Handelsbanken
Wealth & Asset Management

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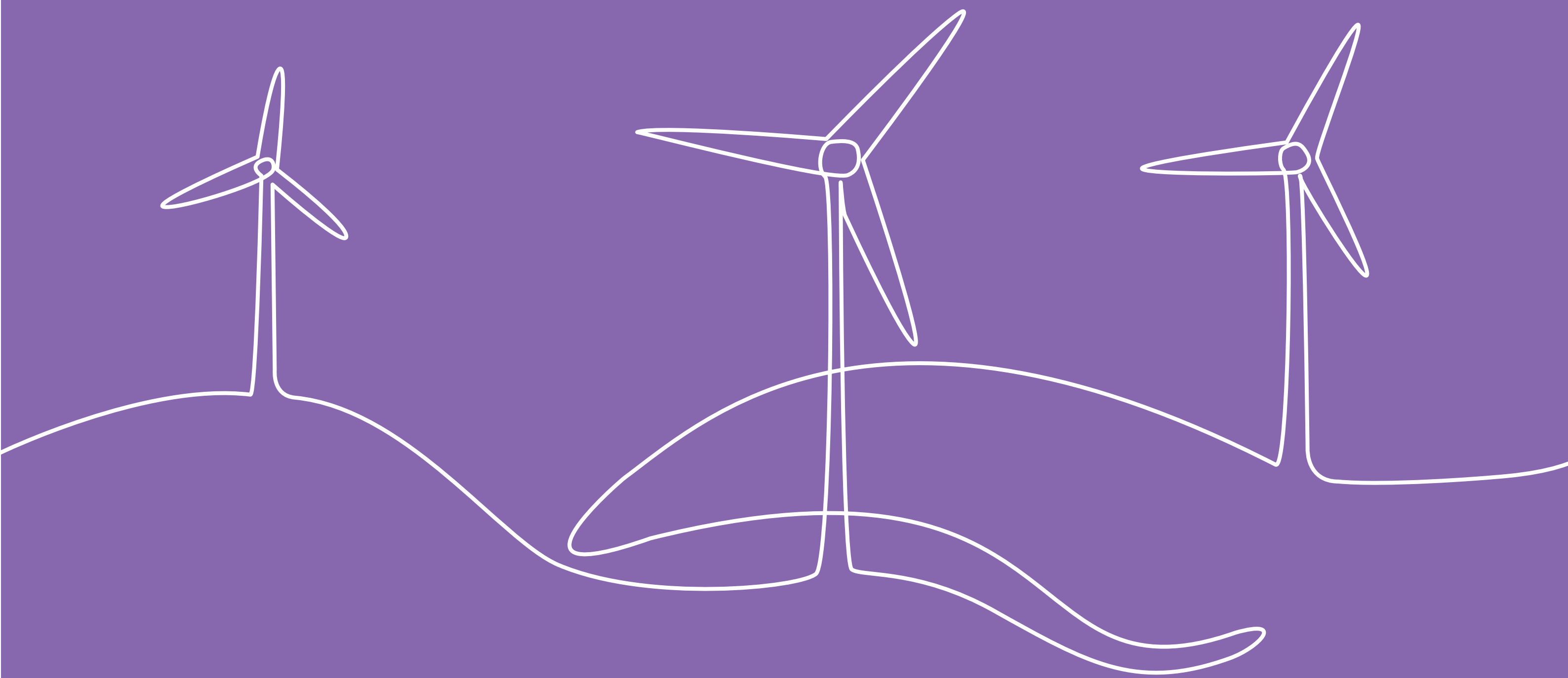
Sustainable Investment Policy



Contents

This document, referred to in the Prospectus, provides further information on the environmental, social and governance criteria used by the Portfolio Manager when managing a subset of the fund range, described below. The application of these criteria is described throughout this policy as the Sustainable Investment Process. If you wish to invest in one of the Sustainable Funds noted below you must read the relevant Key Investor Information Document and the Prospectus. These are available at wealthandasset.handelsbanken.co.uk/fund-information/fund-information/

Scope

Handelsbanken Multi Asset Funds ("the Company") is an umbrella investment company with eleven sub-funds. The Company includes four sub-funds, which invest in accordance with the Sustainable Investment Policy of the Company's Portfolio Manager, Handelsbanken Wealth & Asset Management Limited ("HWAM"). These Sustainable sub-funds, hereafter referred to as the 'Sustainable Funds', are:

- Handelsbanken Defensive Sustainable Multi Asset Fund
- Handelsbanken Cautious Sustainable Multi Asset Fund
- Handelsbanken Balanced Sustainable Multi Asset Fund
- Handelsbanken Growth Sustainable Multi Asset Fund

This document is not intended as an investment recommendation and should not be treated as such. Instead, it provides an overview of the Portfolio Manager's approach to assessing investments for the Sustainable Funds from a sustainability perspective. It should be noted that this sustainability analysis forms only one element of HWAM's wider investment research and selection process applied to the Sustainable Funds.

How is compliance with this policy overseen and assured?

The Authorised Corporate Director of the Sustainable Funds, Handelsbanken ACD Limited, is responsible for ensuring both the Portfolio Manager and the Sustainable Funds operate within applicable rules and regulations, and that the Sustainable Funds achieve their objectives, provide value and meet customers' expectations.

