



THE FOUNDATION FOR STRATEGIC
ENVIRONMENTAL RESEARCH – MISTRA

ANNUAL FINANCIAL STATEMENTS 2018

SUPPORTING RESEARCH OF STRATEGIC IMPORTANCE FOR A
GOOD LIVING ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

The Foundation for Strategic Environmental Research
Corporate identity number 802017-9324
Financial year 2018

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This is Mistra

The Swedish Foundation for Strategic Environmental Research — Mistra — supports research of strategic importance for a good living environment and sustainable development. It seeks to promote the development of strong research environments of the highest international class and of importance for Sweden's future competitiveness. Opportunities to achieve industrial applications are to be pursued to the full.

- ▶ Mistra invests in interdisciplinary research of the highest quality which, with the involvement of end users, will contribute to the sustainable development of society.
- ▶ Research initiated by Mistra should, among other things, promote more efficient energy use and transport, non-toxic, resource-saving environmental life cycles, sustainable production and consumption, and wise management of land, water and the built environment.
- ▶ To ensure that the results benefit society, research — from the idea stage onwards — is developed on the basis of close collaboration between academia, the private sector, public agencies and non-governmental organisations.
- ▶ Mistra invests some SEK 200 million a year in research. It currently supports some 20 major interdisciplinary research programmes and centres, most of them extending over four to eight years.
- ▶ Mistra's capital is to be managed in a way that offers a model of how investments can promote progress towards long-term sustainability in society and the private sector.

The Board of the Foundation for Strategic Environmental Research (Mistra) hereby presents its annual financial statements for 1 January–31 December 2018, the 25th year of the Foundation's existence.

Management report

FIGURES IN BRACKETS ARE FOR 2017.

Achievement of objectives

The objectives of Mistra, as set out in Article 1 of its Statutes, are as follows:

The purpose of the Foundation, whose name shall be the Foundation for Strategic Environmental Research, is to fund research of strategic importance for a good living environment.

The Foundation shall promote the development of strong research environments of the highest international class with importance for Sweden's future competitiveness. The research shall be of importance for finding solutions to important environmental problems and for a sustainable development of society. Opportunities for achieving industrial applications shall be taken advantage of.

Board

During the financial year, the Board of Mistra comprised the following members:

*Johan Söderström, Chair
Kerstin Johannesson, Deputy Chair
Klas Eklund
Hans Folkesson
Sara Ilstedt
Ulf Landegren
Eva Samakovlis
Anne-Marie Tillman
Kyösti Tuutti
Margareta Törnqvist*

The Board held four meetings during the year.

Advancement of objectives

Mistra invests in research that has the potential to solve important environmental problems and strengthen Sweden's future competitiveness. Two to four new research programmes are usually announced each year. The goal is the same for all: they must be of the highest international scientific quality and environmentally strategic. The results must therefore be of practical use. To achieve this, research is con-

ducted in close dialogue with stakeholders concerned, from every sector of society.

Mistra's research initiatives

Mistra's investments in research can be divided into three categories: Mistra programmes, Mistra centres and other forms of support. From its inception to year-end 2018, the Foundation undertook to invest in a total of 60 (58) major research programmes and 3 (3) Mistra centres.

A Mistra programme normally runs for eight years, and the programme period is divided into two phases of four years each. During the final year of the first phase, a second phase of the programme may be applied for. The application and the results of the first phase are evaluated before the Mistra Board can reach a decision on funding for a further phase. The programmes, which are interdisciplinary, are run by consortia with one main applicant as the programme

THE MISTRA BOARD From left: Anne-Marie Tillman, Klas Eklund, Johan Söderström, Margareta Törnqvist, Eva Samakovlis, Hans Folkesson, Kyösti Tuutti, Sara Ilstedt, Kerstin Johannesson. Not pictured: Ulf Landegren.



Five-year summary (SEK million)	2018	2017	2016	2015	2014
New grants awarded during year	112	47	158	308	175
Research grants paid during year	216	211	172	147	154
Assets under management (market value), 31 December	2,974	3,105	3,098	2,867	3,026
Grants awarded but not yet paid, 31 December	431	537	733	752	592
Foundation's assets, 31 December	2,586	2,624	2,405	2,344	2,513

host. The host organisation appoints a programme board and a programme director in consultation with Mistra. Mistra follows the programmes from start to finish and supports their boards, to ensure that the programme goals are achieved and the results benefit users.

