RESPONSIBLE INVESTMENT GUIDE

FINSF Finland's Sustainable Investment Forum

Contents

Introduction

Finsif (Finland's Sustainable Investment Forum ry) is a non-profit association with the purpose of promoting responsible investing. In line with Finsif's mission, one of its key tasks is to provide objective and up-to-date information on responsible investing. The aim is to serve as a channel that helps members understand the long-term value of responsible investment and to correct misconceptions by offering clear, research-based information. To support these goals, Finsif has prepared this responsible investment guide, which is an updated version of an earlier publication. Finsif is also active internationally, and the guide is available in both Finnish and English.

The guide compiles the essential foundations of responsible investing, with a purpose to provide a clear overview of the topic and support its practical application. It seeks to reflect the perspectives of different actors as well as the continued development of responsible investment within a changing operating environment.

The contents of the guide are also available on Finsif's website in Finnish. The website is intended to complement the guide by offering more current and detailed information, as well as practical examples of responsible investing.

The update of the guide was carried out by a working group representing a broad range of expertise in responsible investing. The working group included Carita Ahtonen, Mia Eklund, Anni Kortesmaa, Elina Niiranen, Juho Saarinen, Eero Tarvainen, Linda Tierala and Eeva Toivonen. Their work was supported by Finsif employees Leila Räsänen and Oona Tiainen.

We wish you an insightful reading experience and encourage you to deepen your expertise by exploring other publications and research on the topic.

A warm thank you to the members of the group!

Emilia Haarakoski
Chair of the responsible investment guide working group
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FINSIF

What is responsible investing?

Responsible investing can be defined in many ways. In general, it refers to recognising the relevance of environmental, social and governance issues in investment activities and seeking to take them into account in decision making and the investment process. These are often referred to as ESG factors (Environmental, Social, Governance). In the UN supported Principles for Responsible Investment (PRI), responsible investing is defined as a strategy or practice through which ESG factors are integrated into investment decisions and stewardship.

The definition of responsible investing is investor specific and often begins with the investor's goals and values. Each investor defines responsible investing from their own starting point and with consideration for their stakeholders. One investor may emphasise ESG factors linked to financial performance, while another may focus on investments that advance planetary wellbeing. Responsible investing may also mean slightly different things depending on the sector or asset class.

Although the aim of responsible investing is not necessarily to maximise financial returns alone, it is not philanthropy. For some, a key objective may be to improve risk adjusted returns by incorporating material ESG factors into decision making, while for others it may be ensuring that investments align with their values and stakeholder expectations and contribute to broader societal or environmental goals.

It is also important to understand that ethical investing and responsible investing are not the same. Ethical investing is guided solely by the investor's personal values and moral views, whereas responsible investing is based on various approaches, with the systematic integration of ESG factors as part of investment analysis and the whole investment process.

Responsible investing can be implemented in many ways. It is not limited to excluding controversial sectors; often more essential is how investee companies are developed during the holding period and how responsibility is incorporated into strategy and operational practices. Responsibility reporting or communication alone is not evidence of an investee's responsibility. From the investor's perspective, it is essential to understand what the investee's responsibility consists of, how material these factors are for the business, and how they are managed in practice.

The desire to act in line with one's values, promote sustainable development and have a positive impact on society guides many investors' decisions alongside financial objectives.

The key drivers behind responsible investing are varied, such as:

- fiduciary duty
- alignment with values
- positive impact
- risk management
- pursuit of improved returns
- stakeholder expectations
- regulatory compliance
- long-term value creation

Identifying investment risks is an essential part of investment activity. The financial impacts of responsibility related risks cannot always be identified through traditional financial analysis alone. A constantly changing operating environment challenges investors to recognise new types of risks and opportunities related, for example, to climate change, biodiversity loss, regulation, value chains, customer expectations and the workforce. These factors can materialise quickly and significantly affect cost structures, demand or even the viability of business models.

Systematically incorporating ESG perspectives helps broaden risk analysis and improve the quality of investment decisions. It enables the identification of risks that might otherwise go unnoticed and supports proactive and long-term investment activity.

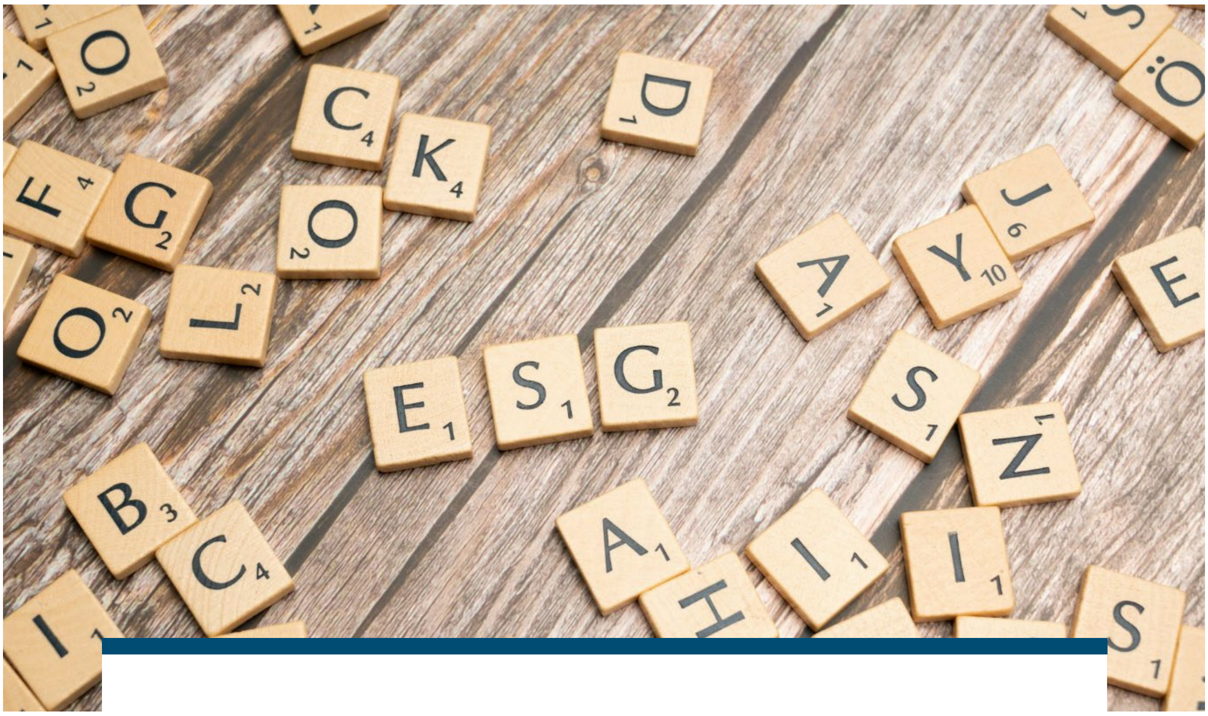
Better returns can be pursued through risk management but also through opportunities linked to ESG factors. Responsibility can serve as a concrete means to improve operational efficiency, competitiveness and growth potential, as well as open new business and value creation opportunities.

