Svenska kyrkan

DOCUMENT Guidelines for ethical and sustainable investment for the Church of Sweden´s asset management at the national level			REGISTRATION NO
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Guidelines for ethical and sustainable investment

Background and purpose

These investment guidelines serve as a supplementary document to the Church of Sweden's financial policy for asset management at national level (financial policy). The purpose is to clarify details of how ethics and sustainability are to guide the asset management. The document serves as a practical framework for external asset managers, clarifying the principles and values that should guide investment decisions.

The asset management is based on the same values as the rest of the Church of Sweden's work: the principle of human dignity and the concept of stewardship. Capital should therefore not solely be managed to achieve long-term financial returns, but also to contribute to a fairer and more sustainable world.

The Asset Management Council is responsible for regularly reviewing and updating the investment guidelines.

Expectations on asset managers of the Church of Sweden's capital

Asset managers who manage the Church of Sweden's capital have a considerable responsibility. They are expected to fully understand and apply both the financial policy and the investment guidelines, and to ensure that capital is always managed in line with ethical and sustainability requirements.

This means that asset managers should have the internal processes and skills required to identify, analyse and manage sustainability risks. Investments in sectors or regions that carry a high risk of corruption, environmental degradation or human rights violations must be preceded by a particularly in-depth analysis. Only investments that can be justified both financially and in terms of sustainability are acceptable.

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If serious anomalies are detected in an existing holding, the manager should initiate a dialogue with the company. If there is no improvement within a reasonable period of time, the holding should be divested.

Asset managers should report annually on how the capital is being managed in accordance with the financial policy and investment guidelines. This report should cover:

- the portfolio's fulfilment of ethical and sustainability criteria;
- dialogues conducted with companies and the outcomes of these; and
- use of voting rights at shareholder meetings.

Expectations are not just about avoiding unethical investments. Asset managers are also encouraged to actively identify investments that contribute to positive social development. The capital should promote the transition to a fossil-free economy, strengthen biodiversity efforts and improve labour conditions. Capital will subsequently not only be used to manage risk, but also as a resource to create long-term value – for investors, society and the environment.

Implications of the Church of Sweden's sustainability focus in asset management

The financial policy excludes investments in industries and activities that are deemed to be in direct conflict with the values of the Church of Sweden. Exclusion is a deliberate strategy to ensure that capital does not contribute to activities considered harmful to people or creation.

One consequence of this strategy is that it makes the investment universe significantly smaller than the global market index. For example, much of the MSCI World Index is unavailable for investment, as it contains companies in excluded industries. This often leads to a higher deviation from the benchmark index, known as tracking error.

Tracking error measures how much a portfolio's performance deviates from its benchmark. For the Church of Sweden's asset management, this is not an undesirable consequence, but a natural result of prioritising ethics and sustainability. The increased deviation is accepted because the objective is not to mimic the market, but to use the capital in a way that is consistent with the values of the Church of Sweden.

Asset managers are responsible for reporting and analysing the impact of exclusions on portfolios. The report should show how the sustainability requirements have impacted returns, risk levels and exposure to different sectors and regions. It should also explain how the chosen strategy reconciles financial objectives with ethical guidelines.

Tracking error should not be seen as a measure of quality, but as a consequence of different strategies to integrate ethics and sustainability. Two asset managers with the same benchmark may have different tracking errors depending on how they handle exclusions and selection. Asset management is therefore assessed both in terms of financial returns and the fulfilment of sustainability objectives.

Thematic focus areas for responsible investment

Asset management should not only avoid investments that cause harm, but also actively contribute to the global transition towards sustainable development. Investments should therefore focus on solutions that address the major challenges of our time: climate change, biodiversity loss and human rights violations. Integrating these issues into asset management reduces risks, while ensuring that the capital contributes to positive social development.

