

# Responsible Investment 2012



Church of Sweden 

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## **ABOUT THE CHURCH OF SWEDEN**

The Church of Sweden is Sweden's largest religious community and the country's largest membership organisation. At the end of 2012, we had about 6.5 million members, equivalent to 67.5% percent of the population. The organisation consists of a national level (General Synod, Central Board and the Central Church Office in Uppsala) and independent regional and local units (dioceses and parishes). At various levels within the organisation committed efforts are ongoing to contribute to sustainable development. Asset management at the national level complements this work. At present, assets of SEK 4.9 billion are being managed in accordance with the fundamental values of the Church of Sweden. We are active owners and we promote respect for human rights, environmental conservation and good corporate governance through dialogue with companies and cooperation with other investors.

## **ABOUT THE REPORT**

In 2012, the national level of the Church of Sweden published its first annual report describing how we integrate issues such as the environment, human rights and corporate governance in our investment decisions. This report reviews our efforts in 2012. It is primarily intended for parishes, dioceses and investors with whom we cooperate, but also for a broader public.

For further information about the Church of Sweden's other efforts towards sustainable development, please visit the following website:  
**[www.churchofsweden.org/international](http://www.churchofsweden.org/international)**

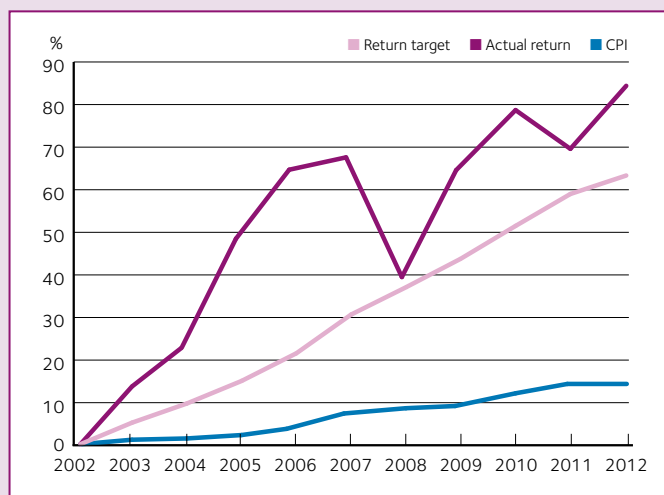
# In brief

- Assets under management of SEK 4.9 billion at year-end.
- Return: 9.1% corresponding to SEK 412 million.
- All asset managers outperformed their benchmarks.

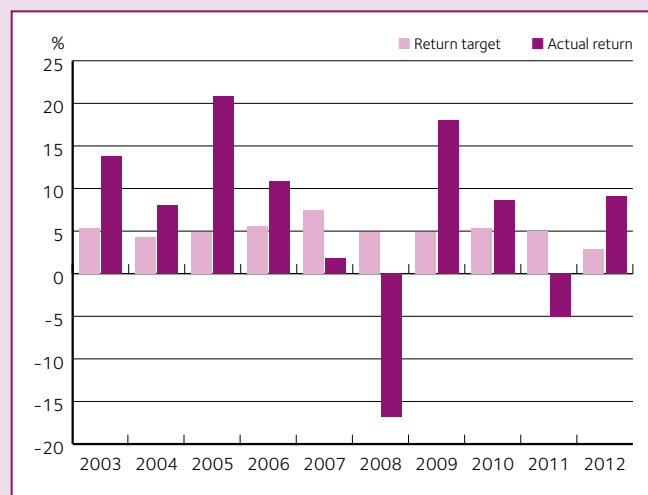
## HISTORICAL RETURNS 2003 TO 2012

Asset management at the national level takes a long-term approach. The annual return requirement is 3% above inflation over a rolling ten-year period. The average annual return on assets under management over the last ten-year period was 5% above inflation.

### ACCUMULATED ACTUAL RETURN, RETURN TARGET AND INFLATION



### RETURN TARGET AND ACTUAL RETURN





# Message from the chair and the chief investment officer

Responsible investment has long been of high-priority for many faith communities. We are delighted to see that the field is expanding rapidly to encompass a wide variety of asset managers and asset owners worldwide. Over the past year, we have received a steadily increasing number of queries from asset managers interested in investing more sustainably. Clearly, more people have understood that responsible investment is necessary to secure long-term returns.

Deutsche Bank issued a report in 2012 that summarised more than 60 academic studies in the field.<sup>1</sup> In nine out of ten cases, the conclusion was that companies with high ratings for ESG (Environmental, Social and Governance) factors financially outperform companies with low ESG ratings. The study also shows that companies with high ratings for ESG factors have a lower cost of capital because the market recognises that these companies are lower risk than others.

Through its financial policy, the national level of the Church of Sweden has established a distinct sustainability orientation for asset management. We have chosen this path for ethical reasons and because we believe it makes eminent sense from a financial perspective. Our asset managers are instructed to concentrate on companies that are advancing more sustainable development. They also exclude companies that manufacture weapons and tobacco, for instance, and companies whose primary business is extraction of oil and coal. It is gratifying to see that this orientation was successful during the past year: all asset managers outperformed their benchmarks in 2012. Over a somewhat longer time horizon, we can note that our managers of global and emerging market funds have also outperformed the market. Generation IM Global Equity Fund and First State Global Emerging Markets Sustainability Fund are two prime examples. Overall, we have met and exceeded the long-term return requirement with an annual return of 5% above inflation for the last ten years.

Even though we have observed higher interest in sustainability-oriented management strategies, we and other like-minded investors must acknowledge that the pace of change is far too slow in the wider business community, the financial services industry and the policy arena. We must gather our forces if we are to attain goals like limiting global warming to two degrees.

Great challenges also remain to be overcome in the areas of human rights and corruption.


We believe business has an essential role to play in the effort to create a better world. In this report, we provide examples of innovative companies that are helping fight poverty and arrive at innovative, climate-smart solutions. We also describe the engagements we are pursuing with the companies in which we invest to send clear signals of what we want to see.

Our focus in 2012 was the pharmaceutical and ICT (information and communication technology) industries. The subjects covered in this report include the environmental problems exacerbated by the pharmaceutical industry in India and the reports of alleged corruption regarding TeliaSonera that dominated Swedish media coverage during the year.

We hope you will find the report worthwhile and informative reading.



Bertil Persson  
Chair  
Central Board Asset  
Management Council



Anders Thorendal  
Treasurer and Chief  
Investment Officer

<sup>1</sup> DB Climate Change Advisors, 2012, *Sustainable Investing: Establishing Long-Term Value and Performance*.



# Our starting point

Business has an essential role to play in efforts towards more sustainable development. Companies that work actively with environmental and human rights issues are important drivers of change. The asset managers that we select are tasked with emphasising companies that are advancing solutions to major global challenges and have far-reaching ambitions for their sustainability work.

## LONG-TERM ASSET MANAGEMENT

Assets are managed at the national level of the Church of Sweden in the interests of maintaining buffer capital against future needs. These assets amounted to SEK 4.9 billion at the end of 2012. Our assets are managed externally by carefully selected asset managers (please see page 22 for an overview).

The internal regulations of the Church of Sweden (the Church Order) state that Church assets must be secured and managed in accordance with the fundamental values of the Church of Sweden. Management must take a long-term perspective, with an annual return requirement of 3% above inflation over a rolling ten-year period. Our basic premise is that there is financial benefit to be reaped from investing in responsible companies and influencing companies through dialogue to move in the right direction. We are prepared to refrain from investments and sell holdings in companies that do not meet our standards.

The General Synod, the supreme governing body of the Church of Sweden, has since 2008 decided to withdraw funds from assets at the national level for input to parishes and dioceses. As of year-end 2012, this had resulted in total withdrawals of SEK 573 million from assets under management.

## GUIDED BY THE FINANCIAL POLICY

Asset management is based on the financial policy adopted by the Central Board in 2010. The policy was clarified by the Asset Management Council the same year by means of investment instructions that provide further guidance in assessing companies. The policy is based upon two fundamental Christian values: the principle of human dignity and the concept of stewardship. Based upon these two principles, asset management complements other efforts towards sustainable development within the Church of Sweden, at home and abroad.

The asset managers we engage are expected to select companies whose business or products and services contribute to sustainable development. These may be companies that are working actively and responsibly to improve working conditions, environmental protection and governance (ESG factors), for example by reducing their energy consumption and taking action against corruption. They may also be companies whose business model is to develop products and services that are advancing solutions to some of the most pressing global issues for the future, such as climate change and the shortage of clean water. Our asset managers must be able to justify the holdings and explain how the companies they select are working with these issues and contributing to the greater good.

Asset management must be oriented towards companies that are making a positive social contribution, which means certain businesses are automatically excluded. Investments in companies that manufacture tobacco, for example, are prohibited. The criteria for companies with connections to weapons are also strict and we are restrictive about investments in fossil energy sources. In this way negative (exclusionary) and positive (inclusionary) screening are combined. In a negative screening process, companies and businesses are excluded, while positive (inclusive) screening entails the proactive selection of companies committed to carefully considered sustainability programmes. Excluding companies is still the dominant strategy among responsible investors but positive screening has become more common.

