical and transitional risk scenarios. We also used complementary resources to help understand and validate the results. The following is a presentation of our key conclusions in terms of our overall exposure per business area to climate-related risks and opportunities, as well as our resilience towards different outcomes.

At the aggregate level, our exposure to the greatest transition risks in the tested scenario is very limited. This is due to the deployment of our fossil fuels exclusion strategy, by which we exclude companies involved in exploration, production, refining and power generation based on fossil fuels (we use 5% of sales as the upper limit for involvement in these activ-

Summary of key risks and opportunities

Total portfolio	Active asset management	Passive asset management	Asset allocation management
Transition risks	*Transition risks*	*Transition risks*	*Transition risks*
Real estate, and manufacture of i) chemicals, ii) paper and pulp, iii) basic materials, iv) food products and v) electronics.	Real estate, and manufacture of i) chemicals, ii) paper and pulp, iii) basic materials, iv) food products and v) electronics.	Manufacture of i) chemicals, ii) paper and pulp, iii) basic materials, iv) food products and v) electronics.	Manufacture of i) chemicals, ii) paper and pulp, iii) basic materials and iv) food products.
Physical risks	*Physical risks*	*Physical risks*	*Physical risks*
Retail trade, financial services, and manufacture of i) electronics, ii) machinery and iii) chemicals.	Retail trade, financial services, telecommunications, and manufacture of i) electronics and ii) machinery.	Retail trade, financial services, and manufacture of i) electronics, ii) machinery and iii) chemicals.	Financial services, telecommunications, and manufacture of i) electronics, ii) machinery and iii) chemicals.
Opportunities	*Opportunities*	*Opportunities*	*Opportunities*
Renewable energy.	Renewable energy.	Renewable energy.	Renewable energy.
Resilience	*Resilience*	*Resilience*	*Resilience*
High. None of our portfolios are bound to specific sectors or regions with non manageable climate risks according to our current assessments. However, a failure of the global economy to decarbonise over time would render the physical climate risks hard to manage given our broad market exposure.			

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ities). We also exclude companies with over 50% of sales from fossil fuel related services. Instead, we see that our primarily lies within manufacturing, and specifically for relatively high emitting subsectors such as manufacture of chemicals and chemical products, manufacture of paper and pulp, and of basic materials, food products and electronic products. There are some differences between our asset management business areas, where predominantly the exposure to real estate is greater within the active asset management, and thus a higher prioritised risk sector. Our exposure to opportunities is still limited at the total portfolio level as well as for each business area, and the key exposure is within renewable energy – where some funds such as "Hållbar Energy" ("Sustainable Energy") have an outsized contribution to the total. For physical risks, the potential financial impacts are more evenly spread across sectors and among companies within sectors. Thus, the results generally reflect our exposure to different sectors rather than the specific investments in a small set of companies, as may be the example of oil and gas companies in a transition scenario. What the physical risk assessments clearly show is the need for risk management at the company level, something our current risk models have not yet been developed to take into account. Still, we note that our greatest exposure to physical climate risks are within retail trade, financial services, telecommunications and manufacturing.

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Risk managment

Our long-term success as an asset manager is dependent on our ability to identify, assess and manage risk. We consider climate change to be a long-term and evolving systemic risk to the global economy, affecting not only industries and individual companies, but potentially also entire asset classes such as equities and bonds through its potential impact on the global economy. We take an integrated approach to risks related to climate change, and work continuously to improve our risk management processes.

Process for risk identification and assessment

The Committee for Sustainability Risk

Apart from the continuous portfolio management process, the Committee for Sustainability Risk is our primary forum for climate-related risk identification and assessment. The Committee convenes quarterly and covers active and passive asset management, as well as asset allocation management. The Committee covers both the inside-out and outside-in perspective.

Inside-out:

- We assess our progress towards our sustainability goals at both the business area level and the portfolio level.
- We identify which companies are the largest CO2 emitters and also solution contributors and prioritise our engagement efforts to the companies where we can have the greatest impact.
- During 2022, we continued our work with the EU Sustainable Finance Disclosure Regulation, which aims to increase transparency within sustainability – and mitigate greenwashing.

