ANNUAL REPORT 2017

SUSTAINABLE INVESTMENT

Church of Sweden

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Preface

This is the seventh year in a row that the Church of Sweden has published a report on its work with sustainability issues in asset management on the national level. New this year though, is that we have renamed the report to Annual Report – Sustainable Investment.

For the last two years the Annual Report has had a slightly different format. Information on financial performance, also including a more long-term perspective, asset classes and our larger holdings are found in this document, i.e. the actual Annual Report written by our financial staff in consultation with the Central Board Asset Management Council.

Here you will also find a number of articles of immediate concern to us in our role as sustainable investors such as, for example, long-term financial risks. This year's report also contains three interviews that we hope our readers will find interesting. There are interviews with Miguel Nogales, partner with Generation Investment Management, Edward Mason, Investment Manager for the Church of England and Henrik Grape, Officer on Sustainable Development in the Central Office.

This report also contains a number of links to further information on the Internet; to both external websites and to the Church of Sweden's website.

More documentation on our responsible asset management investments, such as our working methods, our partners and governance, that we have previously written about in this report, is now available together with other more in-depth texts on the Church of Sweden's website. On the website you can also find - as before - information regarding our holdings, investment policy and more.

https://www.svenskakyrkan.se/economyandfinance

To make it a bit easier...

Here are some links that take you to specific texts and documents within this area:

Our working methods – contains information on our investment process and financial policy as well as other information:

www.svenskakyrkan.se/managing-assets-against-the-stream

Information on our position as asset owners on issues regarding the climate and how we invest with a focus on providing benefits to society:

www.svenskakyrkan.se/combine-investment-and-benefits-to-society

Our co-operation with other asset owners and investors, seminars we participate in and articles we have written:

www.svenskakyrkan.se/our-co-operation

Governance – regards the Church of Sweden's Asset Management Council as well as other subjects:

www.svenskakyrkan.se/governance

www.svenskakyrkan.se/the-investment-process

Annual Report on Responsible Investment:

www.svenskakyrkan.se/reports-on-responsible-asset-management

Financial performance

Performance for the Church of Sweden's asset management at the national level for 2017 stood at SEK 761.6 million which corresponds to a return of 10.3%. This means that the return on the portfolio exceeded its benchmark index for the sixth year in a row. The Church of Sweden has created a balanced portfolio consisting of equities, fixed-income securities, real estate and alternative types of investments. The market value of the assets in the entire portfolio on 31 December 2017 amounted to SEK 8 154.8 million (previous year 7 388.3).

The commission from the Central Board of the Church of Sweden clearly states that asset management shall focus on long-term performance. Our target return of 3% per annum above the rate of inflation is measured in rolling ten-year periods. To meet this demand, we have created a balanced portfolio containing equities, fixed-income investments, real estate and alternative types of investments. We have chosen to invest in real estate and alternative investments because we want to limit the risks in our overall portfolio by supplementing it with asset classes whose returns are not expected to closely follow the equities and fixed-income markets. Alternative investments are often made in unlisted holdings. This offers the opportunity to make investments of a more focused nature that have clear benefits to society and where the Church of Sweden's investments can make a difference. However, all investments must fulfil our financial requirements. There are, of course, no perfect investments in the portfolio.

Ten-year performance and returns

For the ten-year period 2008-2017, our returns were 82.1% corresponding to 6.2% per annum. The return target for the same period was 50.0%. The graph on 6 illustrates this. The annual real return, i.e. above inflation, was 5.2% on average during this period. The return target in real terms since 2010 has been 3% per annum and previously 4%.

Viewed over a ten-year period, this means that on the whole, the portfolio has contributed SEK 1 453 million above the return target and SEK 3 187 million above inflation.

In the strategic reference portfolio[1], i.e. the allocation of the different asset classes that we have determined demonstrate the greatest potential based upon a ten-year perspective to meet the return target at a reasonable level of risk, we have allocated 50% of the overall portfolio to listed equities, 30% to fixed-income securities including corporate bonds and 10% each to real estate and alternative investments. The Central Board Asset Management Council, that determines allocation among the different asset classes in the portfolio, however, has the option of deviating from the reference portfolio within established parameters (tactical allocation).

PERFORMANCE AND RETURNS 2017

Performance in 2017 including bank and administration fees amounted to SEK 761.6 million (628.3 million the previous year). Returns for the overall portfolio totalled 10.3% (9.3). This is 5.6 percentage points higher that the real return target and 2.0 percentage points better than our benchmark index. This is the sixth year in a row that returns have exceeded the weighted reference portfolio's returns.

During 2017 all asset classes made positive contributions to the portfolio's result. The largest contribution to results was made by global equities at SEK 449.0 million corresponding to a return of 18.9%. As a part of this asset class portfolio we have the Generation IM Global Equity Fund, our single largest fund, with a return of 21.1% in SEK.

The Emerging Markets (growth markets) yielded the highest return of all asset types and was 19.9% which is in any case somewhat lower than its benchmark index (23.6). Within this asset class we have Generation IM Asia Fund which is the equities fund that yielded the highest return at 25.4% during 2017.

Swedish equities provided a return of 10.6% which is 1.1 percentage points better than its benchmark index. Fixed income investments contributed with 0.8% and the corporate bonds fund with 4.0%. Both funds outperformed their benchmarks.

