

**MISTRA**

**Investment Policy  
and Investment Rules  
for the Management of  
the Foundation's Assets**

**Adopted on 27 June 2006**

# Investment Policy and Investment Rules of the Swedish Foundation for Strategic Environmental Research

Adopted by the Board of the Foundation on 27 June 2006

## Investment Policy

### 1 Introduction

#### 1.1 Mistra's Statutes

Extracts from the Statutes of the Swedish Foundation for Strategic Environmental Research ('Mistra' or 'the Foundation'):

- 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 board of trustees 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 purpose and objectives of the Foundation's investment activities (paragraph 2 below),
- how responsibility for asset management is to be apportioned (paragraph 3 below),
- how reporting on asset management and the results thereof is to take place (paragraph 4 below),
- rules on the assets in which the capital may be invested and the limits on such investments (Investment Rules, below).

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

#### 1.3 Management

As far as the management of Mistra's assets is concerned, the Committee for Asset Management is to be responsible for both the strategic (i.e. choice of benchmark) and the tactical allocation of assets, and for the selection of asset managers. For day-to-day asset management Mistra will mainly use external managers, except as regards short-term liquidity management. Mistra will also engage the services of a professional provider to undertake portfolio administration, including registration, accounting and reporting, with respect to the management of Mistra's assets.

## 1.4 Updating of policy

Mistra's investment policy will be kept continuously updated to reflect the current circumstances of the Foundation and to take account of developments on financial markets. The policy will be adopted by the Board once every calendar year.

## 2 Investment objectives

### 2.1 The Board's vision and strategy for Mistra up to 2020

In June 2004, the Board of Mistra adopted a vision and strategy for the Foundation up to the year 2020.

#### **Vision for 2020**

By 2020, Mistra will have had a clear impact:

- Important environmental problems will be solved by means of collaboration between academic research and Swedish industry, public administration, policymakers and non-governmental organizations.
- Sweden will have several internationally competitive, cross-boundary research environments, working in dialogue with users to bring about a sustainable society.
- The competitiveness of Swedish industry will have been enhanced as a result of a number of new, environmentally sound products and services securing significant market share.

#### **Goals on the way to our vision: Mistra in 2008**

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*Asset management in support of sustainable development*

- Mistra's approach to asset management seeks to serve as a model for efforts to secure sustainable development.
- Assets will be managed with the aim of being able to provide research funding of SEK 200 million per year (in real terms at 2003 prices) until 2020 at least.

...

#### **Mistra's strategy up to 2008**

*Asset management in support of sustainable development*

- Mistra will involve itself in national and international efforts to develop asset management approaches that promote sustainable development.

This means that:

- Mistra will pursue an approach to asset management based on active decision making.
- As an owner of capital, Mistra will be guided by a long-term view, relying increasingly on positive selection criteria with respect to environmental and ethical issues. The aim is that, by the end of 2007, the entire portfolio should be managed with an environmental and ethical profile.
- Investments will be transparent, to allow them to be monitored against the investment rules.
- The target total return over rolling 5-year periods corresponds to the interest on 5-year Swedish government bonds plus 2 percentage points.

What this strategy entails in more tangible terms is elaborated on in the appendix 'Mistra asset management and Kant's categorical imperative'.

### **3 Division of responsibilities**

It is the Board's responsibility to ensure that the assets of the Foundation are managed satisfactorily with limited risk and a good rate of return. As part of discharging this responsibility, the Board will establish a committee for the management of the Foundation's assets, consisting of three external financial experts and Mistra's Managing Director. The Committee for Asset Management will take decisions concerning the management of the Foundation's assets within the framework of the investment policy adopted by the Board and in effect from time to time.

#### **3.1 Responsibilities of the Board**

The Board will:

- once a year, or as required, adopt or revise the Foundation's investment policy;
- appoint members of Mistra's Committee for Asset Management. The Committee will consist of three external financial experts and Mistra's Managing Director. Its chairman will be appointed by the Board;
- initiate independent evaluations of the management of the Foundation's assets and the risk exposure involved; and
- where necessary attend meetings of the Committee for Asset Management and take other steps to ascertain that the Foundation's assets are being managed in accordance with the investment policy in effect from time to time.

#### **3.2 Responsibilities of the Committee for Asset Management**

The Committee will:

- take decisions concerning the management of the Foundation's assets within the framework laid down in the investment policy in effect from time to time or through other decisions of the Board, and be responsible for ensuring that the assets are managed in accordance with the Statutes of the Foundation and the investment policy in effect from time to time;
- be responsible for the strategic (i.e. choice of benchmark index) and the tactical allocation of assets, and for the selection of managers;
- analyse the outcomes of asset management;
- monitor and evaluate the results of and risk exposure involved in asset management;
- initiate evaluations and other analysis required for its work;
- prepare proposals for updates of the investment policy;
- through its chairman, submit written comments to the Board on the management of the Foundation's assets, prior to every meeting of the Board or as requested by the Board or the Board chairman. The chairman will comment on the matters referred to in paragraph 4.1 below;
- be responsible for reporting to the Board in accordance with paragraphs 4 and 4.1 below.