Outside-in:

- We assess specific financial risk metrics based on sustainability and climate-related inputs at both the business area level and the portfolio level.
- The assessment at the portfolio level is updated quarterly and based on data from ISS ESG, this is done by the Sustainability team, and presented at the Committee for Sustainability Risk together with Risk Control.
- The assessment at the business area level is performed on an annual basis by the Sustainability team. Given the evolving nature of climate risk modelling, there has been a review of available tools and scenarios each year the analysis has been done.

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Shared global analysis in active asset management

Within active asset management, a shared global analysis constitutes the guiding framework for the investment management team. In quarterly strategy meetings, global developments such as climate change and associated investment risks and opportunities are analysed to form our view of the future. During these meetings, potential investment themes are prepared based on relevant developments such as technological shifts, market changes or developments in regulations. Each portfolio management team then conducts further analysis in order to identify risks and opportunities in their specific investment areas. During this process, climate-related risks are considered at all times. Some examples of recent themes of discussions are: biodiversity, rare earth minerals, hydrogen, the EU taxonomy and climate risks in financial institutions.

Risk management process

Company-wide Exclusion

Sector exclusion forms the first line of defence against climate risk in our risk management process. We use exclusion primarily when a sector has high sustainability risks, is not aligned with our vision of long-term sustainable asset management, and when we believe our ability to influence companies to align with sustainable development is limited.

Active asset management

A portfolio manager is the sustainability analyst for their fund. Our team of sustainability experts are on hand to assist in the process, but the responsibility lies with the portfolio manager. Our portfolio managers have access to both general sustainability-related information, as well as more climate-specific information. In conjunction with the quarterly meetings in the Committee for Sustainability Risk, portfolio managers with elevated risks according to any of the metrics reviewed are invited to present their case. The case might be why the metric does not reflect the true risks, why there is confidence accepting the risk, or if it is a case in which the manager needs assistance in formulating an engagement plan for the company. Direct engagement and active ownership are important tools for managing climate risks. As long-term owners, we engage with management and press for improvements with regard to tackling climate change, increased transparency and reporting, as well as voting for climate proposals at AGMs. We are also actively involved in collaborative engagements, one important engagement initiative is Climate Action 100+.

Passive asset management

The management of climate risks takes place in product development and via asset stewardship. Given the rule-based nature of passive investments, it is key that the choice of benchmark in product development incorporates sustainability factors. Choosing Paris Aligned Benchmarks has been one important tool for climate risk management. As a complement, themes and strategic areas related to climate risk are also identified as part of the ongoing management and serve as the starting point for engagement and asset stewardship.

Within passive management, our main tool for engagement on climate risks is to participate in collaborative engagements such as Climate Action 100+. We also use our influence as shareholders. In 2022, we voted in favour of several shareholder proposals pushing companies to identify and report on climate-related issues, for example, through climate-related scenario analysis.

Asset allocation management

The management of climate-related risks takes place in the manager selection process. An update to the sustainability section in the portfolio manager evaluation process was implemented to also incorporate explicit climate-related risks and opportunities alongside broader sustainability metrics. The data used is derived from ISS ESG's climate analysis, primarily carbon footprint and scenario analysis. Engaging with other participants in the financial industry in our manager selection role is an opportunity to also drive change in the sector, while simultaneously serving to reduce our climate related risks.

