The Current State of Responsible Investments in Sweden

Swesif 2015 Study

Content

Executive Summary

The purpose of this report is to provide an up-to-date overview of how responsible investment (RI) is practiced in Sweden.

The main results of the study are:

- All of the respondents have a responsible investment policy, and 95 percent make it publicly available. Only 18 percent include asset-specific guidelines.
- 85 percent of respondents have either already integrated the UN Guiding Principles on Business and Human Rights or have integration activities under way.
- The most popular ESG incorporation strategy is either screening alone or screening and integration together. Integration alone is however highly unusual.
- 52 percent have either implemented or will implement within the next 12 months a process to manage responsible investment in government bonds.
- As for climate change, 57 percent answer that they have divested or excluded companies from their universe specifically because of climate change concerns.
- Only 5 percent answer that they do not specifically take climate change into account.
- 71 percent have assessed the carbon footprint of their investments.
- 91 percent of respondents carry out engagements. They have engaged with up to 555 companies through individual staff engagements (with a median of 15), up to 308 companies through collaborative engagements (with a median of 30) and up to 105 companies (with a median of 15) through service providers.
- 61 percent of respondents vote on shareholder resolutions via proxy.
- 94 percent of those who use external managers are considering responsible investment factors in the selection, appointment or monitoring of external managers. It is especially common to encourage or request external managers to do so for listed equity, corporate bonds and private equity, but less so for most other asset classes.
- Two of the most common networks for respondents to be participating in, in addition to Swesif, is PRI (Principles for Responsible Investment) (74 percent) and CPD Climate Change (68 percent).

The 2015 Swesif Survey

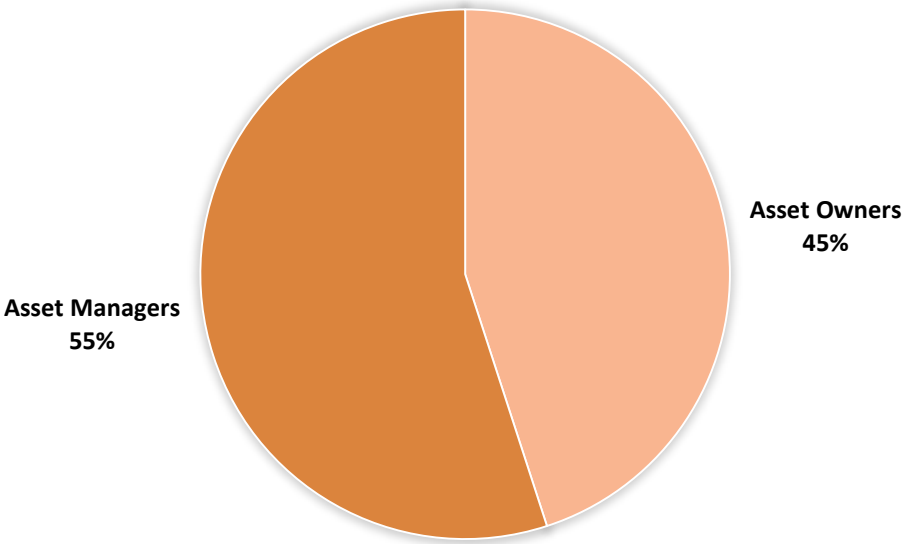
Swesif is an independent network forum for organizations who work for or with sustainable investment in Sweden. The organization was founded in 2003 and has approximately 60 members, most of whom are asset owners and asset managers.[1]

This report illustrates the state of responsible investment on the Swedish market. It is the first time that Swesif conducts this survey study. The same survey has however been carried out on the Danish market by Dansif since 2010, and the results can therefore be compared between the two markets. The Swesif study covers data as per 31 December 2014.

The survey was sent to all 58 Swesif members that were either asset owners or asset managers. There were 22 full responses (2 partial responses were omitted). This equals a response rate of 38 percent.[2]

45 percent of the respondents classify themselves as asset owners, and 55 percent as asset managers.

The respondents have assets under management equaling a total of 774 billion USD (approximately 7,1 trillion SEK).