Another main way to pursue better returns or more sustainable practices is active ownership and engagement. Investors have the ability to influence investee companies and improve their responsibility performance. Investors often interact with other investors and stakeholders to advance responsibility. Through initiatives, networks and other forms of collaboration, they may seek to develop shared principles and frameworks or engage with companies and policymakers.

In defining corporate responsibility, reference has traditionally been made to activities that exceed minimum legal requirements. Responsible investing is not limited to regulatory compliance; rather, developments in the regulatory environment directly affect investor risks and opportunities. The ability to anticipate regulatory changes and assess their impact on different investees can become a significant competitive advantage and positively affect investment returns. In addition to regulation, responding to stakeholder expectations may be a key guiding factor when defining responsible investment strategies and priorities.

The concept of responsibility is often discussed alongside sustainability. These terms are sometimes used interchangeably, but they carry different nuances. Sustainability generally refers to safeguarding the long-term resilience of ecological, social and economic systems. Responsibility, in turn, describes the principles and actions of an actor, such as an investor or company, in promoting these aims.

Investors, organisations and individuals have multiple criteria guiding their investment choices, and the weight of these criteria may vary. Traditionally, a value-based desire to do the right thing has been a central driver of responsible investing. This perspective has been reinforced by the understanding that considering ESG factors in investment decisions can also support financial value creation and risk management. This has helped shift responsible investing from a purely value-based approach toward a strategic and financially grounded operating model.



ESG components

Investors can measure, assess and account for responsibility from several perspectives. Analysis in responsible investing typically focuses on three main themes: environmental (E), social (S) and governance (G). Each theme encompasses a wide range of responsibility related factors.

Responsibility can also be examined in two ways: 1) assessing how a company's activities affect the environment and society, and 2) how external responsibility factors affect the company's financial position, risk profile and value creation. This interaction is referred to as double materiality.

Because responsibility topics and related indicators are numerous, it is essential for investors to identify the factors most material to the investee, sector or portfolio. Applying the principles of double materiality helps direct attention and actions toward the most significant risks and opportunities. Investors use a range of information sources when assessing responsibility, drawing not only on companies' public reporting but also on data and analyses from external service providers, expert assessments and direct dialogue with companies and asset managers.

Environment (E)

Considering environmental factors is a central part of responsible investing because they directly affect the conditions for economic activity and societal well-being. The environmental theme focuses particularly on the relationship between nature and economic activity. Here, nature refers to a whole that includes both living nature, such as ecosystems and species, and non-living nature, such as the climate, and the interactions between them. The relationship between economic activity and nature is two-way: all economic activity depends on ecological capacity, such as a stable climate, clean water and raw materials. At the same time, economic activity affects the state of nature through greenhouse gas emissions, land use change, direct resource extraction and pollution.

Climate change and biodiversity loss are key examples of changes in the state of nature that have significant impacts on companies' operating environments, value chains and the risk and return expectations of investment activities. They are also inseparably interconnected systemic phenomena. Global warming is one of the main drivers of biodiversity loss, which weakens ecosystems' ability to absorb carbon and buffer extreme weather events. Conversely, healthy ecosystems play a crucial role in mitigating climate change, as they act as carbon sinks and strengthen societies' ability to adapt to changing weather conditions. For investors, this means that climate and nature, and the risks and opportunities associated with them, cannot be fully managed by examining them separately.

Changes in the state of nature create risks that can transmit to the economy through physical risks and transition risks and materialise as financial risks. Physical risks refer to direct damage caused by climate change and nature degradation. For example, the increasing frequency of extreme weather events such as recurring droughts may disrupt production chains or increase costs as raw material availability declines, which may materialise for investors as an investee's weakened liquidity or credit losses. Transition risks arise from society's efforts to shift toward a sustainable economy. For example, stricter conservation regulation or new land use restrictions may prevent a company from utilising land areas or resource reserves on its balance sheet, which may materialise as a sudden decline in the investee's market value. The combined effect of these factors can form a broad systemic risk, which refers to the ability of the changes in nature to destabilise the entire financial system. For example, large scale biodiversity loss may trigger cascading effects that impact global value chains in ways that cannot be mitigated through diversification. Integrating environmental factors is therefore an important part of prudent risk management.

Environmental responsibility also includes monitoring investees' compliance and potential environmental violations. It is essential for investors to track issues such as careless waste management, accident control or factors that may harm the habitats of endangered species, as these can cause reputational or legal consequences for investees. International agreements such as the Paris Agreement and the Kunming–Montreal Global Biodiversity Framework guide climate action and nature restoration. Investors should note that portfolio optimisation or exclusions alone do not directly drive real world change. Active ownership, engagement and supporting companies in transition are key ways to promote an orderly and just transition of the economy and adaptation to planetary boundaries.