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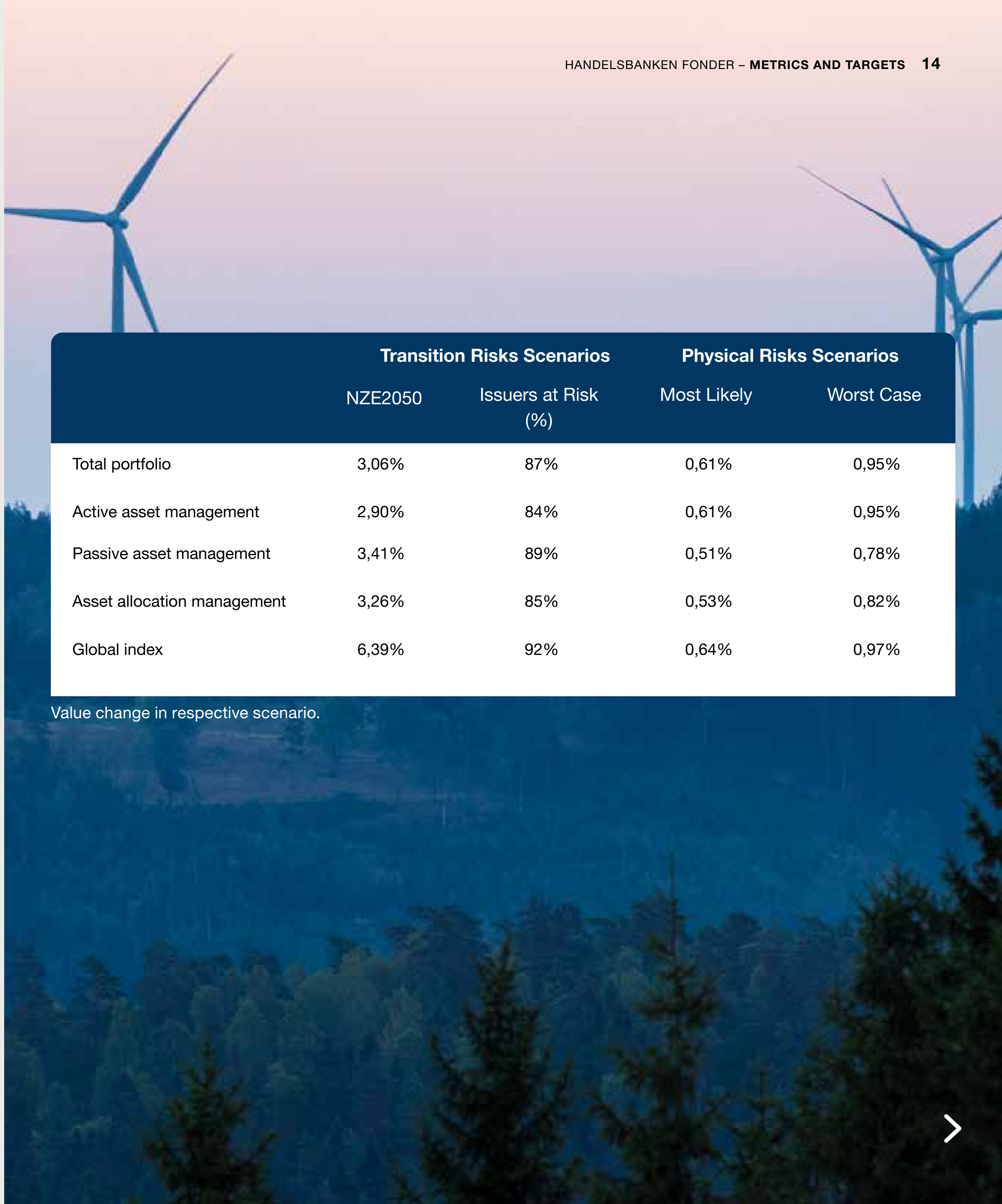
Metrics and Targets

In order for sustainability-related issues to become something more than vague ambitions, we need specific metrics and targets. At Handelsbanken Fonder, we performed our first climate-related scenario analysis in 2017, the same year we started measuring exposure to climate solutions in some of our actively managed funds. In 2019 we assessed, for the first time, climate-related risks and opportunities via dedicated climate-related stress tests. In 2020 we set specific climate goals and since then we have worked towards our goals.

Climate related scenario analysis and stress test

A climate related scenario analysis can try to answer either the question of "how do our investments affect the climate?" (the inside-out perspective) or "how do the climate and associated changes affect our investments?" (the outside-in perspective). Initially, many tools for investors helped answer the first question. This was achieved by looking at the current emissions of companies, or the estimated future emissions of these companies, and comparing them to sector trajectories outlined by breaking down emissions predictions from climate models. The rationale was that by knowing whether your investments are following the required emission reduction trajectory for their specific sector, you know if there is an elevated transition risk. This is because we know that regulators will try to enforce compliance with those trajectories and that technologies and consumer demand are trending in those directions as well. Today, more elaborate models are emerging which are explicitly trying to answer the second question for both transition and physical climate related risks. These models use inputs such as how the physical climate will change in different temperature scenarios, companies' abatement costs for reducing carbon emissions and likely policy responses from governments. These are commonly referred to as climate related stress tests.