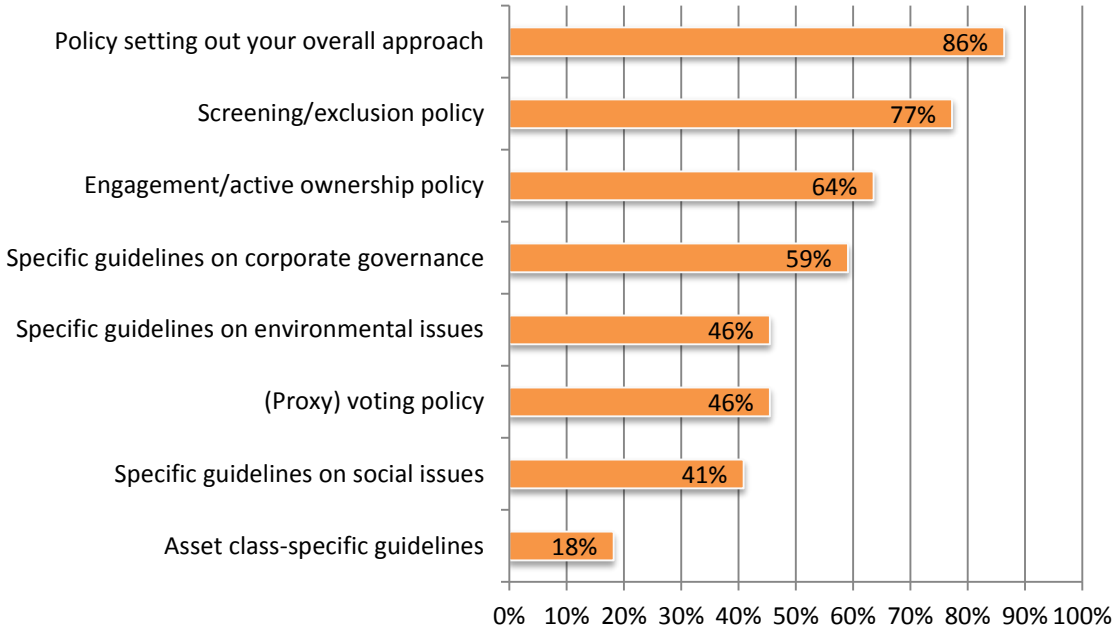
[1] See also www.swesif.org

[2] NB: In Denmark, the survey was sent to the 50 largest asset owners and asset managers. The response rate was 54 percent.

1. Components of the Responsible Investment policy

100 percent of the survey respondents have a Responsible Investment Policy, and 95 percent make it publicly available. A minority of investors, however, include asset-specific guidelines (18 percent). This is a marked difference to Denmark, where 44 percent of survey respondents include asset specific guidelines.

A majority of Swedish respondents have a policy that sets out the overall approach (86 percent), include a screening/exclusionary policy (77 percent), an engagement/active ownership policy (64 percent), and specific guidelines on corporate governance (59 percent).

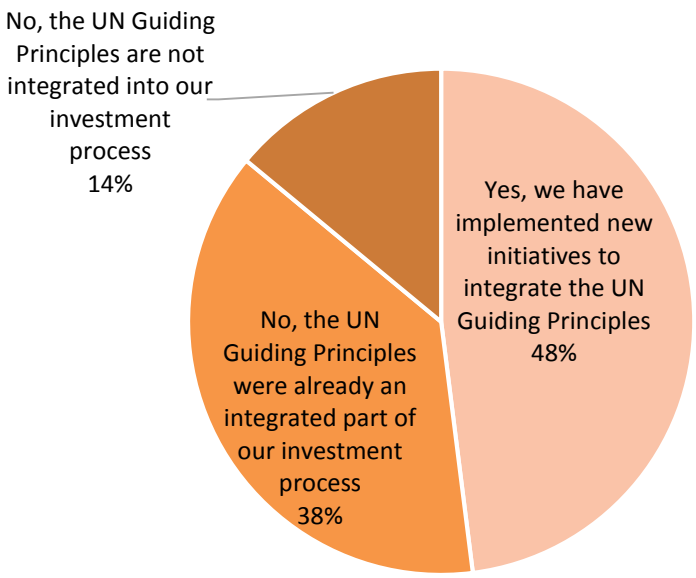


Just over half of the respondents (55 percent) state that the responsible investment policy covers all of their assets under management, whereas 41 percent say that it covers the majority of assets under management. 9 percent state that the policy covers only a minority of assets under management.

2. The UN Guiding Principles

In 2011, *The Un Guiding Principles on Business and Human Rights* (the UNGPs) were introduced. It is a global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity. The UNGPs is the first corporate human rights responsibility initiative to be endorsed by the United Nations.

Almost half of respondents, 48 percent, state that they have implemented new initiatives to integrate the principles. For 38 percent of the respondents, the principles were already a part of their investment process and they have therefore not implemented any new activities as a result of their launch. A minority, 14 percent, say that the principles are not integrated into their investment process. This can be compared to respondents in Denmark, where 35 percent state that they are not integrating the principles in their investment process.