Environmental assessment and reporting

Assessing and monitoring of environmental factors in investment analysis continue to develop as data quality and coverage improve. Investors use quantitative indicators, qualitative assessments and international frameworks to understand investees' relationship with nature and advance their own operational objectives.

Climate indicators: Climate-related indicators are largely established and focus on assessing greenhouse gas emissions. The most commonly used basic indicator is the carbon dioxide equivalent, which converts the warming effects of different greenhouse gases into a comparable unit. Emissions are categorised according to the GHG Protocol into direct (scope 1) and indirect emissions (scope 2 and 3). In addition to absolute emissions, climate impacts are described using intensity metrics such as weighted average carbon intensity and financed emissions, which enable comparison between portfolios of different sizes. These metrics support climate target setting and aligning portfolios with the Paris Agreement. Key limitations relate to the variable quality and availability of scope 3 data, making it important to complement quantitative analysis with qualitative assessment.

Nature indicators: Nature-related indicators are still emerging. Assessments often focus on two complementary perspectives: nature-related impacts and nature-related dependencies. Impact indicators examine the pressures economic activity places on nature, which is the nature footprint. Dependency assessments examine how economic activity relies on ecosystem services provided by nature. By evaluating these factors, investors seek to identify areas of economic activity with significant negative impacts or high dependencies, and thus potentially greater exposure to nature-related risks.

Frameworks: Investors use international frameworks and regulation to ensure comparability and the scientific basis of information. Key frameworks guiding climate and nature work include the Science Based Targets initiative (SBTi) for corporate target setting, the Task Force on Climate-related Financial Disclosures (TCFD) for climate reporting, and the Taskforce on Nature-related Financial Disclosures (TNFD) for nature reporting. These and other frameworks aim to provide a foundation for transparent reporting and goal-oriented development of environmental factors in investment activities.

Social (S)

Considering social responsibility in investment activities aims to ensure that operations respect human rights, promote well-being and equality, and more broadly support local communities and society. Social responsibility can also be seen as linked to environmental responsibility, as the state of the environment affects people's living conditions and well-being.

In responsible investing, social factors include attention to issues such as human rights, children's rights, supply chain management, the existence of supplier Codes of Conduct, occupational safety and fair working conditions. The emphasis is placed on the most material social responsibility issues for each company and sector, and developments and reporting on these issues are monitored. Social responsibility themes also include, for example, the rights of Indigenous peoples, modern slavery, a just climate transition and conflict-affected and high-risk areas.

International principles and agreements related to social responsibility include the UN Global Compact principles, the UN Guiding Principles on Business and Human Rights, the core conventions of the ILO, the OECD Guidelines for Multinational Enterprises and the UN Convention on the Rights of the Child. Investors often monitor how well investee companies' practices, such as respect for human rights and workers' rights, align with international norms.

Governance (G)

Considering governance-related factors as part of investment activities aims to promote transparency and ensure compliance with regulation and international agreements. Good governance, as part of financial responsibility, relates particularly to a company's leadership, oversight and decision making. Investors monitor governance issues such as the composition of the board, including the diversity, expertise, background and independence of its members, as well as the remuneration of governing bodies and the structure of corporate governance. Governance monitoring also includes reviewing a company's policies and principles and how the implementation of these principles is tracked and reported. The focus is on governance related responsibility factors that are material to each company and sector, as well as on monitoring and reporting their development.

Regardless of sector, good governance practices include the existence of ethical guidelines, Codes of Conduct and whistleblower channels; oversight of data protection and cybersecurity; anti-corruption and anti-bribery measures; and monitoring of tax principles, tax risks and regulatory compliance. Principles related to artificial intelligence and its responsible use are also becoming increasingly important. In addition, it is essential to understand how responsibility is managed and embedded into the company's operations. Transparency is strengthened through clear reporting, relevant monitored indicators and the integration of responsibility issues into remuneration. Governance monitoring may also include tracking violations of international norms, such as corruption or anti-competitive behaviour.

Approaches to responsible investing

Responsible investing can be implemented through several approaches. The suitability of each approach depends on factors such as the assets under management, investment strategy, time horizon, the investor's principles and their engagement opportunities. Different approaches favour different asset classes and ownership interests, but all can be applied and combined according to the investor's objectives. An investor may use multiple approaches simultaneously.

ESG integration

The aim of ESG integration is to incorporate material responsibility factors alongside financial information into investment analysis and decision making. Academic research and market practice show that integrating ESG factors can support responsibility goals while also managing the portfolio's risk adjusted return. By using sustainability information, investors gain a more comprehensive understanding of a company's long-term viability and resilience in a changing operating environment.

Peer reviewed meta-analyses (such as recent reviews by NYU Stern and PRI) confirm a positive correlation between high ESG ratings and corporate financial performance. ESG integration can act as a source of alpha by identifying high-quality companies with strong governance and operational efficiency that traditional financial indicators may undervalue. The focus has shifted from present moment scores to identifying "ESG improvers"—for example, an energy intensive company investing in carbon capture may offer greater value appreciation than a technology company that is already low emission.

Academic evidence suggests that favouring low emission companies can improve risk adjusted returns by reducing exposure to transition risks such as tightening carbon taxation. At the same time, investor attention has expanded from climate mitigation to adaptation, meaning investments in companies that provide solutions to preventing and mitigating harm caused by extreme weather, such as climate resilient infrastructure or smart water management systems. While broad exclusions may limit the investment universe, research shows that targeted exclusion of the weakest performers often reduces tail risk without significantly weakening long term return expectations.