	Transition Risks Scenarios		Physical Risks Scenarios	
	NZE2050	Issuers at Risk (%)	Most Likely	Worst Case
Total portfolio	3,06%	87%	0,61%	0,95%
Active asset management	2,90%	84%	0,61%	0,95%
Passive asset management	3,41%	89%	0,51%	0,78%
Asset allocation management	3,26%	85%	0,53%	0,82%
Global index	6,39%	92%	0,64%	0,97%

Value change in respective scenario.

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Stress testing our business areas
For transitional as well as physical climate risks, we used ISS ESG's climate Value-at-Risk model. The transitional risk scenario is based on the Net Zero 2050 (NZE2050) scenario, developed by the International Energy Agency (IEA) to correspond to a 1.5˚C temperature increase, and it covers risks relating to policy and market, as well as technology risks. Even though we believe in specific quantitative data, we also acknowledge the limitations that are still associated with trying to calculate the financial impact of climate change. Therefore, an important aspect of our stress testing exercises remains the qualitative analysis we perform regarding our exposure to the different sectors covered in the scenarios. The main results of this combined approach are presented in the strategy section of this report. The physical climate risks cover floods, drought, wildfires, heat stress and tropical cyclones. It is divided into two scenarios, a most likely scenario in which we manage to limit global warming to a certain extent and avoid the worst possible physical climate risks, and one worst case scenario in which we do not manage to address climate change. These risks do not capture all important physical climate related risks, and the true worst case scenario would most likely have a greater impact on our portfolios.

The stress tests, however, indicate that our value at risk with regards to the transitional scenario is much lower than for a large global index made to represent the total market portfolio. This to be expected, largely due to our exclusion of fossil fuels. With regards to our value at risk within physical risk scenarios, we see a numerical but likely not significant difference between our portfolio and a large global index.

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Progress on our **climate goals**

We aim to achieve a 50% reduction in the intensity of greenhouse gas emissions across our total assets under management by 2030.

Target 1:

-50%

We will achieve a 50% reduction in the intensity of greenhouse gas emissions

Result 2022:

+2.1%

The total GHG emission intensity went up slightly from 49.2 tCO2e/MSEK 2021 to 50.2 tCO2e/MSEK 2022

Actions during 2022

This year, we have prioritised conducting direct dialogues with companies in high emitting sectors that account for a relatively high share of the carbon intensity in our funds, primarily in cases where we assess that the companies can become more ambitious and transparent. Voting is a vital part of our corporate governance and sustainability strategy. As in previous years, motions on climate related issues have been in focus during 2022. Often, these proposals have called for improved reporting on climate related risks and the ways in which companies can contribute to achieving the targets of the Paris Agreement. During the year, Handelsbanken Fonder participated in CDP's campaign to encourage companies to set and report Science Based Targets, thereby urging companies to set 1.5°C adapted science-based targets for emission reductions and achieve net zero emissions before 2050.

Result

Handelsbanken Fonder's total carbon intensity increased during 2022 relative to 2021 by 2.1 per cent from 49.2 to 50.2 tCO2e/MSEK EVIC.

Although there was no reduction, we remain in line with reaching our target. This is because 2021 was an exceptional year in which we through our shift to Paris-aligned benchmarks indices and expanded exclusion criteria in our range of Norwegian funds reduced our carbon intensity by 20 per cent. In other words, this has put us well above the approximately 7 per cent average annual reduction requirement to reach our target.