3. Responsible Investment Governance

The oversight of responsible investments activities tends to be a shared responsibility between several roles for our survey respondents. Typically, oversight responsibilities lie with the Chief Executive Officer or Chief Investment Officer (81 percent), board members or trustees (76 percent) and/or with dedicated responsible investment/ESG staff (71 percent) (N.B. that this is a multiple-choice question).

A notable share of CEOs and CIOs are also involved with the *implementation* of responsible investment 57 percent). For the large part, implementation is mostly a responsibility for dedicated ESG staff (81 percent) and portfolio managers (76 percent). In Denmark, it is far more common that investment analysts are involved with implementation: 50 percent, compared with 29 percent in Sweden. On the other hand, Danish investors to a much larger extent involve external managers or service providers for implementation: 88 percent, versus 29 percent in Sweden.

Roles involved with Responsible Investment	Oversight	Implementation
Board members or trustees	76 %	0 %
Chief Executive Officer (CEO) or Chief Investment Officer (CIO)	81 %	57 %
Other chief-level staff or head of department	43 %	43 %
Portfolio managers	38 %	76 %
Investment analysts	24 %	29 %
Dedicated responsible investment / ESG staff	71 %	81 %
External managers or service providers	24 %	29 %

4. Implementation: RI tools for listed equity

Respondents were asked to disclose to what extent they use screening, thematic and integration strategies for their actively managed listed equity.

- *Screening* involves three types of criteria:
    - **Negative/exclusionary screening** is the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.
    - **Positive/best-in-class screening** refers to investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.
    - **Norms-based screening** is the screening of investments against minimum standards of business practice based on international norms.

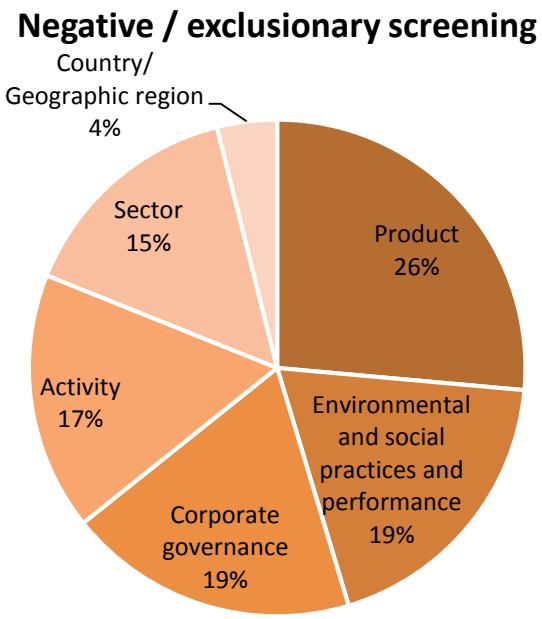
- *Sustainability themed investing* refers to investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture).

- *Integration of ESG issues* is the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis.

Tools for RI for listed equity	
Screening & Integration	52 %
Screening alone	43 %
Screening & Integration & Thematic	19 %
Integration alone	10 %
No incorporation strategies applied	10 %
Thematic alone	0 %
Thematic & Integration	0 %
Screening & Thematic	0 %

The most popular ESG incorporation strategy for the survey respondents is either screening and integration together (52 percent) or screening alone (43 percent). This is much in line with survey results from Denmark. Integration alone is highly unusual (10 percent), whereas combining screening, thematic and integration activities falls somewhere in between (19 percent).

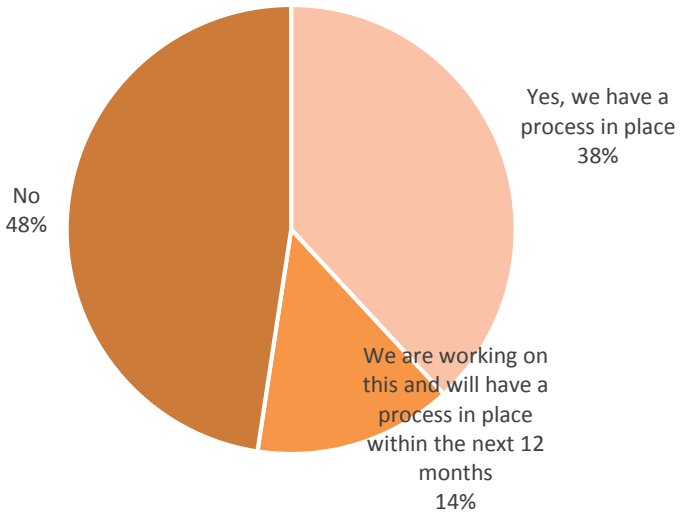
When it comes to exclusionary screening, most of the respondents apply this to controversial products, such as tobacco, alcohol or weapons (88 percent), to poor performance in the environmental, social or corporate governance area (63 percent), to activity (56 percent), and to certain sectors (50 percent). Few investors screen out countries or geographical regions (13 percent).



