Climate and Nature report 2023

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

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About this report

The purpose of the Handelsbanken Fonder Climate Report 2023 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. For the first time our reporting is also guided by the Taskforce on Nature-related Financial Disclosures (TNFD) in order to integrate nature-related risks and opportunities in our investment decisions. Handelsbanken Fonder AB consists of three business areas: active asset management, passive asset management, and asset allocation management. By the end of 2023, the total assets managed in these funds amounted to just above SEK 900 billion.

About TCFD

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

The Financial Stability Board (FSB) has officially transferred the responsibility of monitoring companies' climate-related disclosures from the Task Force on Climate-related Financial Disclosures (TCFD) to the International Financial Reporting Standards Foundation (IFRS), following the release of the 2023 TCFD status report. The TCFD recommendations have been incorporated into the standards IFRS S1 and S2.

About TNFD

The Taskforce on Nature-related Financial Disclosures (TNFD) has developed a set of disclosure recommendations and guidance that encourage and enable business and finance to assess, report and act on their nature-related dependencies, impacts, risks and opportunities.

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The necessary transition

As global emissions continue to rise, and the physical impacts of climate change become increasingly severe, the urgency to transform our economy has never been greater. The financial sector plays a crucial role in enabling the capital necessary to transform our economy and allocate capital where it matters the most.

The financial sector plays a crucial role.

THE IPCC SYNTHESIS REPORT, RELEASED IN MARCH 2023, provided a strong warning: our planet's climate is changing at an accelerating pace. Sea levels are rising, extreme weather events are becoming more frequent, and ecosystems are under immense stress. However, the report also emphasises that there are technologies and solutions available to limit global warming. It's not too late to take action and mitigate some of the worst effects of climate change. Every fraction of a degree of warming we can avoid matters significantly.

Against this background, it is of utmost importance that we as an asset manager, and the companies we invest in, understand and can handle the rapid changes by adapting to and limiting our climate impact. The record-breaking heat of 2023 underscores the urgency for continued measures to combat climate change. This urgency was further highlighted during COP28, the climate summit in Dubai, where countries collectively agreed that "the world should transition away from fossil fuels."

During 2023, Handelsbanken's transition plan – Towards net zero 2040 – was published. It is based on the Bank's unique corporate culture and the goal of becoming a net-zero company by 2040. This goal encompasses the entire Group and includes lending, leasing, investments, and emissions from the Bank's own operations. We at Handelsbanken Fonder are determined to do our part and become a net zero asset manager by 2040.

At Handelsbanken Fonder, we are committed to reducing our funds' climate footprint and at the end of 2023 99.8 percent of the fund volume excluded fossil fuels. When this is not enough to transform the economy and additional efforts are required, we also work to allocate investments towards companies that contribute to solutions to mitigate the consequences of climate change, but also towards companies that change from fossil-dependent operations to renewables. Through product development, we can continue to increase our sustainable investments and investments in environmental and climate solutions, and thus contribute to a reduced climate footprint.

Nature and biodiversity are declining with a speed never experienced before. This is an existential threat to humanity, society and the economy. We must understand these risks and the financial flow must be in line with nature's need. We have therefore, among other things, taken the first steps towards reporting in line with the Taskforce on Nature-related Financial Disclosure (TNFD) recommendations and guidance for organisations to report and act on evolving nature-related impacts and dependencies.

We also hope that this report can contribute to increased knowledge on climate change, its impacts on the financial sector, and the role the financial sector plays in addressing this global challenge. We believe it is crucial to understand both how climate change affects our industry and how our actions can influence the transition to a more sustainable future. To facilitate this understanding, we have included a glossary at the end of the report, explaining the most commonly used terms on this topic and the differences between them. Our aim is to provide a valuable resource for our employees, customers, the general public, and our industry colleagues, fostering a better understanding of climate change, the financial sector's role in mitigating its effects, and the terminology used in this context.

Magdalena Wahlqvist Alveskog,
CEO Handelsbanken Fonder

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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 supports the Net Zero Asset Managers and its global 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').

Handelsbanken Fonder has committed to support investing aligned with net zero emissions by 2040.

We carry out a review of our goals every five years, which is ongoing 2024 and guided by the updated Net Zero Investment Framework 2.0 (NZIF 2.0). We will continue to work towards our sustainability goals in line with both Handelsbanken Fonder's overall transition plan and have also, as a subsidiary to Handelsbanken AB, developed additional science-based targets which currently are under approval by Science Based Targets Initiative (SBTi).

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Governance

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

Board's oversight of climate-related risks and opportunities
Handelsbanken Fonder's board of directors is in charge of overseeing the sustainability strategy, which includes climate change. The aspects of climate change factors into decisions relating to overall strategic directions. The board is continually informed by the business operations on matters of strategy implementation and business progress.

The board also reviews and approves policy development, including the Policy for Shareholder Engagement and Responsible Investments, which governs all our assets under management. The Policy includes specific criteria relating to climate change, such as the ambition to align portfolios with the Paris Agreement. The Policy also lays out the strategic direction for our voting at AGMs and work on nomination committees.

How management assesses and manages climate-related risks and opportunities
Management is in charge of monitoring and developing the work around climate change, which includes governance and strategy development. The Head of Sustainability is part of the management team and reports directly to the Chief Executive Officer.

The Head of Sustainability is responsible for the development of strategies and policies, and also methods and tools, relating to climate change, including keeping the organisation informed about global trends and industry developments relating to climate change. The head of active management and the head of passive management and asset allocation are responsible for the integrated management of climate risks and opportunities in accordance with the policies and strategies in their respective business areas.

Governance structure for climate-related risks
Handelsbanken Fonder's governance structure for managing climate-related risks is integrated into our overall sustainability governance. The Sustainability Committee, chaired by the Head of Sustainability and comprising the CEO, Product Manager, CIOs, and specialists, discusses and takes decisions on sustainability-related matters, such as methodology developments and decisions regarding the assessment of companies in relation to exclusion criteria. The CEO is the ultimate decision-maker in this forum, guided by the recommendations of the participants. The monitoring and progress of our climate goals are reported regularly in the Sustainability Risk Forum, which consists of the CEO, CIOs, Compliance, Head of Risk and Head of Sustainability.

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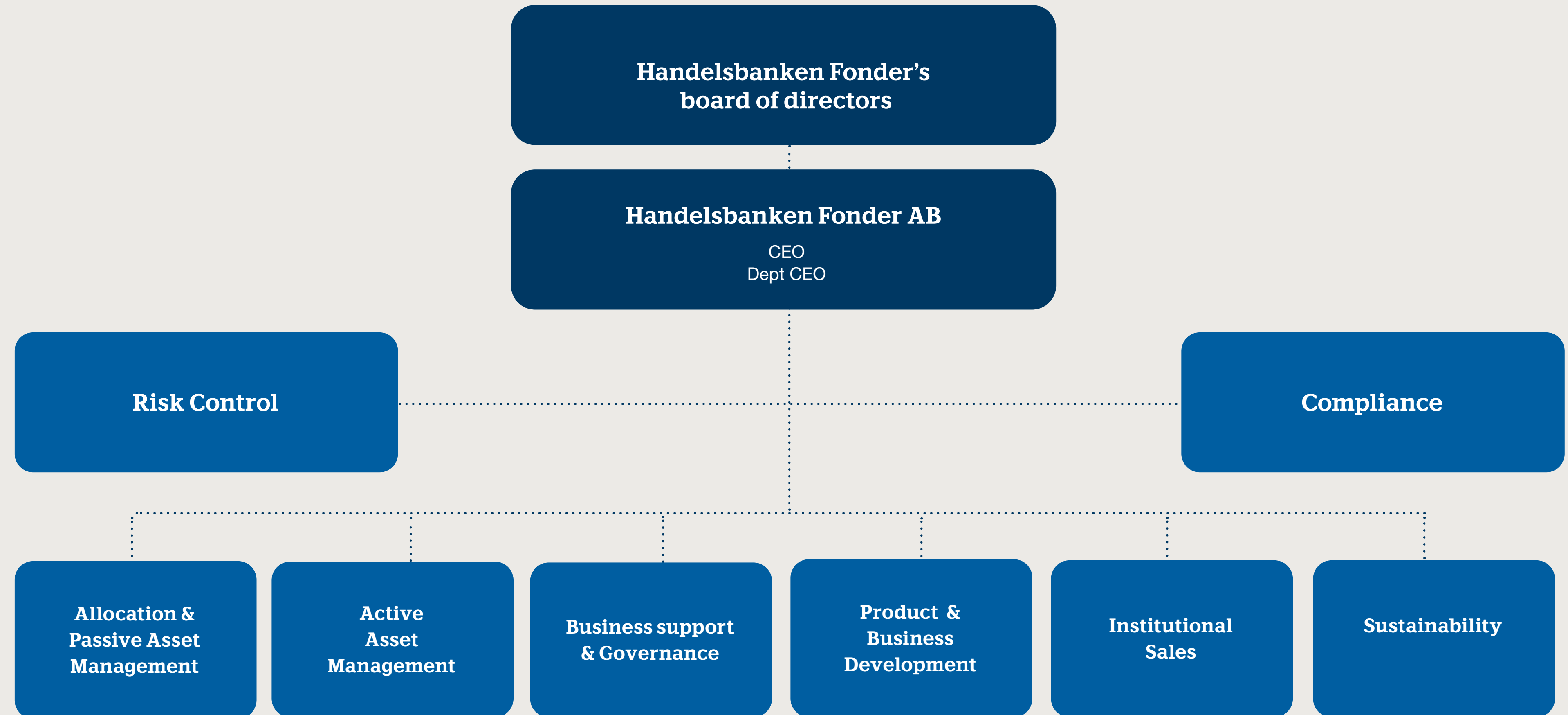

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Strategy

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

The three pillars of our strategy

Climate change has been a strategic focus within Handelsbanken Fonder for many years. In 2020 we participated in the launch of the Net Zero Asset Managers and committed to investing in line with net zero emissions by 2040.

