Climate Report
Handelsbanken Fonder

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

Handelsbanken
About this report

The purpose of the Handelsbanken Fonder Climate Report 2020 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 multi-manager solutions. By the end of 2020, the total assets managed in these funds amounted to SEK 709 billion. The business areas have previously been part of different subsidiaries within Handelsbanken and have published joint climate reports under the name Handelsbanken Asset Management, the first time being 2018.

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.
We are committed 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
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 6 and the end of the “Metrics and Targets” section on page 17.

- We will achieve a 50% reduction in the intensity of greenhouse gas emissions across our total assets under management by 2030.
- We will increase our investments in climate solutions as part of total assets under management 2x by 2030.

**In order to achieve these targets, we have:**

- Set fund level goals for investing in net zero aligned companies, as well as for engaging with key emitters.
- Set goals for engagement also at the business area level in order to fully realise the potential to drive change in the real economy.
The Race to Zero has begun. During the last year we have seen pledges to reach net-zero emissions rise steeply. From all over our globe we have seen governments, companies, NGOs and investors like ourselves make net-zero commitments. A recent report found that 68% of global GDP, corresponding to 61% of total emissions, is covered by net-zero commitments. This represents a tremendous increase from only a year ago.

Making commitments to long-term goals aligned with the science of limiting global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels as agreed upon in the Paris Agreement is obviously an important step. However, making grand commitments is not enough. We need immediate actions. The same report also found that only a fifth of existing net-zero targets meet a minimum set of robustness criteria, with a lack of immediate actions as one of the key shortcomings.

Handelsbanken Fonder made the commitment to net-zero at the end of last year as part of the newly convened Net Zero Asset Managers Initiative. The initiative is the first of its kind for asset managers and we are proud to be part of the initiative from the beginning. The founding of the initiative coincided with the launch of the Net Zero Investment Framework, a framework that we helped develop together with other investors within the Institutional Investor Group on Climate Change (IIGCC). The framework helps define the details of a net-zero investment strategy, including immediate actions.

Our climate strategy draws on the Net Zero Investment Framework and will be discussed in detail in this report, but some of the key actions include:

- Combining interim entity level carbon reduction targets with specific fund level goals for investing in net zero aligned companies and engaging with key emitters (starting today, not 2025 or 2030)
- Transitioning towards Paris-Aligned Benchmarks for some of our most impactful passive products (first products already later this year, 2021)
- Increasing our reporting and transparency regarding investments in climate solutions

Some actions are relatively uncontroversial. That we should increase investments in climate solutions for one, or that we should engage and help drive the transition as owners when we deem it likely to succeed. Even the age-old debate between divestment and engagement seem to have lost some steam, as more and more investors recognise the need for both, that divestments play a central role as part of an escalation policy.

Handelsbanken Fonder is a long-term investor working towards creating financial wealth and planetary health. It is our responsibility to help create a long-term, sustainable future for all our stakeholders, including both a prosperous planet and a successful financial situation. To succeed, we must work towards decoupling economic growth from environmental degradation. An essential step on this journey is the transition to a net-zero carbon economy.
“Handelsbanken Fonder made the commitment to net-zero at the end of last year as part of the newly convened Net Zero Asset Managers Initiative. The initiative is the first of its kind for asset managers and we are proud to be part of the initiative from the beginning.”
Magdalena Wahlqvist Alveskog, CEO

Stockholm, May 2020
Magdalena Wahlqvist Alveskog,
CEO, Handelsbanken Fonder
Karin Askelöf,
Head of Sustainability, Handelsbanken Fonder

Other actions are harder, as what exactly defines a best practice engagement strategy? It is easy to say as an investor that we will engage with companies, but harder to actually prove the results of our actions. This will be one of our most important activities during 2021, developing clearer expectations and more transparent reporting on our engagement efforts. There is a lot of work going on within the investment community also in this regard, and after seeing the European Commission’s disclosure regulation harmonise many aspects of sustainability reporting and communication for investors in general, we hope to see similar developments also within the engagement area.