A Mistra centre is run by a host that, in consultation with Mistra, appoints a board and a director for the centre. Mistra funding for a centre may extend over a somewhat longer period than eight years, but is also divided into two phases, with an evaluation of phase one before funds are awarded for a second phase.

Among other initiatives, the *Mistra Fellows Programme* gives one PhD student or researcher involved in an existing Mistra programme the opportunity to spend time at a foreign think tank or international organisation, primarily in Europe or North America. In 2018, the programme was expanded to cover hosting of Mistra Fellows in Mistra's research programmes as well. Mistra's total funding for the programme is SEK 4 million a year, with a maximum grant of SEK 1m payable to each Fellow.

Programme events in 2018

In 2018, Mistra disbursed research funding of SEK 216 (211) million to about 20 programmes and centres. Between Mistra's starting date and

year-end 2018, SEK 4,333m has been disbursed.

Decisions were taken to allocate funding to two new programmes for the first four years. SEK 49m was allocated to *Mistra InfraMaint* (with RISE Research Institutes of Sweden as the programme host) and SEK 58m to *Mistra Digital Forest* (with the Swedish Forest Industries Federation as host).

Research in the *Stockholm Resilience Centre (SRC)*, *Mistra Arctic Sustainable Development*, *AquaAqri* and the *Mistra Council for Evidence-Based Environmental Management (Mistra EviEM)* was concluded during the year. Mistra EviEM has also issued its final report, and its financial status has been discontinued.

In addition, the *Mistra Refugee Programme*, which made possible grants for trainee positions for refugees with an academic background, was concluded at year-end 2018. The positions were linked to Mistra's research programmes, and SEK 3m was awarded altogether.

In 2018, two Mistra Fellows completed their stays abroad. One Mistra Fellow hosted is now associated with one of Mistra's research programmes.

During the year, Mistra's Board decided to announce three new programmes: *Sport*, *friluftsliv and the environment* (Mistra's funding will amount to SEK 56m), *Design for*

reduced exposure to hazardous substances (SEK 70m of funding from Mistra) and *Environmental Communication* (with SEK 54m of funding from Mistra). Calls for proposals for the latter two programmes opened in October 2018 and closed at the beginning of March 2019.

Asset management

Mistra's Statutes touch on management of the Foundation's assets:

- ▶ *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.*
- ▶ *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.*
- ▶ *The activities of the Foundation may eventually entail that the Foundation's endowment is used up.*

Committee for Asset Management

The Mistra Board appoints the members of a Committee for Asset Management, which is responsible for managing the Foundation's capital within the framework laid down by the Board. During the year, the Committee for

Composition of Mistra's overall portfolio (per cent)	31 Dec 2018	31 Dec 2017
Interest-bearing investments, including liquid assets	35.5	34.7
Swedish equities	10.6	10.3
Global equities	34.6	34.3
Other equities	4.4	5.3
Alternative investments	14.9	15.4
TOTAL	100	100

Asset Management comprised the following members:

EXTERNAL MEMBERS:

Märtha Josefsson (Chair)

John Howchin

Torbjörn Hammark

Maritha Lindberg

REPRESENTATIVE OF THE BOARD:

Klas Eklund

MISTRA'S EXECUTIVE DIRECTOR:

Åke Iverfeldt

Under the rules of procedure adopted by the Board, Mistra's Executive Director belongs to the Committee, which held five meetings in 2018.

Mistra's endowment

At the outset in 1994, Mistra's endowment amounted to SEK 2,500 million. By year-end 2018, its market value was SEK 2,974 (3,105) million. In all, research funding of SEK 4,333 (4,117) million, including SEK 216 (211) million during 2018, has been disbursed. The Board's remaining endowment at year-end 2018 amounted to SEK 2,586 (2,624) million.

