Svenska kyrkan

Policies and Instructions for Responsible Investment

The national level shall manage the Church of Sweden's buffer capital in accordance with the church's fundamental values. The current financial policy was adopted by the Central Board of the Church in April 2010 and went into effect in June of the same year. The last update is from April 2014. The policy is set out on pages 2-11 of this document and includes for example: risk levels, assignment of responsibilities, strategic asset allocation and ethical investment rules.

The Central Board of the Church of Sweden has authorized the Asset Management Council with developing the financial investment instructions to facilitate interpretation of the financial policy. The financial investment instructions are to be found in a separate paper while the investment instructions for responsible investments are set out on pages 12-23 of this document. Hence, the two papers below are directing the Church of Sweden´s responsible investments and apply to all asset management.

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Financial Policy for the National Level of the Church of Sweden

Adopted by the Central Board of the Church of Sweden 22 April 2010

Valid from 1 June 2010

Updated 12 December 2013

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1 Introduction

1.1 The aim of the financial policy

The aim of this document is to set out the strategic orientation and rules governing how the national level of the Church of Sweden shall conduct financial management. Financial management is defined as follows:

- Asset management
- Liquidity management in respect to the Church account including issues of credits to the financial units of the Church of Sweden.
- Other financial management
    - Not-for-profit investment
    - Foundation management

The financial policy is established by the Central Board of the Church of Sweden who normally examine whether or not changes need to be made once a year.

2 Regulations

Financial management overall, is governed by Chapter 51 of the Church Order, Financial management for the national level. Section 12 contains rules for the management of funds.

3 Objectives, asset level and risk level

3.1 Regulations in the Church Order

Asset management shall be long-term in character.
"The religious community of the Church of Sweden shall manage its funds at the national level so that the value of the assets is maintained at its real value (keeping pace with inflation) measured over rolling ten-year periods" (Chapter 51, Section 2, Paragraph 1 of the Church Order).

Asset management shall be efficient.
"Assets are to be managed as efficiently as possible. They shall be placed in a manner that spreads risks and achieves the best possible sustainable return overall." (Chapter 51, Section 2, Paragraph 2 of the Church Order).

The objectives for the assets shall be set.
"The objective regarding the amount of assets at national level is determined by the Church Assembly" (Church Order, Chapter 51, Section 2a).

Asset management shall be carried out in an ethically responsible manner.
"Financial assets are also to be managed in an ethically defensible manner, in accordance with the fundamental values of the Church." (Church Order, Chapter 51, Section 2, Paragraph 2).

3.2 Resolved by the Church Assembly

The Church Assembly 2008 resolved that:

- The target level of national level's assets shall be SEK 4 billion to be applied as of the 2008 annual accounts
- The target level shall be adjusted upwards each year with reference to the consumer price index
- If actual outcome according to the annual accounts exceeds 125 percent of the intended level, the Central Board of the Church of Sweden shall provide a proposal to the Church Assembly as to how the excess assets shall be managed
- Proposals shall be submitted for the next two years with indications for the third year.

The Central Board's overall budget document for 2008 states that the risk spread is +/- 25 percent of the target level, i.e. that the assets may fluctuate between SEK 3 billion and SEK 5 billion at 2008's values.

3.3 Resolved by the Central Board of the Church of Sweden

3.3.1.1 Asset management

The overall objective as regards returns is a return of three (3%) percent in real terms over a rolling ten-year period measured as return on an annual basis. This means that returns shall exceed inflation (measured as consumer price index) by three (3%) percent.

3.3.1.2 Liquidity management

Through active management of the overall liquidity of the Church's account, liquidity management shall achieve a net return of at least 0.25 percent annually.

3.3.1.3 Other financial management

In appropriate cases, the Central Board decides on objectives for other financial management.

4 Organisation and allocation of responsibility for asset management

4.1 The Central Board of the Church of Sweden

The Central Board is responsible for establishing a financial policy that comprises:

- strategic orientation for asset management
- return target and approved risk levels
- approved classes of assets
- ethical investment rules

- ethical evaluation
- corporate governance requirements, responsible ownership.

4.2 The Asset Management Council

The tasks and constitution of the Asset Management Council are from 2014 regulated in the "Instructions for the Asset Management Council" that was determined by the Central Board 4 March, 2014.

4.3 Other financial management

In appropriate cases, the Central Board decides on organisation and allocation of responsibility for other financial management.

5 Strategic allocation of assets within asset management

Asset management shall comprise a well-diversified portfolio that makes it possible to achieve the long-term return objectives while taking into account the accompanying risk aspects. Risk aspects are defined as both the risk that in the short term the portfolio can lose value substantially and the risk that the long-term return is not achieved. Chapter 3 sets out the return targets and general acceptance of risk.

Decisions on disbursements from managed assets can have a considerable effect on prerequisites as regards allocation of assets and risk management. When the reference portfolio is established consideration shall be given to determined and planned disbursements from assets under management.

The reference portfolio shows the strategic allocation of the classes of assets under management, expressed as a percentage of the portfolio's total market value, and permitted deviations from the reference value of managed assets.

5.1 Approved classes of assets

Investment may be made in both individual securities and funds.

Approved classes of assets are:

- **Listed equities**: Investments in these can be made in different sub-markets, e.g. Sweden, Nordic region, Global and emerging markets. Listed equities may constitute a maximum of 75 percent of the total portfolio.
- **Listed interest-bearing securities and liquid assets** including corporate bonds and inflation indexed bonds. Currency hedging shall be in SEK as regards interest rate instruments denominated in currencies other than SEK. The proportion of listed interest-bearing instruments and liquid assets shall amount to at least twenty-five (25%) percent of the total portfolio.
- **Real Property:** This refers to unlisted real property holdings in which the Church of Sweden participates as a joint-investor in real estate funds.

- **Alternative investments** are assets that are not a part of the listed asset classes, e.g. corporate bonds (with lower credit-rating than listed interest-bearing securities), hedge funds and infra-structure. All unlisted holdings fall within this category.

The Church of Sweden sees two primary purposes regarding the Real Property and Alternative investment asset classes. 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. Also, holdings in Alternative investments constitute investments in which the sustainability aspect is focused on more clearly, i.e. where the Church of Sweden "makes a difference".

All investments within the Alternative investment and Real Property asset classes shall also be able to justify financially in regard to the fact that they contribute to the return target for asset management overall being reached.

Investments in real property and alternative investments may together constitute a maximum of 20 percent of the total portfolio assets of which a maximum of 15 percent (of the total portfolio assets) may constitute unlisted holdings.