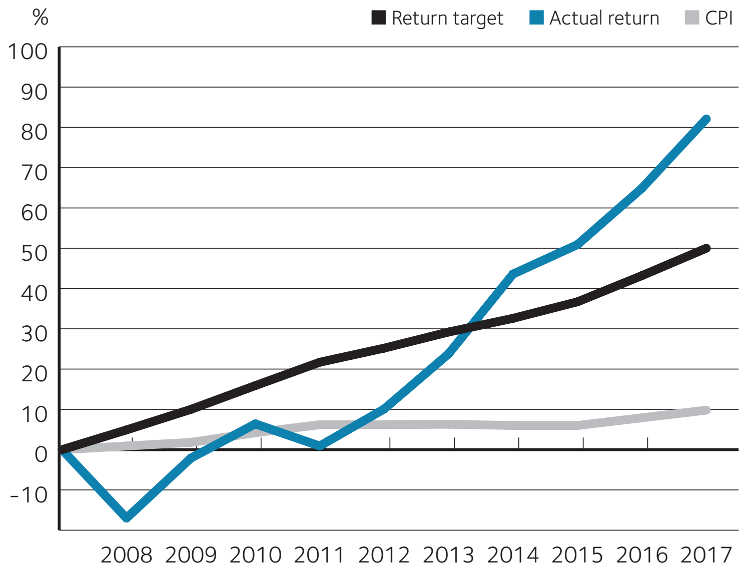
The real estate asset class contributed with a full 15.4% return. It is important to mention that the increase in value is based upon annual, external valuations of the real estate funds we invest in. These valuations regard the turn-of-the-year but are often not set until well into the first quarter which is why there is a one-year lag in performance development. Performance and returns in 2017 therefore regard valuation as of 31 Dec. 2016.

Our holdings in alternative investments are primarily unlisted and for the most part illiquid. Running valuation of these assets is often associated with a great amount of uncertainty. The idea is to retain them until maturity or exit, and it is first then that any concrete statements on the return and about whether development had been sufficient enough to justify the greater risk that these holdings are associated with. This asset type contributed marginally to the portfolio's performance during 2017 with a return of 0.3%. It is primarily SEB Microfinance funds (SEB Microfinance) that annually contribute to a positive return in this asset class.

Overall during 2017, the asset managers' choice of equities (equity effect) contributed with 1.5 percentage points of the total excess return of 2.0 percentage points as compared with the weighted benchmark index. The remaining portion, 0.5 percentage point, is primarily related to our tactical overweight in global equities (allocation effect).

The table and graph on page 6 provides more information on results for 2017 and our historical returns the previous five and ten-year periods respectively. We consider the ten-year performance to be the most important benchmark.

[1] Our weighted benchmark index is based upon long-term strategic allocation. Our allocation among asset classes for 2017 in the reference portfolio was as follows: global equities 20%, Swedish equities 20%, Emerging Market equities 10%, fixed-income securities 25%, corporate bonds 5%, real estate 10% and alternative investments 10%. The table on pg 6 shows the benchmark index we use for each asset class.

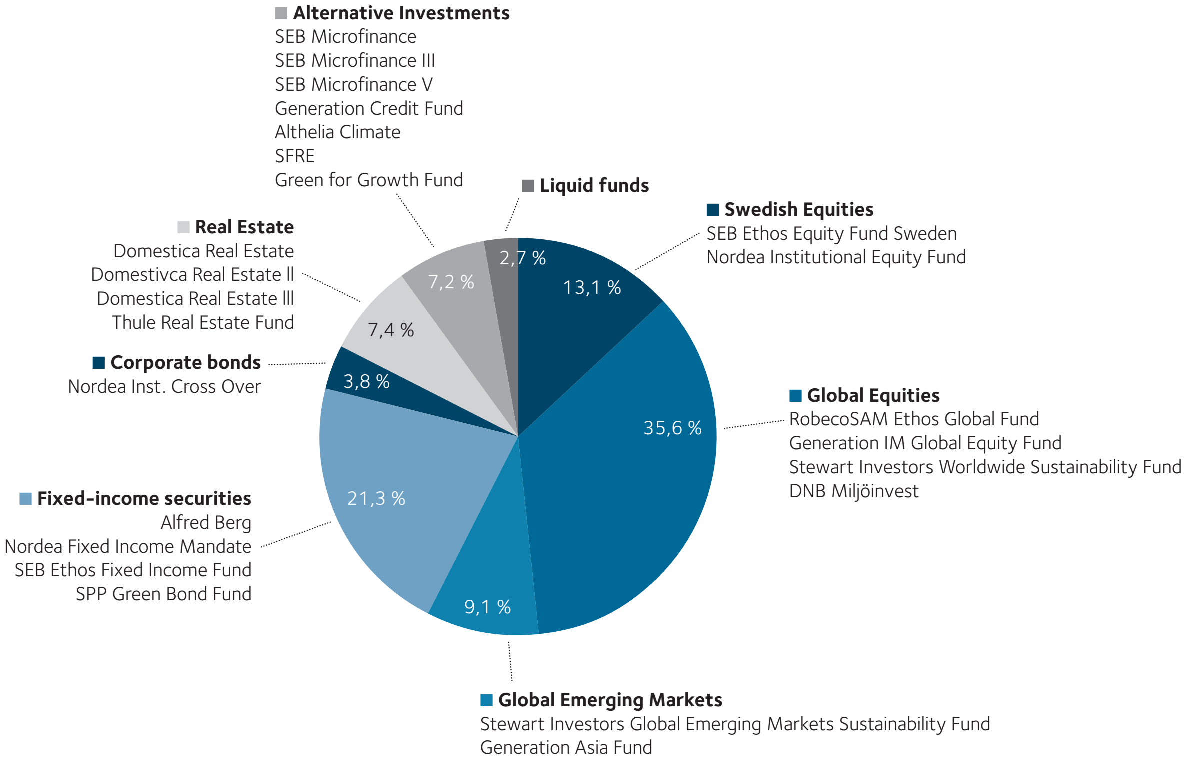


* The graph shows only returns for each respecitve full year, with one measurement point per year. The real return target was 4 % during the period of 2007–2009 and was adjusted to 3 % in 2010.

