



THE FOUNDATION FOR STRATEGIC
ENVIRONMENTAL RESEARCH - **MISTRA**

ANNUAL FINANCIAL STATEMENTS 2016

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

**The Foundation for Strategic Environmental Research – 802017-9324
Annual Financial Statements 2016**

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Design and production: AB Typoform

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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 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 the period 1 January–31 December 2016, the twenty-third year of the Foundation's existence.

Management report

FIGURES IN BRACKETS ARE FOR 2015

Achievement of objects

The objects 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

The term of office of members of the Board is three years, renewable for a further term. A new term of office began on 1 July 2016. During the finan-

cial year, the Board of Mistra comprised the following members:

1 JANUARY–30 JUNE 2016

Lena Treschow Torell, Chair
Bengt Söderström, Deputy Chair
Klas Eklund
Kerstin Johannesson
Elisabeth Salander Björklund
Mathilda Tham
Eva Samakovlis
Kyösti Tuutti
Margareta Törnqvist
Mathias Uhlén

1 JULY–31 DECEMBER 2016

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

The Board of Mistra held four (four) meetings and one telephone meeting during the year.

Research funding

Mistra's investments in research can be divided into three categories: Mistra programmes, Mistra centres, and other forms of support. From its inception to the end of 2016, the Foundation has awarded funding for a total of 57 (54) 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. An evaluation is made of the application and the results of the first phase before the Mistra Board reaches a decision on funding for a further phase. Programmes are interdisciplinary and are run by a consortium, with one main applicant as the programme host. The host organisation appoints a programme board and a programme director in consultation with Mistra. Mistra follows programmes from start

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)	2016	2015	2014	2013	2012
New grants awarded during year	158	308	175	161	128
Total research grants paid during year	172	147	154	177	169
Assets under management (market value)	3,098	3,106	3,108	2,863	2,746
Total grants awarded but not yet paid	739	759	594	573	613
Uncommitted funds	2,359	2,347	2,514	2,290	2,133

to finish and supports their boards, to ensure that programme goals are achieved and that the results are of benefit to end users.

A Mistra centre is run by a centre host, which appoints a centre board and a centre director in consultation with Mistra. 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.

During 2016, Mistra disbursed research funding of SEK 172 (147) million and awarded funding for three new programmes. Since Mistra was founded and up to the end of 2016, SEK 3,902 million has been disbursed.

In December 2016, the new programmes *Smart Materials for Sustainable Development* (programme host KTH Royal Institute of Technology), *Geopolitics and Sustainable Development* (programme host Stockholm Environment Institute), and *Transformative Changes in Society to Achieve Challenging Climate Goals* (programme host IVL Swedish Environmental Research Institute) were awarded a total of up to SEK 155 million (SEK 51 million, SEK 48 million and SEK 56 million, respectively), payable over four years. These programmes will begin in 2017.

During the year, *Mistra STEPS*, hosted by Lund University, and *Mistra SAMS*, with KTH Royal Institute of

Technology as programme host, got under way.

Research under the *Mistra Swecia* and *Mistra Indigo* programmes was concluded in 2016. The *Mistra Pharma*, *Mistra Swecia* and *Mistra Indigo* programmes submitted final reports and were wound up in financial terms during the year.

The *Mistra Fellows Programme* gives PhD students and other researchers involved in existing Mistra programmes the opportunity to spend a period of time at a foreign think tank or international organisation, primarily in Europe or North America. The total funding available is SEK 4 million per year, with a maximum grant of SEK 1 million payable to each individual PhD student or researcher. During 2016, one Mistra Fellow completed his stay at the European Plant Science Organisation (EPSO) in Brussels, and two Fellows began periods abroad, one with the German Marshall Fund of the United States (GMF) in Washington DC and the other at the Organisation for Economic Cooperation and Development (OECD) in Paris.

In December 2015, Mistra decided to establish a Mistra Refugee Programme. The decision made funding available during 2016 to enable refugees with an academic education, but not yet established on the Swedish employment market, to spend a limited period working or gaining work experience on one of Mistra's research

programmes. In 2016 a decision was taken to extend the period in which the funds available could be used until the end of 2017. Mistra's programme directors and programme hosts, who are responsible for any trainee placements offered, were informed of the possibility of obtaining funding at the beginning of 2016, and during the year SEK 1.3 million was awarded for three placements under the scheme.