5. Government Bonds

The interest in responsible investment in government bonds has risen on the Nordic market recently, following a heated debate in Denmark. In 2012, Danish media highlighted the fact that a number of institutional investors held government bonds in repressive regimes in Africa. As a result of the public debate that followed, the Danish Council for CSR launched guidelines for responsible investment in government bonds. The guidelines were the world's first of its kind.

In the Swesif survey, 52 percent of respondents either have implemented or will implement within the next 12 months a process to manage responsible investment in government bonds. In Denmark, the number of respondents who had implemented an RI process for government bonds rose from 48 to 60 percent from 2013 to 2014, likely as a result of the debate and the new guidelines.



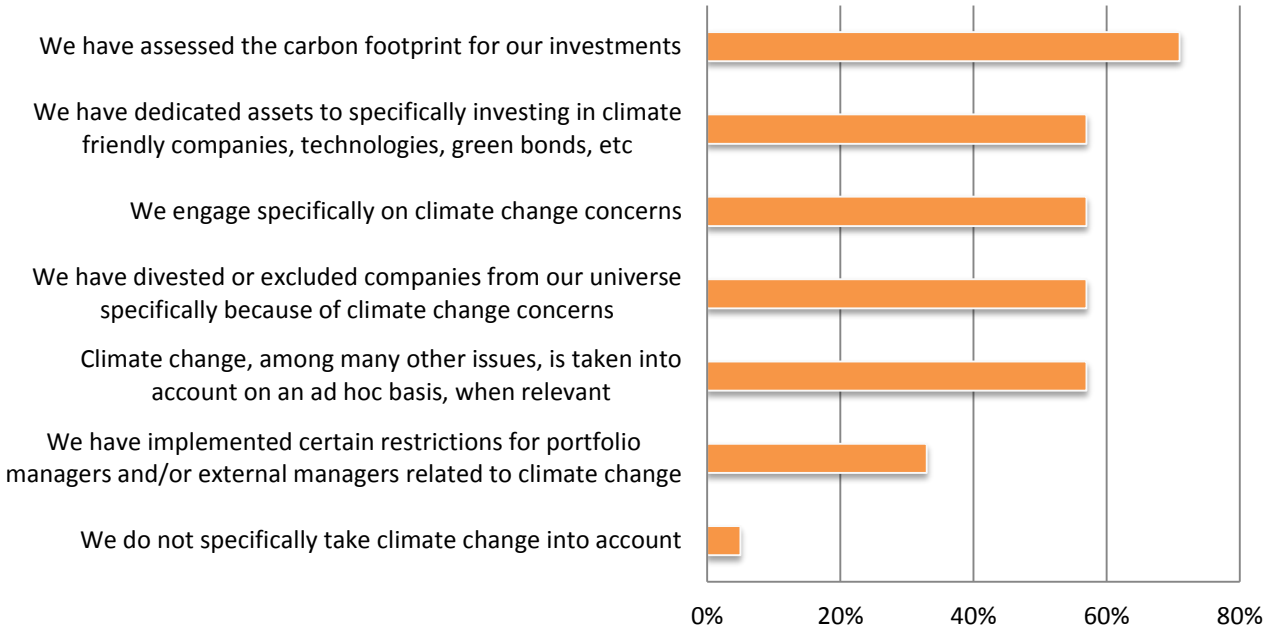
6. Climate change in the investment process

Climate change continues to be in the forefront in the debate about sustainable development, not only generally but also in an investor context. This is also reflected in the survey responses.

57 percent of respondents state that climate change, among many other issues, is taken into account on an ad hoc basis, when relevant. The same amount of respondent (57 percent) say that they have divested or excluded companies from their universe specifically because of climate change concerns, that they engage specifically on climate change concerns, and that they have dedicated assets to specifically investing in climate friendly companies, technologies, green bonds, etc.

A total of 71 percent of respondents have assessed the carbon footprint of their investments.

