



Swedish Committee for Afghanistan

# Investment Policy

---

Swedish Committee for Afghanistan

**Approved**

**Date:** 2014-03-21

**Valid until:** Until further notice



Swedish Committee for Afghanistan

## Investment Policy

### Swedish Committee for Afghanistan

## Content

1 Introduction and Background to the Investment Policy .....	3
1.1 Purpose of the investments and the policy .....	3
2 Policy documents influencing the policy .....	3
2.1 SCA's policy and Financial Regulations .....	3
2.2 The policy framework set by FRII .....	3
3 Targeted risks and return .....	4
3.1 General framework for the investments .....	4
3.2 Decision taken by SCA's board of directors with regards to the reserve fund .....	4
3.3 Risk and return objectives for the different types of funds .....	4
3.4 Acceptable asset classes .....	5
3.5 Liquidity funds .....	5
3.6 Intermediate funds .....	5
3.7 Reserve fund .....	5
4 Environmental, Social and Governance considerations of the policy .....	5
4.1 Fundamental values and principles .....	5
4.1.1 General ESG consideration .....	5
4.1.2 SCA's commitment to ESG .....	6
4.1.3 SCA's policy on ESG in investment manager selection, agreement and monitoring .....	6
4.2 SCA's policy on ESG in investments .....	6
4.3 Limitation of investments in controversial activities .....	6
5 Organisation of SCA's investment management and sharing of responsibilities .....	7
5.1 SCA's Board.....	7
5.2 .The role of the Secretary General .....	7
5.3 Organisation of the investment management .....	8

## 1 Introduction and Background to the Investment Policy

The Swedish Committee for Afghanistan, SCA, is a Swedish non-governmental organisation operating in Afghanistan. SCA has identified a need for the organisation to establish a reserve fund that will be used to provide a financial stability to the organisation's activities.

As part of its strategy aimed at developing such a reserve fund SCA will apply a more active management of its liquidity and medium to long term funds. This policy establishes the parameters within which the investments will be made.

## 2 Policy documents influencing the policy

### 2.1 SCA's policy and Financial Regulations

SCA's policy, dated December 1, 2012, establishes the core values of the organisation, which reflect on all aspects of SCA's operations. These are responsiveness, impartiality, equality, social justice and integrity.

Financially SCA should seek to remain independent from the influence of the funding organisations.

The focus of SCA's financial management is on financial sustainability and cost efficiency. SCA should minimise financial risk taking in order not to jeopardise the organisation's ability to meet its obligations. Direct investments of real estate unrelated to SCA's operations are not allowed.

As a value driven organisation SCA should use as much as possible of its funding for the purpose set out in the SCA policy. SCA's financial regulations establish the principles for consumption rate of funds received through fundraising (section 4.5). The establishment of a reserve fund is done in full coherence with these principles.

SCA's financial regulations state that the organisation needs to work with trustworthy, well-known actors in the financial market, not expose the portfolio to substantial risk and that all investments need to follow the ethical principles of SCA's policy.

### 2.2 The policy framework set by FRII

SCA is a member of the Swedish Fundraising Council (FRII), which provides guidelines on key aspects of the member organisations' operations and policies. In the context of these investment guidelines two policy guideline documents are of particular importance.

The Swedish Fundraising Council's guidelines on savings and reserve funds, issued in 2007, state that in order to provide a basis for the member organisations' ability to ascertain a financial stability to underpin its operations, the organisation should adopt a policy that sets out lower and upper limits to the its equity/reserve fund and how such a fund shall be built up in the case where the organisation's own funds are insufficient. In March 2014, SCA's Board took a strategic decision to strengthen and maintain its equity in line with these guidelines.

The Swedish Fundraising Council's guidelines on the establishment of investment policies in fundraising organisations, established in 2003 and last updated in March 2011, provide guidance for the various aspects of this policy including risk taking, ethical guidelines and the establishment of the responsibilities of the different levels of SCA's management.

## 3 Targeted risks and return

### 3.1 General framework for the investments

The policy documents guiding SCA's operations provide the following guidance with regard to the investment policy:

- SCA should minimise risk in order not to jeopardise its financial stability
- All investments will require adherence both to SCA's core values and to the general Environmental, Social and Governance (ESG) standards of the investment community
- SCA's Board is ultimately responsible for the establishment and upholding of this policy and ensures, through the Secretary General, that the organisation follows these in its investment management operations.

SCA's funds are earmarked for specific operations and programmed to be spent over different time lines. In order to actively manage these funds, in line with the policies, SCA has established separate guidelines for the different types of funds, reflecting the difference in need to keep these funds available for spending.