This Sustainable Investment Policy has been approved by the HWAM Sustainable Investment Committee. Changes to the policy must be approved by the same committee and the policy is formally reviewed at least annually, to ensure it remains fit for purpose.

The HWAM Sustainable Investment Committee approves new securities for inclusion in the Sustainable Funds on the basis of their compliance with this Sustainable Investment Policy. For clarity, the HWAM Sustainable Investment Committee is not expressing a view on investment risk and return characteristics of proposed securities, or indeed portfolio construction.

The research tools, decision-making frameworks, oversight and management processes that underpin the HWAM Sustainable Investment Process are described throughout this document. These frameworks and processes are constantly evolving to ensure that they remain aligned with industry best practice. This policy will be amended to reflect updates to these frameworks and processes as required.

Sustainable Investment Process

The HWAM Sustainable Investment Process combines a number of recognised sustainable investment techniques with a long-term approach to investment risk and return. The definitions that are used to describe these sustainable investment techniques are aligned with those used by the Global Sustainable Investment Alliance (GSIA) and are described throughout this document. The GSIA is a group of the world's largest regional and national sustainable investment representative organisations which collaborate to deepen and expand the practice of sustainable, responsible and impact investment through intentional international cooperation. The GSIA has defined the seven key approaches to sustainable investment described in the table below.[1]

GSIA technique	What it means
ESG integration	The systematic and explicit inclusion by investment managers of environmental, social and governance factors (ESG) into financial analysis.
Corporate engagement and shareholder action	Employing shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.
Norms-based screening	Screening of investments against minimum standards of business or issuer practice based on international standards or 'norms' such as those issued by the United Nations, the International Labour Organisation, OECD and Non-Governmental Organisations.
Negative/exclusionary screening	The exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer, for example, to product categories (for example, weapons, tobacco), company practices (for example, animal testing, violation of human rights, corruption) or controversies.
Best-in-class/positive screening	Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers, and which achieve a rating above a defined threshold.
Sustainability themed/thematic investing	Investing in themes or assets specifically contributing to sustainable solutions - environmental and social – (for example, sustainable agriculture, green buildings, lower carbon tilted portfolio, gender equity, diversity).
Impact investing and community investing	**Impact investing** – investing to achieve positive, social and environmental impacts. This requires measuring and reporting against these impacts, demonstrating the intentionality of investor and underlying asset/investee, and demonstrating the investor contribution. **Community investing** – where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose. Some community investing is impact investing, but community investing is broader and considers other forms of investing and targeted lending activities.

[1] Definitions for Responsible Investment Approaches (gsi-alliance.org)

How does HWAM align investments to the GSIA investment techniques?

Whilst some techniques are explicitly applied to the whole of each of the Sustainable Funds, the proportion allocated to other approaches will vary according to the risk and return profile of each Sustainable Fund and the available investable universe. For example, investments in the Sustainable Funds will all exhibit features consistent with the four compulsory building blocks described below. Some of those investments may also exhibit characteristics consistent with the additional building blocks described below.

Compulsory building blocks

ALL of the investments in each Sustainable Fund will be ESG integrated, **ALL** will be screened for a set of exclusions focused on harmful products and minimum standards of behaviour and **ALL** will exhibit positive ESG characteristics, relative to their sector or asset class.

ESG integration	Negative/exclusionary screening	Norms-based screening	Best in class

Additional Building Blocks

SOME of the investments in each Sustainable Fund will be subject to programmes of corporate engagement, **SOME** will invest in themes or assets specifically contributing to sustainable solutions, and **SOME** will allocate capital to achieve positive social or environmental impacts.

Corporate engagement	Sustainability themed	Impact investing

The HWAM Sustainable Investment Committee applies a tiered set of questions and criteria to ensure that all investments are compliant with this Sustainable Investment Policy. This tiered set of questions and criteria is described below. These summary questions all relate to the Sustainable Investment techniques described in greater detail throughout this document. The investment cases, submitted to the HWAM Sustainable Investment Committee should provide information and analysis that enables the Committee to answer these questions to their satisfaction. Investment cases lacking the necessary information are rejected.

ALL	ESG integration	Has the security met the critical qualifying criteria to be considered ESG integrated? Does the ESG integration score demonstrate conviction in approach? Does the ESG integration methodology meet the materiality test?
ALL	Negative/exclusionary screening	Does it comply with core investment exclusions? Does it comply with non-core investment exclusions?
ALL	Norms-based screening	Does it contain any identified breaches of United Nations Global Compact? Does it contain any exposure to either the UN or EU Sanctions list?
ALL	Best in class	Does it demonstrate best-in-class management of ESG risks relative to asset class?
SOME	Corporate engegement	Does it demonstrate active ownership? Does it demonstrate alignment to ‘Active Ownership 2.0’? (Described under Corporate Engagement) Is there an engagement plan included with the investment case?
SOME	Sustainability themed	Does it apply appropriate measures to limit harms? Does it demonstrate positive contribution? Does it demonstrate appropriate good governance standards?
SOME	Impact investing	Does it demonstrate ‘intentionality’ of impact? Does it demonstrate ‘additionality’ of impact? Does it demonstrate ‘measurement’ of impact? Does it demonstrate identifiable and measurable theory of change?