Furthermore, we expect that the path to attaining our target will not be linear, and instead fluctuate from one year to the next. Many of the companies we own, which today make up a significant proportion of our carbon intensity, have set ambitious emission targets or are developing technologies that, when put into production, will significantly alter the companies' emissions. It is therefore important not only to focus on current emissions, but to also consider the companies' future estimated emissions with regard to the commitments and goals they have set. If we do not, we risk excluding companies in sectors with high climate impacts that are taking significant steps in adapting their operations to the climate goals, which is of great importance for reducing emissions in general. Of the five companies that have the greatest negative impact on the fund company's carbon intensity, four companies have set science-based emission targets. Of the fund company's total emission intensity, approximately 60 per cent comes from companies with approved science-based targets for Scope 1 and 2, and approximately 40 per cent from companies with approved science-based targets for Scope 1, 2 and 3.

Scope 1 & 2/MSEK Revenue	2018-12-31	2019-12-31	2020-12-31	2021-12-31	2022-12-31
Active asset management	13	12	11	10	7
Passive asset management	12	8	8	8	7
Asset allocation management	12	10	9	9	8
Global index	24	23	17	17	18

Note/explainer to figure:
For the purpose of enabling comparison over time, we show our weighted average carbon intensity for each business area given scope 1 and 2 emissions and with company revenue as the denominator. This is the intensity measure we worked with historically. We can see that our aggregate exposure to carbon intensive companies is smaller in each business area than for a global index without any exclusion strategy, and that the trend points downwards. The difference in carbon intensity between active management and passive management is due to active management having a higher exposure to emerging markets in the product offering at the aggregate level. Cash instead of the traditional revenue metric. The argument being that using enterprise value enables a fairer comparison between sectors.

About risk
Past performance does not predict future returns. The value of the money invested in the fund can increase or decrease and there is no guarantee that all of your inve-sted capital can be redeemed. Note that a fund with risk level 5-7 as stated in the fund's key information investment document (KIID) can vary greatly in value due to the fund's composition and management methodology. A summary of investors' rights as well as a prospectus, fund rules and KIID are available for each fund at handelsbanken.se/fonder.

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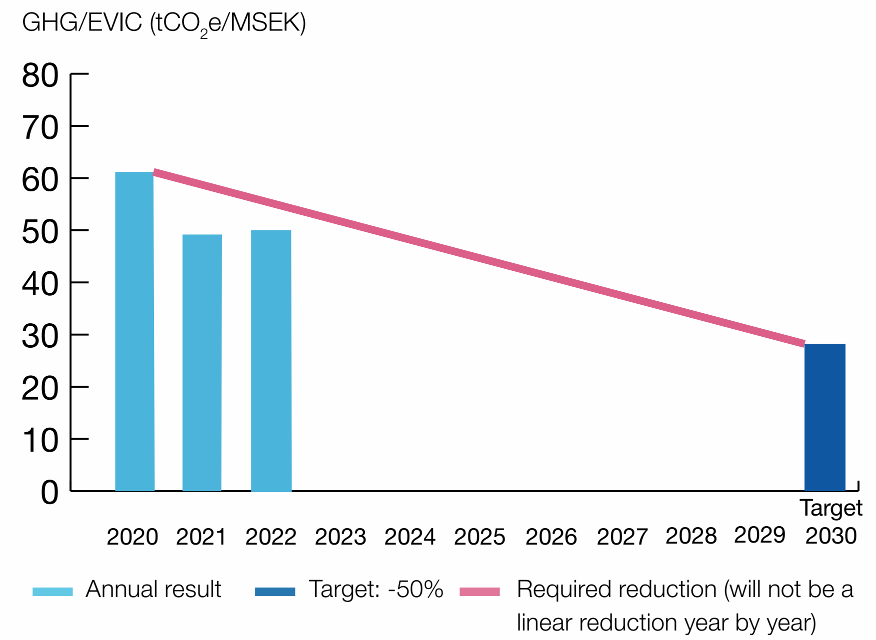
-50%

Comments regarding changes to Scope 3 emissions and the progress towards our Target 1
Measuring carbon intensity is complex, and the result is influenced by a number of parameters. We measure emissions relative to EVIC (enterprise value including cash), a value that is largely determined by the market capitalisation of our holdings. The carbon intensity can thus, even if the absolute emissions are the same, increase or decrease depending on how the market values a company. When it comes to emissions, we take into account the entire value chain and measure emissions in scopes 1, 2 and 3. However, the availability of data for companies' emissions through the value chain varies among different companies and markets, and there are also different ways to estimate emissions when data is not available. In addition, the calculation is very sensitive to outliers – companies with significantly deviating carbon emissions, who therefore have a major impact on the results. In the short term, there are thus several uncertainties when