Climate

Climate change is one of the greatest systemic risks of our time. It affects ecosystems, communities and economies in ways that threaten both human welfare and financial stability. Asset management should therefore adhere to the objectives of the Paris Agreement and contribute to limiting global warming. The aim is to achieve net zero emissions in the investment portfolio by 2050, with clear interim targets for 2030.

The capital will be directed at companies and projects that contribute to a fossil-free future. This means prioritising investments in companies that are developing sustainable products and services, transforming production or offering climate adaptation solutions. Meanwhile, companies that extract fossil fuels or lack a credible transition plan are excluded.

Companies in the portfolio are expected to report their emissions across the value chain, set science-based emissions targets and demonstrate concrete progress. They should also consider social justice as part of their transition, so that vulnerable groups are not left behind.

For energy producers and energy-intensive industries, a specific assessment is made, with a strong emphasis on whether companies are leaders in sustainability and have adopted ambitious emissions targets.

Biodiversity

Biodiversity is essential for functioning ecosystems, human health and financial stability. Biodiversity loss is a growing systemic risk that undermines food security, hinders climate adaptation and reduces the resilience of communities. It is driven by factors such as changes

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in land and sea use, overexploitation, climate change, pollution and the spread of invasive species.

In light of this, the asset management should actively consider biodiversity in investment decisions, including analysing risks related to ecosystem impacts.

Instead of setting quantitative portfolio targets, which are often difficult to measure and risk leading to passive divestment, the focus is on long-term advocacy. Dialogue with companies and asset managers is prioritised to promote improvements in governance, procedures and reporting.

Activities affecting sensitive ecosystems, such as forests with high ecological values or marine environments, are subject to particular scrutiny. Companies are expected to demonstrate how they identify relevant risks, actively work to reduce negative impacts and invest in conservation efforts. Lack of transparency or unwillingness to address these issues is not compatible with sustainable governance.

Social responsibility and human rights

Companies in the portfolio should respect international conventions on human rights, offer fair labour conditions and promote gender equality and inclusion. Working environments should be safe, wages fair and trade union rights respected. Companies should have systems in place to monitor their supply chains and address the risk of child labour, forced labour or discrimination.

There is a particular focus on children’s rights. Children are a vulnerable group that is highly impacted by both social and ecological risks. Companies are expected to comply with the UN Convention on the Rights of the Child and UNICEF’s child rights principles, and to demonstrate specific actions to protect children throughout the value chain.

Established international frameworks are used to analyse a company’s performance, such as the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO Conventions. These form the basis for assessing whether companies are acting in accordance with the requirements of responsible and ethical asset management.

Public health and harmful products

Human health and wellbeing are fundamental elements of sustainable development. Investments should not contribute to activities that risk undermining public health or creating dependencies that harm both individuals and communities. Tobacco, alcohol and gambling

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are examples of industries with well-documented negative consequences. These products and activities are often addictive, contribute to illness and social problems, and result in high costs both for individuals and societal systems.

Tobacco

Investments in companies that produce tobacco or tobacco-related products are excluded. This also includes products that aim to mimic tobacco use, such as nicotine-free alternatives that imitate smoking or taking snus. Tobacco has no positive social benefits and is strongly associated with disease, premature death and reduced quality of life. The asset management should therefore not support or enable the growth of the tobacco industry.

Cannabis

Capital is not invested in companies that produce cannabis for non-medical purposes. Like alcohol and tobacco, cannabis can lead to dependence, addiction and serious health problems. Moreover, its use is banned or strictly regulated in many countries, which further increases the risk profile. The asset management should therefore not support or contribute to the growth of this industry.

Exemptions apply to cannabis products used for medical purposes, provided they are authorised by the relevant authorities and used in the context of care and treatment. Medicinal cannabis is considered part of the healthcare sector and is not subject to the exclusion.

Alcohol

Alcohol consumption is part of many cultures, but over-consumption carries significant health, social and accident risks. Investments in companies in which income from the production of alcoholic beverages exceeds five percent of a company’s overall turnover are therefore excluded. Alcoholic beverages include those containing more than 2.25 percent alcohol by volume. This boundary allows for a distinction between companies where alcohol is a marginal part of the business and companies where alcohol is at the core of the business model.

