# Responsible Investment Guide

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# Introduction

Finsif (Finland's Sustainable Investment Forum ry) is a non-profit association serving investors, asset managers, service providers and organisations in the financial sector with the aim of promoting responsible investing in Finland. Finsif strives to raise awareness of responsibility and promote the development of a responsible investment industry, and this guide has been designed to serve these purposes.

The guide contains basic information on responsible investing and the development of the industry, as well as examples of the practical implementation of responsible investing. The aim is to bring out different approaches, perspectives and ideas so that anyone can invest responsibly.

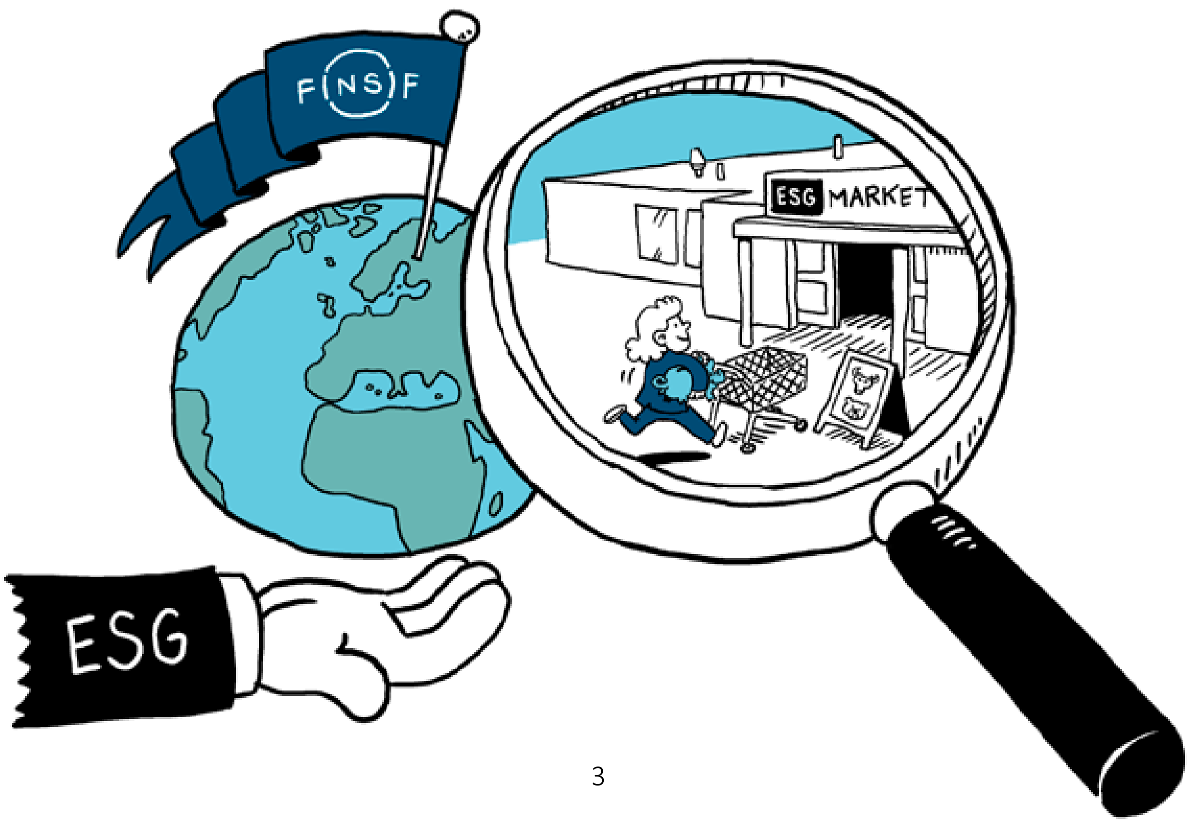
The guide is to be published later on the Finsif website in digital format to make it easier to update it as necessary. In addition, digitalisation enables more active use of videos and visual elements. The new guide contains a large number of examples and introduces the expectations of non-governmental organisations for responsible investing.

The guide has been produced by a group of several authors, so it represents a broad vision of responsible investing rather than a single actor's perspective. However, the ways in which different actors operate indicate how responsible investing can be carried out in different ways. In fact, the guide gives plenty of room for examples.

The working group included Niina Arkko, Katja Einesalo, Emilia Hattab, Anna Hyrske, Hanna Kaskela, Juulia Kangas, Markku Kaustia, Kirsi Keskitalo, Eveliina Leino, Karoliina Lindroos, Peter Lindström, Antti Malava, Tomas Otterström, Sanna Pietiläinen, Teresa Platan, Helinä Saarela, Riikka Sievänen, Hanna Silvola, Vesa Syrjäläinen, Eeva Toivonen and Aksu Tuominen.

We would particularly like to thank the following organisations which contributed to the drafting process by answering questions about the expectations of non-governmental organisations: Amnesty, CFA Society Finland, Fingo, Finnwatch, Global Compact Finland, Suomen Tilintarkastajat, UNICEF and WWF.

We wish you a pleasant reading experience with the guide and encourage everyone to read the works, guides, academic studies and reports of Finsif's member organisations on responsible investing.




# What does responsible investing mean?

Responsible investing can be defined in many ways. In general, responsible investing recognises the importance of environmental, social and corporate governance (ESG) issues in investment and seeks to take them into account in decision-making. The UN-supported Principles for Responsible Investment (PRI) define responsible investment as a strategy or activity for integrating ESG factors into investment decisions and ownership.

The definition of responsible investing is investor-specific and often starts from the investor's goals and values: each investor defines responsible investing from their own starting point and taking their own stakeholders into account. In addition, it is possible to apply responsibility with slightly different weightings in all investment activities and asset classes. The various methods of implementation are described in more detail in chapter "Approaches to responsible investing" of the guide.

## Motives for responsible investing

Motives for responsible investing include

- alignment of investments with values
- risk management
- pursuit of a better risk-adjusted return
- compliance with regulation

### Alignment of investments with values

Studies show that a genuine motive to do the right thing is an important factor that affects investment choices. Although the alignment of investments with values, the desire to do the right thing and to improve the world through investment choices can best be understood as a characteristic of the individual, institutions also share these same aspirations. Alongside the values of the organisation, every community is influenced by the individuals within it. Ideally, the values of the organisation and the individual converge.

### Risk management

Another key motive is risk management. Identifying the risks associated with the investee is an essential aspect of the investment activity. ESG matters are of economic importance, so taking them into account in investment decisions is also linked to risk management. When responsibly operating companies are selected for the portfolio, the risk of unpleasant surprises is also reduced. Responsible companies also receive attention in crisis situations, as happened during the financial crisis in 2008 and the Enron accounting scandal in 2001. The continuing coronavirus pandemic has also brought responsible companies to the centre of attention.

### The pursuit of a better return

The third motive is the pursuit of a better return. Better returns can be achieved not only by reducing risks, but also through opportunities linked to ESG factors. Another way to strive for better returns is through active ownership. By holding a sufficiently large share of the voting rights or by coordinating voting behaviour with other shareholders, it is possible to influence the investee company and improve its responsibility.

### Compliance with regulations

When defining corporate responsibility, reference has often been made to activities going beyond the legal requirements. Responsible investing involves compliance with legislation, but it is possible to use regulation as a motive for responsible investment. The aim is, for example, to identify those operators who will benefit or suffer significant disadvantages from the new regulation. An example of new regulation is the EU's Sustainable Finance Action Plan, which aims to classify sectors and companies according to responsibility and to have a significant impact on markets and investors.

## Combining motives

Each investor, organisation and individual has a number of motives for their investment choices, although the relevance of these motives may vary between investors. Recently, the value-based desire to do the right thing has come to support the notion that taking ESG matters into account in investment decisions at least does not lower the risk-adjusted return.

## TERESA PLATAN
DEPUTY CHIEF INVESTMENT OFFICER | UNIVERSITY OF HELSINKI

### How do you define responsible investing?

Responsible investing starts with the task and values. We define it through four responsibility dimensions: the university, partners, society and sustainable development. We want to assume our responsibilities on an equal footing with regard to all these dimensions. Our practical implementation is based on our values, above all on science.

### What are your motives for investing responsibly?

We believe that by acting responsibly, we are best placed to assume our primary responsibility for safeguarding and increasing the financial stability and independence of the university, also taking into account future generations. We also feel that our position in society obliges us to invest responsibly.

## KATJA EINESALO
DIRECTOR OF RESPONSIBLE INVESTMENT | ELO MUTUAL PENSION INSURANCE COMPANY

### How do you define responsible investing?

It is the consideration of environmental responsibility, social responsibility and good corporate governance, i.e. the ESG factors, in investment decisions. A key part of this is corporate governance and engaging with the investee companies individually and together with other investors. Responsibility for one's own practices also plays an essential role.

### What are your motives for investing responsibly?

The key is to take responsibility for future pensioners. Through responsible investing, we aim for a better risk/return ratio, both by reducing risks and by utilising opportunities. We believe that with sustainable business, companies can achieve sustainable results in the long term, and we as an investor can achieve sustainable returns.