6 Ethical and responsible investment rules

6.1 Basic concepts

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.

6.1.1 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.

6.1.2 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.

6.2 The Church of Sweden as a responsible investor

The Church of Sweden shall strive to be a responsible investor with regard to its asset management. This means that investments are to be assessed from an ethical and sustainable viewpoint as well as from a financial viewpoint. As we signed the UN's Principles for Responsible Investment (PRI) in 2007, the Church of Sweden's national level has committed to integrating factors that concern the environment, human rights and corporate governance in analyses and investment decisions often called ESG (Environmental, Social and Governance). In line with PRI, we shall capitalise on our ability to influence, work for transparency and report on our own work. We shall work to ensure that these principles are adopted by more investors.[1]

In line with this, the Church of Sweden's national level as a responsible investor shall:

- 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.

[1] http://www.unpri.org/about-pri/the-six-principles/

6.2.1 Active owner that exerts an influence

The Church of Sweden shall strive to be a responsible owner in a broader sense. This means that we are active owners and make use of our opportunities to influence increased sustainability. We can do this independently or in conjunction with other actors. This influence can, above and beyond ongoing asset management be expressed by:

- Making our position clear and influencing public opinion
- Engaging with corporations, representatives from the financial sector and other actors in the market
- Developing new investment products in conjunction with asset managers
- Supporting and being engaged in different initiatives in Sweden and internationally.

6.2.2 Investments are made in responsible corporations that contribute to solutions

The Church of Sweden strives to contribute with solutions for sustainable development in our world. Asset managers for the Church of Sweden's assets are expected to select companies based upon positive criteria. 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. In line with this, focus shall lie upon 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 bodies of 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, i.e. in relation to suppliers and customers
- Make positive contributions economically, environmentally and socially to affected communities
- Limit their negative effects on the environment (globally, regionally and locally) and act with consideration for the current and coming generations needs 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.

This view of corporate responsibility includes investment in equities, corporate bonds and other types of credits to companies. It can also concern, for example, real property and certain unlisted classes of assets.

6.2.3 Controversial businesses

A Christian perspective on humankind, and the responsibility for the wellbeing of others, which is an important expression of Christian ethics, means that investment in some sectors must be

restricted. In such sectors, a special qualitative assessment is necessary to decide whether a company is suitable for possible investment. In all cases, the asset manager shall be able to justify an investment in these businesses based upon benefits to society and sustainability.

6.2.3.1 Consideration for the climate

The Church of Sweden perceives climate change as a serious threat and has therefore a restrictive view as regards investments in companies that are active in the extraction of fossil energy sources. For example, we do not invest in oil-sand activities. Managers of the Church of Sweden's capital are expected to instead invest in companies that contribute to solving the climate issue in a constructive manner.

6.2.3.2 Weapons

The Church of Sweden shall abstain from investing in companies whose businesses involve the manufacture or selling of weapons or war materials to an appreciable extent. The Church of Sweden excludes investment in companies that are actively involved in the development or production of particularly inhuman weapons or their special components. Active involvement is defined as the provision of products and services specifically adapted for the weapon.

Definition of weapons and weapon-related war materials

Weapons are defined as products intended to kill, maim or destroy and which are sold for military purposes. War materials are defined as products or components specially developed to be included in weapons or weapon systems. Products and services covered by the Church of Sweden's policy are listed in Annex 1 of the Military Equipment Ordinance (1992:1303) which can be accessed from the website of the Swedish Agency for Non-Proliferation and Export Controls (ISP). Products covered are all war materials for combat and the products and services under Miscellaneous War Material which are significantly modified for use in war materials for combat. Other products in the Annex are not covered as they are considered to have dual areas of use (military/civil) and/or lack a clear connection to combat functions. Information in English can be accessed here[2].

Definition of particularly inhuman weapons

The Church of Sweden defines such weapons as those that conflict with the human rights principle that a weapon must be able to differentiate between civil and military targets and not have a disproportionate, destructive effect. Weapons are assessed on the basis of these two principles exclusively, irrespectively of whether or not they are regulated through international agreements on the specific weapon. Thus, nuclear weapons are considered to conflict with the Church of Sweden's policy because of their non-discriminating and disproportionately destructive effect, although an international agreement (the Non-Proliferation Treaty) permits nuclear weapons to some extent. Examples of weapons that correspond with the Church of Sweden's definition of particularly inhuman weapons are: weapons of mass destruction (WMD), weapons regulated in the CCW (Convention on Certain Conventional Weapons), personnel mines, cluster bombs and weapons that contain depleted uranium.

6.2.3.3 Alcohol

Restrictions concerning alcohol have their origin in the extensive damage that alcohol abuse causes to society and human health. However, investments in companies that act responsibly with respect

[2] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:085:0001:0036:EN:PDF

to their products and their marketing are permitted. Companies should be able to demonstrate that they adhere to their own corporate code of conduct or an industrial code that demonstrates the company's desire to take responsibility for the self-governance of its operations.

6.2.3.4 Tobacco

Companies that produce tobacco products cannot be regarded as meeting the requirements for corporate responsibility because of the negative health impact of tobacco products. Sales work regarding tobacco products must be conducted responsibly. Companies should be able to demonstrate that they adhere to their own corporate code of conduct or an industrial code that demonstrates the company's desire to take responsibility for the self-governance of their operations. Such a code must comply with the WHO Tobacco Convention.

6.2.3.5 Gambling

In many cases, gambling is a harmless activity. However, some people find it difficult to limit their gambling, and can become addicted to it in a manner reminiscent of other types of addiction. A gambling addiction can have devastating consequences upon an individual’s financial situation. The Church of Sweden expects actors in the sector to act responsibly. Companies should be able to demonstrate that they adhere to their own corporate code of conduct or an industrial code that demonstrates the company's desire to take responsibility for the self-governance of their operations.

6.2.3.6 Pornography

The Church of Sweden does not invest in companies that provide such pornography that in a blatant and provocative manner reproduce sexual situations or events that violate human value and dignity. ‟Provide” encompasses production and intermediary actions that are a result of the company’s own, active measures.

6.3 Assessment of the holding's adherence to the policy

An external assessment (screening) of the holdings that is relevant to the company (equities, corporate bonds etc) shall be conducted regularly for the purpose of ensuring that the policy guidelines are adhered to, primarily in regard to international norms and controversial business operations.

6.4 Asset manager responsibility

Asset managers who manage assets on behalf of the Church of Sweden are responsible for being acquainted with this policy and associated investment instructions as well as ensuring that the processes and competence necessary are in place.