Gambling for money

Gambling can be a form of entertainment, but it also carries a high risk of addiction, debt and social problems. Companies whose revenue from gambling or gambling platforms exceeds five percent of turnover are excluded. Companies whose primary business concept is to develop software or platforms for gambling are also excluded, regardless of their level of revenue.

Distribution

In the case of distribution of tobacco, alcohol or gambling-related products, no absolute limit is applied. This is because it is often difficult to determine fairly and reliably what proportion of turnover is generated from distribution, particularly in the grocery sector.
However, asset managers are always expected to be able to justify investments in companies with distributional elements and demonstrate that these do not contradict the overall principles of the financial policy.

Weapons and munitions

The Church of Sweden applies an absolute ban on investments in companies that develop, manufacture or sell weapons and munitions that are central to combat functions. This refers to weapons, weapon systems or other equipment, were the primary purpose of which is to injure or kill people in armed conflict. Examples include small arms, ammunition, armoured vehicles, artillery, missiles, attack aircraft and warships. Components such as guidance systems, targeting systems, gun barrels or other parts that are directly essential to the functioning of the weapon are also excluded.

An absolute ban also applies to companies involved in the production of particularly inhumane weapons. These include nuclear weapons, cluster munitions, anti-personnel mines, chemical or biological weapons and depleted uranium weapons. These weapons have in common the ability to cause disproportionate and indiscriminate harm and thus violate fundamental principles of international law. The exclusion applies regardless of whether the weapons are regulated by international conventions or not.

Indirect associations and marginal activities

An individual assessment is made for companies whose activities are only partly linked to military use. This applies, for example, to suppliers of test equipment, electronic components or logistics systems with both civil and military applications. Several factors are considered in such cases, including whether the product or service can be considered central or marginal to the combat function, whether the company has a civilian core business, and the transparency and openness of the military part of the business. The assessment is always based on the precautionary principle. If the military link is central, even if it generates a low turnover, investment is not permitted.

Dual-use

Dual-use items, i.e. those that can be used for both civilian and military purposes, are not automatically excluded. These can include communication systems, transport solutions, IT equipment or semiconductors used in both civil and military contexts. These products are assessed on a case-by-case basis. The key issue is whether the product actually contributes to combat capability and whether the product is a marginal element in the company's business model. Examples of products that may have the potential for investment are communication or logistics systems developed for broad civilian use, while components specifically designed for weapon systems should always be avoided.

Impact of increased defence budgets

As more countries increase their defence budgets, the risk of military exposure also increases in civilian industrial companies. This makes it particularly important to apply the exclusion criteria consistently and clearly. The aim is to ensure that the exclusion of munitions for combat remains strict and credible, while not excluding companies that are primarily concerned with civilian activities.

Corporate governance and dialogue

In borderline cases, dialogue can be initiated to encourage companies to reduce or phase out their military activities. If there is no improvement within a reasonable period of time, the holding should be divested. If the asset manager decides to retain the individual holding, the entire investment in the fund may be reassessed and, if necessary divested.

Transparency and due diligence

Transparency is a prerequisite for investment. Companies must clearly disclose their share of revenue or exposure to military activities. A lack of transparency around military activities can itself be grounds for exclusion.

The assessment of an investment should be based on both public company information and data from independent sources. These sources are used to ensure a breadth of analysis and to identify risks that companies do not always disclose themselves.

Definitions and legal basis

Assessment of companies related to arms and munitions is based on established laws, regulations and international principles. The Church of Sweden applies:

- Swedish Military Equipment Act (1992:1300) and Ordinance (1992:1303) on Military Equipment.
- The EU Common Military List.
- UN arms embargo and international sanctions lists.

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- Regulation (EU) 2021/821 of the European Parliament and of the Council on the control of dual-use items.