- **Liquidity requirement funds**, representing the funds to be used within the next 12 months
- **Intermediate funds**, representing funds from fundraising activities during an operational year. These are only programmed in the next budgeting cycle and will only be spent in the second year after raising.
- **Reserve fund**, representing part of the organisation's equity

### 3.2 Decision taken by SCA's board of directors with regards to the reserve fund

In March 2014, SCA's Board took a strategic decision to actively manage a limited investment portfolio as a core component towards the building of SCA's reserve fund/equity to a minimum level of SEK 65 million, after which the real value of the fund will be maintained. This should be achieved through:

- Investment of the available balance of SCA's reserve in low risk instruments;
- Targeting investments in bonds, money market funds or share portfolios with a low standard deviation;
- Use of the return on these investments to build SCA's reserve.

### 3.3 Risk and return objectives for the different types of funds

In order to achieve the objectives for the reserve fund, while minimising financial risk taking, SCA seeks the following target returns and risk limits for the various parts of its funds:

**Liquidity funds** will be kept in risk free accounts and instruments with reputable banks or institutions. The target return on these funds is 0.25 per cent per annum in real terms, with a risk as close to zero as possible.

**The intermediate funds** will also be kept at in essentially risk free accounts and asset classes. As the duration of these funds are slightly longer the target return is 1.0 per cent per annum in real terms.

Funds in the **reserve fund** will be managed in a more active manner in two separate phases:

- The aim of the first phase is to help build SCA's reserve fund to a level of 25%<sup>1</sup>. During this phase SCA seeks a return of 5.0 per cent per annum in real terms.

---

<sup>1</sup> 25% of the operational revenues.

- Once the target reserve fund has been achieved SCA seeks a lower return and risk level, in order to maintain the value of the fund. In this second phase the return target is set at 1.0 per cent per annum in real terms.

### **3.4 Acceptable asset classes**

In order to achieve the target risk and return for the various funds the following asset classes are acceptable for each of the funds.

### **3.5 Liquidity funds**

SCA's liquidity funds will be maintained in interest bearing bank accounts in one of the following banks – SEB, Svenska Handelsbanken, Swedbank, Nordea or Danske Bank – or short term money market instruments of a duration matching the budgeted liquidity requirements over the year of operation. If other asset classes than bank accounts are used, the risk of these should not be higher than that of bank accounts in the banks listed above, but are expected to provide a slightly higher return.

### **3.6 Intermediate funds**

Intermediate funds are only required 18-24 months after they have been raised. These can therefore be invested in money market instruments with a fixed duration of up to 18 months, bearing the same level of risk as bank accounts in the banks listed above, but are expected to provide a higher return.

### **3.7 Reserve fund**

SCA's Board has established that the following asset classes as acceptable for the build-up of the reserve fund:

- Liquid funds, bonds and money market instruments that are publicly listed in Sweden or the Nordic countries, including corporate bonds and money market instruments. For instruments in other currencies than SEK the currency risk needs to be hedged. The share of interest bearing instruments and liquid funds needs to be at least 60 per cent of the total value of the portfolio in the first phase and at least 80 per cent in the second phase.
- Shares, or portfolios of share, that are publicly listed in Sweden or the Nordic countries. This asset class cannot exceed 40 per cent of the total value of the portfolio in the first phase and 20 per cent in the second phase.

## **4 Environmental, Social and Governance considerations of the policy**

### **4.1 Fundamental values and principles**

SCA's core values are Responsiveness, Impartiality, Equality, Social Justice and Integrity. These are all integral both to SCA's operations and to this investment policy. SCA adheres to responsible environmental, social and governance (ESG) principles in its investments.

#### **4.1.1 General ESG consideration**

All assets included in SCA investment portfolio need to be issued and provided by institutions and companies that adhere to the ESG principles of the UN Global Compact.

### **4.1.2 SCA's commitment to ESG**

SCA's core values are Responsiveness, Impartiality, Equality, Social Justice and Integrity. These are all integral both to SCA's operations and to this investment policy. We will promote the UN Principles for Responsible Investment in our asset management processes.

### **4.1.3 SCA's policy on ESG in investment manager selection, agreement and monitoring**

If external portfolio management is appointed SCA will in the investment manager selection, contractual agreement and ongoing monitoring include environmental, social and governance (ESG) factors with the objective to set our expectations and understand how the managers themselves incorporate ESG factors into their investment selection and active ownership activities (voting and company dialogue).

