



Reeta Jutila

**SUSTAINABLE INVESTING PRACTICES OF ASSET MANAGERS OPERATING IN
FINLAND**

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Author Jutila, Reeta		Supervisor Ruman, Asif	
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Abstract			
<p>Sustainability has become a trend in many industries and finance is no different. Sustainable investing does not have an official definition, but it often refers to the practice of integrating environmental, social, and governance (ESG) factors into investment decision-making. Throughout the years it has developed from simple religious practices into a comprehensive investing phenomenon. Recently, because of the rapid growth of the industry, the fear of greenwashing has become apparent.</p> <p>The past academic literature related to sustainable investing has primarily focused on financial performance and non-financial performance has been overlooked. Therefore, it is relevant to study these issues in more detail. The objective of this master's thesis is to get a better understanding of the sustainable investing practices of asset managers operating in Finland. Specifically, the aim is to study how asset managers practice sustainable investing, how they communicate about it, and how they prevent greenwashing in their practices.</p> <p>To collect data for the study, a survey with 38 questions was sent to 31 asset managers, out of which 24 answered all the mandatory questions. The data acquired from the survey was descriptive and it was analyzed using both quantitative and qualitative methods, to get a more thorough analysis of the topic. Based on the survey, all the asset managers operating in Finland practice sustainable investing. They use various strategies, have different motivations, and believe that investing sustainably can lead to excess returns in the future. Asset managers use a variety of different ways to disclose information regarding their sustainable investing practices to their stakeholders. They are, for example, committed to certain initiatives and disclose sustainability-related information on their website. They see greenwashing as a problem in the investment industry and prevent it in their practices by promoting high transparency and integrity. There exist differences in the sustainable investment practices between asset managers with different amounts of assets under management. Asset managers with larger amounts of assets under management tend to have more resources, which is why they seem to have more advanced ways to practice sustainable investing and communicate about it than asset managers with less assets under management.</p> <p>This master's thesis gives a notable addition to the current academic literature regarding sustainable investing. There do not exist many studies regarding this topic, which is why these results provide important information related to the sustainable investing practices of asset managers operating in Finland. This thesis is done as a commission by Scandinavian Financial Research Oy.</p>			
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Additional information			

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1 INTRODUCTION

1.1 Introduction to the topic

Sustainable actions are needed today to reduce emissions and fight climate change. The demand for sustainability has become a trend in many industries, and finance is no different. However, not enough is done yet. According to Popescu, Hitaj, and Benetto (2021), more money is needed to reach the ambitious sustainability targets set by the United Nations. Additionally, investors should be able to reliably evaluate the sustainability of their investment assets in order to be able to channel the funds into investment assets that truly are sustainable.

Over the years, sustainable investing has developed from simple religious and ethical practices into a diverse investing phenomenon, where sustainability can be seen as a source of profit and a way to manage risks. There does not exist any official and universal definition for sustainable investing, but it often refers to integrating environmental, social, and governance (ESG) factors into investment decision-making. The objective is to incorporate both the optimization of the risk-return relationship and the evaluation of the societal effects into investing processes. Thus, profit maximization is not the only goal, and investors also consider the consequences of their investing actions. (Utz, Wimmer & Steuer, 2015.) Hyske, Lönnroth, Savilaakso, and Sievänen (2020, pp. 29–31) state that sustainable investing can be practiced by many different types of investors, and sustainability can be taken into account in every asset class. They conclude that each investor practices sustainable investing according to their values in a way that fits into their personal investment strategy.

The sustainable investment industry has developed greatly over the past few years and is considered a remarkable part of the modern financial markets. According to the Global Sustainable Investment Alliance GSIA (2021, p. 4), during the years 2018–2020, sustainable investment had a 15% increase in the United States, Canada, Japan, Australasia, and Europe. Currently, 35,9% of the total assets under management in these five markets are invested sustainably. This phenomenon does not show signs of slowing down, as according to GSIA, sustainable investing continues to grow in most

of these regions. Due to this rapid increase in popularity, sustainable investing has also been a popular topic in the academic literature. Still, the studies have primarily investigated whether practicing sustainability affects financial returns rather than evaluating the non-financial performance of sustainable investing. (Utz & Wimmer, 2014). Thus, the evaluation of non-financial performance has been overlooked in the academic literature, and therefore it should receive more attention.

As there currently does not exist any official definition for sustainable investing and the number of investment assets classified as sustainable has grown quickly during the past few years, the fear of greenwashing has become apparent in the sustainable investing markets (Popescu et al., 2021). Greenwashing is caused by the information asymmetry between asset managers and investors, and it refers to the practice of making misleading claims about the sustainability of an investment asset. In addition to information asymmetry, the lack of regulation has contributed to the greenwashing phenomenon, as regulation has not been able to keep up with the rapid growth of the sustainable investing industry. (Candelon, Hasse & Lajaunie, 2021.) But this is about to change. Finally, the industry is becoming more standardized and regulated as more defined tools, and approaches are created (Hyrskke et al., 2020, pp. 12–14). One example of the new regulation the sustainable investing industry faces is the Sustainable Finance Action Plan set by the European Union, where definitions for sustainable investing are implemented into legislation. (GSIA, 2021, p. 4)

Because of the recent worries related to greenwashing, investors need reliable measures to evaluate the sustainability of their investments. Asset managers have great power in the investment markets, but because of the previously described asymmetric information, determining the sustainability of an asset manager can be difficult. (Popescu et al., 2021; Candelon et al., 2021.) As the demand for sustainability-related content has grown, asset managers are pressured to publish more sustainability-related information. Consequently, the supply of sustainability-related content has grown, but it does not always suit the needs of its audience. (Peregrine, 2022, p. 16.) In order to report about sustainability, it also must be measured in some way. Most commonly, the sustainability of investment assets can be evaluated using sustainability data from different data providers or by using ESG ratings, which rating agencies provide. Especially measuring the environmental performance of sustainable investment assets

has been popular during the past few years. Therefore, more ways exist to measure it than in the case of the social and governance performance of investment assets. (Alliance Global Advisors, 2022.) Currently, there are no official reporting standards for sustainable investing, but during the past years, various sustainable investing organizations have emerged to improve transparency in the sustainable investing industry. They have created guidelines, standards, and initiatives that asset managers and investors can use in their processes. Different reporting frameworks have also been created to help operators in the financial markets report about sustainable investing (Hyrskel et al., 2020, pp. 241, 283).

1.2 The aims of the thesis

In the past, most of the research literature concerning sustainable investing has examined the financial returns, and the sustainability performance has been overlooked (Benson, Brailsford & Humphrey, 2006). Currently, the academic literature regarding sustainable investing is widening, but still, measuring sustainability has not received enough attention (Popescu et al., 2021). Thus, there is a need to study this matter in more detail. In this thesis, the focus will be on non-financial matters related to sustainable investing. The financial performance of sustainable investing will be briefly introduced, but it will not be a part of the main ambitions of the thesis. Because there are a lot of different abbreviations used in this thesis, which can confuse the reader, they are collected and explained in Appendix 1.

The objective of this thesis is to get a better understanding of the sustainable investing practices of asset managers operating in Finland. The preliminary research questions are 1) How do asset managers operating in Finland practice sustainable investing? 2) How do asset managers operating in Finland disclose information related to their sustainability and sustainable investing practices? And 3) How do asset managers operating in Finland prevent greenwashing in their practices? To answer these questions, sustainable investing and greenwashing need to be defined, and ways to measure sustainability and disclose and report on sustainability-related information must be introduced.

There is no available data that could be used to answer these questions, which is why it needs to be collected from primary sources. This study combines aspects of both quantitative and qualitative research in the form of a descriptive survey, which was sent to asset managers operating in Finland. Using the survey, the objective was to get data regarding the sustainable investing practices of these asset managers. The data was then analyzed, and conclusions were made. The questionnaire was sent to 31 Finnish asset managers, which should include all the notable asset managers operating in Finland and therefore cover the majority of the assets under management in Finland. Out of these 31 asset managers, 24 answered all the mandatory questions, making the official rate for response 77,4 %.

Based on the survey, it can be concluded that all the asset managers operating in Finland practice sustainable investing. Asset managers use a variety of different strategies and have multiple motivations for sustainable investing, and they believe that investing sustainably can lead to excess returns in the future. Most asset managers operating in Finland are signatories of the Principles for Responsible Investment (PRI) and members of Finland's Sustainable Investment Forum ry (Finsif). To communicate about their sustainable investing practices, the asset managers are committed to different initiatives, report according to various reporting frameworks, and disclose sustainability-related information on their website. Currently, asset managers see greenwashing as a problem in the sustainable investment industry, and they prevent it in their practices by promoting transparency and high integrity. Additionally, they avoid describing their products too optimistically and create internal guidelines for their actions. Asset managers have different amounts of resources available, which is why smaller asset managers tend to not have as refined sustainable investing processes as larger asset managers. The thoughts related to the upcoming EU regulation are not unanimous, as some asset managers see it as a positive change for the industry. In contrast, others do not think it is sufficient.

This master's thesis provides a notable addition to the academic literature on sustainable investing in Finland, as many studies currently do not exist on this specific topic. The thesis is done as a commission by Scandinavian Financial Research Oy (SFR), which is a company providing research information for the development of strategic management and for the benefit of the entire asset management community

(Scandinavian Financial Research, n.d.). Their expertise and connections were used in the creation and distribution of the survey.

1.3 The structure of the thesis

This thesis contains eight chapters. In chapter 1, the introduction to the topic is made, and the motivation behind the thesis is explained. Also, the research questions are introduced, and the empirical research and the results of the thesis are briefly discussed. In chapter 2, sustainable investing is defined, its history, motivations, and strategies are presented, and sustainable investing in different asset classes is explained. Also, the financial performance of sustainable investing is briefly discussed. Additionally, the sustainability of sustainable investing is questioned, and the concept of greenwashing is introduced.

In chapter 3, ways to measure the environmental, social, and governance performance of sustainable investing are introduced, and ESG data, ESG ratings, carbon footprint measures, and their shortcomings are addressed. Also, sustainable investing reporting measures are discussed, and different reporting frameworks and initiatives are explained. In chapter 4, the regulation related to sustainable investing is introduced, with the focus on the current EU regulation and taxonomy. In chapter 5, sustainable investing in Finland, alongside the previous studies regarding sustainable investing in Finland, are discussed. In chapter 6, the methodology of the study is explained, and in chapter 7, the results are presented and analyzed. Lastly, in chapter 8, the conclusions of the thesis are made, and topic ideas for future research are presented. In the appendices, a list of abbreviations used in this thesis alongside the questions of the survey can be found.

2 SUSTAINABLE INVESTING

In this chapter, the different definitions for sustainable investing are introduced, and the complexity and subjectivity of the topic are discussed. Also, the history of sustainable investing is explained, as well as the motivations behind it and the strategies to practice it. Additionally, sustainable investing in different asset classes is introduced, and the financial performance of sustainable investing is briefly addressed. At the end of this chapter, the sustainability of sustainable investing is discussed, and the concept of greenwashing is introduced.