68% of global GDP is covered by net-zero commitments.

1Read more about the UN Race to Zero Campaign: https://unfccc.int/news/launch-of-un-race-to-zero-emissions-breakthroughs
2https://eciui.net/analysis/reports/2021/taking-stock-assessment-net-zero-targets
3https://www.parisalignedinvestment.org/
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 business operations concerning strategy implementation and business progress, such as the share of assets under management with a fossil fuel exclusion strategy, and the carbon footprint of our funds. The board also reviews and approves policy development, including the Policy for corporate governance 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 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 Heads of active and passive asset management and multi-manager solutions 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

Management team: Regularly receives follow-up on sustainability, including climate-related information, from risk management and the sustainability group.
Continued work

Our commitment to net zero by 2040 represents the inside-out perspective – i.e. how do we as an asset manager affect the real economy? The focus lies on what we can do to support the transition towards a carbon-neutral economy. There will indeed be correlation between such efforts and efforts towards decreasing our exposure to climate-related risks while capitalising on climate-related opportunities (the outside-in perspective), but it is important to note that these are not necessarily the same. Therefore, our next step is to further develop the scope of reporting regarding transition and physical climate-related risks and opportunities to the board as a complement to the reporting on progress towards our net zero commitment.

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, the Heads of each business area, investment management group directors, 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.
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.

PARIS ALIGNED PORTFOLIOS

NET ZERO EMISSIONS FROM ALL OUR PORTFOLIOS BY 2040

DIMENSIONS

Decarbonising portfolios
Investing in climate solutions

TARGETS

-50% An emissions intensity reduction of –50% to 2030
2x A 2x increase in investments in climate solutions as part of total AUM by 2030
We will achieve a 
50%
reduction in the intensity of greenhouse gas emissions across our total assets under management by 2030

What is the rationale for the goal?
For an asset manager like us, the intensity of greenhouse gas emissions in our funds is not necessarily the be all and end all. What we want to do is help drive 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 emissions intensity. Therefore, we have set a greenhouse gas intensity reduction target for 2030, to help guide our way towards complete net zero by 2040.

How will we achieve the goal?
For all funds in active asset management and in our multi-manager solutions, we have introduced engagement criteria for all companies in key climate sectors not currently on a credible net zero emissions trajectory. We will also assess every new or adjusted product in terms of its net zero alignment potential. For our passive asset management we will also engage with key emitters. But another important action is the transition towards Paris Aligned Benchmarks, which we have already initiated. More details in regards of the transition towards Paris-Aligned Benchmarks will follow during the year.

What, How & Why

- We need a reduction target to hold us accountable. In the end, this is what it comes down to.
- Engage with key emitters and continue to increase investments in companies with credible net zero emissions plans.
- We believe it is a fair share, given our starting point at a 45–60% lower intensity level than a global market and a tilt towards the Nordic region which needs to decarbonise faster than the global average.

That being said about engagements, we will continue to use strategic exclusions where we see the potential for influencing change via engagement as limited. This is not a fixed stance against any specific industry from now until 2030, but a continuous process. As of this moment, we will continue to use a strict fossil fuel exclusion strategy with the potential to include companies within the power generation and distribution business if they fulfil our criteria for a credible net zero emissions trajectory.

Why 50% by 2030?
The emerging standard when setting emissions reduction targets says one should set interim targets consistent with a “fair share” of the 50% global reduction in CO₂ identified as a requirement in the IPCC special report on global warming 1.5°C. Our current greenhouse gas emission intensity are currently about 45–60% lower than the global economy (depending on the choice of denominator). However, we have a higher exposure towards the Nordics compared to the global economy, a comparably wealthy region which by all accounts has to lead the way in decarbonising the economy. Thus, given our starting point and our regional exposure which demands a steep trajectory of decarbonisation, we believe a 50% reduction from our starting point is a fair share.
What is the rationale for the goal?
Achieving greenhouse gas emissions in the real economy is dependent on not only influencing companies to reduce their own emissions, but also on the growth of climate solutions (i.e. solutions that help reduce greenhouse gas emissions). By allocating more capital towards companies offering carbon reduction solutions, being part of initial public offerings, and financing different kinds of sustainable bonds, asset managers will play an important role in facilitating this growth.