		Return full year 2017		Return full year 2016		Average annual return 2013–2017		
Asset type	**Profit 2017 mnkr**	**Portofolio**	**Index**	**Portofolio**	**Index**	**Portofolio**	**Index**	**Benchmark**
Swedish Equities	101,9	10,6%	9,5%	10,7%	9,6%	12,9%	14,5%	SIX RX
Global Equities *	449,0	18,9%	14,5%	15,3%	15,5%	19,3%	15,2%	DJSI World
Emerging Markets	118,8	19,0%	23,6%	14,6%	19,5%	12,0%	9,2%	MSCI EM
Fixed-income securities	13,3	0,8%	0,3%	2,7%	2,6%	2,2%	2,1%	OMRX Bond
Corporate bonds	11,9	4,0%	2,3%	5,2%	4,5%	4,4%	3,3%	Merrill Lynch EMU
Real estate	66,4	15,4%	4,8%	9,5%	4,8%	8,0%	3,7%	Inflation + 3%
Alternative investments	0,3	0,3%	4,8%	2,9%	4,8%	3,2%	3,7%	Inflation + 3%
Total	**761,6**	**10,3%**	**8,3%**	**9,3%**	**8,8%**	**10,6%**	**8,4%**	

* In this asset class, that is in total compared to DJSI, the DNB Miljöinvest is included (return 15,0%, benchmark Wilderhill New Energy index 15,3% for 2017).

DISTRIBUTION AMONG ASSET CLASSES (31 DEC 2017)



THE TEN LARGEST HOLDINGS

Swedish Equities	Global Equities	Emerging markets
Volvo	Taiwan Semiconductor Manufacturing	Unilever
Hennes & Mauritz	Microsoft	Tata Consultancy Services Ltd
Nordea	Cerner	Taiwan Semiconductor Manufacturing
Atlas Copco	Henry Schein Inc	Natura Cosmeticos
ABB	Unilever	Tech Mahindra Ltd
Kinnevik	Thermo Fisher Scientific	Tencent Holdings
Essity	Dentsply Sirona Inc	Tiger Brands Ltd
Autoliv	CSL Ltd	Marico Ltd
Sandvik	Acuity Brands Inc	JD. Com Inc
Swedbank	Jones Lang Lasalle Inc	Indusind Bank

Sustainable capitalism from all directions

The single largest mandate for the Church of Sweden with any fund manager is in Generation Investment Management's Global Equity Fund. The fund only invests in companies that contribute to sustainable development. Miguel Nogales, Partner and Co-Chief Investment Officer at GIM, tells us how they select their holding companies, and what is new and coming within sustainable investing.

HOW WOULD YOU CHARACTERISE THE COMPANIES YOU INVEST IN?

In one word, sustainable. While this concept is subjective, with different meanings for different people, we apply a clear definition in our assessment of investment opportunities. In its simplest form, we ask two key questions about each business: what does it do and how does the management team do it?

The first question informs our goal of investing in companies helping to make the world a cleaner, healthier, fairer and safer place. In other words, with products and services capable of withstanding the changing tides of demand over time. It also helps us to avoid those generating current earnings by borrowing from future earnings. Sometimes this 'overearning' stems from the generation of negative externalities, such as obesity-related healthcare costs from sales of sugary sodas or the damaging impacts of climate change tied to high-carbon assets. We see these costs as presently unaccounted for liabilities with the potential to impact companies' profitability in the future.

PHOTO: GENERATION INVESTMENT

Miguel Nogales

The second question is often more complex and layered, but the goal is to form an opinion on whether the management team runs the company for the long run. This includes an assessment of how management balances the ecosystem of stakeholders (clients, employees, government, shareholders, etc.), invests over extended time horizons and achieves corporate governance.

In a nutshell, we seek companies likely to end up on the right side of history.

WHAT HAS BEEN THE SINGLE MOST IMPORTANT FACTOR IN DRIVING THE STRATEGY'S LONG-TERM PERFORMANCE?

Sustainability is the lens through which we evaluate all opportunities. Accordingly, we believe it is the driver of our long-term investment performance. But what powers this lens, sharpening its focus around differentiated insights, is deep research.

Each of our analysts covers a small number of companies, affording them the time to continually conduct detailed quantitative, and perhaps more importantly, qualitative research. This often makes us an outlier. For example, last year we were the only attendee at one of our companies' Annual General Meeting, we conducted months-long diligence on a Korean management team and engaged with an NGO in Peru to understand the environmental and corporate governance risks of investing in the country. What we learn from these experiences goes on to form pieces of the mosaic needed to ultimately make an informed investment decision.

PHOTO: MANILA WATER

It also illustrates one of the cornerstones of our approach: the distinction we make between insight and information. While you can't get enough of the former, the latter has exploded. We are now in a world where information is available in near limitless supply, complete with tweeting investor relations officers and daily satellite imagery to work out exactly how busy companies really are. We recall with certain nostalgia the early days of our career, when there was a daily mad dash to kidnap the only copy of the Financial Times available on our section of the research floor. Getting hold of an annual report required a trip to the basement and plenty of patience.