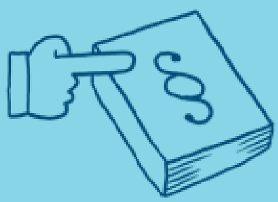
## JULIA THUREN
FREELANCE JOURNALIST, NONFICTION WRITER, ENTREPRENEUR, PRIVATE INVESTOR

### How do you define responsible investing?

For me, it's investing in line with my values. These include the preservation of nature and human rights. I want my money to be tied up in a business that solves problems and does not add to them. As a private investor, it is quite impossible to carry out your own ESG analysis, which is why you have to rely on professional criteria.

### What are your motives for investing responsibly?

My investment horizon is decades, and my plan is to buy and hold. Therefore, I exclude investments such as coal and fast fashion which I do not think will do well in the future. The Code of Corporate Responsibility is being passed in the EU, which will also make respecting human rights more economically viable. I find that in order to feel good about myself, I want to live up to my values and use my actions to create a future in which my children can live happily.



## REGULATION FOR RESPONSIBLE INVESTMENT

Responsible investment is also promoted through regulation. Recently, for example, the EU has adopted a number of regulations imposing obligations, for example on financial operators such as investment firms. The same regulatory framework protects market participants as well as consumers and entities that use investment services. Examples:

- The EU's Sustainable Finance Action Plan aims to steer financial markets towards the sustainable development goals.
- The EU Disclosure Regulation imposes an obligation on financial institutions to provide information on, among other things, the consideration of sustainability risks in investment activities and the overall impact of sustainable investment products.
- The green taxonomy of the EU is a common classification system that defines sustainable investments that respect the environment and climate. Taxonomy helps investors, businesses and EU Member States to channel funding towards sustainability goals.
- The EU's forthcoming Corporate Sustainable Reporting Directive (CSRD) defines its predecessor, the Non-Financial Reporting Directive (NFRD), in more detail what companies should report on the impact of their activities on the surrounding society.
- In addition, investment activities are subject to a wide range of general regulations (such as disclosure and insider regulation).

# Approaches to responsible investing

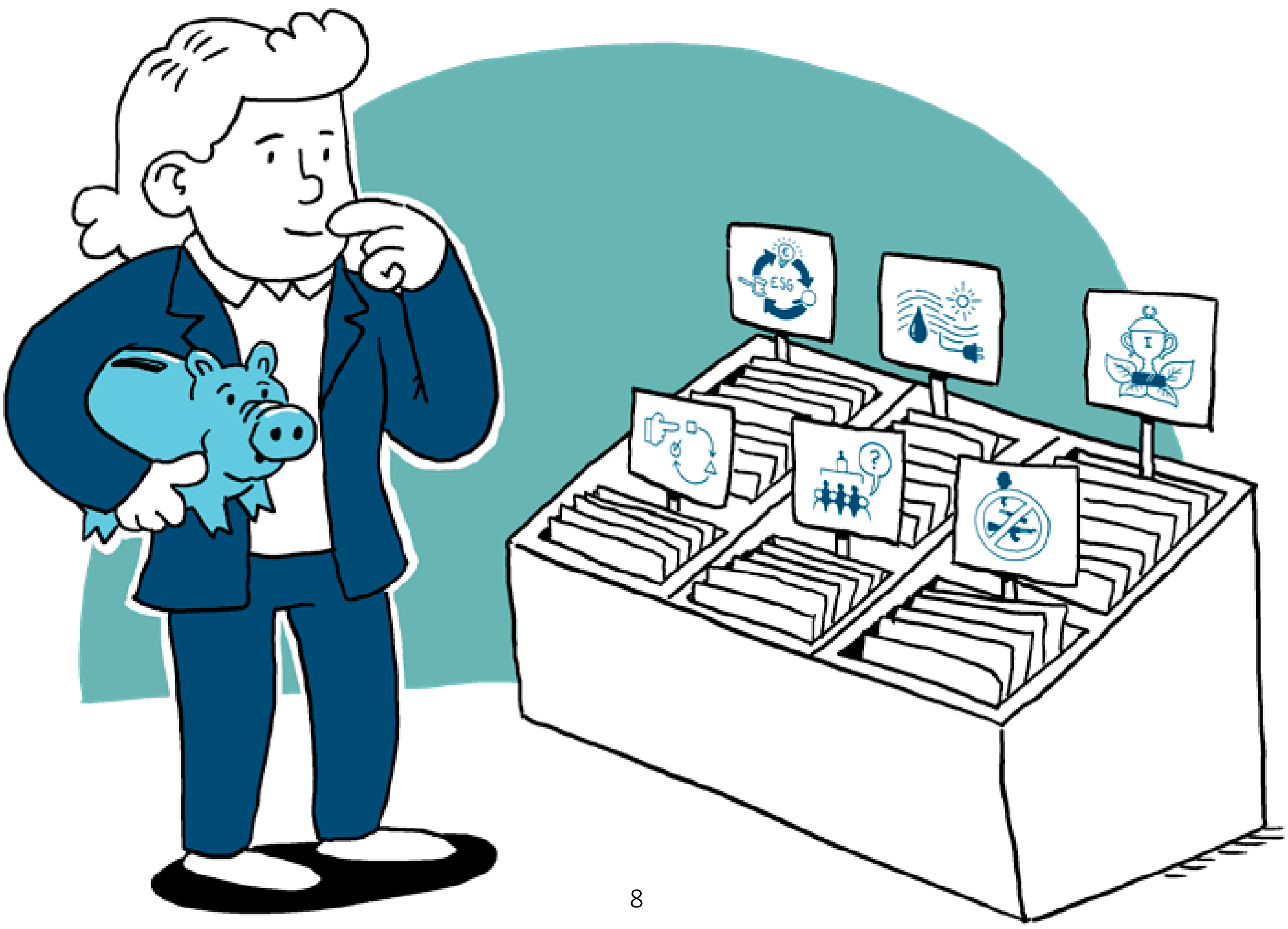
As there is no single definition for responsible investing, it is natural that there are also different approaches and tools. Approaches to responsible investing include:

- ESG integration
- thematic investing
- positive screening/Best-in-Class
- exclusion
- active ownership and engagement
- impact investing.

The most appropriate approaches depend on various factors, such as investment assets and overall investment strategy, as well as objectives, principles and available resources. For example, a pension insurance company and a small foundation may engage in responsible investing in different ways.

Direct investments and tailor-made investment mandates give investors a good chance of finding their own ESG solutions, while a fund investor takes a different approach. Mutual funds are managed in accordance with a strategy drawn up by the fund management company and approved by the investor at the time of investment. In that case, the investor may use, for example, an active dialogue with the fund manager as a responsible investment approach. In this way, management companies can offer ESG compliant funds or update the guidelines for the responsible investment of existing funds.

Approaches to responsible investing are not mutually exclusive but can also be applied in parallel and complementary ways. The most appropriate approach can be found by examining the various options and integrating one's own criteria consistently, for example, into the selection process of investment funds.




## ESG integration

The objective of ESG integration is to integrate essential responsibility criteria alongside financial information in investment analysis and investment decisions. In this way, they can make a positive contribution to the long-term return risk profile of the investment.

From the point of view of responsibility, the materiality varies from sector to sector. Land use is essential, for example, for forestry and construction companies, but in the IT sector attention is focused on issues such as the protection of privacy and the treatment of employees instead of land use issues. One of the most prominent approaches to ESG topics by industry is the international Sustainability Accounting Standards Board (SASB) framework, which, through expert groups, identifies the most important responsibility issues for industries in terms of economic significance. The table at the end of this section illustrates the differences between the sectors by reference to this framework.

In addition, the new EU Disclosure Regulation, for example, will require the transparency of sustainability risk practices in the financial sector, which will lead to mainstreaming corporate responsibility in investment activities. Reporting requirements increasingly highlight sustainability factors and affect both investees and corporate investors.

**What are the challenges of ESG integration?**

- Investors, investee companies and other stakeholders all have a number of different objectives, including in terms of responsibility and sustainability. How to sift out the most relevant issues and focus on them in the context of ESG integration?

**How are these challenges to be tackled in practice?**

- Investors often have the knowledge of external ESG research companies to facilitate analysis, as well as possibly their own tools to help them make responsible investments.

## DIFFERENT INDUSTRIES FOCUS ON DIFFERENT FACTORS

Economically the most relevant responsibility topics for three sectors:

| Pulp and paper products | Industrial products and services | Telecommunications services |
|---|---|---|
| Greenhouse gas emissions | Energy management | Energy management |
| Air quality | Occupational health and safety | Customer privacy management |
| Energy management | Product design and lifecycle management | Information security |
| Water and waste management | Raw material procurement | Raw material procurement |
| Production chain management | | Competitor behaviour |
| | | Systemic risk management |


## Positive screening/Best-in-Class

This approach favours a particular sector or companies which the investor considers to be responsible. This is the opposite of exclusion: instead of exclusion, companies and industries in which one wants to invest are actively selected.

**How is positive screening implemented in practice?**

There is no established practice and investors can choose their preferred criteria and methods. For example, the Best-in-Class method favours companies with the best ESG ratings:

- selecting an index, with companies divided into industry classes
- ranking of the industry class according to the ESG assessment
- choosing priorities for the different sectors
- selecting the best-ranking portfolio for oneself.