The Church of Sweden also uses analyses from independent research institutes such as SIPRI, as well as relevant civil society organisations that review arms production, trade and exports.

In some contexts, the terms ‘offensive’ and ‘defensive’ equipment are used. However, the Church of Sweden takes into account the actual use of the product in armed conflict and its importance in enabling combat capability, regardless of how it is categorised.

A specific assessment is made for companies providing services to military customers, such as system integration, operation or maintenance. The pivotal factor is whether these services are part of the company’s core business and have a direct military application.

All assessments are conducted using the precautionary principle and in accordance with the Church of Sweden’s values of peace, human rights and non-violence.

Investments related to pornography

Companies with significant revenues from pornographic films or other material that offends human dignity are not considered compatible with the values of the Church of Sweden. However, an absolute zero threshold is difficult to enforce in practice, as data on companies’ links to pornography is often scarce or difficult to access, particularly in terms of distribution.

To address this complexity, a threshold of a maximum of one percent of the company’s total turnover from pornographic activities is applied. Companies that exceed this level are excluded.

In practice, this means that investments may be compatible with the guidelines for ethical and sustainable investment if the company does not actively produce or market pornographic material, and if the income from such activities is insignificant. This may apply, for example, to certain operators in the hotel, telecoms or media sectors, where the distribution of pornographic content may occur passively as a small part of the business.

The assessment is always based on the precautionary principle. If a company shows clear or strategic links to pornographic activities, investment should be avoided. Transparency around the business model and actual exposure is crucial for an investment to be considered.

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Responsible corporate governance

The Church of Sweden regards strong, responsible corporate governance as a prerequisite for sustainable businesses and for long-term economic, social and environmental success. Investments are avoided in companies with documented cases of corruption, non-compliance or other serious corporate governance issues.

Asset managers handling the Church of Sweden's capital are expected to integrate corporate governance into their analyses and decisions, and to report regularly on how they address governance issues. Asset managers are expected to engage in active dialogue with companies to promote improvements in governance structures, including greater transparency and accountability.

Transparency and compliance

Transparency and compliance are essential for building trust and ensuring sustainability. Companies are expected to:

- Have a clear and transparent corporate structure, detailing ownership, subsidiaries and stakeholder relationships.
- Disclose policies, targets and progress in a clear and accessible manner.
- Have robust systems in place to identify and manage risks, including ESG-related risks, and regularly report actions to minimise them.

Business ethics and responsible tax management

Companies should maintain high ethical standards. This means:

- Having clear policies to combat corruption, money laundering and other unethical business practices, in line with international guidelines such as the OECD Guidelines for Multinational Enterprises and the UN Global Compact.
- Managing tax responsibly and transparently. Companies should have a clear tax policy, approved by the board, and comply with applicable laws. While tax planning within the law may be permissible, the Church of Sweden rejects aggressive tax planning that undermines trust and long-term value creation.

Board composition and leadership

Companies are expected to have a diverse and independent board of directors with the skills to oversee and guide the company's strategies and operations. A diverse board improves decision-making and reinforces the company's ability to respond to the various needs and perspectives of society.

Responsible remuneration and incentives

Remuneration systems are a central aspect of corporate governance. Models that reward short-term gains at the expense of long-term sustainability should be avoided. Company executives and board members should be compensated in line with the company's sustainability goals and long-term value creation.

Responsible digitalisation, data protection and AI

Digitalisation and artificial intelligence (AI) are rapidly changing the way businesses are operating, making decisions and creating value. These technologies offer excellent opportunities for innovation, efficiency and sustainable development, but also entail new ethical, social and environmental risks.

The Church of Sweden expects companies using digital technologies and AI to do so responsibly and transparently, demonstrating respect for human rights. Investments are encouraged in companies that use AI and digital technologies to promote sustainability in areas such as climate adaptation, health care and education. At the same time, investments should be avoided in companies that use AI in ways that reinforce inequalities, violate human rights and lack sufficient governance and transparency.