In this context, there is competitive advantage to be gained by protecting against overload. In his recent book Deep Work, Cal Newport makes a strong case for this. He argues for improving the capacity of our brains not by turning up the pressure on the information firehose, but rather by conducting focused, deep work. Although our minds prefer the instant gratification of checking an email or stock price to uninterrupted rigorous research, it is the latter which ultimately leads to differentiated insights. To this end, we have recognised the crucial importance of decluttering our analysts' diaries and inboxes and scheduling blocks of uninterrupted research time.

In short, we believe the long-term investor inhabits a world which is less certain, less factual and much more reliant on normative judgement than on specific data-points. We look at this world differently by tailoring and controlling a research agenda mapped to relevant long-term issues. This includes, when required, wearing a powerful set of earphones.

WHAT HAVE BEEN SOME CRITICAL AREAS FOR SUSTAINABILITY DEBATE OVER THE LAST YEAR?

Over the last year, we analysed the electric vehicle value chain in depth, resulting in increased investments in two companies serving the auto industry. We also dedicated a significant amount of time to understanding the sustainability of social media platforms, especially their impact on society's psychological well-being. We examined whether antitrust laws were in need of an update and if so, how this might affect companies such as Alphabet and Amazon. On a related note, we also considered the fairest way for global companies relying on intellectual property to pay tax.

WHAT FACTORS ARE YOU MOST COGNISANT OF GOING INTO 2018?

As we head into 2018, we are more cognisant than ever of the powerful force of mean reversion. For the past nine consecutive years, we have experienced rising stock market performance. And more specifically, over the past three, we have seen global growth companies come together as the central driver. These are often companies considered 'winners' in their respective sectors for displaying attractive financial characteristics, such as high return on capital. Whilst we believe over time they will tend to perform better than market averages, it is possible some have now become fairly valued or even overvalued. In these cases, we continue to exercise strict price discipline, reducing our positions and reinvesting the capital in more contrarian investment ideas.

Read more about Generation Investment Management: https://www.generationim.com

PHOTO: GUSTAF HELLSING/IKON

Asset management risks

The most significant risks that asset management faces can be divided into two types; financial risk and operative risk. The financial risks are primarily market, credit and liquidity risks. Operative risks primarily concern asset managers' internal processes and routines. All investments at the Church of Swedens' national level are made by external asset managers as either fund investments or in separate mandates.

FINANCIAL RISKS

Market risks

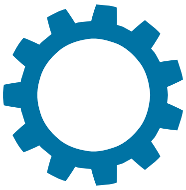
Markets risks are the risks linked to a current or future cash flow from a financial instrument that may fluctuate in value depending upon changes in market prices.
The market risks that are most relevant for asset management are equity, interest rate and currency risks.

Credit risks

Credit risks regard the risk of loss due to a credit commitment not being met. Our asset management limits the credit risk in the interest portfolio through requirements on credit ratings and limitations on exposure to individually issued securities.

Liquidity risk

Liquidity risk pertains to not being able to sell a security at a particular point in time without incurring a larger reduction in price or greater costs. Our asset management's liquidity risk is curbed by limiting placement in alternative investments to 25% of the overall portfolio.



Operative risks

Operative risks are risks of loss as a result of faulty internal processes or routines, human error, faulty systems or external events within an asset manager's organisation.
An evaluation of our asset managers' operative risks was carried out during 2016/2017. This evaluation showed that there were no significant risks among our asset managers.

Financial risks in the long term

If we expand our view to take in the entire financial market we can also see other risks. One of the roles of the financial market is to distribute assets in society in as efficient a manner as possible to the businesses that provide the greatest value.

However, long-term value creation in both companies and investors is made more difficult due to a variety of factors. Companies on the stock exchange are bound to a quarterly reporting system that consumes all-to-much time and resources. Insurance companies are required to have capital requirements that are so large that it becomes difficult for them to have a sizable amount of investments in illiquid assets such as green infrastructure. Many pension funds are not permitted to have more than small amounts of assets tied to investments that have longer investment periods[2]. Add to this that bonus programmes in both the listed companies and the financial sector globally are often designed for short term performance without criteria for a view to the long-term and sustainable value creation.

WHO PAYS THE "DINE AND DITCH" ACCOUNT?

Investors in coal mines, for example, do not bear the costs of environmental impact such as air pollution or shortages of water that result from the mine's operation; so called externalities. Coal mines can continue to reap the benefits of good profitability while the external costs are carried by the community in which the mine operates. These external costs during the post war period have accumulated heavily in conjunction with globalisation and today constitute a gigantic "dine and ditch" account that we see is already affecting us and our assets now, and is not only a circumstance that we are going to turn over to coming generations in the future. Other examples of external costs caused by different businesses operations are noise, acidification and the hole in the ozone layer. Those who are behind the problems need not pay for correcting them, at least not to the degree that they would cease creating the problem.

Diminished biological diversity is also another external cost. A clear consequence of this is the lower degree of pollination occurring as a result of the number of pollinating bees dramatically declining. This negatively affects important and beneficial societal functions such as the production of food which is partly dependent upon pollination.

THE FINANCIAL MARKET IS PART OF THE SOLUTION

In the wake of the financial crises of 2008, it became clear how fragile and short-sighted the financial system is. Add to this world investment needs making it possible to reach the goals in Agenda 2030 (a rough figure often mentioned is $6 000 billion per year) and it is easy to understand that the financial system needs to be adapted to keep up with developments in the world.

Agenda 2030 is a roadmap for the 17 global development goals that the world's leaders agreed upon in 2015. Read more about The Sustainable Development goals[3].