Hedging strategies

From time to time, the Sustainable Funds may make investments directly in securities or through investment vehicles that are designed to provide protection from certain forms of market risk. For example, managers may wish to protect investor portfolios from fluctuations in foreign currency exchange rates or may wish to dampen the effects of large stock market drawdowns.

These hedging strategies may employ 'derivative strategies' that entail the use of collateral, a relationship with a counterparty and an economic exposure to a reference asset type or index. In most instances, collateral will be cash or high credit-quality, liquid, sovereign debt instruments. The counterparty will typically be a regulated financial institution with a broad spectrum of diverse economic exposures. Reference assets and indices are likely to be broad market indices which do not meet the Sustainable Fund's compulsory building blocks in the form of ESG integration, Negative exclusionary screening, Norms-based screening or Best-in-class investing.

Investments in hedging strategies are always made with the intention to protect investors from forms of market risk, they are never employed with the intention to gain market exposure to an asset that would otherwise not be compliant with this Sustainable Investment Policy. HWAM notes that ESG integration in derivative markets is a relatively immature area of market practice. HWAM believes that the benefits to investors of investing in these hedging strategies outweighs the relatively small risk of being economically exposed to an asset that might not be aligned to the spirit of this Sustainable Investment Policy. Investment in hedging strategies is unlikely to ever exceed 5% of a Sustainable Fund and this level is monitored on an ongoing basis.

HWAM will continue to review the use of hedging strategies, considering whether alternatives may be available that are better aligned with this Sustainable Investment Policy and making reasonable efforts to monitor underlying counterparty and economic exposures.

ESG integration

"The systematic and explicit inclusion by investment managers of environmental, social and governance factors (ESG) into financial analysis." GSIA

ESG factors can have a material effect on valuations but the degree of materiality will vary across asset classes and security types. For example, climate change is recognised to have long-term incremental effects: if considering two bonds from the same issuer, with identical credit quality characteristics, environmental factors are likely to have a more material effect on the value of a bond with a 30-year maturity, rather than a short-dated bond with less than a year to maturity. The varying degree of materiality of ESG factors across different asset classes means that a 'one size fits all' approach to ESG integration would not be appropriate.

The integration of these factors applies as much to HWAM's investment decisions, as it does to the third-party managers whose funds the Sustainable Funds are invested in. ESG integration is one of the compulsory building blocks in the HWAM approach. HWAM tests ESG integration within investment decision-making using the simple points-based framework below.

The first two elements of the 'commitment and transparency' component, and the first two elements described under 'proof points', are critical qualifying criteria for a potential investment to be considered ESG integrated. The other components of the framework are scored, with identified features attracting equally weighted positive scores. This scoring is intended to quantify an otherwise subjective view of whether or not a manager is demonstrating conviction in their approach to ESG integration. Typically, a manager demonstrating conviction in their approach to ESG integration will achieve a score which is higher than a manager that fails to demonstrate conviction in their approach. A lower score does not necessarily mean that a fund is not ESG integrated but it may indicate that a manager has space to improve and develop their approach to ESG integration. The scores enable the HWAM Sustainable Investment Committee to measure the degree of conviction that a manager may be displaying in their integration of ESG factors into investment decision-making. These scores also enable the Committee to compare across different approaches to ESG integration.

Industry approaches to ESG integration continue to evolve. As these approaches evolve, the scoring framework below will be updated as required to remain consistent with industry best practice.

Commitment and transparency	Has the manager made a public and binding commitment to ESG integration? Does the manager publically disclose their approach to ESG integration? Does the manager report on their progress and re-affirm their commitment to ESG integration on an ongoing basis? For how long has the manager integrated ESG? What is the manager's approach to responsible ownership? Is the manager/entity an ESG specialist? If not, what percentage of assets are ESG integrated? Are ESG considerations codified within manager compliance systems and processes? Does the manager utilise oversight groups to provide effective challenge? Does the manager have a clear governance structure to oversee ESG integration?
Track record and capability	For how long has the strategy been ESG integrated? (0-3yrs, 3-6yrs, 6-9yrs, 9yrs +)? Is third-party research utilised? Is third-party research layered with proprietary insights? Are multiple data sources used to provide balanced perspectives? Does the manager utilise dedicated ESG expertise? Has the manager invested in bespoke systems to exploit ESG research? Are any exclusions applied to the fund? Are ESG factors systematically used to positively weight portfolio holdings to best-in-class ESG leaders? Is there any independent monitoring of ESG factors applied to the portfolio? Are there demonstrable instances of the fund actively engaging in stewardship? To what extent does the fund provide ESG reporting? Is the fund reporting under SFDR Article 8 or 9 or does the fund have an external validation of ESG integration, such as an independent label?
Proof points	Are there examples where investment cases have been rejected on the basis of ESG factors? Is ESG integration a binding component of the investment process? Does tracking error relative to broader universe demonstrate materiality of ESG integration?
Materiality	Are the ESG integration methodology and resources appropriate to the asset class and investment style?

Negative exclusion screening

"The exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on activities not considered investable" GSIA

Beyond ESG integration in analysis of investment risk and return, HWAM recognises that many investors wish to align their values with investment decisions. Historically, these choices might have been driven by religious or ethical standpoints and so could be as unique and diverse as the investors themselves. However, HWAM believes that there are increasing levels of consensus around the products and behaviours that are harmful to our planet and society.