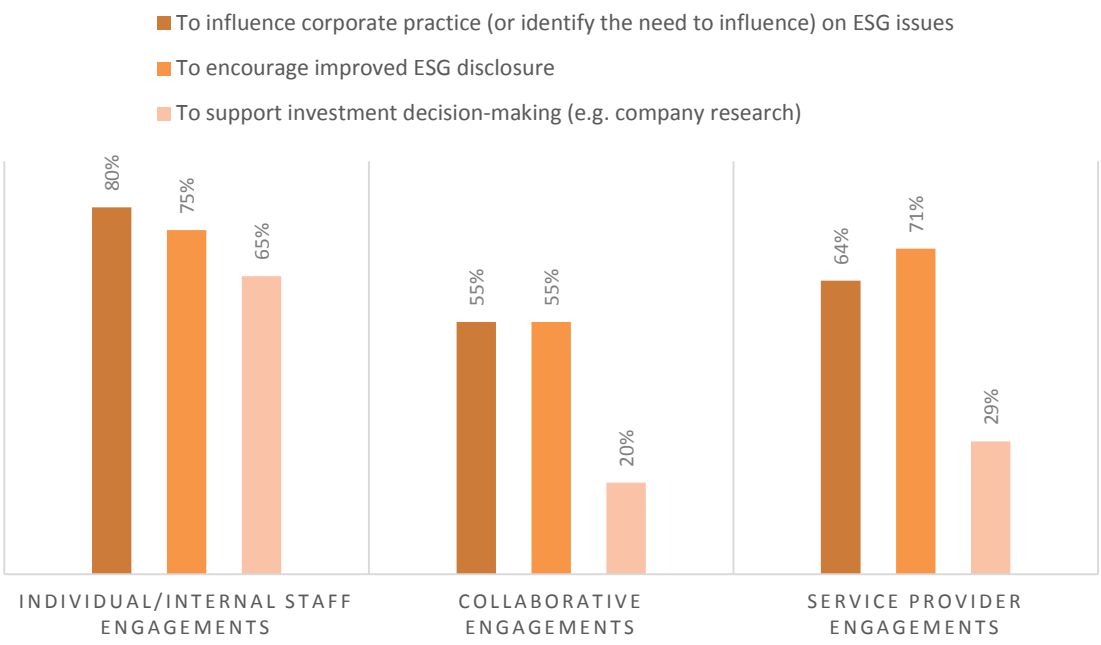
Only 5 percent (which in this survey is the equivalent of one respondent) state that they do not specifically take climate change into account. In Denmark, this number was 29 percent.



7. Active ownership / Engagement

91 percent of survey respondents carry out engagements.

Engagement is primarily used in order to influence corporate practice on ESG issues, and to encourage improved ESG disclosure. For individual engagements, but less so for collaborative engagements or service provider engagement, it is also used as a means to support investment decision-making for example by gathering more information through company research.



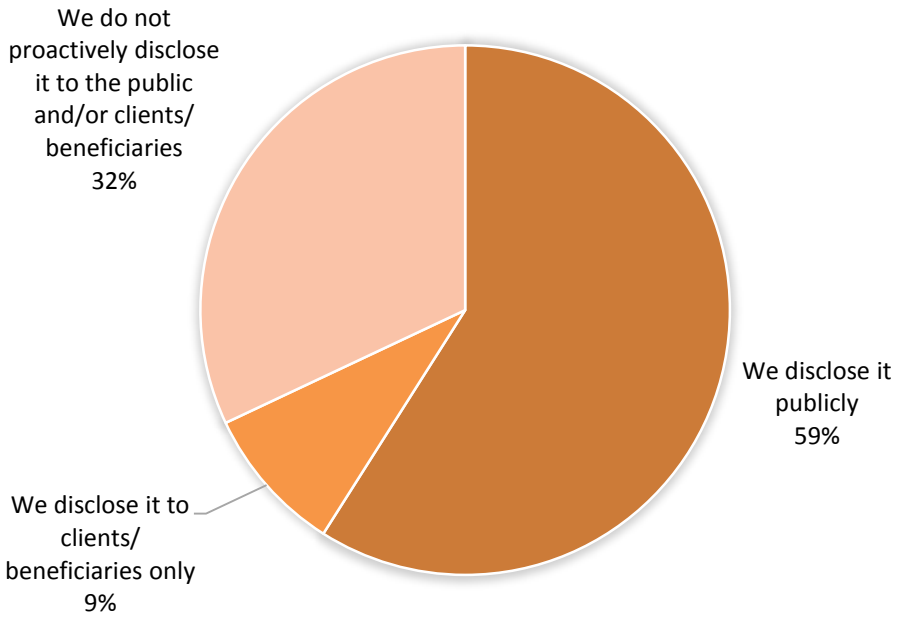
During the reporting year, respondents have engaged with anything between 0 and 555 companies through individual staff engagements, with an average of 80 and a median of 15. This is a considerable higher number than for respondents in Denmark, where the median was 5 and the highest number of corporate engagements for a respondent during the reporting year was 33.