The Committee will meet as often as is necessary. Minutes will be kept of its meetings. All decisions of significance for the management of the Foundation's assets will be recorded in the minutes. Minutes of Committee meetings will be transmitted to the Board.

#### **3.3 Responsibilities of the Managing Director**

The Managing Director will:

- be a member of the Committee for Asset Management.

The Managing Director will in addition be responsible for:

- implementing decisions taken by the Committee concerning the management of the Foundation's assets;
- ensuring that the investment policy in effect from time to time is adhered to in agreements with external managers and in other contexts; and
- reporting to the Board in accordance with paragraph 4.2 below.

## **4 Reporting**

The Committee for Asset Management will ensure that the Foundation receives, every month, such reports from external managers as are necessary to enable the Committee to fulfil its obligations under the investment policy in effect from time to time.

All individuals and parties involved in managing the portfolio must immediately report any occurrences which cannot be regarded as normal in the management of the Foundation's assets.

Any infringements of the rules set out in this investment policy must be reported to the Board in writing.

### **4.1 Reporting by the Committee**

The Committee for Asset Management will ensure that, prior to every meeting of the Board, the Board receives reports on the management of the Foundation's assets. These reports will provide the following information:

- the current market value of the assets;
- the development over time of the main classes of assets and comparisons with relevant indices;
- an account of the risks which current investments entail; and
- any deviations.

### **4.2 Reporting by the Managing Director**

The Managing Director will ensure that, prior to every meeting of the Board, the Board receives reports on the management of the Foundation's assets. The Managing Director's reports will contain:

- an account of how decisions taken by the Committee concerning the management of the Foundation's assets have been implemented; and
- a statement as to whether there is any deviation in the management of those assets from the investment policy in effect from time to time.

# Investment Rules

These investment rules form an integral part of Mistra's investment policy and are to be applied taking into account the objectives etc. for the management of Mistra's assets set out above.

## 1 Permitted asset classes

Mistra's funds may be invested in:

- Swedish and foreign equities and equity-related securities. In addition, investments may be placed in depositary receipts relating to the securities referred to, in mutual funds (unit trusts) which mainly invest in securities of the kind referred to above, and in fixed-income (fixed-interest) securities.
- Liquid assets in Swedish kronor and foreign currencies.
- Option and forward contracts relating to such securities and currencies as the portfolio funds may be invested in, and option and forward contracts relating to indices based mainly on such securities. The purpose of such investments will be to improve the efficiency of asset management, to enhance the return or to hedge an investment.
- Other instruments as specifically decided by the Committee for Asset Management.

## 2 Investment restrictions

### *2.1 General restrictions*

Mistra will use as managers only securities institutions authorized by the Swedish Financial Supervisory Authority (Finansinspektionen) to engage in the management of another party's financial instruments, or foreign institutions with corresponding authorization and under the supervision of an authority or other competent body. A manager must be respected and well known and have a track record of good management performance.

Investments may be made in shares in a mutual fund whose investment strategy conforms in all essential respects to the provisions of this investment policy and which is under the supervision of an authority or other competent body in an OECD member state. The fund must be respected and well known and have a track record of good management performance.

Mistra may not borrow securities.

### *2.2 Swedish fixed-income instruments*

The objective of fixed-income asset management is to balance budgeted annual disbursements of research support in line with current plans.

The value of Swedish fixed-income assets will, as a minimum, cover the cash flow required for research grants awarded and planned, including their administration, over the next five years, i.e. SEK 220 million per year in real terms at 2003 prices.

Swedish fixed-income investments will consist of securities issued by:

- the Swedish state, housing finance institutions, well-reputed banks or other Swedish issuers with corresponding credit ratings.

A maximum of 20% of fixed-income assets may be placed in securities issued by one and the same issuer. This rule does not apply where the Swedish state is the issuer, or to Swedish housing finance institutions with the same rating as the state.

A sum corresponding to a maximum of 50% of the budgeted expenditure for the year may be held as bank deposits. Any temporary liquidity over and above that sum will be invested in fixed-income securities with maturities of less than 6 months or as shares in a short-term money market fund chosen by the Committee.

### ***2.3 Alternative investments***

Alternative assets may make up a maximum of 10% of the total capital of the Foundation.

### ***2.4 Equities***

Investments in equities are to be made in a well-diversified portfolio with a *limited overall risk*. Securities, options and forward contracts included in the portfolio must be listed on, or within one year of issue be listed on, a stock exchange or authorized marketplace or be regularly traded on some other regulated market which is open to the public and which is under the supervision of the supervisory authority of the country concerned.