**Challenges of positive screening**

The focus of the ESG analyses of different ESG research companies varies, which is why the ESG classifications of different agencies do not necessarily correlate. The problem is related to the challenge of exclusion: different agencies emphasise different responsibility matters.

Another challenge is the existence of sectoral, country or regional biases. Depending on the weighting of responsibility factors, significant overweighting or underweighting can be found, which can also influence the return-risk ratio. The portfolio managers of Veritas, Olli Hemminki and Tapio Koivu, describe the problem as follows:

*"If an investor wants to invest responsibly in developing stock markets, for example, there are several options. Given the social and administrative dimensions of responsibility, Chinese companies often end up being underweighted. However, in a more climate-driven approach, China may be significantly overweighted with its low-emission technology companies. Therefore, in order to be responsible, investors in emerging stock markets should both over- and underweight China: ending up with a contradiction."*

## Exclusion

Exclusion is one of the most traditional approaches to responsible investing. Exclusion has a long history in ethical investing, where products and services are excluded from the investment universe on the basis of the investor's personal worldview and morality.

Today, exclusion is increasingly done on a return basis, rather than on a purely value basis, and is linked to estimated financial risks. As a result of climate change, an investor may see, for example, investing in coal as an economic risk and completely exclude it from its portfolio. The same conclusion can be reached by investors who do not want to gain any economic advantage from acting contrary to their values. In this case, the values may be related, for example, to the investor's desire to exclude fossil fuels in general. Exclusion has many different variations, one of which is the norm-based exclusion popular in the Nordic countries. In this case, international norms such as human rights, labour rights, environmental issues and corruption, as mentioned in the UN Global Compact initiative, are used as exclusion criteria.

**How is exclusion implemented in practice?**

In practice, exclusion takes place when the investor first identifies the investees that they do not want in their portfolio: in other words, they determine for themselves in some way the investments that are inappropriate for their investment strategy. These investments are then excluded from potential investments and the investment portfolio is constructed on the basis of the remaining investment universe. Excluded investments may include products or industries such as controversial weapons, tobacco and coal.

In a norm-based approach, the exclusion takes place in practice on the basis of the company's already existing norm violations. In this case, investment items are removed from the investment portfolio, for example, on the basis of an environmental offence or the trampling of employees' rights. The investor can also combine different approaches. For example, instead of an immediate exclusion, the investor may seek to engage with the company through active ownership. If the engagement is successful, there is no need for exclusion, as the company has changed its practices and compensated for the damage it has caused. If the engagement is not successful, the investor may exclude the investee from the potential investments.

## Challenges of exclusion

Exclusion has many challenges that investors, customers and stakeholders need to be aware of. For example, the definition of exclusion criteria is based on investors' own perceptions of responsibility, and these perceptions vary widely. For one, nuclear power is responsible, and for the other, it is irresponsible. In addition, total exclusion is difficult: for example, grocery stores sell tobacco, so if an investor requires total exclusion of tobacco, the retail sector must also be excluded from the investment portfolio. This problem can be solved with turnover thresholds, that is, by determining the maximum percentage of the investee's turnover that can be derived from the exclusionary product or activity.

Exclusion of certain asset classes may significantly reduce the investment universe, thus reducing the potential for portfolio diversification and possibly the return on the portfolio. Exclusion may also leave profit potential untapped when excluding productive investments. For example, the controversial industries, such as the tobacco and arms industries, have at times offered good opportunities for gaining returns. On the other hand, in a period of low returns, the lack of an industry in the investment portfolio may have brought benefit to the investor.

## Active ownership and engagement

Active ownership refers to the exercise of an investor's ownership rights to promote a more responsible business, reduce risks and secure return on investment. Active ownership is implemented, for example, by voting at general meetings or by discussing directly with the management of the company, aiming to influence the company's operations.

**How is active ownership and engagement implemented in practice?**

The investor can directly engage with the company itself or take advantage of the power of a wider group, that is, to do collaborative engagement with other investors. Direct engagement can be related to improving the company's operations (for example, when the company violates international norms) or to tackling certain themes (for example, improving equality). Collaborative engagement has increased its popularity and proved to be an effective means of bringing about change. Collaborative engagement may involve, for example, several asset managers and investors, non-governmental organisations or service providers. One of the best-known and largest collaborative engagement initiatives is Climate Action 100+, which consists of more than 500 investors. Together, the initiative engages with 160 companies, which are the world's largest emitters of greenhouse gases. The aim of the initiative is to encourage companies to pursue low-carbon activities and to commit to the goals set out in the Paris Agreement. The initiative has contributed to the pressure on companies, and more than 40% of the companies involved in the initiative are already committed to climate targets. More information on the initiative can be found in the latest report on the initiative.

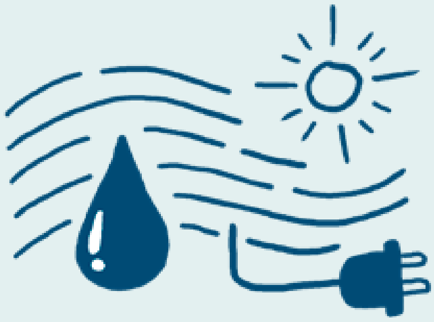
Collaborative engagement is also visible at general meetings as shareholders increasingly submit proposals for voting at general meetings. These proposals may relate, for example, to the setting of climate targets and appear on the agendas, both as joint initiatives and by individual investors. If there is sufficient support for the proposal (generally more than 50% of the votes), the company will be obliged to take action. Even if the result is not achieved immediately, the activity of the investors may prompt the company's management to take into account the proposals made later. A Nordic example of this is Volvo, whose 2020 Annual General Meeting had a shareholder proposal to set science-based targets. The proposal was not accepted at the AGM. However, the company has set carbon neutrality targets, science-based climate targets and joined the public sponsorship of the Task Force on Climate-related Financial Disclosures (TCFD).

US oil giants have also been the target of growing investor cooperation. For example, at the general meeting of ConocoPhillips, the third largest oil producer in the US, in spring 2021, the shareholders' proposal to set emission reductions received a majority, and the company must take action as proposed. At the Annual General Meeting of Exxon, the proposal of activist investors on the composition of the Board of Directors also gained a majority, and thus, for example, Kaisa Hietala, expert on biofuels and renewable energy, was elected to the Board of Directors. Similar presentations focusing on environmental issues have also been seen at general meetings of other oil companies, and more are coming.

**Challenges of active ownership**

The aim of active ownership is to get companies to correct or improve certain aspects of their operations, to be better prepared for future risks and to help them promote and identify opportunities. One clear challenge in terms of achieving the objectives is the paradox of whether it is better to own the disputed company or sell it off.

Exclusion of certain companies or sectors may sound unambiguous. However, in doing so, the investor also relinquishes a large part of their influence over the company. For example, in case a shareholder gives up their voting rights in the general meetings, it may be difficult to pursue influencing in a company if the ownership relationship no longer exists. The company pays more attention to an investor who has influence over the company through equity holdings. When ownership is maintained and shareholder power is exerted on the company, for example, through dialogue or by voting at general meetings according to the investor's views, this continuation of ownership may prove to be a more responsible decision in the long term than exclusion. When a company's shares or bonds are sold off, someone always buys them on the market and, in the worst-case scenario, they are transferred to an investor who is not engaged in active ownership or who does not try to drive the company to act more responsibly. Independently of ownership, engagement efforts  can be pursued, especially through collaborative initiatives. This is an additional benefit to reach results through collaborative engagements. However, the leverage effect of ownership is undeniable and the ownership of even one share entitles the investor to participate in the general meeting.



## Thematic investing

The aim of thematic investing is to make investments based on a certain theme, for example, by focusing on certain sustainable development themes, such as renewable energy and human rights, or by adopting the UN Sustainable Development Goals (SDGs) as a reference framework. In thematic investing, all the selected investments promote the chosen theme, while the positive screening portfolio may also include individual items that do not meet the criteria.

The new EU regulation will also clarify the issue of thematic investing insofar as sustainable investing is now more clearly defined than in the past. A sustainable investment is an investment in an economic activity that promotes:

- an environmental objective (e.g. goals related to renewable energy, use of raw materials, water and land, generation of waste and greenhouse gas emissions or impacts on biodiversity and the circular economy)
- a social objective, in particular an investment that promotes the fight against inequalities or promotes social cohesion and industrial relations
- investment in human capital or in economically or socially disadvantaged communities.

It is also a prerequisite that such investments do not cause significant harm to any of the above objectives and that the investee companies comply with good corporate governance, in particular with respect to functioning administrative structures, employee relationships, staff remuneration and tax compliance.

**Challenges of thematic investing**

- SDGs, which can be used to define the theme, were originally created for governments and their impact through business is not unambiguous.
- In the case of thematic investing, all portfolio investments must be according to the theme, otherwise the question is of positive screening. This may pose challenges to the construction of the portfolio.

**How are these challenges to be tackled in practice?**

- With the ESG data, it is possible to gain an understanding of which areas of sustainable development are affected either positively or negatively by the company's operations.
- The subject will be clarified in the coming years with the entry into force of the new regulation.