Our climate strategy rests on three main pillars, where we see that we as asset managers have a responsibility and an opportunity to drive change towards the goals of the Paris Agreement:

1. Portfolio decarbonisation
2. Investing in the transition
3. Influencing the transition in the real economy

Commitment

Investing aligned with net zero emissions by 2040

Strategy

Portfolio decarbonisation

Investing in the transition

Influencing the transition in the real economy

Targets

-50% Reducing the carbon footprint of our portfolio by 50 %

x2 Double our investments in environmental and climate-related solutions

Status

Carbon footprint: 51.2 tCO_2e/mSEK
See page 15

Environmental and climate-related solutions: 20.7%
See page 17

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Portfolio decarbonisation

To achieve the goals of the Paris Agreement there is an urgent need to decarbonise the entire economy. All sectors and companies, not least those with a significant contribution to greenhouse gas emissions need to decarbonise and align with the goals of the Paris Agreement. As an asset manager, we are therefore committed to decarbonising our investment portfolios in a way that is consistent with achieving global net zero greenhouse gas (GHG) emissions by 2040.

Target 1

50 %

reduction of our carbon footprint

We will achieve a 50 % reduction of the carbon footprint by our portfolio across all assets under management by 2030.

What we do to decarbonise our portfolio:

- We integrate consideration of climate targets and performance of holdings into the investment process.
- We develop and offer products that are aligned with our target, such as the index funds tracking Paris Aligned Benchmarks.
- We engage in dialogue with portfolio companies regarding their climate targets and roadmaps.
- We start from a relatively low level, excluding investments in companies dependent on coal since 2015 and applying a fossil fuel exclusion strategy to the absolute majority of our funds since 2018.

Investing in the transition

The decarbonisation of the economy requires enormous investments in solutions that either directly reduce or remove emissions, as well as enablers that indirectly make the decarbonisation possible. This is why we invest in companies that produce and scale climate and environmental solutions. Recognising that the nature and climate crises need to be addressed in an integrated manner, and the role of nature-based solutions in climate change mitigation and climate adaptation, we have since 2022 included both climate and environmental solutions in our scope.

Target 2

x2

our investments in environmental and climate-related solutions

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

What we do to invest in the transition:

- We invest in companies that develop products and services that directly contribute to, or enable, the climate transition.
- We invest in sustainable bonds and sustainability-linked bonds.
- Over 99 percent of our funds integrate sustainability in its processes and have individually set minimum proportions of sustainable investments, which includes environmental and climate-related solutions as well as socially sustainable investments.
- We continuously update our definitions and methodology in line with evolving frameworks and expectations.

Influencing the transition

As asset managers, we have the responsibility and opportunity to use our leverage to influence our portfolio companies as well as regulators and other stakeholders which shape the conditions for the climate transition. This is why we engage in stewardship activities aimed at supporting actors making the climate transition possible.

Influencing

Though we have been actively engaged in climate change over several years, we have not yet had an explicit target for our stewardship activities related to climate change. In 2024, as we are revisiting our climate targets, we aim to develop an explicit target for our climate change stewardship.

What we do to influence the transition:

- We engage in direct dialogues with prioritised companies.
- We participate in collaborative engagement with selected companies in high emitting sectors.
- We support investor initiatives, such as the CDP, to encourage corporate disclosure.
- We vote on resolutions demanding improved climate action.

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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 and the subsequent increase in temperature. Transition risks arise from the shift towards a low-carbon economy, including policy and legal changes, technological advancements, market shifts, and reputational considerations. Physical risks, on the other hand, result from the direct impacts of climate change, such as extreme weather events (acute risks) and long-term shifts in climate patterns (chronic risks). 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.

At Handelsbanken Fonder, we recognise the importance of understanding, managing, and disclosing climate-related risks and opportunities in our investment portfolios.

By conducting scenario analysis, we aim to assess the potential impacts of different climate scenarios on our investments so that we can integrate these insights into our decision-making processes. This proactive approach allows us to mitigate risks, identify opportunities, and align our investments with the transition to a low-carbon economy.

Identification and assessment of climate-related risks and opportunities

As a tool for identifying and assessing climate-related risks and opportunities, we use scenario analysis to stress test our portfolio with regards to different future climate scenarios. 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 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.

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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.

In our scenario analysis, we consider the specific types of transitional risks, such as policy and legal risks, technology risks, and market risks, as well as physical risks, including both acute and chronic risks, that are relevant to our investments.

To maintain the relevance and actionability of our risk assessments, we conduct scenario analysis and update our risk assessments on a regular basis.

Even though we believe in specific quantitative data, we also acknowledge the limitations that are still associated with trying to calculate the financial impact of climate change. Therefore, an important aspect of assessing climate-related risks is still the qualitative analysis that is done by portfolio managers on a daily basis as they monitor the portfolios and investigate new potential investments.

Identifying and integrating climate-related opportunities

In addition to identifying climate-related risks, our scenario analysis also helps us identify potential climate-related opportunities. These opportunities are further integrated into the thematic analysis conducted by our portfolio managers. We actively seek investments in companies that are aligned with the EU Taxonomy and contribute to the United Nations Sustainable Development Goal 13 (SDG 13), which focuses on taking urgent action to combat climate change and its impacts.

By investing in climate solution companies, such as those involved in renewable energy, energy efficiency, sustainable transportation, and green buildings, we aim to capitalise on the opportunities presented by the transition to a low-carbon economy. Our portfolio managers incorporate these themes into their investment strategies, ensuring that our portfolios are well-positioned to benefit from the growth potential of these sectors.

We believe that by aligning our investments with the EU Taxonomy and SDG 13, we can not only generate attractive returns for our clients but also contribute to the global effort to mitigate climate change. This approach allows us to create value for our stakeholders while supporting the transition to a more sustainable future.

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Monitoring portfolio emissions

As part of our assessment of climate-related risks, we actively monitor the greenhouse gas emissions of our investment portfolios. This monitoring process is closely tied to our goal of portfolio decarbonisation, and the current level of emissions for each fund is presented on a quarterly basis in the format of the European ESG Template (EET), available at Follow our work, and on a yearly basis as a part of periodic disclosure available at Handelsbanken's Funds. By tracking and analysing the emissions data of the companies in our portfolios, we can identify high-emitting sectors and individual holdings that may be exposed to greater transition risks.

This information enables us to engage with companies to encourage the adoption of emission reduction strategies and to make informed investment decisions that align with our decarbonisation goal. This ongoing monitoring and management of portfolio emissions are essential components of our overall approach to assessing and mitigating climate-related risks in our investments.

Physical climate risks

Physical climate risks are identified and assessed for the total corporate investment portfolio using a tool by ISS ESG. The tool measures current and future risk exposure for six of the most costly physical climate hazards:

1. **Coastal floods**
2. **Droughts**
3. **Heat stress**
4. **River floods**
5. **Tropical cyclones**
6. **Wildfires**

Future risk exposure extends to 2050 and is assessed for both a likely scenario (Representative Concentration Pathway (RCP) 4.5, corresponding to a 1.7-3.2°C temperature rise by 2100) and a worst-case scenario (RCP 8.5, corresponding to a 3.2-5.4°C temperature rise by 2100), based on two scenarios from the IPCC 5th Assessment Report (AR5). The potential effects of the climate hazards in each scenario are simulated using state-of-the-art scientific climate models. The risks are then assessed with regards to company-specific geographical exposure of both revenue streams and assets. This is quantified in terms of:

1. Operational risks (e.g., business interruptions and repair costs)
2. Market risks

The financial risk stemming from the operational and market risks is used in a forward-looking valuation of the company to derive the company's Physical Value at Risk (PVaR). PVaR estimates the change in share price resulting from the impact of climate hazards. This estimate does however not capture all important climate-related physical risks, and the true worst case scenario would most likely have a greater impact on our portfolios than what is estimated.

As a complementary result, the exposure to each specific climate hazard is scored from 0-100 based on companies' relative risks compared to industry peers. A lower score indicates a large increase in financial risk in the likely scenario, with a score of 50 corresponding to the industry median and a score of 1 corresponding to the top 99th percentile of highest financial risk increase.

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Transitional risks and opportunities

Transitional risks and opportunities are similarly identified and assessed for the corporate investment portfolio using a tool by ISS ESG. The analysis is based on the Net Zero 2050 scenario (NZE2050) from the International Energy Agency's World Energy Outlook series, which corresponds to a 1.5°C temperature increase (aligned with the recommendations of TCFD and ESRS E1 – AR 12).

The model identifies three types of transitional risks:

1. *Policy transition risks:* Changes in cost and revenue due to changing policy environments.
2. *Market risks:* Effects of carbon prices for relevant sectors.
3. *Technology risks:* Changes in relative price and demand for fossil fuel technologies and low-carbon technologies.

Risks and opportunities are assessed towards a long-term (2050) scenario, although the effects are assumed to be realised gradually in both the near and mid-term. Through the changes in demand and costs, the model estimates the financial effect and derives the company's Transitional Value at Risk (TVaR) – the estimated change in share price resulting from the impact of transitional events.

As an additional measure of the exposure to transitional risks ISS calculates a Carbon Risk Rating (CRR). This is scored 0-100, where a company with the score 0-24 is classified as a laggard, 25-49 is classified as underperformer, 50-74 as performer and 75-100 as leader.

Integration of scenario analysis

The insights gained from the scenario analysis can be integrated into our investment decision-making processes in several ways:

1. *Risk Management:* The results of the scenario analysis help us identify and quantify the potential climate-related risks in our investment portfolios. This information can be used to develop risk mitigation strategies and adjust our portfolio allocations as needed.
2. *Opportunity Identification:* The scenario analysis also highlights potential opportunities arising from the transition to a low-carbon economy. This information can be used to identify companies and sectors that are well-positioned to benefit from the transition and consider them for investment.
3. *Engagement and Stewardship:* The scenario analysis results can be used to inform our engagement activities with investee companies. We engage with companies to understand their climate risk management strategies, encourage the adoption of best practices, and support their transition efforts.
4. *Reporting and Disclosure:* We use the scenario analysis results to enhance our climate-related disclosures and provide transparent information to our stakeholders about the potential impacts of climate change on our investments.

By integrating scenario analysis into our investment processes, we aim to build resilience in our portfolios, support the transition to a low-carbon economy, and deliver long-term value to our clients.

