

The Board's investment policy, with investment rules for the Swedish Foundation for Strategic Environmental Research

Investment Policy

1. Introduction

1.1 Mistra's Statutes

Extracts from the Statutes for the Swedish Foundation for Strategic Environmental Research (**Mistra** or **the Board**):

Article 1

'The purpose of the Foundation... is to fund research of strategic importance for a good living environment.'

Article 2

'The Foundation's endowment consists of the funds which have been transferred to the Foundation as of 2 December 1993 by Government decision plus whatever funds may be transferred to the Foundation thereafter as additional foundation capital.'

Article 3

'The activities of the Foundation may eventually entail that the Foundation's endowment is used up.'

Article 9

'The board of trustees is responsible for ensuring that the Foundation's assets are managed satisfactorily with limited risk and a good rate of return.'

Article 10

'The Foundation may take a loan from a credit institution in order to meet a temporary need for liquidity.'

1.2 Purpose of the investment policy

The purpose of this investment policy is to lay down rules for the management of Mistra's assets. The policy sets out:

- The aims of investment activities (section 2 below).
- How to divide responsibility for asset management (section 3 below).
- How to report on asset management and its results (section 4 below).
- Asset management for sustainable development (Appendix 1).
- Rules on the investments in which assets may be placed, and the maximum limits for placing in such investments (see Investment Rules, Appendix 2).
- Strategic allocation and benchmark index (Appendix 3).

The investment policy is intended to guide the day-to-day work of the individuals, inside and outside the Foundation, who are involved in managing its assets.

1.3 Asset management

Regarding management of Mistra's assets, the Asset Management Committee is responsible for allocation, both strategic (i.e. choice of benchmark index) and tactical, and also for selecting asset managers. For day-to-day management, Mistra mainly engages external managers, except where short-term handling of liquidity is concerned. The Chair of the Asset Management Committee and Mistra's Executive Director jointly decide on short-term investment of surplus liquidity. Liquidity for current payments is placed in a bank account. Mistra will also task a professional operator with carrying out portfolio administration for Mistra's asset management, including registration, keeping of accounts and reporting with respect to this management.

1.4 Updating

Mistra's investment policy will be continuously kept up to date with respect to current circumstances in the Foundation and also taking trends of the financial markets into consideration. The investment policy will be adopted by the Board.

2. Investment aims

In September 2016, Mistra's Board adopted a strategy for the Foundation for the years 2017–19.

Mistra's assets will be managed with a good return and limited risk, so that they can be useful both for funding of initiatives in the area of environmental research and for investing in companies whose operations contribute to global development that takes environmental, social and ethical values into consideration.

Aims of asset management for the three-year period are:

- To safeguard existing commitments, but also make new research initiative possible, by means of a good return.
- To invest assets in such a way as to encourage a transition to a circular economy and sustainable social development.
- To be a model for other investors and actively support and influence the development of sustainable asset management.
- To invest SEK 600 million in research.

This will be achieved by Mistra:

- Developing sustainable asset management in a global economy.
- Annually evaluating the portfolio and managers.
- Annually reviewing its priorities and conducting a strategic audit.
- Communicating ideas and experience of sustainable asset management and also relevant research results.
- Being transparent with respect to its choices and actively contributing to progress in the area, by inspiring other foundations, asset owners and asset managers to introduce management models designed to bring about sustainable development.

Long-term target

The target for Mistra's asset management is to attain an overall yield that, in the long term, corresponds to risk-free interest (measured as the interest on three-month Swedish government bonds) plus a risk premium of 2 percentage points.

3. Division of responsibilities

The Board is responsible for ensuring that the Foundation's assets are managed satisfactorily, in such a way as to limit risks and make use of the scope for a good return. In discharging this responsibility, the Board will set up a committee for the Foundation's Asset Management.

3.1 Board's responsibilities

The Board will:

- Once a year or as required, adopt or revise the investment policy.
- Appoint members of Mistra's Asset Management Committee, which will comprise four external financial experts, a person from the Board and Mistra's Executive Director, with a Chair appointed by the Board.
- Determine the strategic asset allocation and choice of benchmark index (see Appendix 3).
- Secure independent evaluations of Mistra's asset management and risk exposure.

