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Importance of CSR Efforts to Investors in the Nordic Countries in Investment Decision-Making Process

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Abstract

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This Bachelor's thesis investigates Nordic investors interests in corporate social responsibility issues when making investment decisions. The purpose of the thesis is to provide useful data about investors interest in sustainability issues in Nordic countries.

The research was made by interviewing investment professionals about how they see the rising concern on sustainability in their work. In second part a questionnaire was concluded for private investors to find out what is the interest of investors related to sustainability issues and how does this show in their investment decisions. Lastly the research looks into what kind of responsible investment options there are available for investors and how do they meet investors criteria. The last phase was done by analyzing the data that different banks and brokerages provide in their websites and in their sustainability strategies.

The findings of the research were that the interest in ESG issues is rising and there is quite good variety of different investment options available to meet the ESG criteria of private investors. The level of importance of the issues varies between different investors. For some investors, it is very important that ESG matters are covered in the investment target, while some do admit that they do not take these into consideration in their investment strategy.

The investors appreciated mostly the environmental issues, such as efficient waste handling and combating global warming, and social issues, such as exclusion of child labor. The issues related to governance were not found as important as social and environmental issues. Regarding on the different methods, the private investors are not all so commonly familiarized about the different methods available. Screening, especially negative screening is commonly used by the investors and some of the investors have clear exclusion criteria.

Overall, the research shows that especially the bigger banks have very wide data available for investors and for most investors there are investment options available that meet their criteria, however, it requires some time and efforts from the investor as well as trust to the data provided by the banks and brokerages. In conclusion, the information about the sustainability is available for consumers but having clearer standardization in the field could ease the effort needed from private investors.

Keywords
Responsible Investment, ESG factors, CSR, Active ownership, ESG Incorporation

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1 Introduction

The thesis is researching investors interests in corporate social responsibility issues when making investment decisions. The thesis consists of four chapters. The introduction chapter introduces the background of the study and research questions as well as demarcation of the topic and the key concepts of the issue. In the following chapter the theoretical framework is reviewed based on literature and previous research in sustainable investment. In the third chapter the investigative questions are investigated through empirical research where investment professionals were interviewed, and a questionnaire was sent to private investors. Lastly, in the empirical part, the findings were compared with the different investment options available. The last chapter, Discussion, looks into the results of the study and overviews the thesis process.

1.1 Background

Responsible investment options have gained interest in private investors and got lot of attention in media lately. The responsible investment has also gained a lot of interest in social media and Nordnet reported that in their investment Networking platform there are over 300-member discussion group of responsible investment options (Nordnet 2019).

While economy has globalized and companies have transformed their operations into developing countries, there has been rise of concern of companies social and environmental impact. Corporate activities have very powerful and controversial impact on modern societies and therefore there are two aspects for investors to be interested in the rising responsibility concerns: the factors can have on impact on investment returns in the form of taxation and legislation and investors can have moral responsibility for harmful activities of companies where their money is invested. It has also been suggested that one of the reasons behind company’s unethical behaviour is the pressure of investors to put short-term profits ahead of corporate responsibility. (Sullivan & Mackenzie 2017, 12-13.)

Emilia Korpela wrote in her article for Yle that especially women and young adults are interest in responsible investment but the delusion that investing in responsible investment options can decrease the investment returns slows the rise of popularity of responsible investment. Investment specialist however find that the responsible investment smart way to invest and decrease risks. (Korpela 2018.)

As the research is showing that responsible investment interests investors, in my thesis, I want to have deeper look, what are the aspects that interest people, how does it show in their investment decisions and why. The thesis can then work as a guide for investment companies when making decisions of the investment options available and other companies to understand what is needed to be considered as a sustainable company in the eyes of private investors.

1.2 Research Question

This thesis aims to research investors insights and decision making and investigate investors interests in corporate social responsibility issues when making investment decisions. The research can be used by companies who want to offer sustainable investment options for their customers. It can also be useful for banks and investment companies who offer investment services so they can see what customers value.

The research question RQ of the thesis is what CSR efforts interest investors in the Nordic countries when making investment decisions. The investigative questions are:
IQ 1. How the investment advisors see the rising concern on sustainability among investors in their work?
IQ 2. What is interest of investors related to sustainability issues? How does this show in their investment decisions?
IQ 3. What kind of responsible investment options there is available for investors?

Table 1 below presents the theoretical framework, research methods and results chapters for each investigative question.

Table 1. Overlay matrix

Investigative question	Theoretical Framework	Research Methods	Results (chapter)
IQ 1. How the investment professionals see the rising concern on sustainability among investors in their work?	Responsible investment motives, approaches and strategies Key concepts: Responsible investment, ESG incorporation, active ownership	Thematic semi-structured interview with investment professionals.	Investors Interests based on the Investment Professionals observations Answers to RQ.
IQ 2. What is interest of investors related to sustainability issues? How does this show in their investment decisions?	Responsible investment motives, approaches and strategies, CSR guidelines and motives Key concepts: Responsible investment, ESG incorporation, active ownership	Quantitative and qualitative analysis of a questionnaire to Nordic Investors	Investors interests based on the questionnaire Answers to the RQ

IQ 3. What kind of responsible investment options there is available for investors?	ESG factors, CSR guidelines	Desktop Study	Responsible investment options available

1.3 Demarcation

The demarcation of this research for the IQ2 is Nordic investors. The survey is not addressed to a specific age or gender group, but the answerers should already be somewhat active investors. The goal is to be able to compare the interest between different nations and age groups and therefore this is asked in the survey.

The interviewees for the IQ1 are investment advisors in Nordic banks and investment companies. The interviewees should be working in companies offering sustainable investment options and should have good knowledge on sustainable investments.

For the IQ3 I am looking for banks and brokerage companies who offer investment options for private investors. The companies can come from anywhere in Nordic countries. The third part is desktop study which is done by analysing companies' websites.

1.4 Key Concepts

The key concepts for the thesis are responsible investment, ethical investment, CSR, ESG -factors and impact investment.

Responsible Investment is defined by Mansley (2000, 3) as an investment where social, ethical, or environmental factors are taken into account in the selection, retention, and realization of investment.

Ethical Investment describes a set of different approaches combining ethical goals with conventional financial criteria. Ethical approach in investment is traditionally practiced as avoiding certain industries and products. (Molthan 2003, XV.)

ESG factors are environmental, social and governance issues (Hyrske, Lönnroth, Savilaakso & Sievänen 2017, 183).

CSR stands for corporate social responsibility and European Union defined it in their green paper published in 2001 as “The voluntary integration of companies' social and ecological concerns into their business activities and their relationships with their stakeholders. Being socially responsible means not only fully satisfying the applicable legal obligations but also going beyond and investing ‘more’ in human capital, the environment, and stakeholder relations.” (E-SCR 2019.)

Impact Investment is investing capital to an entity making good or providing a service that offers positive social impact while offering financial return for the investor. The form of investment can be i.e., investing money for shares of an equity or convertible debt structure. (Allman 2015, 3.)

Active ownership or stewardship is improving Investees’ ESG Performance. This approach can be divided into engagement and proxy voting. The investors can both engage into discussion with the companies to improve their handling of ESG issues and formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolution on specific ESG issues. (PRI 2019.)

ESG Incorporation is considering ESG issues when building a portfolio. The ESG incorporation can be divided into three approaches: integration, screening and thematic. The investors can include ESG issues in investment analysis and decision-making to better manage the risks and improve returns (integration), apply filters to list of potential investments to include or exclude certain practices based on investors values or ethics (screening) or seek to combine attractive risk-return profiles intending to contribute to a specific social or environmental outcome (thematic), such as impact investing. (PRI 2019.)

2 Corporate Social Responsibility and Sustainability in Investing

The following theoretical framework introduces the theory and research on corporate social responsibility and responsible investment. It introduces the key terms and definitions and the standardization on the field. The second subchapter covers the responsible investment, its motives, and approaches.

2.1 Corporate Social Responsibility

CSR stands for Corporate Social Responsibility. It is defined by European Union in their green paper published in 2001 as “The voluntary integration of companies’ social and ecological concerns into their business activities and their relationships with their stakeholders. Being socially responsible means not only fully satisfying the applicable legal obligations but also going beyond and investing ‘more’ in human capital, the environment, and stakeholder relations.” (E-SCR 2019.) Corporates have responsibility to its stakeholders meaning all individuals and group that they affect, such as customers, suppliers, employees, and shareholders or other financiers (Blowfield & Murray 2019, 7).

The seven core subjects of CSR defined in ISO 26000 are organizational governance, community involvement/development, labor practices, consumer issues, fair operating practices, human rights, and the environment (ISO b. 2010).

The common theory of corporate social responsibility is the Triple Bottom Line theory. Business leaders traditionally concern themselves with their bottom lines or the monetary profits. Triple Bottom Line theory expands the traditional accounting framework to include the social and environmental performance of the company. The three bottom lines; Monetary, social, and environmental, are often referred to as three P’s: people, planet, and profit. (University of Wisconsin 2020.)

People, in the Triple Bottom Line theory, considers employees and the wider community where the corporation operates. In wider perspective, it considers how the corporation is benefitting the society. Fair wages and humane working conditions are what a triple bottom line company would practice. The Planet considers the environmental issues the company takes into consideration. The planet indicates that the organization tries to reduce its ecological footprint as much as possible in efforts such as reducing waste, investing in renewable energy, managing natural resource more efficiently and improving logistics. (University of Wisconsin 2020.)

As every business pursues financial profitability, is seen also as one part of a business plan for triple bottom line organization. Sustainable organization understand that profit is not diametrically opposed to people of planet. Considering the environmental issues can increase the profitability and therefore be beneficial for the organization. The Swedish Furniture company IKEA reported sales of 37,6 billion dollars in 2016 and managed to turn profit by recycling waste into their products. IKEA is claimed to be on its way to “zero waste of landfill” worldwide and their head of sustainability for the UK, Joanna Yarrow stated: “We do not do this because we are tree huggers, we do this because it is very cost effective”. (University of Wisconsin 2020.)

2.2 Motives for Corporate Social Responsibility

Michael Blowfield and Alan Murray introduce in their book the model of motives for corporate social responsibility and their relations to the outcome. In their model they divide the motivation to values motivation and materiality motivation. Values motivation is defined as conscious desire to achieve and be accountable for societally beneficial outcomes by means of operating a profitable business. This means that companies have values that guide their operations and interactions with other society members which motivates them to act responsibly. Materiality motivation is the motive to act responsibility to become successful. Companies must manage their relations with wider society to succeed and therefore they can seek out and address societal challenges. Based on the model the outcome of the combination of both of is profitable enterprises that help to address and redress societal challenges. (Blowfield & Murray 2019, 13-17.)

The business case for CSR draws the argument that the market will economically and financially reward companies engaging CSR activities (Caroll & Shabana 2010, 101). There are vast amount of empirical research aiming to establish a positive connection between corporate social performance (CSP) and corporate financial performance (CFP). Margolis and Walsh discuss about 127 of different empirical research of the CSP-CFP relation and suggest that most of the research support the positive relation between CSP and CFP and there is very little evidence of negative association. (Margolis & Walsh 2003, 268-271.)

In addition to the economic motives, companies have legal obligation to act responsible regarding areas such as employment, environmental protection, corruption, human rights, and product safety that are regulated by local, national, and international law. However, the law itself never defines everything that society is expecting from corporations. The legal requirement varies from country to country and while the working hours regulatory and environmental legislation can be weaker in other country than in another, investing to those regions can raise a concern whether the management is acting responsibly. (Blowfield & Murray 2019, 19.)

Ethical responsibility refers to the responsibilities going beyond legal requirements, and which are not determined by the economic gains. Companies have values just like individuals and their values are guiding their operations. Blowfield & Murray introduce the case of Body Shop as a great example how a company can have a significant effect on responsibility matters. Body Shop gave significant boost in the 1980s to campaigners against animal testing and today campaign groups such as People for Ethical Treatment of Animals (PETA) are successful in getting large companies like McDonald's to improve animal welfare. (Blowfield & Murray 2019, 21.)

2.3 Published Guidelines of Responsibility and Sustainability

There are great variety of responsibility and sustainability standards. Since the thesis is about responsible investment in Nordic countries, this chapter is presenting the relevant responsibility standards in Nordic countries.

2.3.1 Global Reporting Initiative

GRI is an independent international organization placed in Amsterdam that has pioneered sustainability reporting since 1997. They have set a set of standards to help organizations and governments to understand and communicate their impact on sustainability issues, such as climate change, human rights, governance, and social wellbeing. The GRI Sustainability Reporting Standards are the first adopted global standards for sustainability reporting. 93% of the world's largest 250 corporations report on their sustainability performance according to the KPMG Survey of Corporate Responsibility Reporting 2017. (Global Reporting 2020.)

GRI has published the Sustainability Reporting Standards that has been developed over 20 years and are presenting the global best practice for reporting economic, environmental, and social issues. The GRI standards consist of three universal standards to be used by every organization that prepares sustainability report. In addition to these, the organization chooses from the topic-specific standard to report on its material topics – economic, environmental, or social. (Global Reporting 2020.)

List of the Standards can be found below:

Universal Standards

GRI 101: Foundation 2016

GRI 102: General Disclosures 2016

GRI 103: Management Approach

Economic Standards:

GRI 201: Economic Performance 2016

GRI 203: Indirect Economic Impacts 2016

GRI 204: Procurement Practices 2016

GRI 205: Anti-corruption 2016

GRI 206: Anti-competitive Behaviour

GRI 207: Tax 2019

Environmental Standards:

GRI 301: Materials 2016

GRI 302: Energy 2016

GRI 303: Water and Effluents 2018

GRI 304: Biodiversity

GRI 305: Emissions 2016

GRI 306: Effluents and Waste 2016

GRI 307: Environmental Compliance 2016

GRI 308: Supplier Environmental Assessment 2016

Social Standards:

GRI 401: Employment 2016

GRI 402: Labor/Management Relations 2016

GRI 403: Occupational Health and Safety 2018

GRI 404: Training and Education 2016

GRI 405: Diversity and Equal Opportunity 2016

GRI 406: Non-discrimination 2016

GRI 407: Freedom of Association and Collective Bargaining 2016

GRI 408: Child Labor 2016

GRI 409: Forced or Compulsory Labor 2016

GRI 410: Security Practices 2016

GRI 411: Rights of Indigenous Peoples 2016

GRI 412: Human Rights Assessment 2016

GRI 413: Local Communities 2016

GRI 414: Supplier Social Assessment 2016

GRI 415: Public Policy 2016

GRI 416: Customer Health and Safety 2016
GRI 417: Marketing and Labeling 2016
GRI 418: Customer Privacy 2016
GRI 419: Socioeconomic Compliance 2016 (Global Reporting Standards 2020.)

GRI has identifier four focus areas for the future:
1. Create standards and guidance to advance sustainable development
2. Harmonize the sustainability landscape
3. Lead efficient and effective sustainability reporting
4. Drive effective use of sustainability information to improve performance. (Global Reporting 2020.)