2.1 Definitions for sustainable investing

In order to discuss sustainable investing, we first need to define what sustainability means. The first institutional definition for sustainable development states that it is the development that meets the requirements of the present without sacrificing the possibility of future generations meeting their own (Siri & Zhu, 2019). The European Commission (n.d.-c) shares this view and declares that this sustainable development is built on three pillars: economic, environmental, and social. They state that actions regarding these pillars must collaborate with one another to accomplish sustainable development. In 2015 The United Nations launched 17 Sustainable Development Goals (SDGs), which define sustainability as matters regarding poverty, health, inequality, climate and environmental degradation, responsible citizenship and consumption, and peace and justice (Siri & Zhu, 2019). Thus, sustainability as a concept is comprised of different aspects, and there are some differences in how it is viewed.

Over the years, there have been many different names and definitions for sustainable investing in the academic literature. First, the term ethical investing was used, and after that, socially responsible investing (SRI) gained popularity. (Chong & Phillips, 2016.) According to Hyske et al. (2020, pp. 20–21), ethical investing means incorporating the investor's personal values into the investment decision-making process, even if it could lead to reduced profits. Renneboog, Ter Horst, and Zhang (2008b) describe SRI as actions where social, environmental, and ethical aspects of investment opportunities

are taken into account in investment decisions by using screening to include or exclude certain assets from the portfolio.

In 2006 the Principles for Responsible Investing, supported by the United Nations, were released, and after that, the term ESG investing started to gain popularity. ESG is a common term in sustainable investing literature, and it is comprised of the words environmental, social, and governance. Chong and Phillips (2016) separate ESG investing and SRI and state that ESG investing improves SRI by considering ESG factors in the investment selection process. This is done by applying a positive screen as the basis or by finding investment opportunities where ESG factors have the power to affect economic profits and risks. Compared to the previously used SRI term, investors consider ESG investing more proactive and holistic, rather than just using simple exclusionary screens in the investment process. (Chong & Phillips, 2016.)

Another often used term in the academic literature is responsible investing. Finland's Sustainable Investment Forum ry Finsif (2021) describes it as acknowledging the environmental, social, and governance factors and taking them into account in the investment process. Hyske et al. (2020, p. 22) state that in responsible investing, the ESG factors are considered in a way that the risk-return relationship of the investment portfolio would improve. This is contrary to the definition of ethical investing, where Hyske et al. (2020, p. 20) conclude that investors are willing to sacrifice profit for sustainability.

Sustainable investing is the term that will primarily be used in this master's thesis. GSIA (2019, p. 3) describes it as a practice where environmental, social, and governance factors are used in the portfolio creation and management processes. In addition to this and other previously introduced names, terms including, for example, social investing, green investing, and impact investing have been mentioned in the academic literature (Chong & Phillips, 2016; Viviers & Eccles, 2006). According to Chong and Phillips, using multiple names and definitions and their slight differences can confuse investors. Finsif (2021, p. 4) concludes that individual investors define sustainability based on their personal values, which means that sustainability is viewed differently by different individuals. These differences in understanding sustainability make the topic of sustainable investing difficult and raise the question of how

sustainability can be monitored and regulated if there is no consensus regarding its definition.

Thus, it can be concluded that there does not exist any universal and official definition for sustainable investing, which is why in academic literature, there have been many names and definitions for it throughout the years. All these definitions share the common feature of aligning financial and sustainable goals in investment decision-making. To be coherent, in this master's thesis, the term sustainable investing is used to describe all the previously mentioned concepts, despite their subtle differences. Sustainable investing thus means taking non-financial factors into account when making investment decisions.

2.2 History of sustainable investing

Despite becoming a well-known phenomenon quite recently, the roots of sustainable investing are dated way back in religious practices. One of the first examples includes Jewish people creating regulations for ethical investment practices in the early biblical times. (Schueth, 2003.) During the Middle Ages, Christians set constraints on loans and investments based on the Old Testament, and in the 1600s, Quakers avoided investing in the slave trade and weapons. At the beginning of the 1900s, the Methodist Church of Great Britain did not invest in companies producing, for example, alcohol, weapons, or tobacco, because they were seen as sinful industries. Sustainable investing also has roots in Islam, where certain industries have been avoided in investing throughout history, including for example, pork production, gambling, and pornography. (Renneboog et al., 2008b.)

Modern sustainable investing has been affected by different crises and societal changes during the different decades of the 1900s. It is said to have been born in the tumultuous political environment in the 1960s, when multiple societal problems, including the Vietnam war, the cold war, and gender equality, raised the issues of social responsibility in society (Schueth, 2003). Sustainable investing became more popular in the 1980s when American and European investors pressured companies and mutual funds to end their operations with South African companies due to racist apartheid politics practiced there. At the end of the decade, disasters, including the explosion of

the Chernobyl nuclear power plant and the Exxon Valdez oil spill, led investors to acknowledge the adverse environmental effects caused by industrial development and thus made environmental issues one of the most critical factors in sustainable investing. (Berry & Junkus, 2016; Renneboog et al., 2008b.)

Since the 1990s, the overall interest in sustainable investing has gained more attention, and ethical consumerism, that is, the willingness to pay more for more sustainable products, has become more popular among consumers. At the beginning of the new millennium, problems including human rights and sufficient labor conditions gained attention among investors, and numerous corporate scandals concerning corporate governance made a mark on the practices of modern sustainable investing. (Renneboog et al., 2008b; Schueth, 2003.) Additionally, in 2006, Principles for Responsible Investing, supported by the United Nations, were released, which is generally seen as one of the most important events in the history of the sustainable investment industry. These six principles shaped the industry by creating international guidelines for sustainable investing and by introducing new terms and definitions for it. Investors can sign these principles, which means that they promise to take them into account in their investment process. (Hyske et al., 2020, pp. 242–243.) More recently, climate-related matters have been highlighted in sustainable investing. In 2016 The Paris agreement came into action with the objective of maintaining the rise in temperature under 2 degrees Celsius. Another goal of this agreement is to develop aims to keep this rise below 1,5 degrees Celsius. (Hyske et al., 2020, p. 167.)

Nowadays sustainable investing makes up a large part of the modern financial markets, as can be seen in Figure 1. In this figure, the proportion of sustainable investment assets relative to the total assets under management in Europe, the United States, Canada, Australasia, and Japan can be observed. The fast increase in the amount of sustainable financial products has led investors to question, whether these sustainable assets are in fact as sustainable as they claim to be. These concerns regarding greenwashing have made the need for sustainability reporting and standards grow, and recently there has been development regarding them around the world. (Popescu et al., 2021.)

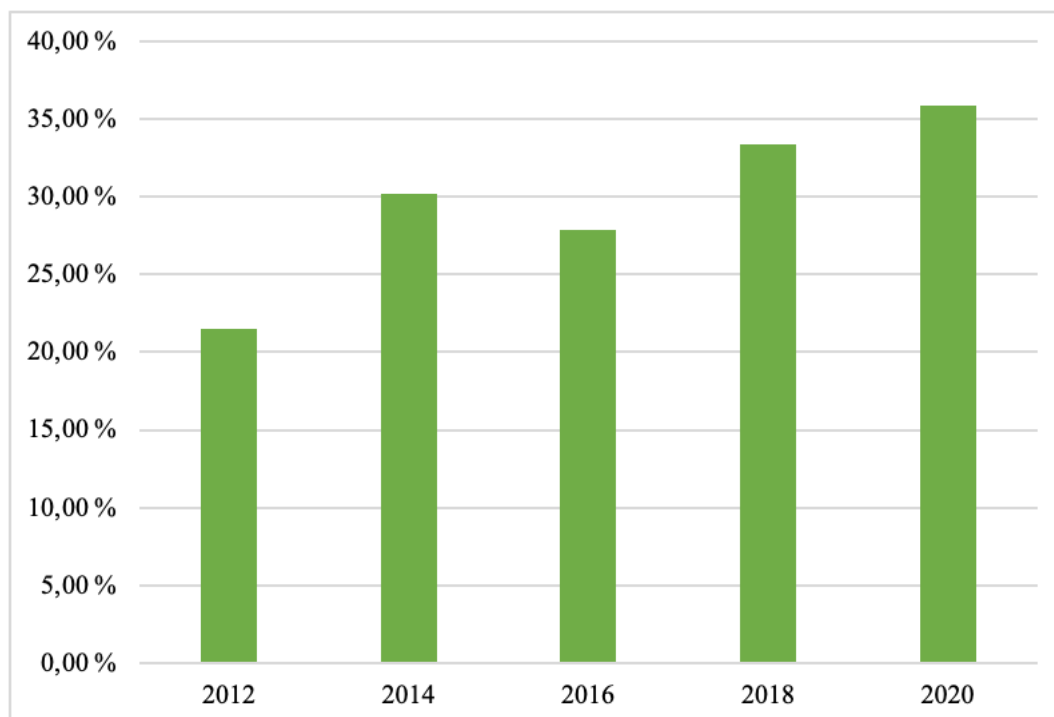


Figure 1. Proportion of sustainable investment assets relative to total assets under management (Adapted from GSIA, 2015 p. 11; GSIA, 2021, p. 9)

2.3 Motivations for sustainable investing

Many different incentives for sustainable investing have been identified in the academic literature. In their guidebook, Finsif (2021, p. 5) lists four common motivations for sustainable investing that they see as the most important. The first motivation is that investors want to align their interests with their personal values and “do the right thing.” The second motivation for practicing sustainable investing is risk management. Identification of risks is an integral part of the investment decision-making process, and investing in sustainable firms can help reduce them, as according to Finsif, these firms are less likely to be associated with corporate scandals. The third important motivation for sustainable investing listed by Finsif is the pursuit of better profits. According to them, better profits could be obtained both from the reduction of risk but also from the possibilities related to ESG factors. Better profits could also be pursued through active ownership if investors owned enough shares to affect corporate policies. The last motivation that Finsif lists is complying with regulation. Finsif states that regulation could be used as a motivation if an investor wanted to recognize firms

that benefit or suffer from new regulation and then use that knowledge in their investment decision-making. (Finsif, 2021, p. 5.)

Schueth (2003) divides the motivations for sustainable investing into two categories. As Finsif (2021, p. 5), Schueth concludes that some investors want to invest in assets that are more in line with their personal values, and thus investing in this way makes them feel good about themselves and their portfolios. According to Schueth, in the other category, investors focus more on the positive actions they could do with their money in society. These investors believe they can use their money to make a difference for the better. When comparing Schueth's (2003) motivations to Finsif's (2021, p.5), it can be observed how the sustainable investing industry has developed from purely practicing sustainability due to ethical demands to sustainability being seen as a source for financial profits and risk management.