3.2 Asset Management Committee's responsibilities

The Committee will:

- Decide on Mistra's asset management within the framework laid down in the investment policy currently in force, or by other Board resolutions, and be responsible for ensuring that the assets are managed in accordance with the Foundation's Statutes and the investment policy currently in force.
- Be responsible for tactical allocation and choice of asset managers.
- Propose the strategic allocation and choice of benchmark index to be adopted by the Board.
- Analyse the outcome of asset management.
- Monitor and evaluate the results of Mistra's asset management and its risk exposure.
- Initiate evaluations and obtain the documentation required for its work.
- Draw up proposals for updating the investment policy.
- Through its Chair, submit written comments on the asset management to the Board ahead of every Board meeting or when requested by the Board or its Chair. The Committee Chair will comment on matters referred to in point 4.1 below.
- Be responsible for reporting to the Board in accordance with section 4 and point 4.1 below.

Committee meetings will take place on the scale required. At these meetings, minutes will be taken, and all decisions with a bearing on the Foundation's asset management will be recorded in the minutes. Minutes taken at Committee meetings will be presented to the Board.

3.3 Executive Director's responsibilities

The Executive Director will be responsible for:

- Implementing decisions on asset management taken by the Committee.
- Verifying compliance, in agreements with external managers etc., with the investment policy in force at any time.
- Reporting to the Board in accordance with point 4.2 below.

4. Reporting

The Asset Management Committee will ensure that the Foundation receives, every month, the reports from external managers that are required to enable the Committee to fulfil its obligations under the current investment policy in force.

All individuals and parties involved in managing the portfolio must immediately report any events in the asset management that cannot be regarded as normal.

Violations of rules in this investment policy must be reported to the Board in writing.

4.1 Reporting by the Committee

The Asset Management Committee will ensure that the Board, ahead of every Board meeting, receives reports on Mistra's asset management. The Committee's reports will provide information on:

- The current market value of the assets.
- The trends over time of the principal asset classes and comparisons with relevant indices.
- The risks entailed by the current investments.
- Deviations, if any.

4.2 Reporting by the Executive Director

The Executive Director will ensure that, ahead of every Board meeting, the Board receives reports on Mistra's asset management. The CE's reports will provide information on:

- Implementation of decisions taken by the Committee concerning asset management.
- Whether the asset management deviates from the investment policy in force at any time.

Appendix 1

Asset management for sustainable development

The market and its operators play a key part in the attainment of long-term sustainable development. For sustainable development to be achieved, a critical mass of market operators must work for long-term aims and allow companies to invest resources in developing solutions to reach these aims. This requires market operators to make aware, well-informed choices.

As an institutional asset owner and investor, Mistra has the ambition of making its asset management a model for other investors wishing to assume responsibility and work for sustainable development. This will be attained through Mistra conducting asset management that is profitable in the long term; Mistra being transparent about its choices; and Mistra actively contributing to progress in this area by inspiring other foundations, asset owners and asset managers to introduce management models designed to bring about sustainable development.

In its asset management, Mistra should exercise a preference for capital managers who strive for a good return by investing for the long term in securities whose issuers:

- Have a vision in which the company's products and services currently promote sustainable development, or are working for successive adaptation of their products and services towards sustainable development.
- Report clearly on their products and services' environmental and social impact on ecosystems and communities, both positive and negative, and work proactively and systematically to boost the positive and minimise the negative impact of their operations in both the short and the long term.
- Endeavour to make investments in renewable energy and minimise investments in companies that extract fossil fuels. However, Mistra does not exclude assets managers who choose investments in companies engaged in such operations. Problematic sectors, too, need well-run and responsible companies that strive to improve sustainability aspects in the sector.
- Ensure active efforts to stop violations of international conventions signed by Sweden, and ensure that preventive work is done to stop any repetition.

As an asset owner, Mistra will:

- Work actively to ensure that the asset managers Mistra uses are themselves engaged in active cooperation with the companies they invest in, to develop these companies' visions for sustainable development; to minimise these companies' environmental and social impact; and to ensure that these companies, if linked to a violation of a convention, cease this conduct and take preventive measures. As a last resort, divestment of a company that fails to work towards these aims will take place.
- Actively support and start initiatives in which institutional investors work to successively achieve correct pricing of negative externalities by means, for example, of taxes and charges on gases that affect the climate.

In general, as a research foundation, Mistra will endeavour to support research that can help the capital markets to work for sustainable development.

Appendix 2

Investment rules

These investment rules make up an integral part of Mistra's investment policy and should be applied with reference to the aims etc. of Mistra's asset management, as specified above. Mistra's funds should be invested in a portfolio that is well diversified in terms both of asset classes and of managers.