Analysing responsibility factors can help identify financially material risks that affect cash flow and valuation. For example, weak governance may increase the risk of internal misconduct, while environmental analysis may reveal supply chain vulnerabilities, such as semiconductor plants' dependence on water resources in drought prone regions or the impact of biodiversity loss on agricultural commodity prices.

Positive screening

An investor may overweight companies they assess as responsible. Responsibility assessments are based on ESG analysis, often supported by external data and service providers. Because methodologies and weightings vary, ESG ratings can differ significantly between providers. Investors may also use more limited responsibility indicators, such as climate targets, emissions intensity, sustainable development solutions or governance criteria. In fund investments, the assessment focuses not on individual companies but on evaluating the fund’s responsible investment principles, practices and objectives.

Positive screening may lead to portfolio level tilts toward certain sectors or geographic regions, which can affect diversification. Investors can manage these tilts by combining sector internal comparisons with portfolio level analysis by, for example, ensuring sufficient diversification or setting limits on sector weights.

A common method of implementing positive screening is the best-in-class approach, in which companies are compared within their own sectors and investments are directed to the top performers in each sector. Alternatively, an investor may intentionally overweight sectors they consider responsible, such as renewable energy production.

Exclusion

Exclusion refers to a responsible investment approach in which an investor decides not to invest in the securities of a particular sector or company, or divests from existing holdings. In practice, exclusion is implemented by defining, based on selected criteria, the sectors or companies to be removed from the investment universe. The portfolio is then constructed from the remaining universe.

The grounds for exclusion may vary depending on the investor and investment strategy. Exclusions are typically made for ethical or financial reasons. Ethical exclusion means that the investor actively avoids sectors or companies that conflict with their ethical principles. For example, companies producing tobacco products or controversial weapons are common examples of sectors excluded on ethical grounds. Exclusion may also be based on financial considerations, in which case high risk sectors or companies are removed from the portfolio. An investor may, for instance, exclude a company that has violated international norms if it is expected to face significant sanctions or reputational damage that could negatively affect the value of the investment. Excluding high emission companies may be ethically as well as financially motivated if insufficient transition plans to lower-carbon finances expose them to significant transition risks.

Exclusion is an important but often misunderstood tool in responsible investing. Many investors operate in secondary markets, where ownership of securities shifts from one investor to another, meaning the direct impact of an exclusion decision on a company's operations is often limited. If the goal of investment activity is to advance sustainability objectives, exclusion is often considered a last resort after engagement efforts. However, exclusion may also be used without prior engagement if the grounds are ethical or related to risk management. Because investors often have multiple investment objectives simultaneously, different exclusion criteria can be combined to align with the investor's goals.

Active ownership and engagement

Engagement generally refers to dialogue with investee companies with the aim of advancing environmental, social or governance objectives. Active ownership refers to actions through which an investor uses their ownership rights and stewardship tools to influence a company's operations. The goal of active ownership is to support the long-term growth of shareholder value by promoting responsible practices, good governance and sustainable business.

Engagement seeks to promote responsibility and manage risks through active dialogue with companies, fund managers or other stakeholders. A key method is direct dialogue with company management, the board or other representatives. Other methods include exercising voting rights at general meetings, collaborative engagement with other investors or partners, and various engagement escalation measures. In some cases, investors may also participate in company activities through board membership or shareholder nomination committees.

The general meeting is the company's highest decision-making body, where investors exercise their voting rights on matters within its authority. While general meetings often focus on routine administrative issues such as dividend distribution or approval of financial statements, opposing certain agenda items, such as the election of a board member, can signal the investor's dissatisfaction with company practices. In addition to the agenda set by the board, shareholders may submit their own proposals. Common topics for these shareholder resolutions include executive remuneration, climate targets and human rights risks in supply chains.

Escalation refers to stronger measures taken when earlier engagement efforts do not produce the desired results. Ideally, investors have access to several levels of engagement tools, allowing escalation of engagement from lighter to more stringent actions. Escalation methods may include public engagement, such as open letters to the company, or submitting a shareholder resolution to the general meeting. Escalation may also involve divestment or, in exceptional cases, legal action.

Engagement and collaboration extend beyond investee companies. Investors also engage in dialogue with other stakeholders, including fellow investors, research institutions, service providers, policymakers, regulators and civil society organisations. The aim may be to promote market practices or regulatory environments that support responsible investing. In collaborative engagement, investors leverage collective influence by initiating dialogue with a company together with other investors or actors such as NGOs or service providers. Collaborative engagement may be investor-driven or coordinated by an external organisation that supports and structures the engagement process.

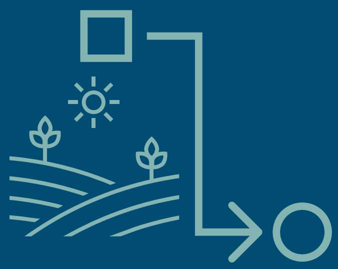
Norm-based screening

Compliance with international norms and agreements forms the foundation of responsible business conduct. A violation of norms refers to a situation in which a company's activities conflict with widely accepted international principles of responsible business. Compliance with international norms is assessed from perspectives such as environmental protection, human rights, labour rights and anti-corruption. Key international norms and agreements include the UN Global Compact's Ten Principles, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

Examples of norm violations include the use of child or forced labour, severe violations of workers' rights, corruption or severe environmental damage. Other individual incidents, such as accidents caused by a company's operations, may also constitute international norm violations if they, for example, result in significant environmental or health impacts.

Monitoring compliance with international norms is an essential part of responsible investment. Responses to violations typically take the form of active ownership or exclusion. An investor may initiate an engagement dialogue with a company with the aim of mitigating the harm caused by the violation, ensuring the implementation of necessary corrective measures and improving the company's processes, oversight mechanisms and policies so that similar violations do not recur. Excluding a company's securities from the investment universe is also a common approach, particularly when engagement efforts do not produce the desired outcome. Companies that have violated norms may also be excluded for ethical reasons or due to risk management considerations.