According to Statman (2000), investors who practice sustainable investing want their profits to be at least as good as in the case of allocating their money to comparable non-sustainable assets. Amel-Zadeh and Serafeim (2018) study the motivations of professional investors for using ESG information in the investment process, and they find that most professional investors use ESG information mainly for economic rather than ethical reasons. These professional investors think ESG information helps them evaluate risks, making it vital for financial performance. Especially matters related to anti-corruption, leadership, board, climate change, and energy management are essential to financial decision-making. ESG information is also used because of the growing client demand and a desire to practice active ownership to change corporate policies. (Amel-Zadeh & Serafeim, 2018.)

2.4 Strategies for sustainable investing

Nowadays, there are many ways to practice sustainable investing. GSIA (2021, p. 11) introduces seven different strategies for sustainable investing, and from the most popular to the least popular, these are ESG integration, negative/exclusionary screening, corporate engagement and shareholder action, norms-based screening, sustainability-themed investing, positive/best-in-class investing and impact/community investing. In Viviers's and Eccles's article published in 2012, the

authors conclude that the most popular strategies are negative screening, positive screening, and shareholder activism. Thus, it can be said that the popularity of sustainable investing strategies has evolved throughout the years, and new strategies have emerged. Next, these strategies are explained in more detail.

According to GSIA (2021, p. 10–11), the most prominent sustainable investment strategy worldwide is ESG integration. Previously, negative screening was the most popular strategy, and only during the past few years, ESG integration has surpassed it. ESG integration means that environmental, social, and governance aspects are taken systematically and explicitly into account in financial decision-making (GSIA, 2021, p. 7). According to Finsif (2021, p. 9), in ESG integration, sustainability standards are integrated into financial analysis and decisions with financial information. This way, they can contribute positively to the risk-return relationship in the long term. There are some challenges related to ESG integration as investors, companies, and other stakeholders all have different goals for sustainability, which makes it difficult to determine the most critical factors and focus on them in the ESG integration process. (Finsif, 2021, p. 9.)

Negative screening is the oldest and simplest way to practice sustainable investing. In this strategy, certain stocks or industries are excluded from the investment portfolio based on their characteristics concerning environmental, social, and ethical issues. Traditionally, companies operating in alcohol, tobacco, gambling, and defense industries are excluded, but companies can also be eliminated if they have, for example, insufficient labor conditions or environmental actions. After implementing these negative screens, a financial and quantitative approach is used to construct the portfolio from the remaining investment opportunities. (Renneboog et al., 2008b.) Negative screening has roots in religious ethical investing, where certain industries are seen as sinful and therefore excluded from investment portfolios. These industries are often still excluded from sustainable portfolios. (Hyrskel et al., 2020, p. 34.) Nowadays, investors also exclude firms based on their evaluated financial risks. For example, because of climate change, coal can be seen as a financial risk; thus, investors can exclude firms operating in the coal industry from their portfolios. (Finsif, 2021, p.11.) Negative screening has received some criticism in the academic literature. For example, Kreander, Gray, Power, and Sinclair (2005) state that screening can limit the

choosing of assets and thus complicate the efficient diversification process. Practicing negative screening can also cause to miss out on profitable investment opportunities, as often excluded so-called “sin stocks” like tobacco and alcohol have provided investors with significant payoffs in the past (Chong & Phillips, 2016).

In the case of positive screening, companies practicing superior corporate social responsibility are selected into the portfolio. Usually, screening is based on practices relating to corporate governance, labor relations, cultural diversity, and the environment. (Renneboog et al., 2008b.) According to Schueth (2003), socially responsible investors want to invest in companies that have a positive impact on society. Often this leads to investing in companies with desirable environmental actions and exceptional relations between employers and employees. Investors must make difficult decisions when practicing positive screening, as no company can act perfectly sustainably. Thus, the goal is to choose companies for the portfolio that best fulfill the ethical and financial requirements. (Schueth, 2003.) Positive screening can cause some distortion relating to some industries, which is why best-in-class strategy was developed. It is similar to positive screening, but it ensures that the portfolio is balanced between industries. (Kempf & Osthoff, 2007.) This is done by arranging firms in specific industries in order based on their corporate social practices and then choosing the best firms in each industry into the portfolio. (Renneboog et al., 2008b.) Best-in-class strategy is often used in conjunction with positive screening, as seen from the GSIA (2021, p. 7) report.

Corporate engagement and shareholder action is another important sustainable investment strategy. According to GSIA (2021, p. 7), stockholder power is used to affect corporate behavior when practicing this strategy. This is done, for example, by being in contact directly with the management or by practicing proxy voting using ESG guidelines as guidance. Renneboog et al. (2008b) describe this kind of behavior as shareholder activism and highlight the importance of portfolio managers in communicating with the management. The goal of shareholder activism is to affect corporate actions positively, and investors practicing shareholder activism want to make managers act in a way that improves the firm’s financial performance and stakeholder wellbeing (Schueth, 2003).

Other sustainable investment strategies recognized by GSIA (2021, p. 7) are norms-based screening, sustainability-themed/thematic investing, impact investing, and community investing. In norm-based screening, the screening process is done while comparing it to minimum standards of business that are set by international norms, for example, the United Nations and OECD. In sustainability-themed investing, investing is done regarding some themes, for example, sustainable agriculture or gender equality. With impact investing, the goal is to accomplish positive social and environmental impacts. Community investing is more extensive than impact investing, and when practicing it, money is allocated to individuals that usually have not been attended to. Financing can also be given to firms based on their distinct social or environmental agendas. (GSIA, 2021, p. 7.)

2.5 Sustainable investing in different asset classes

Traditionally sustainable investing has been seen as a part of equity investments, but nowadays, sustainability is also practiced in other asset classes. The ways to practice sustainable investing differ in different asset classes, and they face their own challenges and opportunities related to sustainable investing. (Hyrskel et al., 2020, p. 144.) Because there exists the most relevant literature related to sustainable investing in equity investments, the focus of this thesis will be on equity investments rather than on fixed income or alternatives. But as asset managers also invest their clients' money in these asset classes, it is necessary to introduce how sustainable investing can be practiced in fixed-term and alternative instruments. Next, the asset classes and ways to practice sustainable investing in them are described.

2.5.1 Equity investments

One way to practice sustainable investing is to choose individual firms to invest in. This way, the investor can select companies that precisely fit into their views on sustainability. By directly owning the company stock, the investor can attend the company's annual general meeting and use their right to vote. The investor can also talk to the management about issues they find important. Institutional investors have more power in influencing the firm's actions, as they traditionally own more shares than retail investors. They also have more resources than retail investors and can use

them to obtain more specific sustainability information. Institutional investors can, for example, organize meetings with the firms and ask questions regarding ESG matters. In addition to an investor's own sustainability analysis, many companies conduct thorough research regarding sustainability matters and sell that information to investors. (Hyrskke et al., 2020, pp. 148–152.)

Investors can also invest in sustainable firms through equity mutual funds. In this case, the fund manager makes the decisions related to portfolio choices. (Hyrskke et al., 2020, p. 148.) Sustainable mutual funds are often selected by investors, who appreciate sustainability, but do not want to make the individual asset selection themselves. By investing in sustainable mutual funds, they shift the power of the asset selection to the fund manager. These investors trust the fund managers to make sustainable investment decisions. (Dorfleitner, Kreuzer & Laschinger, 2021.) Investors have limited opportunities to affect the portfolio composition of mutual funds, as the mutual fund's manager cannot take the desires of each investor into account in the asset allocation process. Thus, the most efficient way to ensure that investments are aligned with the investor's sustainability goals is by carefully assessing the available sustainable mutual funds before making the investment decision. (Hyrskke et al., 2020, p. 151.)

Sustainable investing can also be practiced passively through index funds and exchange-traded funds (ETFs). During the past few years, passive investing has gained popularity, leading to the creation of different ESG stock indices and funds replicating them. Since 2015, the number of ETFs using ESG strategies has experienced rapid growth, and in 2019 the assets under management in these funds grew by over 100%. (Hyrskke et al., 2020, pp. 155–161.) This statement regarding the growth of the sustainable ETF industry is also supported by Bioy, Stuart, Boyadzhiev Pettit, and Alladi (2021, p. 17) as they state that the assets in sustainable ETFs have grown 156% between the years 2019 and 2020 and account now approximately 22% of the European sustainably invested funds. In addition to the growth in popularity of passive investing, Bioy and Lamont (2018) conclude that the overall improvement of the available ESG data has made the development of sustainable passive investing grow.

2.5.2 Fixed income

Fixed income securities or debt securities are financial assets that provide specified income payments to the investor in the form of interest. (Bodie, Kane, Marcus, 2014, p. 4) When investing in bond securities, the investor is especially interested in the ability of the security to provide these promised income payments, and according to Hyske et al. (2020, p. 164), by integrating sustainability matters into the investment analysis, the investor can take more factors into account when evaluating the financial stability of investment opportunities. The growth of the sustainable fixed income market has faced some difficulties because of the complexity of the bond markets, which has made the ESG integration challenging, but recently, because of the growing demand for sustainability, the fixed income industry has experienced development regarding sustainable investing (Bioy et al., 2021a, p. 15). Recently, Green Bonds, which are bonds meant to finance some environmental investments, have been experiencing rapid growth (Hyske et al., 2020, pp. 169–170).

Several fixed-income securities exist in the financial markets, and the sustainability assessments for different securities can vary. In the case of short-term money market instruments, the sustainability of the instrument can be evaluated by taking a closer look at the issuer's sustainability practices, for example, by examining how the issuer takes care of good corporate governance and whether they use resources to minimize their ecological footprint. In the case of long-term instruments like corporate bonds, an investor can practice sustainability by loaning money to sustainable companies and avoid lending money to companies practicing unsustainable actions. Unlike in the case of equity investing, bond investors cannot vote in annual corporate meetings, but they can practice active ownership by having discussions with the management of the company. When investing in government bonds, the investor can use negative or positive screening as their sustainable investment strategy. Investors can, for example, favor countries that have signed the Paris Climate Agreement and exclude countries that are on the sanctions list of the European Union or United Nations. In addition, investors can categorize countries based on their compliance with international contracts and recommendations regarding, for example, human rights and environmental practices. (Hyske et al., 2020, pp. 164–167.)

2.5.3 Alternative investments

Investment assets that do not fit into the categories of traditional investments, including stocks, bonds, or cash, are viewed as alternative investments. Generally, alternative investments include securities like real estate, private equity, hedge funds, and commodities. (Baker & Filbeck, 2013, pp. 3–4.) Currently, alternative investment funds make up only a small part of the sustainable funds industry, compared to other asset classes, according to Bioy et al. (2021a, p. 7).