How will we achieve the goal?
At the business area level we will continuously seek the opportunity to increase exposure to carbon reduction solutions in new and adjusted products and their mandates. One such example is the current transition towards Paris-Aligned Benchmarks for a number of our passive products.

We will not set specific targets for each of our funds. The degree to which it is possible and preferable to allocate capital towards climate solutions will vary greatly between different mandates and will also vary over time. However, by measuring climate solutions and building capacity to analyse and understand the different sub groups of climate solutions, we are comfortable in our ability to increase the overall exposure to climate solutions, even though it will not be a linear improvement over all funds.

During the year, we have deployed our internally developed SDG Solutions model for all our actively managed funds. The model includes investments in climate solutions, as these are a vital part of the 2030 Agenda and will enable us to measure our exposure to these solutions. During 2021, our intention is to deploy the model also for all our funds in our passive asset management and multi-manager solutions. When finalised, we will use the EU taxonomy for activities with substantial contribution to climate change mitigation to measure and report on climate solutions in what we believe will become the industry standard.

Why 2x by 2030?
While the EU taxonomy for sustainable activities is yet to be finalised, we use our internally developed SDG Solutions model to measure our exposure to climate solutions. At the aggregate level, our model gives comparable results to the earlier drafts of the EU taxonomy.

Based on our estimates, our exposure to climate solutions in Handelsbanken Fonder as at 31 December 2020 corresponds to about 10% of assets under management. For a global index, that number decreases slightly to 7%. While we strongly believe that the companies providing climate solutions will show a stronger growth than the global economy overall until 2030, we also acknowledge that there is a large part of the current investable universe that will never be classified as offering climate solutions. The definition for climate solutions will also continuously become stricter and stricter as we move towards net zero globally.

We will continue to be open to new information and, as the EU finalises the taxonomy for climate change mitigation activities, we expect more research to be undertaken on the necessary growth trajectories of these solutions. In the meantime, we feel confident in saying that we should increase our exposure to climate solutions faster than the global economy and that translates, according to our estimates, to around a doubling of current exposure by 2030.
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 2020, we analysed all our portfolios with the help of the Paris Agreement Capital Transition Assessment tool developed by the 2° Investing Initiative (2°ii) and a physical climate risk tool provided by ISS ESG. 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.

### SUMMARY OF KEY RISKS AND OPPORTUNITIES

<table>
<thead>
<tr>
<th>Transition risks</th>
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<tbody>
<tr>
<td>• Low and evenly spread among second tier risk sectors(^1)</td>
<td>• Non-electric vehicles</td>
<td>• Low and evenly spread among second tier risk sectors(^1)</td>
</tr>
<tr>
<td>• Non-electric vehicles in our fixed income portfolios (however, the majority of this exposure consists of green bonds).</td>
<td>• Oil and gas in our Norwegian portfolios</td>
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<table>
<thead>
<tr>
<th>Physical risks</th>
<th>Physical risks</th>
<th>Physical risks</th>
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<tbody>
<tr>
<td>• Industrials</td>
<td>• Information technology, industrials &amp; consumer discretionary</td>
<td>• Information technology, industrials &amp; financials</td>
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<tr>
<td>• Financials &amp; Real estate in our fixed income portfolios</td>
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<tr>
<th>Opportunities</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td>• Substantial exposure to low carbon power</td>
<td>-</td>
<td>• Substantial exposure to low carbon power</td>
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<tr>
<th>Resilience</th>
<th>Resilience</th>
<th>Resilience</th>
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<tbody>
<tr>
<td>High. None of our portfolios are bound to specific sectors or regions with non manageable climate risks according to our current assessments.</td>
<td>Medium-high. Our Norwegian mandates showcase elevated climate risks in all our stress tested scenarios. We are currently in the process of evaluating this exposure and we are confident in our possibility to adjust the product construction to mitigate these risks over time.</td>
<td>High. None of our portfolios are bound to specific sectors or regions with non manageable climate risks according to our current assessments.</td>
</tr>
</tbody>
</table>