As an answer to a number of initiatives taken over the last few years such as the UN and World Bank's reports on how we can achieve a long-term, sustainable financial system[4] and the EU Commission's High Level Expert Group (HLEG). HLEG was created to provide the commission with recommendations for how the financial system can be made more stable and sustainable and also how the flow of capital from private sources to sustainable investments[5]. The final report was presented on 31 January 2018 and can be read here[6].

At the beginning of March, the EU Commission issued an action plan for sustainable investment based upon the recommendations of the HLEG report. The purpose with directing the financial system into a sustainable pathway is to secure future value creation in the real economy, and hence also in the financial sector. Since enormous values are at stake due to for instance climate change and reduced biodiversity, it also implies considerable financial risks to lose values in assets. Read more here[7].

PROMOTING LONG-TERM THINKING

The Church of Sweden acts on many fronts in an attempt to contribute to sharpening the focus on long-term thinking in the financial system. We actively participate in the public debate in a variety of ways (responses to committee inquiries, panel discussions, diverse networks, reports and interviews in media) on how long-term investment can be promoted. We also invest in a number of funds whose purpose is to promote investment in the real and local economies. Also, we initiated a project to highlight the issue of how some of today's financial assets in, for example, the energy and vehicle sectors can lose a significant portion of their value during the coming years (so called stranded assets) and how actors can calculate the risks in their asset management or lending. The project resulted in a handbook that was written in conjunction with Material Economics and Stockholm Environment Institute and has been tested primarily in SEB. It was launched in January and you can read it here[8].

Another initiative that has gathered great attention is the working group for increased transparency of climate related financial information, Task Force on Climate-related Financial Disclosures, TCFD[9]. The G20 and its organ, the Financial Stability Board, that was commissioned to develop a framework for climate related financial reporting, are behind the initiative. Their recommendations were released last summer and have had a powerful effect. The purpose of the recommendations is to facilitate communication between companies and investors. Its focus is on how climate-change affects companies' business models and how well a company can manage the risks and opportunities that arise as a result of climate changes as well as the conversion to a low-carbon economy.

The Church of Sweden supports the initiative and sees great potential for large, conventional investors to begin taking climate risks seriously in their financial analyses which we have describe in an article in Sveriges Natur[10]. In regard to our own portfolio, we have been redirecting our investments from carbon assets such as oil, coal and gas to solutions for climate change since 2008. See more here on our climate website[11]. Due to this, our portfolio already has an unusually low climate related financial risk.

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[2] A non-listed asset cannot be bought and sold on a market place such as the stock exchange, whereas the stocks of a company, that is listed on a stock exchange, can be traded daily.
[3] https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals
[4] http://unepinquiry.org/publication/roadmap-for-a-sustainable-financial-system/
[5] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en
[6] https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en
[7] https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en
[8] https://www.sei-international.org/publications?pid=3297
[9] https://www.fsb-tcfd.org/about/
[10] http://www.sverigesnatur.org/aktuellt/sa-ska-finansbranschen-klimathansyn-investeringar/
[11] https://www.svenskakyrkan.se/climate-and-finance

What benefits do our investments provide?

It is clearly stated in our financial policy that our assets shall grow in a sustainable manner. Section 6.2 reads, "We want the companies that we invest in to actively contribute to sustainable development by adhering to the UN's Sustainable Development Goals adopted in 2015".

Our most recent investment in the Luminar Ventures fund has a focus on a stronger financial system, the real economy and Agenda 2030. This fund invests in small, newly established digital companies with the potential to become very large and break new ground in the digital economy as well as to create jobs and export revenues for Sweden. The need of e.g. services within e-health and e-education is growing and has a very large potential market. Fund managers are currently analysing a number of companies among those active in this sector.

Companies that are in an early stage of development often have difficulty obtaining financing for a period of time until they have grown sufficiently large. This is why we want to participate in filling the gap. We are doing this in conjunction with the state-owned SamInvest and the European Investment Fund that both participate with significantly larger amounts of assets than we do. This is especially satisfying since we began calling for such a fund four years ago and now it has become a reality. Read more here.

We also invest in a number of other funds with are clearly beneficial to the environment or the real economy. Read more here.

THE CHURCH OF SWEDEN'S EQUITIES

Approximately 60% of our equities are placed in listed equities, i.e. companies listed on a stock exhange in Sweden or internationally. We have chosen asset managers who select companies that yield both good returns and have a high sustainability rating. Our largest asset manager, Generation Investment Management, established by Al Gore and David Blood in 2005, invests in companies that contribute to creating a sustainable society while as the same time having excellent business operations and management quality. Investing in these funds has been very profitable for us. See the article on page 8-9.

There are about 300 companies on the Swedish equities market (SIXPRX). But the ten largest companies completely dominate the market as their market value constitutes 40% of the market value of all listed companies. The 50 largest companies account for about 80% of the stock exchange's overall value. This means that a great number of all of the funds containing Swedish equities on the Swedish equities market contain many of these larger companies. This is positive seen from the perspective of sustainability since a big part of these companies have structured and goal-oriented methods for addressing issues such as the climate, environment, working conditions and corruption as compared to companies in many other stock markets around the world. In addition, there are few companies on the Stockholm stock exchange that are involved in fossil fuels, so it is relatively easy to combine holdings in funds with Swedish equities and lower emissions of carbon dioxide and other greenhouse gases that may have their origins in the companies included in a fund.

The Church of Sweden has two funds with Swedish equities that are managed actively - as all of our funds are. We are behind the establishment of one of these funds, SEB Ethos Swedish Equity Fund. This fund was created so that we could offer dioceses and parishes a fund with low fees that meets the demands of our financial policy. The other fund is Nordea

Institutional Equity Fund. Companies contained in these funds generally have high sustainability ratings and contribute in a variety of ways to a more sustainable society. We do not invest in companies that conduct businesses that are linked to weapons, tobacco or fossil-fuel energy sources as defined in our financial policy.