For collaborative engagements, the number of companies varies from 0 to 308, with an average of 61 and a median of 30.

For engagements carried out by service providers, the numbers vary from 0 to 105, with an average of 38 and a median of 15. In Denmark, for comparison, it seems that it is the service providers that carry out most of the engagements, with a median of 111, likely due to the small size of many Danish investors.

27 percent of respondents do not track the number of companies they engage with.

A majority of respondents (59 percent) proactively share information on its engagements. 9 percent share it with clients or beneficiaries only, whereas 32 percent do not proactively disclose at all. For comparison, in Denmark 40 percent of respondents publicly disclose engagement information.



8. Proxy voting

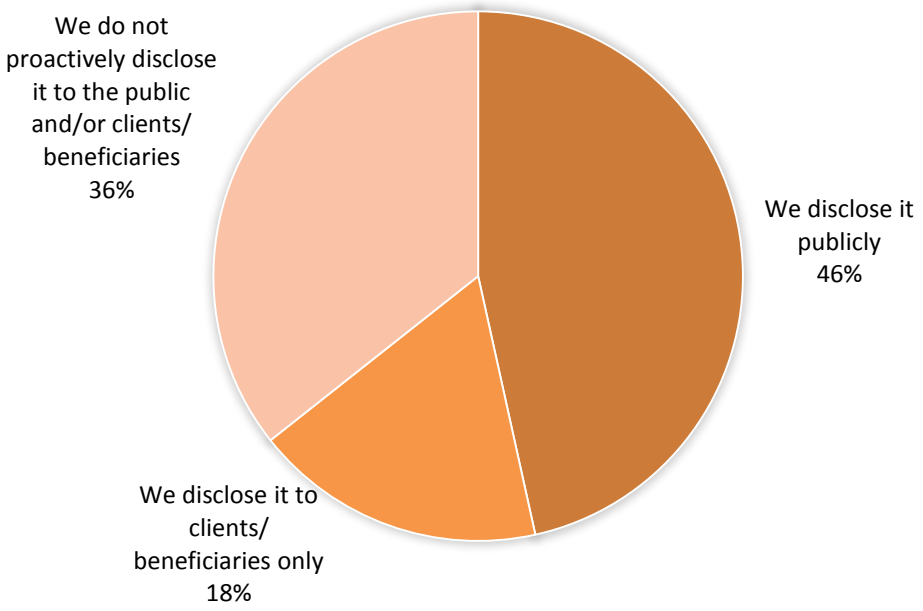
61 percent of respondents vote on shareholder resolutions via proxy. Just over half of these (54 percent) are using service providers who make voting recommendations or provide research that is used to inform survey respondents' voting decisions.

None of the respondents are hiring service providers to automatically vote on their behalf. Nine percent of respondents review and make voting decisions for a few predefined scenarios but let service providers vote on their behalf for the rest of the cases.

About a third, or 36 percent, of survey respondents use their own research or voting team and make their own voting decisions without the use of service providers.

We hire service provider(s) which make voting recommendations or provide research that we use to inform our voting decisions	55 %
We use our own research or voting team and make our own voting decisions without the use of service providers	36 %
We hire service provider(s) which make voting decisions on our behalf, except for some predefined scenarios for which we review and make voting decisions	9 %
We hire service provider(s) which make voting decisions on our behalf	0 %