2.3.2 CERES Roadmap for Sustainability

The Coalition for Environmentally Responsible Economies (CERES) is a sustainability non-profit organization working with influential investors and companies. Ceres' mission is to transform the economy to build a sustainable people and the planet. Ceres' theory of change is to move investors, companies, and other capital market influencers to take action in four global sustainability challenges: climate change, water scarcity and pollution, inequitable workplaces, and outdated capital market system. Ceres believes that sustainability is the bottom line, and they say the understand that the most successful companies in the long term will be those that consider their impacts on the environment, employees, and communities. Ceres has created networks for investors and companies. Ceres has a strategic plan oriented around four global challenges: Climate change, water scarcity and pollution, inequitable workplaces, and outdated capital market systems. (CERES Strategic Plan 2019.)

Ceres has introduced the Ceres Roadmap for Sustainability to guide companies toward corporate sustainability leadership and support transition toward sustainable global economy. The Ceres Roadmap contains 20 specific expectations for corporate sustainability leadership divided into four areas: governance, stakeholder engagement, disclosure, and performance. The Governance expectations consist of board oversight, management accountability, executive and employment compensation, corporate policies and management system, and public policy expectations. The stakeholder engagement consists of expectations of materiality assessment process, substantive stakeholder dialogue, investor engagement, c-level engagement, and strategic collaboration. The governance expectations consist of standards (GRI), scope and content, vehicles, and verification & assurance disclosure expectations. The performance expectations cover operations, supply chain, transportation and logistics, products and services and employees' expectations. (Ceres Roadmap for Sustainability 2020.)

Ceres offers interactive research tools in their website. There are tools i.e., for searching Sustainability Disclosures, toolkits to evaluate and act on water risks and agricultural supply chain risks in investment portfolios and search tools for climate and Sustainability Shareholder Resolutions. (Ceres Resources 2020.)

2.3.3 Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises

OECD has collected recommendations for Multinational Enterprises addressed by governments. The OECD Guidelines provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. They are the only code of responsible conduct that governments have committed to promoting. The guidelines are expressing the shared values of governments of countries. They are promoting positive contributions by enterprises to economic, environmental, and social progress worldwide. The Guidelines are supported by implementation mechanism National Contact Points (NCPs) which are agencies that are established by adhering governments to promote and implement the guidelines.

The guidelines consist of ten different set of guidelines:
1. General policies
2. Disclosure of information on business activities
3. Human Rights
4. Employment and industrial relations
5. Environment
6. Combating Bribery, Bribe Solicitation and Extortion
7. Consumer Interest,
8. Science and Technology,
9. Competition
10. Taxation (OECD Publishing 2011.)

2.3.4 The United Nations Global Compact

The United Nation's Global Compact is a framework based on principles It is made for businesses and consists of principles in the areas of human rights, labor, the environment and anti-corruption. The United Nations Global Compact is a non-profit organization grounded on 26th of July 2000. United Nations Global Contact is driving change across all aspects of corporate sustainability. Over 9500 companies based in over 160 countries represent different sectors and sizes. (UN Global Conduct a 2020.)

The United Nations Global Conduct consists of ten principles and 17 Sustainable Development Goals (SDGs). The ten principles are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Right at Work, the Rio Declaration on Environment and Development and the United Nations Convention Against Corruption. The principles are divided into four categories: Human Rights, Labour, Environment and Anti-Corruption and goes as follows:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
Principle 2: Make sure that they are not complicit in human rights abuses

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
Principle 4: The elimination of all forms of forced and compulsory labour;
Principle 5: The effective abolition of child labour; and
Principle 6: The elimination of discrimination in respect of employment and occupation.

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: Undertake initiatives to promote greater environmental responsibility; and
Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. (UN Global Compact b. 2020.)

The Picture 1 below shows the 17 Sustainable Development Goals. The Goals are provided for all stakeholders to end extreme poverty, fight inequality and injustice, and protect the planet. The strategy of UN Global Conduct is to drive business awareness and action in support of achieving the Goals by 2030. The SDGs came in force on 1 January 2016 after adopted by world leaders in September 2015 at a UN Summit. (UN Global Compact 2020 c.)

Picture 1. UN Sustainable Development Goals (UN Global Compact 2020c)

2.3.5 ISO 26 000

The International Organization for Standardisation, ISO, has develop and published over 23 079 International Standards (ISO Standards Catalogue 2020). The ISO standard considering sustainability is the ISO 2600, social responsibility. The seven core subjects of CSR defined in ISO 26000 are organizational governance, community involvement/development, labor practices, consumer issues, fair operating practices, human rights, and the environment (ISO b. 2010). The ISO 26000 is for businesses and organizations committed to operating in socially responsible way. It provides guidance for respecting society and environment. (ISO a. 2020.)

ISO 26000:2010 provides guidance for organizations worldwide on topics such as concepts, terms and definitions, background trends and characteristics of social responsibility. It introduces the principles and practices of social responsibility and the core subjects of social responsibility. It gives guidance to integrate, implement and promote socially responsible behavior inside the company, identifying stakeholders and communications commitments, performance and other information related to social responsibility. (ISO b. 2010.)

2.3.6 United Nations Environment Programme Finance Initiative (UNEP FI)

The United Nations Environment Programme Finance Initiative, known as UNEP FI, is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI has over 300 members, consisting of banks, insurers, and investors and more than 100 supporting institutions. Their aim is to inspire, inform and enable financial institutions to improve the quality of life of people without compromising the future of upcoming generations. The UNEP FI has established or co-created Principles for Responsible Banking (PRB), Principles for Sustainable Insurance (PSI) and Principles for Responsible Investment (PRI). The frameworks are established for achieving the 2030 Agenda for Sustainable Development and Paris Agreement on Climate Change agreed in 2015. UNEP FI also support the Sustainable Stock Exchange Initiative (SSEI). (UNEP FI 2020.)

2.3.7 Principles for Responsible Investment

The Principles of Responsible Investment, “PRI, defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership” (UN PRI, 2020). PRI is world leading proponent of responsible investment working to understand the investment implications of ESG factors and support its network of investors to incorporate the factors into their investment decisions. The organization is an independent organization and has developed the six principles for responsible investment to develop more sustainable global financial system. The principles were established by UNEP FI and the UN Global Compact (UNEP FI 2020). The Principles were launched in April 2006 at the New York Stock Exchange (PRI 2019).

The six Principle are:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
Principle 6: We will each report on our activities and progress towards implementing the Principles. (PRI 2020.)

2.3.8 EU Sustainable Finance Disclosure

The European Union’s Sustainable Finance Disclosure referred as SFDR is European regulation to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants (Eurosif 2022). SFDR mainly applies to financial institution operating within the EU. Under the SFDR, financial market participants and financial advised are required to disclosure product information related to sustainability for both ESG-related products and non-ESG products. The regulation requires entities to classify the products or advice they offer into three following categories: mainstream products (Article

6), products promoting environmental or social characteristics (Article 8) or products with sustainable investment objectives (Article 9). (PwC 2022.)

An article 8 fund under SDFR is defined "a Fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices". The article 8 fund must adopt the mandatory principal adverse sustainability indicators ("PASIs") and the fund manager must integrate the sustainability risk indicators into their investment decision. (Deloitte a. 2021.)

An article 9 Fund under SFDR is defined as "a Fund that has sustainable investment as its objective or a reduction in carbon emissions as its objective." An article 9 fund will have to incorporate good governance into their investment management and assess the fund portfolio against the principle "do no significant harm" by considering the PASI's and incorporating considerations of the minimum social safeguards specified in the Taxonomy Regulation (Regulation (EU) 2020/852) on the establishment of a framework to facilitate sustainable investment. (Deloitte b. 2021.)

2.4 Responsible Investment

Responsible Investment is defined by Mansley (2000, 3) as an investment where social, ethical, or environmental factors, referred as ESG factors, are taken into account in the selection, retention, and realization of investment. The environmental issues include such things as climate change, resource depletion, waste, and pollution while the social issues consider human rights, modern slavery, child labor, working conditions and employee relations. The third aspect, Governance, considers i.e., bribery and corruption, executive pay, board diversity and structure, political lobbying and donations and tax strategy. (PRI 2019.)

The history of the evolution of responsible investment derives from 1971, when the Pax World Fund launched the first socially responsible investment fund in the US. Since then, the responsibly investment has widespread among the Globe. (PRI 2019.) Later, various of definitions and principles of responsibility and responsible investment has been published.

Sustainable investment covers the following activities and strategies:

1. Negative/exclusionary screening

2. Positive/best-in-class screening
3. Norms-based screening
4. ESG integration
5. Sustainability themed investing
6. Impact/community investing, and
7. Corporate engagement and shareholder action. (GSI 2018.)

The proportion of sustainable and responsible investment have risen and in Europe the responsible investment strategies have grew by 11 percent from 2016 to 2018 to reach 12,3 trillion euros. The overall market however, declined from 53% to 49% which may be result of stricter standards and definitions. (GSI 2018.)

2.4.1 Responsible Investment Motives

The three main motives for investing responsibly, introduced by PRI are materiality, client demand and regulation. The materiality is defined as the increasing recognition that ESG factors can affect risk and return, client demand as growing demand from beneficiaries and clients for greater transparency about how their money is invested and the regulation throws its roots from the regulatory considering ESG factors being part of an investor's fiduciary duty. (PRI 2019.)

There is a growing recognition in the financial industry and academia that ESG factors have effect on investors returns. PRI has analysed over 2000 academic studies and found an overwhelming share of positive results between ESG factors and financial performance. It is stated that ESG issues can create value for both investors and companies, by empowering better risk management and more sustainable business practices. The growing awareness that ESG factors influence company value, returns and reputation is increasing the focus on the environmental and social impacts of the companies they are invested in, and the clients are demanding greater transparency on how their money is invested. (PRI 2019.)

Hyrske, Lönnroth, Savilaakso and Sievänen raise in their book the importance of the values of the investor. The investor may have its own individual values and vision which may result in accepting even lower return. As an example, they mention ecclesiastical communities and their investments as pioneers of ethical investment. Institutions remove unethical or undesired companies from their portfolios, but the raising awareness of individual citizens has raised and result in boycott of companies whose actions are perceived unethical. (Hyrske, Lönnroth, Savilaakso & Sievänen 2017.)

2.4.2 Responsible Investment Approaches and Strategies

The traditional way of perceiving responsible investment is the term of ethical investment. Ethical Investment describes a set of different approaches combining ethical goals with conventional financial criteria. (Molthan 2003, XV.) Ethical investment can be eschewing certain stocks or industries (such as tobacco, gambling, alcohol, or pornography) or investing in positive activities, such as environmental technology or healthcare. As the industries perceived as positive investment options are a relatively small part of the total investment market and only relatively small portion of population feels strongly about the social and environmental issues to make a positive choice how their money is invested, there has occurred an alternative approach to addressing social, ethical and environmental issues in investment. The two major strategies introduced by Sullivan and Mackenzie are to analyze the company's responsibility efforts in investment decision making process and/or using formal rights and informal influence granted to them as shareholders to encourage companies to pay attention to the management of social ethical and environmental issues. (Sullivan & Mackenzie 2003, 14-15.) PRI, Principles for Responsible Investment defines these two approaches as ESG incorporation and active ownership or stewardship (PRI 2019).

ESG incorporation, as defined by PRI, means considering ESG issues when building a portfolio. The ESG incorporation can be divided into three approaches: integration, screening and thematic. The investors can include ESG issues in investment analysis and decision-making to better manage the risks and improve returns (integration), apply filters to list of potential investments to include or exclude certain practices based on investors values or ethics (screening), or seek to combine attractive risk-return profiles intending to contribute to a specific social or environmental outcome (thematic), such as impact investing. (PRI 2019.)

The screening can be divided in to positive/best-in-class screening and negative/exclusionary screening. Positive screening includes in the portfolio investment in sectors, companies or projects selected for positive ESG performance compared to industry peers. The negative or exclusionary screening excludes certain sectors or companies involved in activities seen as unacceptable or controversial. (US SIF 2020.) The screening can also be practiced as a norms-based screening when the screening is done based on international standards and norms or combination of norms covering ESG factors (Eurosif 2020).

Negative screening is a simple strategy but it fraught with practical challenges. Most of the screens focus on traditional “sin” industries, such as tobacco, gambling, alcohol, and pornography. The exclusions are generally specific to individual clients and their values and opinions can vary drastically in issues, such as Sharia-Law, nuclear power, and animal testing. (Sherwood & Pollard, 2019.) The negative screening remains popular, and it was the largest sustainable investment strategy (19,8 trillion USD), followed by ESG integration. (17,5 trillion USD) and corporate engagement (9,8 trillion USD) (GSI 2018).

Sustainability-themed Investment is investment in themes or assets linked to the development of sustainability and thematic funds focus on specific or multiple ESG related issues, such as climate change, health, or eco-efficiency (Eurosif 2020). Impact investment is a method of thematic investment approach. Impact Investment is investing capital to an entity making good or providing a service that offers positive social impact while offering financial return for the investor. The form of investment can be i.e., investing money for shares of an equity or convertible debt structure. (Allman 2015, 3.) Impact investing is a small but vibrant segment and Global Sustainable Investment Alliance, GSIA, defines it as investing as targeted investment aimed at solving social or environmental problems (GSIA 2018).

Active ownership or stewardship is improving Investees’ ESG Performance. Its origins from the idea of that rather than excluding certain industries or companies, the investors can encourage companies to improve their ESG risk management or develop more sustainable business practices. This approach can be divided into engagement and proxy voting. The investors can both, engage into discussion with the companies to improve their handling of ESG issues, and formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolution on specific ESG issues. (PRI 2019.) The aim of active ownership is for shareholders to use their power to influence corporate behaviors. It can be practiced by communicating with senior management and/or boards of companies, or filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines. Corporate engagement has increased its share in the responsible investment sector, and it is currently the third most popular way of responsible investment with 9,8 trillion US dollars. In Japan corporate engagement and shareholder action is the dominant strategy of responsible investment. (GSIA 2018.)

Elroy Dimson, Oguzhan Karakaş and Xi Li analyzed in their research, Active Ownership (2015), U.S. public companies from 1999-2009 and their engagement in environmental, social and governance concerns. Active engagement on ESG issues is described in the paper as an ESG activism which focuses on issues related to the interest of a broader range of stakeholders than in comparison to a traditional shareholder activism that focus on issues related to the interest of shareholders only. In the 21st century, the number of shareholder proposals have risen, and the resource concluded that after successful engagement on social and environmental issues, companies improved their governance and accounting performance, and increased institutional ownership. The research showed a positive size-adjusted abnormal return of +2,3% over the year after initial engagement and the average one-year size-adjusted abnormal return after initial engagement was +7,1% for successful engagements. The positive abnormal returns were most pronounced for engagement on themes of corporate governance and climate change. (Dimson, Karakas & Li, 2012.)

Christian Gollier and Sébastien Pouget introduced an investment strategy, referred as “The Washing Machine”, in their paper for Toulouse School of Economics (2014). They contributed that a large activist investor is able to generate positive abnormal returns by investing in non-responsible companies and turning them into responsible and selling them back to the market. Gollier and Pouget identified three conditions for the “Washing Machine” strategy to be successful; The investors must be able to acquire a significant influence on target companies; the investors must have long-term outlook and the funds must be able to provide guarantees of credibility with regard to CSR. (Gollier & Pouget, 2014.)