In their book, Hyrske et al. (2020) discuss various ways to practice sustainability in different alternative investment asset classes. In real estate, environmental aspects are highlighted, and investors can, for example, consider green building criteria and influence the architects, constructors, tenants, and real estate fund managers when acting more sustainably. There also exist some certificates for sustainable actions in the real estate industry, which investors can look for. Private equity investments are investments in unlisted companies, and they can be done either directly or through some mutual funds. The ways to practice sustainability in private equity mutual fund investments depend on the strategy of the fund and the industry and resources of the companies that the fund invests in. Active ownership is also possible, as compared to listed firms, the investors of unlisted firms have much more significant possibilities to influence the firm's managers. (Hyrske et al., 2020, pp. 174–177, 184.)

Hedge funds are funds that pursue to make profit regardless of what is occurring in the markets, and to reach this goal, they practice multiple different investment strategies. This investment style can cause problems for sustainable investment practices, and therefore there do not exist many hedge funds claiming to be sustainable. Sustainable investing practices that investors can use in the case of hedge funds are, for example, to demand that the fund complies with the best industry practices and have transparent management. (Hyrske et al., 2020, pp. 188–190.)

Commodity investments include physical commodities, capital goods, firms owning capital goods, and derivatives of commodities. There are numerous ways to acknowledge sustainability in the commodities market, but it can sometimes be challenging. In the case of derivatives, an investor can, for example, avoid certain

investment opportunities, like fossil energy sources, and demand better information from the asset managers regarding the positions and strategy. When investing in capital goods, the investor is directly involved with the production of the commodity and thus has better chances of taking sustainability into account in the decision-making. During the past few years, the development regarding ESG matters has been significant, specifically in capital goods. (Hyrskke et al., 2020, pp. 195–201.)

To conclude, sustainable investing can be practiced in all asset classes, but the ways to practice sustainable investing are most refined in equity investments. Recently, because of the great demand for sustainability, the fixed income and alternative investment industries have also developed new means to consider sustainability matters in investment practices. Investing sustainably in these asset classes can require more work from the investor, as there might not be as much information available, especially in the case of alternative investments.

2.6 The financial performance of sustainable investing

Generally, there exist two views opposed to one another related to the profitability of sustainable investing. Supporters of sustainable investing state that reviewing both financial and social aspects of investment opportunities provide economic benefits. This is because firms acting more sustainably are less likely to be associated with scandals concerning environmental wrongdoing or poor product quality. Firms with good social responsibility can also lead to better brand loyalty, increasing sales. In addition, these companies may be more attractive to employees, which could improve productivity and profitability. On the other hand, investors sharing the opposing view declare that practicing sustainable investing reduces the potential investment opportunities, which could lead to increased volatility, lower returns, worsened diversification, and additional costs. This occurs because socially responsible investors often use screening to determine the appropriate investment opportunities, and traditionally it can lead to the exclusion of larger firms, leaving investors with smaller and more volatile firms to invest in. As screening can lead to the exclusion of profitable firms, returns could also decrease. Additionally, the costs of practicing screening could be high and affect the financial returns. (Sauer, 1997.)

The financial performance of sustainable investing has been a popular topic in the academic literature since the industry began to gain popularity, but the studies have not been unanimous regarding whether sustainability can lead to financial overperformance (Renneboog, Ter Horst & Zhang, 2008a). Financial performance has often been evaluated by comparing sustainable mutual fund performance to the performance of conventional mutual funds using different performance measures, including, for example, Jensen's alpha, Sharpe ratio, and the Fama French 3-factor model (Hamilton, Jo & Statman, 1993; Mallin, Saadouni & Briston, 1995; Nofsinger & Varma, 2014).

Hamilton et al. (1993) were among the first to investigate the performance of sustainable investment funds compared to conventional funds. They study US mutual funds between 1980–1991 but do not find statistically significant differences between the performance of sustainable and traditional mutual funds. After their study, numerous research papers have been conducted to evaluate the financial performance of sustainable funds worldwide with different time periods. For example, Mallin et al. (1995) study ethical investment funds in the UK from 1986–1993 and find that sustainable funds slightly overperform conventional funds. Contrary to Mallin et al., Renneboog et al. (2008a) examine mutual funds in Europe, North America, and Asia-Pacific countries during 1991–2003 and find proof of underperformance of sustainable mutual funds all over the world. Nofsinger & Varma (2014) compare the performance of sustainable and conventional mutual funds in market crisis periods and discover that sustainable mutual funds do better in crisis periods and worse in non-crisis periods than conventional funds. In a more recent study, Abate, Basile, and Ferrari (2021) examine European mutual funds with high ESG ratings and low ESG ratings during 2014-2019 and find that funds with high ESG ratings have remarkable higher risk-adjusted performance compared to funds having low ESG ratings. ESG ratings are ways to review the sustainability performance of an investment asset, and they are discussed in more detail in chapter 3.1.2. This overperformance is also supported by Whelan, Atz, and Clark (2021, pp. 2–5) as they investigate the relationship between financial performance and sustainability by conducting a meta-study with over 1000 research papers during 2015-2020. They also do a meta-meta-analysis by analyzing 13 meta-analysis studies covering over 1200 studies. Based on both studies, the authors find that sustainability positively affects financial performance.

Thus, based on the academic literature, there does not exist consensus regarding the performance of sustainable mutual funds compared to conventional funds. Some studies (e.g., Mallin et al., 1995) find proof of slight overperformance of sustainable funds, but other studies (e.g., Renneboog et al., 2008a) find evidence for slight underperformance. Some studies (e.g., Hamilton et al., 1993) do not find differences in financial performance between these two types of funds. It also seems that more recent studies tend to find proof of a positive relationship between sustainability and financial performance. Puttonen and Puttonen (2021) suggest that this recent overperformance might be due to sustainable mutual funds having gained much popularity during the past years, which has caused considerable amounts of money to flow into the funds. According to them, this indicates that the valuations for sustainable companies are currently high, and thus future profits would not remain at these exceptionally high levels.

2.7 Questioning the sustainability of sustainable investing

The actual sustainability of sustainable investing can sometimes be questionable. Because there are no official definitions and standards for sustainable investing, asset managers can act according to their own subjective views. This makes measuring and comparing different assets difficult, which can lead to confusion amongst investors. According to Utz & Wimmer (2014), sustainability can even be seen as a marketing trick because the sustainability of sustainable mutual funds might not differ from conventional funds. This is problematic as investors expect sustainable mutual funds to be more sustainable than conventional funds (Schwartz, 2003). Utz and Wimmer conclude that there is not much academic literature relating to this topic, which is why it should be investigated more.

The screening practices, especially related to negative screening, have received much criticism related to the measuring of sustainability. Schwartz (2003) emphasizes the ethical problems related to ethical investing and criticizes the screening practices that mutual funds have. He concludes that the investment practices in ethical mutual funds are not standardized and can be based on the opinions of an individual investor. Finsif (2021, p.12) points out that, for example, different investors often view nuclear power differently. Additionally, the complete exclusion is often very difficult. For example,

if an investor would like to exclude tobacco completely from their portfolio, they would have to exclude also companies operating in retail, as grocery stores almost always sell cigarettes. (Finsif, 2021, p.12) Sustainable mutual funds also do not publish enough information about their screening practices or how to determine their investments' ethicality, which is problematic as investors cannot investigate the sustainability practices well enough.

Additionally, Schwartz (2003) criticizes especially the ethicality of negative screening and proposes that the exclusion of, for example, alcohol or military industries is not always ethically justified. This is because despite alcohol being addictive and sometimes dangerous, it can have health benefits when used moderately. Military equipment and weapons can also be used for the common good, for example, peacekeeping and helping after a crisis or a natural disaster. Thus, Schwartz points out that firms in alcohol or military industries are not always unethical; therefore, the negative screens related to them might not be ethically justified. The current war in Ukraine has also led to problems concerning negative screening. Before the war, the weapons industry was not seen as sustainable, but now as the weapons are needed in the fight against Russia, they seem much more appealing. In addition, carbon emissions are not seen as threatening anymore when comparing to problems related to poverty caused by the sudden rise in energy prices. (Mackintosh, 2022) Thus, what is seen as sustainable can vary significantly in a short period of time.

Also, Michelson, Wailes, Van Der Laan, and Frost (2004) criticize screening as there do not exist official standards for it and they point out a problem related to primary and secondary involvement. Some firms, generally viewed as ethical, can be involved with unethical firms at some point in their supply chain. This can be seen as problematic if investors want to exclude certain companies or industries completely from their portfolio. Additionally, Bauer, Koedjik, and Otten (2002) question the sustainability of sustainable mutual funds as they find that conventional indices are better at explaining the returns of sustainable mutual funds than sustainable indices. This would indicate that sustainable mutual funds behave like conventional funds and use sustainability as a marketing trick. This statement receives support from Utz and Wimmer (2014) as they find that sustainable mutual funds might still hold as unsustainable companies in their portfolios as conventional funds do. In their study,

they compare ESG scores of individual assets in both sustainable and conventional mutual funds and show that even though sustainable mutual funds exclude the most unethical companies, this does not guarantee that the companies they invest in are as ethical as investors would like them to be.

To conclude, the actual sustainability of sustainable assets can be questionable based on the academic literature. Because there does not exist any universal and official definition for sustainable investing, it is difficult for an investor to compare the differences between different investment opportunities. Also, the lack of official standards for sustainability disclosure is problematic, as sustainable investment assets might not act as sustainably as investors would expect them to. As these concerns for the accuracy of the sustainability of investments have increased, the concerns for the intentional misleading of investors that is greenwashing have also emerged. Greenwashing will be discussed in more detail next.

2.8 Greenwashing

The environmental performance of firms has become a big trend in the 2000s and, for example, during 2006–2009, so-called green advertising grew by nearly 300%. This rapid growth of environmentally friendly practices has made people suspicious of their legitimacy, and concerns for greenwashing have emerged. There is no universal definition for greenwashing, but most commonly, it refers to producing falsified or deceptive claims about the organization's environmental effects, which misleads people into viewing their environmental performance as more positive than it is. The term greenwashing was first mentioned in the 1990s, and after 2011, it has gained much more popularity in the academic literature. (Lyon & Montgomery, 2015.)

In addition to greenwashing, terms including impact washing, SDG washing or rainbow washing, and ESG-washing are used in the academic literature. In impact washing, the commitments of different investments are highlighted, while the actual impact to the environment and society of these investments is disregarded. SDG washing is defined as emphasizing the positive achievements related to specific Sustainable Development Goals while failing to report on the Sustainable Development Goals that have been affected negatively by the firm's actions. (Popescu

et al., 2021.) Hysrke et al. (2020, p. 273) describe this act of overestimating the positive contributions of certain SDGs as rainbow washing. Candelon et al. (2021) introduce the term ESG-washing and widen the concept of greenwashing by taking into account all three dimensions of ESG. In their definition, ESG-washing refers to the practice where asset managers make misleading claims about their actions taken towards improving environmental, social, and governance practices in their portfolios.