HWAM reflects these consensus values in their investment approach through negative exclusionary screening, implementing both core and non-core exclusions. HWAM identifies and defines exposure to harmful products through revenue exposure. HWAM defines revenue as being either direct or indirect, for example a company whose principal economic activity is the manufacture of tobacco products would derive direct revenue from tobacco. Meanwhile a company that had an ownership interest in a subsidiary which manufactured tobacco products, would derive indirect revenue from tobacco.

Introducing core product exclusions

These reflect the strongest convictions and represent areas where society appears to demonstrate its greatest consensus. Typically this consensus is then embedded in identified in laws and conventions. For example, this consensus is evident in the international conventions banning the manufacture, use and stockpiling of controversial weapons.

Where HWAM can identify that this consensus is embedded consistently in laws and conventions, HWAM has aligned its investment exclusions. HWAM believes that this consensus-driven approach to investment exclusions gives a core set of exclusions which are most likely to meet the needs of investors by aligning with their values.

Introducing non-core product exclusions

These are areas where society has typically chosen to regulate and mitigate potential harms, rather than prohibiting and potentially driving these areas underground, into the unregulated space of illicit markets.

The implementation of investment exclusions in portfolios is a complex topic. HWAM addresses this with a principles-based approach ('why'), and then implements this in various ways ('how'). Below, three specific areas where HWAM's approach to building investment exclusions are described in greater detail.

Core product exclusion: Controversial weapons

Sovereign nations' internationally acclaimed rights to self-defence are widely recognised,[2] as is the stabilising influence of collective defence,[3] and the responsibility to protect.[4] These principles inform the way that HWAM assesses sovereign debt instruments but they also inform the way HWAM thinks about the manufacture and sale of products across the defence industry.

It is widely recognised that we live in an unstable world and that sometimes armed force is required to maintain the rule of law, to protect the innocent and to minimise human suffering. Investment exclusions that are applied at a sector level could increase the cost of capital for companies that produce body armour, the protected mobility vehicles that mine clearance operations rely upon, or indeed the accurate firearms that security services sometimes need to do their jobs.

For these reasons, HWAM focuses on investment exclusions for those companies that are involved in the manufacture or sale of controversial weapons, or their essential component parts.[5] HWAM defines controversial weapons by inclusion in the list below. Inclusion in this list means that the weapon is believed by HWAM to contravene one of the three principles of Distinction, Proportionality and Humanity, embedded in International Humanitarian Law,[6] or is likely to be prohibited by international convention.

Defined as controversial weapons

Weapon	Principle contravened	
Anti-personnel landmines	Distinction, Humanity	The Convention on Certain Conventional Weapons – UNODA
Cluster weapons	Distinction	Convention on Cluster Munitions – UNODA
Biological weapons	Distinction, Humanity	Biological Weapons Convention – UNODA
Chemical weapons	Distinction, Humanity	Chemical Weapons Convention | OPCW
Nuclear weapons	Distinction, Proportionality	Treaty on the Non-Proliferation of Nuclear Weapons (NPT) | IAEA
Incendiary weapons	Distinction, Humanity	The Convention on Certain Conventional Weapons – UNODA
Depleted uranium	Proportionality	
Blinding lasers	Humanity	The Convention on Certain Conventional Weapons – UNODA
Non-detectable fragments	Humanity	The Convention on Certain Conventional Weapons – UNODA

Core product exclusion: Tobacco

The World Health Organisation has recognised that it believes tobacco use to be the single greatest preventable cause of death in the world today.[7] It also notes that tobacco kills more than 8 million people each year, including an estimated 1.3 million non-smokers who are exposed to second-hand smoke. It notes that there is no safe level of tobacco consumption and that there is a growing international consensus that tobacco companies cannot be an effective partner in tobacco control. The World Health Organisation also notes that despite many tobacco manufacturers diversifying into heated tobacco products (HTPs), it does not yet accept any evidence as valid that these products are less harmful than conventional tobacco products.

The World Health Organisation Framework Convention on Tobacco Control has 169 signatories, representing 92% of the Global Population. It is the first global public health treaty and reaffirms the right of all people to the highest standard of health.[8] In 2017, the United Nations Global Compact implemented new integrity measures, delisting companies whose businesses involve the manufacturing or production of tobacco.[9]

For these reasons, HWAM considers there to be sufficient international consensus to view tobacco as a core product exclusion. However, it is notable that the World Health Organisation's 6 MPOWER measures include a recognition that effective national tobacco control frameworks require a parallel approach that targets licit and illicit sales of tobacco. This is why core product exclusions relating to tobacco might be expected to exhibit some degree of tolerance for exposure to legal sales of tobacco. Exclusion of all revenue from legal sales of tobacco could unintentionally fuel illicit sales of tobacco.

Non-core product exclusion: Fossil fuels

HWAM, along with many organisations, believes that fossil fuels have a place in most plausible national transition plans. These transition plans frequently acknowledge that renewable energy capacity cannot be created immediately and that transitioning from fossil fuels in national energy mixes too quickly may reduce physical risks but increase transitional risks.[10] HWAM also notes that the national power grids most reliant on fossil fuel generation and with the lowest renewable energy capacity are exclusively located in developing and frontier markets.[11] It is clear that a 'just transition'[12] can only be achieved over the medium to long term if it is also recognised that fossil fuels have a place in transition plans over the short term. Removing fossil fuels from investor portfolios faster than even the most optimistic transition plans indicate is possible, will have a disproportionate and negative impact on many of the world's poorest people.

