

About two thirds of financial assets in the Swedish market are subject to some sort of ethical or sustainability criteria.¹ This puts Sweden as one of the most developed markets in terms of application of SRI criteria. However, in terms of sophistication of SRI practices, there is further development to be expected.

The Swedish SRI market is dominated by institutional assets with the retail segment making up a small part.

Historically, the state pension buffer funds, the AP funds, and notably the 7th AP fund, were leaders in developing and adopting norms-based screening. Norms-based screening has since become a common practice within institutional investing in Sweden. Savings within the municipal and local county sectors have also been early adopters of negative screening of controversial activities.

FIGURE 1



Source: Eurosif European SRI Survey, 2008

KEY FEATURES OF SRI

The Swedish SRI market is dominated by negative screening of controversial activities. These can include screens on the production and/or distribution of tobacco, weapons, and/or pornography. As for international norms, typically Global Compact is a requirement and is the most widely applied negative screen.

The total SRI market in Sweden amounts to €191 billion.² The majority, or roughly 65%, manages its capital internally within large institutional investors while 35% is managed by asset managers. Private investors in the SRI market represent 9%.

The use of external SRI consultants is high. For 86% of all

SRI capital, an external SRI analysis is used. For more than 57% of all assets, external SRI analysis is exclusively used, and for 29% of assets in conjunction with proprietary SRI analysis. A mere 13% of capital is managed solely with proprietary analysis.

Core SRI Market

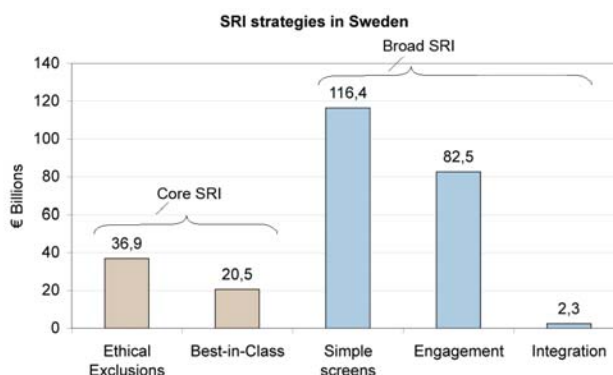
Sustainable investments with a Best-in-Class approach represent a 10% share of total SRI capital. Combinations of negative screens dominate the market, the most common being international norms, tobacco and weapons as shown in Figure 2.

Broad SRI Market

The Broad SRI market is dominated by simple screens, with international norms-based screening being the most prevalent. Engagement has grown considerably, especially with the creation of the joint AP-fund ethical council in 2007.

Integration of sustainability criteria in the financial investment process is considered an advanced concept in Sweden and is not widely practiced.

FIGURE 2



Source: Eurosif European SRI Survey, 2008

Note: total of individual strategies may be superior to total Broad SRI due to overlaps.

Who invests in SRI?

A recent study has found that roughly 2/3rds of all investments in Sweden are subject to sustainability criteria.³ The market is dominated by large institutional investors. However, application of sustainability criteria is also widespread among medium-sized organisations. Application within public sector related organisations is greatest, but is also relatively broad among private sector companies.

¹ Swesif SRI market study 2008.

² Most Nordic Asset Managers have a cross Nordic scope of their organisations. This is due to previous mergers and acquisitions among the Nordic banks and the fact that the individual Nordic markets are fairly small. As a result, and following Eurosif's national market definition, some very large Norwegian/Swedish Asset Manager are accounted for in the Swedish and not the Norwegian survey.

³ Swesif SRI market study 2008.

Products/Offering

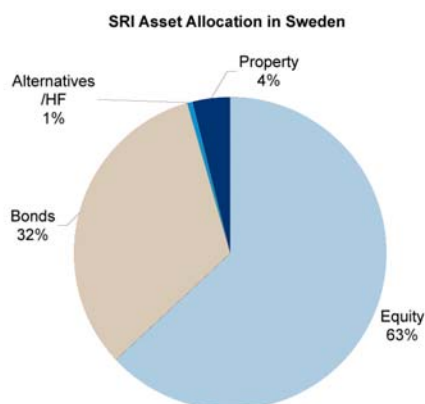
Equity funds and mandates account for the majority of Swedish SRI investments.

SRI asset management products are typically tailored to domestic demand and there is limited marketing of Swedish SRI asset management solutions outside of Sweden. Not included in the figures reported in this study are consultant services, where Swedish specialist SRI consultancies have tapped into international demand for such services to a much greater extent.

The bond market is largely domestic due to the domestic currency (Kronor), while equity investments have been diversified into foreign equities. Alternative investments are still small in relative numbers. However, there have been some interesting developments, notably with Swedish insurer Folksam launching a sustainable fund of hedge funds in a joint venture with Norwegian insurer Storebrand and Swiss asset manager Harcourt. Application of sustainability criteria to private equity and real estate investments is also frequently mentioned, although asset management products catering to this demand are scarce.

Theme funds have not taken off in Sweden. It represents less than 1% of SRI assets. However, there have been recent developments in this area with some of the AP-funds again taking the lead. Some of these large investors have announced specific searches for managers within "new energy" for instance.

FIGURE 3



Source: Eurosif European SRI Survey, 2008

MARKET EVOLUTION

There is considerable effort to include sustainability criteria in all types of alternative assets, such as private equity, real estate, forestry and infrastructure.

Engagement is a growing practice. It is widespread among large organisations, while there is considerable scope for development of collaborative engagement among smaller and mid-sized investors.

Of great importance to the future development of the market will be the findings of the committee appointed by the Swedish Parliament to evaluate the implementation of ethical and environmental criteria in the investment process at the Swedish state pension buffer funds, AP-Funds. The committee is due to report its findings in the second half of 2008.

MARKET PREDICTIONS

It is expected that we will see applications of SRI criteria in more asset classes, in particular, within alternative investments. Developments are already underway, as alternative investments are a growing allocation of Swedish institutional investors. We expect to see more SRI criteria being applied in real estate, hedge funds and private equity. Furthermore, there have been recent activities pointing to emerging market equities as an asset class where there is better scope for positive results from the inclusion of SRI criteria than in developed equity markets.

No study on the market would be complete without mentioning the two largest proponents of sustainable investing in Sweden. These are Mistra, a government sponsored environmental research foundation, and the central Swedish Church. These two organisations are actively showing the way to more advanced versions of SRI and are leaders among Swedish institutional SRI investors.