"We take an integrated approach to risks related to climate change, and work continuously to improve our risk management processes."

Management of identified risks

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.

Company-wide exclusion

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

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Shared global analysis in active asset management

Within active asset management, a shared global analysis constitutes the guiding framework for the investment management team. In quarterly strategy meetings, global developments such as climate change and associated investment risks and opportunities are analysed to form our understanding and view of the future. During this process, climate-related risks are considered. Some examples of recent themes of discussions are biodiversity, rare earth minerals, hydrogen, the EU taxonomy, and climate risks in financial institutions.

Active asset management

In active asset management, portfolio managers are responsible for sustainability analysis in their respective funds and are supported by our team of sustainability experts. They have access to both general sustainability-related information and more climate-specific information to support their risk assessment and management processes.

Passive asset management

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

Asset allocation management

Within asset allocation management, the first step of managing climate-related risks takes place in the manager selection process. We incorporate climate-related risks and opportunities alongside broader sustainability metrics into our portfolio manager evaluation process, using data derived from ISS ESG's climate analysis, primarily carbon footprint and scenario analysis.

Engagement

At Handelsbanken Fonder, we believe that engagement is a crucial tool for managing climate-related risks and driving positive change in the companies we invest in. As long-term owners, we actively engage with management for improvements in tackling climate change, increasing transparency, and reporting on climate-related issues. We also vote for climate proposals at Annual General Meetings (AGMs) to ensure that our investee companies are taking the necessary steps to address climate risks and opportunities. As part of our commitment to influencing the transition to a low-carbon economy, we aim to develop an explicit climate change stewardship target in 2024, building on the prioritisation process we use to guide our direct engagement. When we have identified that a company should be prioritised for direct climate engagement dialogue it is done from a total investment portfolio perspective and includes both active and passive managed funds. In addition to our overall direct engagement approach we also tailor our engagement to the specific asset management strategy:

- *Active Asset Management:* Direct engagement and active ownerships is used to proactively manage climate risk, and to address key questions related to the specific companies. Portfolio managers engage directly with companies, supported by our team of sustainability experts in formulating engagement plans and addressing specific concerns.
- *Passive Asset Management:* Additional tools for engagement on climate risks is participation in collaborative engagements and investor statements, which allows us to amplify our influence and encourage companies to take meaningful action on climate change.
- *Asset Allocation Management:* We engage with external fund managers to drive change in the sector while simultaneously reducing our climate-related risks.

In addition to these strategy-specific engagement approaches, we are also actively involved in other collaborative engagement initiatives and working groups focused on climate change. We believe that engagement is an essential component of our overall approach to managing climate-related risks and opportunities. By actively engaging with companies, industry participants, and other stakeholders, we can contribute to the transition to a low-carbon economy while protecting and enhancing the long-term value of our investments.

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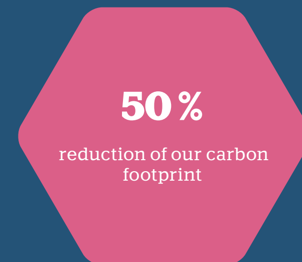
Metrics and targets

In order for sustainability-related issues to become something more than vague ambitions, we need specific metrics and targets. At Handelsbanken Fonder, we performed our first climate-related scenario analysis in 2017, the same year we started measuring exposure to climate solutions in some of our actively managed funds. In 2019 we assessed, for the first time, climate-related risks and opportunities via dedicated climate-related stress tests. In 2020 we set specific climate targets and have since been working towards these. During 2024, we are reviewing our targets and advancing our climate strategy, guided by the updated Net Zero Investment Framework 2.0.

Portfolio decarbonisation



Investing in the transition

Influencing the transition

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Decarbonising our portfolios: Target 1

Actions 2023

In 2023, we increased our product offering by launching a new global index fund which tracks a Paris Aligned Benchmark, Handelsbanken Developed Markets Index Criteria. This type of benchmark is designed to decrease its carbon emissions in line with the goals of the Paris Agreement and it applies exclusion criteria. The fund is our eighth within this product category and is reported as a dark green fund. In addition, we have made adjustments in our engagement prioritisation process and stepped up the level of activity in our climate engagement. Both the number of direct and joint dialogues with other investors have increased in 2023 compared to 2022.

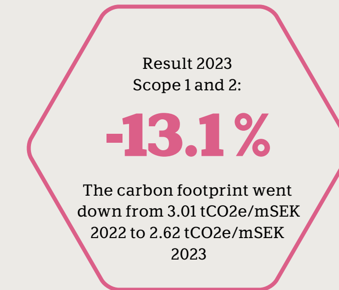
Moreover, we have in 2023 been actively engaged with other investors in IIGCC to further improve guidelines and methods related to the integration of scope 3-data for asset managers, in order to influence the way the investment community globally address existing challenges and needs in terms of understanding and managing value chain emissions.

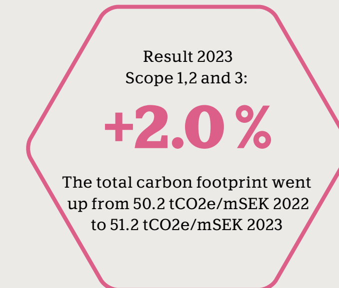
Results

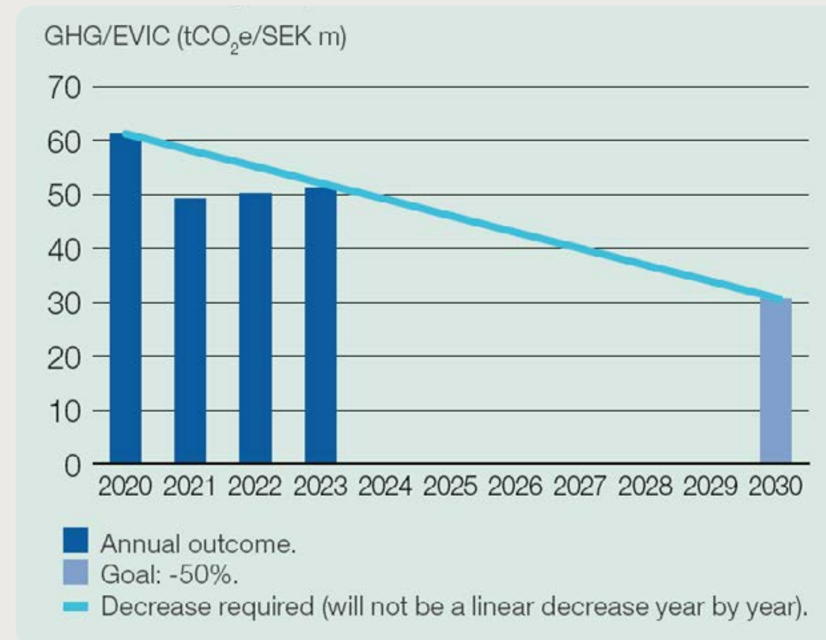
Handelsbanken Fonder's total carbon footprint (scope 1, 2, and 3) increased by 2.0 percent in 2023, from 50.2 to 51.2 tCO2e/MSEK, while the carbon footprint for scope 1 and 2 decreased by 13.1 percent*. We include scope 3 in our goal, despite the challenges, to avoid omitting a significant portion of our portfolio companies' emissions. The slight increase in scope 1, 2, and 3 carbon footprint is mainly due to several significant Swedish portfolio companies transitioning from estimated to reported scope 3 emissions data, which led to higher reported emissions than previously estimated. While it is positive to have better data that closer reflects reality, such large differences make it challenging to track progress towards our target of a 50 % reduction of the carbon footprint.

We analyse how these changes affect our measurement methods and climate strategy, focusing on companies' climate goals and development. Many companies that account for the largest part of our carbon footprint have reduced their own footprint, aligning with their climate targets. Over 63 percent of our total carbon footprint comes from companies with science-based emission reduction targets approved by the Science Based Targets initiative (SBTi), and this increases to over 70 percent when including companies that have applied for SBTi validation.

However, stock market movements, flows, and reallocations have led to the companies with high current carbon footprints making up a larger part of the total portfolio, contributing to an increase in our total portfolio carbon footprint despite the companies' own reductions.







*Disclosures regarding carbon intensity are based primarily on information provided by ISS ESG and present a snapshot of the portfolio's carbon footprint, with calculations that are not exhaustive.

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Limitations to the method

Measuring carbon footprint is complex and influenced by various parameters. We measure emissions relative to EVIC (enterprise value including cash), which is largely determined by the market capitalisation of our holdings. Carbon footprint can thus fluctuate based on how the market values a company, even if absolute emissions remain the same. We consider the entire value chain, measuring emissions in scopes 1, 2, and 3. However, data availability for value chain emissions varies among companies and markets, and there are different estimation methods when data is unavailable. The calculation is also sensitive to outliers with significantly deviating carbon emissions, which can greatly impact the results.

Despite these short-term uncertainties in estimating our carbon intensity, we believe in reporting the full picture of our emissions as transparently as possible, accounting for the method and metrics used. In the long term, we are confident that our investment choices and engagement activities will guide us towards net zero.

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Investing in the transition: Target 2

Actions 2023

One way for us to contribute to environmental and climate solutions is to invest in bonds that are issued by companies and other actors with the aim of financing improvements in the environment and climate. We have also had many dialogues with companies and banks to inform them of what types of projects we would like to see more of and of the sustainability parameters where we want to see more transparency.

In 2023, 20 direct dialogues were held with companies on how they, through their products and services, contribute concretely to important environmental and climate solutions. Many of these dialogues focus on the companies' contribution to accelerating the transition to renewable energy, electrification or increased energy efficiency. In addition, transforming the food system represents a crucial area for achieving global environmental and climate goals. As investors, we recognise opportunities to support and influence companies that create solutions across various segments of the value chain.