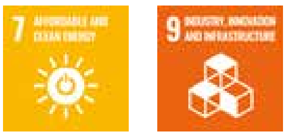
## CASE

Danske Bank's Thematic Fund utilises the UN SDGs when selecting investments. The Fund's investees must be active in solving these sustainability challenges. The investments of the Thematic Fund can be diversified both geographically and by sector.

The implementation of thematic investing through the SDGs is described below:

**CLIMATE OBJECTIVES**
which focus on, among other things, the shift of energy production towards a green economy.

Objectives of the UN



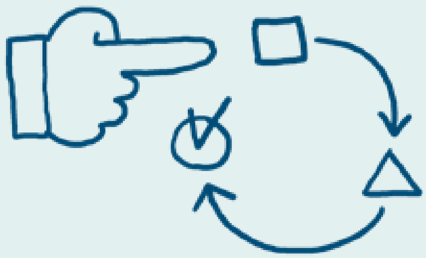

**NATURAL RESOURCES**
which focus on issues such as water scarcity and overconsumption of natural resources.

Objectives of the UN


**SOCIAL EQUITY**
with the key role of ensuring a healthier and better life for people all over the world.

Objectives of the UN


Source: Danske Bank



# Impact investing

The objective of impact investing is to measure, in addition to investment returns, a change in, for example, social or environmental objectives. Additional return may be available to the investor if the desired impact is achieved. Therefore, measuring and verifying impact is essential in impact investing.

**How is impact investing implemented in practice?**

Examples of investments related to impact investing include loans or equity investments for example in companies or organisations, and social impact bonds (SIB) that generate the required positive impact. The popularity of impact funds has recently increased. There is an interest in combining financial returns with measurable impact, as there is a growing desire to channel funding to where impact can be achieved and where it can be verified.

OP Financial Management and Finnfund jointly launched Finland's first impact fund investing in developing markets. Besides financial gains, the fund aims to achieve positive impacts on climate change, food security, gender equality and access to finance. The Fund has three main objectives in developing countries: renewable energy, financial institutions and sustainable agriculture.

**What challenges should be taken into account?**

In impact investing, the concept of additionality is essential. This implies that without the invested funds, the desired change would not have taken place. There are also challenges in verifying such impact, as standards for measurement are yet to be determined. Many funds are marketed as impact funds (the name of the fund often includes the term impact), although their impact does not include the required additionality. For example, in the case of an equity fund, it is extremely difficult to verify additionality. A fund may be misclassified as an impact fund when it invests, for example, solely in companies tackling climate change. While this type of investing is important and has a positive influence, it does not in fact meet the impact criteria.

Impact investing is mainly implemented through private equity investments and loans in order to measure, demonstrate and continuously monitor additionality and impact. In a listed market, it is very difficult to prove that the funds invested would achieve a certain measurable impact, and it is difficult to monitor the use of proceeds for a particular impact project. Investments in the retail market are illiquid and often high-risk. For this reason, there are still sparsely products on the market that are also suitable for private investors. Progress is taking place in these products as well.

## OPPORTUNITIES AND CHALLENGES OF DIFFERENT APPROACHES TO RESPONSIBLE INVESTING

| Approach | Opportunity | Challenge |
|---|---|---|
| ESG integration | Incorporating ESG issues into the core of investment activities mainstreams responsibility into the investment process | There is no unequivocal way to choose the most important areas of responsibility on which to focus |
| Positive screening | Completed analysis in support of the investment decision | The correlation between the ratings given by ESG research companies is poor |
| Exclusion | An easy way to start responsible investing | Difficult to define and completely exclude investees |
| Active ownership and engagement | Investors can impact the world by engaging with the companies they own | Engagement and succeeding in it requires a lot of resources |
| Thematic investing | More targeted investments can be made in the selected theme | It is unclear how investees impact on the selected theme due to inconsistent amount and quality of information available |
| Impact investing | In addition to investment returns, measurable change is sought | Challenges in measurement and investments are illiquid and high-risk |


# Finland's responsible investment markets

More than 60 members of Finsif responded to the market study on responsible investing in Finland published by Finsif in 2020. Of the respondents, 33% were asset owners, 58% asset managers and 9% service providers, and more than 60% had investment assets of at least EUR 1 billion. According to the market study, responsible investing is clearly on the increase and strengthens its position in Finland. The trend is global, and many financial institutions are trying to profile themselves as responsible investors. The results of the market study speak for themselves: none of the respondents estimated that the importance of responsible investing would diminish in their own operations. Finsif's members felt that responsible investing was in line with their values and an important part of better risk management. The following quote reflects the view of a member:

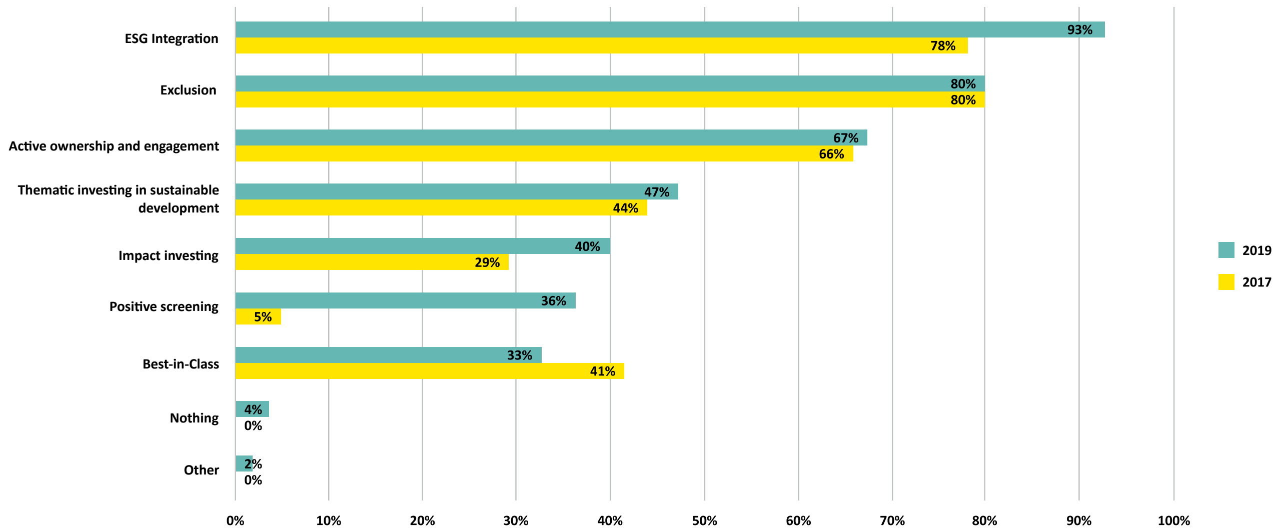
> *"Responsible investing is first and foremost risk management and, in the future, will increasingly have a tangible impact on environmental factors and social conditions in the world."*

In recent years, the EU has developed a set of rules on sustainable financing and investment, which is widely applicable to Finsif members. At the heart of the regulation is the sustainable financing classification system, i.e. taxonomy. According to the market study, Finsif's members considered the regulation of sustainable financing to be mainly important or very important, while 58% considered taxonomy to be important or very important. The importance of regulation can be expected to increase further: The EU Disclosure Regulation entered into force in March 2021 and more regulation on sustainable financing is expected to come into force in the coming years.

## Responsible investment approaches and their challenges

The preference of various responsible investment approaches, i.e. ESG integration, exclusion, active ownership, thematic investing in sustainable development, positive screening and the Best-in-Class method, as well as impact investing amongst Finsif's members is described below. In 2019, ESG integration was the most used responsible investment approach in Finland, while globally it was the second most popular approach and exclusion the most popular. In Finland, exclusion was the second most popular.

### RESPONSIBLE INVESTMENT APPROACHES IN FINLAND




However, a quarter of Finnish respondent organisations mention that they need more knowledge of ESG themes. The quality and coverage of ESG data, as well as the lack of comparability, were mentioned as key challenges for responsible investing. Attitudes at both the social and organisational levels are also one of the challenges of responsible investing. In some of the respondent organisations, responsible investing is still partly seen as charity. Other challenges mentioned were greenwashing, regulation and the profitability.

## Responsibility as part of remuneration systems

So far, only pioneers have brought responsibility into the remuneration policy of management and investment decision-makers. In both the 2019 and 2017 market studies, responsible investment was part of the remuneration of management or investment decision-makers in approximately one fifth of the respondent organisations.

The general view is that the inclusion of responsible investing in remuneration policies would strengthen ESG integration. According to the best practices in the industry, responsible investing is implemented as part of the entire investment organisation and investment processes. Responsibility for ESG issues is clearly defined for all relevant parties, such as management, investment decision-makers and ESG experts. According to the best practices, responsible investing is also included in the remuneration systems of the persons concerned. In line with the new EU Disclosure Regulation, financial institutions will have to report on the consistency of their remuneration policies in relation to sustainability risks.

In addition, according to the reporting framework of the UN-supported Principles for Responsible Investment (PRI) updated in 2021, more attention has been paid to remuneration principles. Remuneration, according to the new update, is one of the mandatory and scorable indicators of the reporting framework, which encourages companies to include responsibility in remuneration structures.