Responsible Investment Instructions for Asset Management for the National Level of the Church of Sweden

Adopted by the Asset Management Council 15 June 2010

Updated 18 March 2013, 28 Nov. 2013, 6 Feb. 2014, 28 Aug. 2014 and 16 Oct. 2014

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1 Ethical investment instructions - background

In the Financial Policy for the National Level of the Church of Sweden, adopted by the Central Board of the Church of Sweden 22 April 2010, it is stipulated that the Asset Management Council shall draw-up investment instructions for asset management. This document covers the ethical aspects of such management. Other governing documents drawn-up by the Asset Management Council are, Financial Investment Instructions for Asset Management for the National Level of the Church of Sweden and, Forms of Working and Reporting for Asset Management for the National Level of the Church of Sweden.

The Asset Management Council regularly examines, normally on an annual basis, whether changes need to be made in these investment instructions.

The Financial policy does not go into detail, for example in regard to how controversial businesses shall be interpreted (see section 6.2.3 in the Financial policy) or what restrictions based upon climate change considerations mean or imply (Section 6.2.3.1). Neither has what the Church of Sweden considers to be responsible investment been described in detail. To address this issue, these investment instructions have been developed to clarify our view of responsible companies and particular sectors. **These instructions are an elucidation of the Finance Policy and provide necessary guidance for asset managers.** The asset managers who have questions about the policy and the investment instructions are welcome to get in touch with the Financial unit of the Church of Sweden's national level at 018-169500.

2 Responsible companies – overall purpose of the investments

In the Financial policy, Section 6.2.2, it states that, " The Church of Sweden wants to contribute to the solutions for a sustainable development of our world. Therefore, asset managers of the Church of Sweden are expected to choose companies based upon positive criteria. What is meant here is companies whose goods and services contribute to sustainable development or companies who work systematically and consciously with issues that regard the environment, working conditions, human rights and the fight against poverty, where it is relevant for the business.

It also concerns issues that deal with corporate governance, e.g. corruption, remuneration systems and transparency.

The asset managers that we engage must be able to justify holdings based upon the wording in the Financial policy mentioned above. Special requirements have been established for companies that are active in regions or sectors where the risk of corruption or lack of respect for human rights and the environment are high.

2.1 Screening and corporate engagement

The policy states (Section 6.2.2) that companies chosen shall adhere to international regulations whose purpose it is to protect people and the environment. For this reason, the list of holdings undergoes a norm-based screening. The companies that are not approved are looked into more closely since there is a significant risk that they are in breach of the policy. A decision is made regarding whether the shares in the company shall be retained or sold-off based upon what measures the company takes, how serious the infringements are and how well sustainability work in its entirety is integrated.

The asset managers shall also be knowledgeable regarding the strengths and weaknesses in a company's sustainability work. In the examples below, we illustrate how the Church of Sweden at the national level views some of the issues concerned with whether or not to invest.

Example 1. Shortcomings in a company with well-developed sustainability work

Even companies that have done much can exhibit serious shortcomings in parts of its operations and consequently risks being in breach of the policy. The asset manager shall engage the company in question (or several companies in the same sector) in a dialogue for the purpose of improving the company's working methods. Again, the company's response, action plan and how serious the shortcomings are all determine whether or not it is possible to invest in the company.

Example 2. Companies that have begun late

Certain companies and sectors have achieved more in their sustainability work than others. Those companies who began late or for other reasons have not integrated sustainability issues in their businesses have to at least have reached an acceptable level, or be able to display clear and ambitious change work for investment to be compatible with the Church of Sweden's investment policy.

Example 3. Small and medium sized companies

Large companies often have staff who are responsible for environmental issues or a sustainability department that communicates with investors. Smaller companies seldom have such resources. Regardless, their impact on the environment and the surrounding local community can in any case be significant. Our demands for risk analysis, a well-thought out strategy for sustainability as well as the implementation and follow-up of activities are equally high regardless of the size of the company. However, we do think that the demands for how comprehensive this work should be, ought to be in relation to a company's size and the actual impact its operations have.

2.2 Exclusion of particular sectors

Accordingly, asset managers shall focus on finding responsible companies. Then, there are other aspects of responsibility regarding particular products and sectors that the Church of Sweden will not invest in (see Section 6.2.3 in the Financial policy). In line with this, the Church of Sweden has formulated special demands on sectors associated with weapons, pornography, tobacco, alcohol and gaming. Sectors within the extraction of, and prospecting for, fossil energy sources are impacted by what we refer to as the climate adjustment of the portfolios. A qualitative analysis of these businesses must be carried out to determine whether or not it is possible to invest in a particular company. How these determinations are made is described in the following section.

3. Climate adjustment - a guide for interpretation based upon sectors

The Church of Sweden had implemented a climate adjustment in its portfolio on the national level which is stated in Section 6.2.3.1 of the Financial policy as seen below:

The Church of Sweden perceives climate change as a serious threat and therefore has a restrictive view as regards investments in companies that are active in the extraction of fossil energy sources. Managers of the Church of Sweden's assets are expected to instead invest in companies that contribute to resolving the climate issue in a constructive manner.

Increased focus on individual equities

The climate adjustment has two aspects. First, the Church of Sweden actively looks for companies that offer sustainable "climate smart" goods and services, sustainable energy sources and have energy efficient processes. Second, the Church does not invest in companies that extract fossil energy sources. The focus of all investments is to select equities that the asset manager determines to be economically, socially and ecologically sustainable in the long term.

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 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 make up a significant portion of these indices. We permit (and expect) Tracking Errors that are higher in relation to more conventional asset management that is based upon a relatively high adherence to indices regarding exposure to different industrial sectors.

The asset manager should be able to show in an analysis how deviations from the benchmark have affected yield. The fact that the Tracking Error can clearly differ between different active asset management methods with the same benchmark is not in itself unusual.

3.1 Sectors that require special screening

The other aspect of the Church's climate adjustment regards particular sectors and equities that do not match the Church of Sweden's overall climate goals or intentions stated in the Financial policy, and for this reason are excluded for investment purposes. Today, the world is dependent upon fossil energy, but at the same time needs to convert to a more sustainable energy supply. We believe that it is easier for an energy supply company to use more renewable energy sources to produce heat and electricity than it is for oil and coal companies to shift to deploy renewable energy sources. To date, we are not aware of any oil or coal companies that pursue development towards the production of sustainable energy sources and display sufficiently high standards in regard to the environment and human rights. However, there are a number of such energy companies. For this reason, we make a distinction between extraction companies and energy companies in the climate adjustment.