Target 2:

x2

Double our investments in environmental and climate-related solutions

Result 2023:

20.7 %

The share of environmental and climate-related solutions decreased from 22.7 % 2022 to 20.7 % 2023

Sustainable bonds

Investing in sustainable bonds is a way to directly fund companies that work on solutions to contribute to the Sustainable Development Goals. The supply of different types of sustainable bonds continues to grow within the bond market, and our active fixed income managers are following the developments closely. Handelsbanken Fonder is globally a large investor in sustainable bonds, and by the end of 2023 our holdings in green, social and sustainability bonds amounted to SEK 52.3 billion in total for the entire fixed income management, an increase of SEK 2.6 billion compared with the previous year. Of these SEK 52.3 billion, 50.9 billion were holdings in bonds classified as contributing to environmental and climate solutions, which is an increase of 5.4 percent compared to 2022.

When investing in bonds that are categorised as green or sustainable, we actively seek for investment opportunities that provide clear added value. Investments are directed towards projects' objectives deemed essential in the sector, in the market and in accordance with our overall strategy. We also carry out engagement efforts in the area and we have held many dialogues with companies and banks to inform them of what types of projects we would like to see more of and of the sustainability parameters where we want more transparency. Overall, the supply is dominated by bonds aimed at financing reduced climate impact. Investment opportunities in climate adaptation and other environmental issues, on the other hand, still make up a smaller proportion of the supply. In the latter category, we are actively seeking investments, for example connected to water and biodiversity, and in 2023 several new investments have been made related to these themes.

Besides green, social and sustainability bonds (labelled Use-of-Proceeds due to having a predefined use of proceeds, linked to sustainability-related projects), our fixed income funds also invest in Sustainability-Linked Bonds, SLBs. These are bonds that facilitate the responsible financing of a company's transition, using predefined sustainability goals that the company is required to meet, together with the ongoing reporting of its progress.

During 2023, together with Nasdaq Sustainable Bond Network, we made progress on collecting the data needed to measure the real-world impact from the Use-of-Proceeds bonds, such as the amount of installed renewable energy capacity or sequestrated tons of carbon from projects financed within the bond frameworks.

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Results
The share of climate solutions in our assets under management decreased during the year — from 22.7 to 20.7 percent. The outcome primarily results from the reduction in size of our actively managed funds, which have a significant proportion of investments in solution companies, relative to our index funds that allocate a smaller portion to this type of investment.

In 2023, we have seen strong growth in our index products, which reflects how the market broadly developed during the year. Our Paris-aligned index funds experienced significant growth, which is undoubtedly positive from a climate perspective. However, this growth also means that actively managed funds, which specifically invest in environmental and climate solutions, constitute a smaller share of the fund company's total capital. Consequently, this could negatively impact the fund company's target of increasing investments in environmental and climate solutions. Environmental and climate solutions at the company level are measured according to the fund company's method based on revenue that positively contribute to the environmental and climate-related goals in Agenda 2030, as well as revenue that aligns with the environmental and climate goals of the EU Taxonomy.

Sustainable bonds, such as green bonds, with environmental and climate goals are also seen as solution investments. In an overall assessment, it is important to take into account both emissions (target 1) and solutions (target 2), which is why Handelsbanken Fonder has set separate targets for these areas. In the long term, we see that these two areas meet, but in the short term it may seem as though there are contradictions between them.

How we define environmental and climate solutions

Environmental and climate solutions are measured based on each company's alignment with the objectives of the EU Taxonomy, and it's contribution to the environmental and climate-related goals in Agenda 2030: SDG 2 (Zero hunger); SDG 6 on sustainable use of water; SDG 7 on sustainable energy; SDG 11 (Sustainable cities and communities) on promoting sustainable buildings; SDG 12 (Responsible consumption and production) on optimising material use; SDG 13 on climate action; SDG 14 (Life below water) on the conservation of marine ecosystems; and SDG 15 (Life on land) on the protection, restoration and promotion of sustainable use of land-based ecosystems. Sustainable bonds, such as green bonds, are also considered an environmental and climate solution.

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

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Target under development - Influencing the transition

Actions 2023

In 2023, we refined our prioritisation process to maximise our impact and contribute to our objective. We focus on companies that represent the largest portion of our portfolio's carbon footprint, assessing their emission reduction targets for scopes 1, 2, and 3, as well as the quality and completeness of their reporting. Accurate data helps us manage our portfolios' climate footprint and enables companies to identify emission reduction opportunities. We also seek clear plans from companies on how they intend to achieve their targets, including strategies to reduce supply chain emissions.

Results

Environment and climate change has been a top priority for our dialogues in 2023, both in our own direct company dialogues and in joint engagements with other investors.

In 2023, the fund company held 80 direct dialogues about climate change, of which ten were climate dialogues which were prioritised because those companies account for the largest share of our portfolio's overall emission intensity and because we see concrete opportunities for improvements in their climate action.

Initiatives and collaborations

Carbon Disclosure Project

Carbon Disclosure Project (CDP) is an independent, international non-profit organization that works to increase openness and dialogue around companies' environmental impact - and to make information about this impact available to investors. Handelsbanken Fonder participates in CDP's annual non-disclosure campaign to promote corporate transparency regarding climate change, deforestation and water security, as well as in CDP's campaign to encourage companies to set and report science-based targets for emission reductions in order to achieve net zero emissions before 2050.

Net Zero Asset Managers Initiative

The Net Zero Asset Managers (NZAM) initiative is a global group of asset managers committed to supporting the goal of achieving net zero greenhouse gas emissions by 2050 or sooner. This ambitious target is in line with the Paris Agreement's aim to limit global warming to 1.5°C above pre-industrial levels.

Handelsbanken Fonder supports the goal of net zero by 2050, and have committed invest aligned with net zero emissions by 2040. Our climate targets are a central part of our commitment, set based on the Net Zero Investment Framework (NZIF) aligned with the recommendations of NZAM.

Institutional Investors Group on Climate Change

The Institutional Investors Group on Climate Change (IIGCC) is a leading European membership body for investor collaboration on climate change, and a founding partner of the Net Zero Asset Managers (NZAM) initiative. IIGCC supports the investment community in driving progress towards a net zero future by providing a collaborative platform, developing tools such as the Net Zero Investment Framework, and engaging with stakeholders to promote effective climate action. As a member of IIGCC, Handelsbanken Fonder engages with other investors to e.g. improve guidelines and methods relating to the integration of scope 3-data asset managers.

Target under development:

Influencing

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Climate Action 100+
Climate Action 100+ is a global investor-led initiative working to ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change. Handelsbanken Fonder joined the initiative in 2017.

Global Impact Investing Network
Global Impact Investing Network (GIIN) is a global network that connects impact investors to share knowledge, methods and develop frameworks that increase transparency and credibility in the impact investing market. Handelsbanken is a member of GIIN and as of 2023 we manage two impact funds: Handelsbanken Latinamerika Impact Tema, and Handelsbanken Global Impact.

Emissions reporting

We report on financed greenhouse gas emissions, carbon footprint and greenhouse gas intensity for investments in equities and corporate bonds, including both direct investments and indirect investments through fund of funds.

Emission metrics:

- Financed emissions (also called absolute emissions) are based on the ownership in each investment, calculated by comparing the size of the investment to the enterprise value including cash (EVIC) of the company.
- Carbon footprint is the normalised measure of financed emissions, expressing the emissions per million SEK invested.
- Greenhouse gas intensity (GHG intensity) shows the emissions for each company in relation to its revenue, expressed in million SEK.

These methodologies are in line with the definitions of Principal Adverse Impact Indicators 1, 2 and 3 in table 1 of the EU's Sustainable Finance Disclosure Regulation (SFDR).

Listed equity and corporate bonds		2020	2021	2022	2023
Share of portolio		91.8%	92.3%	88.1%	89.2%
Coverage		93.7%	95.0%	92.3%	96.3%
Reported/Estimated	Scope 1 + 2	76.5% / 23.5%	83.6% / 16.4%	88.4% / 11.6%	93.0% / 7.0%
	Scope 3	-	-	40.4% / 59.6%	57.9% / 42.1%
	Scope 1 + 2 + 3	-	-	40.1% / 59.9%	57.5% / 42.5%
Carbon footprint (tCO2e/mSEK EVIC)	Scope 1 + 2	3.53	2.75	3.01	2.62
	Scope 3	57.64	46.4	47.18	48.59
	Scope 1 + 2 + 3	61.17	49.15	50.19	51.21
GHG intensity (tCO2e/mSEK Revenue)	Scope 1 + 2	8.39	7.92	6.97	4.15
	Scope 3	144.63	130.41	116.98	128.70
	Scope 1 + 2 + 3	153.02	138.33	123.95	132.84
Financed emissions (tCO2e)	Scope 1 + 2	2 284 810	2 287 010	2 124 261	2 111 482
	Scope 3	37 307 778	38 588 095	33 296 554	39 159 130
	Scope 1 + 2 + 3	39 592 588	40 875 105	35 420 815	41 270 612

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Climate risk metrics

At Handelsbanken Fonder, we conduct thorough climate risk analysis to assess the potential impacts on our investment portfolios. Our analysis provides a comprehensive view of our portfolio's resilience by assessing risk scores for climate hazards, estimating changes in Physical Value at Risk (PVaR), and evaluating Transitional Value at Risk (TVaR) and Carbon Risk Ratings. These insights help us in effectively manage climate-related risks.

In the following sections, we present the detailed findings of our physical and transitional climate risk assessments. The results highlight strengths in our portfolio's climate resilience and identify areas for improvement. By transparently sharing these insights, we demonstrate our commitment to managing climate risks, aligning investments with the low-carbon transition, and delivering long-term value to our stakeholders.

Physical climate risk analysis results

Risk score per climate hazard

The total corporate portfolio of Handelsbanken Fonder demonstrates strong resilience when compared to an unscreened global benchmark. The portfolio shows a higher degree of resilience both with regards to industry peers for each company, and with regards to a global unscreened benchmark. This is substantiated by the portfolio having a score above 50 (the median) for each climate hazard and consistently outperforming the benchmark across all categories. Note that as described above, the physical risk scores are measured on a scale 0-100 where a higher score indicates a lower risk. The strong resilience compared to the unscreened global benchmark is likely in part a result of the geographic tilt towards Nordic companies in the aggregate exposure of the total portfolio. Compared to many of their international peers, many Nordic companies have a higher proportion of their operations in the Nordic region where the effect of climate change yet has not been as extreme as in other areas, this has so far reduced their exposure to some of the worst climate hazards. Additionally, many Nordic companies have integrated the assessment and mitigation of climate-related risks in their strategic risk management.