◀ We need large investments in green technology to attain the goal of limiting global warming to two degrees. Pictured: a solar and wind-powered streetlight in Japan.





### OUR PRINCIPLES – THE ARCHBISHOP EXPLAINS

Our financial policy refers to our Christian values and thus emanates from two important principles: the principle of human dignity and the concept of stewardship. The first is meant to protect and defend humanity and the second to protect and defend other life on Earth, with emphasis on human responsibility. These principles imbue all activities within the Church of Sweden – lay outreach, development assistance, engagement in climate change policy and how we manage our assets. Archbishop Anders Wejryd further explains what this involves:

“ The essence of the principle of human dignity is that humankind is sacred. A person may achieve great things, but their dignity and worth reside in the simple fact of their existence and not in their achievements. And so, a person retains their dignity and worth even when they can no longer work and be useful – and before they can work and be useful. Human dignity is so easily disregarded if we believe people are born only to achieve something else and so become dispensable commodities. Utility becomes the be-all and end-all. This is how it has been. This is how it is.

We can base this principle of inalienable human dignity on agreements. And such agreements may be powerful. The international convention efforts to establish the Universal Declaration of Human Rights were based on the lessons learnt through war and genocide when no such rights were applicable. But if we forget why we made these agreements, it can be frighteningly easy to abolish them; that resolved by human beings can also be dissolved by human beings.

We can base this dignity in wonder at how human beings are always ‘more than we can see and understand here and now’ in a kind of protective shield of humility that prevents short-term profit motives from taking over. I believe this is a stronger protection. A protective shield that is strengthened by all human encounters, especially with people whose living conditions are different to our own.

Humanity is part of Creation and we have the capacity to imagine consequences in various directions and on multiple levels. We are often wrong about the consequences and people disagree as to which consequences are most likely. We tend to forget how dependent we are upon the rest of Creation. But our capacity to imagine consequences also imposes a duty upon us. This is a traditional Judeo-Christian worldview. Accordingly, we must engage in ongoing dialogue about what will lead to a better world. Widening disparities around the world and shrinking access to food and water, partly due to climate change, are some of the challenges which we must – together – overcome.

Human beings enjoy a special status. They have access to Creation and can both explore and use it – and thus are also responsible for how it is used. This is a sacred duty towards both Creation itself, today, here and now, and towards future generations of human beings and their opportunities to live good lives. God does not micromanage how we should handle our choices and our responsibility as good stewards. We must manage this ourselves, as responsible people – who are ultimately accountable before God. ”



The principle of human dignity and the stewardship concept have, among else, led to the following standards of asset management. For all holdings, asset managers must be able to defend the company from a sustainability perspective.

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#### BUSINESSES WE AVOID

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##### **WEAPONS**

We refrain from investing in companies that manufacture or sell weapons and munitions to any significant extent. In principle, the policy does not permit investments in companies whose products can be linked to weapons or munitions, but a qualitative assessment is also made of the nature of the product in order for the analysis to be more modulated..

##### **TOBACCO**

We do not invest in tobacco manufacturers. Sellers of tobacco must, among else, be able to demonstrate that they conform to an internal code of conduct or an industry code based on the WHO Convention on Tobacco Control.

##### **ALCOHOL AND GAMING**

Here as well, we set standards for responsible marketing in order to minimise negative impact on society and the lives of individuals.

##### **PORNOGRAPHY**

Companies that produce pornography are excluded. With respect to distribution an assessment is carried out to determine, for example, whether or not income derived from distribution is marginal and whether the company actively markets pornographic material.

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#### OUR POLICY FOR INVESTING IN THE ENERGY SECTOR

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The Church of Sweden has taken a clear stance on climate change. Accordingly, the financial policy is restrictive concerning investments in companies that extract fossil energy sources. We do, on the other hand, invest in several companies that produce renewable energy and green technology. We have not invested in companies exclusively dedicated to oil or coal extraction since 2010. The following standards apply:

##### **OIL AND NATURAL GAS**

In this sector, we only invest in companies in which natural gas constitutes the majority of production.

##### **OIL SAND**

We do not invest in companies involved in oil sand exploration or extraction. Shale oil, shale gas and deep-sea drilling are avoided if the consequences of extraction may be equated to those for oil sand.

##### **COAL**

Only companies whose income from coal is less than five percent are permitted.

##### **ENERGY COMPANIES**

The companies we select must be industry leaders in sustainability.

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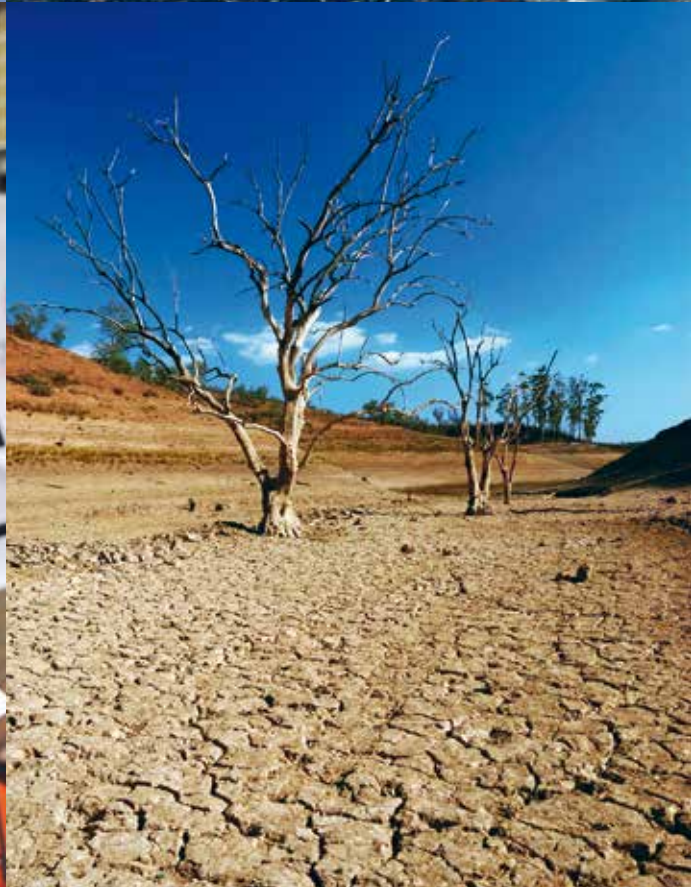
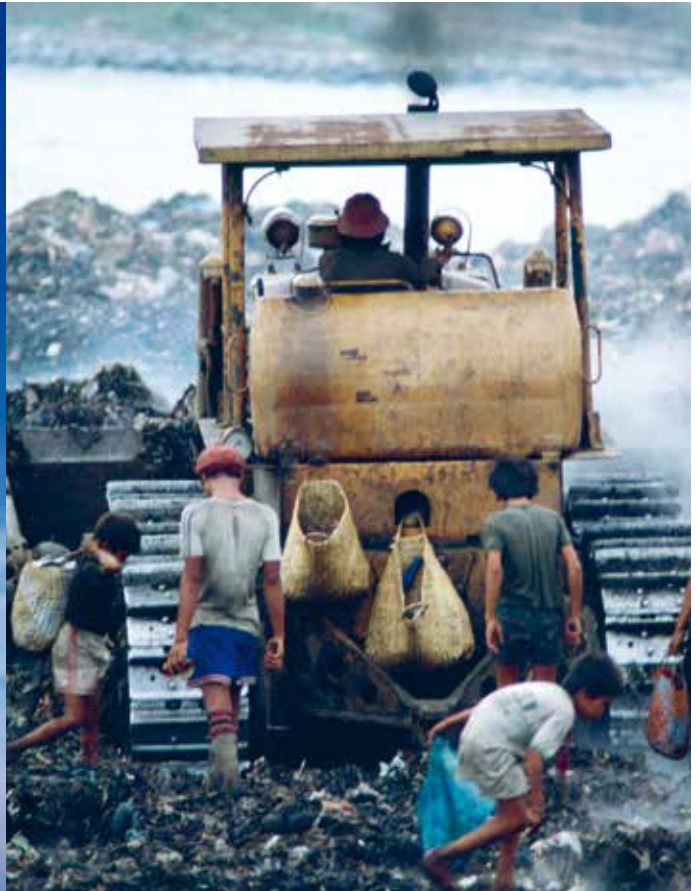


PHOTO: ALEXANDER SJÖBERG (LOWER IMAGE TO THE LEFT) REMAINING ISTOCKPHOTO.

## Why sustainability factors are relevant to asset management

Human beings are over-consuming the Earth's resources. We are living as if we had access to one and a half planets, not one, and if everyone lived like we do in Sweden, we would need three planets. And the world population is growing. For these reasons, it is essential that the following megatrends are addressed in the investment process.<sup>2</sup> To varying extents, they generate opportunities and risks for various sectors and individual companies.