The results of this approach are seen below. The guidelines shall be applied by all asset managers who state that they adhere to the Financial policy.

3.1.1 Sector by sector interpretation (based on Dow Jones Sustainability Index and MSCI World)

Certain companies in the sectors are excluded entirely while others shall have a high sustainability rating to make it possible to invest in them. Companies with considerable fossil reserves (according to the list from Carbon Tracker Initiative[3]) are not investible.

A. Oil and Gas

1. Excludes the following sectors: Exploration & Production, Integrated Oil & Gas, Oil Equipment & Services, Pipelines.

B. Coal

1. Excludes the following sectors: Coal
2. Other sectors: Excludes companies with revenues > 5% of turnover from prospecting and extraction of coal, e.g. certain mining companies.

C. Service companies, other sectors and majority owners

Excludes: a) service companies (including oil and gas distribution) with revenues >50% from operations within A and B above; b) companies with revenues >50% from operations as in A and B but that are part of another sector; c) majority owners of companies under a) and b) above.

These operations should also adhere to the following:

1. Excludes prospecting and extraction of oil sand regardless of the sector or extent.
2. A special analysis shall be carried out for other unconventional fossil oil and gas such as shale oil, shale gas and also deep-sea drilling. The companies analysed shall show that they handle the special risks associated with these types of production by a good margin. The company is excluded in cases where the impact of extraction is equally as serious as the impact of the extraction of oil from oil sand. Good guidance is provided by the Golden Rules published by EIA.[4]

D. Energy production companies

1. Nuclear power

Energy production companies employing significant amount of nuclear power are chosen based upon the "best in class" principle with a focus on health, safety and environmental issues and if they are at the forefront in their sector regarding sustainability issues.

2. Coal intensive electrical production companies

Energy production companies employing significant amounts of coal-fired power are chosen based upon the "best in class" principle with a focus on environmental score (i.e. the E-factor in the ESG rating) and if they are at the forefront on their sector regarding sustainability issues.

E. Energy intense companies

Companies within certain energy intense sectors such as cement, steel and paper are chosen based upon the "best in class" principle with a focus on environmental score (i.e. the E-factor in the ESG rating) and if they are at the forefront on their sector regarding sustainability issues.

[3] Click at ”rankings”: http://fossilfreeindexes.com/the-carbon-underground-2014/

[4] https://www.iea.org/publications/freepublications/publication/WEO2012_GoldenRulesReport.pdf

4. Alcohol, tobacco and gaming

The investments made by the Church of Sweden shall focus on responsible companies that have sustainable processes and products that make a positive contribution to society (see Section 6.2.2 in the Financial policy). Investments in companies whose turnover are based upon tobacco, alcohol and gaming are problematic in regard to the investments made by the Church of Sweden. If such companies are selected by an asset manager, the asset manager must be able to justify the selection based upon the requirements for responsibility in Section 6.2.2 of the Financial policy.

The manufacture of tobacco products is totally excluded as an investment (Section 6.2.3.4 in the Financial policy). However, investments in the distribution (sales) of tobacco, as well as the manufacture and distribution of alcohol and gaming may be considered if they are conducted responsibly (Sections 6.2.3.3 and 6.2.3.5). It is however difficult to access information about how companies in these sectors actually conduct themselves in their marketing around the world, as it is often carried out in a manner that is difficult to track.

Moreover, the Church of Sweden, based upon Section 6.2.2 in the Financial policy, requires that the asset manager be able to justify the selection of companies in the above mentioned sectors and that these companies adhere to relevant codes of conduct or corresponding documents. An example of such a code is found below.

4.1 Example of a code of conduct

4.1.1 Alcohol

(http://www.portmangroup.org.uk/?pid=1&level=1)

The code has been developed and written by the English alcohol industry. The purpose of the code is to promote the responsible use of the industry's products and also to prevent abuse. Companies can adopt the code by signing it and thus falling within the regulatory sphere of the code's supervisory committee. The code applies to all alcoholic drinks with an alcohol content exceeding 0.5%.

The code is applicable to alcoholic drinks in the following contexts:

- Naming of the drink
- Packaging of the drink
- Brand name
- Labelling and product distribution

The code shall be applied in letter and spirit. Companies that adopt the code undertake to inform retailers regarding the responsible marketing and sales of alcohol.

The code strives to ensure that sales only occur under socially responsible conditions and only to people over 18 years of age.

4.1.2 Tobacco

(http://www.who.int/tobacco/framework/WHO_FCTC_english.pdf**)**

The purpose of the WHO's convention regarding the limitation of the use of tobacco is to promote the right to good health among people. The nations that adopt the code undertake to:

- Implement prices and tax regulations to limit the demand for tobacco
- Introduce non-price related measures to reduce the demand for tobacco such as:
    - Protecting against exposure to tobacco smoke
    - Regulating the contents of tobacco products
    - Providing training and raising the general level of awareness of related health consequences
    - Regulating the marketing of tobacco products
    - Preventing sales to minors
    - Prescribing information texts on packaging
    - Promoting responsible marketing and sales.

4.1.3 Gaming

(http://www.americangaming.org/sites/default/files/uploads/docs/aga_code_conduct_2012_revision_final.pdf)

This code has been developed for the members of the American Gaming Association. It was developed to promote responsible gaming activities and is aimed at employees and members. A number of the key characteristics of the code are:

- Educating newly employed people in the principles of responsible gaming
- The supplying by members of brochures that describe what responsible gaming is
- The supplying by members and employees of general information regarding the probability of winning and losing in relation to each type of gaming
- Providing information about the lowest legal age for gaming
- Conducting the judicious marketing of gaming
- Contributing to research regarding responsible gaming
- Implementing the code and conducting an annual valuation to ensure that the code is adhered to.

5. The Church of Sweden's Weapons Criteria - a guide to interpretation

Section 6.4.4. in the Financial policy describes the weapons criteria.

> The Church of Sweden shall abstain from investing in companies and enterprises whose business operations include, to an appreciable extent, the manufacture and/or sales of weapons or materials used for the purposes of waging war.
> The Church of Sweden excludes investments in companies or enterprises actively involved in the development and production of especially inhumane weapons of war and the vital components associated with them. Active involvement is defined as the supply of products and services that are specifically adapted to a particular weapon or weapons.