Climate hazard	Portfolio Risk Score*	Global Benchmark Risk Score
Coastal Floods	62	49
Droughts	62	59
Heat Stress	85	78
River Floods	65	56
Tropical Cyclones	72	59
Wildfires	95	89

*Note that the physical risk scores are measured on a scale 0-100 where a higher score indicates a lower risk.

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Physical value at risk
The current PVaR for our total portfolio stands at 0.10 %, which is lower than the global benchmark of 0.14 %. This aligns with our earlier observation of the portfolio's higher resilience to climate hazards compared to the benchmark.

We examined two future scenarios:
1. *Likely Scenario:* This scenario projects a PVaR increase to 0.61 % for our portfolio, compared to 0.72 % for the global bench mark.
2. *Worst-Case Scenario:* Under this scenario, our portfolio's PVaR could rise to 0.95 %, still outperforming the global benchmark's 1.10 %.

The analysis reveals varying levels of risk across the portfolio exposure to different sectors:
1. *Manufacturing:* This sector shows the highest potential risk exposure, with a current PVaR of 0.05 % potentially increasing to 0.53 % in the worst-case scenario.
2. *Financial and Insurance Activities:* Currently at 0.01 %, this sector could see its PVaR rise to 0.11 % in the worst-case scenario, indicating significant potential exposure.
3. *Information and Communication:* Starting at 0.01 %, this sector's PVaR could increase to 0.07 % in the worst-case scenario.
4. *Wholesale and Retail Trade:* With a current PVaR of 0.01 %, this sector could face an increase to 0.08 % in the worst-case scenario.
5. *Other sectors:* Most other sectors show relatively lower PVaR values and potential increases, suggesting lower exposure to physical climate risks.

These results complement our earlier climate hazard risk scores, providing a more comprehensive view of our portfolio's resilience. The sector-specific insights allow us to identify areas of higher climate risk exposure and inform our risk management strategies. Overall, our portfolio demonstrates better resilience compared to the global benchmark across different scenarios, aligning with our commitment to managing climate-related risks effectively.

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	Current PVaR	Likely Change PVaR	Likely Future PVaR	Worst-Case Change PVaR	Worst-Case Future PVaR
Total Portfolio	0.10%	0.51%	0.61%	0.84%	0.95%
Global Benchmark	0.14%	0.58%	0.72%	0.96%	1.10%
NACE sector contribution for the total portfolio PVaR:					
Accommodation and Food Service	0.00%	0.00%	0.01%	0.01%	0.01%
Administrative and Support Service	0.00%	0.01%	0.01%	0.02%	0.02%
Agriculture, Forestry and Fishing	0.00%	0.00%	0.00%	0.00%	0.00%
Arts, Entertainment and Recreation	0.00%	0.00%	0.00%	0.00%	0.00%
Construction	0.00%	0.02%	0.02%	0.02%	0.03%
Education	0.00%	0.00%	0.00%	0.00%	0.00%
Electricity, Gas, Steam and Air Conditioning Supply	0.01%	0.01%	0.01%	0.01%	0.02%
Financial and Insurance Activities	0.01%	0.07%	0.07%	0.10%	0.11%
Human Health and Social Work Activities	0.00%	0.01%	0.01%	0.01%	0.01%
Information and Communication	0.01%	0.04%	0.05%	0.06%	0.07%
Manufacturing	0.05%	0.29%	0.34%	0.48%	0.53%
Mining and Quarrying	0.00%	0.00%	0.00%	0.00%	0.00%
Other Service Activities	0.00%	0.00%	0.00%	0.00%	0.00%
Professional, Scientific and Technical Activities	0.00%	0.00%	0.00%	0.01%	0.01%
Public Administration	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate Activities	0.00%	0.00%	0.00%	0.00%	0.01%
Transportation and Storage	0.01%	0.02%	0.02%	0.03%	0.04%
Water Supply, Sewerage and Waste Management	0.00%	0.00%	0.00%	0.00%	0.00%
Wholesale and Retail Trade	0.01%	0.05%	0.05%	0.07%	0.08%

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Transitional value at risk and carbon risk rating
The total portfolio shows a TVaR of 2.27 %, which is significantly lower than the global benchmark of 4.99 %. This indicates that our portfolio is potentially less exposed to transition risks compared to the broader market when transitioning to a low-carbon economy. A key factor for the strong resilience to transition risks is our fossil fuel exclusion strategy, in which we exclude companies involved in exploration, production, refining and power generation based on fossil fuels (using 5 % of revenue as the upper limit for involvement). We also exclude companies with over 50 % of revenue derived from fossil fuel related services. Due to these exclusions, other sectors such as manufacturing represent our largest exposure to transition risks.

The portfolio's overall carbon risk rating is 61.22 on a scale of 0-100, where higher scores indicate better management of carbon-related risks. This compares favourably to the global benchmark score of 58.88, suggesting our portfolio is performing better than average in managing carbon risks.

Key observations:

1. Manufacturing is the largest contributor to TVaR at 2.07 %, but this is still well below the overall benchmark TVaR.
2. Electricity, Gas, Steam and Air Conditioning Supply shows a negative TVaR (-0.32 %), indicating potential opportunities in the transition. This sector also has the highest carbon risk rating (73.15), suggesting strong management of carbon risks.
3. Several sectors in our portfolio show higher carbon risk ratings than the benchmark average, including Information and Communication (69.03), Financial and Insurance Activities (66.20), and Professional, Scientific and Technical Activities (62.46).
4. Some sectors like Mining and Quarrying (43.14) and Water Supply, Sewerage and Waste Management (43.68) show lower carbon risk ratings, indicating potential areas for improvement.

Our portfolio demonstrates stronger resilience to transition risks compared to the global benchmark, as evidenced by the lower overall TVaR. The higher carbon risk rating also indicates better positioning for the low-carbon transition across most sectors.

The negative TVaR in the Electricity, Gas, Steam and Air Conditioning Supply sector, combined with its high carbon risk rating, suggests that the portfolio is well-positioned to benefit from opportunities in the transition to a low-carbon economy in this area.

While the overall picture is positive, there are still areas for potential improvement, particularly in sectors with lower carbon risk ratings. We will continue to monitor these metrics, engage with companies in high-risk sectors, and strive for further improvements in our climate risk profile, especially focusing on the manufacturing sector which contributes significantly to our TVaR.

	TVaR	Carbon Risk Rating*
Total Portfolio	2.27%	61.22
Global Benchmark	4.99%	58.88
NACE sector contribution for the total portfolio TVaR:		
Accommodation and Food Service	0.01%	49.96
Administrative and Support Service	0.01%	49.54
Agriculture, Forestry and Fishing	0.01%	40.41
Arts, Entertainment and Recreation	0.00%	56.39
Construction	0.16%	48.44
Education	0.00%	46.00
Electricity, Gas, Steam and Air Conditioning Supply	-0.32%	73.15
Financial and Insurance Activities	0.06%	66.20
Human Health and Social Work Activities	0.01%	55.93
Information and Communication	0.03%	69.03
Manufacturing	2.07%	59.45
Mining and Quarrying	0.05%	43.14
Other Service Activities	0.00%	50.72
Professional, Scientific and Technical Activities	0.01%	62.46
Public Administration	0.00%	48.27
Real Estate Activities	0.01%	50.56
Transportation and Storage	0.05%	47.61
Water Supply, Sewerage and Waste Management	0.01%	43.68
Wholesale and Retail Trade	0.09%	58.02

*Note that the carbon risk rating is measured on a scale of 0-100, where higher scores indicate better management of carbon-related risks.

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The imperative to assess and disclose nature related risks and opportuntities

Climate change itself drives, and is driven by, the loss of biodiversity. For example, plant biodiversity loss has been shown to have negative consequences on carbon storage as an ecosystem´s carbon sequestration potential is tightly linked to its biological diversity. Biodiversity is also essential for providing nature-based solutions to climate adaption by providing protection against storms, fires, and floods. Society, businesses, and finance rely on nature's assets, and the services they provide and their economies are closely connected to nature. The accelerating loss of biodiversity is an ongoing threat to the current and future economy and welfare. To address this urgent issue, conserving and restoring nature has become a critical global priority. By taking action, we can mitigate risks for businesses and financial systems. The Kunming-Montreal Global Biodiversity Framework, that was adapted in 2022 by 196 countries, include four overarching goals to be achieved by 2050 focusing on ecosystem and species health including to halt human-induced species extinction, the sustainable use of biodiversity, equitable sharing of benefits, and on implementation and finance to include closing the biodiversity finance gap of USD 700 billion per year*.

The TNFD is a global initiative to develop a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks and opportunities. The Taskforce on Nature-Related Financial Disclosures published its final recommendations in September 2023.
Handelsbanken Fonder has taken guidance from the framework in this exploratory reporting on biodiversity and we have the ambition to keep developing our reporting on nature related financial disclosures in line with the TNFD-recommendations.

Handelsbanken Fonder is in the early stages of developing its strategy on biodiversity. Our impact and dependency on biodiversity is mainly indirect, through our investments. The results presented in this report need to be explored in more detail and complemented with additional data and analysis, in order to form the basis for a well-grounded strategy on biodiversity.

* Kunming-Montreal Global Biodiversity Framework , www.cbd.int/doc/decisions/cop-15/cop-15-dec-04-en.pdf

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Impacts, dependencies, risks and opportunities

At an early stage of assessing nature and biodiversity, the dependencies and impacts, as well as the risks and opportunities, are interconnected. For example, a biodiversity hot spot identified on a forestry property could be both a potential risk and a potential opportunity depending on the operations carried out by the owner.

Handelsbanken Fonder has made an initial mapping of how the fund company's investment portfolio at an overall level can, through its combined exposure to different sectors, be assumed to affect and be dependent on nature and its ecosystem services. The survey provides initial guidance as to which sectors and areas may be relevant to evaluate more closely. The analysis is based on research-based assumptions about how sectors in general can be linked to the impact on different ecosystem services, as well as which ecosystem services the different sectors' production processes are primarily dependent on. The assessment is designed at global and sector level and thus does not take into account company-specific or geographically specific factors. The mapping was carried out using the tool Encore, developed by Global Canopy, UNEP FI and UNEP-WCMC.