KPMG International, CREATE-Research, AIMA and CAIA Association, examined 135 institutional investors, hedge fund managers and pension consultant in 13 countries. They asked, which are the strategies best describing the organization’s ESG strategies and found out that 52% of the organizations includes on sustainability integration, 50% negative screening, 31% shareholder engagement, 19% impact investing, 12% positive screening and 5% of them included thematic investing it their strategy. (KPMG 2020.)

2.4.3 Responsible Investment in Different Assets

As described in the previous chapter, there are many different approaches and strategies for responsible investment. Earlier responsible investments have mainly considered direct shares and equity funds. Today, however, there is possibility to take into consideration ESG issues when investing in different assets, such as property, private equity, and fixed income investments. The investor can act responsible even when there are no responsible investment funds available when following PRI guidelines in investment decision making process. (Hyrske, Lönnroth Savilaakso, Sievänen, 2017.) All the investments options available can be evaluated by using the desired method or strategy based on ESG criteria. For a private small investor, the investment markets offer wide range of different investment options and only some of them are introduced in this subchapter.

The investor, who wishes to invest in listed equity can choose to invest in companies that follow sustainable investment guidelines by buying their stocks or choose investment funds that implement sustainable investment strategies. The market offers different options for responsible investor, such as equity funds. The funds can use different methods and strategies for responsible investment. The market offers also thematic sustainable investment funds, that invest in certain industry or motif. The thematic funds are often very volatile and are therefore suitable for very diversified investment portfolio. (Hyrske, Lönnroth Savilaakso, Sievänen, 2017.)

If the investor is making investment decisions individually, own investment analysis may be applied based on the investor's own responsibility criteria. When the investor holds stocks for a company, he may also engage in the decision-making by proxy voting. However, the ownership in publicly listed companies is so widely spread that the institutional investors have the major influence. The largest investors have regular discussion with the managers of the companies, but anyone owning even a small proportion of company shares has the right to raise a concern in general meeting. (Hyrske, Lönnroth Savilaakso, Sievänen, 2017.)

The markets offer also responsible fixed income investments. The fixed income investment pay interest for investors until its maturity date. The most common type of fixed-income products are government and corporate bonds. (Chen 2020.) When investing in in fixed income investment, the investor can use either integration by adding ESG factors to financial analysis, screening by filtering the desired or undesired preferences, or thematic investment strategy by investing in green bonds. The green bonds are category of fixed income securities that finance environmental projects. They are rapidly growing and in 2018, global green bond issuance totalled over 167,6 billion US dollars. (PRI b. 2020) A responsible fixed income investor, may assess the bank's responsibility and favour responsible bond funds or favour or avoid certain government or sovereign bonds. (Hyrske, Lönnroth Savilaakso, Sievänen, 2017.) The investor may also engage individually or in collaboration with other investors by having meeting or letters with the issuers. (PRI b. 2020).

3 Importance of ESG Efforts for Investors and the Investment Targets Available

This section investigates the investor interest in environmental, social and governance issues in their investment decision-making process, and how well the investment targets available meet with the expectations of the investors. The research was concluded by interviewing investment professionals, having questionnaire for private investors, and by analyzing the data different banks and brokerages provided in their websites and their sustainability strategies.

3.1 Research Methods

The research question is looking into individual people's perspective and opinions, and the issue is approached with mixture of qualitative and quantitative research methods in addition to desktop study.

The first investigative question is "How the investment advisors see the rising concern on sustainability among investors in their work?". To look for the answer a qualitative thematic interview was concluded. The interview was semi-structured in-depth interview. Semi-structured in-depth interview is good for a research that has an explanatory element (Cooper and Schindler 2008). Therefore, it is a great tool for the research because the research aimed to explain the investors perspectives and their investment behavior more deeply. Semi-structured interviews can also lead the discussion into areas that would not have been considered otherwise (Saunders, Lewitt, Thornhill 2012, 378).

For the second investigative question "What is interest of investors related to sustainability issues and how does this show in their investment decisions?" a questionnaire was used as a research method. Questionnaires are good for descriptive and explanatory research and can identify and describe the variability in a phenomenon (Saunders, Lewitt, Thornhill 2012, 419) and are therefore good research methods for the thesis; The goal was to find out what investors are interested in, why and is there differences between different geographical or demographical groups. It also gave access to greater data than just completing interviews.

The questionnaire was self-completed questionnaire and with some open questions, rating questions and category questions. For the open questions qualitative analysis was concluded while for the rating questions a quantitative analysis method were used as the information was in numerical form.

The third investigative question is “What kind of responsible investment options there is available for investors?”. To start researching this I researched secondary data of the topic by looking into investment service providers’ sustainability reporting regarding on the investment targets they offer. Secondary data is time efficient way to access information and can give comparative and contextual data (Saunders, Lewitt, Thornhill 2012, 317-318). It is a good tool to compare companies’ sustainability efforts and analyze their communication on sustainability related issues. In addition to this, the data from the interviews with the investment professionals was be applied.

Three interviews were concluded to research on the investment professionals’ observation on what are the investors interests on sustainability issues when making investment decisions. The first interview was concluded with two interviewees from Danske Bank, Chief ESG Specialist Peter Lindström and Senior Personal Banker Sanna Larjovaara. Danske Bank is a Nordic bank that has been operating more that 145 years. Danske Bank operates in 12 countries with key markets in the Nordic countries with 200 branches. (Danske Bank 2020). At the time of interview, Peter Lindström had quite recently started working for Danske Bank. The responsibility investment team has 20 people, but Lindström is the first one to work full-time in the team in Finland. Lindström has 6-year experience in the field has been working for Sustainalytics and for impact investment company and has therefore long history of handling ESG issues. Lindström was long time away from Finland to work in these matters but returned couple years ago. In October 2019 Lindström started to work in the sustainability and impact investment team, which currently has two working in Finland. Sanna Larjovaara works in Investment Advisory Center as a Senior Personal Banker where she started five years ago. Before this Larjovaara has worked in other banks with investments and has concluded APV degrees which also covered ESG issues.

The second interview was with the Asset Manager Sakari Jääskeläinen from Seligson & Co Fund Management Company Plc. Seligson & Co Fund Management Company is a small company that was founded in 1997 and it is now fully owned by LähiTapiola. Seligson & Co offers transparent and cost-efficient asset management services for long-term investors. Seligson’s assets under management total approximately 7.3 billion euros and the company has 30 employees. Customers consist of institutional customers, such as pension funds, foundations and companies, retail customers and direct fund investors consisting of retail as well as institutional customers. The interviewee Sakari Jääskeläinen started working as Asset Manager for Seligson & Co in summer 2019 and his area of responsibility was asset management clients, primarily institutional clients. Prior to Seligson & Co, he worked in London managing the European sales operations of a global fund management company.

The third interviewee was Portfolio Manager Topias Kukkasniemi from Mandatum Life. Mandatum Life is financial service provider in Finland and offers unit-linked insurances, wealth building services, savings and investing services, personal insurances, pension and reward solutions and consultation services for private, corporate, and institutional customers. Kukkasniemi has worked for Mandatum Life since 2011 and with responsible investment since 2014/2015 with the area of responsibility of allocation product management, type of asset allocation and development work and practical implementation of responsible investment. His team's responsibility is developing the tools for the analysis and to monitor the change of legislation and other information related to the topic for the portfolio managers.

3.2 Investors Interest based on the Investment Professionals Observations

Based on the interviews customers are raising interest in ESG issues when making investment decisions. With the retail investors the scale seems to be wide and there is wide variety between the level of interest to the topic. While some customers are very interested in the topic due to their personal values, some are not interest in the issue at all. The third segment that came up in the interviews were the customers that are interested in the issue because they are expecting better growth potential for the companies that are taking into consideration the sustainability issues. The level of interest has also changed as time has passed and the attention on responsible investment has risen and based on the interviews the situation was very different even only five years ago.

The investors seem to be mainly interested in the environmental issues and the interest into this topic has risen along with the discussion of global warming. The questions are often related to environmental themes such as carbon dioxide neutrality and global warming. The second most interesting issue for clients has been the social issues, especially child labor and employee rights. Governance is something that all the interviewees mentioned to be very rarely asked and some said that it can be hard to process by retail customers. The only governance responsibility issue mentioned was executive pay and even that was mainly raised by institutional investors.

When discussed about the ESG strategies there is some variety between different investors, however exclusion is the most used and easiest to processed by the customers. Thematic investment options considering i.e., renewable energy is also something that is asked and often because of investors personal values or because it is expected to have high growth potential. Active ownership was not very much considered proactively by customers, but three of the four interviewees mentioned that they bring them to the discussion, and it is understood then by most. What seemed to be quite common was that the customers are not too aware of the different approaches and strategies, but the investment appointments and open discussions are good opportunity for the companies to bring out different approaches rather than the excluding which seemed to be easiest to digest for most.

There also seems to be variety in when discussed how specified requests the clients have. While some seem to be very clear what they expect from the companies they are willing to invest in some only wish that the responsibility issues are considered but do not have specified criteria what they wish to be followed. For some, investing into something that they found controversial was a threshold question when making the investment decisions, while other interviewees mentioned that it was very uncommon for the customers to have clear idea what they found to be accepted to their investment portfolio. All the interviewees raised the problem that there is no clear widely accepted sustainable investment standards at the time of the interview and the topic being subjective it sometimes brings challenges to the conversations. The impact investment in venture capital was something that has also raised some interest by customers however it is often not easily accessed by retail investors as it necessitates higher invested capital.

The whys and reasons to invest responsible was often observed to be the investors personal values and interest in responsibility on other areas of lives too. The research on the return and risk of responsible investment has also risen the interest in it. Earlier the customers might be afraid that they must risk the returns when considered responsibility in their investment strategy but now it seems to be more widely understood that the responsible investment options may bear lower risk and have neutral or even higher return expectations due to the rising legislation of sustainability in the future. There is still however relies the question on what the responsibility analysis costs for the customers. Interesting issue discussed with two of the companies was the index funds and exchange traded funds that are often more affordable investment options and their ability to evaluate index funds' responsibility as they do not have often active portfolio management.

3.3 Investors Interests based on the questionnaire

The online survey was conducted by sharing the questionnaire in various Facebook investor groups for different Nordic nationalities. The groups were targeted for private investors with different backgrounds and interest. For the survey especially Finnish respondents were very active but reaching other Nordic nationalities was challenging. The survey was concluded in the Fall 2020 and 227 responses was received overall of which 57% were from Finnish Investors as Figure 1 illustrates below. The Icelandic investor groups could not be found and therefore Icelanders are not covered in this research.

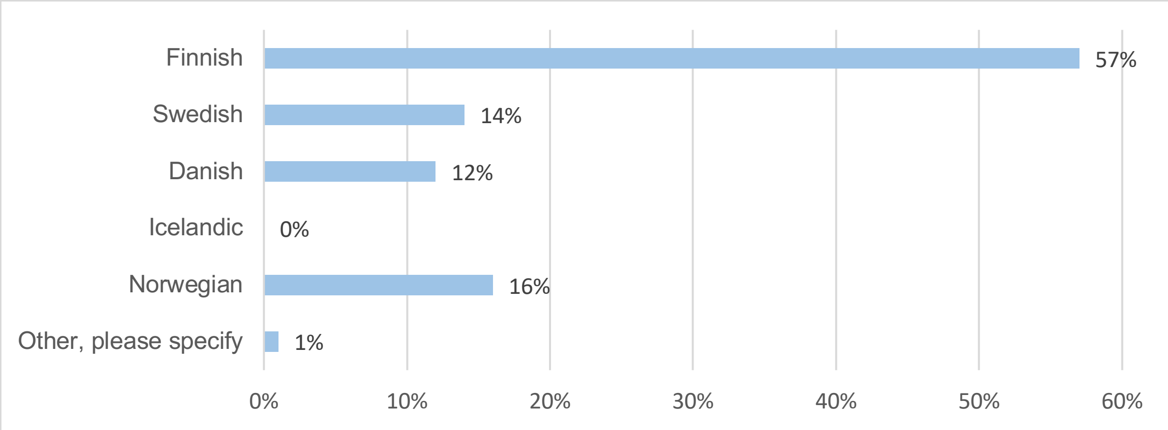

Figure 1. Nationality of respondents

The respondents presented well different age groups as can be seen from the Figure 2 below and the investors had very different amount of experience in investing. Most of the respondents were between the age 31 to 45 years old and all the respondents had at least some experience in investing most commonly from 1 to 10 years (Figure 3).

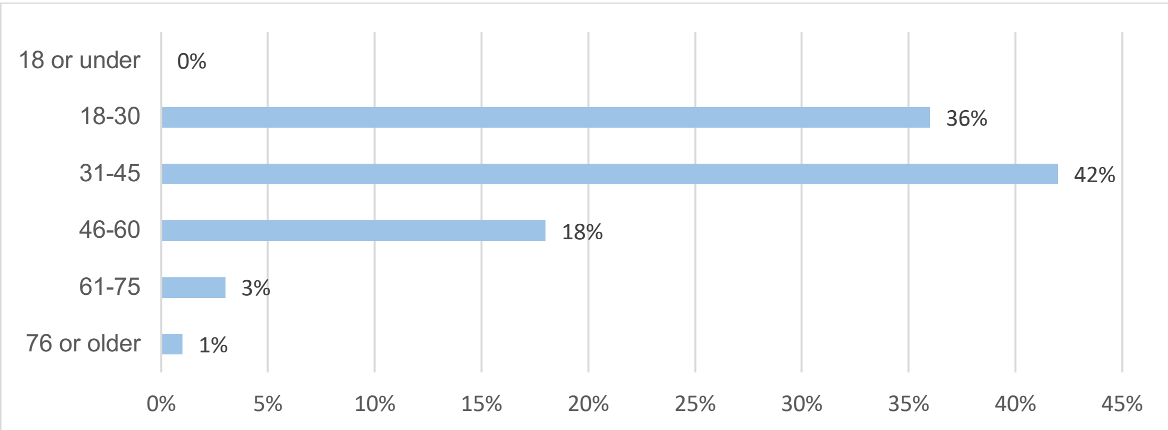

Figure 2. Age of respondents

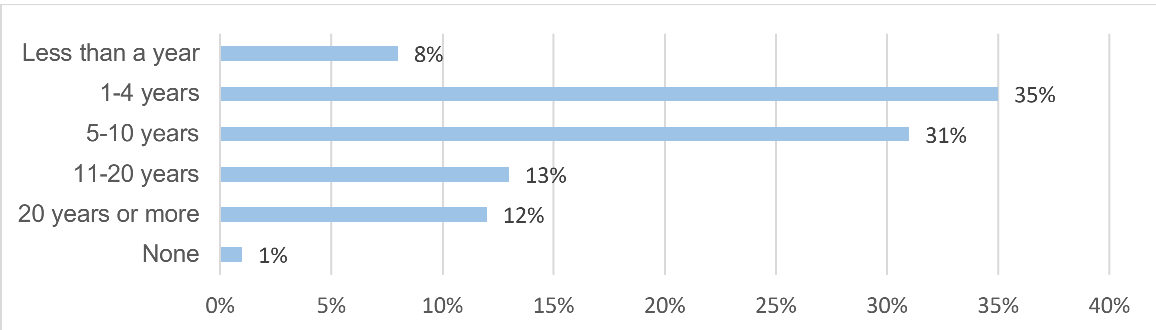

Figure 3. Respondents experience in investing

Most commonly the investors had experience in stocks and investment funds.19% respondents had experience in other investment products, such as currencies, derivates, cryptocurrencies, real-estate and property and forests (Figure 4).