\(^1\) Second tier transition risk sectors include: non electric vehicles, fossil fuel-based materials, industrials services and food logistics.
At the aggregate level, our exposure to the greatest transition risks in the two scenarios tested 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 activities). We also exclude companies with over 50% of sales from fossil fuel related services. Instead we see a fairly evenly divided risk exposure to what we call second tier transition risk sectors such as non-electric vehicles, fossil-fuel based materials (such as cement and steel), industrials and food logistics. The non-electric vehicles category stands out in the stress tests of our fixed income portfolios. However, a substantial part of this exposure is towards green bonds specifically targeting the transition towards electric vehicles.

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.

**Increased exposure to climate change opportunities**

Since our first climate report for the year 2018, we have consciously worked to increase our exposure to climate solutions and, specifically, renewable energy. We identified the need to adjust our fossil fuel exclusion strategy to allow for companies in transition within power generation and, in our stress tests for 2020, we can clearly see the results. In both active asset management and multi-manager solutions where we have introduced the definition for transition companies, we can see a substantial positive exposure to renewable energy in each of the tested transition scenarios. This has been achieved while also decreasing our exposure to fossil fuel-based power generation as part of our power generation exposure. Going forward, we will start harnessing more of this opportunity in our passive asset management as well, via our transition towards Paris-Aligned Benchmarks.

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### Renewable energy\(^1\) as % of assets under management

<table>
<thead>
<tr>
<th>Category</th>
<th>Date</th>
<th>% of AUM</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active asset management – Equity</td>
<td>2020-12-31</td>
<td>2.30%</td>
<td>corresponding to 90% of our total power exposure</td>
</tr>
<tr>
<td>Global economy – Equity</td>
<td>2020-12-31</td>
<td>0.80%</td>
<td>corresponding to 30% of total power exposure</td>
</tr>
<tr>
<td>Active asset management – Equity</td>
<td>2018-12-31</td>
<td>0.30%</td>
<td>corresponding to 70% of our total power exposure</td>
</tr>
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</table>

\(^1\) Including hydropower
About our fossil fuel exposure

In our funds intended for the Norwegian market, as of 2021 we have not deployed our fossil fuel exclusion strategy. In the stress-test exercise, we see elevated risks, based on the exposure to oil and gas exploration and production, in comparison with our other funds in both transition scenarios tested. We also see in our scenario analysis based on the PACTA tool that the companies we are invested in do not have five year plans in line with the Paris-Agreement. Given these challenges, we have decided to adopt our fossil fuel exclusion strategy also for our funds intended for the Norwegian market within active asset management. For the funds in our passive asset management, the discussions are ongoing and we will report on steps taken later in 2021.
Risk Management

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 multi-manager solutions.

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.
- The assessment is performed by the Risk department, supported by the Sustainability team, and updated quarterly.
- During 2020, the sustainability goals were yet to be finalised, but the goal areas and key underlying metrics were known and used in the assessment. Going forward in 2021, the new sustainability goals will be fully incorporated in the Committee.

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 Risk department, supported by the Sustainability team.
- 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 for 2020. The updated version of the Paris Agreement Capital Transition Assessment tool developed by the 2° Investing Initiative (2°ii) has been used together with ISS ESG’s climate analysis.
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 continuously present. Some examples of recent themes of discussions are: rare earth minerals, hydrogen, carbon capture and storage, EU green deal and climate risks in financial institutions.