Thematic investing



Thematic investing refers to an investment approach that focuses on a specific theme or a long-term megatrend behind it. Themes often arise from global developments such as climate change, biodiversity loss, population ageing, technological transformation or growing healthcare needs. In thematic investing, investments are selected based on how well they align with the theme and benefit from its long-term trajectory.

Unlike impact investing, thematic investing does not necessarily include explicit or measurable impact objectives; instead, responsibility is integrated through the thematic weight of the strategy. The investor seeks to identify sectors, technologies or business models expected to grow, accelerated by megatrends, and builds the portfolio around these structural shifts.

For example, climate related thematic investing may focus on renewable energy projects, energy efficiency technologies or low carbon solutions. Themes related to education, healthcare or digitalisation may also offer long term growth opportunities for investors. Thematic investing combines a responsibility perspective with market-driven investment thinking and aims to benefit from the value-creation generated by sustainable megatrends.

Impact investing

Impact investing refers to activities that simultaneously aim to achieve both financial returns and measurable, positive social or environmental impact. The investor does not seek to maximise financial return alone but sets clear, predefined impact objectives for the investment activity. A defining feature is that the created impact must be intentional, measurable and trackable, and that it develops over the lifecycle of the investment.

In impact investing, investments are selected based on how well they provide solutions to societal or ecological challenges such as climate change mitigation, sustainable resource use, healthcare, social inclusion or equality. Measuring impact is a core component of the approach, and the investor systematically monitors the extent to which the set objectives are achieved.

Impact investing is return-seeking and should not be confused with philanthropy. Financial viability and impact are seen as mutually reinforcing: long-term, measurable positive impact creates the conditions for sustainable economic value creation.

Different types of investors

Investors' approaches, constraints and opportunities related to responsibility vary significantly. These differences arise from factors such as the investor's role and position, mandate, assets under management, time horizon, regulation and the expectations of clients or other stakeholders. The descriptions below illustrate general characteristics of different types of investors and organisations. In practice, the behaviour of an individual investor may differ from these generalisations.

Asset owners

Pension funds and insurance companies (for example)

Asset owners are institutional investors that invest their own assets or manage them on behalf of beneficiaries. These investors are positioned at the beginning of the investment chain and therefore play a central role in promoting responsibility throughout the entire chain. The responsibility goals, policies and criteria of asset owners guide the actions of asset managers. In direct investments, the asset owners' responsibility principles and practices apply directly to their investments.

Objectives

- Long-term stable returns to meet obligations
- Systematic management of responsibility-related risks (including climate and social stability)
- Societal legitimacy and trust

Constraints

- Restrictions arising from fiduciary duty and regulation (such as solvency requirements)
- Political and public scrutiny
- Slow response capability in large organisations

Asset managers

Fund managers and investment managers

Asset managers implement responsible investing within the mandate set by their clients (the asset owners). Responsibility is reflected primarily through the integration of sustainability themes into investment processes, active ownership, and transparent reporting.

Objectives

- Competitive risk-adjusted returns
- Meeting client requirements (e.g., product sustainability classification, climate targets)
- Managing sustainability related risks as part of the investment process

Constraints

- Limited decision-making power due to client-imposed restrictions
- Influence dependent on investment strategy
- Need for standardised, reportable ESG data

Foundations and family offices

Foundations and family offices often take a values-driven and flexible approach to responsibility. These investors may combine investing with impact objectives and act as long term providers of “patient capital.”

Objectives

- Preservation of wealth across generations
- Long-term ownership horizon
- Values-based investing
- Impact and a positive societal footprint

Constraints

- Often decentralised decision-making structures (generations, boards of trustees)
- More limited resources for due diligence, reporting and measurement
- Less standardised approaches

Public institutions
States, municipalities, public pension funds

For public institutions, responsible investing is often linked to political objectives such as climate strategies, employment or regional development. Responsibility is viewed as part of risk management and public perception.

Objectives

- Long-term financial stability
- Societal and environmental goals
- Transparency and legitimacy

Constraints

- Political steering and conflicting interests
- Regulation and public scrutiny
- Limited risk tolerance

Private investors

Private investors' responsible investment behaviour may appear in product choices, such as selecting funds marketed as responsible, excluding certain sectors or using thematic investing. Motivations range from personal values to return expectations.

Objectives

- Incorporating personal values into investing
- Competitive returns
- Accessible and easy-to-understand solutions

Constraints

- Limited ability to influence companies directly
- Dependence on available products
- Complexity of ESG data and terminology

Asset classes

Different asset classes offer investors different ways to take responsibility factors into consideration. Listed investments typically provide extensive sustainability data and strong transparency. Liquid markets make it possible to exclude or sell holdings when necessary. On the other hand, an investor's ownership share, and therefore influence, over individual companies may be limited. Investors usually have stronger influence over unlisted investments, but the availability of sustainability data may be more challenging. Lower liquidity also limits the ability to exit investments quickly, which increases the importance of careful selection and due diligence, forward-looking analysis and active ownership. This chapter examines key asset classes and describes how their characteristics affect the implementation of responsible investing.

Listed equities

In listed equity investments, responsible investing is based particularly on integrating sustainability factors into investment analysis and decisions, as well as on active ownership. Liquid markets, a broad investment universe and extensive ESG data enable systematic application of different responsible investment approaches as part of portfolio management.

Analysis and risk management

Among asset classes, listed equities often offer the most comprehensive sustainability data. The development of investee companies' responsibility performance is monitored regularly using both quantitative indicators and qualitative assessments. ESG factors can be incorporated into fundamental analysis to refine valuation models. Responsibility factors influence assessments of a company's long-term value creation potential. ESG factors may affect valuation, for example by increasing the cost of capital (WACC) or altering assumptions about long-term growth (terminal growth). Assessments may consider the company's exposure to carbon regulation, its ability to use technology responsibly or workforce-related factors. Long-term assessments may also be carried out through various scenario analyses.