THE CHURCH OF SWEDEN'S FIXED-INCOME INVESTMENTS

Making investments in fixed-income securities (government bonds, housing bonds and corporate bonds) is more difficult than investing in equities since the offering is more limited and lacks requirements for detailed reporting on what the money finances. The exception, however, is what is commonly called green bonds. There is an international framework that sets stringent requirements for impartiality and verification of the "green benefits" year after year, e.g. the emission of carbon dioxide. Green bonds is an area that is quickly growing both in Sweden and globally, but the offering on the market is still small despite the fact that the demand among investors is huge. This is why it would be very beneficial if all of the other more common bonds, that constitute over 99% of the global bond market, had guidelines on how to report more in-depth information on what a particular bond finances. It would provide a desirable benefit to the real economy and also strengthen the market for green bonds as the hurdle then would become lower to issue them. This argument has been put forward in the Government inquiry "Promoting Green Bonds" (SOU 2017:115). A higher degree of transparency would make it possible for investors to exercise control over their assets and gain insight into businesses. As a shareholder, we have the opportunity to engage with both the asset managers and the companies in question regarding their businesses, e.g. at the various shareholder meetings that the company invites its shareholders to as well as the reporting that the company releases. Similar opportunities to exercise control do not exist for bonds aside from the case of green bonds.

FIXED-INCOME INVESTMENTS WITH POSITIVE IMPACT

We invest in three fixed-income products that have clear societal benefits, primarily for the environment. The largest investment is in SPP Green Bond Fund, which finances renewable energy, water treatment and more, around the world. The other investment is a relatively large investment in SEB's micro-financing fund. This fund lends money to bank-like institutes that in turn lend small amounts of money to people who would otherwise not have access to decent sources of capital, e.g. buy a sewing machine or a goat to be able to improve their businesses.

The third investment is in fixed-income securities in the Green for Growth Fund that finances loans focused on energy efficiency and renewable energy in south-east Europe. The borrowers are primarily small companies and municipalities, who thanks to this fund, can then invest in technology that cuts their emissions of carbon dioxide in half.

Agenda 2030 – The Sustainable Development Goals

In addition to the increased monetary value of our assets, we want to make a difference in the world by investing in a way that contributes to a better society and a healthier planet. But what we do alone is just not enough. As mentioned previously, it is estimated that some $6 000 billion each year is needed in investments to be able to reach the goals in Agenda 2030.The climate is just one of 17 goals but perhaps the goal that needs to be addressed most urgently. The assets exist; however, they must be redirected from financing problems to investing in the future.

To increase activity among Swedish investors, we have become involved in a project initiated by Sida (The Swedish International Development Cooperation Agency) called Sustainable Investors for Sustainable Investment (SISD) whose purpose is to promote Agenda 2030. This year we have been a driving force in two working groups in this project. One of the groups focuses on clean water and sanitation (Goal 6) and the other, sustainable cities (Goal 11). In the group whose focus lies on clean water and sanitation, we quickly abandoned our ambitions to invest in Swedish infrastructure despite the great need of renovating and expanding these systems. The problem is not that there is a lack of money; it is more a case of municipalities lacking the experience and resources necessary to create and manage such advanced and long-term maintenance projects. It is also difficult for municipalities to justify the extra costs involved in providing such services to its inhabitants, since they take water and sanitation services for granted and do not see the advantages of making such improvements. For this reason, we conducted a study regarding this issue that was launched in connection with a seminar in the Parliament late last autumn. Read the report here.

We have also discussed the issue with other actors including the OECD and have understood that the situation regarding investments in water supply and sanitation in the rest of the world is similar to that in Sweden.

The ambition of the group whose focus is on sustainable cities is also to find ways to promote investments. Many speak of sustainable cities as being the key to reaching the climate goals and goals in Agenda 2030, but very few actors offer concrete proposals on how to finance them. And without money – no action! Again, it is not difficult to find assets; what is difficult is creating viable projects in practice, in which the many different actors can find agreement. The group continues to seek ways forward regarding investments in sustainable cities.

In December, Swedwatch, an independent actor that reviews Swedish companies, released a follow-up report on how well the ten largest fund investment companies are living up to the two-degree target. After many years of negotiations, the leaders of the world finally reached agreement at the Paris Agreement 2015. They agreed that the average temperature of the world should not exceed two-degrees as compared to pre-industrial times and should strive towards 1,5 degrees. The report indicates that steps forward have been made but they are not at all sufficient to be able to finance the conversion to a low-carbon economy at the pace needed. Several of the fund investment companies maintain, however, that there are not enough listed equities to lead the conversion. This is true. The question then is, who has the power to create other types of products to invest in, without listed equities, so that we can survive the climate crisis? Read the report here.

Goal 6 of Agenda 2030 clean water and sanitation.
In the picture biological water purification.

PHOTO: EWENJC/GETTY IMAGES

How are the world's churches helping to alleviate the impact of climate change

The Church of Sweden supports the World Council of Churches' endeavours to address climate change by contributing with co-ordinated actions to meet this end. The ecumenical presence in efforts to protect the climate focuses mainly on bringing attention to the plight of those most affected by climate change. It is important to encourage the developed world to reduce its environmental impact and actively work to promote a fair transition to a sustainable world society.

The Church of Sweden is an important actor in the global ecumenical and inter-faith efforts to alleviate the negative impact from climate change through its participation in the World Council of Churches and through the ACT alliance[12].