Target 1
Carbon intensity of our funds (scopes 1, 2 and 3)



Q&A GHG Intensity

Carbon intensity: There are many ways of reporting carbon intensity and, over the course of the last couple of years, the financial industry has developed its thinking around what should be the norm. The first major change was the shift from ownership-based carbon intensity (i.e. how much of the company's emissions do we "own"?) to portfolio weighted carbon intensity (i.e. what is our exposure to carbon intensive companies?). The reason was the recommendations from the Task Force on Climate Related Financial Disclosures (TCFD) that prescribed the use of the weighted average method for the purpose of assessing climate related risks. Last year, we saw the EU Technical Expert Group on Sustainable Finance recommend another denominator for carbon intensity, enterprise value including cash instead of the traditional revenue metric. The argument being that using enterprise value enables a fairer comparison between sectors.

Scope 1 emissions
are direct emissions from company-owned and controlled resources. In other words, emissions are released into the atmosphere as a direct result of a set of activities, at a set level. All fuels that produce GHG emissions must be included in scope 1.

Scope 2 emissions
are indirect emissions from the generation of purchased energy, from a utility provider. In other words, all GHG emissions released in the atmosphere, from the consumption of purchased electricity, steam, heat and cooling.

Scope 3 emissions
are all indirect emissions – not included in scope 2 – that occur in the value chain of the reporting company, including both upstream and downstream emissions. In other words, emissions are linked to the company's operations.

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estimating our carbon intensity. However, we do not see this as a reason to avoid reporting the full picture of our emissions. Instead, we aim to report as much as we can, and in the most transparent way possible account for the method and metrics. In the longer term, we are convinced that both our choice of investments and our engagement activities will guide us in the right direction towards net zero.

The work ahead

To continue to reduce our carbon intensity and reach our target of a 50 per cent reduction by 2030, we need to remain active in all parts of our management as a fund company. We must leverage our three main tools: inclusion, exclusion and engagement. Engagement is an important instrument in these efforts, and we will continue to identify and conduct engagement dialogues with high-emitting companies whom we believe lack a transition plan. We will monitor the companies that currently account for a significant proportion of our emissions and have science based targets to ensure that they follow through on their commitments and have a realistic chance to reach their set goals.

We also need to continue to apply our data and measurement methods to, for example, better calculate emissions data for sustainable bonds. Our goal is to be able to differentiate emissions from the issuer's sustainable bonds from its shares or traditional bonds.

-50%

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Progress on our **climate goals**

We will double our investments in environmental and climate related solutions as part of total assets under management by 2030.

Result 2022:

22,7%

Environmental and climate-related solutions 22,7% 2022

Target 2:

x2

We will double our investments in environmental and climate-related solutions

Actions during 2022
Development of new products that contribute to our sustainability goals is a way to increase our investments in environmental and climate related solutions. During the year, we expanded our range of fixed income funds with another Article 9 fund — Handelsbanken Hållbar Global High Yield. It is an actively managed fund that invests in green and/or social bonds where capital is used for projects and activities with the aim of promoting work around sustainability and the environment, or in bonds issued that support sustainable development in line with the Global Goals.

Result
The share of climate solutions in our assets under management decreased marginally during the year — from 11.6 to 11.2 per cent. To align with the SFDR, Handelsbanken Fonder has adjusted the scope of the target during 2022 to also include environmental solutions. Combined, environmental and climate solutions account for 22.7 per cent of total assets under management. Because the methodology has been adjusted, the target itself requires reviewing – something that is a priority for 2023. We believe that expanding the target to include both environmental and climate solutions is the logical step to take.