Active ownership and engagement

In listed equities, active ownership is a central tool. Investors exercise their voting rights at general meetings, engage in dialogue with companies and participate in collaborative initiatives with other investors.

Investments in sustainable solutions

Sustainable development solutions focus on drivers of the sustainability transition, such as renewable energy, circular economy, water technology or nature-based solutions. Investments are selected based on the solutions they provide and their potential positive societal impact, often in relation to international frameworks such as the UN Sustainable Development Goals (SDGs).

Listed corporate bonds

In listed corporate bonds, responsible investing is linked particularly to credit risk assessment, instrument-specific features and engagement with the company.

Analysis and risk management

ESG factors are considered as part of assessing the issuer's creditworthiness. Responsibility factors may influence credit spreads, access to financing and probability of insolvency. Assessments cover, for example, the sustainability of the business model, regulatory developments and governance-related risks.

Engagement

Investors may engage in active dialogue with companies to improve sustainability practices, even though bondholders typically have more indirect influence than equity investors. Investors may also collaborate with other stakeholders to advance market practices, standards and transparency.

Thematic instruments

Investors can promote responsibility by selecting sustainability-themed bonds, such as green bonds, social bonds or sustainability-linked bonds (SLBs). In these instruments, the use of proceeds or bond terms are tied to predefined sustainability targets, directing capital toward more sustainable activities.

Sovereign bonds

In sovereign bonds, responsible investing focuses on structural country-level factors, institutional quality and long-term economic sustainability.

Analysis and risk management

Analysis includes evaluating the strength of institutions, social stability and climate resilience, for example through energy infrastructure, physical climate risks, demographic trends, political risks and the efficiency and reliability of public institutions. These factors significantly influence economic growth potential and public fiscal stability. A country's stage of development is essential to consider, as responsibilities and capabilities related to the climate transition vary widely.

Engagement

Engagement-related means and opportunities in sovereign bond investing are typically more limited than in corporate investments. Engagement with state-level actors occurs through dialogue with ministries of finance, central banks or international institutions, either directly or through international cooperation.

Thematic instruments

Governments also issue sustainability-themed bonds, such as green and social bonds. These instruments enhance transparency and enable capital allocation to purposes that promote sustainability.

Private equity

Responsible investment frameworks are highly applicable to unlisted equity investments (private equity), as these investments rely on active ownership and close collaboration with the management of portfolio companies. In private equity, investors typically have significant influence over investee companies, enabling systematic integration and development of responsibility factors as part of the business.

Responsible investing supports risk management and operational development and strengthens long-term value creation in investee companies. Well-managed sustainability work also enhances attractiveness at exit, as it increases transparency, reduces uncertainties and demonstrates that the company has been managed professionally and sustainably.

Analysis and due diligence

Responsible investing begins with screening potential investments based on responsibility criteria. The aim is to identify material risks, such as issues related to human rights, environmental impacts or business ethics, and where necessary, exclude sectors or companies that do not meet the investor’s responsibility principles. During due diligence, responsibility factors are analysed in greater depth, including possible historical challenges and future risks such as transition risks related to climate change.

Active ownership and engagement

After the investment decision, responsibility findings are integrated into the ownership strategy. During the holding period, the investor works closely with company management to define sustainability targets, implement actions and monitor progress. This may include developing sustainability policies, defining responsibilities, introducing indicators and strengthening the board’s role in overseeing the sustainability plan. Progress is monitored regularly and reported to investors.

Private debt

In private debt investments, responsible investing focuses on managing sustainability risks, on the creditor's engagement opportunities and on ensuring long-term creditworthiness. Although private debt investors typically do not hold ownership stakes, credit markets offer several mechanisms to guide companies toward more responsible practices and link sustainability factors directly to the investment's risk–return profile. Over the long term, responsible investing in private debt supports portfolio stability, reduces downside risks and strengthens risk adjusted returns.

Analysis and due diligence

Responsible investing begins with screening and due diligence, where material environmental, social and governance risks are assessed. The aim is to identify factors that could weaken repayment capacity or create financial, operational or reputational risks. Assessments cover business model sustainability, regulatory and responsibility risks, physical and transition risks related to climate, and governance structures and reporting practices.

Loan terms

In private debt, responsibility is often embedded in loan terms and financing structures. Responsibility factors may be incorporated in loan agreements through covenants, reporting requirements or sustainability-linked pricing mechanisms. Increasingly, interest margins are tied to predefined responsibility targets, creating financial incentives to improve performance from a responsibility perspective and supporting concrete changes in company operations.

Engagement and monitoring

Throughout the investment lifecycle, continuous monitoring and dialogue with the investee company are essential. Private debt investors track responsibility metrics as part of credit risk management and may require regular reporting on responsibility themes. Although influence is more indirect than in ownership-based investments, active and systematic guidance provides an effective way to manage risks and promote sustainable value creation.

Infrastructure investing

Infrastructure investments naturally align with responsible investing, as they are long-term investments in societally essential services and play a significant role in solving global sustainability challenges. For example, energy, transport and digital infrastructure projects can advance climate goals and support the transition to a low carbon economy in line with the Paris Agreement. At the same time, land use associated with infrastructure projects directly affects local environments and communities. Responsibility should therefore be assessed systematically across the entire investment lifecycle.

Over the long term, integrating responsibility factors into infrastructure investing supports risk management, enhances asset resilience and predictability and strengthens their value at exit. Well-executed sustainability work increases the attractiveness of investees by demonstrating systematic, transparent and sustainable management.