These concerns related to greenwashing are not irrelevant, as there is evidence confirming that some companies have used greenwashing in their marketing strategies (Lyon & Montgomery, 2015). As the general demand for the environment and climate has grown recently, companies have been pressured to act more sustainably to satisfy their stakeholders. Companies might be tempted to make misleading claims concerning their environmental actions to keep up with the current environmental development. Because there do not yet exist ways for investors to measure the environmental impacts of firms adequately, there exists information asymmetry in the markets. By engaging in environmental activities, companies can achieve social acceptance, as they help reduce the asymmetric information relating to the company's environmental legitimacy. But the problem for investors is determining which firms truly take sustainable actions in their practices and which do not. (Berrone Fosfuri & Gelabert, 2017.)

Information asymmetry is a well-known phenomenon in the markets between sellers and buyers, as the seller knows more about the product in question than the buyer. This problem can also be observed between the sustainable investment market and the asset managers. As socially responsible investing has received more popularity, fund managers have incentives to offer more sustainable mutual funds to investors. To reduce the asymmetric information between fund managers and investors, the managers can send a signal to the investors, for example, by naming the fund in a way that investors can understand its characteristics. On the other hand, the fund manager can try to take advantage of this information asymmetry and act opportunistically by naming the fund in a misleading way, which would be ESG-washing. (Candelon et al., 2021.)

Candelon et al. (2021) study ESG-washing in 606 European and 887 US large-cap domestic equity mutual funds in 2013–2018 by comparing the asset managers' statements against their actions concerning the sustainability of their managed funds. ESG-washing occurs if asset managers promote their funds as sustainable without concrete actions taken to achieve these statements. The authors discover that, on average, the ESG scores for conventional and sustainable funds are very similar, indicating that a potential information asymmetry exists. Based on their research, Candelon et al. find that there are mutual funds in Europe and the US that do not take the necessary actions to reach their sustainability statements and therefore participate in ESG-washing.

The practitioners of greenwashing hope to gain benefits from it, but it can also be costly if the firm gets caught misleading its stakeholders as firms could suffer both reputational disadvantages as well as financial losses. Greenwashing also adversely impacts society, as it can lead to confusion and mistrust amongst consumers. (Lyon & Montgomery, 2015.) Lyon and Montgomery conclude that one of the leading causes of greenwashing is the weak and unregulated legislation, which creates the possibility for companies to make misleading claims about their actions. Candelon et al. (2021) also acknowledge this and state that the lack of official standards for sustainability disclosure is problematic, as sustainable mutual funds might not act as sustainably as investors would expect them to. Because of these problems related to the sustainability of sustainable investing, the need for clear regulation regarding sustainability has increased. (Candelon et al., 2021.)

Thus, it can be concluded that the sustainability of sustainable assets can be questionable and that the concerns related to greenwashing amongst investors are valid. There is evidence that firms and asset managers can act opportunistically by taking advantage of the information asymmetry in the market. Some firms and asset managers make misleading claims concerning their sustainability in the hopes of profits, which increases the confusion that investors already have towards environmental actions. Because there do not yet exist any official standards for sustainability reporting and measuring, this act of greenwashing can be hard to detect.

3 COMMUNICATING ABOUT SUSTAINABILITY AND SUSTAINABLE INVESTING

This chapter's focus will be on how asset managers can communicate about their sustainable investing practices and general sustainability practices to their customers. Also, the ways that investors can themselves evaluate the sustainability of their investments are introduced. First, measuring the sustainability of sustainable assets is discussed, ESG data, ESG ratings, and carbon footprint measures are introduced, and their shortcomings are addressed. After that, sustainability reporting is discussed, and some of the most popular sustainability reporting frameworks are presented. Lastly, sustainability initiatives are introduced, and some of the most popular initiatives are described in more detail.

3.1 Measuring sustainability

In order to communicate about the sustainability of investment assets, sustainability needs to be measured in some way. As concluded in the previous chapter, measuring the sustainability of sustainable investments can be difficult because there does not exist any universal definition for sustainable investing or official standards for disclosing information related to sustainability. Investors also might share different views on sustainability, and sustainable investment assets might not disclose enough important sustainability information to investors to be able to compare the sustainability performance. Also, the concerns for greenwashing have increased as more sustainable investments are introduced to the market.

As stated in chapter 2.5.3, there does not currently exist many ways to determine the sustainability of alternative investments. Also, the practices to evaluate the sustainability of fixed income investments are not as developed as in the case of equity investments. Additionally, as sustainability has traditionally been linked to equity investing, more relevant literature exists regarding sustainable equity investments than in the case of sustainable fixed income investments or alternative investments. Therefore, the focus of this chapter will be on measuring the sustainability of equity investments.

3.1.1 ESG data

Nowadays, a lot of ESG data exists that investors and asset managers can use to evaluate the sustainability of their investment assets. ESG data refers to the information companies report about environmental, social, and governance issues in their practices (Kontantonis & Serafeim, 2019). As the amount of sustainability-related data and investor demand for it have increased, ESG data providers have appeared. These ESG data providers aim to help investors and firms by offering them different products and services regarding ESG data. Often, they also create ratings for environmental, social, and governance performance as well as the overall ESG performance of the company. (Douglas, Van Holt & Whelan, 2017.) These ESG ratings are discussed in more detail later in this chapter.

Douglas et al. (2017) categorize the ESG data providers into three categories. The first category is market data providers, including well-known companies like Bloomberg, MSCI, and Thomson Reuters. In addition to ESG data, these companies provide market data regarding, for example, equities, fixed income, and foreign exchange. The second category includes firms that offer only services and products related to ESG matters. Examples include Sustainalytics, Arabesque, and RobecoSAM. The third category includes firms specializing in ESG data regarding specific topics, for example, The Carbon Disclosure Project and Institutional Shareholder Services, Inc (ISS).

There are some problems related to the available ESG data. Kontantonis & Serafeim (2019) conclude that companies have different ways to report on the same matters, which weakens the comparability of the data. Douglas et al. (2017) state that as there is no standardization for the sustainability reporting of the firms, the ESG providers have to use insufficient data in their processes. Because the data is incomplete, investors and asset managers should be careful when using the data in their investment decisions.

3.1.2 ESG ratings

ESG ratings are one of the most common ways to evaluate the sustainability performance of companies and mutual funds. They are easy to understand because of their straightforward appearance, and they cover a large number of investment funds. ESG ratings for companies are made by evaluating numerous environmental, social, and governance factors of the firm and then creating an overall score. (Popescu et al., 2021.) ESG ratings for mutual funds are created by evaluating the economically important ESG factors of the fund's individual assets (Abate et al., 2021).

Despite their wide use, ESG ratings have received criticism. According to Popescu et al. (2021), ESG ratings often fail to evaluate the sustainability impact of the funds as their objective is to assess the risks related to ESG factors. Rating agencies also do not consider the life cycle perspective or science-based targets in their reporting. The comparability of ESG ratings by different rating agencies is also compromised, as there does not exist standards for the rating process and different agencies use different assessment methods. (Popescu et al., 2021.) Feifei and Polychronopoulos (2020) agree as they conclude that there does not exist a consensus amongst the methodologies of different ESG data providers, which can cause significant differences in creating portfolios. Thus, different rating agencies can give totally different ratings for the same firm or fund. Feifei and Polychronopoulos also point out another problem related to ESG ratings. They state that the academic studies concerning ESG ratings have quickly become outdated as the industry is developing rapidly. Thus, there is not enough relevant literature that has studied this topic in detail.

Feifei and Polychronopoulos (2020) state that there exist 70 companies that provide data related to ESG ratings. Next, two of them are introduced, Morningstar and MSCI. Morningstar sustainability rating is a tool for evaluating the sustainability performance of equity mutual funds, corporate bond mutual funds, and fund of funds. The rating was established in 2016 when Morningstar began to evaluate the sustainability of mutual funds using ESG data collected by a data-company Sustainalytics. Currently, Morningstar owns Sustainalytics and makes sustainability ratings for tens of thousands of investment funds. (Barr, Doman & Redensek, 2021, p. 1, Hyrske et al., 2020, p. 210.) The rating aims to help investors' decision-making processes by evaluating ESG-

related risks that are financially important to a fund and comparing them to similar mutual funds. The sustainability rating is represented by using pictures of globes where five globes equal the highest rating, which indicates a lower ESG risk (Barr et al., 2021, p. 1.) Morningstar provides information related to the fund's sustainability ratings, rating icons, and the fund categories for investors free of charge. Many fund companies also use these in their marketing materials. Morningstar also offers more comprehensive sustainability assessments of mutual funds, but the investor must pay a fee to access that information. (Hyrskke et al., 2020, p. 212.)

MSCI is another company offering ESG ratings of mutual funds to investors. The objective of the rating is to provide investors with information related to the ESG characteristics of the mutual funds. MSCI uses data from Lipper, and their ratings cover over 53 000 mutual funds and ETFs. MSCI provides scores from 0-10 individually for the environmental, social, and governance performance and then gives out a total Fund ESG Quality Score. (MSCI, 2021, p. 1–6.) MSCI also constructs ESG ratings for individual firms. The objective of the rating is to provide investors with information regarding the ESG risks and opportunities and help them take them into account in their investment decisions. MSCI collects data from various sources, for example, they use academic and NGO datasets like World Bank to collect macro data. They also use company disclosures, government databases, and other sources from different stakeholders. (MSCI, 2022, p. 2, 14.)

3.1.3 Measuring the environmental performance

As the environmental aspect of sustainability has recently gained much attention, many measures for evaluating the environmental performance of investment assets have been developed. Delmas and Blass (2010) divide these measures into three groups. The first group is environmental impact, and it includes measures like emissions and energy usage. The second group is regulatory compliance which includes, for example, the number of conducted audits and fees for violations. The last group comprises organizational processes, for example, reporting and environmental accounting. When measuring the environmental performance, different variations of these groups are used. The environmental aspect of ESG is considered the easiest factor to measure and

many different metrics and reporting frameworks exist to evaluate it. (Alliance Global Advisors, 2022).

One of the most popular ways to measure and report the climate impact of an investment portfolio is carbon footprint measures, which evaluate the emissions of a company's operations. They can be used on their own or as a part of larger climate measurement tools. The Task Force on Climate-Related Financial Disclosures (TCFD) suggests that companies use the Weighted Average Carbon intensity, which measures tCO₂eq (carbon dioxide equivalents) per MEUR of revenue. This way, the level of holdings of the total assets in the portfolio can be considered. (Hyske et al., 2020, p. 298; Popescu et al., 2021.) Nowadays, the leading standard for companies to report greenhouse emissions is a Greenhouse Gas Protocol (GHG), created by World Business Council for Sustainable Development and World Resources Institute. This protocol makes it possible for investors to evaluate their portfolios' total carbon dioxide emissions and compare them to different indices. (Hyske et al., 2020, p. 298.)