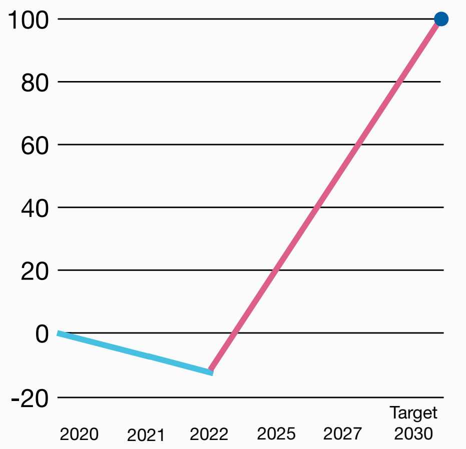
These are two closely linked areas – both of great significance for us as asset managers to direct our investments towards. Combining them also enables us to better include and calculate green bonds as part of our target attainment. This is a vital investment area with clear and measurable positive effects, but it is not always possible to distinguish climate from other environmental solutions at the time of investment. This is because the issuer may be able to allocate to both kinds of solutions – making it impossible to distinguish climate from environmental solutions as a whole until afterwards.

Our product development during the year, with the launch of the fixed income fund Handelsbanken Hållbar Global High Yield, has been a positive contribution to achieving our target. This is because the fund primarily invests in sustainable investments, with the majority of these being environmental and climate solutions. We have also found that our fund Handelsbanken Hållbar Energi makes a strong beneficial contribution to the fund company's goals.

Within the framework of the SFDR, as well as the adjustment of the methodology to include both environmental and climate solutions, new data sources were also implemented in order to capture the companies' related activities. As a result, we have become somewhat stricter in

Target 2
Environmental and climate solutions in our funds

Total change in share of investments in climate solutions*



Change in the share of investments in climate solutions.
Share at the end of 2022: 11.2%
Required increase (will not be a linear increase year by year).
Target: 100%

* To align with the SFDR, Handelsbanken Fonder has adjusted the scope of the target during 2022 to now also include environmental solutions in addition to climate solutions. In the future, we will report the combined figure for both environmental and climate solutions.

our estimation of the companies' share of environmental and climate solutions, which has diminished our total share.

How we measure a solution
Climate solutions at the company level are measured based on each company's contribution to climate action (SDG 13 in the 2030 Agenda). Environmental and climate solutions are measured based on each company's contribution to the objective of the EU Taxonomy – combatting climate change – and to all environmental and climate-related goals in Agenda 2030: SDG 2 (Zero hunger) and SDG 15 (Life on land) on sustainable agriculture and forestry; SDG 6 on sustainable use of water; SDG 7 on sustainable energy; SDG 13 on climate action; SDG 12 (Responsible consumption and production) on optimising material use; SDG 14 (Life below water) on the conservation of marine ecosystems; SDG 15 (Life on land) on the protection, restoration and promotion of sustainable use of land-based ecosystems; and SDG 11 on promoting sustainable buildings. Green bonds are also considered an environmental and climate solution.