Definition of weapons and weapon related war materials

Weapons are defined as products whose purpose is to kill, maim or destroy and are sold for military purposes. War materials are considered to be products or sub-components that have been specifically developed to be a part of a weapon or a weapon system. Products and services covered by the Church of Sweden's policy are listed in Annex. 1 of the Military Equipment Ordinance (1992:1303) which can be accessed from the website of Swedish Agency for Non-Proliferation and Export Controls (ISP). Products covered are all war materials for combat and the products and services under Miscellaneous War Material which are significantly modified for use in war materials for combat. Other products in the Annex are not covered as they are considered to have dual areas of use (military/civil) and/or lack clear connection to combat functions.

5.1 Assessment based upon relevance

5.1.1 One percent - a signal for further analysis

For companies whose turnover from weapons or war materials is central to combat there is a zero limit (0%). Companies whose turnover from other military products (e.g. test instruments) exceeding one (1%) percent are in principle not acceptable for investment, however if their turnover is under one (1%) percent they are approved for investment. However the one (1%) percent limit is a marker. Companies whose turnover lies close to this limit are not automatically included or excluded - they are assessed individually.

Also, it is important to take into consideration if the company's link to weapons involves large amounts of money. If the company is on the list of the 100 largest contracts for leading military customers but in any case under the one percent limit, this shall be considered in the analysis.

5.1.2 See the company in its entirety

If the company has products with a link to weapons of about one (1%) percent, but the products are not central to a combat function, the asset manager should also carry out an overall assessment of how responsible the company is. The less transparent a company is, the more careful an asset manager should be when assessing ties to weapons. A somewhat larger percent of turnover than 1% may be acceptable if the company is transparent and shows good sustainability work. Asset managers are required to justify such holdings. This degree of flexibility is only applicable if the company's products with a link to weapons are not central to combat functions.

5.1.3 Exert influence on a company to sell its operations

If a company has weapons' related production that is under one (1%) percent of its turnover, but this production is central to a combat function it is not permissible to invest in this company. In this case, holdings in this company shall be divested immediately. In some cases, it may be possible to influence the company in question to sell its weapons' related operations. This applies especially if the operations are very marginal and have a negative effect on the company's sustainability profile. There are a number of examples of companies that are excluded from different sustainability profiles due to a marginal link to weapons in spite of the fact that they have a high sustainability rating. There are also examples of companies with a sustainability rating that have sold their military related operations. The asset manager and the Church of Sweden should therefore investigate the possibility of encouraging the company in question to sell its operations that have ties to weapons. If the company is open to such a discussion, the Church of Sweden and the asset manager, as well as other investors and asset managers engage the company in a dialogue. In cases when the engagement does not yield results within a reasonable time, the holding are sold in line with the discretionary mandate. In open-ended funds, the asset manager makes the decision on selling off the holding. If the asset manager does not take our viewpoint into consideration we are forced to consider divesting our holdings in the fund. In this manner, we are acting responsibly as investors to influence the company to adopt a more sustainable and responsible orientation. Each such case must be examined individually by the Church of Sweden (who has the final responsibility for how the weapons criteria are interpreted) based upon how we see the company, the weapon related product and the possibilities of reaching the desired result through engagement.

5.1.4 List of weapons and war materials

The Military Equipment Act (1992:1300) is regulated in Swedish legislation while products that are used for both military and civilian purposes are embraced by EU legislation. During 2012, the list for weapons and war materials was updated and is now aligned with the Common Military List of the European Union (ML). It is divided into 22 different areas. In regard to companies that deliver services to military customers; the asset managers should determine whether these services are a part of core activities and if they are intended for the waging of offensive war.

Read the complete list here. Currently, there is no list in English.

http://www.isp.se/documents/Regelverk/FM/ISP_forklaring_forteckning_kmtb.pdf

5.2 How should the criteria be interpreted?

5.2.1 Examples of company types in which investment is permissible

Company A

The company owns 20% of another company that falls under "Other war materials" in accordance with ISP's categorisation. The turnover from this production that can be linked to weapons is only 0.3% and is not central to a combat function.

Company B

The turnover from this part of operations and that can be tied to weapons is only 0.3% and thus marginal. The content is not central to a combat function.

Company C

Company C owns twenty (20%) percent of company E - see below. Otherwise, there are no ties to weapons.

Company D

This company manufactures test instruments which are important (but not central) to a combat function. Approximately one (1%) percent of turnover is weapons related. They are a leader in sustainability issues. Our overall assessment is that this company is suitable for investment.

Companies that manufacture semi-conductors - which can be compared to manufacturing nuts and bolts in another context - are not in themselves vital to combat functions. It is permissible to invest in the company as long as the products are also sold to non-military customers.

It is permissible to invest in companies that manufacture certain other war materials. Examples are protective equipment and ammunition for hunting or sport shooting.

5.2.2. Examples of companies in which investment is not permissible

Company E

Approximately three (3%) percent of turnover is weapons related. They own 49% of a company that manufactures combat vehicles which are categorized as being central to combat. They are excluded based upon both turnover and type of products.

Company F

Despite their turnover being under one (1%) percent, they are excluded due to the content of their products. They have an advanced pilot training programme for strike aircraft that is used on a large scale.

Company G

Through their wholly owned subsidiary they manufacture advanced combat vehicles which are central to a combat function. Therefore, they are excluded from investments. Turnover from these operations is however under one (1%) percent.

6. The Church of Sweden's pornography criteria

The criteria can be found in Section 6.4.5 and reads as follows:

> "The Church of Sweden does not invest in companies that provide pornography that in a blatant and provocative manner reproduce sexual situations or events that violate human value and dignity. Provision encompasses production and intermediary activities that are a result of the company's own activities."

6.1 Guide for interpreting active distribution

The production of pornography only occurs in a very few cases among the world's listed companies. These companies are immediately excluded from investments in line with the criteria. The distribution of pornography concerns the following sectors:

- Trade
- Telecom suppliers
- Media
- Hotel

Different sectors are involved to different degrees and have various reasons for being involved. There is a clear boundary in the degree of activity among different companies that receive a considerable portion of their income from pornography and companies that only earn a small amount on the distribution of pornographic materials. The companies that actively market pornographic materials are also those who earn the most money on these activities. These companies are found in the media sector.

On the other hand, income from the distribution of pornographic materials in the hotel, trade and telecom sectors is marginal. Companies in these sectors are also passive in their distribution. Pornographic materials can be available for those who are interested, but the customer must actively look for them and make an active and conscious choice in securing such materials. This can be compared to a library that has pornographic materials.

The hub in distribution is however the media companies. They own and manage the channels for cable and satellite TV. They also sell videos and films via the Internet. It is the activities of these companies in the media sector that are found in the other three sectors that primarily function as distribution channels for these media companies. In the future, it is possible that the telecom companies will become more active at which point we will need to conduct a new assessment.