Carbon footprint measures have received criticism as the emissions can be seen to be caused by only purchasing a product or using a service, not from owning shares of a company's stock, which would lead the emissions from investing always to be zero. On the other hand, as shareholders can affect the company's actions, carbon footprint is a way to evaluate how the investors meet their stakeholders' expectations and use their power to improve the company's environmental practices. (Hyske et al., 2020, pp. 298–299.) Popescu et al. (2021) find multiple shortcomings with carbon footprint metrics. They state that there are no official ways to measure carbon footprints, making it difficult to compare carbon footprints of different organizations. Usually, carbon footprint measures only take into account the direct emissions and not emissions from the supply chain or from the use of the product or service. This way, carbon footprints represent only a snapshot from the past emissions of the investment rather than presenting the historical trends of emissions, which is what the TCFD recommends. The data for carbon footprints also does not come from objective sources but from values reported by the companies or estimates, which are created by utilizing industry averages. Because of the differences in the calculation process and the used data, the comparability is compromised. (Popescu et al., 2021.)

There exist also sustainability labels, which can be used to determine the environmental performance of an investment fund. Sustainability labels are specifically requested from the company issuing them, and fund managers must pay a fee to acquire the label. The company offering these labels evaluates the fund based on some data often given by the fund manager and decides whether the fund fulfills the requirements for the sustainability label or not. Each sustainability label has its own criteria that mutual funds must accomplish to qualify for the label. For example, some requirements could include annual ESG reporting and certain principles for exclusion. (Popescu et al., 2021.) One example of a sustainability label is Nordic Swan Ecolabel (Joutsenmerkki/Svanenmärka) which was founded in June 2017 and aims to help investors make more environmentally friendly and conscious investment choices (Hyrskke et al., 2020, p. 208).

3.1.4 Measuring social and governance performance

Environmental issues have traditionally been the easiest to define and evaluate, while measuring the social and governance aspects of ESG has been more challenging. Unlike in the case of environmental performance, there do not exist clearly defined metrics to measure the social and governance performance of a firm, but there are some ways that investors can use to evaluate these issues. In the case of the social factor of the ESG, matters related to the firm's stakeholders are essential. Some possible measures could be diversity, equity and inclusion policy, employee satisfaction, employee turnover, and workforce composition. When considering the governance factor, issues concerning the practices that the firm must ensure for efficient operations are highlighted, and issues like firm policies and procedures are evaluated. Potential policies that could be evaluated include the code of ethics and sexual harassment practices. (Alliance Global Advisors, 2022.)

3.2 Sustainability reporting

Investors want to be able to evaluate the sustainability of asset managers but determining the sustainability of an asset manager can be difficult because of the asymmetric information in the investment markets (Candelon et al., 2021). The asset managers should be able to present reliable information related to their investments,

and they should not practice greenwashing. Investors want to understand how asset managers see sustainability and implement sustainability into their decision-making. They are also interested in asset managers' resources for sustainable investing. The sustainability reporting of an asset manager can, for example, include providing information about their carbon footprint and ESG ratings. It also could consist of examples of how they practice active ownership. (Hyrskke et al., 2020, p. 203–207.)

Organizations can report about their sustainable investing and their overall sustainability practices. In this thesis, the focus will be on reporting sustainable investing, but some general sustainability reporting issues are addressed. Sustainable investing reporting varies and is depends on the resources and the extend of the sustainability practiced of an organization. The reporting can be done annually, quarterly, monthly, weekly, or even daily. The frequency of the reporting varies and depends on the overall need for reporting and the whole purpose of the reporting. As in the case of measuring sustainability, the subjectivity of ESG-related matters poses challenges for sustainable investing reporting. (Hyrskke et al., 2020, pp. 291, 297.)

Hyrskke et al. (2020, p. 291) divide the contents of the reporting of sustainable investing into three different categories, which are a) the description of the overall practices, b) portfolio-level information, and c) practical examples of investment actions. The first category includes, for example, practices related to annual reporting. Traditionally the annual report provides information regarding the principles for sustainable investing and the strategies the organization has for sustainable investing. Some organizations can also disclose a list of firms excluded from their investments. Usually, firms also report how they have practiced active ownership, for example, by disclosing a list of annual meetings they have attended.

The second category includes more specific information that can be provided for the entire portfolio, asset class, or mutual fund. Many organizations have integrated this reporting as a part of their monthly reporting. As investors include ESG databases in their portfolio management operations, regular ESG reporting will become more common. Organizations can, for example, disclose information related to their carbon footprint or how well they have taken SGDs into account in their practices. Also, information related to sustainability- and ESG ratings from different providers can be

used in the report. Organizations can also conduct their own ESG analysis. (Hyrskes et al., 2020, pp. 294–296.) The third category of sustainable investment reporting includes practical examples of the sustainability actions of the organization. By reporting these examples, the organization provides transparency and a more truthful representation of its actions. Organizations can, for example, include practical examples in their annual reporting or on their website and provide more thorough information related to ESG integration in different asset classes and funds. (Hyrskes et al., 2020, p. 294–295.)

There do not currently exist any official standards for sustainability reporting, but this is expected to change in the future with the upcoming EU regulation. The regulation will be discussed in more detail in chapter 4. Despite the lack of official reporting standards, different reporting frameworks and initiatives have emerged, and they can be used in sustainability reporting. (Hyrskes et al., 2020, p. 283.) Next, some of these are explained in more detail.

3.2.1 UN PRI reporting

As concluded in chapter 2.1, the six Principles for Responsible Investing supported by the United Nations were introduced in 2006. After the release, the PRI practices related to signing these principles have developed over the years. In 2006 there was no mandatory fee, and the signatories did not have to report their sustainability actions. Nowadays, the signatories must pay an annual membership fee, commit to developing their sustainable investing practices, and publicly report about these practices and their implementation of the principles to PRI. The reporting is done to assess the signatories' sustainability actions and ensure that they act according to the signed principles. PRI evaluates these reports and creates an assessment report for the signatories, which they can use to compare their performance against their peers and develop their actions. Unlike the transparency report made by the signatory, the assessment report made by PRI is not automatically public, but organizations can publish it on their websites if they want to. In these assessment reports, PRI also gives grades ranging from E (the worst) to A+ (the best) for the signatories. (Hyrskes et al., 2020, pp. 204, 246–247, 284–285.)

In 2019, nearly 2500 organizations had signed the principles, with most of them being asset managers and mutual fund companies located in Europe. During the past few years, the number of signatories has grown, especially in Asia. Also, the assets under management of the signatories have experienced significant growth since launching these principles in 2006. (Hyske et al., 2020, pp. 248–249.) As so many operators in the financial industry have signed these principles, these PRI reporting requirements act as a guide in the sustainable investment industry. (Hyske et al., 2020, p. 285)

By signing the PRI principles, investors promise to develop their own sustainable investing and report about these practices regularly. This means that better sustainability competence can be expected from the signatories. PRI can also remove members who do not take sustainability factors sufficiently into account. The reporting practices are constantly being improved; for example, previously, investors could have left most of the report private, which made comparing of different organizations difficult. The signatories might have publicly reported only a small part of their actions and still appear to be sustainable in the PRI assessment report. Thus, it needs to be addressed that only the signing of these principles does not make an investor responsible, and in addition, concrete actions are required. (Hyske et al., 2020, pp. 204, 246–249.)

3.2.2 Task Force for Climate-related Financial Disclosures (TCFD)

Task Force for Climate-related Financial Disclosures was founded in 2015 by a group of different financial experts. Rather than focusing on all aspects of the ESG, TCFD provides a framework for reporting environmental and climate practices of an organization. They released their first recommendations in 2017 and have grown quickly to one of the most important organizations in the climate reporting field. For example, PRI uses the TCFD model in their reporting framework, and EU has included TCFD recommendations in their non-financial information reporting instructions. (Hyske et al., 2020, pp. 257–258, 286.)

In the TCFD model, different risks and their related economic impacts are carefully assessed, providing benefits for the reporting organization and its stakeholders. The objective is to incorporate the risks and opportunities related to climate change into

the firms' financial reporting. TCFDs recommendations focus on four areas related to climate change practices: governance, strategy, risk management, and measures and objectives. The organization must report their governance practices related to climate change risks and opportunities and how they recognize, evaluate, and manage these risks. They also must report how the organization considers actual and possible impacts of these climate risks and opportunities in their actions, strategies, and financial planning. Lastly, they must report their measures and goals, which are used to evaluate and manage the relevant climate risks and opportunities. (Hyrskke et al., 2020, pp. 285–286.)

3.2.3 Sustainable Accounting Standards Board (SASB)

Sustainable Accounting Standards Board (SASB) is an organization founded in 2011 focusing on sustainability reporting tools. SASB is specifically designed for investors, and compared to many other sustainability measurement tools, it focuses only on a few parameters, making the report concise. The objective of SASB is to find economically viable factors which can be considered its strength. But on the other hand, this might lead to leaving some important elements out of the reporting. The role of SASB is expected to grow in the future. (Hyrskke et al., 2020, pp. 252–255.)

SASB divides firms into different industries using a SICS (Sustainable Industry Classification System) and then focuses on the sustainability factors related to these specific industries. They use colors to determine the critical sustainability factors and create a table of the industries and their sustainability factors. Dark color in the table means that the sustainability factor is essential to over 50% of the firms in the industry, and light color in the table means that the sustainability factor is necessary to under 50% of the firms in the industry. White color means that the sustainability factors are not seen as relevant to the industry. (Hyrskke et al., 2020, p. 252.)

3.2.4 Auditing

The purpose of auditing is to improve the authenticity and reliability of the sustainability reports. To accomplish this, some outside auditor conducts the auditing process. Auditing is also done to assure the firm's stakeholders of the quality and

reliability of the sustainability reports. Auditing can also improve the sustainability reporting processes inside of the firm. Some sustainability ratings also consider auditing in their assessment procedures, which motivates firms to take part in auditing their sustainability reports. (Finsif, 2021, p. 32.)

Currently, firms in Finland are not legally obligated to audit their sustainability reports by a third party, but they can do it voluntarily. Because of the lack of legal demands for auditing, there are no requirements for the auditor's proficiency. For this reason, there are no requirements to regularly change the auditor, as in the case of auditing the financial performance of the firm. At the moment, auditing services are usually provided by large auditing communities, consultants, and quality certificate providers. In 2017 the EU Non-Financial Reporting Directive (NFRD) made reporting related to corporate social responsibility mandatory and forced auditors to check that this report exists. (Finsif, 2021, p. 32.) In 2021 a new and improved Corporate Sustainability Reporting Directive (CSRD) was launched by the European Commission, which will make auditing the sustainability reports mandatory to all large firms and firms listed on the markets. This directive will be taking effect in the future. (European Commission, n.d.-a) The EU regulation related to sustainable investing will be discussed in more detail in chapter 4.