In the meantime, there is evidence to suggest that private investors are amassing portfolios of carbon intensive legacy assets which they can then exploit, unencumbered by climate conscious shareholder activism.[13] HWAM believes that fossil fuels have a part to play in a just transition and that they are better off in the hands of responsible corporate owners who can be influenced through collaborative shareholder activism.

HWAM will review the fossil fuel exposure in the Sustainable Funds on at least a quarterly basis and is likely to reduce the embedded revenue limits over time, but crucially only in line with Science Based Targets[14] and transition planning.

[2] Chapter VII: Article 51 — Charter of the United Nations — Repertory of Practice of United Nations Organs

[3] NATO - Official text: The North Atlantic Treaty, 04-Apr.-1949

[4] The Responsibility to Protect | United Nations

[5] Controversial Weapons: Regulatory Landscape and Best Practices (sustainalytics.com), The Controversial Weapons Landscape: Recent Regulations and Research Trends - MSCI

[6] what_is_ihl.pdf (icrc.org)

[7] WHO Report on the Global Tobacco Epidemic, 2023

[8] UNTC

[9] about_the_gc/Integrity_measures/integrity-recommendation-2017.pdf (d306pr3pise04h.cloudfront.net)

[10] NGFS Scenarios Portal

[11] Top ten dirtiest power grids in the world (energymonitor.ai)

[12] What is just transition? And why is it important? | Climate Promise (undp.org)

[13] The three goals | Climate Action 100+

[14] Ambitious corporate climate action - Science Based Targets

Contents

Core product exclusions

Exclusion	What does this include?	How is it excluded?
Controversial weapons	• Anti-personnel landmines • Cluster weapons • Biological weapons • Chemical weapons • Nuclear weapons • Incendiary weapons • Depleted uranium • Blinding lasers • Non-detectable fragments.	HWAM does not intentionally invest in any issuer which: • Directly manufactures, assembles or sells controversial weapons, or their essential component parts (not including generic or dual use components like bolts or wiring, but potentially including bespoke parts like fuses), or: • Holds a controlling stake (50% or more) in subsidiaries which do so.
Tobacco	• Tobacco plants • Cigarettes • Cigars • Snuff • Pipe tobacco • Other tobacco products (produced from the dried leaves of the tobacco plant).	HWAM does not intentionally invest in any issuer which: • Grows tobacco plants • Directly manufactures tobacco products • Has a controlling stake (50% or more) in subsidiaries which do either of the above • Derives 15% or more of revenue from the distribution, licencing, marketing or promotion of tobacco products or the acetate tow which is used in cigarette filters.

Non-Core Product Exclusions

Exclusion	What does this include?	How is it excluded?
Alcoholic beverages	The fermentation or distillation of alcoholic beverages, including: • Distillers • Vintners • Producers of beer and malt liquors It does not include the production of/ participation in alcohol products for medical or industrial use.	HWAM does not intentionally invest in any issuer which: • Derives more than 5% of its direct or indirect revenue from the manufacture of alcoholic beverages • Derives more than 30% of direct revenue from the sale of alcohol (including some companies in the hotel, restaurant, retail or leisure industries) • Derives more than 10% of revenue from bottling, wholesale or sale of alcoholic beverages.
Fur and leather	• Raising, trapping, or slaughtering animals for fur • Products made from/incorporating furs (including for fashion, homeware or crafting) • Luxury leathers.	HWAM does not intentionally invest in any issuer which: • Derives any (more than 0%) direct revenue exposure from the production of fur and luxury leathers • Derives more than 1% revenue from the sale of fur products.
Gambling	• Casinos and gaming facilities, betting shops, amusement arcades • Lottery, betting and gaming services and activities • Other gambling-related activities (including gambling machines, lottery tickets, marketing/promoting gambling wagers on a game or event, developing platforms/software for activities involving wagers).	HWAM does not intentionally invest in any issuer which: • Derives more than 50% of its revenue from gambling, such as casinos and betting shops • Derives more than 10% of direct or indirect revenue from gambling (this could typically include some companies hotel, restaurant or leisure industries).

Non-Core Product Exclusions (continued)