### RESOURCES UNDER PRESSURE AS THE POPULATION GROWS

The global population is projected to be 8.3 billion people by 2030, compared to the current population of 7.1 billion. This is going to put further pressure on natural resources, especially considering that the middle class is also expected to double to two billion people. Higher incomes bring higher consumption of food, especially meat and fish, as well as water and energy. The demand for food is going to increase by an estimated 35 percent and the demand for energy by 50 percent during the same period. These projections illustrate the urgent need for resource-efficient strategies and sustainable, efficient agriculture.

More people will be living in cities – almost 60 percent by 2030, compared to about half the world population today. This will create needs for investments in infrastructure such as water and sewage systems, energy and smart transportation systems.

### MORE REGIONS CHARACTERISED BY WATER STRESS

The demand for water is expected to exceed the supply by 40 percent in the year 2030. The OECD estimates that about half the world's population will be living in areas of severe water stress by 2030. There is a pressing need for more efficient water use, modern irrigation technology and water treatment.

### CLIMATE CHANGE IS LEAVING ITS MARK

Climate change is going to reduce the supply of food and water in certain regions. The weather has already become more extreme, resulting in more frequent storms, drought and floods. This affects food production as well as buildings and other infrastructure. In the last three decades, weather events that have caused severe damage have doubled in number in Europe, quadrupled in Asia, and in North America quintupled at a price tag of more than \$1 trillion during the time period.<sup>3</sup> In our judgement, analysing how climate change is affecting various asset classes and sectors is an indispensable element of the investment process.

### GROWING INCOME DISPARITIES AND DEBT CREATE SOCIAL CONFLICTS

A study published in connection with the World Economic Forum 2013 in Davos identifies growing wealth gaps (severe income disparity) and unsustainable government debt as the top two most prevalent global risks that must be managed in order to increase global resilience. Certain sectors are going to be severely impacted by cutbacks in government spending. Innovative companies can find new markets by meeting the needs of disadvantaged and less affluent groups, the so called Bottom Billion.

A few examples of how companies are creating value in this reality are provided on the next two pages. ►

<sup>2</sup> National Intelligence Council, 2012, *Global Trends 2030: Alternative Worlds* and other studies.

<sup>3</sup> Munich Re, *North America Most Affected by Increase in Weather-Related Natural Catastrophes*, press release, 17 October 2012.





PHOTO: AMY HELENE JOHANSSON

About 4,500 children under the age of five die every day due to dirty water and poor hygiene. Companies that are contributing to solutions are performing a vital task.

## UNILEVER

The increased pressure on the planet in pace with global population growth entails great challenges for all companies whose production is dependent upon raw materials and well-functioning eco-system services. Unilever is behind some of the world's most famous brands in food, detergents and personal hygiene products. More than half the company's business is conducted in emerging markets and less developed countries.

The company has been the target of strong criticism over the years, among else due to its environmental impact. In 2010, Unilever presented a new objective: to halve its environmental footprint by 2020 while doubling sales. The company outlines how it intends to deliver the mission in the Unilever Sustainable Living Plan, which includes initiatives across the lifecycle. Unilever's ambitions for the period of 2010 to 2020 are reflected in the following targets:

- All agricultural raw materials will be purchased from sustainable sources by 2020. The oil palm is grown in large monocultures, which typically leads to rainforest destruction and biodiversity depletion.

- There is a great need for soap and detergents in several developing countries. By 2020, the company will help more than a billion people to improve their hygiene habits and will bring safe drinking water to 500 million people. By this means, the company expects to help reduce the incidence of life-threatening conditions such as diarrhoea.
- A substantial part of the company's environmental impact occurs when its products are used. By educating consumers about how they can wash clothes using less water and at lower temperatures, Unilever's target is to cut consumer water consumption in half during the period. Product waste will also be reduced by half.

## XYLEM

Water shortages are already a serious concern in several regions of the world. Xylem, an American company, is a world leader in water technology whose water pumps and infrastructure solutions are helping drive progress in various sectors. Among else, the company supplies systems for water transfer, treatment and reuse to customers in the agricultural sector, which currently uses 70 percent of global water resources. Xylem's energy





800 million people presently lack access to clean water. Pictured: Biological water treatment.

efficient pumps also supply industries and cities with water, and their analytical instruments are used to measure and monitor environmental impact across a range of sectors.

When Hurricane Sandy hit the east coast of the United States in October 2012, Xylem products were used to pump water out of flooded factories and residential neighbourhoods. The company's analytical instruments supplied water level data to government agencies so that responders could be deployed where needed most.

#### **TOMRA SYSTEMS**

A Norwegian company Tomra operates in 80 countries and is known for its 'reverse vending machines' for recycling glass containers and cans. Tomra products are used to collect 30 billion empty glass containers and cans every year. Machines that compact the waste make handling more efficient and profitable. These machines halve the costs of waste management and enable daily fuel savings of 160,000 litres for transports that are no longer required.

Tomra products also help automate waste sorting and separation of waste fractions, which makes it easier to recycle or recover various types of materials. This is useful in many industries,

including mining; when minerals of value can be separated from slag, the lifetime of the mines is extended.

#### **KINGSPAN AND BRAMBLES**

Residential and commercial properties account for about 17 percent of global emissions of greenhouse gases caused by humans. The corresponding figure for the transport sector is 15 percent. Energy-efficient buildings and smart logistics can yield major environmental gains. The Church of Sweden invests in several companies engaged in those pursuits. One is an Irish company, Kingspan, which makes buildings more resource-efficient through the use of renewable energy and systems that collect and re-use rainwater. Another is the Australian company Brambles, which helps companies reduce their environmental impact by renting reusable pallets and containers from Brambles instead of owning these supplies. Renting products instead of buying new ones is an important way to reduce global resource consumption. The Church of Sweden welcomes business models based on the idea of collaborative consumption.





# Our method of working

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As shareholders, we want to make a difference. Jointly with our selected asset managers, we are developing progressive funds and establishing effective methods of responsible investment. Through corporate engagement, we try to influence companies to work actively with sustainability factors relevant to their products and services. We are a minor player in the scheme of things, but we usually gain a hearing, especially when we cooperate with other institutional investors.

There are various approaches to responsible investment. As described in the preceding section, the national level of the Church of Sweden emphasises investment in responsible companies. We also want to influence companies and sectors that need to integrate sustainability into their operations, for their own sake and that of others. Our strategy can be distilled in four main areas:

- Careful selection of asset managers
- Corporate engagement
- Cooperation with other investors
- Internal coordination

## CAREFUL SELECTION OF ASSET MANAGERS

Financial assets are managed externally by Swedish and foreign managers who endeavour to identify companies that are delivering both good financial performance and good ESG performance (ESG: Environment, Social and Governance). Asset managers must comply with our financial policy, which means they must have the requisite skills to actively seek out portfolio companies that are interesting from a sustainability perspective and not only exclude problematic companies and industries. We conduct ongoing dialogues with the asset managers we engage concerning issues including methods and individual holdings.

The Church of Sweden also contributes to bringing new products to the market either by stepping in as initial investors or establishing our own funds. The Ethos Funds are one example, created in cooperation with two of our asset managers: SEB (Swedish equity and fixed-income funds) and SAM (a global equity fund). These funds are based on the Church of Sweden's financial policy and are marketed primarily towards dioceses and parishes. The funds have a distinct focus on sustainable development and competitive management fees. SEB and SAM are responsible for managing fund assets, while the Church of Sweden exerts an influence over the sustainability orientation. At the end of the year, various units within the Church of Sweden, including the national level, had invested approximately SEK 4.5 billion in the Ethos Funds.

Please see page 22 for a complete list of the asset managers we engaged in 2012.

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## WHAT DOES THE CHURCH OF SWEDEN EXPECT FROM ITS ASSET MANAGERS?

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“ We expect our managers to base their decisions on the sustainability perspective and we expect them to have analysed the challenges the world is facing and the goods and services that may offer solutions. We believe companies with these kinds of products have strong potential to be the financial winners of the future. This involves both recognising business opportunities and minimising risks. Climate change, the loss of biodiversity and the shortage of clean water can make it much more difficult for businesses to operate. Increasing numbers of companies are realising that these threats will, if nothing is done, have adverse impact on their appreciation in value.

The financial services sector plays a crucial role in national economies. We also want our asset managers to get involved in the effort to make

the industry more sustainable so that it can better perform its tasks. It is to the common good if they can drive important issues such as greater emphasis on longevity in the industry and membership in key initiatives like the UN Principles of Responsible Investment (PRI) or the Swedish Sustainable Investment Forum (SWESIF). We have greater trust in asset managers who consider sustainability in every aspect of management and other operations, such as lending. Managers that are proactive and committed do not wait for customers to ask: they actively generate demand by means of solid information and attractive products.”