Appendix 1 Examples of valuation-based investment assessments

This appendix illustrates how to apply valuation-based investment assessments in practice. Company assessments are based not only on the current situation, but also on the company's impact and willingness to improve.

Companies with specific challenges

Serious shortcomings despite sustainability efforts

Companies that demonstrate a strong sustainability performance may also have serious shortcomings in areas of their operations. Asset managers should engage in dialogue with companies, assess the severity and impact of deficiencies, and evaluate the company's response, action plan and credibility. If the company is willing and able to address the shortcomings, investment may be possible. Otherwise, investment should be avoided or existing holdings should be divested.

Operations in high-risk regions

Companies operating in regions with a high risk of corruption, human rights abuses or environmental degradation require special scrutiny. The asset manager should conduct an in-depth analysis of policies and practices, assess the company's active efforts to mitigate risks and ensure compliance with international standards. Investment may be possible if the company manages the risks responsibly.

Controversial business practices

Companies facing allegations of unethical conduct, inadequate working conditions, or environmental harm should be examined carefully. The asset manager should initiate dialogue with the company, assess actions taken or planned and evaluate willingness and ability to improve. If the company does not show sufficient responsibility, investment should be avoided or existing holdings divested.

Companies under development

Early stages of transition

Companies that have yet to integrate sustainability issues into their business model need to demonstrate that they are progressing towards an acceptable level. The asset manager should assess ambition, transition plan, timeframes, concrete targets and management commitment. Investment may be possible if the company shows credible and ambitious transition efforts.

Small and medium-sized enterprises

Smaller companies often have limited resources for sustainability reporting, but their impact can be significant. Asset managers should conduct a thorough risk analysis, assess the sustainability strategy and relevant activities, and liaise directly with the company in the absence of formal reporting. The assessment should be documented and include willingness and ability to improve, as well as a follow-up plan.

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Appendix 2 Clarification on fossil energy

Oil and gas
Investments are excluded in companies whose main activity is linked to oil and gas. This includes companies in the following GICS industry codes:

- 10101010 Oil & Gas Drilling
- 10101020 Oil & Gas Equipment & Services
- 10102010 Integrated Oil & Gas
- 10102020 Oil & Gas Exploration & Production
- 10102030 Oil & Gas Refining & Marketing
- 10102040 Oil & Gas Storage & Transportation as well as Pipelines
- 10102050 Coal & Consumable Fuels

In addition, companies involved in the exploration or extraction of oil sands, shale oil or shale gas are also excluded – irrespective of the sector or scale.

Coal
Investments are excluded in companies involved in coal mining. This applies to companies that generate more than 5% of their revenue from coal exploration or extraction, such as mining companies.

Service companies and other sectors
Companies that are not directly part of the fossil fuel industry but have significant links to it are also subject to exclusion. This applies to companies that:

- generate more than 25% of their revenue from distribution or services linked to oil, gas or coal;
- generate more than 25% of their revenue from similar fossil-related activities, even if they operate in other industries, and
- have majority ownership in companies covered by the criteria above.

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Electricity producers and electricity distributors

Investments in electricity producers and distributors should be based on a nuanced assessment of the climate impact and sustainability performance of the business.

- Nuclear power: Investments may be considered in companies that are leaders in sustainability, particularly in terms of safety and the environment, if less than 25% of electricity comes from nuclear power.
- Coal, oil and gas: Investments can be considered if less than 25% of the installed generation capacity (for producers) or distribution (for distributors) is fossil-based, and if the company has a credible plan to reduce this share.

Energy-intensive industries

Investments can be considered in companies in certain energy-intensive industries such as cement, steel and paper, if they are leaders in sustainability in their sector, particularly on climate change. Companies should have adopted science-based emissions targets or net zero emissions targets demonstrating that they are actively contributing to the goals of the Paris Agreement.

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