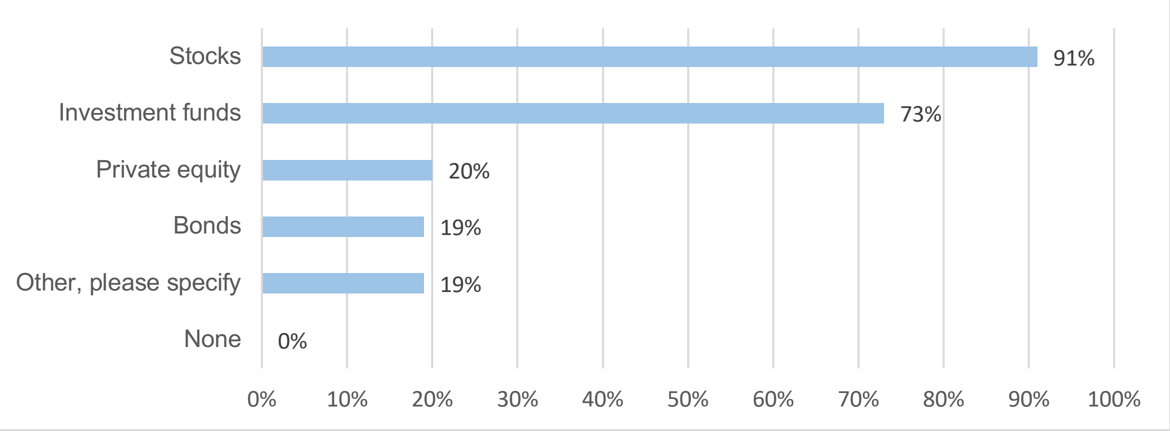

Figure 4. Respondents experience in investment assets

The respondents were asked about their views and the importance of various sustainability factors in their investment decision process. The Figure 5 illustrates the importance of ESG issues when making investment decision. Based on the responses Norwegians valued ESG factors the most while for Danish investors their investment decisions were least influenced by responsibility issues. Based on the data the experience in investing had only a small impact on how high the investors valued the ESG factors in their investment decisions process (Figure 6) while, as expected, the investors who value ESG factors in their everyday life also highly values responsibility issues in their investment decision making. Inexperienced investors (investors with less than 1 year experience) valued ESG factors the most in their investment decision process, however, with the other groups there were only little differences in responses (Figure 7).

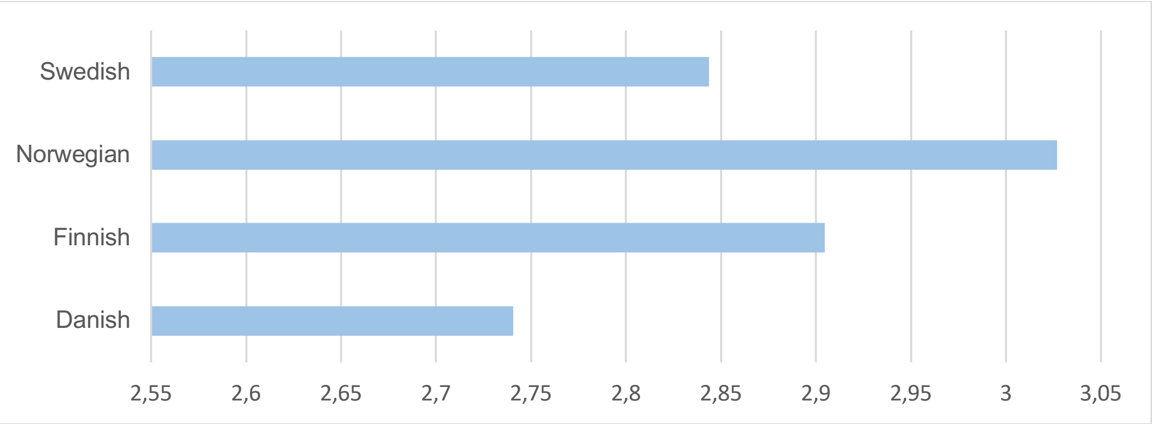

Figure 5. The importance of ESG issues when making investment decisions for different Nordic nations

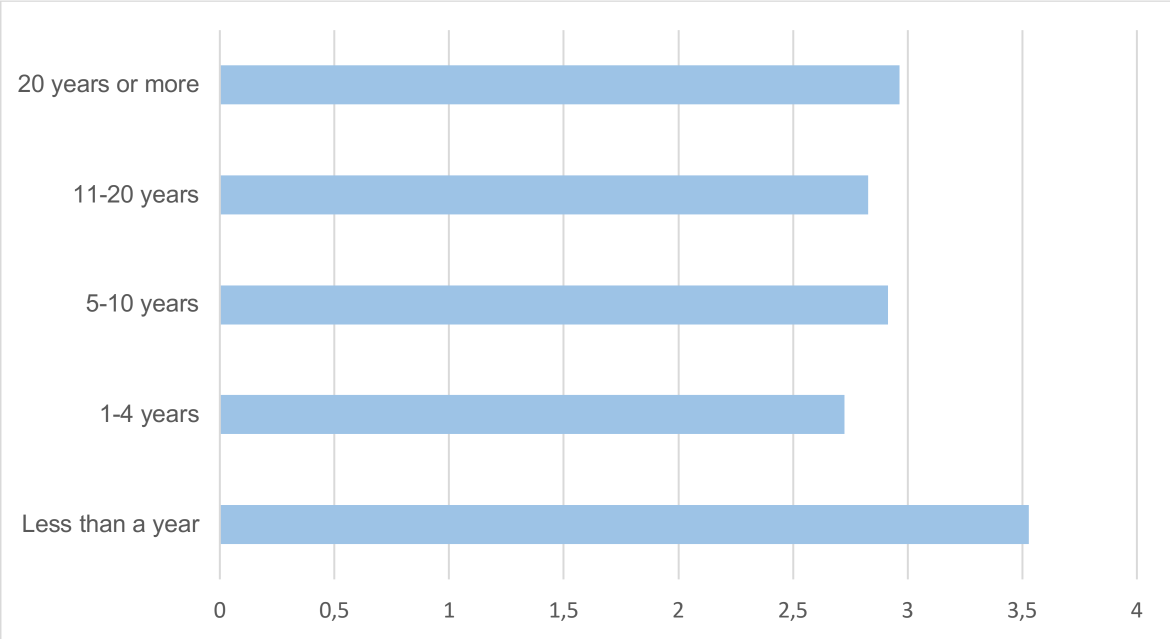

Figure 6. The importance of ESG issues when making investment decisions for investors with different degrees of investment experience

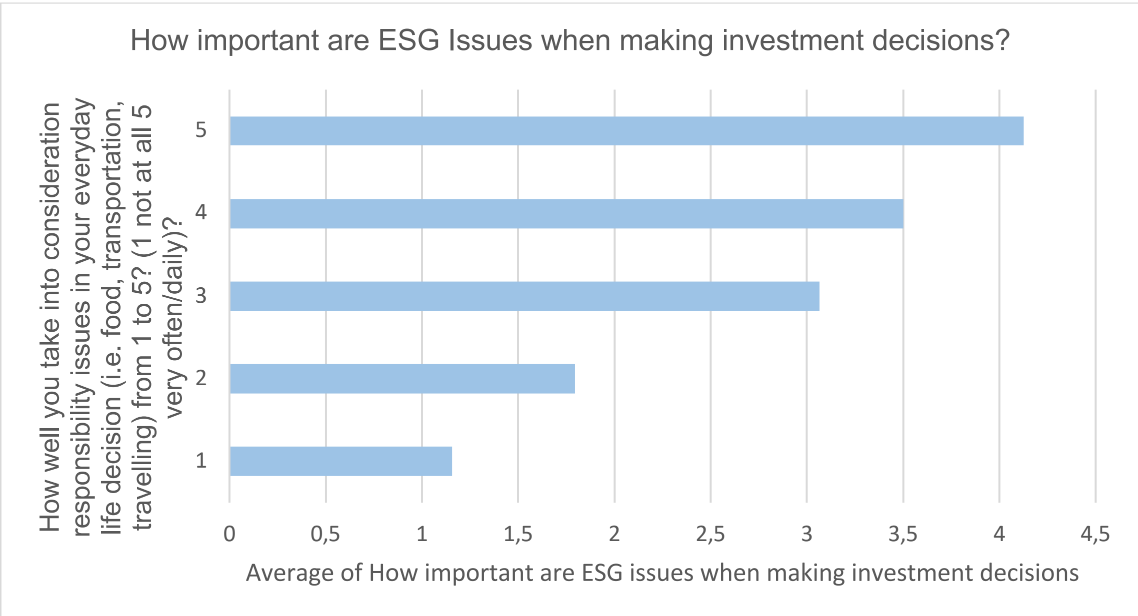

Figure 7. The importance of ESG issues when making investment decisions compared to the importance of responsibility issues in other sectors in life

The respondents were also asked how important the found different environmental, social, and governmental issues when making investment decision. From all the respondents the most important criteria were the exclusion of child labor while the fair competition, executive pay and the equal opportunity and diversity of workforce least affected in the investment decision process. Reduce of waste and efficient waste handling, responsible labor management, exclusion of child labor, exclusion of forced or compulsory labor, and respecting human rights were valued above the average by the respondents. Overall, the social issues seemed to be the most important for investors, while governmental issues were not as highly considered by the investors, which could also be seen in the interviews with the investment professionals.

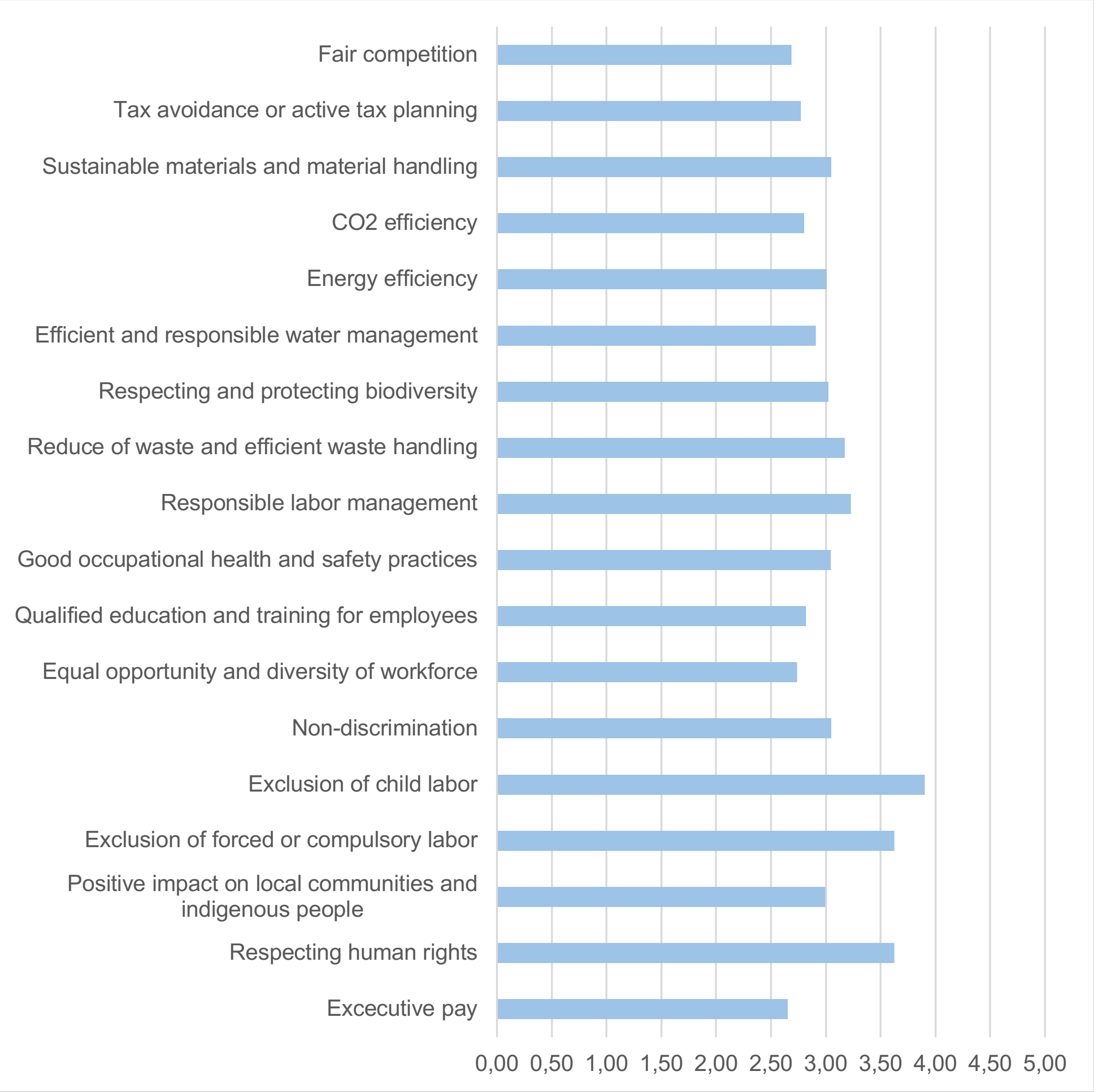

Figure 8. The importance of different ESG issues for investors

From the figure 9 below can be seen that there were some similarities between the four nationalities regarding on the importance in different social factors. Overall, the Norwegian respondents gave higher emphasis for all the different factors while Danish respondents valued the factors the lowest in their decision-making process. For all nationalities the three most important ESG criteria were the exclusion of child labor, exclusion of forced and compulsory labor, and the respect of human rights. Overall, the differences between different factors were a bit clearer regarding on the social issues when compared to the other two factors (environmental and governable), however, the way the different nationalities prioritized the issues looked quite similar even with some differences in how highly they generally value the social issues in their investment decision making process.

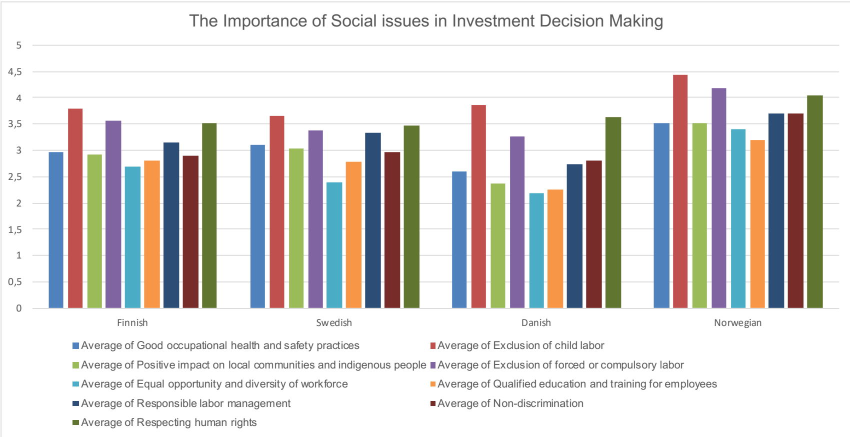

Figure 9. The importance of social issues in investment decision making

The figure 10 below illustrates the importance of environmental issues and it can be seen that the different environmental issues were considered quite equally important to each other's. Reduce of waste and efficient waste handling was found to be the most important factor for all the other nationalities except for Danish respondents who only valued it to be the fifth most important environmental issue in the decision-making process. From the figure it can be seen that the importance of environmental issues seems to be less important for investors than social issues and overall, there were only minor differences between the six different criteria chosen in the survey for the different nationalities.