3.3 Sustainability initiatives

As the sustainable investing phenomenon has grown, initiatives demanding greater disclosure by firms have emerged (Schwartz, 2003). These initiatives provide investors with information related to sustainable investing and the impact of their actions. They can also be a way to communicate between different operators in the financial markets, as by publicly committing to certain initiatives, investors can reveal their interests and demands. (Hyske et al., 2020, p. 260.)

There exist many initiatives, but they share the common feature of focusing typically on the sustainability matters of only one factor or industry. Some initiatives collect data, while others publish practices or principles for sustainable investing that investors can use in their investment processes. (Hyske et al., p. 260.) Investors and asset managers can commit to different initiatives, which allows the signatories to

access sustainability information. They can also get to participate in the development of the sustainable investing industry. These initiatives also make investors work together, increasing their influential power in the markets. (Hyske et al., 2020, p. 241.) Next, some of the most popular initiatives are introduced.

Global Reporting Initiative (GRI) is an organization focused on sustainability reporting. It was founded in 1997, and its first reporting guidelines were released in 2000. GRI is a reporting tool that uses both common sustainability measurements and industry-specified parameters in the sustainability assessment process. The organizations using GRI can also choose how specifically they will take the GRI indicators into account. GRI can then assess the report and give a grade from A to C based on how comprehensive the report is. If an organization wants to verify the authenticity of the information in the report, it can use an independent auditor to do that. GRI reports with independent auditors can be recognized from the + -sign added after the grade. (Hyske et al., 2020, pp. 255–256.)

There do exist many initiatives related to the environment and climate change. One of them is CDP or formerly called the Carbon Disclosure Project, which is an international investment initiative founded in 2000. The objective was first to collect data related to the firm's greenhouse gas emissions, but nowadays, CDP also has widened to the Water Disclosure Project and the Forest Footprint Project, where the interest is in the sustainability reporting of forests and water. In addition to these aspects, the CDP collects information regarding opportunities and risks related to climate change. Investors can then utilize the CDP data to compare different investment opportunities. CDP gives ratings for the firms, making comparing different firms in specific industries easier for investors. (Hyske et al., 2020, p. 259.)

Another climate-related initiative is the ClimateAction100+ initiative, which was launched in 2017 and nowadays has over 370 investors with the combined assets under management of over 35 000 billion USD committed to it. These investors believe that they should influence and work with the firms they invest in to improve the controlling of climate-related risks and align the firms' strategies to support the objectives of the Paris Agreement. (Hyske et al., 2020, pp. 261–262.) Also, Montréal Carbon Pledge is an initiative related to environmental issues. It was launched in 2014 by PRI, and

currently, there are over 120 investors committed to it, with overall combined investment assets of over 10 000 billion USD. The objective of the initiative is to decrease the carbon footprint of investment portfolios. Therefore, the signatories of the initiative are committed to annually reporting the carbon footprint of their investment portfolio using the GHG protocol. (Hyrskke et al., 2020, p. 261.)

Additionally, Science Based Targets initiative (SBTi) is a well-known initiative related to climate issues launched in 2015. The initiative's objective is to make firms worldwide set aims to reduce the greenhouse gas emissions of their actions. The appropriate amount of greenhouse gas reductions needed to prevent climate change is determined by science. The movement is growing quickly, and in 2019, over 700 firms stated that they commit to set science-based reduction targets for their greenhouse gas emissions. (Science-based targets, 2019, p. 2–5.) In addition to these initiatives, The Net Zero Asset Managers Initiative (NZAM) was founded in 2020 by an international group of 30 asset managers. Nowadays, there are over 220 signatories, which in total control over USD 57 trillion assets under management. This initiative aims to have zero greenhouse gas emissions before the year 2050 or sooner and to limit global warming to 1,5 degrees Celsius. (Net Zero Asset Managers, 2021, p. 2–3.)

Global Compact is an initiative made by the United Nations to improve firms' corporate social responsibility. (Hyrskke et al., 2020, p. 345) It was launched in 2000 and has over 8000 signatories and stakeholders in more than 135 countries, making it the world's largest voluntary corporate responsibility initiative. The initiative is built on ten universal principles that the initiative encourages firms to implement into their strategies and practices. These principles have four themes, human rights, labor, environment, and anti-corruption. (Deloitte, 2010, pp. 2–5.)

It can be concluded that many different initiatives aim to help investors and asset managers improve their practices related to sustainable investing. Undoubtedly these initiatives wish to make the world a better place, but the question is raised whether the large number of initiatives with similar goals can make the sustainable investing industry confused. Also, it is essential to consider whether there are valid methods to evaluate how the signatories of the initiatives work to reach the ambitious goals that many initiatives have. Could it be possible to commit to some initiatives but not

actually commit to work to achieve these targets? Also, do all asset managers even take part in these initiatives?

4 SUSTAINABILITY REGULATION

In this chapter, regulation related to sustainable investing is discussed. First the history of regulation is briefly introduced and after that the existing EU regulation explained. To narrow the topic down, the focus in this thesis will be on the EU regulation, but there does also exist some international regulation that affects the behavior of asset managers and investors in Finland.

As previously stated in this thesis, there does not exist universal regulation for the sustainable investing market at the moment. Candelon et al. (2021) discuss this absence of public governance and state that together with the asymmetric information in the investment markets, it provides an opportunity for asset managers to practice ESG-washing. In their study, they find that relevant regulation offers a way to limit this ESG-washing. Thus, creating standardized regulation for sustainable investing markets would be essential.

The existing regulation for sustainable investing is not strict, and it typically consists of different recommendations and instructions, but some countries, including the Netherlands, the UK, and France, have also created legislation considering sustainable investing. As investors evaluate the sustainability of the underlying assets, sustainable investing regulation is closely related to the regulation of the individual firms. After the financial crisis in 2008, the demand for transparency in investments grew, and as a result, the European Commission has updated its various directives, including, for example, Solvency II, and MiFID II. Currently, there is a lot of sustainability-related regulation being developed in the EU. (Hyrskke et al., 2020, pp. 56–57.)

4.1 Regulation history

The regulation related to sustainable investing began in the UK in 2000, and since then, sustainability regulation has been one of the factors contributing to the growth of the whole industry. The first regulatory act was to construct rules for pension funds and charities regarding the use of social, environmental, and ethical practices. In 2000, an addition to existing law concerning pension funds was made, which forced pension funds to disclose how they considered social, environmental, and ethical issues in their

investment practices. A year later, in 2001, a regulation for charities was established, which stated that charity trustees should only make investment decisions that suit the charities' ambitions. In 2003 it began mandatory for charities with over £1 million to report how they use social, ethical, and environmental considerations in their practices. (Renneboog et al., 2008b.)

After Britain's regulative actions, Continental Europe countries began to apply regulations for sustainable investing. For example, Belgium, Germany, and Sweden have made similar types of regulations, and in 2001 France became the first country where social, environmental, and ethical reporting became mandatory for all listed companies. When considering countries outside of Europe, only Australia had created regulation for sustainable investing before 2008. (Renneboog et al., 2008b.)

4.2 EU Regulation

In 2001 The European Union released the EU Sustainable Development Strategy, and since then, the EU has taken actions to improve its involvement in sustainable development regarding environmental, social, and governance aspects (Siri & Zhu, 2019). The EU wants to find solutions to fight climate change, and therefore there is plenty of regulation in preparation related to sustainable finance at the moment. The definition of sustainable finance is closely related to the definition of sustainable investing, and they are often used interchangeably. But to specific, sustainable finance can be considered more suitable for banks, whereas sustainable investing is usually practiced by investors. (Hyrskke et al., 2020, p. 57.)

In 2016 a High-Level Expert Group (HLEG) was created to develop a strategy for the EU regarding sustainable development and finance, and in 2018, it released an Action Plan, which the European Commission put to use. The Action Plan has three goals: guiding money towards sustainable investing, administering risks related to climate change, and promoting transparency. (Siri & Zhu, 2019.) The action plan is focused on ten actions, with various subjections considering the different climate and energy targets the EU has set (Hyrskke et al., 2020, p. 57).

Europe aspires to be the first climate-neutral continent, and to reach this goal, the European Green Deal was created in 2019. This Green Deal aims to modernize the EU's economy while improving resource efficiency and competitive advantages. (European Commission, n.d.-b). The Green Deal aims to minimize emissions remarkably before the year 2030 and has a goal of zero net emissions before the year 2050. The foundations for the Green Deal are built on SDGs and the Paris agreement. Since its introduction in 2019, to ensure that investments are allocated to sustainable targets, different actions and initiatives have been created to support it. (Wbcsd, 2020, p. 4–5.)

Creating a universal Taxonomy related to sustainable finance is one of the most critical actions the HLEG recommended in their report released in 2018 (Siri & Zhu, 2019). Because many ways to classify sustainable actions exist, difficulties related to transparency and comparability have emerged. EU Taxonomy for sustainable activities was created to tackle this problem, with the primary objective being determining whether some economic activity is sustainable or not. It is the first science-based assessment system, and the goal is to make disclosures related to it compulsory for all large firms in the EU. Using science-based standards, the Taxonomy establishes better creditability. (Schütze & Stede, 2021.) The taxonomy has six targets related to environmental matters, and these include the mitigation and adaptation of climate change, water, circular economy, the prevention of pollution, and the protection of ecosystems. For economic activity to be taxonomy aligned, it should contribute substantially to at least one of the six environmental objectives that the taxonomy has. It should also do no significant harm to the other five objectives and comply with minimum guidelines. (Wbcsd, 2020, p. 4–6.)

EU wants to reach climate neutrality by 2050, and thus actions are needed to transfer investments into low-carbon technologies and encourage firms to produce low-carbon products and services. A fundamental part of the EU Taxonomy is to help this change by providing incentives for firms to change their policies by requiring better transparency and disclosure of their non-financial information. This should lead to better quality information which would make investors and customers understand sustainability matters better. According to academic research, by requiring the disclosure of non-financial information, the environmental performance can be

enhanced without sacrificing the financial performance of the firms. Some studies even find support for better financial performance, indicating that it pays to dedicate resources to improving environmental matters. (Schütze & Stede, 2021.)

The EU Taxonomy is not finalized yet, which creates problems for its correct implementation. Because there do not exist official standards for sustainable actions, misunderstandings and even greenwashing become possible. The final version of the EU Taxonomy should have been ready in 2019, but it was delayed until the end of 2021. (Siri & Zhu, 2019.) Some parts of the Taxonomy have been delayed even further again (Simon, 2022). The Taxonomy has also received criticism related to its measurement methods, scope, and unplanned consequences, which have been seen as problematic by some experts. (Wbcsd, 2020, p. 3).