Asset management

Mistra's Statutes contain a number of provisions relating to the 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

Breakdown of Mistra's overall portfolio	31 Dec 2016	31 Dec 2015
Fixed-income investments, including liquid assets	37.3%	43.8%
Swedish equities	10.1%	9.3%
Global equities	31.9%	28.8%
Other equities	4.4%	5.5%
Alternative investments	16.3%	12.6%
TOTAL	100.0%	100.0%

for managing the Foundation's capital within the framework laid down by the Board. During the year, the Committee for Asset Management comprised the following members:

EXTERNAL MEMBERS:

Märtha Josefsson (Chair)

John Howchin

Torbjörn Hammarmark

Maritha Lindberg

REPRESENTATIVE OF THE BOARD:

Klas Eklund

EXECUTIVE DIRECTOR:

Åke Iverfeldt

Mistra's Executive Director is a member of the Committee under the rules of procedure adopted by the Board.

At the outset, in 1994, Mistra had a capital of SEK 2,500 million. At the end of 2016, the market value of its assets was SEK 3,098 (3,106) million. In all, research funding of SEK 3,902 (3,730) million has been disbursed, SEK 172 (147) million of it in the past year. Uncommitted funds at the end of 2016 amounted to SEK 2,359 (2,347) million.

Mistra's assets are managed under nineteen mandates, entrusted to twelve external investment managers. The Committee for Asset Management is responsible for tactical asset allocation and the 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. Apart from this, Mistra has no in-house asset management.

The return on Mistra's capital, for the portfolio as a whole, was +8.3 per cent, outperforming the weighted benchmark index by 1.8 percentage points. The return on the equity portfolio was +15.3 per cent, 0.7 percentage points better than Mistra's benchmark for shares. The fixed-income portfolio recorded a return of 2.3 per

cent, 0.8 points above the benchmark. The return on total alternative investments during the year was 6.2 per cent, exceeding Mistra's benchmark index. Rates of return are calculated by measuring the change in the market value of each portfolio after management fees and transaction costs and adjusted for capital invested and withdrawn (i.e. time-weighted returns are used).

Since 1 April 2007, the whole of Mistra's portfolio has been managed on the basis of sustainability criteria, and since 2008 Mistra has been a signatory to the United Nations Principles for Responsible Investment (UN PRI).

To monitor management of the portfolio to ensure that it is in line with Mistra's investment policy, the Foundation engages the services of outside consultants. Once a year, it commissions an external consultant to conduct an ethical and environmental review of the entire portfolio, and this year's review showed that all holdings, with one exception, were once again in line with the Foundation's investment policy. A dialogue is taking place with the relevant manager concerning the holding in question.

The carbon footprint of a portfolio is one of several parameters that can be used to measure the sustainability of investments. Mistra has for a number of years quantified the carbon footprint of its equity fund portfolio, and did so again as per 30 September 2016. In 2015, the Foundation also signed the international Montréal Pledge, thereby undertaking to measure and publicly disclose its carbon footprint on an annual basis. At the same time, Mistra is well aware of the limitations of this metric, arising from uncertainties and incomplete reporting, gaps in coverage of the value chain, absence of a system perspective, and a failure to include

positive impacts and the future potential of operations in the transition to a climate economy. The results should therefore be interpreted with caution and the method of measurement developed further.

Mistra reports its carbon footprint in terms of carbon intensity, which relates the absolute footprint both to companies' turnover and to capital invested (see table below).

The equity portfolio analysed had a market value of SEK 1,309 (1,225) million, excluding liquid assets in the funds, which means that 42 (40) per cent of Mistra's overall investments at 30 September 2016 (30 September 2015) were analysed. Analyses are carried out for Mistra by the analysis firm Trucost.

During the year Mistra contracted another outside consultant to review all its equity funds from various sustainability angles, i.e. to conduct an ESG analysis. Mistra works actively with its external managers in order to exercise active ownership through them, and these ESG analyses, together with the carbon footprints of funds and the ethical and environmental review, form a basis for its ongoing dialogue with managers.

Organisation and staff

At the end of 2016, Mistra had a permanent staff of eight (eight), one (one) of whom was employed 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 outside experts to assess the relevance and utility of its research programmes.

Year	30 September 2016			30 September 2015		
	Mistra	Benchmark	Mistra compared with benchmark	Mistra	Benchmark	Mistra compared with benchmark
Carbon intensity						
tCO ₂ e/SEK m turnover	18.6	32.9	-43%	20.6	32.9	-37%
tCO ₂ e/SEK m investment	9.2	21.1	-56%	11.4	21.5	-47%

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

Risks and risk management

In the management of the Foundation's capital, market risks arise in the form of share price, interest rate, credit and currency risks. The Board has laid down guidelines to ensure that the level of risk is compatible with the defined investment horizon. The Committee for Asset Management regularly reviews the level of risk involved 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.

Operational risks also arise in the Foundation's activities, i.e. risks of losses attributable to 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 liability to taxation, since its purpose is to fund research. For tax exemption to apply, current case law provides that at least 80 per cent of the return on the Foundation's capital, excluding realised gains/losses, must be used for the purposes of the Foundation. To qualify for limited liability to taxation under the Income Tax Act (Chapter 7, Section 3), three requirements must be met: the purpose, activities and use of income

requirements. The Foundation meets all three of these requirements and is therefore not taxed on its investment income.