Screening of pornographic materials is therefore only necessary in regard to the media sector. It is not permissible to invest in media companies that have a clear link to pornography. In regard to the other branches (trade, telecom and hotels) it can be said that the distribution of pornography that does occur is passive. Moreover, the extent of such activities is very limited.

Svenska kyrkan

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Responsible Investment Instructions for Asset Management for the National Level of the Church of Sweden

Adopted by the Asset Management Council 15 June 2010

Updated 18 March 2013, 28 Nov. 2013, 6 Feb. 2014, 28 Aug. 2014 and 16 Oct. 2014

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1 Ethical investment instructions - background

In the Financial Policy for the National Level of the Church of Sweden, adopted by the Central Board of the Church of Sweden 22 April 2010, it is stipulated that the Asset Management Council shall draw-up investment instructions for asset management. This document covers the ethical aspects of such management. Other governing documents drawn-up by the Asset Management Council are, Financial Investment Instructions for Asset Management for the National Level of the Church of Sweden and, Forms of Working and Reporting for Asset Management for the National Level of the Church of Sweden.

The Asset Management Council regularly examines, normally on an annual basis, whether changes need to be made in these investment instructions.

The Financial policy does not go into detail, for example in regard to how controversial businesses shall be interpreted (see section 6.2.3 in the Financial policy) or what restrictions based upon climate change considerations mean or imply (Section 6.2.3.1). Neither has what the Church of Sweden considers to be responsible investment been described in detail. To address this issue, these investment instructions have been developed to clarify our view of responsible companies and particular sectors. **These instructions are an elucidation of the Finance Policy and provide necessary guidance for asset managers.** The asset managers who have questions about the policy and the investment instructions are welcome to get in touch with the Financial unit of the Church of Sweden's national level at 018-16 95 00.

2 Responsible companies – overall purpose of the investments

In the Financial policy, Section 6.2.2, it states that, " The Church of Sweden wants to contribute to the solutions for a sustainable development of our world. Therefore, asset managers of the Church of Sweden are expected to choose companies based upon positive criteria. What is meant here is companies whose goods and services contribute to sustainable

development or companies who work systematically and consciously with issues that regard the environment, working conditions, human rights and the fight against poverty, where it is relevant for the business.

It also concerns issues that deal with corporate governance, e.g. corruption, remuneration systems and transparency.

The asset managers that we engage must be able to justify holdings based upon the wording in the Financial policy mentioned above. Special requirements have been established for companies that are active in regions or sectors where the risk of corruption or lack of respect for human rights and the environment are high.

2.1 Screening and corporate engagement

The policy states (Section 6.2.2) that companies chosen shall adhere to international regulations whose purpose it is to protect people and the environment. For this reason, the list of holdings undergoes a norm-based screening. The companies that are not approved are looked into more closely since there is a significant risk that they are in breach of the policy. A decision is made regarding whether the shares in the company shall be retained or sold-off based upon what measures the company takes, how serious the infringements are and how well sustainability work in its entirety is integrated.

The asset managers shall also be knowledgeable regarding the strengths and weaknesses in a company's sustainability work. In the examples below, we illustrate how the Church of Sweden at the national level views some of the issues concerned with whether or not to invest.

Example 1. Shortcomings in a company with well-developed sustainability work

Even companies that have done much can exhibit serious shortcomings in parts of its operations and consequently risks being in breach of the policy. The asset manager shall engage the company in question (or several companies in the same sector) in a dialogue for the purpose of improving the company's working methods. Again, the company's response, action plan and how serious the shortcomings are all determine whether or not it is possible to invest in the company.

Example 2. Companies that have begun late

Certain companies and sectors have achieved more in their sustainability work than others. Those companies who began late or for other reasons have not integrated sustainability issues in their businesses have to at least have reached an acceptable level, or be able to display clear and ambitious change work for investment to be compatible with the Church of Sweden's investment policy.

Example 3. Small and medium sized companies

Large companies often have staff who are responsible for environmental issues or a sustainability department that communicates with investors. Smaller companies seldom have such resources. Regardless, their impact on the environment and the surrounding local community can in any case be significant. Our demands for risk analysis, a well-thought out strategy for sustainability as well as the implementation and follow-up of activities are equally high regardless of the size of the company. However, we do think that the demands for how comprehensive this work should be, ought to be in relation to a company's size and the actual impact its operations have.

2.2 Exclusion of particular sectors

Accordingly, asset managers shall focus on finding responsible companies. Then, there are other aspects of responsibility regarding particular products and sectors that the Church of Sweden will not invest in (see Section 6.2.3 in the Financial policy). In line with this, the Church of Sweden has formulated special demands on sectors associated with weapons, pornography, tobacco, alcohol and gaming. Sectors within the extraction of, and prospecting for, fossil energy sources are impacted by what we refer to as the climate adjustment of the portfolios. A qualitative analysis of these businesses must be carried out to determine whether or not it is possible to invest in a particular company. How these determinations are made is described in the following section.

3. Climate adjustment - a guide for interpretation based upon sectors

The Church of Sweden had implemented a climate adjustment in its portfolio on the national level which is stated in Section 6.2.3.1 of the Financial policy as seen below:

The Church of Sweden perceives climate change as a serious threat and therefore has a restrictive view as regards investments in companies that are active in the extraction of fossil energy sources. Managers of the Church of Sweden's assets are expected to instead invest in companies that contribute to resolving the climate issue in a constructive manner.

Increased focus on individual equities

The climate adjustment has two aspects. First, the Church of Sweden actively looks for companies that offer sustainable "climate smart" goods and services, sustainable energy sources and have energy efficient processes. Second, the Church does not invest in companies that extract fossil energy sources. The focus of all investments is to select equities that the asset manager determines to be economically, socially and ecologically sustainable in the long term.

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 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 make up a significant portion of these indices. We permit (and expect) Tracking Errors that are higher in relation to more conventional asset management that is based upon a relatively high adherence to indices regarding exposure to different industrial sectors.

The asset manager should be able to show in an analysis how deviations from the benchmark have affected yield. The fact that the Tracking Error can clearly differ between different active asset management methods with the same benchmark is not in itself unusual.

3.1 Sectors that require special screening

The other aspect of the Church's climate adjustment regards particular sectors and equities that do not match the Church of Sweden's overall climate goals or intentions stated in the Financial policy, and for this reason are excluded for investment purposes. Today, the world is dependent upon fossil energy, but at the same time needs to convert to a more sustainable energy supply. We believe that it is easier for an energy supply company to use more renewable energy sources to produce heat and electricity than it is for oil and coal companies to shift to deploy renewable energy sources. To date, we are not aware of any oil or coal companies that pursue development towards the production of sustainable energy sources and display sufficiently high standards in regard to the environment and human rights. However, there are a number of such energy companies. For this reason, we make a distinction between extraction companies and energy companies in the climate adjustment.