Mistra's portfolio is divided among 18 fund mandates, entrusted to twelve external investment managers. The Committee for Asset Management is responsible for tactical asset allocation and selection of external managers. The Committee also makes proposals, for decision by the Board, concerning the strategic allocation of assets and choice of benchmark indices. Otherwise, Mistra has no in-house asset management.

Portfolio trend in 2018

In 2018, Mistra invested in three new funds, each with a new manager, and three funds or mandates were divested or discontinued. Investment in one existing mandate was also increased. With these changes, the proportion of green bonds in the fixed-income portfolio also rose.

The return on Mistra's assets was 2.7% for the whole portfolio, outperforming the weighted benchmark index by 3.1 percentage points. The return on the equity portfolio was 2.5%, 5.2 percentage points better than Mistra's benchmark index for shares. The fixed-income portfolio recorded a return of 0.0%, 0.5 percentage points below the benchmark

index. The return on total alternative investments was 10.0%, which also exceeded the benchmark index.

Sustainable asset management

Back in 2003, work to make Mistra's portfolio sustainable began. Since 2007, Mistra's whole portfolio has been managed according to sustainability criteria; and since 2008, Mistra has been a signatory to the United Nations Principles for Responsible Investment (UN PRI). Mistra's objective is to be an active asset owner and influence the industry to achieve a sustainable financial market in the long term. We do this through dialogue with our asset managers and by contributing, openly and transparently, to the spread of ideas.

Mistra also invests thematically in sustainable development through funds focused on green bonds, social impact, microfinance and cleantech.

Monitoring and dialogue

In 2018, Mistra's development of its process for monitoring and evaluating the portfolio continued. The process is based partly on data from external consultants and partly on dialogues with the asset managers, in the form of a written questionnaire that is followed up at a meeting. Mistra's toolbox includes a number of methods and we collect knowledge from various sources.

The asset managers and external consultants have different criteria for environment and sustainability, and their processes and conclusions vary. There are no rigid definitions of right or wrong, and no unequivocal answers can therefore be given. Internally, we analyse the varying information we receive and seek to understand its validity, based on the limitations of the selected criteria, in dialogue with our outside consultants and asset managers. The evidence provided by external consultants gives us knowledge that facilitates dialogue with our managers. The process creates good prospects for a continued trend of our asset management towards sustainability.

As in previous years, Mistra engaged the outside consultant ISS-Ethix to conduct an ethical and environmental review of the entire portfolio. This review, in three parts, sought to identify companies that (1)

do not respect international standards for environmental protection, human rights, labour law or anti-corruption measures; (2) are involved in controversial weapons; and (3) have a turnover proportion of 50% or more derived from fossil fuels. Only 0.37% of the portfolio fails to meet these demands imposed by Mistra's investment policy. This proportion includes three companies that, in terms of compliance with international standards, are questionable. Mistra has started a specific dialogue about these holdings with the managers in charge.

Using the external consultant Sustainability, Mistra also had an ESG analysis of the equity portfolio performed. This gives an indication of the companies' commitments in environmental management, social accountability and governance, according to set criteria. In 2019, Mistra will use the information as a basis for company-specific discussions with the managers responsible.

The portfolio's carbon footprint was measured by the investment research firm MSCI. The analysis includes data on the companies' direct emissions of greenhouse gases and energy purchased. Emissions from the rest of the value chain, the use of products and their waste management were not included, and the results should therefore be interpreted with caution.

Greenhouse-gas emissions are presented as carbon dioxide (CO₂) equivalents. Emissions of biogenic CO₂ are not included in the calculations. The carbon footprint of Mistra's equity portfolio at 30 September 2018 was 5,100 tonnes of carbon dioxide equivalents. In relation to the proportion of the companies' turnover to which Mistra's ownership share corresponds, this means a carbon intensity of 5.2 tonnes of CO₂ equivalent per SEK million of turnover. In relation to investment value, it represents 3 tonnes of CO₂ equivalents per SEK million invested. By comparison, it may be mentioned that the Fourth Swedish National Pension Fund's turnover-related carbon footprint for 2017 was 13.5 tonnes of CO₂ equivalents per SEK million of turnover. The year 2018 was the first in which MSCI had been engaged to measure the carbon footprint, and the difference in result

compared with 2017 shows that much depends on the supplier.