Looking ahead

Mistra's intention is to disburse research funding of up to SEK 600 million over the period 2017–19. With a capital of around SEK 3,200 million, it is likely that, in the long term, the Foundation's endowment will be exhausted.

The surplus/deficit for the year and overall financial position of the Foundation are set out in the income and expenditure account, balance sheet and supplementary disclosures that follow.

Income and expenditure account

Foundation income	Note	2016 (SEK)	2015 (SEK)
Dividends		3,000,000	–
Interest, securities		17,952,651	21,003,047
Interest, bank		58,466	181,037
Other income		2,229,393	711
TOTAL INCOME		23,240,510	21,184,795
Foundation expenditure			
Asset management costs		–466,948	–1,625,855
Other external costs	1,2	–8,819,599	–8,612,282
Staff costs	3	–12,228,619	–12,351,389
Depreciation of tangible and intangible non-current assets		–135,616	–122,509
TOTAL EXPENDITURE		–21,650,782	–22,712,035
Surplus/deficit before financial items		1,589,728	–1,527,240
Net income/loss from financial items			
Net income/loss from securities and receivables constituting non-current assets	4	118,208,746	159,797,182
Interest expense and similar income/expenditure items		–1,454	–813
Interest income		418,685	178,666
Surplus/deficit after financial items		120,215,705	158,447,795
Surplus/deficit for the year		120,215,705	158,447,795

Balance sheet

ASSETS	Note	31 Dec 2016 (SEK)	31 Dec 2015 (SEK)
Non-current assets			
<i>Intangible assets</i>			
Cost of improvements to leased property	5	19,644	39,287
<i>Tangible assets</i>			
Equipment	6	235,543	300,243
<i>Financial assets</i>			
Securities held as non-current assets	7	2,395,731,685	2,259,222,893
Total non-current assets		2,395,986,872	2,259,562,423
Current assets			
<i>Current receivables</i>			
Other receivables		629,643	437,027
Prepayments and accrued income		1,158,206	1,005,438
Other short-term investments	8	–	75,000,000
Total current receivables		1,787,849	76,442,465
<i>Cash at bank and in hand</i>		46,611,238	163,211,432
Total current assets		48,399,087	239,653,897
TOTAL ASSETS		2,444,385,959	2,499,216,320
LIABILITIES AND NET ASSETS			
Net assets	9		
Foundation capital		2,500,000,000	2,500,000,000
Net surplus/deficit brought forward		–917,584,802	–922,380,675
Surplus/deficit for the year		120,215,705	158,447,795
Total net assets		1,702,630,903	1,736,067,120
Current liabilities			
Accounts payable		1,344,996	1,483,515
Other liabilities		698,080	799,839
Grants awarded but not yet paid		738,719,769	759,012,040
Accrued expenses and deferred income		992,211	1,853,806
Total current liabilities		741,755,056	763,149,200
TOTAL LIABILITIES AND NET ASSETS		2,444,385,959	2,499,216,320

Supplementary disclosures

Accounting and valuation principles

The annual financial statements have been prepared in accordance with the Swedish Annual Accounts Act and the general recommendations of the Swedish Accounting Standards Board.

Where no general recommendation exists, or a deviation from such a recommendation has occurred, the accounting and valuation principles applied are as described below.

Valuation principles

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

Accrued interest on investments is recorded as accrued income on the balance sheet.

Holdings of securities are valued collectively at cost. Where the fair value of securities is below cost, they are written down. In the case of fixed-income securities, cost means amortised cost.

The value of receivables, liabilities and contingent liabilities in foreign currencies has been calculated using 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 recorded at the amount expected to be received, based on an individual appraisal.

Grants

Grants awarded are charged directly against unrestricted net assets (unappropriated funds). As from 2016, grants are recorded as liabilities at the time they are awarded. Previously, they were recorded as liabilities when a funding framework was adopted and the decision was taken to issue a call for proposals. Comparative year figures have not been adjusted.

Recognition of income

For purchases and sales of securities, trade date accounting is applied. Premiums and discounts on bonds in relation to their par values are accounted for according to the accruals concept over the remaining term.

Accrued interest on investments is recorded as accrued income on the balance sheet. Refunded asset management fees are recorded under 'Other income'.

1. Leasing agreements

Leasing expenses during the year totalled SEK 2 48,622 (SEK 232,888).