Analysis and due diligence

Responsible infrastructure investing begins before the investment decision. Projects are assessed from a responsibility perspective to identify material environmental, social or governance risks that could prevent investment. During due diligence, responsibility factors are examined comprehensively across the asset's lifecycle, including development, construction, operation and potential exit, impacts on local communities and environment, as well as the whole value chain. Permit processes, stakeholder relations and social licence to operate require particular attention.

Active ownership and engagement

After the investment decision, responsible investing is based on active ownership and continuous monitoring. The investor works with the investee company or operator to manage sustainability risks, set targets and measure performance. This may include actions related to emissions reduction, resource efficiency, occupational safety or stakeholder dialogue. ESG responsibilities and reporting practices are clearly defined, and progress is reported to investors and authorities.

Real estate investing

In real estate investing, responsible investing is a central part of value creation, as properties are typically long-term investments and closely tied to the local operating environment. Many responsibility issues, such as energy efficiency, climate risks, land use, regulatory requirements and community relations, materialise directly in real estate and affect both investment value and the surrounding society.

Over the long term, responsible real estate investing supports risk management, enhances property attractiveness and reduces the risk of vacancy and regulatory-driven value losses. Well-managed responsibility work strengthens a property's value and competitiveness also at the time of sale and exit.

Analysis and due diligence

Responsible investing already begins at the investment identification stage, where potential severe sustainability risks are assessed preliminarily. Such risks may include soil contamination, significant regulatory uncertainties or certain sectors associated with elevated sustainability risks. During due diligence, responsibility factors are examined more comprehensively, including building energy efficiency, physical climate risks, the quality of local infrastructure and opportunities to improve the property's environmental and social performance. The assessment also considers the cost and value impact of planned improvements.

Active ownership and engagement

During the ownership phase, responsible investing is based on active management, clear targets and continuous monitoring. Property-specific development plans, targets for reducing energy and water use and emissions tracking are key practices. Reporting and transparency are emphasised, and property responsibility is often measured using international frameworks and certifications. Collaboration with external property managers and tenants is also essential for achieving responsibility goals.

Hedge fund investing

In hedge fund investing, responsible investing emphasises the integration of sustainability risks into investment processes, good governance and transparency of fund operations. Hedge fund strategies are often liquid and instrument-based, with relatively short investment horizons, which requires responsibility to be assessed primarily from a risk management and investment process perspective. In hedge funds, responsibility is viewed as an essential part of professional portfolio management, risk control and good governance.

Analysis and due diligence

Responsible hedge fund investing begins during fund selection and evaluation. Investors assess the manager's responsibility policies, governance structures, incentive models and risk management practices, as well as how responsibility factors are incorporated into investment decision-making. Governance-related factors, such as transparent reporting, conflict of interest management and regulatory compliance, are particularly important.

The integration of responsibility factors varies depending on the fund's strategy. In fundamentally driven strategies, responsibility factors may be used to assess company and sector level risks, while in quantitative strategies, sustainability data may be incorporated into risk models or signal development. Funds may also apply exclusions, norm-based restrictions or client specific responsibility criteria that shape the investment universe.

Engagement and monitoring

During the holding period, responsible investing in hedge funds focuses on continuous monitoring and reporting. Regular responsibility reporting supports understanding of the fund's risk profile and operations. Although hedge funds typically have limited direct influence over investee companies, responsibility supports long-term stability, risk-adjusted returns and investor trust.

Investment approaches

In addition to the asset class, the chosen investment approach, such as the ownership model and investment strategy, also affects how responsible investing is implemented. This section focuses on direct and fund investments as ownership models, and on the key features of active and passive portfolio management from a responsibility perspective. An investor may own and select investments either directly or indirectly through funds. Active portfolio management is based on analysing and selecting investments, whereas passive investing aims to track an index as closely as possible. In practice, portfolio management often includes elements of both approaches.

Direct investments

In direct investments, the investor typically has significant decision-making power and a direct ownership relationship with the investee. The investor can incorporate responsibility factors directly into investment decisions, selection and stewardship. This, however, requires sufficient resources as well as company- and sector-specific expertise.

Responsibility is visible already in investee selection, where material ESG risks, opportunities and development potential are assessed. The assessment may draw on company specific analyses, ESG data, due diligence processes and dialogue with investee companies. During the holding period, depending on the asset class and investment approach, the investor may engage with the investee alone or together with other investors, set concrete responsibility targets and participate in general meetings or board work. The investor also monitors responsibility performance regularly and may respond, for example, through engagement or divestment.

Fund investments

In indirect investments, capital is often allocated through funds. Funds exist across many asset classes and may include direct investments or other funds (funds of funds). A fund's strategy may also emphasise a particular responsible investment approach or sustainability theme.

In fund investments, responsible investing is implemented through the fund structure and the practices of the portfolio manager. The investor does not influence individual holdings directly but guides responsibility through fund selection, monitoring, mandates, investment policies, reporting requirements and dialogue with the fund manager. Thorough due diligence before investing, as well as ongoing monitoring and engagement with the fund manager, support the implementation of the investor's own responsibility principles.

The investor evaluates responsibility particularly based on the fund manager's expertise, transparency and commitment. The investment process begins with assessing the responsible investment practices of underlying funds. This includes reviewing the manager's responsibility policies, integration of responsibility risks into investment decisions and transparency of reporting. Asset class -specific considerations include whether funds comply with international norms and apply exclusion or restriction criteria. When evaluating managers, it is essential to ensure that responsibility is embedded in the investment process and is not only a principle-level commitment. Information is gathered through due diligence questionnaires, interviews and analyses.

During the holding period, responsibility is highlighted in continuous monitoring and reporting. The investor regularly analyses the ESG performance of target funds and ensures that fund managers operate in line with agreed principles. Allocation decisions and active dialogue with fund managers are the primary means of engagement.