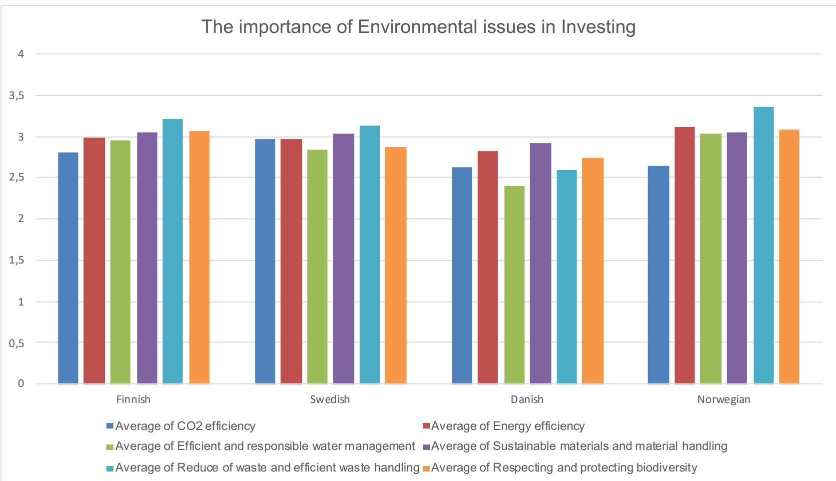

Figure 10. The importance of environmental issues in investment decision making

The third figure, Figure 11, illustrates the importance of governance issues in investment decision-making process. As from earlier has been stated the importance of governance issues where the least valued criteria in investment decision making process and for all four nationalities the average rate the respondents gave for the different issues was below three. There were some differences between the order the different nationalities rate the importance of the three different issues chosen, however the differences were quite small. For Norwegian respondents the most important was the reasonable executive pay while for others the most important criteria were if the company participates in tax avoidance or active tax planning. In summary based on the Figure 11 all the nationalities do value in some level the efforts the companies make in governance issues however this seems not to be most important criteria when choosing the investment target, they will invest in.

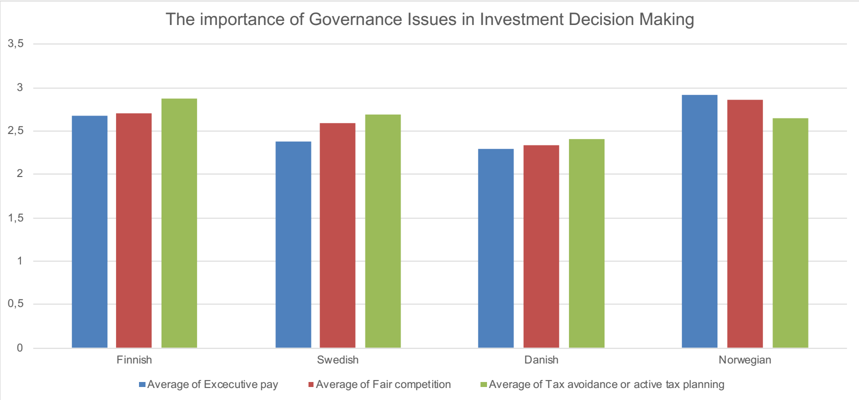

Figure 11. The importance of governance issues in investment decision making

In the next section the respondents were asked if they would choose an investment option with lower return (profit) expectations based on its positive impact on responsibility matters or society (Figure 12). Most of the respondents would not choose investment option with lower return expectation yet still 27% of the respondents could comprise the profits if the investment option would have positive impact on responsibility issues.

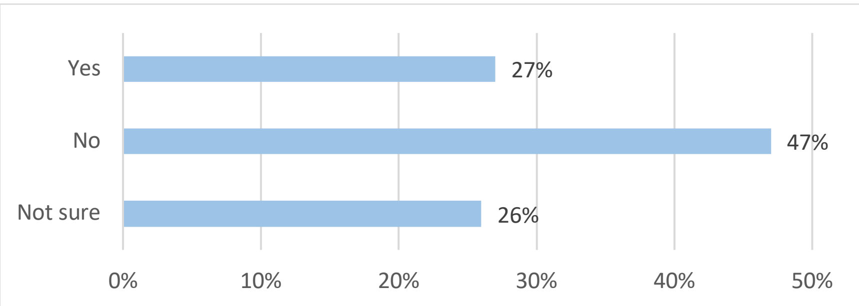

Figure 12. Would you choose an investment option with lower return (profit) expectations based on its positive impact on responsibility matters or society?

The figure 13 below illustrates the differences in the views of different age groups for the issue. None of the 61-75 years old respondents would be likely to choose investment option with lower return expectations while for over 30% of the respondents between 46 to 60 years old responded that they would invest in option with lower return expectation in case it would have positive impact on society. Overall, with respondents under 61-year-old there where a bit more variety in the responses. There were also quite many respondents that were quite unsure about if they would choose responsible investment option if it would have negative impact on the returns between the age of 31 and 60. With 46 to 60 years old there was the most variation between the responses and the middle-aged investors seemed to be the most open to consider sustainable investment options even with lower return expectations.

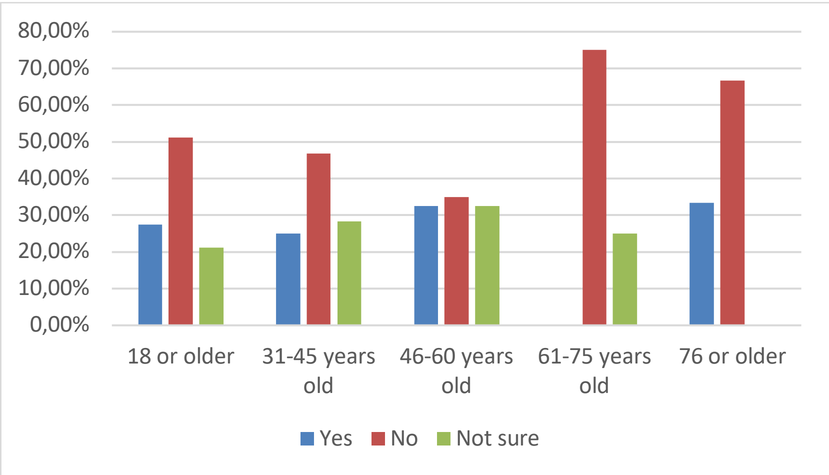

Figure 13. Would you choose an investment option with lower return (profit) expectations based on its positive impact on responsibility matters or society?

Along all the four nationalities, most of the respondents replied that they would not choose investment option with lower return expectations and the differences with the nationalities were quite small. The Swedish and Danish respondents were the most unsure in their responses. As in previous questions can be seen Norwegian seem to value the sustainability issues in their investment decision making process the most and the proportion of Norwegians who would be more open to choose the investment target with lower return expectation was the highest. In a summary it seems like the age of the respondents had more effect on whether the respondents would comprise their profits for responsibility matters.

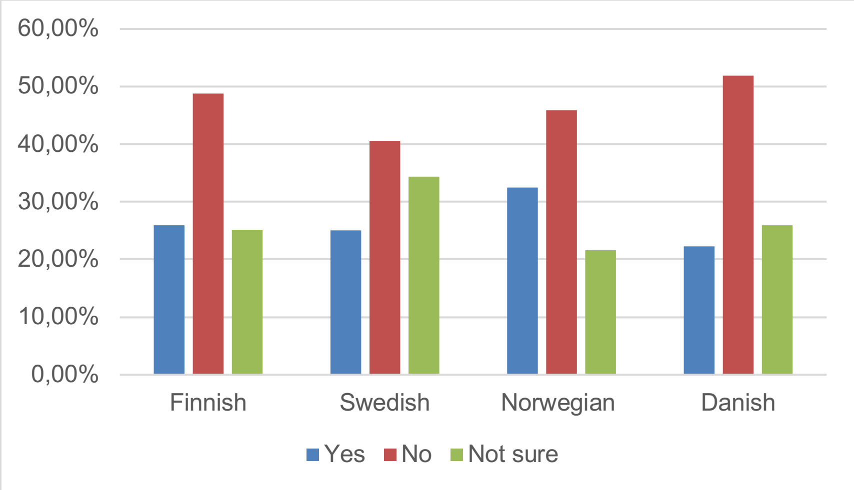

Figure 14. Would you choose an investment option with lower return (profit) expectations based on its positive impact on responsibility matters or society?

When asked if the respondents would choose to invest in a responsible fund with lower with lower returns if they could ensure that the fund is not investing in any controversial activities (Figure 15), 47% still responded no, however a bit more (33%) stated that they would invest into responsible fund if they could ensure that there were not any controversial activities involved. The figure 16 illustrates the differences between different nationalities and quite surprisingly more Norwegian respondents responded that they would not choose investment target with lower returns if they could ensure that not any controversial activities were involved, yet still the highest proportion of the respondents willing to choose the kind of fund portfolio were Norwegians when compared to the other nations. Also, from Danish investors over 50% though were not ready to choose the fund with lower return expectations but this was expected based on their previous responses. For Swedish respondents there was the most deviation between the responses and just as many Swedish investors would choose investment fund with lower return if they could ensure that the fund is not investing in any controversial activities, as would not choose the kind of fund.

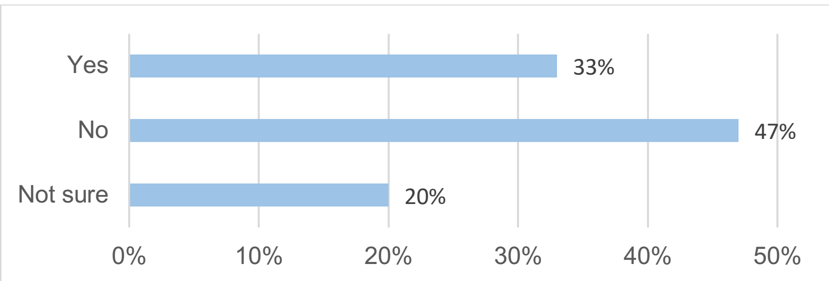

Figure 15. Would you rather invest in a responsible fund with lower returns if you could ensure that the fund is not investing in any controversial activities?

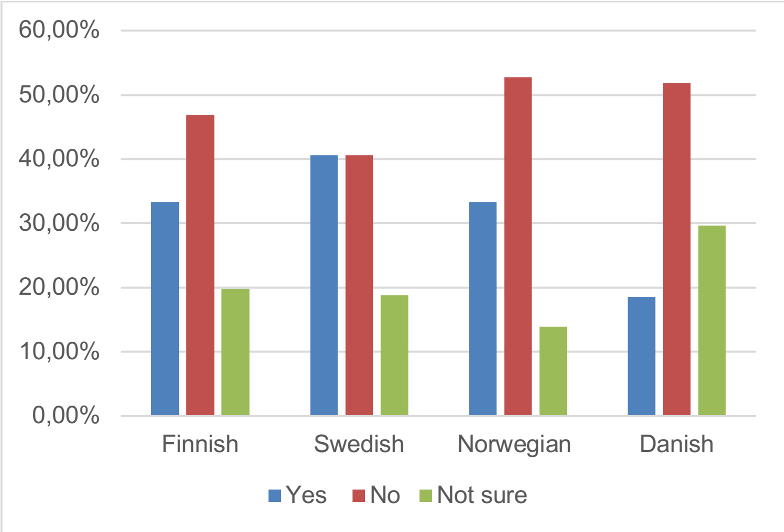

Figure 16. Would you rather invest in a responsible fund with lower returns if you could ensure that the fund is not investing in any controversial activities?

In the next section of the questionnaire the respondents were asked about the different ESG methods they have used in their investment strategy. Figure 17 illustrates the different screening methods the respondents used in their investment decision making process. Most of the respondents had not used ESG screening in their investment decision making process. For Norwegian respondents the negative screening was much more commonly practiced strategy compared to other nations. Among the respondents who did use screening in their decision-making process the negative screening was more commonly used which could also be noticed when interviewing the investment professionals. Only the Swedish respondents were using more positive screening than negative screening, however, the were the most unlikely to use screening in their decision-making process overall.

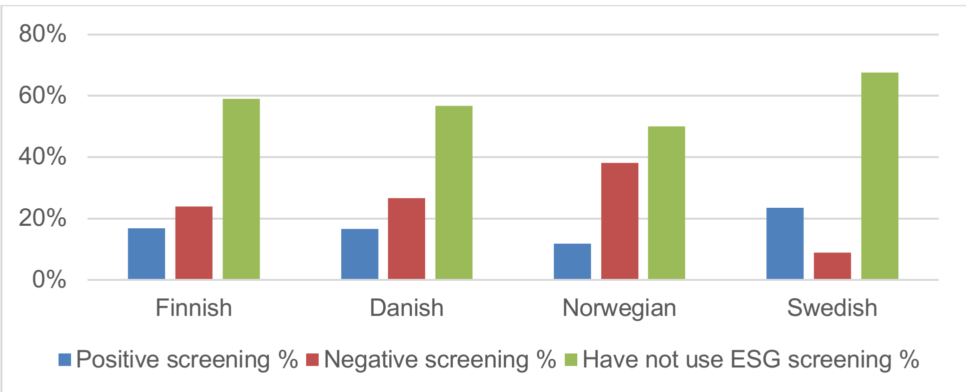

Figure 17. The use of negative or positive screening in investment strategy

As can be seen from the Figure 18, impact investment was also rarely used among the investors and especially the Danish investors were very rarely using impact investment in their decision-making process. With other nations there was only little differences between the importance of impact investment in the investment strategy. The Swedish respondents were the most likely to use impact investment in their investment strategy and it was interesting to notice that impact investment seemed to be even more popular investment strategy among Swedish investors than screening. For all the other nations screening was a strategy that they would be more likely to choose compared to impact investment.

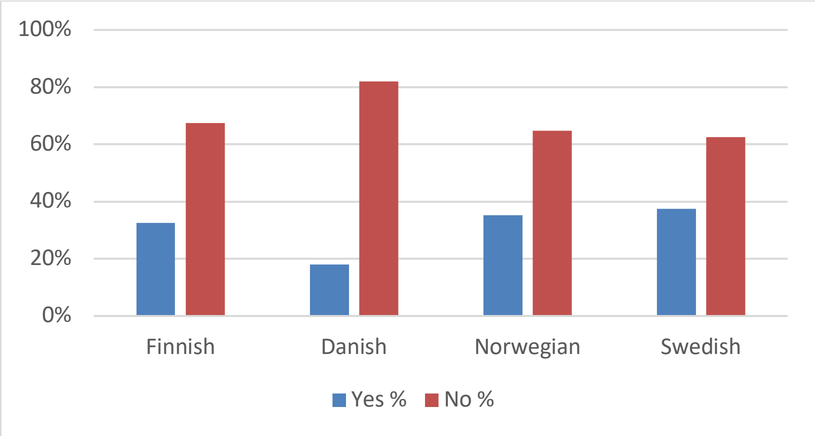

Figure 18. Have you included impact investment in your investment strategy?