"We combine our advocacy work with theological and traditional church-based activities. We also actively promote more ambitious political efforts to tackle climate change in Sweden and the world," says Mr. Henrik Grape.

The Church of Sweden divested its holdings in the fossil-fuel sector in 2008 parallel with the inter-faith summit on the climate held in Uppsala by Anders Wejryd, the Archbishop at that time.

"The presence of the summit's manifest is still felt today in the interfaith, international climate work being carried out,"explains Mr. Grape.

Subsequently, the World Council of Churches also decided to divest itself from holdings in the fossil-fuel sector. This was a natural step after having worked for so many years to slow climate change in different ways, among them, exerting an influence on the UN climate conference and by having the climate issue as one of its central issues under the concept Climate Justice, for such a long period of time.

"Divesting is for the most part an issue for the richer churches in the western world. Seen internationally, it is a non-issue for small, minority churches in Europe or smaller and poorer churches in developing countries. On the other hand, the discussion on

PHOTO: GUSTAF HELLSING/IKON

Henrik Grape

PHOTO: SEAN HAWKEY/IKON

When the UN climate conference opened in Paris 2015 people gathered at Place de la Republique. The planned climate march was cancelled due to security risks, so instead the protestors placed out shoes to symbolise the people that would have participated in the march.

divesting has been important among the larger European churches and in North America,"Mr Grape tells us.

A degree of resistance has been observed among some churches. This is linked to a number of arguments having to do with a more cautious approach to divesting. One argument that is put forward is having to be careful with resources so that a good return can be assured which is necessary to run the church in question – an argument that the Church of Sweden has, through the example it has set, to be completely unsubstantiated. Another argument is that it is important to retain holdings in the company to be able to have an influence on getting them to change.

"These are rather weak arguments, I think, since the fossil-fuel sector's business concept is to extract fossil fuel,"clarifies Mr Grape.

In June 2015, Pope Francis issued an encyclical on the environment in a compelling call to rethink the "ecological conversion"and measures needed. It calls for much more than just managing nature and combating environmental destruction. Everything in the world is linked together. All creatures have value and for this reason a broader view of ecology, economy and development is needed.

The encyclical had a great impact on Catholic churches' investments and more than 40 different Catholic institutions last autumn declared that they were going to pull their investments out of the fossil-fuel sector.

"I participated in a conference in Rome on divesting in Catholic institutions where Cardinal Turkson (responsible for ecological/sustainability issues) as well as others participated. The Church of Sweden's example, and that we were the first church to completely divest its holdings, has made us world famous because we actually took action", explains Mr Grape.

"We are a sufficiently large enough church to show what can be done with assest management. Our work with issues of substance and advocacy work regarding the climate are closely aligned with theological work and our identity as a church. But this is not a given in the international ecumenical context"[13] reveals Mr. Grape and provides an example.

"We are currently preparing for the next COP (UN Climate Convention's annual negotiations) which will be held in Katowice, Poland. The Church of Sweden is in a key position during the COP where I will act as co-ordinator and leader for the World Council of Churches' climate working group and my colleague Martin Vogel is chairperson for the ACT alliance's climate working group."

World Council of Churches

The World Council of Churches is the largest international ecumenical network of its kind with 348 member churches from more than 110 countries with about 500 million members. It was formed in 1948 in the Netherlands. Since then it has called large general assemblies every seventh year. The general assembly gathers churches that together represent these 500 million Christians around the world.

[12] ACT stands for Action by Churches Together and means churches working together to take action. Thanks to this co-ordinated work we can react rapidly when faced with catastrophes, work more efficiently in long-term development work and together have a stronger voice when doing our advocacy work. https://www.svenskakyrkan.se/internationelltarbete/in-partnership

[13] https://www.svenskakyrkan.se/ecumenical-relations

Church of England's sustainable investment

The Church of England has discussed climate change for a long time, and has decided to combine engagement with fossil fuel companies with exclusion of certain activities such as oil sands. Their financial assets are 8.3 billion British pounds. Edward Mason, Head of Responsible Investing at the Church of England, tells us more about their work.

An important part of our climate strategy is The Transition Pathway Initiative (TPI). It is an asset owner-led initiative, supported by investors with over $6.5 trillion assets under management. It was co-founded by the Church of England National Investing Bodies and the UK Environment Agency Pension Fund in partnership with the Grantham Research Institute at the London School of Economics. TPI assesses how companies are preparing for the transition to a low carbon economy. It tracks the quality of companies' management of the risks and opportunities related to the low-carbon transition in key sectors of the economy and evaluates how companies' future carbon performance would compare to both the 2 degrees target of the Paris Agreement and the Nationally Determined Contributions pledged so far by signatories to the Agreement. The results of this analysis are available to all through an online tool.

PHOTO: CHURCH OF ENGLAND

Edward Mason, Church of England

Under our Climate Change Policy, we have divested from companies deriving more than 10% of their revenues from the extraction of thermal coal or the production of oil from oil sands, as we believe that such companies are unlikely to be able to assist with the transition to a low carbon economy. We created TPI so that we can assess whether other companies are taking their responsibilities to contribute to the transition to a low carbon economy seriously and see where our engagement is, or is not, having an impact. Our policy allows for further divestments if we do not believe that companies are taking their responsibilities seriously.

COLLABORATION MAKES THE GREATEST IMPACT

We believe that we can have the greatest positive impact on corporate and investment practice if we collaborate with other investors – both church and non-church investors. We are active members of the Church Investors Group, which brings together nearly 60 institutional investors from churches and church-related charities, predominantly from the UK and Ireland, but also from continental Europe and the rest of the world. We are also strongly committed to the UN-backed Principles for Responsible Investment.