# Making a responsible investment strategy

Responsibility must be seen as a natural part of a company's entire business with a central role in ensuring business continuity. In addition to the responsibility and sustainability of one's own operations, it is important that responsibility is systematically and pragmatically integrated into investment operations – both processes and products.

Good preparation makes the implementation of responsible investing, measuring results and reporting simpler and clearer. The preparation phase sets the objectives and strategy for responsible investing and establishes the principles or policy for responsible investing.

## Objectives of responsible investing

When starting to formulate and develop an institutional investor's responsible investment strategy, it is important to engage employees from across the organisation from the outset. The commitment of the operational management and the members of the Board of Directors is also important in order to integrate responsibility into the entire organisation. Equally, it is important for private investors to consider their own responsibility objectives when choosing the right approaches and tools for themselves.

## Investor’s own state of mind

The starting point for everything is attitude and state of mind. What does responsibility and responsible investments mean for an investor? Does it mean investing responsibly and sustainably because of believing in improved return and risk profile of the portfolio, especially in the long term? Does the operating environment put pressure on the consideration of responsibility?

## Regulatory obligations, guidelines, and stakeholder expectations

It is valid to understand which regulations, obligations and other guidelines related to responsibility of the operating environment are applicable to company’s processes, products and reporting. One example is the legislation on sustainable finance that has been in the pipeline in the EU for several years. The ultimate aim of the legislation is to promote capital flows towards more sustainable investments. This will be achieved, for example, by increasing the transparency of investment products from the point of view of sustainability and responsibility, thus preventing greenwashing. The EU Disclosure Regulation became broadly applicable in March 2021. Operators in the financial sector will have to report, among other things, on the sustainability risks associated with their own activities and investments and whether the operator will take into account any adverse impacts on sustainability factors resulting from the investment decision. The term "sustainability risk" in regulation refers to an environmental, social or corporate governance event or condition that could cause a negative material impact on the value of the investment. Moreover, the regulation require updates related to product information provided to customers, periodic reviews and remuneration policies. In addition, it is important for the company to take into account the expectations regarding responsibility of its key stakeholders.

## Implementation in practice

Responsibility must no longer be seen as a separate part of an organisation, but as part of all investment activities. In practice, this means that responsibility is systematically integrated into the selection, monitoring and reporting of the investee in all asset classes.

## Managing and developing responsible investment activities

Responsibility for the management and development of responsibility work in the organisation should be considered. Who is responsible for the development work, and how are the stakeholders trained to address current responsibility issues? However, it is important that everyone involved in investment decisions understands the responsible investment approach and takes responsibility/sustainability risks and opportunities into account both in the selection of the investment and in post-investment engagement. It is good to report to the organisation’s Board of Directors once a year on the implementation of responsible investment practices, possible responsible investment related incidents and future development activities in all types of investments.

## Implementation in different asset classes

The first step is to consider what are the key approaches to responsible investing. This is followed by an assessment of how responsibility is implemented in different asset classes (e.g. active/passive funds, shares and fixed income investments, alternative investments such as real estate and private equity investments). In addition, it is necessary to define what are the key responsibility metrics assessed by the investment decision-making party and which responsibility aspects are taken into account when evaluating the development of responsibility within the investment. As a rule of thumb, rregardless of the type of investment, the responsibility analysis of an investment must always be included in the pre-investment phase. The assessment is executed using sustainability metrics defined by the investor.

Regarding ownership practices and engagement, it is important that the investor actively influences the investees through direct dialogue with the investees. It is beneficial to assess whether analysis and services from external data providers are needed in addition to one's own analysis and engagement, when selecting an investment as well as when engaging with investee companies. Examples of external service providers include ESG research companies, such as ISS ESG and Sustainalytics, which regularly analyse the content of the investment portfolio for possible violations of the UN Global Compact principles. These violations typically concern environmental issues, corruption as well as human and labour rights. This screening information can be actively used in dialogues with investee companies, and all verifiable violations lead to an investigation process which aims to determine whether the investment is in line with the investor's long-term responsibility principles.

The last important element to consider is the reporting of responsibility activities and outcomes. The implementation of responsibility must be regularly reported to the investor's key stakeholders. The content to be reported varies by asset type. Reporting should provide an up-to-date view of how responsibility has developed over certain period in all operational activities and/or the investment product concerned. In addition, reporting should cover the types of responsibility related incidents (negative, questionable, and positive) concerning investees and how the incidents have been addressed.

## Promoting responsible investing in the industry

As part of the strategic thinking on responsible investing, it is also important to consider whether to influence the development of responsible investing in the industry in general. Does the operator wish to become a signatory to the UN-supported PRI, or are these principles implemented as part of its own investment activities? It is also worth considering if there is a desire to be involved in organisations and projects in different sectors in order to promote responsible investing.

## Principles or policies for responsible investing as a reference framework

The strategy for responsible investing resulting from the preparatory phase will be developed into principles or policies for responsible investing. They provide a reference framework for the entire investment activity of the investor and its operations. In the best case scenario, the principles cover all asset classes of the investor. If the principles apply only to part of the investment activities, the coverage and reasons for limited coverage must be clearly stated. The application of the principles and the approaches adopted may vary according to the type of asset and the type of investment. The principles also provide a comprehensive view of the responsible investment approach to the key stakeholders of the investor. Responsibility and its implementation must be seen as a continuous development process. It is also advisable to assess the need for updating the principles/ policies of responsible investing on an annual basis.

## EXAMPLES OF THE CONTENT OF THE PRINCIPLES/POLICIES OF RESPONSIBLE INVESTING

### A. The investor's approach to responsible investment

What does responsibility and responsible investing mean for the investor?

- Commitment/willingness to operate as a responsible investor
- In addition to traditional financial aspects, when making investment decisions, it is important to take into account the risks and opportunities associated with ESG factors
- To be integrated into the investor's investment activities (including investment processes, ownership, and reporting)
- Taking into account the key stakeholders' responsibility expectations
- Promoting responsible investing in the industry

### B. Aspects and practices of responsible investing

A description of the key responsible investment approaches of the investor, such as the integration of ESG into investment practices, active ownership and engagement, and impact investing:

- Taking responsibility into account when selecting potential investments, post-investment and in reporting of investments
- ESG indicators and setting targets
- Regularity, frequency and target groups of ESG reporting
- Specific reporting frameworks for determining responsibility and reporting about it

### C. Approval and implementation of the principles of responsible investing in the organisation

- Determining/updating, approval and implementation of the principles for responsible investing are managed in the organisation
- Distribution of responsibilities within the organisation
- Managing conflicts of interest

## Responsibility indicators

When the investor starts to build their responsibility indicators, it is worth to consider what indicators would provide the most comprehensive view on the level of responsibility in the investee company. What are the material responsibility risks and opportunities that, if realised, could potentially affect the investee's operations and financial performance? In addition, it is worth considering whether to build a uniform set of responsibility indicators for all types of investments and whether to include industry-specific indicators in the monitoring. Industry-specific responsibility indicators can be examined, for example, in the framework provided by the SASB. The SASB's Materiality Map document defines the relevant themes for 11 different industries and their sub-industries.

Examples of responsibility indicators are described below. The list is not exhaustive, but it provides support for the reflection on the responsibility indicators.

### ENVIRONMENTAL ISSUES (E)

- Greenhouse gas emissions
  - Scope 1 emissions = emissions that can be directly influenced by the company and are the result of the company's own operations
  - Scope 2 emissions = indirect emissions related to the purchased energy, for example, from the generation of electricity and heating
  - Scope 3 GHG emissions = emissions from the end-use of sold products and the procurement of goods and services, i.e. all indirect emissions
  - Carbon footprint (GHG emissions tCO2)
  - Emission intensity (GHG emissions/turnover)
- The company's climate strategy and targets
  - Existence of a climate strategy
  - Carbon neutrality targets
  - % of turnover from environmentally sustainable activities (EU Taxonomy Regulation)
  - % of CAPEX to environmentally sustainable activities (EU Taxonomy Regulation)
  - Circular economy
- Biodiversity
- Energy consumption
- Water consumption
- Waste, waste management
- Eco-friendly business opportunities
- Established violations of norms related to environmental issues
  - For example, violations of norms verified by an external operator

## SOCIAL RESPONSIBILITY ISSUES (S)

- Indigenous rights
- Human rights
- Supply chain management
  - Existence of Suppliers Code of Conduct
- Job satisfaction
  - Employee Net Promoter Score (eNPS)
- Occupational health and safety
  - Occupational accidents and sick leave
- Employee turnover
- Customer satisfaction
  - Results of the customer satisfaction survey
- Verified norm violations in social responsibility matters (including human and employee rights)
  - For example, violations of norms verified by an external operator

## CORPORATE GOVERNANCE (G)

- Managing responsibility
  - Responsibility in the investee's strategy
  - Management and oversight of responsibility
  - Essential responsibility issues defined by the investee and indicators for monitoring
  - Responsibility reporting and its existence on the website
- Diversity in the company
  - For example, age, gender, education, ethnicity
- Structure of the Board of Directors
- Remuneration of management
  - Responsibility matters included in remuneration
  - Remuneration policy, in which responsibility matters are taken into account
- Business ethics
  - Existence of Code of Conduct
  - Whistleblowing channels
  - Data protection and privacy (GDPR)
  - Guidance on anti-corruption and anti-bribery measures
  - Cybersecurity
- Established breaches of corporate governance standards (including corruption and distortion of competition)
  - For example, violations of norms verified by an external operator

# Responsible investment organisations and initiatives

The practical implementation of responsible investing is followed by the establishment of a responsible investment strategy. The investment strategy described above has chosen appropriate asset types, approaches and desired risk levels that need to be put into practice. Work may seem demanding, but fortunately there are organisations, initiatives and recommendations that can be utilised to help investors.