For risks related to impact drivers, Encore creates a risk score of 3 – 9, where 3 corresponds to a very low risk and 9 corresponds to a very high risk. The score is derived as a sum of the values for three underlying categories: i) Frequency, ii) Timeframe, and iii) Severity, each assigned a value of 1-3.

The weighted risk exposure per impact driver shows that GHG emissions, terrestrial ecosystem use, along with water use and freshwater ecosystem use, are the largest potential impact drivers of the total portfolio. To better understand the sources of the risk exposure, the results are shown for each sector – which highlights that the exposure to manufacturing companies is the largest contributor to the total risk exposure related to GHG emissions.

For risks related to dependencies on ecosystem services, Encore uses a similar scoring method as for impact drivers – where a higher value indicates a higher risk. The portfolio weighted score should however only be interpreted as a relative ranking of the risk exposures, rather than an absolute measure. The weighted risk exposure of dependencies per ecosystem service show three large potential dependencies on water: i) ground water, ii)

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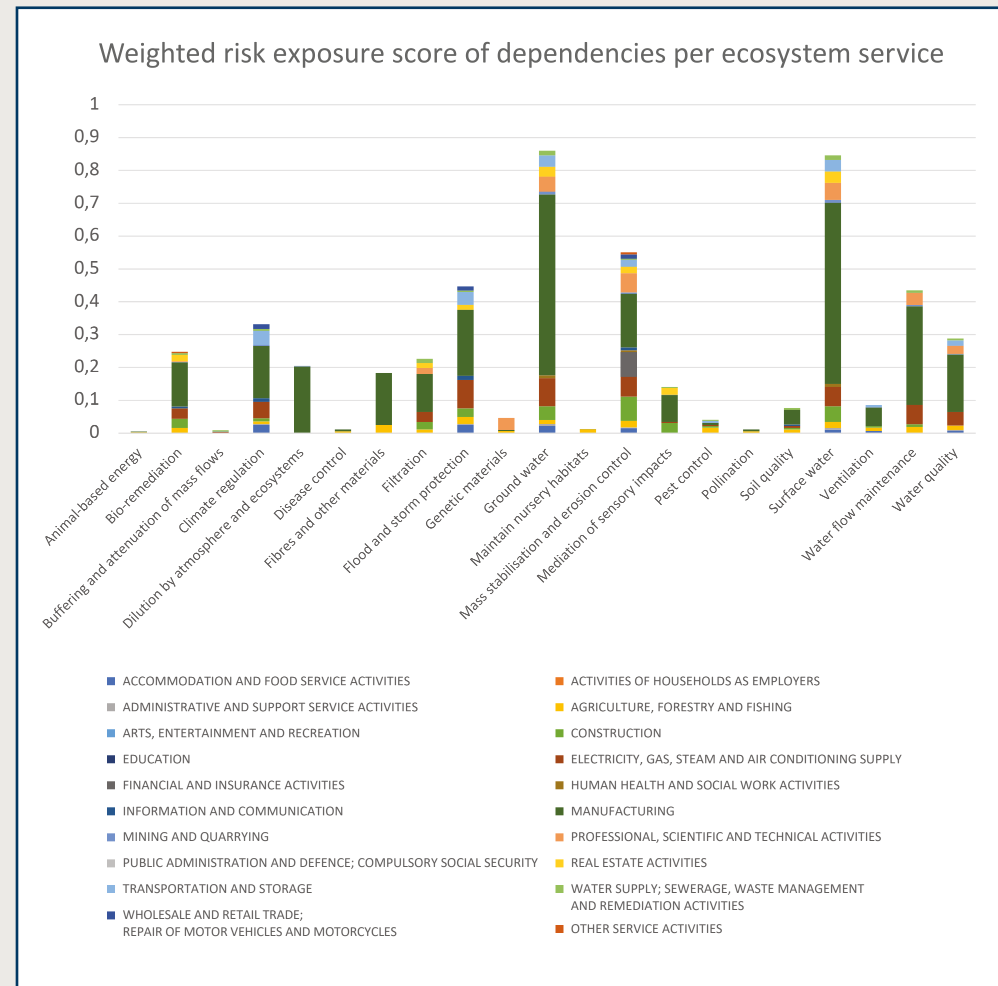
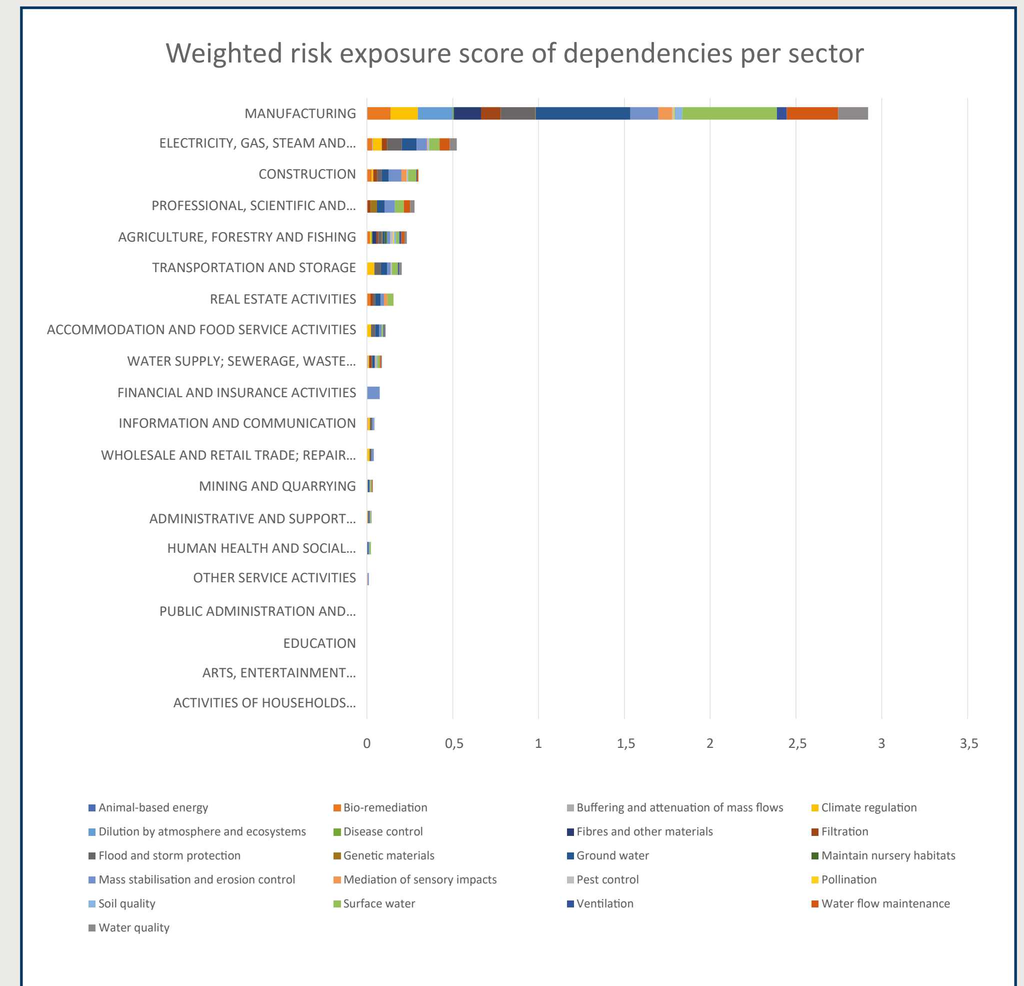
surface water, and iii) water flow maintenance. Three other large dependencies are related to climate change mitigation and adaptation: i) mass stabilisation and erosion control, ii) flood and storm protection, and iii) climate regulation.

The weighted risk exposure of dependencies per sector shows that the portfolio's exposure to manufacturing companies represent the largest potential dependencies on ecosystem services.

Overall, the mapping highlights sectors and issues that may be important to the fund company and provides guidance on prioritised next steps in the development of a biodiversity strategy.





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Goals, targets and metrics

Since Handelsbanken Fonder is in an early phase of adapting to TNFD, the biodiversity metrics presented in this report are not part of a specific biodiversity goal or target. However, as nature is linked with climate change and sustainable development in several ways, Handelsbanken Fonder's existing targets indirectly guide our work on nature:

- Reduce our carbon intensity by 50% by 2030
- Double our investments in environmental and climate solutions by 2030
- Increase the share of sustainable investments by 30% by 2025
- Increasing our engagement activities with positive results each year until 2025

Handelsbanken Fonder includes metrics of relevance to biodiversity in our SFDR reporting, i.e. PAI indicators.

Going forward, we will continue to assess and develop appropriate metrics, targets and goals as we further develop our strategy on biodiversity.

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Outcome PAI indicators

Drivers of nature change	PAI-indicator	Description	Result 2023
Climate change	Table 1, indicator 1. Greenhouse gas emissions	Scope 1 greenhouse gas emissions	1 468 047 tCO2e
	Table 1, indicator 1. Greenhouse gas emissions	Scope 2 greenhouse gas emissions	528 705 tCO2e
	Table 1, indicator 1. Greenhouse gas emissions	Scope 3 greenhouse gas emissions	36 336 407 tCO2e
	Table 1, indicator 1. Greenhouse gas emissions	Total greenhouse gas emissions	38 333 158 tCO2e
Land/freshwater/ ocean use change	Table 2, indicator 10. Land degradation, desertification, sealing of soil	Share of investments in investee projects whose activities cause soil degradation, desertification or sealing of land.	11.00%
	Table 2, indicator 15. Deforestation	Share of investments in companies without a policy to address deforestation.	81.42%
Pollution/Pollution removal	Table 1, indicator 8. Discharge to water	Tonnes of water emissions generated by investees per million euros invested, expressed as a weighted average.	1.40 t/mEUR
	Table 1, indicator 9. Hazardous waste and radioactive waste	Tonnes of hazardous waste and radioactive waste generated by investees per million euros invested, expressed as a weighted average.	3.27 t/mEUR
	Table 2, indicator 1. Emissions of inorganic pollutants	Tonnes of inorganic pollutants equivalent to per million EUR invested, expressed as a weighted average.	0.00 t/mEUR
	Table 2, indicator 2. Emissions of air pollutants	Tonnes of air pollution equivalent to per million euros invested, expressed as a weighted average.	0.02 t/mEUR
	Table 2, indicator 3. Emissions of substances that deplete the ozone layer	Tonnes of ozone-depleting substances equivalent to per million euros invested, expressed as a weighted average.	0.03 t/mEUR
	Table 2, indicator 13. Non-recycled waste quota	Tonnes of non-recycled waste generated by investees per million euros invested, expressed as a weighted average.	73.79 t/mEUR

In the additional guidance for financial institutions, TNFD provides a mapping of how the Sustainable Finance Disclosure Regulation (SFDR) maps against the TNFD metrics. SFDR is an EU-regulation intended to help investors to assess how sustainability risks are integrated in the investment decision process. It contains several mandatory indicators of Principal Adverse Impacts (PAI).

