

GUNNELA HAHN, Church of Sweden

KEYNOTE ADDRESS MONDAY OCTOBER 30, 2017 09.15 to 10.45 session

Why faith organizations should invest sustainably

First of all, to answer that question leads me to discern what is unique with faith investors compared to others. What makes us different from most other investors?

- We acknowledge the spiritual dimension of life. And that Mother Earth provides us with all the beauty and richness we need, if we are wise enough to use her resources properly.
- We are values-driven and have a mission to make the world a better place, especially for the most vulnerable people. We care about people, planet and profits, not only profits. We feel responsible not only for our beneficiaries but for all generations today and tomorrow. And we want to make a difference.
- We are used to having a long-term perspective on things, not 3-12 months but perhaps a thousand years or even eternity. We use wisdom that goes back thousands of years, and see the intrinsic values in life that have no time limits.

So, these three things that differ us from main-stream investors; spirituality, a clear focus on values and a very long-term, holistic perspective – it also explains why sustainability investing and the Sustainable Development Goals in the Agenda 2030 are such a “perfect match” for us. They combine our mission to serve humanity with our role as investors. As faith investors, I think it’s fair to say that we want to see sustainable value creation in our asset management, values that last over time, that build resilience and meet the real needs of our societies. Our spiritual beliefs should be reflected in our investment beliefs!

I will talk a little bit around these three differentiators that give us faith investors a unique position in the financial market.

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Human dignity is a fundamental value in faiths. With the principle of human dignity guiding us, we are able to argue for various types of human rights. We have “negative” rights, such as freedom from forced labour and discrimination, and “positive” rights, such as freedom to health and education. Human dignity is also dependent on a physical well-being such as access to clean water, clean air, and to other ecosystem services that our planet provides us with for free, like pollination, fiber, fertile soils. Stress on natural resources and the environment is therefore a threat to human dignity. To work with our investments to mitigate that stress is therefore an important mission for any faith investor. Especially since environmental destruction, and other negative social effects from economic activity, to a great extent affect the most vulnerable groups in society. These are often the groups that the faiths care for in particular. The external costs from economic activity are not included today in the accountings of businesses, nor is it in the balance sheet of governments. According to the IMF, the societal costs from burning coal are as

high as 500 billion dollars, globally, every year. The IMF calls it subsidies to the fossil fuel companies. A major component of this amount is health costs due to air pollution, and costs related to flooding and droughts.

In a faith investor's view, I think we have the moral obligation to make sure we pay our bill of externalities and don't send it over to the next generation or to the already exposed groups that are so unfairly hurt. In financial terms, we are always looking for a risk-adjusted return. And in that risk concept, we should be stewards and integrate the long-term risks, like climate change, that get very tangible and threatening the longer we disregard them.

Any risks also come with opportunities. So, we have also the moral obligation to be stewards on the return side of the coin. That is, we must take on some risk to be able to get the return we need and want to make the world a better place. The Bible speaks (a bit brutally) on this in the parable of the three servants. The servant that digs down the silver coins he had been given in the ground, to be sure not to lose them, is punished, while the ones who are willing to take risk and invest the money, and therefore get good returns, are rewarded.

Faiths should engage in sustainable investing also by giving voice to future generations, to Nature and Mother Earth, and all living species that are threatened in this sixth mass extinction period that is going on right now. They don't have any political power, nor do they have financial muscles. What are the incentives for mainstream investment managers to represent these stakeholders? -Very limited, I would say.

The Paris Climate Agreement and the sustainability Agenda 2030 are two promising signs in these times of climate change and other challenges. The effects from climate change, such as water scarcity, flooding, soil erosion, fires, storms and so on, sometimes lead to or exacerbate other challenges like migration and political instability. It is all interlinked, just like we are all interlinked, and who knows that better than faiths? We are used to holistic thinking, seeing that the world is interdependent and that we are all connected.

Climate change is also existential, it threatens civilization as we know it, and that includes all spiritual or religious activity as well. People, and our communities, need not only political leadership but also spiritual leadership, that show us a possible future of prosperity and well-being, and that incur hope and action and collaboration. Actually, our communities expect leadership from us. This is another argument for why it is important for faiths to engage in sustainable investing; the moral dimension of environmental, social and economic sustainability. Who else could take that role better than us? **We have the moral obligation to build resilience in a world of growing challenges.**

I think we, as faith organizations, ought to be stronger and more visible in translating our spiritual leadership into the investment world. This why the *Guidelines* created by so many significant faith investment groups are so important. This is what we need to strengthen our reputation, and our credibility. While our values are expressed in our daily operations as faiths, this is seldom integrated in the asset management. It could even be contradictory, like helping a community recover from an armed conflict at one hand, and at the other hand investing in the companies that provided the weapons in the conflict.

We can make a huge difference just by asking the asset managers to report on how they work with sustainability, how they work on long-term value creation or the SDGs. They will need to come up with something worth reporting on. Even more powerful is, obviously, to ask them to develop sustainable investment products.

The investment gap is tremendous – trillions of dollars per year is needed to reach the SDGs. And as Paul Polman, the CEO of Unilever, put it at the UN conference on Agenda 2030 in New York in September: "The SDGs are enormous investment opportunities, the biggest in mankind".