In 2017 Mistra started a discussion with its asset managers on the scope for controlling and following up the portfolio in terms of the global Sustainable Development Goals as well. An initial methodological approach was tried out in the annual dialogue meetings in 2018, and Mistra's ambition is to develop the method further over time in line with other, similar initiatives around the world.

Spreading knowledge and ideas

Mistra's ambition is to promote sustainable development of society by various means, including influence on long-term structures and skills environments. One example from 2018 is the Stockholm Resilience Centre (SRC), which is to become part of Stockholm University when Mistra's funding ends. Another is the Mistra Council for Evidence-Based Environmental Management (EviEM), which is becoming established as part of the Formas Research Council.

Mistra's Board has also approved an expansion of the Secretariat's staff, with a new position to compile results from Mistra-funded and other related research and to develop Mistra's role of mediating knowledge.

Organisation and staff

At year-end, Mistra had eight (nine) employees, of which one (one) works part-time.

To prepare background reports, assess proposals for research programmes, review existing programmes prior to continued funding, evaluate completed programmes with a view to learning from them, and conduct thematic reviews, Mistra engages the services of scientific experts, chiefly from outside Sweden. The Foundation also uses external experts to assess the relevance and utility of its research programmes.

Mistra makes use of consultants and external experts in specialised areas such as IT, law and securities administration.

Risks and risk management

The Foundation's asset management is subject to market risks associated with share prices, interest rates, credit and currency. The Board has adopted guidelines to ensure that the level of risk is compatible with the defined investment horizon. The Committee for Asset Management regularly reviews the risk level in the Foundation's investments and evaluates the framework laid down for them. The Board receives oral and written reports from the Committee at all Board meetings, and monitors risks and risk management.

The Foundation's activities also involve operational risks, that is, risks of losses as a result of inappropriate or failed processes, the human factor, defective systems or external events. Such risks are limited by systematic quality management.

Taxes

The Foundation has limited tax liability, since its purpose is to fund research. For tax exemption to apply, current case law prescribes that at least 80% of the return on Mistra's capital, excluding realised gains and losses, must be used for the purposes of the Foundation. For a foundation to qualify for limited tax liability under the Income Tax Act (Chapter 7, Section 3), it must meet three requirements: regarding its purpose, activities and use of income for public benefit. Since Mistra meets all three of these requirements, its investment income is not taxed.

Looking ahead

Under Mistra's current three-year operational strategy, the Foundation's intention is to disburse research grants amounting to SEK 600 million during the period 2017–19. At this rate of grant disbursement and assets of some SEK 3 billion, it is probable that Mistra's endowment will be spent in the long term.

Changes in equity	Foundation capital	Net surplus/deficit brought forward	Surplus for year	Total
Opening balance	2,500,000,000	-764,521,457	55,734,824	1,791,213,367
Change during year		55,734,824	-55,734,824	
New grants during year		-111,549,472		-111,549,472
Reversals during year		864,160		864,160
Surplus or deficit for year			99,017,837	99,017,837
Closing balance	2,500,000,000	-819,471,945	99,017,837	1,779,545,892

The Foundation's surplus or deficit for the year and overall financial position are set out in the income and expenditure account, balance sheet and supplementary disclosures below.

Income and expenditure account

SEK	Note	2018	2017
Foundation income			
Share dividends		6,013,349	7,071,367
Interest income, securities		9,366,382	16,872,769
Other interest income and similar items		244,871	86,672
Other income		1,247,827	1,708,602
TOTAL INCOME		16,872,429	25,739,410
Foundation expenditure			
Asset management costs		-7,465,914	-11,271,835
Other external costs	2	-11,408,914	-10,758,018
Staff costs	3	-13,605,821	-13,431,286
Depreciation and write-down of tangible and intangible non-current assets		-286,256	-151,287
TOTAL EXPENDITURE		-32,766,905	-35,612,426
INCOME/LOSS FROM ASSET MANAGEMENT		-15,894,476	-9,873,016
Net income/loss from financial items			
Net income/loss from securities and receivables constituting non-current assets	4	114,912,952	68,222,013
Interest expense and similar income/expenditure items		-639	-2,614,173
Surplus/deficit after financial items		99,017,837	55 734,824
SURPLUS/DEFICIT FOR YEAR		99,017,837	55,734,824