Almost all of our most successful interventions have come when we have worked with other investors. We were lead co-filers in 2016 and 2017 of a shareholder proposal at ExxonMobil on climate change related disclosures. It was passed at Exxon's shareholders meeting in May 2017 with the support of 62% of shareholders. Exxon confirmed in December 2017 that they would implement the resolution. This

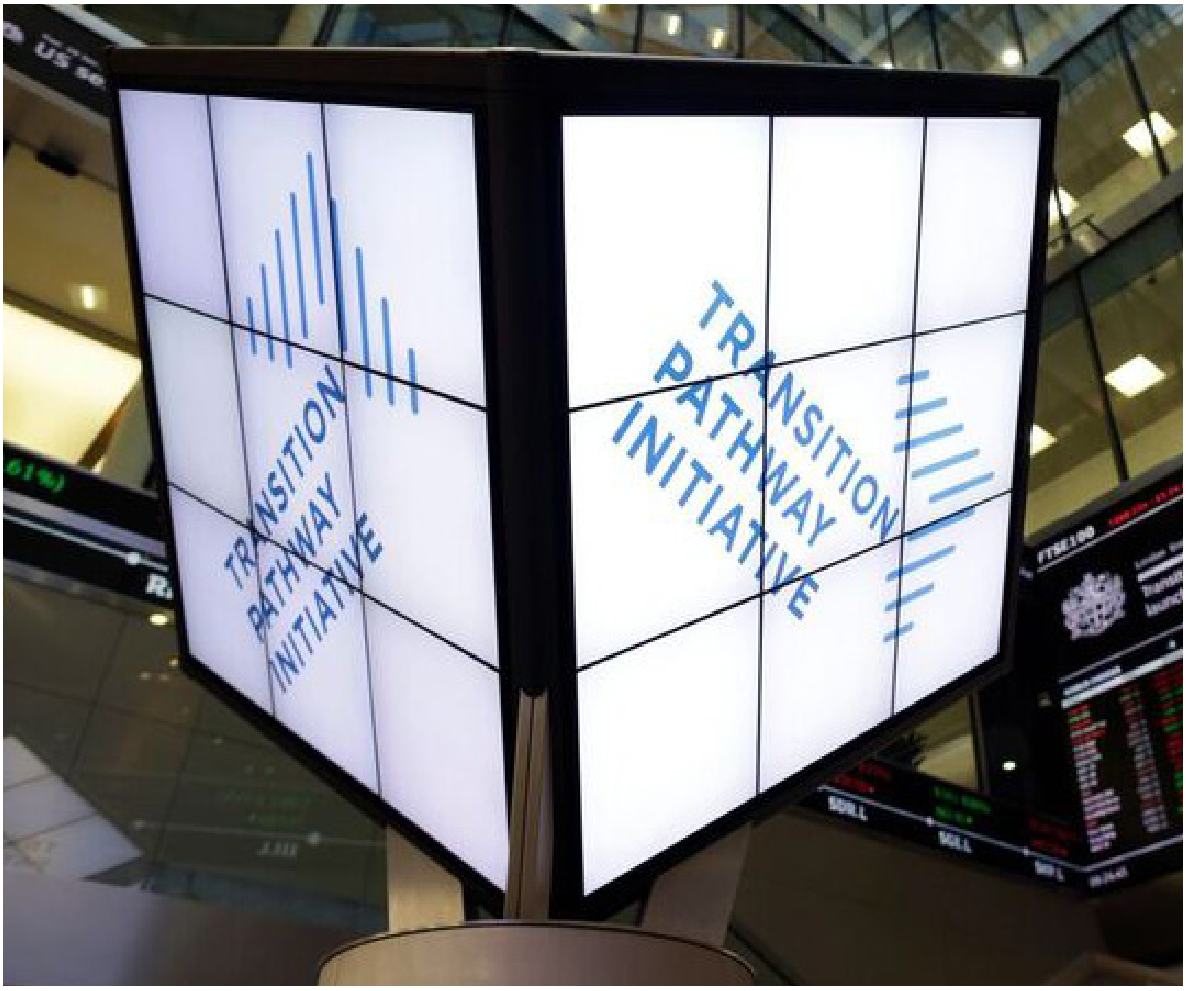

PHOTO: LONDON STOCK EXCHANGE

unprecedented result came after the Church Commissioners helped assemble a group of over 50 church and non-church investor co-filers with over $5 trillion of assets under management, the largest ever co-filing coalition for an environmental or social shareholder proposal in the US.

PRIVATE EQUITY BETTER THAN LISTED EQUITY

Private equity and venture capital investments represent approximately 4% of the Church Commissioners' total portfolio. We plan to expand our allocation to the asset class over the coming years. Approximately 55% of our capital in the programme is invested in North America, 25% in continental Europe, 10% in UK and the remainder in the rest of the world including emerging markets. The largest sectoral exposure is Technology, Media and Telecommunications at approximately 45%. Healthcare, Consumer and Retail, and Industrials each account for approximately 15%.

Over the long-term, our private equity and venture capital portfolio has outperformed quoted equity markets. Over the five years to the end of 2016 the annualised returns have been 15%, over ten years 11% and over 15 years 14%. We have two full time members of staff dedicated to private equity and a part-time member of staff dedicated to venture capital.

The divestment movement

The Church of Sweden has got a lot of attention the last years as a result of our divestment from our shares in oil, coal and gas already in 2008–2009, while maintaining good financial returns. Five years later, the big divestment movement started among students in the USA and spread around the world.