**Gunnela Hahn**, Head of Responsible Investment at the national level of the Church of Sweden.

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## SCREENING & CORPORATE ENGAGEMENT

Our asset managers employ various methods to ensure compliance with the Church of Sweden's financial policy. The financial policy urges managers to select companies that work systematically with sustainability. Consequently, many companies are ruled out in the initial research process. Companies that breach the negative (exclusionary) criteria for tobacco, weapons, alcohol and fossil energy sources are also excluded.

In addition to screening conducted by the asset managers, the national level engages independent service providers to perform a control screening at least once a year. The screening was performed by MSCI ESG Research and GES Investment Services in 2012. The screening checks that no company is in breach of the exclusionary criteria and that the companies are given good sustainability scores. The screening also investigates whether any of the companies have acted in contravention of corporate responsibility frameworks and international conventions intended

to protect people and the environment. If such is the case, the manager investigates the allegations, sometimes jointly with the Church of Sweden. Depending on which measures the companies take and the gravity of the allegations, a decision is later taken as to whether the holdings will be retained or sold.

The national level endeavours to engage in dialogue with companies before problems arise. These proactive dialogues complement the more reactive dialogues we initiate in response to media coverage or monitoring by NGOs. Read more about our corporate engagement work in 2012 on page 23.

## INTERNAL COORDINATION

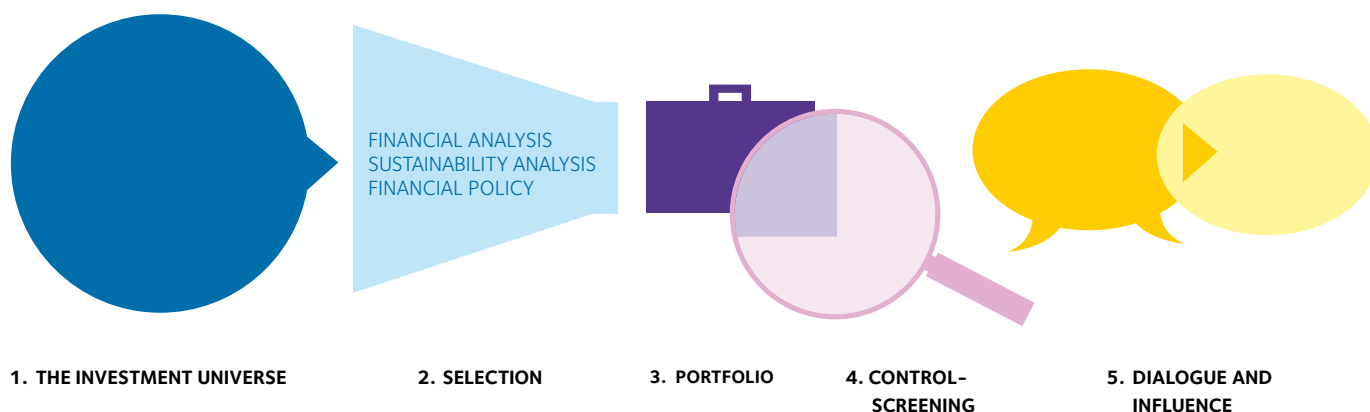
As mentioned, the Church of Sweden is working towards sustainable development in many different ways. Committed efforts are ongoing in dioceses and parishes. At the national level, the organisation works with the issue in its capacity as donor, buyer, participant in public debate and asset manager. Inter-unit co-



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## HOW COMPANIES ARE SELECTED FOR OUR PORTFOLIO

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We publish our holdings on our website and appreciate receiving information and views about the companies we invest in, [www.svenskakyrkan.se/economyandfinance](http://www.svenskakyrkan.se/economyandfinance)

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ordination was expanded in 2012. By the end of 2011, all dioceses had adopted ethical criteria based on the financial policy at the national level. As a result, we will in forthcoming years provide greater support and guidance to dioceses and parishes in these matters.

The various units at the national level also exchange lessons learnt and perspectives. Coordination between purchasing and asset management is but one example.

### COOPERATION WITH OTHER INVESTORS

We participate in several investor forums and initiatives. As the Church of Sweden is a relatively small institutional investor, this strategy significantly strengthens our potential to influence individual companies and sectors as well as the financial market as a whole. You can read more about our cooperative efforts during the year on page 28.

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### THE INTERNATIONAL WORK OF THE CHURCH OF SWEDEN

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The Church of Sweden's international work involves long-term sustainable development, rapid-response humanitarian aid, advocacy work and cooperation with other churches and organisations throughout the world. *Sustainable Development and Democracy* and *Peace and Security* are two important themes for the work. The work relates to about 100 partner organisations and over 300 projects in 38 countries and to about 8,000 international representatives in dioceses and parishes.

Further reading: [www.churchofsweden.org/international](http://www.churchofsweden.org/international)

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# The year in review

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Grave global economic challenges characterised 2012, including widespread debt crises, rising unemployment and uncertainty. Nevertheless, 2012 was a strong financial year on most of the world's stock exchanges, as reflected in our own return of SEK 412 million, corresponding to a return of 9.1%.

The buzzwords of the past year reflect a world that is in many ways swinging like a pendulum between hope and despair. We have read about dizzying fiscal cliffs and innovative Zeronauts – companies aiming to reduce their negative impact to zero (read more on page 32). Public debate has also been divided, with some arguing for green initiatives and long-term investments to dig us out of the crisis we have ended up in and others arguing that the financial crisis must be dealt with first – and environmental and social concerns afterwards. The latter argument – growth first, sustainability later – probably contributed to the severely watered-down policy decisions at the UN meeting in Rio at mid-year and the climate negotiations towards the end of the year in Doha, which were essentially going nowhere. By the end of the year, the necessary global resolutions to step up the pace in order to reduce emissions of greenhouse gases were still in abeyance. Read more about our work with this issue on page 29.

In recent years, several of the companies we invest in have developed carefully considered sustainability programmes with a view to creating competitive advantage and ensuring that they are equipped to meet the serious challenges of the future. Many took further steps in 2012, while others put programmes on hold or slowed the pace. Meanwhile, the pressure is rising: there was extensive media coverage in 2012 of issues related to corporate responsibility. This responsibility was expanded in 2011 with the launch of new framework agreements such as the UN Guiding Principles on Business and Human Rights and new guidelines from the OECD. Responsibility is no longer limited to the company's own operations: businesses are now also expected to respect international norms in relation to their customers and suppliers. In dialogue with companies and investors in 2012, we have discussed the need for a more holistic perspective that takes into account the entire lifecycle and value chain of products in order to accomplish more. We believe this is imperative for both ethical and financial reasons.

The role and responsibilities of boards of directors was another frequent topic in public debate during the year, among else in connection with the criticism of TeliaSonera (see page 25). The important discussion of the board's role and composition in order to ensure that sustainability factors are given the priority they deserve is likely to have effects in Swedish business as a

◀ The industrial zones outside Hyderabad, India, have been polluting watercourses and groundwater for several years. The Church of Sweden found these small bundles at a temple outside the city. Each contains a prayer and is not removed until the prayer has been heard.



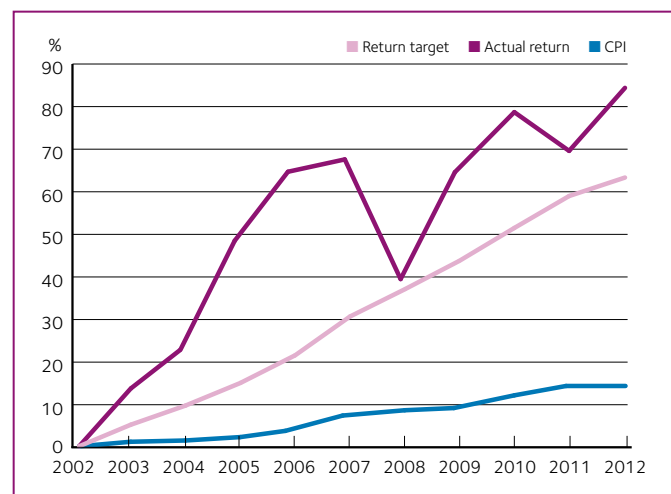
whole over the next few years. The global trend is encouraging, but inadequate. Surveys of the top 500 companies in the world show for example that awareness of the climate threat and water shortages has increased among boards of directors, but that the necessary targets are far too often conspicuous by their absence.<sup>4</sup> Investors have a role to play here by demanding relevant targets and not opposing the necessary long-term investments through demands for short-term returns. Swedish institutional investors are driving the issue of board responsibility through the Sustainable Value Creation Initiative to which the Church of Sweden belongs. The investors included in the initiative represent one-fifth of the capital traded on the Stockholm Stock Exchange. In 2012, the board chairmen and CEOs of the 100 largest companies traded on the Exchange were invited to participate in a discussion of sustainable business.