The results of this approach are seen below. The guidelines shall be applied by all asset managers who state that they adhere to the Financial policy.

3.1.1 Sector by sector interpretation (based on Dow Jones Sustainability Index and MSCI World)

Certain companies in the sectors are excluded entirely while others shall have a high sustainability rating to make it possible to invest in them. Companies with considerable fossil reserves (according to the list from Carbon Tracker Initiative[1]) are not investible.

A. Oil and Gas

1. Excludes the following sectors: Exploration & Production, Integrated Oil & Gas, Oil Equipment & Services, Pipelines.

B. Coal

1. Excludes the following sectors: Coal

[1] Click at ”rankings”: http://fossilfreeindexes.com/the-carbon-underground-2014/

2. Other sectors: Excludes companies with revenues > 5 % of turnover from prospecting and extraction of coal, e.g. certain mining companies.

C. Service companies, other sectors and majority owners

Excludes: a) service companies (including oil and gas distribution) with revenues > 50 % from operations within A and B above; b) companies with revenues > 50 % from operations as in A and B but that are part of another sector; c) majority owners of companies under a) and b) above.

These operations should also adhere to the following:

1. Excludes prospecting and extraction of oil sand regardless of the sector or extent.
2. A special analysis shall be carried out for other unconventional fossil oil and gas such as shale oil, shale gas and also deep-sea drilling. The companies analysed shall show that they handle the special risks associated with these types of production by a good margin. The company is excluded in cases where the impact of extraction is equally as serious as the impact of the extraction of oil from oil sand. Good guidance is provided by the Golden Rules published by EIA.[2]

D. Energy production companies

1. Nuclear power

Energy production companies employing significant amount of nuclear power are chosen based upon the "best in class" principle with a focus on health, safety and environmental issues and if they are at the forefront in their sector regarding sustainability issues.

2. Coal intensive electrical production companies

Energy production companies employing significant amounts of coal-fired power are chosen based upon the "best in class" principle with a focus on environmental score (i.e. the E-factor

[2] https://www.iea.org/publications/freepublications/publication/WEO2012_GoldenRulesReport.pdf

in the ESG rating) and if they are at the forefront on their sector regarding sustainability issues.

E. Energy intense companies

Companies within certain energy intense sectors such as cement, steel and paper are chosen based upon the "best in class" principle with a focus on environmental score (i.e. the E-factor in the ESG rating) and if they are at the forefront on their sector regarding sustainability issues.

4. Alcohol, tobacco and gaming

The investments made by the Church of Sweden shall focus on responsible companies that have sustainable processes and products that make a positive contribution to society (see Section 6.2.2 in the Financial policy). Investments in companies whose turnover are based upon tobacco, alcohol and gaming are problematic in regard to the investments made by the Church of Sweden. If such companies are selected by an asset manager, the asset manager must be able to justify the selection based upon the requirements for responsibility in Section 6.2.2 of the Financial policy.

The manufacture of tobacco products is totally excluded as an investment (Section 6.2.3.4 in the Financial policy). However, investments in the distribution (sales) of tobacco, as well as the manufacture and distribution of alcohol and gaming may be considered if they are conducted responsibly (Sections 6.2.3.3 and 6.2.3.5). It is however difficult to access information about how companies in these sectors actually conduct themselves in their marketing around the world, as it is often carried out in a manner that is difficult to track.

Moreover, the Church of Sweden, based upon Section 6.2.2 in the Financial policy, requires that the asset manager be able to justify the selection of companies in the above mentioned sectors and that these companies adhere to relevant codes of conduct or corresponding documents. An example of such a code is found below.

4.1 Example of a code of conduct

4.1.1 Alcohol

(http://www.portmangroup.org.uk/?pid=1&level=1)

The code has been developed and written by the English alcohol industry. The purpose of the code is to promote the responsible use of the industry's products and also to prevent abuse. Companies can adopt the code by signing it and thus falling within the regulatory sphere of the code's supervisory committee. The code applies to all alcoholic drinks with an alcohol content exceeding 0.5 %.

The code is applicable to alcoholic drinks in the following contexts:

- Naming of the drink
- Packaging of the drink
- Brand name
- Labelling and product distribution

The code shall be applied in letter and spirit. Companies that adopt the code undertake to inform retailers regarding the responsible marketing and sales of alcohol.

The code strives to ensure that sales only occur under socially responsible conditions and only to people over 18 years of age.

4.1.2 Tobacco

(http://www.who.int/tobacco/framework/WHO_FCTC_english.pdf)

The purpose of the WHO's convention regarding the limitation of the use of tobacco is to promote the right to good health among people. The nations that adopt the code undertake to:

- Implement prices and tax regulations to limit the demand for tobacco
- Introduce non-price related measures to reduce the demand for tobacco such as:
    - Protecting against exposure to tobacco smoke
    - Regulating the contents of tobacco products
    - Providing training and raising the general level of awareness of related health consequences
    - Regulating the marketing of tobacco products
    - Preventing sales to minors
    - Prescribing information texts on packaging
    - Promoting responsible marketing and sales.

4.1.3 Gaming

(http://www.americangaming.org/sites/default/files/uploads/docs/aga_code_conduct_2012_revision_final.pdf)

This code has been developed for the members of the American Gaming Association. It was developed to promote responsible gaming activities and is aimed at employees and members. A number of the key characteristics of the code are:

- Educating newly employed people in the principles of responsible gaming
- The supplying by members of brochures that describe what responsible gaming is
- The supplying by members and employees of general information regarding the probability of winning and losing in relation to each type of gaming
- Providing information about the lowest legal age for gaming
- Conducting the judicious marketing of gaming
- Contributing to research regarding responsible gaming
- Implementing the code and conducting an annual valuation to ensure that the code is adhered to.

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Section 6.4.4. in the Financial policy describes the weapons criteria.

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> The Church of Sweden excludes investments in companies or enterprises actively involved in the development and production of especially inhumane weapons of war and the vital components associated with them. Active involvement is defined as the supply of products and services that are specifically adapted to a particular weapon or weapons.