Active portfolio management

In active investing, responsibility is part of decision making and analysis, rather than being limited to applying predefined responsibility criteria. Responsibility factors are assessed case by case as part of the financial analysis of companies or investment targets, and they may influence valuation, return expectations and risk management. Active portfolio management also enables broad stewardship and engagement tools, such as dialogue with companies, voting at general meetings and promoting responsibility issues. This approach offers greater flexibility but requires more resources and case-specific analysis.

Passive ESG indices

In passive investing, responsibility is typically implemented through ESG indices that restrict and weight investments based on predefined responsibility criteria. This may include exclusions, norm-based criteria or overweighting companies with high ESG ratings. ESG indices offer investors a transparent, cost efficient and scalable way to incorporate responsibility into portfolios. Although individual investment weights are not actively adjusted, responsibility is implemented through the rules-based structure. Passive ESG investing is particularly suitable for investors who prioritise cost efficiency and broad diversification.

Developing responsible investment principles

The purpose of responsible investment principles or policy is to describe what responsibility means and how it is implemented in investment activities. The principles serve as guiding documentation. There is no single established way to formulate responsible investment principles; their scope and format depend on the investor's needs.

Responsible investment principles may be included as a dedicated section within the investment strategy or drafted as a separate document. The principles act as concise but comprehensive guidance. Their preparation may involve internal and external stakeholders mapping out ideas, perspectives and themes.

Responsible investment principles may include, for example:

1. Introduction
   - Description of responsible investing: what responsible investing means for the investor, why it is implemented and what it aims to achieve.
   - Responsibility themes: a description of the sustainability or responsibility themes relevant to the investor and the rationale for their materiality. Tools such as double materiality analysis may be used.

2. Approaches
   - Description of the responsible investment approaches used and how they are applied in practice across different asset classes.
   - Approaches may be presented in text or, for example, in a table where asset classes are shown on the horizontal axis and responsible investment approaches on the vertical axis.
   - If the principles apply only to part of the investment activities, the scope and rationale should be clearly stated. Application of the principles and selected approaches may vary by asset class and investment method.

3. Objectives, organisation and reporting
   - Setting responsibility objectives: whether responsible investing includes quantitative or qualitative targets for the short, medium or long term.
   - Responsibility governance: how responsibility is organised and who is responsible for approving, implementing, overseeing and developing the responsible investment principles.
   - Responsibility reporting: how and how often the implementation of the principles is reported.

How to develop responsibility work

Developing responsible investment principles or policy is a good starting point. To support them, additional documents to guide investment activities may also be created, such as stewardship policy or thematic strategies and roadmaps (for example on climate or nature).

Investors may consider whether there are initiatives, collaboration platforms or memberships that could support and strengthen responsibility work and its development. At the same time, they may reflect on their own role in advancing responsible investing and make use of a broad range of active ownership and engagement tools.

Reporting is a central part of implementing, developing and monitoring responsible investing. Regulation and stakeholder expectations set the boundaries for the content and frequency of external reporting. Clear, credible and transparent disclosure builds trust and supports communication objectives. All responsibility communication must ensure that content is truthful and verifiable.

A responsibility report may include various sustainability indicators and perspectives for assessing responsible investing and monitoring targets. It can describe themes, current issues, available data or indicators, implementation of responsibility and other topics in more detail than the responsible investment principles. In addition to external reporting, internal reporting and monitoring should also be developed. Effective internal reporting supports implementation, achievement of objectives and continuous improvement.

Principles, documents and reports play an important role in responsible investing, but the most essential aspect is the genuine integration and implementation of responsibility in day-to-day investment work. The principles should also be updated regularly to keep them current.

Examples of responsible investment principles and approaches can be found in publications by asset managers, institutional investors, foundations, pension funds and other organisations. International organisations, investor initiatives and forums also provide guidance and tools to support and develop responsibility work.

Examples of initiatives and frameworks to support the development and reporting of responsible investing

Assessment and reporting of sustainability factors:

- Task Force on Climate-related Financial Disclosures (TCFD), now incorporated into ISSB standards (International Sustainability Standards Board); a framework for identifying, assessing and disclosing climate-related financial risks and opportunities
- Taskforce on Nature-related Financial Disclosures (TNFD), a framework for identifying, assessing and disclosing nature-related dependencies, impacts, risks and opportunities and their financial implications
- Sustainability Accounting Standards Board (SASB), industry-specific sustainability reporting standards

Assessment and reporting of sustainability impacts:

- Global Reporting Initiative (GRI), a framework for corporate sustainability reporting
- UN Sustainable Development Goals (SDGs), developed for states but applicable to business as well

Double materiality assessment and reporting:

- European Sustainability Reporting Standards (ESRS), reporting standards under the EU Corporate Sustainability Reporting Directive
- Voluntary Sustainability Reporting Standard for smaller companies, a voluntary sustainability reporting standard created by EFRAG (European Financial Reporting Advisory Group)

Greenhouse gas emissions calculation:

- Greenhouse Gas Protocol (GHG Protocol), greenhouse gas accounting standards and guidance
- Partnership for Carbon Accounting Financials (PCAF), a standard to assess and disclose greenhouse gas emissions associated with financial activities

Regulation and legislation:

- EU Sustainable Finance Disclosure Regulation (SFDR)
- EU Taxonomy Regulation, the EU's classification system for sustainable economic activities
- EU Corporate Sustainability Reporting Directive (CSRD)
- EU Corporate Sustainability Due Diligence Directive (CSDDD)

Initiatives, commitments and memberships:

- Principles for Responsible Investment (PRI)
- UN Global Compact (UNGC)
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers (NZAM) & Net Zero Asset Owners (NZAO)
- Net Zero Asset Owner Alliance (NZAOA)
- Net Zero Banking Alliance (NZBA)
- Finance for Biodiversity Pledge

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Responsible investment vocabulary in Finnish

Finsif - Finland's Sustainable Investment Forum ry. *Vastuullisen sijoittamisen keskeinen sanasto.*

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