## Memberships in associations and organisations

Responsibility, whether the question is of a company or an investment, is not universally defined. Therefore, it may be difficult for an investor to understand what responsible investing is and how to get started. Fortunately, various organisations promoting responsible investing have developed that complement each other but emphasise different perspectives. By relying on their ideologies, methods and research, it is possible to quickly get to grips with key issues related to responsible investing.

Familiarisation with different associations, their perspectives and methods helps to understand the diversity of responsible investing issues and to create a basis for critical examination of different perspectives. In addition, it helps to reflect one's own views, objectives and values when developing investment strategy.

Finsif, or Finland's Sustainable Investment Forum, promotes responsible investing in Finland by providing a place for networking and a channel to acquire information. Finsif organises various events and networking opportunities for its members. The events cover topical themes from the responsibility perspective of different asset classes. There are also similar organisations in other Nordic countries. A list of the various actors in the sector and their websites is compiled at the end of this guide.

## Carbon neutrality projects

One of the main themes of responsible investing today is to support society's transition towards carbon neutrality. In the World Economic Forum (WEF)'s annual long-term risk assessment, the risks related to climate change have come to the fore in recent years, and now the private sector is also seen as an important driver of change in the fight against climate change. On the other hand, climate change is largely a systemic phenomenon, which means that an investor cannot use the traditional risk mitigation method, i.e. diversification, to completely exclude the potential impact of climate change on their investment return assumptions. Therefore, the integration of climate-related risks and opportunities into investment strategy, methods and objectives can be seen as both a risk management tool and a contribution to the societal objective.

Indeed, several net zero carbon projects have emerged and serve as starting points and targets for various stakeholders. Companies themselves can aim for carbon neutrality, for example, by setting science-based climate targets as approved by the Science Based Targets initiative (SBTi). From the investors' point of view, the two key projects are Net Zero Asset Owner Alliance and Net Zero Asset Managers, whose members' combined assets at the time are close to USD 38 trillion. The aim of both initiatives is to support the Paris Agreement on climate change, i.e. limiting the global average temperature increase to 1.5°C. The members of the initiatives are committed to reach net zero on all their investment products by 2050, setting concrete milestones and collectively seeking to engage those sectors and companies that are responsible for the largest source of global $CO^2$ emissions. Thus, the commitment to the net zero project strongly guides the strategic development and operational implementation of responsible investing and investing in general.

It is important to note that the net zero orientation of the investment portfolio does not automatically imply that the portfolio through investments would affect emissions reductions in line with the targets in the real world. Ultimately, the reduction of emissions requires action by the companies which produce these emissions and in which the investors are invested in. Thus, for example, the exclusion of a particular company or industry does not directly reduce emissions, but it can have an impact on how companies change their activities through group pressure. On the other hand, the biggest emitters are often the ones who need the most support and capital to make their business models more low-emission. Thus, net zero projects typically do not encourage the divestment or exclusion of companies but identify those companies that show a willingness to change their business model to a low-carbon one. In addition, the projects will encourage support for these companies and seek to engage those companies that have not yet made the climate agenda one of the key strategic business development priorities.

## Reporting models for the investor

Whereas financial accounting is now highly standardised and thus comparable, reliable and useful for decision-making, non-financial information (such as responsibility information) is still under development.

There is still an active debate about whether global standards should be developed for companies and mandatory reporting should be introduced. While there is a great need for standards in the interests of clarity, efficiency and comparability, different perspectives are also beneficial.

This is largely a question of which stakeholders' needs are primarily to be served. Financial interests require information on responsibility, which is most likely to have an impact on an enterprise's financial or operational results and, as a result, on the creation of the enterprise's shareholder value. On the other extreme, one can identify needs to measure the environmental and societal impact of a company. In the long term, however, it can be considered that these perspectives are similar: the long-term ability of a company to create sustainable added value depends on how much environmental and social capital it has at its disposal.

As companies have started to take more systematic account of responsibility and sustainability factors in business decisions, measuring and reporting these factors have become commonplace. However, the challenge is the complexity and overlap of reporting standards and frameworks. The same question is asked in dozens of different ways, which is burdensome for companies. From the investor's point of view, the end result is that different companies report different things and in different ways, which makes the comparison of data challenging. Institutions in the field, such as the Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB), published a common vision for corporate responsibility reporting, which aims to cover the communication needs of different stakeholders in a comprehensive and easily accessible manner.

As part of the European Commission's Sustainable Growth Finance Action Plan, the Sustainable Finance Disclosure Regulation (SFDR) for the financial services sector became applicable in the EU on 10 March 2021. The Regulation applies to operators in the banking, insurance and capital markets sectors and obliges them to provide harmonised ESG information on investment products. The aim of the Regulation is to increase sustainable investments and to prevent greenwashing by harmonising the criteria for the characteristics of products classified as sustainable. The Disclosure Regulation is the first disclosure obligation for investment product providers and, over time, will facilitate investors in structuring and comparing the sustainability characteristics and targets of investment products.

## The benefits of reporting

Responsibility reporting creates transparency, credibility, acts as part of corporate communications and builds brand. Reporting also provides the basis for the company's sustainability risk management and monitoring. The importance of reporting is emphasised as the market for responsible investing grows. Stakeholders, the company's management and operations, and regulation increasingly require openness and transparency both in terms of the assets invested and in terms of the company managing the investments.

The content of the reports depends on the stakeholders and the purpose of the report. Most commonly, responsible investment reporting consists of reports required by legislation or initiatives, fund-specific reports, annual reports and reports suitable for the company's internal use.

The most well-known and well-established initiative in the field of responsible investment reporting is the UN-supported PRI.

## Principles for Responsible Investment (PRI)

PRI aims to help investors understand the impact of ESG factors on investments and to support its international network of investors in incorporating these factors into investment decisions and active ownership. PRI signatories undertake to report annually on their responsible investing activities. The signatories will receive feedback in the form of grades based on their responses. The reporting framework enables signatories to monitor and verify their own activities, to compare them with other investors, and to develop their own vision for responsible investing.

## Other reporting frameworks for the investor

Other well-known reporting initiatives and frameworks include the TCFD (Task Force on Climate-related Financial Disclosures), the CDSB (Climate Disclosure Standards Board), the GRESB (Global Real Estate Sustainability Benchmark), the CDP (Carbon Disclosure Project) and the SASB (Sustainability Accounting Standards Board). The initiatives aim to promote reporting standards for responsible investing, to prevent greenwashing and to produce comparable data for use by investors and investors' stakeholders. On the legislative side, the EU's regulatory package on sustainable financing increasingly influences the reporting requirements.

There are no standardised reporting frameworks for investors and internal reports. Depending on the purpose of use and the target group, the report may consist of both internal data and ESG data produced by an external service provider. Content can be both quantitative and qualitative. Essential elements may include the ESG risk assessment, the overall responsibility assessment, the carbon footprint, descriptions of the used responsible investment strategies and their applications, the coverage of the disputed sectors defined by the investor (e.g. tobacco, alcohol, gambling and arms industry) and the portfolio manager's review.

As the market for responsible investing grows, the need for objective ESG data and analysis tools has increased. Known providers of ESG data, analysis and reporting tools include for example MSCI and Morningstar. Data can be used, for example, in portfolio management and in support of other decision-making. The service provider's product may partially meet the need. As the company's ESG objectives and capabilities deepen, the most relevant ESG tools are often composed of products from different service providers.

### CASE EXAMPLES

There are many different products on the market that take responsibility into account in different ways in practice.

Taaleri launched Finland's first open-ended investment fund specialising in impact investing in 2020. The Fund seeks both risk-adjusted market returns and an impact, i.e. measurable social and environmental benefits. The objective of the Fund is to contribute to enabling solutions to societal or environmental challenges and to promoting sustainable development. The Fund's investments include green and social bonds, renewable energy projects, microloans and companies of different sizes that address social and environmental challenges.

Children SIB is a good example of a new kind of impact investing. The project is managed by FIM in cooperation with the Central Union for Child Welfare. In the Children SIB project, municipalities, investors, organisations and companies join forces to support the well-being of children, families with children and young people. The income-based financing agreement, i.e. SIB (Social Impact Bond) is a financially risk-free way for the municipality to finance work that promotes well-being and to prevent exclusion. If the results are positive, the customer (for example, the municipality or the state) pays to the fund part of the savings generated by the benefits.