In the following three questions the respondents were asked about the importance of active ownership in their investment strategy from two different perspectives; if they would themselves invest into a company to have an impact by engaging into voting in the general meeting, and if they appreciated that the portfolio manager participates in the meeting or has active discussion with the companies they invest or plan to invest in. Almost 50% of Norwegians would choose a company in order to have an impact and voice in the general meeting in the proxy voting while over 80% of Danish responded that they would not choose a company to invest in based on this. With Finnish and Swedish respondents, it was most common to not to choose a company based on if it would give the opportunity to vote about ESG issues in the general meeting, but for both nations there were some respondents who would consider about investing in a company in order to have an impact in their ESG handling by proxy voting. Overall, it is interesting to see the quite big difference between Danish and other nations and it would be interesting to find out whether it resulted in the lack of importance of ESG issues among Danish investors or weather they experience that they have less power to influence to the ESG issues overall through investing.

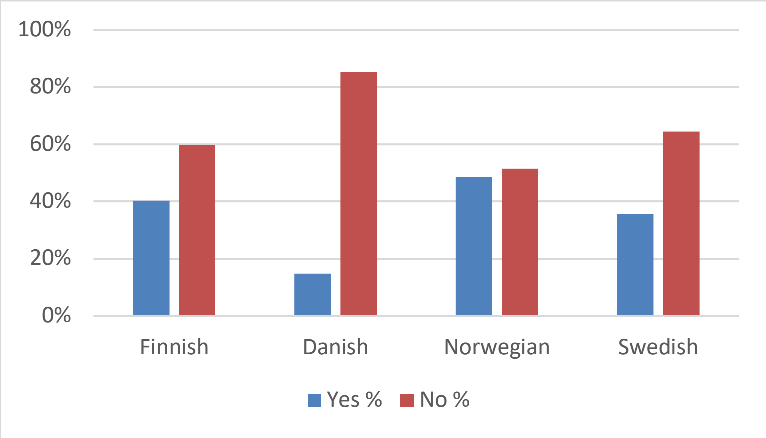

Figure 19. Would you choose a company in order to have an impact on their ESG handling by engaging into voting in the general meeting?

Figures 20 and 21 illustrate the importance of active ownership of portfolio managers or fund representative in the ESG issues. Based on the figure 20 the Norwegians valued the most of the four nations that the representative of the fund participates in the general meeting to vote about the ESG issues. Quite surprisingly the Swedish respondents valued the least that the fund representative participates in the general meeting to vote while for them it seems to be the most important of the four nations that the portfolio manager would have active discussion of ESG issues with the management of companies the fund invests or considers investing in. In the latter question (Figure 21) Danish respondents valued the active discussion the least while among other nations there was only a little difference in the responses.

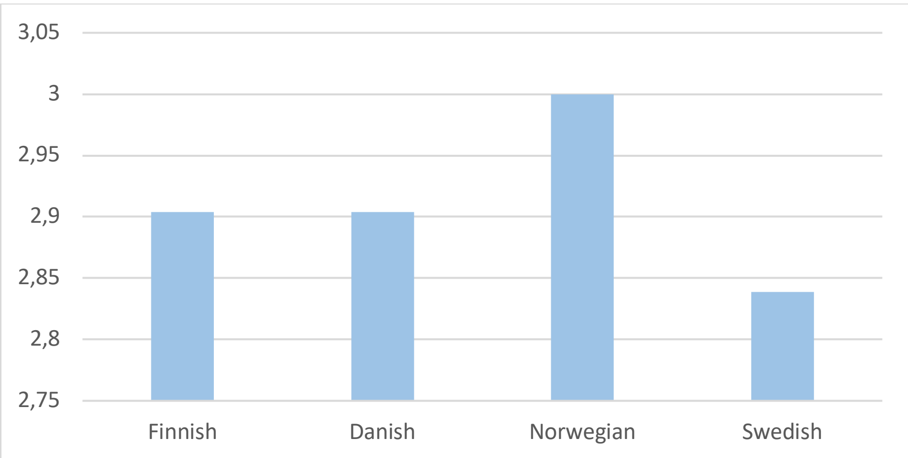

Figure 20. The importance of fund representative's participation for voting on ESG issues in general meetings

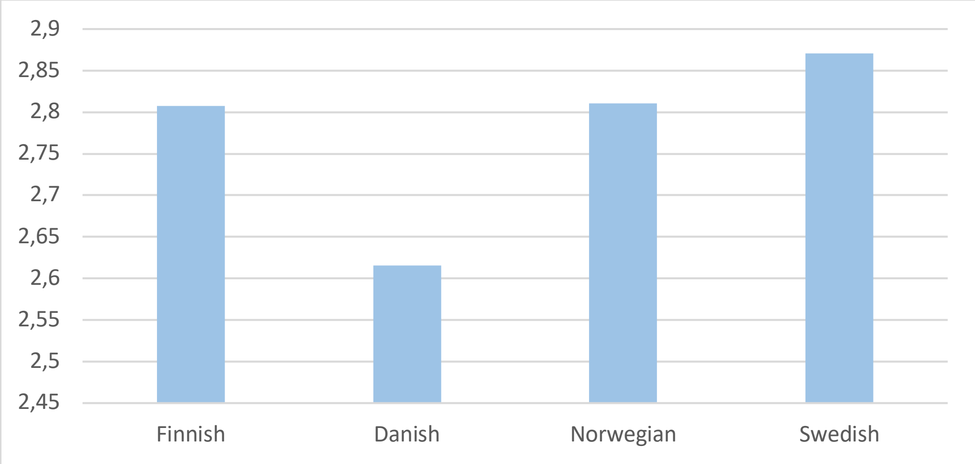

Figure 21. The importance of the portfolio managers active discussion of ESG issues with the management of the companies the fund invests or considers investing in.

Lastly the respondents were asked if they have earlier taken into consideration ESG (environmental, social and governance) factors when making investment decisions. As the figure 22 illustrated over 50% of the respondents had taken into consideration the ESG issues in their investment decision making process. The 48% of the respondents who stated that they have not taken into consideration were asked why and the responses varied. Many of the respondents admitted that they did not care about ESG issues while others justified their decision by stating that they believed that in big companies the ESG issues are already taken into consideration, and it is not up to a private investor to evaluate these. Other arising reasons were the lack of data and difficulty of finding it, higher appreciation of returns than ESG efforts and raise of costs of the investment product. Some respondents stated that they have not yet taken into consideration the ESG issues but as they did find them important, they will include these in their investment strategy in the future.

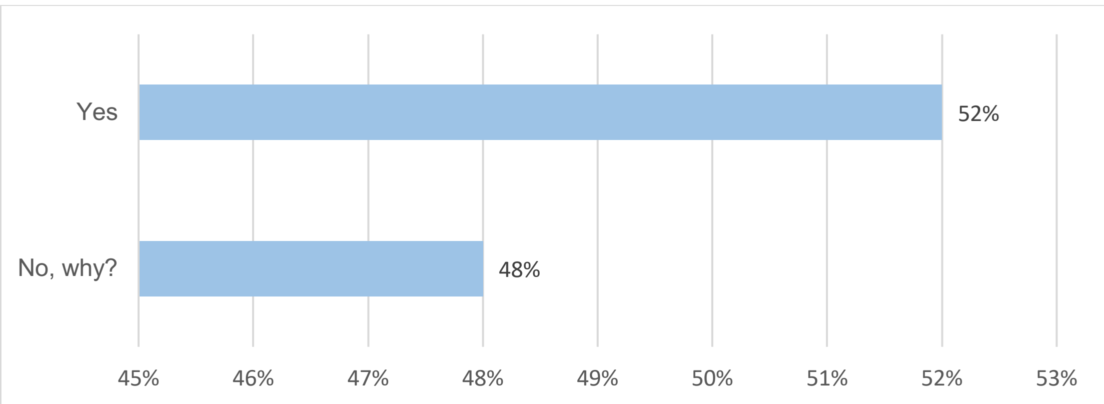

Figure 22. When making investment decisions earlier, have you taken into consideration ESG (environmental, social and governance) factors?

The 52% respondents who said that they already had taken into consideration the ESG issues in their investment decision-making process where asked were asked about the reasons behind this and as figure 23 illustrates the most important reason was the investors personal values. Also 39% of the respondents felt strong willingness of having positive impact on society and wanted to seek higher returns by taking into consideration the ESG issues. 33% of the respondents also found important that they understood how their money is invested. Quite rare of the respondents chose sustainable investment targets in order to lower risk or to prepare for the rising regulatory on responsibility issues.

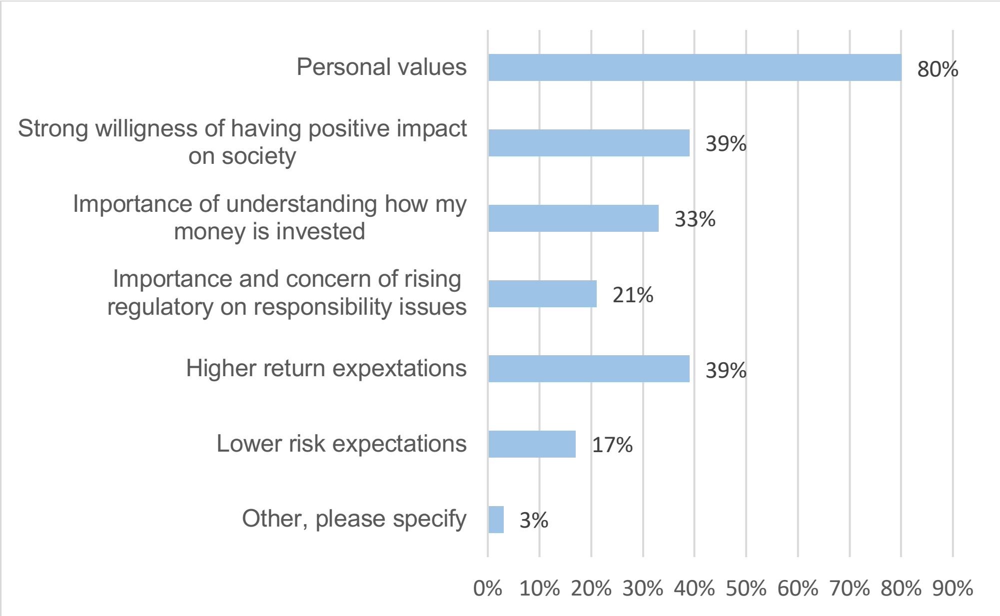

Figure 23. The motives to invest responsibly

3.4 Responsible Investment Options available

There is a wide variety of different responsible investment options available and the level of attention the companies raise these issues seem to vary. In this section the issue is viewed and researched in two different ways: based on the interviews concluded with the investment advisors, and by evaluating three different banks and brokerage companies based on the sustainable investment options they offer. The three banks chosen for the desktop study were Nordea, DNB and Nordnet.

The first company interviewed was Danske Bank, who offers different funds for different needs. The funds have been categorized after the interview to different categories based on their approach to the responsibility issues and how they settle under the SFDR article 8 and 9 funds. All of Danske Invest funds considerate sustainability risks in their investment strategy. In addition to this Danske Invest has two categories: ESG-funds (article 8) and funds with a sustainable objective (article 9). Most of Danske Invest new funds are categorised as ESG funds while 9 of the funds have sustainable objective. Only 5 of Danske Invests new funds are uncategorized. (Danske Invest a. 2022.) Danske Invest has 9 funds available for only institutions of which one is uncategorized, one categorized as fund with sustainable objective and seven are categorised as ESG funds (Danske Invest b. 2022).

Danske Bank's fund management company introduces the following five principles in their responsible investment policy:
"Principle 1. We incorporate Sustainability Risks into investment analysis and investment decision-making processes.
Principle 2. We are active owners and incorporate environmental, social, and governance criteria and sustainability issues into our ownership guidelines and practices.
Principle 3. We seek to provide investors with products that meet their ethical and sustainability needs
Sub-principle 3.1. We offer Investment Products that promote Environmental and/or Social Characteristics
Sub-principle 3.2. We aim to offer Investment Products that have Sustainable Investments as their objective
Principle 4. We report on our activities and progress towards implementing Responsible Investments and disclose impacts of our investments.
Principle 5. We promote the development of Responsible Investments across our industry (Danske Invest 2021)".

Danske Invest expects their investment managers to consider sustainability risks through assessing ESG performance of investment based on industry best practice based on international norms and voluntary frameworks such as UN Global Compact and the OECD Guidelines for Multinational Enterprises. The sustainability factors must be assessed in systematic way and be incorporated by the investment managers either by buying/increasing weighting, hold/maintain weighting, decrease weighting, or sell/divest an investment. Some sectors, companies, products, or activities are excluded from the investment universes. If the company is subject to the restrictions, it will be excluded from the investment universe as a rule. The restrictions cover i.e., coal, oil sands and peat, controversial weapons, and tobacco. (Danske Invest 2021.)

Danske Invest wants to be active owner and their active ownership approach is based on the belief that in general it is more appropriate to address challenging through active ownership and dialogue rather than by divesting. The investment managers engage regularly with investee companies on material ESG matters to enhance and protect the value of the investments. Danske Invest seek to vote on all shares held. (Danske Invest 2021.) Danske Invest aims to offer products that meet the Sustainable Finance Disclosure Regulation article 8 and 9. The article 8 investment products promote environmental and/or social characteristics and the article 9 investment products have sustainable investments as their objective. For article 8 and 9 investment products environmental and/or social characteristics and good governance are promoted through investment analysis, processes and decision making, active ownership, screening and restrictions including environmental and social materiality perspectives and in addition sustainability risks are considered. For the article 9 investment products also the governance practices are met through processes and activities in the same way as social and environmental described before. For the article 9 investment products also the principle of “Do No Significant harm” must be taken in place. (Danske Invest 2021.)

The second company interviewed, Selgison, has overall quite different investment strategy and approach to their business than the two others. In the interview Sakari Jääskeläinen mentioned that Seligson wishes to be helping to educate the private investors in their investment process and does not offer investment advisory in that sense as banks do. Seligson also has a lot of passive index funds that do not have active portfolio management and therefore active ownership is not that widely applied on their responsible investment strategy. The index funds tract sustainability indexes and some funds have restriction criteria, such as child labor, pornography, and gambling. Thematic funds are also not part of Seligson’s product pool as the company concentrates on Finnish markets and thematic funds are said to be hard to implement in cost-efficient way in such a small market.

In Seligson’s fund investing guide “Rahastosijoittamisen opas” it is introduced Seligson general strategy on responsibility issues. The starting point of Seligson’s resonsilbility investment strategy is their own activities as providing investment services responsibly. The first goal is to provide long-term investment return and all their activity is aiming to achieve this goal. Seligson offers sustainable index funds and for funds that are not Seligson own funds the public reference database is used, currently Morningstar. The goal is that each funds responsibility rating is above their own reference category. The responsibility of the funds is evaluated annually at minimum and Seligson has signed United Nations Principles of Responsible investment. (Seligson 2020.)

The last of the interviewed company was Mandatum Life. Madatum Life integrates ESG issues in all their products and all the investment options make some exclusion on what can be accepted to their investment pool, and which cannot. Mandatum Life also applies positive screening by emphasizing companies with better responsibility ratings. In addition to this Mandatum Life has thematic funds directed to customers having special interest in the topic of sustainability.

