



CHRISTIAN

CHURCH OF SWEDEN

The Central Board of the Church of Sweden adopted its current financial policy in 2010. The most recent update is from 25 January 2017. In October 2017 almost 8 billion SEK (around US\$935 million) are held in assets, as a buffer capital invested for the long-term interest of the Church, according to all ethical and sustainable requirements)

“Financial assets are also to be managed in an ethically consistent manner, in accordance with the fundamental values of the Church.”

(Church Order, Chapter 51, Section 2, Paragraph 2)

Two moral principles guide investments

Two fundamental moral principles guide our work in managing assets in the Church of Sweden: the principle of human dignity and the concept of stewardship.

1. The principle of human dignity

The idea that all human beings are of equal value is a cornerstone in Christian ethics and democratic societies. The principle of human dignity leads to negative as well as positive obligations. The negative obligations set certain defined limits for our actions. Every human being shall be treated with respect, and may not be unduly exploited. Positive obligations, on the other hand, require active involvement in promoting the wellbeing of others. The positive obligations are related to demands for equitable distribution of resources and equality among people, and have their roots in the prophets of

the Old Testament. With the principle of human dignity as a base, we are able to argue for various types of human rights.

2. The concept of stewardship

Stewardship is an important theme in the Bible and is highly relevant in asset management. In this concept, the assets at our disposal are to be regarded as gifts given to us by God, to be used in the service of all human beings. Humankind is a caretaker of God's gifts. This makes us responsible for the welfare of people as well as the rest of Creation. It means that we can use various natural resources to satisfy human needs while also caring for the natural world, because of its own intrinsic value and because of the needs of future generations.

As part of their commitment to stewardship of the natural world, the Church of Sweden pledged in 2016 to work to manage its environmental impacts, "leading to continual improvement"; to allow an environmental perspective to permeate everything it does; to follow environmental laws, regulations and requirements, and to be "a positive driving force through policy dialogue, purchasing and asset management to promote sustainable development."

In line with the UN's Principles for Responsible Investment the Church also pledged to capitalise on its ability to influence, work for transparency, report on our own work and ensure that these principles are adopted by more investors.

"We want companies to actively contribute to sustainable development by adhering to the UN SDGs. Included in these 17 goals are also climate issues, clean water, aquatic and land animal life and protection of natural reserves."

What is it to be a responsible investor?

- Select asset managers who have the competence to integrate ESG in analyses and investment decisions.
- Focus on responsible corporations and refrain from investing in sectors that are problematic in regard to the Church's fundamental values.
- Make use of our opportunities as asset owners to influence individual corporations, sectors and the financial market in general. We can do this

independently or in conjunction with others. Beyond ongoing asset management this influence can be expressed by making our position clear and influencing public opinion; engaging with corporations and representatives from the financial sector etc; developing new investment products in conjunction with asset managers; supporting and being engaged in different initiatives in Sweden and internationally.

Investments are in responsible corporations that contribute to solutions

Asset managers for the Church of Sweden's assets are expected to select companies based upon benefits to society in which the SDGs provide direction. What this means is that companies shall contribute, through their goods and services, to sustainable development or work systematically and goal oriented with issues that concern the environment, human rights and the alleviation of poverty where these issue touch upon their business activities. It also concerns issues that deal with corporate governance, e.g. corruption, remuneration systems and transparency. Focus is on companies that:

- Integrate sustainability into their business models and strategies.
- Report on and follow-up their sustainability work based upon, for example, their codes of conduct and other guidelines and commitments.
- Adhere to international regulations designed to protect human beings and the environment and also take action to correct faults and shortcomings. Companies should utilise their abilities to influence throughout their entire values chains.
- Make positive contributions economically, environmentally and socially to affected communities. Limit their negative effects on the environment and act with consideration for the current and coming generations by, for example, using the best available technology and reducing their use of natural resources while at the same time protecting them.
- See new business opportunities by contributing to a reduced use of natural resources in a world where these resources are diminishing.

Climate adjustment to the portfolio

The Church of Sweden perceives climate change as a serious threat to Creation. In 2009 the church divested from companies that extract fossil energy sources. The Church of Sweden actively looks for companies that offer sustainable "climate smart" goods and services. It has entered in a few climate

impact funds that reduce emissions in various ways (energy efficiency, renewable energy, forestry protection).

Less focus on benchmarking

Succeeding in the first case mentioned above requires that the asset manager find companies that have processes and products that contribute to the conversion to a low-carbon economy. It is sometimes difficult, while actively managing funds, to achieve a low Tracking Error (the standard deviation between the yield of the fund and the yield of the benchmark) in indices such as MSCI World or DJSI. This is due to the fact that the large oil companies and other fossil-fuel extraction companies make up a significant portion of these indices.