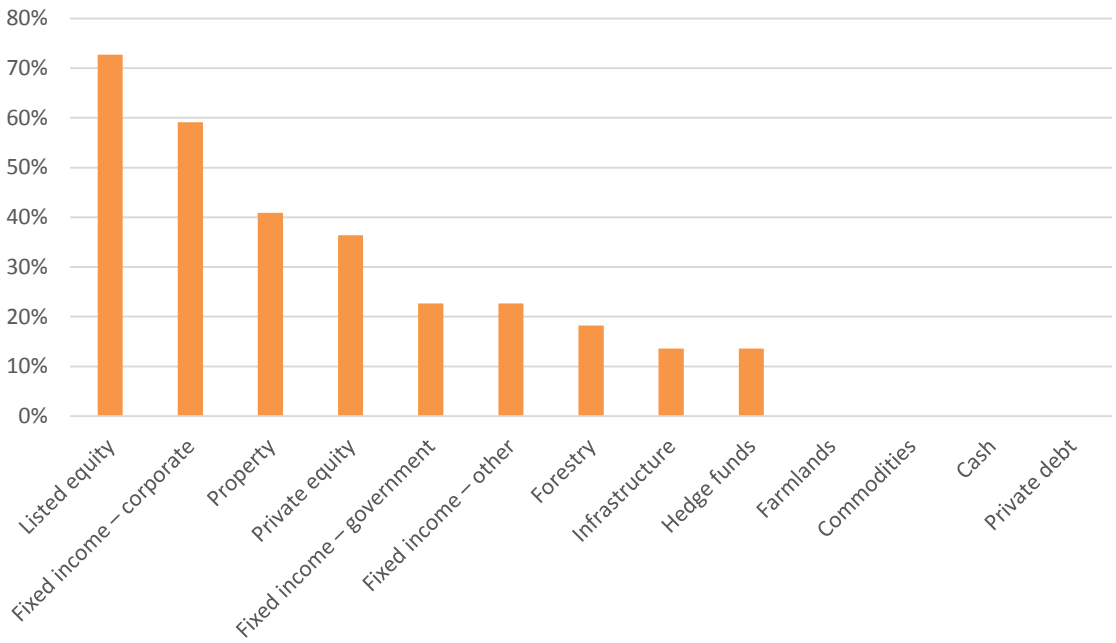
The public disclosure rate for proxy voting is lower than for engagements, whereas a larger number of respondents shares voting information with clients and beneficiaries. 47 percent disclose publicly (compared with 59 percent for engagements), and 18 percent disclose with their clients and beneficiaries (9 percent for engagement). 36 percent do not disclose voting information at all.



9. Responsible investment processes for internal and external management

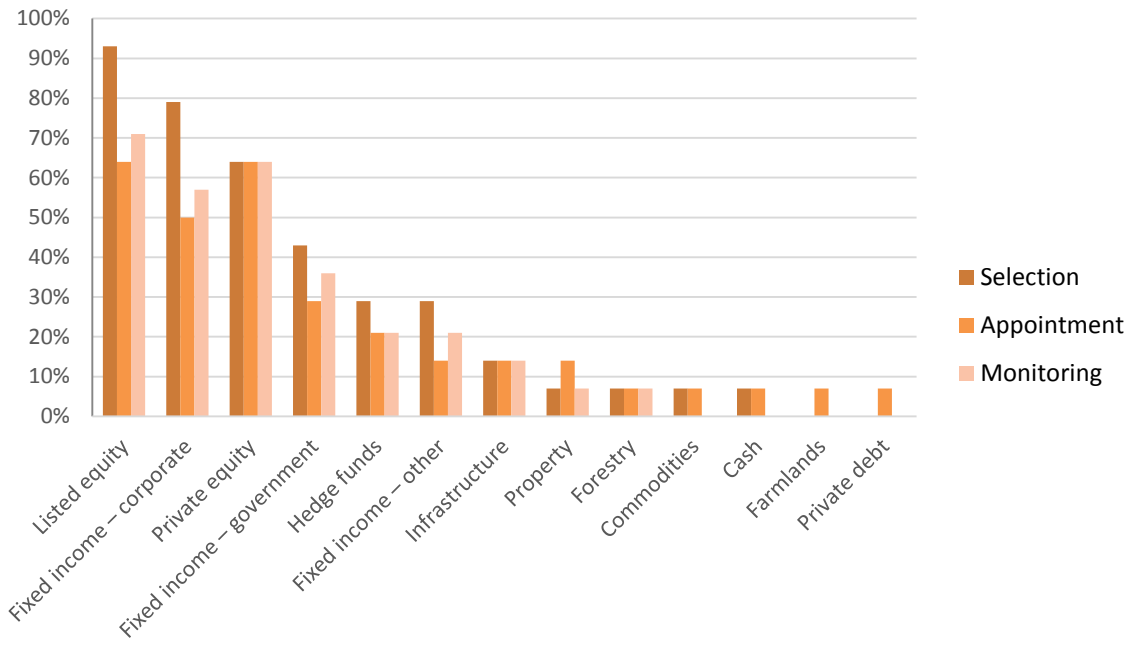
A majority of respondents – 86 percent – manage assets internally and 72 percent are using external management.