1. Permitted asset classes

Mistra's funds may be invested in:

- Deposits in Swedish banks with a credit rating of at least A- from S&P or the equivalent rating according to another system.
- Interest-bearing securities with an appreciable proportion of green bonds.
- Inflation-linked government bonds.
- Swedish and foreign shares and share-related securities. Investments may also be made in depositary receipts regarding the above-mentioned securities, in unit trusts that invest mainly in securities of the above-mentioned kind, and in interest-bearing securities
- Options and forward contracts regarding securities and currencies in which the portfolio's funds may be invested, and also in option and forward contracts concerning indices that are mainly based on such securities. The purpose of these investments should be to enhance the efficiency of the asset management, boost the return or hedge an investment. The opposite party must be a highly solvent bank with a credit rating of at least A- from S&P or the equivalent rating from another rating agency.
- Liquid alternative investments, such as hedge funds.
- Non-liquid alternative investments, such as venture-capital funds.
- Other instruments, following special decisions by the Asset Management Committee.

2. Investment restrictions

2.1 General restrictions

As managers, Mistra will engage only securities institutions that are licensed by the Swedish Financial Supervisory Authority (*Finansinspektionen*, FI) to engage in management of another party's financial instruments, or a foreign institution with a corresponding licence that is under the supervision of a government agency or other authorised body. The manager must be respected and well known, and have a track record of good management performance.

Investments may be made in securities funds whose investment focus conforms, in all essentials, to the provisions of this investment policy and that are under the supervision of a public agency or other authorised body in an OECD member state. The fund must be respected and well known, and have a track record of good management performance.

Mistra is not permitted to take out securities loans.

2.2 Interest-bearing instruments

Interest-bearing investments should consist of securities issued or guaranteed by the Swedish state or another OECD member state, housing finance institutions, market-listed companies and the like, with S&P ratings of at least BBB– or the equivalent rating according to another rating system, and interest funds containing corresponding assets. Up to 5% of the interest portfolio may be invested in interest-bearing securities with credit ratings below BBB–.

A maximum of 20% of the interest-bearing assets may be invested in securities from a single issuer. This rule does not apply when the Swedish state is the issuer, or to Swedish housing finance institutions with the same rating as the state.

2.3 Liquid alternative investments

Liquid alternative assets, such as hedge funds, may not make up more than 15% of the Foundation's total assets.

2.4 Non-liquid alternative assets

Investments in non-liquid alternative assets and assets with long investment terms and inferior liquidity may amount to a maximum of 15% of the Foundation's total assets. The Board must decide on these investments.

2.5 Shares

Share investments should form part of a well-diversified portfolio with an overall limited risk. Securities, options and futures in this portfolio will be listed at, or within one year of, issue on a stock market or other authorised market, or be regularly traded on another regulated market that is open to the public and subject to the supervision of the supervisory authority of the country concerned.

However, up to 5% of the share portfolio may be invested in shares or share-related securities if their market listing within six months is intended.

2.6 Derivative instruments

Derivative instruments may be traded in situations where the instruments will either promote further efficiency and rationalisation of the asset management or give protection against undesirable risk exposure. Option and forward contracts may be traded only if the contracts undergo clearing by a clearing organisation supervised by a government agency or other authorised body, or if agreements are concluded, on the usual market terms for the market concerned, with authorised Swedish and foreign securities institutions that are subject to supervision. The opposite party must be a Swedish bank with a credit rating of at least A– from S&P or the equivalent according to another rating system.

2.7 Foreign currencies

Currency-risk diversification should be considered in distribution of funds among asset classes, regions and countries. Derivative contracts relating to foreign currencies may be entered into only if their purpose is to protect assets in the fund against currency risks. The opposite party must be a Swedish bank with a credit rating of at least A– from S&P or the equivalent according to another rating system.

Appendix 3

Strategic portfolio and benchmark index

1. Strategic portfolio

Mistra's strategic portfolio comprises the following asset classes for the liquid portfolio, with specification of their normal weighting.

Asset class	Strategic allocation	Normal weighting
Interest-bearing	30–100%	40%
Shares	0–70%	40%
- Sweden		13%
- Global		27%
Liquid alternative investments	0–15%	12%
Non-liquid alternative investments (subject to Board decisions)	0–15%	8%

2. Benchmark index

Interest-bearing	70% OMRX Mort, 10% OMRX T-Bond and 20% OMRX T-Bill
Swedish shares	SIXPRX (Stockholm Stock Exchange Portfolio Return Index)
Global shares	MSCI World All Countries DM Net Dividends Reinvested
Shares, total	32% SIXPRX, 68% MSCI World All Countries DM Net Dividends Reinvested
Liquid alternative investments	OMRX T-Bond +2%
Non-liquid alternative investments, except property funds	OMRX T-Bill +2%
Property funds	IPD Swedish Property Index
Total portfolio	40% share index, 40% interest rate index and 20% OMRX T-Bill +2% p.a.

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