Balance sheet

SEK	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
<i>Tangible assets</i>			
Cost of improvements to leased property	5	–	–
Equipment	6	1,037,128	994,849
<i>Financial assets</i>			
Long-term security holdings	7	2,166,962,246	2,272,420,586
Other long-term receivables	8	2,558,349	1,819,176
Total financial assets		2,169,520,595	2,274,239,762
Total non-current assets		2,170,557,723	2,275,234,611
Current assets			
<i>Current receivables</i>			
Other receivables	9	122	49,609,155
Prepayments and accrued income		4,546,329	2,286,491
Total current receivables		4,546,451	51,895,646
<i>Cash at bank and in hand</i>		42,309,516	11,903,669
Total current assets		46,855,967	63,799,315
TOTAL ASSETS		2,217,413,690	2,339,033,926
EQUITY AND LIABILITIES			
Non-restricted equity			
Foundation capital		2,500,000,000	2,500,000,000
Net surplus/deficit brought forward		–819,471,945	–764,521,457
Surplus/deficit for year		99,017,837	55,734,824
TOTAL EQUITY		1,779,545,892	1,791,213,367
Current liabilities			
Accounts payable		1,129,102	2,015,343
Other liabilities		4,198,900	6,372,069
Grants awarded but not yet paid		431,128,821	536,739,964
Accrued expenses and deferred income		1,410,975	2,693,183
Total current liabilities		437,867,798	547,820,559
TOTAL EQUITY AND LIABILITIES		2,217,413,690	2,339,033,926

Supplementary disclosures

Note 1. Accounting and valuation principles

The annual report has been prepared in accordance with the Swedish Annual Accounts Act and BFNAR 2012:1, the Swedish Accounting Standards Board's standard, *Annual Report and Consolidated Financial Statements* (K3).

Valuation principles

Unless otherwise stated, assets and liabilities are valued at cost.

Valuation of securities takes place collectively. Where the fair value of securities is below cost, they are written down.

Receivables, liabilities and contingent liabilities in foreign currencies have been valued at the closing rate of exchange for each currency.

Depreciation principles for non-current assets

Depreciation according to plan is based on original cost and estimated useful economic life. In the event of a permanent decline in value, assets are written down. The depreciation periods applied are as follows:

Improvements to leased property	7 years
Computers	3 years
Other equipment	5 years

Receivables

Receivables are entered at the amount expected to be paid, based on an individual appraisal.

Grants

Grants awarded are charged directly against non-restricted equity (unappropriated funds). Grants are recorded as liabilities at the time they are awarded.

Recognition of income

For purchases and sales of securities, trade date accounting is applied.

Note 2. Other external costs

SEK

	2018	2017
Consultancy costs	5,460,803	5,805,556
Travel and accommodation	849,111	1,168,121
Membership fees and licence costs	775,036	917,970
Costs of premises	2,748,211	2,388,053
Other external costs	1,575,753	478,318
Total other external costs	11,408,914	10,758,018

Note 3. Staff and staff costs**SEK**

<i>Average number of staff</i>	2018	2017
Women	4	4
Men	4	4
Total	8	8

Staff costs

Salaries and other emoluments, Board members and Executive Director	2,235,702	2,245,848
Salaries and other remuneration, other staff and short-term employees	5,944,445	6,145,926
Pension costs	2,248,903	1,906,098
Other social security costs	2,958,304	2,785,690
Other staff costs	218,467	347,724
Total staff costs	13,605,821	13,431,286

Fees paid to members of the Board, comprising a fixed fee and a variable element payable on a per-meeting basis, totalled SEK 789,900 (852,300). Fees for external members of, and the Board's representative on, Mistra's Committee for Asset Management totalled SEK 347,900 (342,300).

During the year, remuneration to the Executive Director amounted to SEK 1,445,802 (1,393,548). In addition, pension costs for the Executive Director totalled SEK 508,522 (493,521).