2. Other external costs

	2016	2015
Consultancy costs	5,203,359	3,758,286
Travel expenses and subsistence allowances	872,049	1,651,878
Membership fees/licence costs	765,604	728,296
Costs of premises	1,690,142	1,663,109
Other external costs	288,444	810,713
Total other external costs	8,819,598	8,612,282

3. Staff and staff costs

Average number of staff	2016	2015
Female	3	3
Male	4	4
Total	7	7

Staff costs

Salaries and other emoluments, Board members and Executive Director	2,131,984	2,079,081
Salaries and other emoluments, other staff and short-term employees	5,554,163	6,056,156
Pension costs	1,738,677	1,439,848
Other social security costs	2,554,811	2,540,105
Other staff costs	248,984	236,199
Total staff costs	12,228,619	12,351,389

Fees paid to members of the Board, which consist of a fixed fee and a variable element payable on a per-meeting basis, totalled SEK 777,250 (SEK 782,250). The external members of Mistra's Committee for Asset Management and the Board's representative on the Committee received remuneration totalling SEK 410,774 (SEK 396,725).

During the year, remuneration to the Executive Director amounted to SEK

1,354,734 (SEK 1,296,331). In addition, pension costs for the Executive Director came to SEK 479,120 (SEK 465,348).

The Executive Director's contract of employment may be terminated on 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. From these monthly

payments, deductions are to 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.

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

	2016	2015
Exchange rate differences	5,941,741	20,268,992
Realised gains/losses on assets sold	97,565,606	127,827,613
Other income	14,701,399	11,700,577
	118,208,746	159,797,182

5. Cost of improvements to leased property

<i>Accumulated cost</i>	31 Dec 2016	31 Dec 2015
Opening cost	440,959	440,959
New construction	–	–
Closing accumulated cost	440,959	440,959
<i>Accumulated depreciation</i>		
Opening depreciation	–401,672	–382,029
Depreciation for the year	–19,643	–19,643
Closing accumulated depreciation	–421,315	–401,672
CLOSING BOOK VALUE	19,644	39,287

6. Equipment

<i>Accumulated cost</i>	31 Dec 2016	31 Dec 2015
Opening cost	1,099,068	1,369,403
Acquisitions	51,273	242,446
Sales/retirements	–	–512,781
Closing accumulated cost	1,150,341	1,099,068
<i>Accumulated depreciation</i>		
Opening depreciation	–798,825	–1,208,740
Depreciation for the year	–115,973	–102,866
Retirements	–	512,781
Closing accumulated depreciation	–914,798	–798,825
CLOSING BOOK VALUE	235,543	300,243

7. Securities held as non-current assets

	Cost	Market value	Book value
Mutual fund units, Swedish	289,737,767	319,660,646	289,737,767
Mutual fund units, foreign	544,550,517	1,183,104,234	544,550,517
Bonds, Swedish	1,087,586,775	1,095,786,112	1,087,586,775
Alternative investments	473,856,626	499,648,138	473,856,626
Total securities	2,395,731,685	3,098,199,130	2,395,731,685
<i>Cost</i>			
	31 Dec 2016	31 Dec 2015	
Opening cost	2,259,222,893	2,365,762,480	
Investments during year	1,006,412,462	396,156,084	
Sales during year	–869,903,670	–533,886,120	
Adjustment of opening balance*	–	31,190,449	
Closing cost	2,395,731,685	2,259,222,893	

* Adjustment is to correct, as per 31 December 2015, for net income/loss from the disposal of an alternative investment that was recorded in the wrong period.

8. Other short-term investments

	31 Dec 2016	31 Dec 2015
Commercial papers	–	75,000,000
Total other short-term investments	–	75,000,000

9. Net assets

	31 Dec 2016	31 Dec 2015
Original capital of the Foundation	2,500,000,000	2,500,000,000
Change previous years	–763,932,880	–646,528,590
Adjustment of opening balance*	–	31,190,449
Grants awarded during year	–157,728,750	–308,177,000
Grants cancelled	4,076,828	1,134,466
Surplus/deficit for the year	120,215,705	158,447,795
Total net assets	1,702,630,903	1,736,067,120

* Adjustment is to correct, as per 31 December 2015, for net income/loss from the disposal of an alternative investment that was recorded in the wrong period.

10. Assets pledged

	31 Dec 2016	31 Dec 2015
Assets pledged	None	None

11. Contingent liabilities

	31 Dec 2016	31 Dec 2015
Research funding opportunities announced	45,000,000	–
Agreed alternative investments for which call-offs not yet placed	113,509,465	194,226,177
Total contingent liabilities	158,509,465	194,226,177

12. Material events after the end of the financial year

The landlord of the Foundation's offices has given notice to quit no later than 31 December 2017. A process is under way to find suitable alternative accommodation.

STOCKHOLM, 23 MARCH 2017

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 21 APRIL 2017

Jens Karlsson

Authorised Public Accountant

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Authorised Public Accountant



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