



Church of Sweden

Foundation description

Mission

To provide pastoral care as an Evangelical Lutheran community of faith

Type

Faith-based institution

Key data

Total assets

| | | | |
|---------------------|------------------------|--|-------------|
| | % of assets in: | | |
| €543 million | SRI | | 100% |

SRI investor since

| | | |
|--------------|---------------------------|----------------|
| 1990s | Impact investments | Planned |
|--------------|---------------------------|----------------|

SRI and impact investment activity

Goal of SRI / impact investment activity

To invest the Church's funds according to the Christian principles of human dignity and stewardship while at the same time contributing to required financial returns.

Brief description of SRI and impact investment activity

The Church of Sweden applies an SRI policy across all of its assets, which consists of negative screening, positive screening, ESG integration and company engagement. In recent years, the Church has increasingly focused on investments that contribute positively to major global issues, in particular global climate change.

Organization and process

The Church of Sweden national office has an internal financial team that selects external asset managers with the approval of an Investment Committee. Based on the institution's Financial Policy, responsible investment guidelines have been defined, with sector by sector detail on the standards a company must meet to be considered for investment. External managers must construct their portfolios in accordance with these guidelines. At year end, the Church employs SRI rating agencies to screen the managers' holdings and check whether portfolios are in line with the policy.

Innovative features

As a religious organization, the Church of Sweden views its investments as a way to contribute to shaping a better world. It does this not just through avoiding investments it views as harmful, but by consciously seeking out investments that do good.

Plans for the future

As part of its allocation to alternative investments, the Church plans to invest more in areas with a tangible contribution to its mission, e.g. in areas such as clean-tech and developing country investments. Closer direct engagement with companies will allow the Church to exert greater influence and make its voice heard.

Most important recommendation to other foundations

Don't focus only on negative screening. Choose active asset managers and push asset managers to integrate environmental and social issues in their strategies. Use engagement with companies and 'high impact' investments to enhance your impact.

“We have the strong belief that sustainable investments in responsible companies generate better performance in the long run”. – ANDERS THORENDAL



A CONVERSATION WITH GUNNELA HAHN, HEAD OF RESPONSIBLE INVESTMENTS, AND ANDERS THORENDAL, TREASURER AND CIO

AS WITH MANY faith-based organizations, the Church of Sweden has for a long time naturally avoided investments in certain industries based on ethical grounds. This practice of negative screening represented historically the first era of responsible investment, with asset owners excluding companies active in areas such as alcohol, tobacco, gambling and pornography. However, as the 20th century drew to a close, the Church found that its exclusionary policy was simply not satisfactory to many of its members and the Swedish people in general. Media criticism frequently surrounded Church investments especially in defense companies. In response, the Church tightened its restrictions and sought to exit problematic investments, but still, according to Gunnela Hahn, it remained the occasional object of negative media attention.

In 2006, the Church of Sweden decided to fundamentally rethink its investment strategy. Rather than focus on companies where they should not invest, they would focus on companies where they should invest. “This was an important turning point” says Anders Thorendal. If exclusion was the Church’s main tool, critics could always point to reasons why certain holdings should have been excluded. If, on the other hand, the Church focused its energies on qualitative assessments rather than quantitative calculations and investing in companies whose goods and services contribute to sustainable development, it would elevate the discourse around investment and direct people’s attention at the positive steps that could be taken.

Without abandoning the principle of excluding certain sectors (e.g. weapons, tobacco) or putting tight demands on others (e.g. extractive industries and oil/coal sectors), the Church of Sweden now also requires that companies in its investment funds strive to respect principles of environmental stewardship, community development and inter-

generational equity. It prefers to hire asset managers that integrate ESG analysis into their overall investment approach and that recognize sustainability as a key value driver for the future. “We concentrate on managers that focus on finding the opportunities, while handling the risks” emphasizes Anders Thorendal. This usually implies a more active stock picking approach (rather than traditional index-tracking).

The Church of Sweden’s €543 million investment portfolio covers a range of asset classes: Swedish equity (25%), global equity (30%), emerging market equity (5%), Swedish fixed income (30%), global fixed income (10%), and a recent allocation to microfinance as part of the new alternative investment portfolio. Performance since 2005 has been in-line with the market. In each asset class, to the extent possible, they select funds that integrate ESG analysis. “For our global mandates, the SRI approaches are well-developed and we have a wide selection of managers that run positive or ESG-integrated strategies. However, our domestic mandates mostly use negative screening, as SRI is still underdeveloped with Swedish asset managers, but we hope that this will change in the future” says Gunnela Hahn.

Nevertheless, the Church sees its investment policy as a whole creating positive impact. Rather than dividing off a percentage of assets for “impact investments”, the Church looks at each investment decision as a signal to the market and strives to make those signals reflect the vision of the Church. In the words of Gunnela Hahn, “our impact comes from improving the ethical, environmental and social performance of companies and asset managers”.

Another important tool for generating such impacts, and a key part of the Church of Sweden’s future plans, is company engagement. However, Gunnela Hahn cautions, “engagement can also be a way to hide in-

vestment decisions that run counter to an SRI policy. If a holding violates policy, but the investor does not want to sell, it may claim to be ‘engaging’ with that company”. While the Church of Sweden resolves firmly never to do this, it does recognize that engagement is often the only way for very large investors that cannot have concentrated portfolios to advance their values. In the future the Church of Sweden plans to make strategic use of their engagement resources, and work with companies specifically on topics that larger investors currently neglect, such as ecosystem services, living wages, and tax avoidance.

Beyond engagement, a final component of the Church of Sweden’s ever-evolving SRI approach will be to invest more directly in assets and alternative investment funds. Always seeking impact, the Church will look at investments such as cleantech private equity, carbon emissions projects, or agricultural land in developing countries.

Recommendations for other foundations:

- Faith-based investors should look beyond negative exclusion and see the positive good that their investments can do in the world.
- Set an ambitious target with proper supports: an investment policy that states the financial and moral goals of your foundation, backed by external experts on your investment committee with expertise covering these diverse objectives.
- Choose active asset managers who really understand sustainability.
- Get in touch with your national-level sustainable investment forum (SIF) or global initiatives such as the UN Principles for Responsible Investment to learn from the experiences of others.