Exclusion	What does this include?	How is it excluded?
Adult entertainment	• The production of sex toys • Production/distribution of pornography (including products and services labelled 'erotica', 'porn' or 'adult entertainment'), either directly (e.g. broadcasting, magazines or internet retail) or indirectly (e.g. hotels and telecommunications) • Nightclub owners.	HWAM does not intentionally invest in any issuer which: • Derives more than 50% of its revenue from business activities defined as adult entertainment.
Predatory lending	• Products or services imposing abusive loan terms on borrowers, including high-interest rates (with generally high annual percentage rates (APR)), high fees, and terms that strip the borrower of equity • Payday loans, instalment loans, pawn loans, title loans, tax refund anticipation loans, and doorstep loans.	HWAM does not intentionally invest in any issuer which: • Derives more than 10% direct or indirect revenue from predatory lending.
Palm oil	• Production (farming, extraction, processing, refining, etc.) of oil from the flesh of the fruit of the palm or the crushed extract of the kernel of the fruit • Holding a majority stake in companies involved in such production Companies which manufacture or sell products using palm oil as an ingredient are not included.	HWAM does not intentionally invest in any issuer which: • Derives more than 5% direct revenue from palm oil participation unless they are members of the Roundtable on Sustainable Palm Oil.
Fossil fuels	• The extraction of fossil fuels: crude oil, coal, natural gas, or heavy oils • Services linked to the production or processing of fossil fuels like exploration, drilling, refining, fossil fuels storage and transportation (pipelines, coal slurry pipelines, oil & gas shipping companies or upstream transmission) • Specific activities related to the production/extraction/use of fossil fuels with a disproportionate contribution to environmental harm, namely: — Exploration and/or production of oil and gas in Arctic regions (as defined by the Arctic Council) — Exploration, extraction, or refining of oil-sands-based fossil fuels — Shale energy exploration and/or production — Generation of electricity from coal or coal-based fuels.	HWAM does not intentionally invest in any issuer which: • Derive more than 25% direct or indirect revenue from coal power generation • Derive more than 5% direct or indirect revenue from Arctic oil exploration, or production of oil and gas from Arctic regions • Derive more than 5% direct or indirect revenue from the exploration, extraction or refining of oil-sands-based fossil fuels or shale energy exploration and/or production.

Norms-based screening

"Screening of investments against minimum standards of business or issuer practice based on international standards or 'norms' such as those issued by the United Nations, the International Labour Organisation, OECD and Non-Governmental Organisations." GSIA

Whilst identifying harmful products can be quite precise, identifying harmful behaviours requires a more nuanced approach. Norms-based screening identifies controversial behaviours across a matrix of functional ESG areas, derived from internationally-recognised standards. HWAM screens portfolios against these recognised standards, identifying behaviours that they consider to be harmful.

United Nations Global Compact[15]

The United Nations Global Compact has been adopted by 22,356 participants across 162 countries. It is fast becoming the 'go to' set of principles which underpins corporate sustainability and can be viewed as a baseline for responsible business conduct. The ten principles of the United Nations Global Compact are derived from a number of international conventions and relate to the four common areas of human rights, labour, environment and anti-corruption. We will not intentionally invest in issuers which we deem to be in breach of the United Nations Global Compact.

United Nations Global Compact		
Human rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.
	Principle 2	Businesses should ensure they are not complicit in human rights abuses.
Labour	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
	Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labour.
	Principle 5	Businesses should uphold the effective abolition of child labour.
	Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges.
	Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.
	Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Sovereign debt screening

The baseline for norms-based screening of sovereign debt instruments is the sanctions lists of the United Nations and European Union. HWAM will not invest in debt instruments issued by countries on either the UN or EU sanctions list.[16]

Investment exclusion breach process

At the point of entry to the Sustainable Funds, investments will be compliant with the negative exclusionary standards and norms-based screening standards. Investments are then subject to an ongoing process of review to ensure that they remain compliant with screening standards. This ongoing process of review involves quarterly screening of portfolios using third-party data providers. If at any point an investment within the portfolios is deemed to be in breach of the exclusionary standards, HWAM allows the manager of that holding six months to engage with the investment to bring it back into compliance, or if unable to do so, to divest. This period is intended to give the third-party managers with whom HWAM invests sufficient opportunity to achieve the best outcome for investors. On an annual basis, third-party managers are asked to attest that they currently are/intend to remain compliant with HWAM's exclusionary standards. This is what HWAM means by the phrase "HWAM will not intentionally invest" in relation to investment exclusions. HWAM recognises that the underlying companies and portfolios may change after the point of investment and that the risk of an investment exclusion breach needs to be regularly overseen, with any breaches actively managed in line with this policy.

The negative exclusionary standards and norms-based screening as described in this policy should be considered an assurable baseline expectation. The HWAM Sustainable Investment Committee will continue to consider the 'spirit of' in addition to the 'letter of' this policy. Investors may therefore expect exposures to identified areas of environmental or social harm to be significantly lower than that permissible by this policy.

[15] The Ten Principles | UN Global Compact

[16] EU Sanctions Map United Nations Security Council Consolidated List | United Nations Security Council

Best in class

"Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers."
GSIA

Within each asset class, there will be companies and issuers that exhibit better or worse management of their ESG risks. Best-in-class screening positively allocates capital to those opportunities, which are deemed to be managing their ESG risks better than their sector or industry peers, and can be applied to company shares, corporate credit, sovereign debt, as well as to commodities, property and other alternative asset classes. Best-in-class screening enables HWAM to build diversified multi asset funds that are optimised for investment risk and return, as well as for positive ESG characteristics.

How is ESG risk management measured?

When considering investments in publically listed shares, bonds, and many of the alternative asset types, HWAM uses ESG risk scores in its decision-making process. These ESG risk scores enable HWAM to compare the way that investable companies and issuers are managing their ESG risks. The risk scores can also be aggregated at the fund level, so that the management of ESG risks can be compared across different third-party managers, as well as comparing portfolios to their investment universe.

There is a wide range of available ESG data providers, which differ in their research methods, factor weightings and use of automation. These differences will often determine the degree to which their views on the same investment may correlate. Therefore, HWAM has selected multiple independent third-party data providers with a broad coverage of asset types and sources, which make use of both human analysts and automation. HWAM always aims to compare the scores of these providers, and where scores vary significantly will seek to understand these differences and incorporate them into investment decision-making.