And the Paris Agreement is very clear on the central role of Finance in the transition to a 2 degree world. The same goes with the SDGs. Asset owners, like us, are at the top of the value chain of the investment process. We decide where to put our money. We can tell our asset managers that we want to invest in the business opportunities arising from the SDGs or climate change. And that we don't want to invest in assets that are harmful to the SDGs. So, money talks. Money gives us a stronger voice. As faiths, we should raise our voices for all those that don't have one, as I said earlier, to future generations, endangered species and nature itself, and show leadership among investors to promote long-term value creation in the financial industry. This voice could be raised in many ways and with many different stakeholders such as legislators, companies we invest in, and industry groups.

So, when I look at the *Guidelines* you all have handed in ahead of this conference, I feel very hopeful that we are on a journey together as faith investors with the aim to have a positive impact on societies with our investments.

For the Church of Sweden, investing in sustainable value creation is so inherent with our values, our mission and daily operations. We base our work on the principle of human dignity and the idea of stewardship in managing our own silver coins. **And we just added a sentence on the SDGs in our financial policy, to make the linkage even stronger between our values and our investments, since we know that others look at our policy when making their own.**

When I joined the church nine years ago, they didn't know how to implement the policy so I was very welcome. The first thing I did was to look at our ten largest holdings. Several of them were actually oil giants or mining giants. Lots of human rights problems and climate change problems. This was in no way consistent with the rest of the work within the church. Nor was it aligned with our values. We were pushing politicians to put more ambitious emission reduction targets. And our arch bishop at that time had invited spiritual leaders from all around the globe to a climate summit ahead of the political one in Copenhagen in 2009. The aim was to send a message of hope. People without hope won't be strong enough to drive the necessary changes. Today, that message is as valid, if not even more imperative.

As a consequence, we divested from oil, coal and gas in 2008 and 2009, and we started to invest in climate solutions. Which was not that easy at that time. Today, we have about 10% of our portfolio dedicated to impact investing. About half of the MSCI World index – this big global index - is excluded for us due to our criteria on fossil fuels and weapons and tobacco and other controversial industries.

Ten years ago, there were few investment managers that were able to deliver interesting products and returns with those restrictions. So we started to work with one emerging star Generation Investment Management instead, headed by Al Gore

and David Blood who had just launched their first funds. They are now a major asset manager for us and give us the best returns year after year. They only invest in companies they believe meet the real needs of society and add to a sustainable development. **They look for quality in business and quality in management. What if all asset managers would think that way?! What if long-term value creation would be the guiding principle to all asset managers?**

It is really about common sense. **What you plant today, you will harvest tomorrow. If you would ask the man or woman in the street, or a farmer in India or Kenya, they would know. Even politicians know. -Ok, not all. It is just built into our economic, financial and political systems that short-term behaviour is so rewarding.** Just like Elliott talked about earlier about incentives. The faiths have a role here to play, a voice to raise, in order to remind us all of the vanity of this short-term game. **We must accept the fact that our lives are only one little (however important) piece of a very long chain of generations.**

Another very positive sign today, besides the Agenda 2030 and the Paris Agreement, is the work of the Financial Stability Board (FSB). On behalf of the G20, they have set up a task force that has developed a voluntary framework for companies to disclose the financial impact of climate-related risks and opportunities to their business.

This will lead to much better communication between companies and investors. **The framework was endorsed by over 100 companies with \$11 trillion of assets before the launch this summer. So it's become something very mainstream which is good. Mark Carney, who chairs the FSB, has been a key figure in this process.**

He is also the governor of Bank of England and spoke at the COP 21 in Paris during the climate negotiations leading to the climate agreement. He, who has the highest credibility in the financial community, has stated many times that the climate crisis is strongly linked to the short-termism in the financial system, (so it's becoming mainstream to talk about long term) which he calls "the tragedy of the horizon".

It is fantastic that he this man has pronounced this as the tragedy of the horizon. But it is not enough. What if the Pope, Brahmins, and other spiritual leaders would be more vocal on the urgent need to think and act for the long term also in their investments, in order to protect our living planet and to create lasting values for societies, bridging our short lives to the greater history?!

Looking back 100 years or even 500 years seems like a short time in the sense that we have plenty of knowledge from those times, not least from literature, music and art. Looking forward 100 or 500 years at least to me it feels difficult it feels almost impossible. But not for faiths! **Faiths are used to talking about timeless matters, where there is no beginning and no end, like compassion and forgiveness, where there is kindness and serenity.**

How can we incur hope to the younger generation today that there is a brighter future for centuries to come? Ban-Ki Moon, the former UN Secretary-General, gave the world a very clear and concise message in 2015 on two burning faith investor topics: he said **"We are the first generation that can end poverty and the last that can end climate change".**

And I wish I could tell my children in 13 years' time, in 2030: "It wasn't easy, but we did it! We ended poverty AND climate change, with good help from faith investors, bringing spirituality, dignity and a wise time perspective to the table."

Thank you for listening.

Gunnela Hahn, Church of Sweden

Gunnela Hahn has been Head of Responsible Investment at the Church of Sweden for nine years, where she has built up and developed the Responsible Investment structures and content. The climate divest-invest strategy of the overall portfolio, (which started in 2008) has lately met vast interest in the investment community in Sweden and internationally. She is also engaged in promoting long-term value creation in the financial industry and its role in the transition to a low carbon economy. Previously, she worked eight years as a senior Responsible Investment analyst at Folksam Insurance Group. She was one of the founders of Swesif, the Swedish Sustainable Investment Forum, served for many years on the board, and now chairs the election committee. She has also served on the board of Ekobanken. In the past, she worked as a sustainability consultant for private companies as well as various public institutions. For 10 years she served on the board of a major public health care provider. (Sweden)