Definition of weapons and weapon related war materials

Weapons are defined as products whose purpose is to kill, maim or destroy and are sold for military purposes. War materials are considered to be products or sub-components that have been specifically developed to be a part of a weapon or a weapon system. Products and services covered by the Church of Sweden's policy are listed in Annex. 1 of the Military Equipment Ordinance (1992:1303) which can be accessed from the website of Swedish Agency for Non-Proliferation and Export Controls (ISP). Products covered are all war materials for combat and the products and services under Miscellaneous War Material which are significantly modified for use in war materials for combat. Other products in the Annex are not covered as they are considered to have dual areas of use (military/civil) and/or lack clear connection to combat functions.

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however if their turnover is under one (1 %) percent they are approved for investment. However the one (1%) percent limit is a marker. Companies whose turnover lies close to this limit are not automatically included or excluded - they are assessed individually.

Also, it is important to take into consideration if the company's link to weapons involves large amounts of money. If the company is on the list of the 100 largest contracts for leading military customers but in any case under the one percent limit, this shall be considered in the analysis.

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If the company has products with a link to weapons of about one (1 %) percent, but the products are not central to a combat function, the asset manager should also carry out an overall assessment of how responsible the company is. The less transparent a company is, the more careful an asset manager should be when assessing ties to weapons. A somewhat larger percent of turnover than 1 % may be acceptable if the company is transparent and shows good sustainability work. Asset managers are required to justify such holdings. This degree of flexibility is only applicable if the company's products with a link to weapons are not central to combat functions.

5.1.3 Exert influence on a company to sell its operations

If a company has weapons' related production that is under one (1 %) percent of its turnover, but this production is central to a combat function it is not permissible to invest in this company. In this case, holdings in this company shall be divested immediately. In some cases, it may be possible to influence the company in question to sell its weapons' related operations. This applies especially if the operations are very marginal and have a negative effect on the company's sustainability profile. There are a number of examples of companies that are excluded from different sustainability profiles due to a marginal link to weapons in spite of the fact that they have a high sustainability rating. There are also examples of companies with a sustainability rating that have sold their military related operations. The asset manager and the Church of Sweden should therefore investigate the possibility of encouraging the company in question to sell its operations that have ties to weapons. If the company is open to such a discussion, the Church of Sweden and the asset manager, as well as other investors and

asset managers engage the company in a dialogue. In cases when the engagement does not yield results within a reasonable time, the holding are sold in line with the discretionary mandate. In open-ended funds, the asset manager makes the decision on selling off the holding. If the asset manager does not take our viewpoint into consideration we are forced to consider divesting our holdings in the fund. In this manner, we are acting responsibly as investors to influence the company to adopt a more sustainable and responsible orientation. Each such case must be examined individually by the Church of Sweden (who has the final responsibility for how the weapons criteria are interpreted) based upon how we see the company, the weapon related product and the possibilities of reaching the desired result through engagement.

5.1.4 List of weapons and war materials

The Military Equipment Act (1992:1300) is regulated in Swedish legislation while products that are used for both military and civilian purposes are embraced by EU legislation. During 2012, the list for weapons and war materials was updated and is now aligned with the Common Military List of the European Union (ML). It is divided into 22 different areas. In regard to companies that deliver services to military customers; the asset managers should determine whether these services are a part of core activities and if they are intended for the waging of offensive war.

Read the complete list here. Currently, there is no list in English.

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5.2 How should the criteria be interpreted?

5.2.1 Examples of company types in which investment is permissible

Company A

The company owns 20 % of another company that falls under "Other war materials" in accordance with ISP's categorisation. The turnover from this production that can be linked to weapons is only 0.3 % and is not central to a combat function.

Company B

The turnover from this part of operations and that can be tied to weapons is only 0.3 % and thus marginal. The content is not central to a combat function.

Company C

Company C owns twenty (20 %) percent of company E - see below. Otherwise, there are no ties to weapons.

Company D

This company manufactures test instruments which are important (but not central) to a combat function. Approximately one (1 %) percent of turnover is weapons related. They are a leader in sustainability issues. Our overall assessment is that this company is suitable for investment.

Companies that manufacture semi-conductors - which can be compared to manufacturing nuts and bolts in another context - are not in themselves vital to combat functions. It is permissible to invest in the company as long as the products are also sold to non-military customers.

It is permissible to invest in companies that manufacture certain other war materials. Examples are protective equipment and ammunition for hunting or sport shooting.

5.2.2. Examples of companies in which investment is not permissible

Company E

Approximately three (3 %) percent of turnover is weapons related. They own 49 % of a company that manufactures combat vehicles which are categorized as being central to combat. They are excluded based upon both turnover and type of products.

Company F

Despite their turnover being under one (1 %) percent, they are excluded due to the content of their products. They have an advanced pilot training programme for strike aircraft that is used on a large scale.

Company G

Through their wholly owned subsidiary they manufacture advanced combat vehicles which are central to a combat function. Therefore, they are excluded from investments. Turnover from these operations is however under one (1 %) percent.

6. The Church of Sweden's pornography criteria

The criteria can be found in Section 6.4.5 and reads as follows:

> "The Church of Sweden does not invest in companies that provide pornography that in a blatant and provocative manner reproduce sexual situations or events that violate human value and dignity. Provision encompasses production and intermediary activities that are a result of the company's own activities."

6.1 Guide for interpreting active distribution

The production of pornography only occurs in a very few cases among the world's listed companies. These companies are immediately excluded from investments in line with the criteria. The distribution of pornography concerns the following sectors:

- Trade
- Telecom suppliers
- Media
- Hotel

Different sectors are involved to different degrees and have various reasons for being involved. There is a clear boundary in the degree of activity among different companies that receive a considerable portion of their income from pornography and companies that only earn a small amount on the distribution of pornographic materials. The companies that actively market pornographic materials are also those who earn the most money on these activities. These companies are found in the media sector.

On the other hand, income from the distribution of pornographic materials in the hotel, trade and telecom sectors is marginal. Companies in these sectors are also passive in their distribution. Pornographic materials can be available for those who are interested, but the customer must actively look for them and make an active and conscious choice in securing such materials. This can be compared to a library that has pornographic materials.

The hub in distribution is however the media companies. They own and manage the channels for cable and satellite TV. They also sell videos and films via the Internet. It is the activities

of these companies in the media sector that are found in the other three sectors that primarily function as distribution channels for these media companies. In the future, it is possible that the telecom companies will become more active at which point we will need to conduct a new assessment.

Screening of pornographic materials is therefore only necessary in regard to the media sector. It is not permissible to invest in media companies that have a clear link to pornography. In regard to the other branches (trade, telecom and hotels) it can be said that the distribution of pornography that does occur is passive. Moreover, the extent of such activities is very limited.