Integration has been the buzzword of the last few years. Just as the Church of Sweden wants companies to integrate relevant

sustainability factors in their core business, we want our asset managers to integrate them into research and investment decisions. Early in the year, the Church of Sweden invited David Blood to Stockholm to speak at a seminar for asset managers and analysts, where he shared his views on why more sustainable management is a prerequisite for securing good long-term returns. Mr Blood was head of asset management for Goldman Sachs for many years and was a co-founder in 2004, along with former American Vice President Al Gore, of one of the fund companies we engage, Generation Investment Management. Generation is one of the asset managers that most distinctly integrate sustainability issues into the investment process today. During 2012, we also elected to invest in Generation's new credit fund.

Over the next few pages, we will present more information about our activities and financial performance during the past year. ►

#### ACCUMULATED ACTUAL RETURN, RETURN TARGET AND INFLATION



<sup>4</sup> CDP, *Global 500 Climate Change Report, 2012*; CDP Water Disclosure, *CDP Global Water Report: Collective Responses to Rising Water Challenges, 2012*.



## Financial performance

Financial performance in 2012 was gratifying for several reasons. We exceeded our long-term return target and all asset managers outperformed their benchmarks during the year.

Our asset management focuses on long-term value creation and puts a strong focus on sustainability. If we begin with our long-term result, we can conclude that we have from the ten-year perspective exceeded the financial targets set by the Central Board. Real returns (returns above inflation) were 5.0% per year during the period. Overall, this corresponds to nominal return of 85% (including inflation) or 21 percentage points above the return target for the period (64%).

The result is governed partially by the investment strategy and selection of asset managers, but primarily by the allocation among asset classes. Accordingly, the Church of Sweden presumes a reference portfolio that balances the long-term return requirement (presently a real return of 3% per year over ten

years) with current risks, especially in the equities market, which can be highly volatile year-on-year. Since January 2012, the strategic allocation (the reference portfolio) is 50% equities, 40% fixed-income investments and 10% alternative investments. Our financial policy permits departures from this reference portfolio within defined limits.

As 2012 began, there was widespread uncertainty about the situation on the financial markets and we thus chose to maintain a slight overweight in fixed-income investments vis-à-vis equities compared to the reference portfolio. The underweight in equities referred primarily to Swedish equities. However, the Swedish equity market performed very well during the year. Consequently, our total performance would have been even better if we had maintained a higher exposure towards this asset class. Our asset managers were however skilled in their selection of equities and other securities and the total return for 2012 was 9.1% (0.6

### PROFIT 2012 AND HISTORICAL RETURNS

Asset Class	Profit 2012 SEKm	Return 2012		Return 2011		Average annual return 2008–2012		Benchmark
		Portfolio	Index	Portfolio	Index	Portfolio	Index	
Swedish Equities	147.7	17.7%	16.5%	–20.7%	–13.5%	1.1%	3.5%	SIX RX
Global Equities <sup>1)</sup>	89.5	8.9%	9.2%	–8.6%	–5.7%	–2.8%	–2.4%	DJSI World
Emerging Markets <sup>2)</sup>	77.7	22.6%	11.7%	–13.1%	–16.5%	17.0%	10.0%	MSCI EM
Fixed Income Securities <sup>3)</sup>	77.8	3.9%	3.3%	8.4%	8.4%	5.7%	5.5%	OMRX Bond
Corporate Bonds <sup>4)</sup>	N/A	N/A	14.8%	3.5%	2.7%			Merrill Lynch EMU
Alternative Investments <sup>5)</sup>	19.2	10.8%	3.0%	1.0%	0.1%			KPI + 3 %
<b>Total</b>	<b>411.9</b>	<b>9.1%</b>	<b>8.5%</b>	<b>–5.1%</b>	<b>–2.8%</b>	<b>2.0%</b>	<b>3.4%</b>	

<sup>1)</sup> The asset class, which is measured as a whole against DJSI, includes DNB Renewable Energy Fund (return –5.2 %, benchmark Wilderhill New Energy index –9.4 % for 2012).

<sup>2)</sup> The average return figures refer to the period in which we were invested in the asset class, i.e., since April 2009.

<sup>3)</sup> Profit for 2012 includes bank interest income of SEK 2.4 million.

<sup>4)</sup> No holdings in this asset class during 2012.

<sup>5)</sup> Total holdings for 14 months and accordingly there is no separate reporting of long-term average return.

percentage points above our co-weighted index). The strategic allocation cost us a total of 1.1 percentage points in return during the year, while our assets managers' overall stock-picking contributed 1.7 percentage points, net.

We had 13 management mandates in 2012. In a unique circumstance, all managers outperformed their benchmarks this year. In our analysis, this was made possible by two things: first and foremost the generally good stock-picking; and secondly in several instances the managers benefited from the ban on investing in certain businesses excluded by the financial policy (such as companies whose primary business is extracting oil and coal). The situation has been the reverse in some years when the exclusionary criteria had the opposite effect on returns when oil and tobacco companies, for instance, performed well. In fixed-income management, the highest contributors compared to benchmark were primarily the holdings in corporate bonds/certificates.

Looking at performance across several years, the managers we have engaged for the global and emerging markets funds have outperformed the market compared to global sustainability indices such as DJSI World (the Dow Jones Sustainability Index) and often also compared to broader benchmarks that do not have a sustainability profile. The Generation IM Global Equity Fund is one example: since inception in 2005 it has delivered double the

return of MSCI World (average annual return of 9.21% compared to 4.45%, figured in USD). Since its inception in 2009, the First State Stewart Global Emerging Markets Sustainability Fund has outperformed its benchmark (MSCI EM) every year by 10 percentage points. The Ethos Global Fund, which is managed by Sustainable Asset Management (SAM) and open to Church of Sweden parishes and dioceses, has also outperformed its benchmark. The fund has outperformed DJSI World by 0.4 percentage points annually for the last three years.

From the ten-year perspective, DJSI World and MSCI World have shown similar development, although there are significant variations in individual years. One explanation is that DJSI has a substantially larger share of European equities than MSCI, where the balance is heavily in favour of American companies. This presumably explains why DJSI has performed less well in recent years.

In the Swedish Equities asset class, all three managers delivered returns above index and the portfolio as a whole outperformed SIX RX by 1.2 percentage points in 2012, a clear improvement over 2011 in all cases. As noted above, the exclusion of certain businesses according to the financial policy had positive impact on the result. The highest performing management mandate in 2012 was the Ethos Swedish Equity Fund, which delivered a

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#### OUR LARGEST HOLDINGS, 31 DEC 2012

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##### SWEDISH EQUITIES

- 1 H&M B
- 2 Swedbank A
- 3 Atlas Copco A
- 4 Volvo B
- 5 Nordea
- 6 Ericsson B
- 7 Sandvik
- 8 TeliaSonera
- 9 SKF B
- 10 SEB A

##### GLOBAL EQUITIES

- 1 Unilever NV
- 2 Danaher Corp
- 3 Legrand SA
- 4 Schein Henry Inc
- 5 Waters Corp
- 6 Nestle SA
- 7 Varian Medical Systems Inc
- 8 Standard Chartered
- 9 Msci Inc
- 10 Becton Dickinson & Co

##### EMERGING MARKETS

- 1 Taiwan Semiconductor
- 2 Marico
- 3 Manila Water Company
- 4 Unilever
- 5 Kasikornbank
- 6 Inversiones Aguas
- 7 Guaranty Trust Bank
- 8 Aspen Pharmacare
- 9 Qualcomm Inc
- 10 Public Bank

##### DNB RENEWABLE ENERGY

- 1 Valeo SA
- 2 Veeco Instruments. Inc.
- 3 EDP Renovaveis SA
- 4 Tenneco
- 5 Acciona S.A
- 6 China Suntien Green Energy
- 7 Prysmian SpA
- 8 GT Advanced Technologies Inc
- 9 Johnson Controls
- 10 Verbund Oesterreich Elektrizitat

Distributed by asset class, including Renewable Energy fund within global equities. For a complete list of holdings, please refer to [www.svenskakyrkan.se/economyandfinance](http://www.svenskakyrkan.se/economyandfinance).

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return of 18.3%. Due to the poor performance in 2011, however, overall Swedish equity management is not on par with index from a longer-term perspective.

We also report our returns over five years in the table on page 19. From the five-year horizon, average annual return on assets under management has been 2.0%, which is 1.4 percentage points below our co-weighted benchmark index of 3.4%. However, performance from the five-year perspective entails an improvement compared to the preceding year in both absolute and relative terms.

Investments in the Alternative Investments asset class were increased in 2012. The Church of Sweden sees two main objectives with this asset class. They may involve investments that mitigate risk in the total portfolio because no strong correlation can be expected between returns and other investments, usually equities. Considering the current historically low interest rates, this may also be an alternative to traditional fixed-income management. The asset class also covers investments in which sustainability factors are given particular emphasis. It must however be noted that each investment proposal is evaluated in financial terms to justify inclusion in the management mandate.