For the internal asset management, ESG issues are mainly applied to investment decisions and/or active ownership practices for listed equity and fixed income.



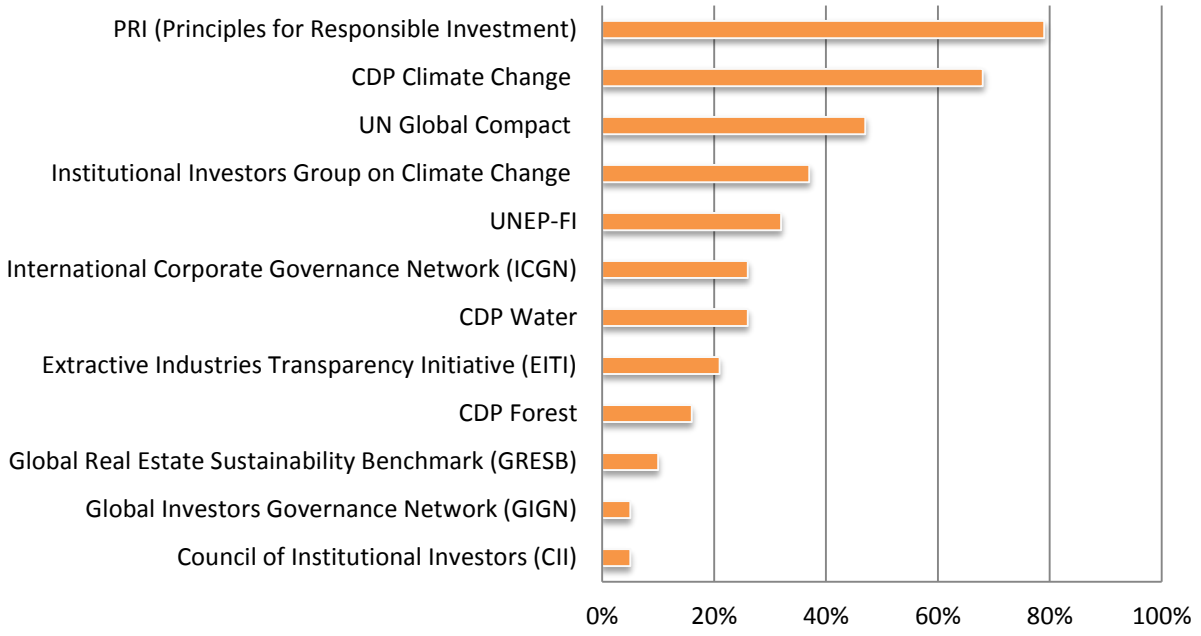
Of those respondents who are using external managers, 94 percent consider responsible investment factors in selection, appointment or monitoring of external managers.

It does however vary considerably between asset classes to which extent responsible investment factors are asked to be considered: It is especially common for listed equity, corporate bonds and private equity, but less so for most other asset classes.



10. Investors active in networks

Most respondents (86 percent) are members or participants of organizations and initiatives that promote responsible investment. The UN-backed Principles for Responsible Investment (PRI) and CDP Climate Change stand out as the most common initiatives for the respondents to participate in (79 and 68 percent respectively).



11. Primary challenges

Respondents were asked what they consider the primary challenges for their organization to integrate environmental, social and governance issues into the investment decisions.

One respondent said that the integration of the different aspects of environment, social and governance (ESG) into investments entails a range of considerations and challenges: '

> *"First, the complexity of issues pertaining to environment and climate change constitutes a challenge in itself. Keeping up with research and new findings on how resources should be handled adds to this time-consuming task. These challenges differ between markets; countries included in our frontier markets often have limited capacity and knowledge when it comes to sustainable new techniques. Secondly, social aspects are influenced by cultural and religious perspectives - which calls for a deep understanding of both history, religion and social sciences. Thirdly, all aspects of corporate governance are closely linked to the structures mentioned in the social context, adding extra layers of complexity."*

Other respondents state that knowledge and education is needed in order to make a frog-leap; and that there is a demand for a wider choice of asset managers on the Swedish market that are skilled in how to truly integrate ESG. Another challenge pertains to impact:

> *"A key challenge for our own organization, and we believe for the industry as a whole, is how we can demonstrate the ultimate outcomes of responsible investment. Whilst systematic and robust ESG integration strategies are an essential part of good investment management, they do not answer the question which is increasingly being asked – what impact is my money having?"*

Questions or feedback

Swesif can be contacted via swesif@swesif.org. Further contact details are available on our web page: http://www.swesif.org/swesif/contact/