RISK MANAGEMENT PROCESS
Company-wide Exclusion
Sector exclusion forms the first line of defense 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 a 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, primarily 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. 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 2020, 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.

Multi-manager solutions
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 carried out to also incorporate explicitly 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. Going forward, we will work to formalise the engagement process with portfolio managers, both for the specific funds we invest in, and the fund companies at which they work. Engaging with other participants in the financial industry in our manager selection role is an opportunity to also drive change in the financial sector while simultaneously serving to reduce our climate-related risks.
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 test. Now, we are taking the next step by setting specific climate 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.

Stress testing our business areas

As described in the section on risk management, for 2020 we used the Paris Agreement Capital Transition Assessment (PACTA) tool developed by the 2° Investing Initiative (2°ii) for assessing transition risks. This is the first year the PACTA tool includes a stress test module. The module is based on two different scenarios, Inevitable Policy Response/Forecast Policy Scenario (IPR/FPS) and Carbon Balance 2030. For physical climate risks, we used ISS ESG’s climate Value-at-Risk model.

Summary of our stress test exercise - valuation change all else equal (and analysed as % of assets under management)

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<thead>
<tr>
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<th>Transition Risks Scenarios</th>
<th>Physical Risks Scenarios</th>
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<tbody>
<tr>
<td></td>
<td>IPR</td>
<td>Carbon Balance 2030</td>
</tr>
<tr>
<td><strong>Active asset management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed Equity</td>
<td>-0.3% (81%)</td>
<td>+0.1% (3%)</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>Not included</td>
<td>-0.1% (2%)</td>
</tr>
<tr>
<td><strong>Passive asset management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed Equity</td>
<td>-0.3% (89%)</td>
<td>-0.3% (1%)</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>Not included</td>
<td>-0.3% (1%)</td>
</tr>
<tr>
<td><strong>Multi-manager solutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed Equity</td>
<td>-0.2% (85%)</td>
<td>-0.2% (2%)</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>Not included</td>
<td>-0.1% (2%)</td>
</tr>
<tr>
<td>Global Index</td>
<td>Listed Equity</td>
<td>-1.6% (91%)</td>
</tr>
</tbody>
</table>

1 100% coverage
We chose to work with the IPR and Carbon Balance 2030 scenario for stress testing climate risks and opportunities as these are two well-established transition scenarios. The IPR scenario is developed by PRI, Vivid Economics and Energy Transition Advisors and targets the policy side of transition risks. The scenario intends to capture policies which are likely to be implemented in the 2020s to address climate change, and quantifies the impacts of these policies on the real economy and financial markets. Thus, the IPR is not only a possible scenario but a most likely development according to its authors. By design, the IPR targets a large part of the economy, but the key drivers of value change will be found in a small subset of all covered sectors. The Carbon Balance 2030, on the other hand, is designed to capture the possible scenario in which very limited progress is made up to 2030 when government then decides to take drastic policy actions to mitigate climate change. Effectively, the scenario assumes that government will manage to change the trajectory of the global economy from the baseline to the Sustainable Development Scenario, as defined by the International Energy Agency (IEA), in the following decade. This sort of change is generally described as a Late & Sudden transition. This scenario is focused only on the most impactful sectors, which can be seen in our results where the coverage in terms of portfolio weight is comparably very low for the Carbon Balance 2030 scenario versus the IPR scenario. But, since it targets the key sectors, the scenario is still able to capture the most important valuation changes, and we can see that the likely changes in our business areas are similar in magnitude in both scenarios.

Illustrating the point that the Carbon Balance 2030 scenario focuses on the most impactful sectors in the climate transition, we can look at table Carbon Balance 2030 Coverage.