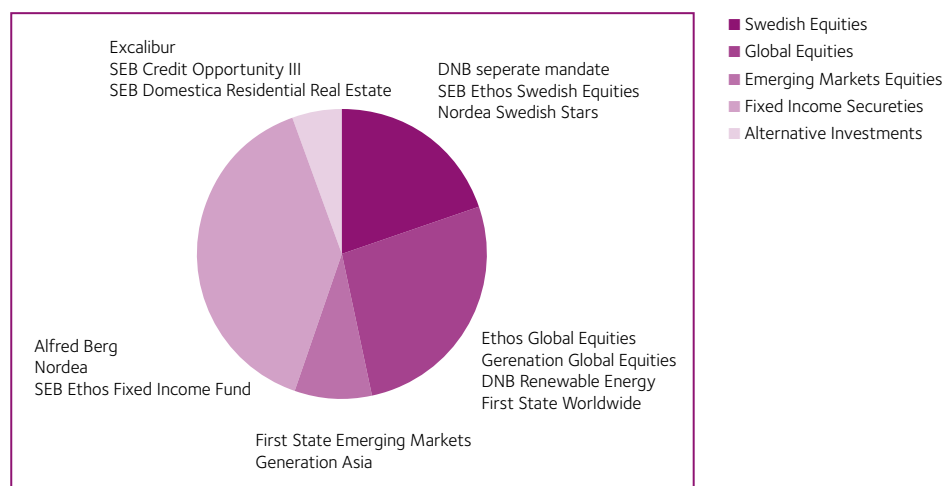
As of year-end, the national level had made the following alternative investments:

- Excalibur, a fixed-income hedge fund, which is an absolute return fund that emphasises fixed-income financial instruments.
- SEB Credit Opportunity III, a fund based on three fixed-income management strategies (high yield, dated and perpetual debentures). The fund was established in March 2012 with a view to taking best advantage of the prevailing credit market situation in the wake of the European debt crisis. The objective is for the holdings to remain under management until maturity.
- Domestica Bostäder AB, a property company that invests in rental housing in Sweden.

As a whole, these three investments delivered a highly satisfactory return in 2012 (10.8%).

A decision was taken towards the end of the year to invest in a new fund from Generation IM. The purpose of the fund is to provide direct loans to companies whose businesses are oriented towards sustainability but which often have difficulty raising loans, in part due to the banks' more stringent lending rules. The investment is also classed as an alternative investment and the fund is expected to enter into its first lending agreements in early 2013.

## ASSET ALLOCATION, 31 DEC 2012



## PORTFOLIO DISTRIBUTION PER ASSET CLASS AND ASSET MANAGER

SEK millions	Market value 2012	Portfolio share 2012	Market value 2011	Portfolio share 2011	Reference portfolio
DNB, discretionary mandate	338	7%	288	6%	
SEB Ethos Equity Fund	403	8%	341	8%	
Nordea Swedish Stars	237	5%	201	4%	
Mandate closed during the year			4	0%	
<b>Swedish Equities</b>	<b>978</b>	<b>20%</b>	<b>833</b>	<b>18%</b>	<b>20%</b>
RobecoSAM Ethos Global	486	10%	445	10%	
Generation IM Global Equity Fund	575	12%	518	11%	
DNB Renewable Energy	72	1%	76	2%	
First State Worldwide Sustainability Fund	196	4%			
<b>Global Equities</b>	<b>1,328</b>	<b>27%</b>	<b>1,039</b>	<b>23%</b>	<b>20%</b>
First State Global Emerging Markets Sustainability Fund	314	6%	252	6%	
Generation IM Asia Fund	108	2%	93	2%	
<b>Emerging Markets</b>	<b>422</b>	<b>9%</b>	<b>345</b>	<b>8%</b>	<b>10%</b>
<b>Total Equity Portfolio</b>	<b>2,728</b>	<b>55%</b>	<b>2,216</b>	<b>49%</b>	<b>50%</b>
Alfred Berg, discretionary mandate	634	13%	680	15%	
Nordea, discretionary mandate	671	14%	645	14%	
SEB Ethos Fixed Income Fund	634	13%	708	16%	
<b>Fixed Income Securities</b>	<b>1,940</b>	<b>39%</b>	<b>2,033</b>	<b>45%</b>	<b>35%</b>
<b>Corporate Bonds</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5%</b>
<b>Total Fixed-Income Portfolio</b>	<b>1,940</b>	<b>39%</b>	<b>2,033</b>	<b>45%</b>	<b>40%</b>
Excalibur	110	2%	101	2%	
SEB Credit Opportunity III	110	2%			
Domestica Bostäder	46	1%			
<b>Alternative Investments</b>	<b>266</b>	<b>5%</b>	<b>101</b>	<b>2%</b>	<b>10%</b>
<b>Liquid Assets</b>	<b>0</b>	<b>0%</b>	<b>171</b>	<b>4%</b>	
<b>Total Portfolio</b>	<b>4,934</b>	<b>100%</b>	<b>4,521</b>	<b>100%</b>	<b>100%</b>



## Corporate engagement in 2012

Each year, the national level engages in dialogue with a selection of the companies in which we invest. These engagement processes are usually conducted jointly with our asset managers and other investors with whom we have established co-operation over the years. We differentiate between reactive and proactive dialogue. The former is initiated when we become aware of criticism via public reports. We initiate proactive dialogue to forestall future problems. Since 2011, the main themes of our proactive dialogues have been:

### ■ CONFLICT, OPPRESSION AND CORRUPTION

Conflict and corruption are obstacles to respect and establishment of human rights in several countries. Many companies in which we hold an equity stake do business in these markets. During our engagement processes, we advocate robust due diligence processes to forestall problems and ensure that companies, in their capacity as corporate citizens, respect human rights and work actively to prevent corruption and oppression.

### ■ SUSTAINABLE VALUE CHAINS

We urge companies to adopt a holistic perspective and analyse threats and opportunities across the entire product lifecycle and value chain. Companies that do so often discover several benefits, such as lower costs due to wiser use of resources, more resilient supply chains and strengthened brands.

### ■ ERADICATION OF POVERTY

The proportion of people who live in extreme poverty has been more than halved since the 1980s. In terms of absolute numbers, this is a reduction by about 30 percent. According to the UN however about 1.2 billion people still live on less than \$1.25 per day.<sup>5</sup> We are seeing how some highly successful companies are adjusting their products and pricing structures to less affluent markets and groups. This may for example involve microloans, lower prices for medicines, or cheap mobile phones that are charged with solar energy.

### ■ CLIMATE AND WATER

We are already seeing an increase in extreme weather conditions and the resulting huge costs to society. As the effects of climate change become more tangible, we expect to see stricter regulations. We believe companies that reduce emissions or develop energy-efficient products and services will be in an advantageous position in this reality. Likewise, the water situation is creating threats but also potential competitive advantages for companies that act in time.

On the next pages, we give examples of engagement processes that we pursued in 2012. ►

<sup>5</sup> It is important to stress that there are significant disparities among and within countries and that the reduction of the number of people who live on less than two dollars a day is clearly lower (barely 5 percent). More than two and a half billion people are still living at this level.

## Pharmaceutical production in India

Pharmaceutical companies have an important role to play in realising the goal of everyone's right to health. The asset managers we engage seek out companies that are for instance helping provide less affluent groups access to lifesaving medicines. We are seeing more pharmaceutical companies developing related strategies and contributing to giving more people access to healthcare in less developed countries.

PHOTO: GUNNELA HAHN



In 2012, we engaged with the pharmaceutical companies on these topics. We have also raised concerns about the environmental risks associated with the production of medicines. In an accelerating trend over recent years, many pharmaceutical companies have begun to outsource production of active product ingredients (APIs) used in drugs to low-cost countries. In the late 2000s, scientific articles by Swedish researchers were published showing serious environmental destruction in a production area outside Hyderabad, India. Samples taken from a municipal water treatment plant showed that high concentrations of antibiotics and other APIs included in drugs used to treat conditions including hypertension and gastric disorders were being released directly into the environment. The levels in the water were sometimes higher than those found in the blood of people being treated for the conditions. This applied for example to an antibiotic for which the tested levels were about a million times higher than found in treated wastewater at Swedish treatment plants.

In 2012, representatives of the national level visited industrial zones outside Hyderabad where many medicines sold in countries like Sweden are produced. The aim of the trip was to discuss solutions with local companies and organisations. Pollution from several different industries is severe in the area and is affecting groundwater and rivers from which water is taken to irrigate crops and water livestock. Villagers reported that this has lowered their incomes and forced them to buy water.

There is risk that pharmaceutical contamination will have global effects because it creates resistance. It is a well-established fact that resistance can easily spread across the globe, carried by travelling people and migrating animals. The WHO has assessed resistance to antibiotics as one of the most serious current threats to human health. In Europe alone, about 25,000 people a year die due to resistance.