A maximum of 5% of the equities portfolio may, however, be invested in equities or equity-related securities if these are intended to be listed on a stock exchange within 6 months.

### ***2.5 Derivative instruments***

Trading in derivative instruments may be used in situations where such instruments will help either to further rationalize and improve the efficiency of asset management or to provide protection against undesirable exposure to risk. Trading in option and forward contracts may only be undertaken if the contracts are subject to clearing by a clearing organization that is under the supervision of an authority or other competent body, or if agreements are entered into, on terms that are customary for the market, with authorized Swedish or foreign securities institutions that are subject to supervision.

### ***2.6 Foreign currencies***

Diversification of currency risks is to be taken into account in allocating investments among asset classes, regions and countries. Derivative contracts relating to foreign currencies may only be entered into if their purpose is to protect the fund's assets against exchange rate risks.

## **Mistra asset management**

### **'Mistra's approach to asset management seeks to serve as a model for efforts to secure sustainable development'**

- Mistra follows Kant's categorical imperative: 'Act only according to that maxim by which you can at the same time will that it should become a universal law'. This means that the management of Mistra's assets is to be guided by such principles that, the more widely applied they are, the greater will be the contribution to sustainable development.
- Mistra's assets are to be managed in such a way as to promote sustainable development.
- The management of Mistra's assets will promote sustainable development when investments are made in companies which (i) can be expected to provide high value growth and at the same time (ii) actively comply with international social conventions and (iii) consciously seek to work proactively with regard to global environmental issues such as climate, chemicals, and protection of particularly vulnerable ecosystems.
- Mistra will actively communicate the fact that the management of its assets is intended to promote sustainable development.

### **'Assets will be managed with the aim of being able to provide research funding of SEK 200 million per year (in real terms at 2003 prices) until 2020 at least.'**

- The balance between different classes of assets will be such that Mistra will have a reasonable chance of operating for one or a few years into the 2020s.
- The risk of not being able to continue to operate until 2020 will be assessed annually in accordance with established practice.
- Mistra's Board will consider on a regular basis whether that risk is acceptably small, or whether the principles governing asset management should be re-examined.

### **'Mistra will involve itself in national and international efforts to develop asset management approaches that promote sustainable development.'**

- Mistra will regularly commission evaluations of the quality of SRI services.
- Mistra will actively work with other institutional investors wishing to promote asset management in support of sustainable development.
- Mistra will invest in the Mistra research programme 'Sustainable Investment'.

### **'Mistra will pursue an approach to asset management based on active decision making.'**

- Mistra will participate in capital markets in an active and responsible manner. A market economy is dependent on market players making conscious and informed choices, just as a political democracy is dependent on active and aware citizens.

- The management of Mistra's assets must not be based solely on passive index management, as this would be contrary to Kant's categorical imperative: if all asset managers were to engage in index management, capital markets would cease to serve their function in a market economy.
- Mistra can therefore, as part of an active approach to asset management, also have a limited share of its capital managed on the basis of a sustainability index.

**'As an owner of capital, Mistra will be guided by a long-term view, relying increasingly on positive selection criteria with respect to environmental and ethical issues. The aim is that, by the end of 2007, the entire portfolio should be managed with an environmental and ethical profile.'**

- Sustainable development is dependent on a critical mass of market players taking a long-term view. Companies must be able to invest sufficient resources in technological and other development to solve the environmental problems of the present and the future. Institutional investors, such as pension funds, insurance and reinsurance companies and foundations, should act in ways that create conditions for long-term industrial activities. Short-term return requirements must not be allowed to stand in the way of long-term development.
- Mistra will therefore actively seek asset managers who consciously apply a long-term view. Such a view may, for example, involve integrating questions concerning business strategies, technological development and a proactive approach to international environmental conventions with shorter-term financial analyses.
- Mistra will also endeavour to play a part in developing methods for the evaluation of asset managers and management agreements which reflect long-term growth in value. Short-term benchmarking does not necessarily mirror long-term value growth.
- Mistra will play a part in formulating sustainability criteria for investments in fixed-income securities.
- Mistra will primarily employ positive selection criteria with respect to environmental and ethical issues.
- Negative ethical criteria – i.e. criteria for exclusion from a portfolio – will be based on the principle that companies should comply with international conventions such as ILO conventions and conventions on human rights, child labour, the environment etc. The criteria by which Mistra defines ethical activities will be based on what constitute accepted activities under Swedish law.
- Mistra's asset managers must also be able to work proactively as owners.

**'Investments will be transparent, to enable them to be monitored against the investment rules.'**

- Mistra will endeavour to make investments that are readily transparent with regard to both sustainable development and risk.
- Mistra will regularly monitor how investments in support of sustainable development are undertaken by managers, how they affect the portfolio and ultimately, if possible, what tangible results they produce.