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 does not capture all important physical climate-related risks, and the true worst case scenario is most likely more impactful on our portfolios, but this is a first step for our attempts to measure and follow these risks as well.

<table>
<thead>
<tr>
<th>Carbon Balance 2030 Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handelsbanken Fonder</td>
</tr>
<tr>
<td>Listed Equity</td>
</tr>
<tr>
<td>Corporate Bonds</td>
</tr>
<tr>
<td>Global index</td>
</tr>
</tbody>
</table>

The table show the coverage in terms of portfolio weight and in terms of contribution to total carbon emissions. Even though the contribution to carbon emissions is still a minority part at the level of Handelsbanken Fonder, we can see the proportion for the global economy as represented by the Solactive Global Markets Index. The large difference is again primarily a result of our precautionary approach to the fossil fuel industry.
Carbon footprint
There are many ways of reporting carbon footprint and, over the course of the last couple of years, the financial industry has developed its thinking around what should be the norm. Last year we saw a 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. This year, we have seen 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 more fair comparison between sectors.

Going forward, we will be using carbon intensity as measured by total GHG emissions (including scope 3) divided by enterprise value including cash, as we concur with the reasoning espousing its benefits. Where applicable for transparency and comparability we will also include other carbon metrics. Scope 3 will for the time being consist mostly of sector based estimates, which means that we will not capture all the nuances in different companies within the same sector from day one, but this is a drawback we accept given the importance of scope three when comparing between sectors.

<table>
<thead>
<tr>
<th>Weighted Average Carbon Intensity (tCO₂e/mSEK Revenue)</th>
<th>2017-12-31</th>
<th>2018-12-31</th>
<th>2019-12-31</th>
<th>2020-12-31</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coverage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handelsbanken Fonder</td>
<td>3,98</td>
<td>13,18</td>
<td>13,18</td>
<td>13,18</td>
</tr>
<tr>
<td>Global Index¹</td>
<td>7,23</td>
<td>33,18</td>
<td>33,18</td>
<td>33,18</td>
</tr>
<tr>
<td><strong>Scope 1 &amp; 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handelsbanken Fonder</td>
<td>81%</td>
<td>79%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Index¹</td>
<td>97%</td>
<td>94%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ Solactive Global Markets Index

We can see that using revenue or EVIC gives similar results when comparing to a global index. The larger difference comes when including scope 3 carbon data, which gives more advantage to our portfolios as we are excluding oil and gas companies which have their greatest impact in scope 3.
TARGETS
Our Climate Goals in detail
In this report, we have introduced our new climate goals. A detailed description of each goal can be found below.

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

- Baseline 2019-12-31

\[
\text{GHG Intensity}_{\text{HBFonder}} = \sum \text{GHG Intensity}_{\text{Fundi}} \times W_i
\]

where, \( W_i = \text{AU M of fund i as part of total AU M for HBFonder} \)

and, \( \text{GHG Intensity}_{\text{Company}} = \sum \text{GHG Emissions of company k} \times W_k \)

\( mSEK \) Enterprise Value Including Cash of company k

- The goal is set for 100% of Handelsbanken Fonder’s assets under management
- The metric will be adjusted for non-climate related items such as inflation and foreign exchange rate.
- We work together with the service provider ISS ESG to gather data from our individual holdings. When data is lacking we will use estimated carbon emissions provided by ISS ESG.

**We will increase our investments in climate solutions as part of total assets under management 2x by 2030**

- Baseline 2019-12-31

- Our current assessments are based on the results for SDG13 Climate Action in Handelsbanken SDG Solutions model, an internally developed tool for assessing investments in solutions for the 2030 Agenda (read more about the model at Handelsbankenfonder.se).
- We have continuously benchmarked the model against each version of the EU Taxonomy that has been published, and on the whole, the results have been comparable in magnitude regarding exposure to climate solutions.
- When the final EU Taxonomy for climate change mitigation is approved, we will adjust our progress and target based on that definition.