The Executive Director's contract of employment may be terminated with six months' notice by either party. Following termination of his employment, the Executive Director is entitled to a further six months' salary if notice has been given by Mistra. Deductions from the monthly payments must be made corresponding to any monthly salary the Executive Director may receive from another employer. Mistra pays a monthly sum equivalent to 35 per cent of the Executive Director's agreed monthly salary towards his individual pension scheme.

Note 4. Net income/loss from securities and receivables constituting non-current assets**SEK**

	2018	2017
Exchange rate differences	12,279,613	7,183,725
Realised gains/losses on assets sold	91,015,201	50,561,588
Other financial income	11,618,138	10,476,700
Total net income/loss from securities and receivables constituting non-current assets	114,912,952	68,222,013

Note 5. Cost of improvements to leased property**SEK**

<i>Accumulated acquisition cost</i>	31 Dec 2018	31 Dec 2017
Opening acquisition cost	–	440,959
Disposals	–	–440,959
Closing accumulated acquisition cost	–	–
<i>Accumulated depreciation</i>		
Opening depreciation	–	–421,315
Depreciation for the year	–	–19,644
Disposals	–	440,959
Closing accumulated depreciation	–	–
Closing book value	–	–

Note 6. Equipment**SEK**

<i>Accumulated acquisition cost</i>	31 Dec 2018	31 Dec 2017
Opening acquisition cost	1,374,200	1,150,341
Purchases	328,535	958,967
Sales/disposals	–26,250	–735,108
Closing accumulated acquisition cost	1,676,485	1,374,200
<i>Accumulated depreciation</i>		
Opening depreciation	–379,351	–914,798
Depreciation for the year	–286,256	–131,643
Sales/disposals	26,250	667,090
Closing accumulated depreciation	–639,357	–379,351
Closing book value	1,037,128	994,849

Note 7. Long-term security holdings**SEK**

	Acquisition value	Market value	Book value
Mutual fund units, Swedish equities	300,865,315	321,746,998	300,865,315
Mutual fund units, foreign equities	517,394,605	1,242,391,193	517,394,605
Mutual fund units, bonds	952,392,216	976,162,500	952,392,216
Alternative investments	396,310,110	433,363,334	396,310,110
Total securities	2,166,962,246	2,973,664,025	2,166,962,246
	31 Dec 2018	31 Dec 2017	
Opening acquisition value	2,272,420,586	2,443,288,969	
Investments during year	882,965,350	601,814,469	
Sales during year	–988,423,690	–772,682,852	
Closing acquisition value	2,166,962,246	2,272,420,586	

Note 8. Other long-term receivables**SEK**

	31 Dec 2018	31 Dec 2017
Surplus reserve with Skandia ¹	1,958,349	1,219,176
Deposit relating to rental agreements	600,000	600,000
Total other long-term receivables	2,558,349	1,819,176

¹ The surplus reserve with Skandia has a limited right of use: under the provisions of the insurance terms and conditions, this reserve may be used only to pay premiums for new and existing insurance policies in a specified occupational pension agreement.

Note 9. Other receivables**SEK**

	31 Dec 2018	31 Dec 2017
Security deals not settled	–	49,596,375
Other receivables	122	12,780
Total receivables	122	49,609,155

Note 10. Assets pledged

	31 Dec 2018	31 Dec 2017
Assets pledged	None	None

Note 11. Contingent liabilities**SEK**

	31 Dec 2018	31 Dec 2017
Agreed alternative investments not yet placed	77,083,423	85,479,016
Total contingent liabilities	77,083,423	85,479,016

STOCKHOLM, 21 MARCH 2019

Johan Söderström, Chair
Klas Eklund
Sara Ilstedt
Eva Samakovlis
Kyösti Tuutti

Kerstin Johannesson, Deputy Chair
Hans Folkesson
Ulf Landegren
Anne-Marie Tillman
Margareta Törnqvist

OUR AUDIT REPORT WAS PRESENTED ON 1 APRIL 2019.

Jens Karlsson
 Authorised Public Accountant

Thomas Lönnström
 Authorised Public Accountant



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