Handelsbanken Fonder has chosen to include a set of voluntary indicators, above the minimum requirements, to provide a broader disclosure of nature related impacts.

A full statement of how Handelsbanken Fonder AB considers principal adverse impacts of its investment decisions on sustainability factors is available at handelsbankenfonder.se.

Drivers of nature change	PAI-indicator	Description	Result 2023
Resource use/ replenishment	Table 2, indicator 6. Water use and recycling	1. Average amount of water consumed by the investee (in cubic metres) per million euros of income from the investee.	1 516.65 m3/mEUR
	Table 2, indicator 6. Water use and recycling	2. Weighted average share of water recovered and reused by investee.	100.45%
	Table 2, indicator 7. Investments in companies without a water management policy	Share of investments in investee projects without a water management policy.	17.69%
	Table 2, indicator 8. Exposure to areas with high water stress	Share of investments in investee sites located in areas with high water stress without water management policies.	No data
	Table 2, indicator 11. Investments in companies without sustainable land/agricultural practices	Share of investments in investee investments without sustainable land/agricultural practices or policies.	No data
	Table 2, indicator 12. Investing in companies without sustainable ocean sustainability practices	Share of investments in investee investments without methods or strategies for sustainability in the oceans.	93.91%
State of nature	Table 1, indicator 7. Activities that adversely affect areas with sensitive biodiversity	Share of investments in investee with sites/projects located in or near areas with sensitive biodiversity where the investees' activities have a negative impact on these areas.	1.76%
	Table 2, indicator 14. Natural species and protected areas	1. Share of investments in investee whose activities affect endangered species.	No data
	Table 2, indicator 14. Natural species and protected areas	2. Share of investments in investee investments without a biodiversity protection policy covering operational sites owned, leased, managed in or adjacent to a protected area or a high biodiversity area outside protected areas.	1.23%

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Influence/Stewardship

Biodiversity is a priority area within our engagement work. During 2023, we held 27 direct dialogues on biodiversity. In addition, we have also participated in several joint thematic dialogues on biodiversity as well as initiatives and calls to action.

Nature Action 100

Nature Action 100 is a global investor initiative run by Ceres, IIGCC, Finance for Biodiversity and Planet Tracker. The initiative's ambition is to influence the 100 companies in the world that are deemed to be most systemically important for reversing the loss of natural capital and biodiversity by 2030. Handelsbanken Fonder joined the initiative in 2023.

FAIRR

The FAIRR Initiative (FAIRR) is a collaborative investor network that raises awareness of the environmental, social and governance (ESG) risks and opportunities in the global food sector. Handelsbanken Fonder became a member of the network in 2018 and has since been actively involved in several thematic advocacy work that FAIRR leads in the areas of biodiversity, antibiotic resistance, aquaculture, alternative protein sources and working conditions for meat producers.

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FAIRR Sustainable Aquaculture
Aquaculture is a rapidly growing food sector that can cause climate risks through the use of feed, which often has a high protein content. The investor collaboration targets eight of the world's largest salmon companies to encourage them to develop a strategic, science-based approach to better manage ESG risks associated with the purchase of wild forage fish, fishmeal, fish oil, and soy.

FAIRR Biodiversity Loss from Waste Pollution Engagement
Preserving biodiversity is crucial to maintaining the ecosystems that the world depends on. FAIRR Biodiversity Loss from Waste Pollution Engagement aims to improve both the management of animal waste and nutrient pollution by encouraging companies to use manure in a sustainable way that provides nutrients without polluting soil and water, ultimately reducing the need for synthetic fertilizers. The investor collaboration we participate in targets ten of the world's largest pork and poultry producers and two agrochemical companies.

FAIRR Seafood Traceability
Fish and shellfish are some of the world's most traded and vulnerable commodities, primarily due to overfishing, with global demand expected to double by 2050. Traceability - tracking a product from the point of production (in the case of shellfish, from the vessel or farm) all the way through the supply chain - is crucial for companies to manage ESG risks. To ensure that seafood traceability is aligned with best practices, FAIRR has launched an investor collaboration for dialogues with a core group of seven seafood companies, supported by the World Wildlife Fund (WWF-US), UNEP FI's Sustainable Blue Economy Finance Initiative, World Benchmarking Alliance (WBA), and Planet Tracker.

Investor Initiative on Hazardous Chemicals
The Investor Initiative on Hazardous Chemicals (IIHC) is an investor-led initiative coordinated by ChemSec, a Swedish independent non-profit organisation that aims to influence, develop and implement a more progressive chemicals legislation for the transition to non-toxic alternatives through research and engagement. The IIHC pursues dialogue with 15 of the largest global chemical companies to reduce the use of harmful and persistent chemicals, and instead drive the transition to more non-toxic alternatives. Handelsbanken Fonder has been involved since the start of the initiative in 2023.

Business Coalition for a Global Plastics Treaty
The Business Coalition for a Global Plastics Treaty – convened by the Ellen MacArthur Foundation and WWF – brings together companies, NGOs and financial institutions committed to supporting the development of a legally binding UN treaty to end plastic pollution. The vision is a circular economy in which plastic never becomes waste or pollution, and instead, the value of products and materials is retained in the economy. Handelsbanken Fonder was the first Swedish financial player to join the coalition, and its work will continue until the treaty is adopted.

Climate Action 100+
Climate Action 100+ is a global collaborative initiative that aims to ensure that the world's largest corporate greenhouse gas emitters take responsibility and necessary action on climate change.

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Greenhouse gas emissions

Greenhouse gas emissions typically include the following gases, which are covered under the Kyoto Protocol:

1. *Carbon dioxide (CO2):* The most significant anthropogenic greenhouse gas, primarily resulting from the combustion of fossil fuels, deforestation, and industrial processes.
2. *Methane (CH4):* Emitted during the production and transport of fossil fuels, as well as from livestock, agricultural practices, and waste management.
3. *Nitrous oxide (N2O):* Released from agricultural and industrial activities, as well as during the combustion of fossil fuels and solid waste.
4. *Hydrofluorocarbons (HFCs):* Synthetic gases used as replacements for ozone depleting substances in various applications, such as refrigeration and air conditioning.
5. *Perfluorocarbons (PFCs):* By-products of aluminum smelting and semiconductor manufacturing processes.
6. *Sulfur hexafluoride (SF6):* Used in various industrial applications, such as electrical insulation and semiconductor manufacturing.
7. *Nitrogen trifluoride (NF3):* Used in the production of semi conductors and liquid crystal displays (LCDs).

Scope 1 emissions

Scope 1 emissions are direct greenhouse gas emissions that occur from sources owned or controlled by an organisation. These emissions are a direct result of a company's activities and include:

- Emissions from combustion in owned or controlled boilers, furnaces, and vehicles.
- Emissions from chemical production in owned or controlled process equipment.
- Fugitive emissions, such as leaks from owned or controlled equipment.

Scope 2 emissions

Scope 2 emissions are indirect greenhouse gas emissions associated with the purchase of electricity, steam, heat, or cooling consumed by an organisation. These emissions physically occur at the facility where the energy is generated but are attributed to the organisation that uses the energy. Scope 2 emissions are calculated using either a location-based or market-based method:

1. *Location-based method:* Reflects the average emissions intensity of grids on which energy consumption occurs.
2. *Market-based method:* Reflects emissions from electricity that companies have purposefully chosen (e.g., through contractual instruments like renewable energy certificates).

Scope 3 emissions

Scope 3 emissions are all other indirect emissions that occur in an organisation's value cain. These emissions are a consequence of the company's activities but occur from sources not owned or controlled by the organisation. Scope 3 emissions include both upstream and downstream emissions, such as:

Upstream categories

1. *Purchased goods and services:* Emissions from the extraction, production, and transportation of goods and services purchased by the organisation.
2. *Capital goods:* Emissions from the production of capital goods purchased or acquired by the organisation.
3. *Fuel- and energy-related activities:* Emissions related to the production of fuels and energy purchased and consumed by the organisation (not included in Scope 1 or 2).
4. *Upstream transportation and distribution:* Emissions from the transportation and distribution of products purchased by the organisation.
5. *Waste generated in operations:* Emissions from the disposal and treatment of waste generated by the organisation.
6. *Business travel:* Emissions from employee travel for business-related activities.
7. *Employee commuting:* Emissions from employee transportation to and from work.
8. *Upstream leased assets:* Emissions from the operation of assets leased by the organisation (lessee).

Downstream categories

9. *Downstream transportation and distribution:* Emissions from the transportation and distribution of products sold by the organisation.
10. *Processing of sold products:* Emissions from the processing of intermediate products sold by the organisation.
11. *Use of sold products:* Emissions from the use of goods and services sold by the organisation.
12. *End-of-life treatment of sold products:* Emissions from the waste disposal and treatment of products sold by the organisation at the end of their life.
13. *Downstream leased assets:* Emissions from the operation of assets owned by the organisation (lessor) and leased to other entities.
14. *Franchises:* Emissions from the operation of franchises not included in Scope 1 and 2.
15. *Investments:* Emissions associated with the organisation's investments.