The Church of Sweden initiated discussions in 2012 about these problems with the pharmaceutical companies in which we invest. Among else, we are urging them to require efficient water treatment from their suppliers and regular testing of the effluents that leave the factories.

◀ Pollution of watercourses by industries in the area has had severe impact on the livelihoods of villages

## Control and censorship in dictatorships

We also have holdings in many Information & Communication Technology (ICT) companies whose products and services have strong potential to promote democracy and development. Sadly, the technology is abused by oppressive regimes in a bid to control citizens and silence voices calling for freedom by means of surveillance and censorship.

In 2011, the Church of Sweden elected to join the Global Network Initiative (GNI), in which companies, investors, academics and civil society organisations including human rights groups are working to protect the rights to freedom of expression and privacy. Our fundamental premise is that ICT should not only be found in democracies, but that companies – along with human rights organisations and other experts – need to devise strategies for responsibly managing risks while increasing their positive impact on human rights in the countries where they operate. The GNI has established principles in this area and we strongly recommend that ICT companies join the initiative.

TeliaSonera came in for sharp criticism in 2012 concerning its operations in Central Asia in relation to freedom of expression and privacy. There were also allegations of corruption, among else in connection with the company's establishment in Uzbekistan in 2007. TeliaSonera paid more than SEK 2 billion for a 3G license to Takilant, a company represented by a woman who is close to the daughter of Uzbekistani dictator Islam Karimov. TeliaSonera engaged a law firm to investigate the matter and it presented a report in early 2013, which was unable to confirm or deny that a crime had been committed. A preliminary police investigation into the matter was still in progress at the beginning of 2013. After an extended dialogue, the national level found there was lack of confidence in the company and decided in February 2013 to divest its holdings in TeliaSonera until a new CEO and board of directors have clarified how they intend to manage historical and future risks.

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### DIVEST OR ENGAGE – WHICH IS BETTER?

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“The Church of Sweden's investment model emphasises companies that are working actively with sustainability and taking responsibility for their impact on people and the environment. Accordingly, many companies are excluded from consideration. Several companies are also excluded on the basis of our criteria concerning things like weapons and fossil energy sources.

The companies included in our equity portfolios have made progress to varying extents in their sustainability work. We and our asset managers engage with those who have shortcomings or have started too late. If we do not succeed, and if the problems are grave, we divest the shares.

Although we believe it is important to set an outside limit for dialogue, some engagement processes must be allowed to take longer than

others. Sometimes the analysis is easy and opportunities to influence the company are limited, which may lead to a quick decision. Sometimes the process takes longer, if for example there is not enough information or if we find that we will have the most impact if we seek to influence the sector as a whole rather than an individual company. Sometimes we join multi-stakeholder initiatives in order to work with companies, human rights organisations, labour unions and others to identify solutions and define best practices where none previously existed.”

**Sara Nordbrand**, Head of Corporate Engagement at the national level of the Church of Sweden.





## The lives of textile workers in Southeast Asia

Garment manufacturing in Asia and Latin America has steadily increased over recent decades. H&M is one of the clothing companies in which we invest. The company does not manufacture garments itself; it has instead built up a network of suppliers in countries like China and Bangladesh. Over the past few decades, H&M has developed a comprehensive programme to improve working conditions at its supplier factories and reduce the environmental impact of their products. The company has adopted a lifecycle perspective, which is reflected in various ways including the Roadmap to Zero Discharge of Hazardous Chemicals

initiative, whose objective is non-toxic supply chains by the end of 2020.<sup>6</sup> By that same year, all cotton used by H&M must be grown in a more sustainable way. H&M is currently the world's biggest user of organic cotton, even though organic cotton accounts for only a little over seven percent of the company's total consumption of the raw material. In the last year, H&M also initiated comprehensive initiatives to reduce water consumption and encourage customers to bring in old clothing for recycling in all markets where H&M does business.

The company is working closely with its suppliers to improve health and safety and terms of employment for the workers who sew the company's clothes, in part through training schemes and knowledge transfer programmes. Evaluations show that improvements are being made and that the suppliers that have worked for H&M for an extended period tend to get better sustainability scores than new suppliers. Those who get high sustainability scores are rewarded with more orders and long-term partnerships.

Organisations that have studied developments in the industry as a whole are reporting improvements in areas including health and safety for textile workers and prevention of child labour. Nevertheless, great challenges remain to be overcome when it comes to making production more sustainable. The low wages of textile workers are one example. The base pay in factories in Asia is the state minimum wage – which is in many countries not enough to live on. The effects of this, including malnutrition among some workers, were described in several reports published in 2012.<sup>7</sup> H&M's current strategy is to try and lobby governments to raise the minimum wage to a living wage. Through various initiatives, the company is also trying to strengthen union rights so that employees and employers can negotiate decent wages. Towards that end, H&M initiated a partnership with the Swedish labour union IF Metall in 2012. In 2013, the Church of Sweden will be discussing the need for additional action to improve the lives of textile workers in countries like Cambodia and Bangladesh.



PHOTO: SARA NORDBRAND

Some H&M suppliers hire home workers in India – women who cannot take jobs at factories in the cities for various reasons. During a visit to India in 2012 the Church of Sweden interviewed some of these women in their rudimentary homes outside Delhi. Although their wages were low, this employment still meant that household incomes had almost doubled.

<sup>6</sup> [www.roadmaptozero.com](http://www.roadmaptozero.com)

<sup>7</sup> See for example Swedwatch, Church of Sweden et. al, 2012, *A Lost Revolution – Empowered but trapped in poverty. Women in the garment industry in Bangladesh want more.*

## Companies in occupied territories



PHOTO: MAGNUS ARONSON/KON

Israeli settlements on Palestinian territory are in violation of international law. The roadblocks inside occupied territory, as well as the so-called separation barrier (pictured), restrict Palestinians' freedom of movement.

The Church of Sweden was informed in 2012 about connections between computer company Hewlett-Packard (HP) and checkpoints and settlements on Palestinian occupied territory. The company supplies technical support to an identification system used at certain checkpoints. According to information received, HP also supplies IT services to two settlements on the West Bank.

The settlements are illegal under international humanitarian law, as established by the International Court of Justice in The Hague and several UN Security Council resolutions, among else. The Swedish Government and the European Union support this position. Checkpoints on occupied territory restrict Palestinians' freedom of movement and their opportunities to earn a living and access a hospital quickly.

HP claims that the identification system was developed to enable faster and safer passage, which would in turn facilitate local economic development. We believe this is a limited analysis, considering the impact of checkpoints on Palestinians' lives. HP also reports that it complies with demands for human rights in all countries, but has thus far not explained how it came to that

conclusion in relation to the business relationships we queried.

HP is a company that has a driving and positive role in relation to other human rights concerns. For example, HP is engaged in efforts to improve working conditions for workers at supplier factories in Asia, Latin America and elsewhere. The company earned a good score in the Greenpeace environmental ranking at the end of 2012. However, because the company has failed to provide us with relevant information and has shown no interest in a dialogue concerning business relationships in occupied territory, the national level decided towards the end of the year to divest holdings in HP. The Church of Sweden hopes that HP will be willing to engage on these topics in the future. Among else, we have asked the company to explain how it intends to comply with the UN Guiding Principles on Business and Human Rights in the region. These principles emphasise that the primary duty to protect human rights belongs to all States of the world, but that business enterprises have a responsibility to respect the same rights. The principles must also imbue relationships between business enterprises and their customers.

## Partnerships in 2012

We participated in several forums and initiatives in 2012, all of which represent significant assets. Membership in these organisations is rising, which is an indication that sustainable investment is gaining ground.

### UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

PRI's membership has grown strongly in recent years to encompass more than a thousand asset owners and investment managers who represent combined capital of \$32 trillion. The Church of Sweden became a signatory in 2007, thereby making a commitment to integrate ESG factors in its research and investment decisions. Our involvement in 2012 included participation in the PRI working group on business in conflict zones.

Read more: [www.unpri.org](http://www.unpri.org)



### THE INSTITUTIONAL INVESTORS GROUP ON CLIMATE CHANGE (IIGCC)

The IIGCC brings together 75 European investors whose aim is a low carbon economy. The IIGCC encourages public policy that can facilitate such a transition. The issue was pursued among else in preparation for the UN Climate Change Conference in Doha (see next page). In total, members of the initiative represent around €7.5 trillion in assets.

Read more: [www.iigcc.org](http://www.iigcc.org)



### THE CARBON DISCLOSURE PROJECT (CDP)

CDP is an organisation that aims to encourage companies to disclose emissions of greenhouse gases and report on water strategies. The fundamental precept is that greater access to information will facilitate responsible investment decisions. At present, several thousand companies report to CDP, which works with about 650 institutional investors that represent combined assets under management of \$78 trillion.

Read more: [www.cdproject.net](http://www.cdproject.net)

CARBON DISCLOSURE PROJECT

### THE SWEDISH SUSTAINABLE INVESTMENT FORUM (SWESIF)

SWESIF is an independent network association of organisations working with sustainable investment in Sweden. The purpose of the forum is to increase knowledge and interest in responsible investment among institutional asset owners and managers. At the end of 2012, SWESIF consisted of some 30 organisations.