In Mandatum Life's responsible investment policy, the strategy is described in detail. Mandatum Life invests its customers' funds responsibly and they believe that the securities of companies and issuers who operate responsibly will yield better in the long run. Mandatum Life's actions are divided into three phases: commitment, implementation, and reporting. (Madatum Life b. 2022.)

Mandatum Life is part of Sampo Group and is therefore complying with Sampo Group's sustainable development policy. Sampo Group companies follow the common value of ethics, loyalty, and transparency. Mandatum Life has signed in 2011 the UN's Principles for Responsible Investment (UN PRI). Mandatum Life has also signed Motréal Pledge in 2016 and strives to promote corporate social responsibility issues through partnership with organizations and foundations. Mandatum Life also follows closely the development of European Union's legislative framework on sustainable financing. (Madatum Life b. 2022.)

Mandatum has incorporated sustainability analysis into their investment processes and monitor all investment objects in their portfolios. In risk analyzing sustainability factors are analyzed as part of the whole and in decision-making both negative and positive screening are applied. Investment may also made with emphasis on certain sustainability themes. Sustainability analysis is part of the job profile of everyone making investment decisions and especially portfolio managers and analysts are in the best position to this. Mandatum Life has also Responsible Investment Working Group, which is responsible for coordinating responsible investment, developing tools, and cascading operating methods thorough the organization as well as assisting in responsible investment reporting and monitoring. (Mandatum Life b. 2022.)

In fixed income investments and direct equity, the sustainability issues are considering as part of the investment object analysis and risk management process. The fixed income investments are continuously monitored from sustainability perspective on the basis of the UN Global Compact Principles. Measurements in cases of breaches or abuses are taken on case-by-case basis. The methods used can be either direct dialogue with the company or selling the investment depending on the severity of the case. Mandatum Life also determines the carbon footprint of investment annually and monitors it separately for each investment basket or fund. (Mandatum Life b. 2022.)

Mandatum has also investment that support sustainable development that meets the requirements of Articles 8 or 9 of the regulation on sustainability related disclosure in the financial services. The article 8 and 9 investment targets have zero tolerance for controversial weapons, low tolerance (no direct sales and indirect sales must not exceed 50%) for tobacco, adult entertainment and coal, and partial tolerance (the business may not be the investee's main business) for alcohol, gambling, and war material. If an investment object in the portfolio no longer meets the criteria, Mandatum Life will divest the investment within six months at least. Mandatum Life also uses sustainability risk rating of external service provider for the investment that support sustainability development. The risk rating is two-dimensional and measures company's exposure to sustainability risks and how well company is managing those risks in relation to the manageable risks. (Mandatum Life b. 2022.)

Mandatum Life has also investments where the asset management has been outsourced to an external partner. For those investment Mandatum Life expects its cooperation partners to take sustainability into account in all asset classes. In external funds, the sustainability analysis focuses on the cooperation partner's investment processes and reporting. Mandatum Life favor cooperation partners whose responsible investment risk management is consistent with Mandatum Life investment process. For real estate investments, the portfolio managers investment process takes into consideration the properties' energy efficiency, waste management, environmental load, and the responsibility of the process for managing the tenant portfolio. (Mandatum Life b. 2022.)

Mandatum Life also practices active ownership as part of the responsible investment processes. Mandatum Life regularly meets with the executive management of its investee companies with the focus on the company's governance, its relative position and operating methods compared to other companies in the same business sector, the direction and pace of its business processes as well as preventative work and the capacity to rectify possible discrepancies. Before liquidation of the investment the portfolio manager must, whenever possible, contact the company and point out the matter that has been assessed as problematic but if the company is not willing to invest in sustainability in its business the investment can be liquidated. (Mandatum Life b. 2022.)

In addition to the companies interviewed three different case companies were chosen in order to analyze their sustainable investment options and how they meet the criteria that the investors appreciate in their investment decision making process. The three different companies chosen were DNB, Nordnet and Nordea in order to expand international scope in the research.

DNB is the largest financial services group in Norway and offers full range of financial services, including loans, savings, advisory services, insurance and pension products for retail and corporate customers. DNB 2,1 million retail customers and over 231 000 corporate customers in Norway. DNB is said to be the most international bank in Norway on their website by having several international branches and representative offices. In addition to the operations in Norway they operate in Sweden offering banking and asset management services and car finance and have private banking services in Luxemburg. (DNB a. 2022.) DNB Asset Management offers mutual funds for retail and corporate customers and state in their website that they have been working with responsible investments already since 1988 following international best practice. DNB aims to provide high, long-term returns, an acceptable level of risk, whilst considering ESG factors. The DNB Group has standards for responsible investments that cover the exclusions, exercise of ownership rights, external management, responsible investment committee and publication. The standards, ensure that DNB does not contribute to human or labor rights violations, corruption, serious environmental harm, and other actions which may be perceived to be unethical and/or unsustainable. The ESG risks and opportunities are integrated into investment decision making process. DNB's approach to responsible investment is described by four headlines: standard setting, active ownership, risk management and ESG integration. (DNB b. 2022.)

DNB actively participates in dialogues with companies to discuss ESG incidents or to improve companies' general performance regarding ESG risks and opportunities. In 2021 DNB had total of 241 dialogues regarding on ESG issues of which 83 were regarding on human rights, 14 other social issues, 26 climate change and greenhouse gas emissions, 52 other environmental issues, 14 board structure and independence, 15 renumeration and 37 of other governance issues. DNB also has adopted systematic approach on where they vote and they have decided to vote at companies where they have a significant position, the largest holdings in each active portfolio and strategically important items, and ESG related topics. DNB's long term engagement focus areas in their active ownership are human rights, climate change and water. In 2020 their engagement strategy prioritized deforestation and land-use, gender equality and diversity, product safety and quality, oceans, emerging markets supply chains and biodiversity in their shorter-term thematic engagements. DNB also practices ESG integration in their ESG strategy by having close dialogue with portfolio managers about ESG risks and opportunities and highlighting potential ESG risks and opportunities to the portfolio managers based on their screening and in-house research. The portfolio managers have access on ESG, and CO2 data and DNB has developed a system for capturing changes in companies' ESG scores and potential or realized breaches in international norms and standards. (DNB c. 2022.)

DNB excludes from their investment universe companies if they or through the entities control produce weapons which through normal use violate basic humanitarian principles, produces tobacco, or produce pornography. Other exclusion criteria DNB has chosen cover oils sand extraction, thermal coal however companies producing these are not completely excluded from the investment universe, however, there are limits on how much of their income can be coming from these sources or how high are the extractions arising from these actions are. Also companies may be excluded from the universe if there is an unacceptable risk that company contributes or is responsible for serious systematic violations of human rights, grave violations of individual rights in wars or conflict situations, serious violations of basic labor rights, grave harm to the environment, acts or missions that on an aggregate company level head to unacceptable greenhouse gas emissions, serious corruption and other particularly critical violations of basis ethical norms. DNB also does not invest in bonds from countries subject to sanctions imposed by the UN Security Council. DNB also uses external fund in their investment universe and the selection of external supplies is based on evaluation of the supplier's guidelines and implementation and making sure that it is in line with DNB's own guidelines for responsible investments. DNB also screens external funds and labels them based on the findings of the screening and in cases where it has not been possible to conclude the screening this is clearly stated for the customers. (DNB d. 2022.) DNB has also thematic ESG fund, DNB Fund Renewable Energy, which invests in companies whose services and technologies help to reduce greenhouse emissions (DNB Asset Management 2022).

Nordea is the largest financial services group in Northern Europe and has leading positions within corporate and institutional banking as well as retail banking and private banking. Nordea has 320 branches and call centers in all Nordic countries. Nordea has the largest customer base of any financial services group in the Nordic region with approximately 10 million household customers and 0,6 million corporate customers. (Nordea a. 2022.) Nordea offers wide range of financial services, i.e., daily banking, loans and credits, savings and investments and insurance for personal customers, corporates and institutions and small and medium business customers (Nordea b. 2022). Nordea's fund management company Nordea Fund Ltd has selection of around 100 funds registered in Finland and 80 Luxemburg-registered SICAV funds (Nordea c. 2022).

Nordea has a team dedicated to analyzing how their investee companies work with ESG matters. The teams work includes inspecting and analyzing companies in ESG matters.

Nordea's funds follow Nordea's responsible investment policy and are covered by ESG criteria for instance by exclusion and active ownership. Nordea practices norm-based screening in their portfolio management which identifies companies allegedly involved in breaches of international law, environmental protection norms, human rights, labor standards, and anti-corruption. In case of breaches considered actions will be taken which are typically engagement, quarantine, or exclusion. (Nordea Funds Ltd 2021.)

Nordea also practices active ownership by exercising the formal rights as owner and by using the influence as owner to encourage and affect companies to improve their ESG practices. Nordea focus on engagement efforts on companies representing their largest holdings, companies selected for ESG enhanced funds, and companies that have been identified to have high ESG risk exposure to a certain theme or industry issue. Nordea's engagement falls into three main categories: thematic, norm-based, and investment-led. Their active ownership tools include voting, attending Annual General Meeting, representation on nomination committees and engaging directly with companies. (Nordea Funds Ltd 2021.)

Nordea has excluded companies involved in development, production, or maintenance of illegal or nuclear weapons, as well as sovereign bonds issued by government subject to broad sanctions and failing to respect human rights. Nordea also excludes companies with significant revenue derived from sales of coal products and no meaningful opportunity to diversify away from coal. A growing part of holdings in Nordea funds are also subject to the NAM Paris-Aligned Fossil Fuel Policy (PAFF). Nordea has defined their position within human rights (conflict areas, illegal and nuclear weapons, soft commodities), climate change (coal, oil sand, arctic drilling, deforestation, biodiversity, water) and good governance (sanctions, corruption, tax, diversity) in their responsible investment policy. (Nordea Funds Ltd 2022.)

All Nordea funds follow their responsible investment policy but in their sustainable investment website they introduce the Stars funds family and other funds having specific sustainability criteria. Nordea has six Stars Funds, which are Nordea Global Stars Fund, Nordea Emerging Stars Fund, Nordea Nordic Stars Fun, Nordea European Stars Fund, Nordea North American Stars Fund and Nordea Asian Stars Fund. The Star Funds invest in selected companies which have effective risk management and take the risk and opportunities related to the environment, human rights, working conditions and business ethics into account in an excellent manner. (Nordea d. 2022.) Some Nordea's balanced funds have sustainable profile and those invest through funds that are eligible within the sustainable selection that Nordea offers. Nordea has also thematic ESG funds that apply proprietary methods to identify companies that can be expected to contribute to, or benefit from, the ESG theme in question. In thematic ESG funds Nordea also invests companies that are not sereflexively associated with the theme of the strategy. For example, the holdings in climate strategy are much boarder than traditional renewable energy and related sectors usually associated with combating or adapting to climate change. (Nordea e. 2022.) Nordea has thematic funds that cover very specific ESG issues such as Global Climate and Environmental Fund BP – EUR, Global Climate and Social Impact Fund, Global Energy Transition, Global Gender Diversity Fund BP, Global Green Bond Fund B and Global Social Empowerment Fund BP. (Nordea f 2022).

The third bank reviewed is Nordnet. Nordnet is a Swedish digital bank for savings and investments and operates in Sweden, Norway, Denmark, and Finland. Nordnet is leading pan-Nordic digital platform for savings and investments aiming to challenge traditional structures and give private savers access to the same information tools and services as professional investors. Nordnet's business areas are savings and investment, loans, and pension. Nordnet has 1,63 million active customers in 4 Nordic countries as of January 2022. Nordet also operates the region's largest social investment network Shareville, with more than 250 000 members. (Nordnet b. 2022) Nordnet offers wide range of different responsible funds in their selection. Nordnet does not only offer their own funds but is a rather a trading platform offering wide range of different funds to invest in. Nordnet is obligated to offer responsibility data about their investment funds due to the new Sustainable Finance Disclosure Regulation. The funds are categorized to two different categories based on Article 8 and Article 9. Article 8 funds are funds that promote environmental (E) or social (S) characteristics but do not have them as the overarching objective, while article 9 funds are funds that specifically have sustainable goals as their objective. Nordnet uses colors to help the investor to review which funds are responsible based on the articles. Nordnet's own index funds are classified as Article 8 responsible funds. (Nordnet b. 2022.)

Through Nordnet it is possible in Finland to invest in 30 different article 9 funds that have specific sustainability goals. These 30 funds include wide range of funds issued by different banks such as BNP Paribas, Handelsbanken Danske Bank, DNB, and SPP. 251 of funds that Nordnet offers promote environmental or social characteristics but do not have them as the overarching objective, while 375 of Nordnet funds are uncategorized. As Nordnet has much wider scope of different funds accessible to their customers, there is also more ESG funds available however most of the funds are uncategorized and the proportion of thematical (Article 9) funds is approximately 4,6%. (Nordnet c. 2022.)

Nordnet offers also ESG data about ETFs and equities. The ETFs are categorized based on the article 8 and 9 and the responsible equities based on Sciencebasedtargets.org initiative which has carried out in cooperation with CPD, UN, Global Impact, WRI and WWF. Nordnet introduces 21 companies that has climate target that meets the criteria of ScienceBasedTargets.org. (Nordnet c. 2022.)

3.5 Summary

When comparing the results of the interviews and questionnaire regarding on the investors interest in ESG issues to the investment options available can be seen that there is quite good variety of different investment options available to meet the criteria. However, the way the companies communicate about the ESG matters differ. The strategies of responsible investment are quite clear, but in case of where investor has specific criteria of what he/she wants to emphasis, this requires some own research and looking into individual investment targets, for example the companies that the equity fund invests in.

Overall, it could be seen from both the interviews and questionnaires that there are some varieties in the level of interest the investors raise towards responsible investment. While for some, it is very important that ESG matters are covered in the investment target, some do admit that they do not take these into consideration in their investment strategy. Based on the interviews it can be seen that the interest is rising and there has been big change already in past five years among Finnish investors. From the questionnaire could be seen that experience in investing had only a minor effect on how much the investors valued the ESG matters in their investment decision making process. As from both the interviews and questionnaire could be noticed that the investors who take sustainability issues into consideration in their everyday life also consider these in a more consistent way in their investment strategy. Among the different nationalities Norwegian seemed to be the most likely to appreciate ESG efforts in their investment decision making while Danish respondents values the efforts the least.

Based on the interviews the most important issues regarding the sustainability were the environmental issues, such as carbon dioxide emissions and renewable energy and some social issues, such as exclusion of child labor and respecting employee rights. The investment professionals have also noticed that governance issues are not so widely considered by retail investors. In the questionnaire the most important criteria for investors were the exclusion of child labor. Other issues raising above the average were reduce of waste and efficient waste handling, responsible labor management, exclusion of forced or compulsory labor, and respecting human rights. Fair competition, executive pay, and equal opportunity and diversity of workforce had the least impact in the investors' investment decision making process. Overall based on the questionnaire the most important issues for investors are the social issues while governmental issues had the smallest impact for their investment decision. Between the four nations there were no mentionable differences between the specific issues the investors found to be the most important. The biggest variation between the respondents arised from the governance issues: For Norwegians the most important criteria was the amount of executive pay while all the other nations paid attention mostly to the tax avoidance or active tax planning.