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Avoided Emissions

Avoided emissions, sometimes informally called "Scope 4" emissions, refer to the reduction in greenhouse gas emissions that occurs when a low-carbon product, service, or project is implemented compared to a business-as-usual scenario. While not an official category in the GHG Protocol, this concept is increasingly used in sustainable investing to assess the positive climate impact of investments beyond direct emissions reductions.

Net zero

Net zero, in the context of an asset manager, refers to achieving a state of balance between the greenhouse gas emissions associated with an investment portfolio and the removal or offsetting of those emissions. This concept is central to aligning investment strategies with global climate goals, particularly the Paris Agreement's objective of limiting global warming.

The Net Zero Investment Framework (NZIF) and Science Based Targets initiative (SBTi) provide guidance on implementing this concept. They emphasize the importance of setting clear, measurable targets for emissions reduction that align with scientific consensus on climate change mitigation. These frameworks also stress the need for a comprehensive approach that goes beyond simple offsetting, instead focusing on real-world emissions reductions and support for the transition to a low-carbon economy.

Enterprise value including cash (EVIC)

EVIC is calculated as the sum of the market capitalisation of a company, without the deduction of cash or cash equivalents. It is used in the method to calculate carbon footprint as proposed by the EU Technical Expert Group on Sustainable Finance (TEG). Note that the carbon footprint can thus, even if the absolute emissions are the same, increase or decrease depending on how the market values a company.

Portfolio metrics

Financed Emissions

Financed emissions refer to the total greenhouse gas emissions associated with the companies in which the firm invests. These emissions are attributed to the asset manager based on the ownership in each company, calculated by comparing the size of the investment to the enterprise value including cash (EVIC). In the context of the Sustainable Finance Disclosure Regulation (SFDR), financed emissions are covered under Principal Adverse Impact (PAI) indicator 1.1.

Also called: Absolute emissions or total emissions, or just greenhouse gas emissions (in SFDR).

Carbon Footprint

The carbon footprint in the context of portfolio emissions is the normalized measure of financed emissions, usually expressed in tonnes of carbon dioxide equivalent (tCO2e) per million euros (or any other currency) of enterprise value including cash (EVIC). As such, it is interpreted as financed emissions per million euros invested. To convert carbon footprint to financed emissions, one would multiply the carbon footprint by the actual assets under management (AUM), expressed in millions of the chosen currency. Under SFDR, the carbon footprint is addressed by PAI indicator 1.2, using EVIC expressed in the terms of million euros as a denominator.
Also called: Greenhouse gas footprint.

Greenhouse Gas Intensity

Greenhouse gas intensity is a metric that expresses the greenhouse gas emissions relative to a specific unit of financial output, typically revenue generated from investments but for some sectors the actual product output such as tonnes of steel is used. In the context of SFDR, greenhouse gas intensity is covered under PAI indicator 1.3 using revenue expressed in the terms of million euros as a denominator.
Also called: Carbon intensity, or weighted average carbon intensity (WACI) for portfolios.

Physical Value at Risk (PVaR)

Physical Value at Risk (PVaR) quantifies potential financial losses due to physical climate risks, such as extreme weather events (e.g., hurricanes, floods, droughts) and long-term climatic changes (e.g., rising sea levels, changing precipitation patterns). PVaR helps assess the potential damage to assets, disruption to operations, and other financial impacts resulting from these physical climate risks.

Transitional Value at Risk (TVaR)

Transitional Value at Risk (TVaR) measures potential financial losses associated with the transition to a low-carbon economy. This includes risks from policy and legal changes (e.g., carbon pricing, emissions regulations), technology shifts, market changes (e.g., changing consumer preferences), and reputational impacts. TVaR helps quantify the potential financial impacts of these transition risks, such as stranded assets, increased operating costs, or reduced demand for carbon-intensive products.

Science Based Targets Initiative (SBTi)

The Science Based Targets initiative (SBTi) is a collaborative effort between CDP, the United Nations Global Compact, the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). The initiative aims to help companies set ambitious greenhouse gas emission reduction targets that are in line with the latest climate science and the goals of the Paris Agreement. By setting science-based targets, companies demonstrate their commitment to reducing their carbon footprint and contributing to the global effort to limit global warming to well below 2°C above pre-industrial levels, with efforts to limit warming to 1.5°C.

The SBTi provides a framework and methodology for companies to set emission reduction targets for their operations (scope 1 and 2) and value chain (scope 3). The initiative offers sector-specific guidance to help companies in various industries set targets that are consistent with the decarbonization pathways required to meet the goals of the Paris Agreement.

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These sector-specific guidelines cover a range of industries, including power, transport, buildings, industry, land use, and more.

Sustainable Finance Disclosure Regulation (SFDR)

The Sustainable Finance Disclosure Regulation (SFDR) is a key EU regulation implemented in March 2021 to improve transparency and prevent greenwashing in sustainable investing. It requires financial market participants in the EU to disclose how they integrate sustainability risks and impacts into their processes and products. The SFDR mandates specific disclosures for different product categories, focusing on climate-related metrics like emissions and fossil fuel exposure. Working together with the EU Taxonomy and Corporate Sustainability Reporting Directive, the SFDR aims to provide investors with standardized, comparable sustainability information to support the EU's climate goals.

EU Taxonomy

The EU Taxonomy is a classification system that defines environmentally sustainable economic activities, aiming to provide a common language, prevent greenwashing, and direct investments towards sustainable projects. As a key part of the EU's sustainable finance strategy and climate initiatives like the European Green Deal and Fit for 55 Package, the Taxonomy sets performance thresholds for activities substantially contributing to one of six environmental objectives, including climate change mitigation and adaptation, while avoiding significant harm to the others and complying with minimum social safeguards. It covers revenue, capital expenditures, and operational expenditures, and is designed to evolve over time to reflect technological advancements and changing environmental priorities.

Taskforce on Climate-related Financial Disclosures (TCFD)

The Taskforce on Climate-related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board (FSB) to address the lack of consistent and reliable information on companies' climate-related risks and opportunities. The TCFD's primary goal is to develop a reporting framework that enables companies to provide decision-useful information to investors, lenders, and insurance underwriters, allowing them to better assess and price climate-related risks and opportunities.

The TCFD framework is structured around four core elements: Governance, Strategy, Risk Management, and Metrics and Targets. These elements are designed to help companies disclose how they identify, assess, and manage climate-related risks and opportunities, as well as the potential financial impacts of these issues on their business.

1. *Governance:* Companies should disclose their governance around climate-related risks and opportunities, including the board's oversight and management's role in assessing and managing these issues.
2. *Strategy:* Companies should disclose the actual and potential impacts of climate-related risks and opportunities on their business, strategy, and financial planning, considering different climate-related scenarios, including a 2°C or lower scenario.
3. *Risk Management:* Companies should disclose how they identify, assess, and manage climate-related risks, and how these processes are integrated into their overall risk management framework.
4. *Metrics and Targets:* Companies should disclose the metrics and targets they use to assess and manage climate-related risks and opportunities, including their greenhouse gas emissions (Scope 1, 2, and, if appropriate, Scope 3) and the related risks.

The TCFD recommendations have been incorporated into the ISSB's proposed standards, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures).

Taskforce on Nature-related Financial Disclosures (TNFD)

The Taskforce on Nature-related Financial Disclosures (TNFD) is a global initiative aimed at developing a risk management and disclosure framework for organisations to report and act on nature-related risks and opportunities. Launched in 2021, the TNFD builds upon the success of the Task Force on Climate-related Financial Disclosures (TCFD) and recognizes the growing importance of nature and biodiversity in financial decision-making.

The TNFD framework is designed to help organisations identify, assess, and manage their impacts and dependencies on nature, as well as the risks and opportunities associated with nature loss and ecosystem degradation. The framework is structured around four core elements: governance, strategy, risk management, and metrics and targets, mirroring the structure of the TCFD recommendations.

International Financial Reporting Standards (IFRS)

The International Financial Reporting Standards (IFRS) Foundation, responsible for developing globally accepted accounting standards, established the International Sustainability Standards Board (ISSB) in 2021 to create a comprehensive baseline of sustainability disclosure standards. The ISSB released two proposed standards, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures), which build upon existing initiatives like the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). IFRS S2 incorporates the TCFD recommendations, providing a framework for reporting on governance, strategy, risk management, and metrics related to climate risks and opportunities. The adoption of these standards is expected to enhance consistency, comparability, and reliability in sustainability reporting globally, supporting informed decision-making and the transition to a low-carbon economy.

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European Sustainability Reporting Standards (ESRS)

The European Sustainability Reporting Standards (ESRS), developed by the European Financial Reporting Advisory Group (EFRAG) to support the implementation of the Corporate Sustainability Reporting Directive (CSRD), provide a comprehensive set of disclosure requirements covering environmental, social, and governance matters. ESRS E1 (Climate change), a key standard within the ESRS, aligns with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the International Sustainability Standards Board's (ISSB) IFRS S2 (Climate-related Disclosures). It requires companies to disclose information on governance, strategy, risk management, metrics, and targets related to climate change, including greenhouse gas emissions and plans to transition to a low-carbon economy. The alignment of ESRS E1 with TCFD and IFRS S2 ensures compatibility between EU and global sustainability reporting standards, reducing the reporting burden for companies and facilitating the comparability of sustainability information for investors and stakeholders.

The Kyoto Protocol

The Kyoto Protocol is an international agreement adopted in 1997 as an extension of the United Nations Framework Convention on Climate Change (UNFCCC). It sets legally binding emission reduction targets for industrialized countries to reduce greenhouse gas emissions by an average of 5 % below 1990 levels from 2008-2012. It introduced market-based mechanisms like Emissions Trading, CDM, and JI to help countries meet targets cost-effectively.

Despite being a significant step, its effectiveness was limited by lack of participation from major emitters and absence of binding targets for developing countries. The Paris Agreement succeeded it in 2015 with more ambitious goals involving all countries.

The Paris agreement

An international treaty on climate change adopted in 2015 at the United Nations Climate Change Conference (COP21) in Paris. The agreement's central aim is to strengthen the global response to the threat of climate change by keeping global temperature rise this century well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The agreement also aims to increase the ability of countries to deal with the impacts of climate change and make finance flows consistent with a low greenhouse gas emissions and climate-resilient pathway.

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

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