When new securities are being considered for inclusion in the portfolio, HWAM would expect ESG risk scores to evidence better management of ESG risks when compared to their investment universe. On at least a quarterly basis, ESG risk scores are monitored across the Sustainable Funds and any directional change prompts further scrutiny from the HWAM Sustainable Investment Committee.

Developing a best-in-class framework for sovereign debt instruments

ESG risks and sustainable opportunities ultimately have an impact on a country's potential for economic growth and political stability and so are already factored into credit ratings alongside other traditional forms of macroeconomic analysis. Investment analysis that includes credit ratings from S&P, Moody's or Fitch would therefore be considered ESG-integrated on this basis.

Most product-based core and non-core exclusions would not be directly applicable to a sovereign issuer, however in some instances it may be possible to identify national policy objectives which would reassure investors that sovereign debt instruments are aligned with the spirit of any product-based investment exclusions. HWAM then utilises a number of sovereign debt ESG risk scores, in addition to the World Bank Sovereign ESG Data Portal, to build bespoke sovereign ESG risk scores. These scores typically compare instruments to a universe of comparable G7 sovereign issuers.

Through a combination of these approaches, HWAM can establish best-in-class characteristics amongst sovereign debt instruments, as well as monitoring these on an ongoing basis.

Corporate engagement

"Employing shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/ or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines." GSIA

In most instances, engagement by HWAM will be with third-party managers rather than directly with companies or issuers. HWAM's ongoing engagement with third-party managers is aligned with the United Nations six Principles for Responsible Investment.[17] HWAM also supports Active Ownership 2.0,[18] the United Nations framework for more effective stewardship.

United Nations Principles for Responsible Investment
1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will report on our activities and progress towards implementing the Principles.

[16] What are the Principles for Responsible Investment? | PRI Web Page | PRI (unpri.org)

[17] Active Ownership 2.0: the evolution stewardship urgently needs | Discussion paper | PRI (unpri.org)

Active Ownership 2.0
Outcomes, not inputs or processes Prioritise the pursuit and achievement of positive real-world goals.
Common goals Addressing systemic issues like climate change or corruption rather than esoteric issues with individual holdings.
Collaborative action Focusing on collective goals through enhanced collaboration among investors and service providers.

In practice, HWAM assesses ESG integration in investment decision-making using the simple points-based framework described on page 6-7 of this document. This is how HWAM satisfies itself that it is meeting its obligations under the first Principle for Responsible Investment. Through HWAM's engagement with third-party managers, it will pursue incremental improvements across Principles 1, 3, 4, 5 and 6.

Regarding Active Ownership 2.0, HWAM uses the three central elements of its approach to assess the engagement approach employed by third-party managers with whom HWAM partners. HWAM scores its approach against the following criteria. While there is no minimum score threshold, the scores indicate the degree to which a manager is already aligned with both the United Nation's Principles for Responsible Investment and Active Ownership 2.0. The result of this scoring then identifies areas of weakness, relative to industry best practice, that form the basis of HWAM's own engagement with third-party managers.

As industry approaches to corporate engagement evolve, HWAM will continue to develop this scoring framework to remain consistent with industry best practice.

Engagement scoring framework

Active ownership	Does the manager have a voting and engagement policy that applies to the investable universe? Does the manager publish voting records? Does the manager publish their engagement activity? Does the manager apply specific resources to voting and engagement activity?
Outcomes	Does the manager clearly express desired outcomes? Are published voting records and engagement activity aligned with desired outcomes?
Common goals	Are voting records and engagement activity aligned with common goals?
Collaborative action	Can the manager evidence collaboration or industry leadership on thematic engagement areas?
Materiality	Are the engagement methodology and resources appropriate to the asset class and investment style?

Sustainability themed

"Investing in themes or assets specifically contributing to sustainable solutions – environmental and social – (for example, sustainable agriculture, green buildings, lower carbon tilted portfolio, gender equity, diversity)." GSIA

HWAM recognises that the lexicon of sustainable investment is still evolving. HWAM uses the word 'sustainability' in the context of two key definitions:

Sustainable development[19] – meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainable investment[20] – an investment in an economic activity that contributes to an environmental or social objective, without harming other environmental or social objectives, and exhibits expected standards of good governance.

These principles are ingrained into many of the sustainable finance regulations which can be seen emerging in different regions.

Built into both of these definitions is the idea that investors should seek to limit harm to society and the environment. The building blocks of ESG integration, negative exclusionary screening and norms-based screening are the safeguards that HWAM applies to the Sustainable Funds, in order to limit the potential risk of harm to either society or the environment.

Beyond limiting harm, identifying the positive contribution that an investment may be making to an environmental or social objective is the critical determinant of whether HWAM would consider an investment to be a sustainable investment. HWAM identifies this positive contribution using a series of frameworks including amongst others, the EU Taxonomy for Sustainable Activities[21] and the UN Sustainable Development Goals.[22]

19 Sustainable Development | International Institute for Sustainable Development (iisd.org)

20 EUR-Lex - 32019R2088 - EN - EUR-Lex (europa.eu)

21 EU taxonomy for sustainable activities (europa.eu)

22 Sustainable Development Goals | United Nations Development Programme (undp.org)

HWAM notes that disclosures made by managers under the EU Sustainable Finance Disclosure Regulation (SFDR) are a useful way of identifying an underlying manager's approach to sustainable investment and the degree to which a portfolio might be aligned to economic activity that makes a positive social or environmental contribution. This is just one of a number of regional regulatory frameworks that HWAM finds helpful in informing investment decision making. HWAM will continue to incorporate new frameworks into investment analysis as they emerge.