## Assurance

The external evaluation of corporate responsibility data is called assurance, not audit. The primary purpose of assurance is to increase the accuracy and reliability of corporate responsibility reports, as assurance is carried out by an impartial external assurance authority. At least for the time being, assurance is not a statutory requirement, such as the auditing of financial statements, but is based on the company's voluntary activity. Assurance aims to convince stakeholders of the quality and reliability of corporate responsibility reporting, but it also has a role as a developer of internal processes and corporate responsibility reporting. An important motivation factor for companies is that the responsibility rating agencies assess the reliability of the data in addition to the data in the Corporate Responsibility Report and also pay attention to the assurance. Lack of assurance weakens the responsibility rating.

The most common assurance standards are ISAE 3000, AA1000 and ISAE3410, which are used for the verification of GHG emissions. In an assurance assignment, the assurance specialist verifies the compliance of the corporate responsibility information with the requirements of the reporting criteria chosen by the company, such as GRI, and issues a publicly signed assurance statement of conclusions.

With regard to assurance, companies have two levels of assurance to choose from: limited review and reasonable review. The limited review gives a so-called negative reservation, in which case the statement of assurance records that nothing has come to our attention that gives us reason to believe that the company's responsibility information has not been properly prepared in all material respects in accordance with the reporting criteria. Reasonable assurance gives a so-called positive reservation, according to which the corporate responsibility report has been correctly prepared in all material respects in accordance with the applicable reporting criteria. Almost all Finnish assurance assignments have so far classified as a limited review.

Currently, there is no legislation on assurance in Finland, which is why assurance is voluntary. In practice, this means that there are no statutory requirements for the competence or qualifications of the assurance authority in Finland. In practice, assurance services are provided by audit firms, consultants and quality certifiers. In the absence of legislation, there is no similar requirement to change the assurance body as in the case of auditing. However, audit firms are also bound by general statutory auditor liability and independence rules for assurance assignments.

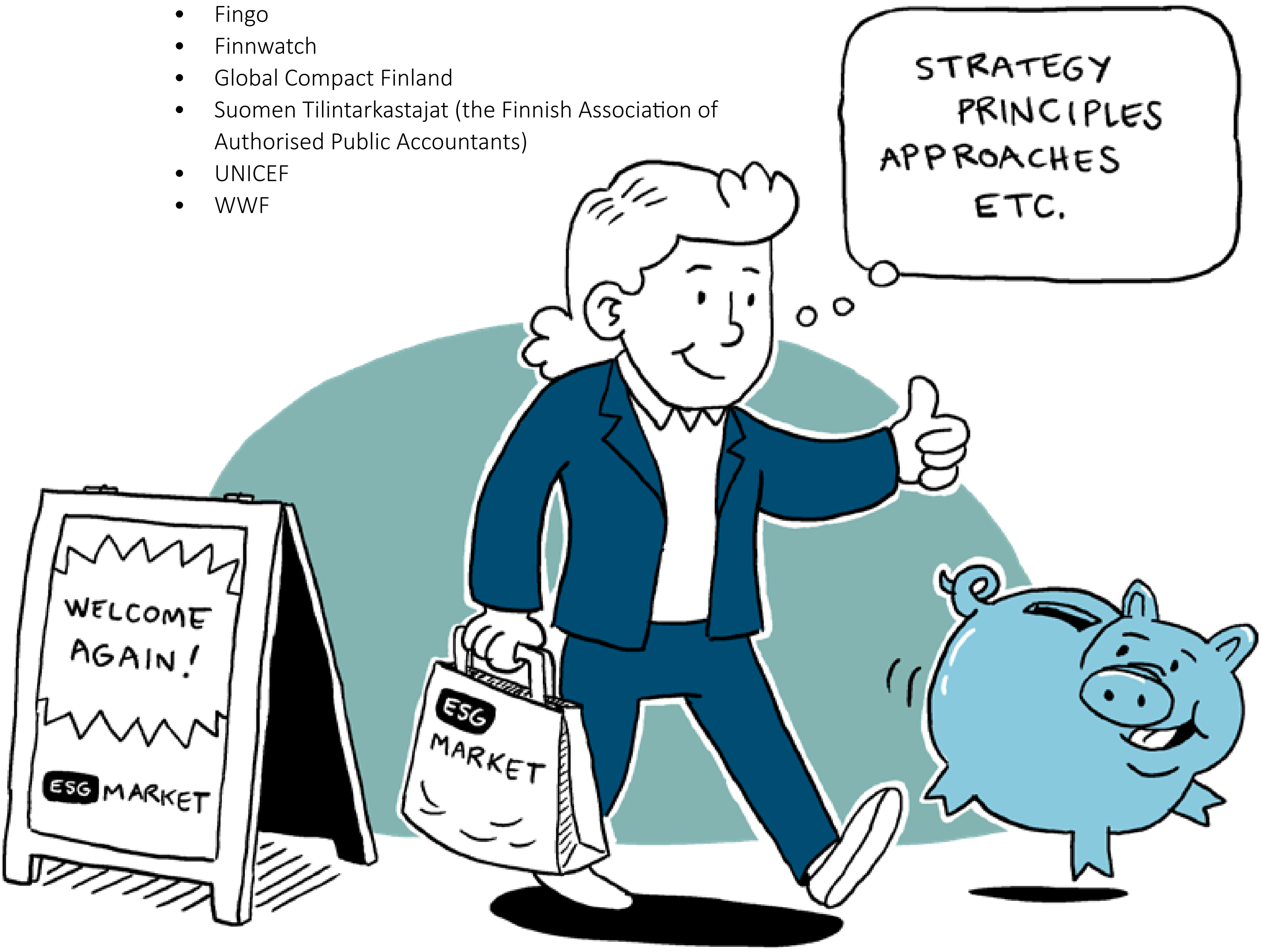
In 2017, the EU Non-Financial Reporting Directive (NFRD) made corporate responsibility reporting mandatory for large companies and requires the auditor to check that the report has been issued. The EU's proposed new Corporate Responsibility Reporting Directive (CSRD) is intended to replace NFRD provisions and to extend statutory corporate responsibility reporting to a wider range of companies. The new Directive also contains a proposal for mandatory assurance of corporate responsibility data at a level of limited review.

# Non-governmental organisations' expectations of investors

Investors are not an independent or detached group but operate as part of society. Investor activities are also of interest to stakeholders, and different expectations are placed on these actions, as well as on choices and target setting. The purpose of this section is to present the expectations of non-governmental organisations for investors.

When the guide was drawn up, the expectations and views of domestic non-governmental organisations on responsible investing were extensively sought. The following organisations replied to the enquiries:

- Amnesty
- CFA Society Finland (CFA)
- Fingo
- Finnwatch
- Global Compact Finland
- Suomen Tilintarkastajat (the Finnish Association of Authorised Public Accountants)
- UNICEF
- WWF



## There is no single definition of responsible investing – what do you find is responsible investing?

According to several stakeholders who responded to the Finsif survey, responsible investing generally means taking ESG aspects into account in investment activities. CFA Society Finland and Suomen Tilintarkastajat believe that responsible investing takes a look at long-term phenomena and brings ESG criteria alongside traditional economic indicators to refine the company's understanding of risks and opportunities. This will improve the return/risk profile of investments.

CFA: “Although ESG considerations are not traditional economic indicators, they sometimes have a decisive impact on investment risk and return, especially in the long term, so it is important to include the relevant ESG factors in investments.”

Fingo points out that reducing negative impacts is not enough for responsible investing, but a positive contribution to SDGs, for example, is needed. According to CFA, stakeholder engagement is also part of responsible investing. Finnwatch highlights compliance with international standards.

Finnwatch: “At Finnwatch, we consider responsible investing to be compliance with key international standards on corporate responsibility (UNGP, OECD Guidelines). In this respect, practical investment issues are addressed in the OECD Institutional Investors Guidance.”

The ESG themes highlight the environment and social responsibility, but a few respondents also mention issues related to corporate governance. On environmental themes, Fingo emphasises the climate perspective. The terms used to take social impact into account vary from respondent to respondent. For example, Amnesty and Fingo talk about respect for human rights, while CFA talks about society at large.

Reliability is also seen as an important part of responsible investing. Fingo considers it important that the effects of responsible investing can be credibly verified and reported. According to Suomen Tilintarkastajat, it is essential to verify the corporate responsibility reports in accordance with Suomen Tilintarkastajat’s assurance recommendation. WWF sees the lack of standardisation of ESG criteria, which makes comparison difficult, as a challenge for responsible investing. According to WWF, the ESG criteria are not based on science.

## How does the role of an investor fit in with promoting responsibility?

Most of Finsif's stakeholders see the role of the investor in promoting responsibility as significant. Among the different types of investors, CFA emphasises the influence of institutional investors. Most respondents believe that when managing large cash flows and when acting as an active owner, the investor has the power and the opportunity to steer companies in a more responsible direction. Fingo mentions that responsibility can also be promoted with different intensities, for example, by acting as an investor activist or by investing responsibly in marketed products.

UNICEF: “Investors have a major impact on companies. I see them as playing a key role in guiding companies in a more responsible direction, alongside their customers.”