When looking into the review of the different investment options available the most commonly raised ESG topics are environmental topics, such as climate change and the use of coal or oil sands, and the social issues such as child labor, adult entertainment, gambling, tobacco, controversial weapons, and human and labor rights. Overall, the social issues that the respondents found important were quite well considered in the investment strategy, however the concern of reducing waste and efficient waste handling was not discussed in any of the sustainable investment strategy covered in the research. The governance issues were the least appreciated by the investors while also the least discussed in the investment strategies of different financial institutions.

In the questionnaire and interviews it was also questioned about the investors ESG strategies. From the interviews it could be perceived that the exclusion was the most used by the investors while the active ownership was very rarely known by the investors. Thematic investment options especially around renewable energy was discussed quite often with the customers, not only due to the personal values but also because of the belief that these will potentially give better returns in the future. Overall, the interviewees told that the customers do not have that clear idea of the different strategies, however some are very clear on the criteria on what they expect while the other only want the ESG matters to be considered, but do not have specific criteria on what level.

In the questionnaire some similarities could be observed. Most of the respondents did not want to comprise their profits whilst the investors between the age of 46 and 60 years old and Norwegian investor were more open to comprise their profits to have more sustainable investment options in their portfolio. Screening was more commonly used than impact investment and for other nations except for the Swedish respondents the negative screening was the most commonly used in the investment strategy. The active ownership was surprisingly quite highly appreciated by the investors in both aspects: voting and dialogue. Over 50 % of the respondents in the questionnaire had not taken into consideration the

ESG issues so it is still quite common that these are not considered in the investment strategies of retail investors.

When looking into the investment strategies of different financial institutions could be seen that the ESG concerns are very commonly taken into their investment strategy by incorporating the ESG analysis into the analysis of investment targets and especially active ownership and screening is quite commonly discussed. The examples risen in the reports were mainly concerning about the breaches so possibly the investment service providers concentrate or at least communicate more about the negative screening. Thematic or investment funds with sustainability as their objective are not offered by all of the financial institutions investigated but some do have very many ESG themed funds available. Active ownership is commonly practiced by the service providers, expect regarding on the passive investment funds that do not have active portfolio managers, however, these are mentioned to be following the sustainability indexes.

Lastly the interviewees and the respondents in the questionnaire were asked about the motives of taking or not taking the ESG issues into consideration in their investment strategy. In the questionnaire 48% of the respondents did not take into the consideration the ESG issues and while many admitted that they did not care about the ESG matters, some reasoned it by the difficulty of finding reliable data. Some investors also believed that in big companies this is already considered, and they do not need to consider this, or they were worried about the rising costs of the investment targets due to the costs of ESG analysis. Over 52% of respondents had taken into consideration the ESG issues in their investment decision-making process and the most important criteria was their personal values. The second most important criteria were the willingness of having positive impact on society and believing that considering the ESG issues may benefit the return expectations of the investment targets. For 33% it was important that they knew how their money is invested. In the interviews the respondents were very similar as they interviewees also mentioned that ESG concerns is often raised in the discussion due to the personal values of the customers and the interest in finding more efficient funds in risk and return perspective.

Overall, as there is interest in the ESG issues among the investors, it is important that the companies offering investment services openly communicate about these in a consistent way. From the research could be seen that especially the bigger banks have very wide data available for investors. However, still some investors stated that they do not take responsibility issues into consideration as they believe that there is reliable data available. Based on the research for most banks the data is available especially regarding funds, however it requires some time and efforts from the investor as well as trust to the data provided by the banks and brokerages. As some investors have very specific criteria on what they want or do not want to invest in this is very important and quite well covered especially regarding the biggest issues and norms covered by the international regulations and standards in responsible investment. For investors who appreciate ESG issues in their investment decision-making process there is thematic or ESG funds available and hopefully the European Union's Sustainable Finance Disclosure has or will make it easier for investors to analyse and evaluate the sustainable investment targets trustworthily.

4 Discussion

The result of the study shows that there is interest in the ESG issues in the investment process and the level of interest to the issue at some level differs between different Nordic nations. The private investors seem to be the most interested in social and environmental issues while the governance issues are a bit more unfamiliar to the investors. In the interviews it was clear that active ownership as a method was quite unfamiliar for the investors but based on the questionnaire this is something that could be important to some investors. Based on the study the Norwegians seem to be to more aware and interested in the ESG issues while Danish investors valued the ESG efforts the least. Overall, it seemed that the experience in investment and the investors age had more impact on how much the investors appreciated the sustainability issues. Predictably also people who took sustainability issues into consideration in their everyday life also appreciated them the most in the investment process.

When looking into the banks and brokerages sustainability reporting of the investment targets available, it was clear that most of the companies communicate these quite openly and there is a lot of different investment assets available for investors with different needs. Overall, many of the topics that the investors found important were discussed openly in the service providers websites, however finding specific data requires investors own time and effort. With the interviewees it came up that there was no clear standardisation on sustainable investment at the time of the interview which can cause some difficulties on how well the investors can trust that sustainable investment options offered meet their criteria. Fortunately, during the thesis process, European Union published the Sustainable Finance Disclosure, SFDR, which categorizes the investment products to three different categories based on how well they take sustainability matters into consideration ang gives instructions for the companies about how to communicate on sustainability with different sustainable investment targets. This certainly will prevent greenwashing and is a great tool for private investors to evaluate the sustainability of funds offered. The articles of the SFDR were also frequently referred in the investment strategies and different investment targets reviewed in the desktop study.

The research gives a good insight on how the investors of different nationalities appreciate the sustainability matters in their investment decision making process. However, when reviewing the trustworthiness of the study it must be noticed that the data for the questionnaire was collected from the Facebook groups and therefore the background and authenticity of the respondents could not be verified. Over 200 respondents responded to the survey but reaching other Nordic nations than Finnish people turned out to be quite challenging and therefore Finnish respondents were a bit overrepresented in the research which must be taken consideration when used the data for comparison. Six different companies were evaluated based on how the investment options are available. There certainly is quite a lot more companies offering investment services for private investors, however, the companies were quite different and from different countries and therefore it shows quite well what is there for different investors.

With the interviewees it came up that responsible investment methods are somewhat difficult to be applied with passive index fund and exchange traded funds. It would be interesting to research this topic further and evaluate which sort of methods there is available for more passive funds, when i.e., active ownership cannot be considered. I have come across to investment funds that for example track sustainability indexes and it would be interesting to find out how do these sustainability indexes meet the criteria that the investors have to their investment products. As it seems to be that the investors are all the time more cautious about the cost related to the investment targets it would be good to investigate the different ways of considering sustainability issues in cost-efficient way.

The thesis process itself turned out to be quite time-consuming and challenging while working full time during the process which led to delay in the project. Still the work experience and thesis process supported each other’s as during the process I promoted from call center worker at Danske Bank to Senior Investment Advisor and had the opportunity to discuss about the sustainability matters with real customers. The thesis process did teach me a lot about responsible investment which helped when discussing about the sustainability of different funds we offer for the customer. It was also interesting to see what kind of topics the customers bring to the meetings and if they corresponded to the results of the research. There could possibly be seen some influence of the pandemic as my customers have raised the ethical viewpoint of investing in pharmaceutical companies, which did not come up in the interviews concluded with the interviewees.

The thesis process was very educational in many ways and in addition to the research methods and theoretical knowledge on sustainable investment, it taught the skill of time-management, prioritization, information retrieval, and structing and management of larger projects. In retrospect it was clear that orientation to a new profession with mandatory training at the same time as completing thesis was too demanding. Nonetheless I managed to perform admirably in my job as an investment advisor and complete the thesis even with a little delay. This was also a learning place for me and important thing to remember when planning postgraduate studies.

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Appendices

Appendix 1. Interview Questions

1. Are customers raising interest in ESG issues when making investment decisions?
    - How regularly customers ask about ESG issues or demand ESG screened or themed investment funds?
    - Which ESG factors customers raise (environment, social or governance)?
    - Which ESG factors are the most important for customers in your experience (Environment, social or governance)?
    - Are there any specific criteria the customers demand, considering sustainability?
    - Which environmental issues do the customers raise concern of?
    - Which social issues do the customer raise concern of?
    - Which governance issues do the customers raise concern of?

2. What approaches customers appreciate in their investment strategy?
    - Do the customers expect excluding certain “sin” industries, such as tobacco, drugs, or alcohol?
    - Do the customers ask recommendations of excluding companies/funds that invest in companies involved in undesired or controversial activities (i.e., child labor, pollution, or nuclear power)?
    - Do the customers ask recommendations of companies/funds with positive impact, compared to peers (positive screening)?
    - Are customers aware of active ownership as a responsible investment strategy?
    - Do the customers demand on active discussion about ESG issues from the portfolio manager with the management of the companies the fund invest in?

3. Have the concern of responsibility changed in the discussion with customers?
    - Are customers more conscious in responsibility issues today than they were before?
    - Have you experienced raising concern on certain aspect of ESG factors in the discussion with customers? If yes, on which matters?
    - Are there any issues that the customers raise more often in the discussion compared to 10 years or 20 years ago/when you started?
    - Have you experienced change in the customers interest towards ESG during the past 6/3 months? Are there any recent “trends” affecting on customer interests?

4. Why do you think customers want to/does not want to invest responsibly?

Do the customers expect more return when they choose responsible investment options?

- Do the customers expect lower risk when investing responsibly?
- Do they invest responsible because they have strong personal values or have strong willingness of having positive impact on society?
- Do the customers demand for more transparency on how their money is invested?

5. Do the customers question and challenge the claims of responsibility and sustainability of i.e., ESG themed or ESG screened funds?

- Do the customers believe/buy the ESG criteria, or do they strongly question them often?
- Have you noticed any change in this?

6. What responsible investment options you offer for customers?

- Which approach do your responsible investment options apply? ESG incorporation (integration, screening, thematic) or Active ownership?
- Do you have responsibility ratings of your investment funds/investment options? If yes, what are they based on?
- Do you give recommendations of specified companies based on their sustainability efforts?
- Do you offer responsible/sustainable investment bonds for private customers as investment options?
- Is it possible to get investment recommendations to other assets (such as gold, real estate, or private equity) from you?

Appendix 2. The questionnaire.

1. Nationality:
Finnish, Swedish, Danish, Icelandic, Norwegian, Other, please specify
2. Country of residence:
Finland, Denmark, Iceland, Norway, Sweden, Other, please specify
3. Age:
18 or under
18-30,
31-45,
46-60,
61-75,
76 or older
4. Occupational situation: Employed, student, unemployed or not in the workforce (i.e., stay at home parent), retired, entrepreneur
5. Are you working in investment industry, i.e., as an investment advisor or in portfolio management? yes, no.

6. How well you do take into consideration responsibility issues in your everyday life decision (i.e., food, transportation, travelling)? from 1 to 5? (1 not at all 5 very often/daily)
7. Experience in investment: less than a year, 1-4 years, 5-10 year, 11-20 years, 20 years or more
8. Which of the investment assets you currently have or have earlier investment experience?
1. Stocks (listed equity)
2. Investment funds
3.Property
4. Private equity
5. Fixed Income Instruments (i.e., bonds)
6. Other, please specify?
7. None
9. In category from 1 to 5 (1 being not at all important and 5 being very important) how important are the following aspects of responsibility, when making investment decisions, i.e., when choosing stocks to your portfolio or choosing and investment fund to invest your money in
Economic:

- Anti-corruption (i.e., extortion and bribery)
- Fair competition

- Tax avoidance or active tax planning

Environmental

- Sustainable materials and material handling
- CO2 efficiency
- Energy efficiency
- Efficient and responsible water management
- Respecting and protecting biodiversity
- Reduce of waste and efficient waste handling

Social

- Responsible Labor management
- Good occupational health and safety practices
- Qualified education and training for employees
- Equal opportunity and diversity of workforce
- Non-discrimination
- Exclusion of child labor
- Exclusion of forced or compulsory labor
- Positive impact on local communities and indigenous people
- Respecting human rights
- Executive pay

Is there other responsibility matter important to you, not mentioned in the above options?

1. Yes, please specify
2. No

10. How important are ESG (environmental, social & governance) issues for you, when making investment decisions?

1. not at all important – 5. Very important

11. Would you choose investment option with lower return (profit) expectations based on its positive impact on responsibility matters or society?

1. Yes 2. No 3. Not sure

12. Would you rather invest in a responsible fund with lower returns if you could ensure that the fund is not investing in ANY controversial activities?

1. Yes 2. No 3. Not sure

12. Have you chosen investment option earlier with lower return (profit) expectations based on its positive impact on responsibility matters?

1. Yes 2. No

13. Have you applied filters, when choosing investment options, (i.e., choosing companies with lower co2 emissions, or improve of working conditions of the employees?) or chose investment funds that apply certain screening in their investment decision process?

1. Negative screening (excluding companies involved in undesired or controversial activities)
2. Positive screening (choosing companies with positive ESG performance compared to peers)
2. I have not used ESG screening in my investment analysis.

Impact investment is investing capital into assets linked to development of sustainability or focus on investing in assets focused on specific or multiple ESG related issues such as climate change, health, or eco-efficiency. Impact investment can be for example on investing into companies that develop eco-efficient energy or water solutions to tackle environmental issues.
14. Have you included impact investment in your investment strategy?
1.Yes
2. No
Active ownership or stewardship is improving Investees' ESG Performance. Its origins from the idea of that rather than excluding certain industries or companies, the investors can encourage companies to improve their ESG risk management or develop more sustainable business practices. This approach can be divided into engagement and proxy voting. The investors can both engage into discussion with the companies to improve their handling of ESG issues and formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolution on specific ESG issues. (PRI 2019.)
15. Would you choose a company in order to have an impact on their ESG handling by engaging into proxy voting?
1. Yes
2. No, why?
16. Have you chosen a company or investment fund aiming to have on impact on their ESG handling by engaging into proxy voting?
1.Yes
2.No
17. From category 1 to 5 (1 being not at all important and 5 being very important) how important you find that the portfolio manager (of investment funds) participates in active discussion of ESG issues with the management of the companies the fund invests or considers investing in?
1-5.
18. When making investment decisions earlier, have you taken into consideration ESG (environmental, social and governance) factors?
1. Yes
2. No, why?

18 a. If you chose 1. (yes) Answer the following questions, please specify

1.Listed Equity/Stocks

2.Property

3. Private equity

4. Fixed income

5. ESG screened funds (Investment funds that invest in companies fulfilling desired responsibility criteria)

6. ESG themed funds (Investment funds choosing companies that are investing in positive activities, such as environmental technology or healthcare).

7. ESG funds that exclude certain industries (I.e., tobacco, alcohol pornography)

18 b. Why did you take into consideration the ESG issues?

1. Personal values
2. Strong willingness of having positive impact on society
3. Importance of understanding how my money is invested
4. Importance and concern of rising regulatory on responsibility issues
5. Higher return expectation
6. Lower risk expectation
7. Other, please specify?

19. Has your perception on responsibility matters (in investment decision) changed during the past decade?

1. ESG issues have become more important for me
2. ESG issues have become less important for me
3. No change

20. Has your perception on responsibility matters (in investment decision) changed during the past three years?

1. ESG issues have become more important for me
2. ESG issues have become less important for me
3. No change