The Sustainable Development Goals (SDGs), also known as the 'Global Goals', were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. The 17 SDGs are integrated – they recognise that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability. Many of the targets and indicators within the 17 SDGs are focused at the national (rather than corporate) level and often focus on specific industry sectors or the developing world. For this reason, whilst the SDGs are one way to identify the positive contribution that an investment might be making, HWAM believes that the SDG criteria needs to be used in combination with other frameworks, such as the EU Taxonomy for Sustainable Activities, to ensure diversification across regions, sectors and market capitalisation.

UN Social Development Goals	
1.	No poverty
2.	Zero hunger
3.	Good health and well-being
4.	Quality education
5.	Gender equality
6.	Clean water and sanitation
7.	Affordable and clean energy
8.	Decent work and economic growth
9.	Industry, innovation and infrastructure
10.	Reduced inequalities
11.	Sustainable cities and communities
12.	Responsible consumption and production
13.	Climate action
14.	Life below water
15.	Life on land
16.	Peace, justice and strong institutions
17.	Partnerships for the goals

EU Taxonomy for Sustainable Activities	
1.	Climate change mitigation
2.	Climate change adaptation
3.	Sustainable use and protection of water and marine resources
4.	Transition to a circular economy
5.	Pollution prevention and control
6.	Protection and restoration of biodiversity and ecosystems

Impact investing

"Investing to achieve positive, social and environmental impacts – requires measuring and reporting against these impacts, demonstrating the intentionality of investor and underlying asset/investee and demonstrating the investor contribution." GSIA

Impact investment – an investment in companies, organisations, and funds with the intention to generate social or environmental impact alongside a financial return.

HWAM's view is that there is significant overlap between 'sustainable investments' and 'impact investments'. Impact investments are almost certainly also sustainable investments, but the same isn't necessarily true in reverse.

HWAM believes that impact investments are held to a slightly higher standard in two ways:

1. Impact investments typically come with a higher expectation that the environmental or social impact of the investment will be measured and reported upon.
2. Impact investments demonstrate intentionality: the investment is made with the intention to drive change, and so it will often be identified as such by its objective.

Demonstrating 'additionality'

HWAM believes that impact investing is still developing as a concept, and that 'demonstrating the investor contribution' is one of the most difficult tests to apply. This is described in some definitional frameworks as 'additionality', meaning that the change might not have taken place without the investor's contribution.

For example, solar panels are now widely available and commoditised in many ways. Investing in a solar panel manufacturer may well support climate change mitigation in the context of the EU Taxonomy for Sustainable Activities or a UN Sustainable Development Goals framework, and therefore be considered a 'sustainable investment'. However, because solar panels are now commoditised, investing in a single solar panel manufacturer may not have an identifiable impact because its products are largely replaceable by any of the other available solar panel manufacturing companies in which one might have invested. The investment itself does not marginally increase the available supply of solar panels to the market. However, investing in a pre-revenue, research-intensive business that aims to disrupt the solar panel market by producing new technology to significantly lower the cost of panels (and therefore increase the uptake of renewable energy) may qualify as an 'impact investment'. The investor contribution could be evidenced by the additional risk of investing in a pre-revenue business and the impact could be measured and quantified by an increase in renewable energy in the global energy mix.

This example is by no means the only way that an investment might be classified as impact, but it does illustrate how high the bar might be. For any impact investment, there needs to be a clear theory of change that can be measured and managed like any other outcome-based objective.

Underlying managers are likely to employ their own impact measurement frameworks. However, when HWAM is analysing or validating these frameworks, it will typically do so using the IRIS+ System.[23] IRIS+ is the generally accepted impact accounting system that leading impact investors use to measure, manage and optimise their impact. Use of IRIS+ also facilitates the comparison of impact information across themes and UN SDGs.

[23] Fundamentals & Core Concepts | IRIS+ System (thegiin.org)

Risk warnings

This document is not intended as an investment recommendation and should not be treated as such. Instead, it provides an overview of HWAM's approach to assessing investments for the Sustainable Funds against HWAM's Sustainable Investment Policy. It should be noted that this sustainability analysis forms only one element of HWAM's wider investment research and selection process applied to the Sustainable Funds.

The HWAM Sustainable Investment Policy restricts investment by the Sustainable Funds in certain sectors, companies and investments. This may result in the Sustainable Funds having a narrower range of eligible investments by comparison to other Sub-funds in the Handelsbanken Multi Asset Funds umbrella investment company, which may in turn affect the Sustainable Funds' performance.

Where an investment is identified as no longer being in accordance with HWAM's Sustainable Investment Policy the Portfolio Manager will seek to sell the investment as soon as reasonably possible, which will be within the following 6 months subject to the redemption period of an underlying investment, or where it is not in the investor's best interest to sell within this period. The prices at which such an investment can be sold in these circumstances may be less than realised for the investment if such a sale was not required.

If you wish to invest in a Sustainable Fund you must read the relevant Key Investor Information Document and the Prospectus. These are available at www.wealthandasset.handelsbanken.co.uk

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