Read more: [www.swesif.org](http://www.swesif.org)



### SUSTAINABLE VALUE CREATION INITIATIVE

The Sustainable Value Creation Initiative is a cooperative project conceived in 2009 by 14 influential Swedish institutional investors. The group reaches out to board chairs and CEOs of the 100 largest public companies in Sweden to highlight the importance of working in a structured manner with sustainability issues to secure value in the long term. Combined, the investors included in the initiative represent about one-fifth of the capital traded on the Stockholm Stock Exchange.

Presented in 2012, the initiative's latest survey showed significant disparities among Swedish companies. Those who were far in advance in 2009 when the first survey was published had continued to develop in a positive direction. However, one third of the companies surveyed demonstrated an unacceptably slow rate of change and the gap between them and the leaders had widened.

Read more:

[www.hallbartvardeskapande.se](http://www.hallbartvardeskapande.se)



### THE GLOBAL NETWORK INITIATIVE (GNI)

GNI is a multi-stakeholder initiative in which companies, civil society organisations, academics and investors are working to protect the rights to freedom of expression and privacy. Shared learning, transparency and independent assessment and evaluation are key principles of the initiative. Current members include Google, Microsoft, Yahoo!, Evoca and Websense.

Read more: [www.globalnetworkinitiative.org](http://www.globalnetworkinitiative.org)





## IN PREPARATION FOR THE DOHA 2012 UN CLIMATE CHANGE CONFERENCE

Climate concerns were a frequent topic of discussion when we met with companies during the year – both how businesses can reduce their own emissions as well as whether there are opportunities to help customers reduce their emissions through more energy-efficient products and awareness raising. Consumers and businesses alike have a responsibility to do what they can. The Church of Sweden also seeks clear policy action. In preparation for the Rio+20 UN Conference on Sustainable Development, the Church of Sweden, via The Institutional Investors Group on Climate Change (IIGCC), urged world governments to pass resolutions on steeper emissions reductions.<sup>8</sup> We also urge governments to promote and incentivise climate-friendly investments. In global terms, subsidies of fossil fuels are still six times higher than for renewable energy sources.<sup>9</sup> Subsidies of fossil energy use total about \$500 billion a year.<sup>10</sup>

In 2012, the IIGCC also supported an efficient European carbon credits market. For various reasons, the carbon price today is only a fraction of that intended when the EU carbon credits market was created. There was an opportunity in 2012 to support a UK proposal to scrap a large number of allowances in the European

carbon market. This would have created a reasonable carbon price while indebted states would have been given a sorely needed addition to government budgets. However, the political leadership, including the Swedish, fell short and the proposal was not adopted.

## TRANSPARENCY – A PREREQUISITE FOR RESPONSIBLE INVESTMENT

Corporate disclosures are a prerequisite to enable the Church of Sweden and our asset managers to invest in accordance with the standards laid out in the financial policy. Through joint initiatives such as the Sustainable Value Creation Initiative and the Carbon Disclosure Project, we are working to bring about greater transparency and disclosure of relevant data. In preparation for the Rio+20 UN Conference on Sustainable Development, we supported demands for reporting of sustainability information, since 75 percent of large public companies still do not report on these matters. We also support initiatives towards Integrated Reporting that clearly links financial information with corporate sustainability data and strategies.

Further reading: [www.theiirc.org](http://www.theiirc.org)

<sup>8</sup> IIGCC, *Year in Review 2012*.

<sup>9</sup> International Energy Agency, 2012, *World Energy Outlook 2012*.

<sup>10</sup> Brown L., World's governments spent \$500 billion subsidizing fossil fuels, \$66 billion on renewables. SustainableBusiness.com, accessed 23 January 2012.

# The Asset Management Council

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The Central Board of the Church of Sweden has delegated responsibility for asset management at the national level to the Asset Management Council in accordance with the provisions of the Church Order. The Council works continuously to develop and improve asset management and the financial policy.

## **THE TASKS OF THE ASSET MANAGEMENT COUNCIL INCLUDE:**

- Initiating and proposing changes to the financial policy
- Monitoring compliance with the financial policy
- Deciding the reference portfolio; that is, allocation among approved asset classes
- Selecting benchmarks for each asset class
- Selecting asset managers
- Deciding on matters related to corporate governance and engagement
- Regular reporting to the Central Board concerning financial performance and ethical issues

At present, the Council has six members: three elected by the Central Board of the Church of Sweden and three external experts. The chair is appointed from among the elected members. The primary role of the external experts is to provide skills and experience in asset management. All expert members are appointed by the Central Board.

## MEMBERS OF THE ASSET MANAGEMENT COUNCIL

### BERTIL PERSSON

Chair; alternate member of the Central Board of the Church of Sweden.  
Born 1940; elected to the Council 2007.

**Previous assignments:** Director of Sweden's Central Bank and adviser to the IMF; chair of the board of the Church Fund, 1999–2006.

### HANS WALLMARK

Member of the General Synod of the Church of Sweden.  
Born 1965; elected to the Council 2007.

**Present profession:** Member of Parliament and member of the party board of the Moderate Party.

**Previous assignments:** Municipal commissioner of Ängelholm Municipality; political editor of publications including Nordvästra Skånes Tidningar.

### BIRGITTA HALVARSSON

Member of the Central Board of the Church of Sweden.  
Born 1957; elected to the Council 2007.

**Present profession:** Vicar.

**Previous assignments:** Various board assignments with companies and public authorities; municipal commissioner of Torsby Municipality.

### KAJSA LINDSTÅHL

External expert.  
Born 1943; elected to the Council 2007.

**Present assignments:** Chair of the board of Vectura Consulting AB, Södersjukhuset AB and the foundation Timba Bruk. Director of PRI Pensionsgaranti, Thulestiftelsen (the Skandia Group) and the Institute for Financial Research (SIFR); member of the Investment Council of the Church of Sweden Pension Fund.

**Previous professional positions and assignments include:** CEO of Banco Fonder; chair of the board of Banco Fonder; chair of the Amnesty Business Group.

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**Previous assignments:** CFO of Riksbyggen; CEO of BoSpar; directorships for property companies.

### ÅKE GUSTAFSON

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Born 1958; elected to the Council 2012.

**Present profession:** CEO of Försäkringsbranschens Pensionskassa, FPK.

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**Previous professional positions and assignments include:** CEO of Länsförsäkringar Fonder; director of the PSA/PSF pension funds.



From left: Hans Wallmark, Bertil Persson, Åsa Ohlström, Åke Gustafson och Kajsa Lindståhl (absent : Birigitta Halvarsson).



## Moving forward

Efforts with responsible investment and responsible business are continuously evolving. Fifteen years have passed since John Elkington coined the term ‘*The Triple Bottom Line*.’ According to this concept, the success of an organisation should be measured not only in financial terms but also ecological and social. Ever since, Elkington has been an influential voice in the debate surrounding sustainable business. He made a new and important contribution in 2012 with his book *The Zeronauts: Breaking the Sustainability Barrier* in which he outlines a new economic model that creates wealth without negative impact.

The book is not part of the Domsday genre. Its focus is instead the creative capacity of people and the power of business in their roles as innovators and entrepreneurs. Elkington describes the approach and initiatives necessary in a ‘One Planet Economy’ – an economy that respects the planet’s limits and provides for human welfare. The Zeronauts play a key role in this vision. They are a new breed of entrepreneurs, policymakers, investors, educators and others who promote wealth creation while driving adverse environmental, social and economic impacts towards zero.

How willing are today’s corporations to become Zeronauts and take on the role Elkington advocates? Based on his definitions, the

consultancy firm Deloitte carried out an assessment in 2012 of maturity levels of 65 companies seen as sustainability leaders.<sup>11</sup> These companies’ visions and strategies were assessed and compared against Elkington’s five stages of development. The study shows that the majority of the companies studied have begun to broaden their view of value creation and build new business models to enhance their positive impact on society and the environment. Six companies were assessed as having made the most progress: Puma, Nestlé, Unilever, Natura, Ricoh and Nike. The Church of Sweden invested in the first four in 2012.

The authors identify the urgent need for a holistic perspective, innovative thinking and new definitions. What is sustainable and what is merely a little better than the behaviours that dominate our present, destructive systems? This is a question that preoccupies us and our asset managers every single day. The world needs a shared vision, clear leadership and greater cooperation among industries and professions. In 2013, we will initiate a discussion of how the financial services industry can make a greater contribution to the One Planet Economy Elkington describes. The principle of human dignity and the concept of stewardship are perhaps more relevant and topical than ever.



Sara Nordbrand, Anders Thorendal, Gunnela Hahn.

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<sup>11</sup> Deloitte, 2012, *Towards Zero Impact Growth: Strategies of leading companies in 10 industries*.

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