## **4.2 SCA's policy on ESG in investments**

All assets included in SCA's investment portfolio are required to comply with local and international laws and legislation. In addition, all securities issued and provided by institutions and companies need to adhere to requirements of the following international declarations and guidelines linked to the environment, labour and human rights, business ethics and corporate governance:

- The Organisation for Economic Co-operation and Development's (OECD) principles of Corporate Governance
- OECD Guidelines for Multinational Enterprises
- UN Global Compact and its ten principles that cover areas of human rights, labour, environment and anti-corruption. These are derived from:
  - The Universal Declaration of Human Rights
  - The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
  - The Rio Declaration on Environment and Development
  - The United Nations Convention Against Corruption

## **4.3 Limitation of investments in controversial activities**

SCA's core values will not allow it to be associated with anything that contradicts its core principles of respect for human rights, equality and integrity. As a responsible investor SCA will therefore not knowingly invest in any company or entity whose core business activity involves the production and/or assembly, direct sale, distribution, and/or marketing of the following products and/or services:

- alcoholic beverages;
- cigarettes, cigars, chewing tobacco or smokeless tobacco;
- non-philanthropic gaming or lottery industries, including the ownership, operation or management of casinos, racetracks, off-track betting parlors and other gambling enterprises;
- pornography or other sexually offensive or harmful products, materials or services;
- antipersonnel weapons (land mines, assault-type automatic and semiautomatic weapons, firearms, etc.), armaments, ammunition or weapons delivery systems provided for commercial and private markets;
- privately operated correctional facilities, including jails, prisons, penitentiaries, detention centres, prison camps and transfer centres.

By "core business activity" SCA means one that accounts for 5% or more of a company's revenue derived from the objectionable products and/or services and where discontinuing the activity would

materially change the nature of the company's operations. An exception to the 5% threshold will apply to restaurants and other food retailers that sell or serve alcoholic beverages (alcoholic beverages is defined as products containing higher than 2.25 volume percent). For such businesses, a 25% revenue threshold will apply.

Companies supplying raw materials, packaging, supplies, and/or other components to ineligible companies will be assessed on a case-by-case basis. General retail establishments (other than restaurants and other food retailers) engaged in the sale of alcoholic beverages, tobacco products, pornography or sexually offensive or harmful materials, non-philanthropic lottery tickets or firearms will be assessed on a case-by-case basis.

In addition, SCA will not knowingly invest in any company whose identifiable ratio of nuclear weapons contract awards from any defence agency or department of any government to gross revenues is greater than or equal to 3%.

As a specific guidance to prohibited companies SCA uses the list on the following web-site: <http://www.kpa.se/om-kpa-pension/hallbarhet-och-etik/-vi-utesluter/uteslutna-bolag/>.

Companies not falling into any of the above categories may still be ineligible for investment due to reputation, public image, or a specific business practice determined to be a gross violation of SCA's principles.

## **5 Organisation of SCA's investment management and sharing of responsibilities**

### **5.1 SCA's Board**

The board of SCA has adopted this investment policy.

The board appoint the members of an investment committee, consisting of one board member and two staff from the finance department. Further it delegates the implementation of the policy to the investment committee and the role of continues supervision of its operations to the Secretary General.

The board will yearly evaluate the result and management of SCA's investments. The board will monitor management's adherence to the policy through annual reports covering total amounts invested, value at the time of reporting, realized returns to date, and issues requiring the Board's attention. As well when applicable, the investments committees yearly evaluation of external manager.

### **5.2 .The role of the Secretary General**

The Secretary General remains ultimately accountable to the board for the correct implementation of the policy. The progress of the portfolio will be monitored through quarterly reports from the financial management team, covering total amounts invested, value at the time of reporting, realized returns to date, and issues requiring the SG's attention.

In case SCA choses to use external investment management, SG approves the selected external investment manager on behalf of the board.

### **5.3 Organisation of the investment management**

The board appoints the investment committee which will be responsible for making the investments. The committee should report to SG quarterly and to the board yearly.

In case SCA chooses to use external investment management the external manager is obliged to adhere to this policy. SCA will demand that the manager has the requisite understanding of both general ESG principles and the specific requirements of the organisation. Reporting from external managers to SCA's investment committee should be done at least monthly. The SCA's investment committee shall continuously monitor the work of the external manager and will yearly evaluate the external management, both in regards of result and implementation of the policy in general, with a specific focus on the environmental, social and governance principles.

All investments made will have to fully adhere to the policy at the time of investment. If changes occur after an investment has been made, which leads to the asset being disqualified under this policy, SCA is committed to sell the asset within a period of not more than six months. This time period is set in order for the sale to be made with the lowest possible negative impact on SCA's investment portfolio return.