Amnesty: “When investors actively demonstrate their interest in sustainability issues, for example through their investment choices or even active ownership, it has a guiding effect on companies.”

On the other hand, Fingo and the Global Compact state that stakeholders can also require the investor to act responsibly. According to Amnesty, investment activities should comply with the duty of care, which is to prevent human rights violations and environmental damage throughout the value chain of investments.

Suomen Tilintarkastajat and WWF state that investors do not have to give up their potential investments in order to invest responsibly. According to Suomen Tilintarkastajat, investment targets should be thoroughly analysed in order to enable investors to understand the risks and opportunities relating to ESG aspects and their impact on investees. Traditional economic models should include ESG aspects. Investors should cooperate with investees and decision-makers through their important role. CFA emphasises that investors should also require higher quality reporting in order to better integrate ESG considerations into investment decisions.

## What do you consider to be the most important theme for responsible investing?

Based on Finsif's survey, prioritising the themes of responsible investing is not easy and may not always be justified. According to UNICEF, a single theme cannot be chosen as the most important, and Amnesty also considers responsibility as a whole to be important. The CFA and UNICEF point out that the themes of responsible investing are often interlinked and can be difficult to differentiate. CFA points out that priorities are also influenced by investor-specific objectives. According to Global Compact, the priorities may be different and may also vary between sectors.

However, some respondents  listed specific themes among the most important ones. According to Fingo, the goals of sustainable development in general, as well as climate change, nature loss and human rights are important. UNICEF sees climate issues and human rights as the most important issues, and WWF believes that combating the loss of nature is one of the most critical issues. CFA highlights the economic importance of climate change.

WWF: “According to the UN expert report, the impoverishment of nature threatens the achievement of all sustainable development goals, as our well-being is based on nature and the sustainable use of natural resources.”

CFA: “Climate change is one of the most economically significant events in the history of mankind. It is already having an impact on economies and financial markets and can be expected to grow in the near future.”

Suomen Tilintarkastajat take a slightly different approach and highlight as the most important theme the responsibility code under development, which relates to the assurance and publication of responsibility information. According to Suomen Tilintarkastajat, the purpose of the responsibility code is to define the role of the Audit Committee in deciding on the inclusion of the companies' ESG data in responsibility reporting.

On the basis of the stakeholder survey, the focus of responsibility themes seems to vary and no theme clearly takes precedence over others. Responsibility is often considered important as a whole and, depending on the respondent, different themes are highlighted as the most important.

## In your opinion, how does the role of an investor fit in with promoting this main theme of responsible investing that you have chosen?

According to the respondents, the role of investors is well suited to promoting a wide range of responsibility themes. For example, UNICEF says that responsibility promotes more sustainable investing with higher returns. CFA emphasises that investors have the opportunity to participate in, for example, solving climate change by channelling cash flows into green transition and sustainable investments. Fingo mentions that institutional investors, in particular, have the resources to familiarise themselves with the promotion of the theme of their choice.

According to the respondents, the investor must learn to understand the risks and opportunities of responsibility themes and thus the impact on the investees. Investors need to change traditional economic models to take into account, for example, the effects of climate change. According to Suomen Tilintarkastajat, investors should be more openly informed about the impact of ESG issues on companies' business, as in the financial sector, ESG risks are identified as financial risks. To support this analysis, investors need better information and more consistent reporting. However, Global Compact points out that the information is not always reliable or comparable and that reporting frameworks are also needed, such as GRI and CoP reporting, which create commensurability and transparency in the information. CFA therefore recognises that it is important for an investor to cooperate with investees and decision-makers and to require reporting to support better-informed investment decisions.

## Do you have any special expectations of the different actors in the sector (e.g. funds, ESG data providers, academic institutions, pension insurance companies, banks)?

According to the respondents, it is in the interests of the various operators in the sector to support legally binding corporate liability regulation at national and international level. This underpins the objectives of responsible investors when companies are required by regulation to exercise due diligence to protect human rights and the environment. Voluntary corporate liability is a risk not only for human rights and the environment, but also for investors. Amnesty points out that the value chain, which respects human rights and the environment, is resilient and offers a more stable investment base.

According to Fingo, the goals of sustainable development, climate change, nature loss and human rights will gain increasing importance in the future. According to the replies, the increased role of investors and financial actors should be taken into account and used as a guide. Investors could also set an example and promote the same standards in their own organisations by committing to, for example, the UN goals and the Corporate Responsibility Initiative. Global Compact points out the importance of encouraging both businesses and citizens to act and invest responsibly.

At the industry, company and individual level, six factors were highlighted to further develop the consideration of responsibility aspects:
1) Increasing ESG training, 2) system-level thinking on how to take ESG factors into account in addition to traditional investment analysis, 3) synergies of cooperation, especially with regard to responsible ownership, 4) development, relevance, data quality and reliability of ESG data, 5) innovations related to responsibility and 6) culture of relevance and fiduciary duty. CFA states that the promotion of the above-mentioned objectives requires action by the various actors within the framework of their respective roles.

## Do you think there is too much focus in any of the themes?

The respondents did not point out that there would be too much focus in any of the themes. All areas of responsibility are considered important. UNICEF notes that climate issues are naturally highlighted, partly because they are easier to value and measure than, for example, issues related to human rights or children's rights. According to Global Compact, all aspects of responsibility are important, but more perspectives were especially hoped for assessing opportunities and successes when currently risk perspectives are sometimes overly emphasised.

Global Compact: “All aspects of responsibility are important, but an investor's perspective in assessing future success stories and winners could be stronger. Risk perspectives may sometimes be overly emphasised.”

## Are there issues that investors do not pay sufficient attention to?

Natural capital and nature loss were highlighted in several responses, and the theme is emphasised by Fingo and WWF, among others. Investors should pay attention to the sustainability of the use of natural resources and require a comprehensive assessment of the impact on the natural environment. On the one hand, UNICEF and CFA highlighted the increasing attention to social issues and, on the other, the need to continue to pay particular attention to human rights, including children's rights.

WWF: “The investor needs to link the science-based target level more closely to responsibility assessments, and requires a clear, timed path to adjusting business operations to global commitments.”

CFA: “The ongoing (COVID-19) crisis has increased the understanding of the economic significance of social factors. At the same time, the definitions of social factors have not evolved in the same way as the definitions of E and G factors as a result of the historically lower focus.”

The responses also pointed out that in the responsibility assessment, investors should pay more attention to the practical actions and timeframes than to the objectives alone. According to WWF, this applies, for example, to climate measures. Global Compact also expects investors to ensure that there is sufficient responsibility knowledge in the management of the investees. Amnesty would like investors to pay more attention to their own responsibility processes, performance and verification in addition to reporting on individual responsibility issues. CFA also sees a need for creating standards.

Global Compact: "Investors could play a greater role in ensuring that corporate governance has responsibility expertise in both the management and the board of directors of the company. It is important that corporate responsibility is seen as a cross-cutting activity, not just a single department operation."

Amnesty: "In corporate responsibility reporting, attention should be paid not only to the individual responsibility factors reported, but also to more specific responsibility processes and performance: are the processes adequate and comprehensive? Is the effectiveness of responsibility credible and verifiable?"

## What else do you want to bring up?

Investors are expected to set ambitious targets, particularly with regard to climate and human rights. Investors are also expected to engage with both the investees and decision-makers. Non-governmental organisations are keen to engage in dialogue with investors, as this is seen as beneficial to everyone. Non-governmental organisations themselves also act to promote responsibility. One interesting development was the importance of the equity savings account in responsible investing.

UNICEF: "We are happy to hold discussions with investors and support them in bringing the rights of the child to their and companies' agendas. We see this as a partnership where everyone wins."

Amnesty: "In addition to the obligation, investors have the opportunity to promote business activities that respect human rights and the environment in their own investment activities. Aiming for responsibility must be ambitious: by which year will our entire portfolio meet human rights and environmental obligations?"

## Organisations and initiatives to responsible investing

Carbon Disclosure Project (CDP)

Climate Disclosure Standards Board (CDSB)

Danish Social Investment Forum (DanSIF)

European Sustainable Investment Forum (Eurosif)

Responsibility Committee of the Finance Finland

Finnish Business & Society

Finland's Sustainable Investment Forum (Finsif)

Global Real Estate Sustainability Benchmark (GRESB)

Global Reporting Initiative (GRI)

Invest Europe

ICC Business Charter for Sustainable Development (IISD)

International Corporate Governance Network (ICGN)

Norwegian Forum for Sustainable and Responsible Investment (Norsif)

Paris Pledge for Action

Portfolio Decarbonization Coalition

Principles for Responsible Investment (PRI)

Finnish Venture Capital Association

RAKLI ry

Social Investment Forum (SIF)

Sustainability Accounting Standards Board (SASB)

Sustainable Investment Research Platform (SIRP)

Sustainable Stock Exchanges Initiative

Sveriges Forum för Hållbara Investeringar (Swesif)

Task Force on Climate-related Financial Disclosures (TCFD)

The Institutional Investors Group on Climate Change (IIGCC)

The Montréal Carbon Pledge

United Nations Environment Programme Finance Initiative (UNEPFI)

United Nations Sustainable Development Goals (SDGs) www.finsif.fi