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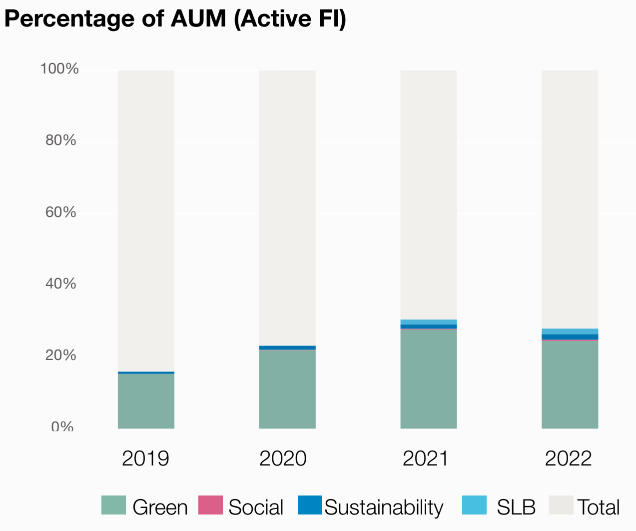
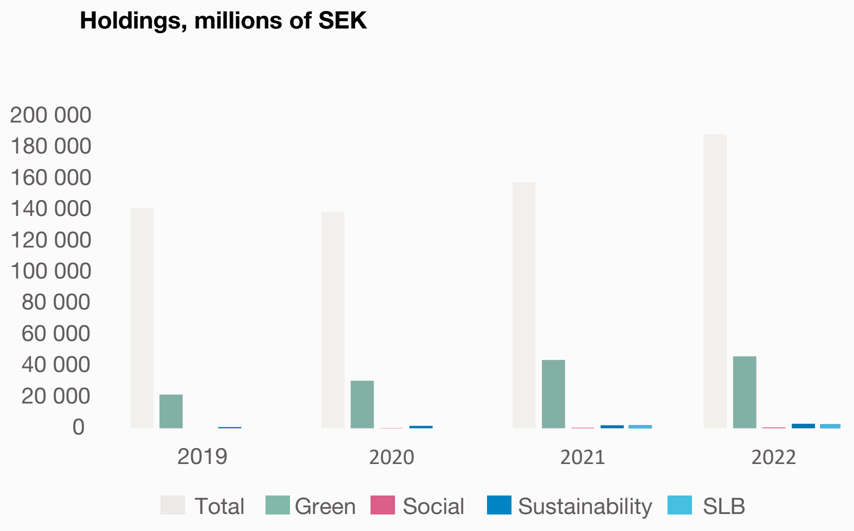
x2

Active Fixed Income





Note/explainer to figure:
Green, Social & Sustainability Bonds are Use-of-Proceeds bonds where the proceeds are dedicated to the corresponding group of project categories. Green and Social bonds map to Green and Social projects respectively, and Sustainability bonds to either both Green and Social projects or to any of the two. SLB is short for Sustainability Linked Bonds, described above.

At the moment, sovereign bonds (except for green bonds), cash and derivatives are excluded. This is because an assessment based on a company's sources of income is not applicable to, for example, sovereign bonds. With further development of the methodology, our aspiration is to also be able to include these in our calculation of goal attainment.

The work ahead

Our view is that efforts related to methodology and data will continue to be in focus in the future, as more technical standards related to the objectives of the EU Taxonomy are implemented and reporting from the companies linked to these issues increases. We also understand that we, in light of the adjusted methodology and data, will need to review, and possibly revise, our target. This is a priority area for 2023.

Sustainable bonds

Investing in sustainable bonds is a way to directly fund companies that work with solutions to contribute to the Sustainable Development Goals. The supply of different types of sustainable bond continues to grow within the bond market, and our active fixed income managers are following the developments at close distance. Handelsbanken Fonder is globally a large investor in sustainable bonds, and by the end of 2022 our holdings in green, social and sustainability bonds amounted to 49.7 bln SEK. Besides green, social and sustainability bonds (labelled "Use-of-Proceeds" due to having a predefined use of proceeds, linked to sustainability-related projects), the fixed income management also invests in Sustainability-Linked Bonds, SLBs. These are bonds that allow for a responsible financing of a company's transition, based on predefined sustainability performance targets that the issuer must reach and continuously report on. During 2022, Handelsbanken Fonder developed a process to assess how well the SLBs meet the criteria of being a sustainable investment within SFDR.

Both Use-of-Proceeds bonds, and Sustainability-Linked Bonds play a key part in financing a global climate transition, where the first category dedicates proceeds to project categories such as investments in Renewable Energy, and Climate Change Adaption, and the second category (SLBs) often are linked to goals such as company-wide reduction of greenhouse gas emissions. We have continued to increase our total invested capital in sustainable bonds, although the investments as a share of assets under management decreased marginally as compared to 2021. During 2022, together with Nasdaq Sustainable Bond Network, we made progress on collecting the data needed to measure the real world impact from the Use-of-Proceeds bonds, such as the amount of installed renewable energy capacity or sequestrated tons of carbon from projects financed within the bond frameworks.

Four factors that affect our results

1. New investments and divestments in environmental and climate solutions.
2. The market developments in this sector versus the broader market.
3. Customer flows in or out of funds, especially flows in funds focused on the environment and climate.
4. Data to for assessing whether a company, or what proportion of a company, constitutes environmental and climate solutions.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