4.2.1 Non-Financial Reporting Directive (NFRD) and Corporate Sustainability Reporting Directive (CSRD)

From the EU Taxonomy, a Non-Financial Reporting Directive (NFDR) has emerged. The directive forces large firms with over 500 employees to report their Taxonomy-aligned activities by 2022 (Schütze & Stede, 2021). The goal is to make assessing the non-financial performance of large firms more accessible for investors, customers, and other stakeholders. It also gives firms incentives to develop their practices into more sustainable. (European Commission, n.d.-a.)

According to this directive, these companies include listed companies, banks, insurance companies, and other organizations appointed as public-interest entities by the national authorities. They must publish information regarding their environmental and social affairs and how they treat their employees. In addition, these companies must disclose information on how they respect human rights and deal with anti-corruption and bribery. They also must present information about their diversity on the company board, such as age and gender. (European Commission, n.d.-a.)

In April 2021, the European Commission approved a proposal for a Corporate Sustainability Reporting Directive (CSRD) which would widen the reporting standards set in NFRD. Under this proposal, the reporting broadens to all large firms and all

listed companies, apart from listed micro-companies. The requirements for the reporting are also more comprehensive, and companies must report according to compulsory EU sustainability reporting standards. Additionally, all the reports must be audited, and companies must make a digital label for the information reported. (European Commission, n.d.-a.) Thus, this CSRD defines how firms should report the consequences of their actions more precisely than its predecessor NFRD. (Finsif, 2021, p.32). These EU sustainability reporting standards are currently under development by the European Financial Reporting Advisory Group (EFRAG). These standards are created by considering both EU policies and international standardization initiatives. The first standards are supposed to be approved before October 2022. (European Commission, n.d.-a.)

4.2.2 Sustainable Finance Disclosure Regulation (SFDR)

Sustainable Finance Disclosure Regulation (SFDR) is another initiative that emerged from the EU Taxonomy. This regulation applies to all financial institutions with financial products and forces them to disclose their Taxonomy-aligned activities and investments in their sustainably labeled financial products. (Schütze & Stede, 2021.) The objective of the SFDR is to advocate sustainable investing and reduce greenwashing by increasing transparency. The SFDR is comprised of different stages, with the first stage of the SFDR taking effect in March 2021. The release of the following stages with more detailed information for the regulation has been postponed. (Bioy, Jmili & Pettit, 2021b, p.1.)

Using the SFDR, asset managers classify their investment funds into categories based on how sustainability is considered in their investment practices. These categories are Article 6, Article 8, and Article 9. Article 8 funds can be called light green and contain funds promoting environmental or social characteristics. In turn, Article 9 funds can be called dark green, and they contain funds that have a sustainable investment objective. Therefore, the classification for Article 9 funds is stricter than for Article 8 funds. Article 6 comprises all the funds that do not fit into these two categories. There are no official standards that asset managers must follow in the classification process, so the range for these different categories is wide. The second stage of SFDR should provide clarification for this problem. (Bioy et al., 2021b, p. 2,27.)

Bioy et al. (2021b) study Article 8 and Article 9 investment funds in Europe and find that in the Article 8 category, many different approaches to sustainable investing are used, which causes this category to be big and heterogeneous. They also find that some Article 8 funds contain firms generally viewed as unsustainable, like, for example, firms operating in the tobacco and coal industries. When evaluating the Article 9 funds, they find that this category is smaller in size and more homogenous. When looking more closely at the firms in Article 9 portfolios, Bioy et al. find that some funds contain firms operating in oil and gas industries, which are not usually seen as sustainable investments. (Bioy et al., 2021b, pp. 26–27.) These findings are both interesting and worrying, as they provide evidence that some sustainably labeled mutual funds contain firms that are generally not seen as sustainable.

5 SUSTAINABLE INVESTING IN FINLAND

The focus of this chapter is sustainable investing in Finland. First the development of the industry is explained and then the current academic literature related to sustainable investing in Finland is discussed. Some results of the past studies regarding sustainable investing practices are also presented.

Sustainable investing has experienced a rapid increase in popularity also in Finland during the past few years. As the industry has evolved, new and more effective approaches have been discovered, and the industry has become more standardized. At the beginning of the 2000s, institutional investors, including, for example, insurance companies and asset managers, had more knowledge of sustainable investing than their customers, but this is not the case anymore. Nowadays, investors are more aware of sustainability-related matters and demand more from their asset managers. (Hyrskel et al., 2020, p. 12–13.)

The first mutual funds in Finland using sustainability screenings in their strategies were founded at the beginning of the 2000s. As the industry has evolved, their strategies have also altered, and more fund management companies have started to integrate sustainable strategies into their investment actions. Currently, the amount for mutual funds specifically focusing on sustainability is not very large in Finland. (Hyrskel et al., 2020, pp.149–150.) In 2011, the first Finnish sustainability index, OMX Finland Sustainability index, was founded. It is an index consisting of the 40 most sustainable companies in Finland from different industries, and in 2016 the first Finnish green bond was issued by Kuntarahoitus (Hyrskel et al., 2020, pp. 159,170.)

One of the most remarkable actions related to the Finnish sustainable investing industry was the founding of Finsif in 2010. During the past ten years, the number of signatories has quintupled, and nowadays, almost all the institutional investors and asset managers in Finland are members of the organization. (Hyrskel et al., 2020, p. 43.) In addition to Finsif, other organizations, including Sitra and Yritysvastuuverkosto FIBS, have contributed to the development of corporate social responsibility in Finland. Also, Nasdaq Helsinki has released an ESG-reporting framework for listed companies (Finsif, 2017, p. 4.) The Finnish legislation has also

indirectly contributed to the development of the Finnish sustainable investing industry by including guidance for reporting sustainability factors. Since 2017 large organizations, including, for example, financial institutions and insurance companies, have been required to report also about non-financial factors, i.e., sustainability factors critical to their operations. (Finsif, 2017, p. 4.)

There do not exist many studies regarding the sustainable investing industry in Finland. Previously only The European Sustainable Investment Forum (Eurosif) had studied the Finnish sustainable investing market in 2012, 2014, and 2018, but in 2017 Finsif conducted its first study, and in 2019, they administered another one. These studies were aimed at Finsif's members, including institutional investors, asset managers, and service providers. The objective of these studies was to get an understanding of the current sustainable investing market in Finland and to determine how investing organizations practice sustainable investing, how they report about their actions, and how they see the challenges and possibilities related to sustainable investing in the future. (Finsif, 2020, pp. 4–5.)

The study made in 2019 reveals that the respondents believe sustainable investing will continue to grow and strengthen its position in Finland and that sustainable investing has been integrated as a part of the whole investing organization and investing processes. Based on the study, 96% of the respondents have established principles for sustainable investing, and nearly all of the respondents use at least one strategy for sustainable investing. As in the case of global sustainable investing strategies reported by GSIA (2021, pp.10–11), ESG integration has surpassed negative screening as the most popular strategy. Also, positive screening and impact investing have received more popularity compared to results in 2017. The most common motivations behind sustainable investing are values, risk management, and an opportunity to improve sustainable development. (Finsif 2020, pp. 8–9, 18–19.) Surprisingly, better the pursuit of profits was not listed here, even though Finsif (2021, p. 5) lists it as an essential motivation for sustainable investing,

Most commonly, the respondents use verbal communication to disclose information related to sustainability to their stakeholders. Additionally, the respondents often also disclose information on their website and report according to the PRI reporting

standards, and based on the responses, carbon footprint is the most common measure to report about. Regarding organizing the sustainable investing processes, some respondents report having ESG teams and ESG leaders, but not all. These organizations without ESG specialists report having integrated sustainability into the operations of the employees responsible for investment decisions. Most respondents are also confident about their sustainable investing abilities and see the upcoming EU regulation as necessary. When asked about the challenges related to sustainable investing, most respondents commonly mention comparability and the lack of ESG data and its quality. (Finsif, 2020, pp. 14–16, 21, 26.)

Thus, the Finnish sustainable investing market has developed dramatically during the past years and is still growing and improving. Nowadays, operators in the financial markets take sustainability into account, and their customers also demand it. Finsif is one of the most influential organizations in Finland affecting the development of sustainable investing, and their studies concerning sustainable investing provide important information about the sustainable investing market in Finland. Based on these studies, Finnish institutional investors and asset managers seem to act similarly to the global sustainable investing market and face the same difficulties related to sustainable investing. Overall, the survey respondents seem to take sustainability seriously and believe that the significance of sustainability will become even more significant in the future.

6 METHODOLOGY

This chapter introduces the methodology and research methods of this thesis. First survey as a research method is explained and justified, and after that, the research methodology of the study is discussed. Lastly, the techniques for analyzing the data are presented. The results of the survey will be addressed in the next chapter.

In this thesis, the objective is to establish a comprehensive understanding of the sustainable investing practices of the asset managers operating in Finland. The preliminary research questions are 1) How do asset managers operating in Finland practice sustainable investing? 2) How do asset managers operating in Finland disclose information related to their sustainability and sustainable investing practices? And 3) How do asset managers operating in Finland prevent greenwashing in their practices?

To answer these questions, data on the practices of the asset managers operating in Finland must be obtained and analyzed. In this thesis, the empirical research is conducted with an online survey targeted toward asset managers operating in Finland. The survey consists of 38 questions related to sustainable investing, the measuring of sustainability, sustainability reporting, sustainability regulation, and greenwashing, and it was sent to 31 asset managers that operate in Finland. The survey was anonymous and in English, but the respondents could have expressed which asset manager they represent at the end of the survey, and they were given the possibility to answer in Finnish to the open-ended questions. The survey was conducted using Zoho Survey.

6.1 Survey as a research method

As there does not exist available data regarding this topic, the data had to be collected from primary sources. Primary data is data that the researcher specifically acquires for their study; this way, the data is aimed directly at solving the issues that the researcher is investigating (O’Leary, 2017, p. 416). In this thesis, the data was collected from primary sources using an online survey. A survey was chosen as a research method because it offers a chance to collect responses from many respondents efficiently.

Additionally, surveys can contain different question types, allowing a thorough analysis of the topic. (Saunders, Lewis, Thornhill, 2007, pp. 355,368.)

The survey was conducted as an online survey because it is less time-consuming than face-to-face or telephone surveys, and it gives the respondents a chance to answer at a time they please. It must be noted that online surveys contain some challenges. For example, the response rate can be very low, and the survey can be overlooked if it is read as spam mail. The questions also need to be made carefully, which can be difficult, and additionally, it can be challenging to get enough respondents. (O’Leary, 2017, pp. 416–419.) To overcome the challenges related to the low response rate, the survey was sent from an email address of the employer, SFR. SFR is a well-known company amongst asset managers in Finland, which creates credibility for the survey. Additionally, multiple reminders were sent to the respondents. The questions were also made with careful consideration, and sustainable investing professionals were interviewed before creating the final version of the questionnaire.

The survey was targeted toward asset managers operating in Finland. There is no official comprehensive list of asset managers operating in Finland, so defining the population for the survey was not simple. To decide the population for the survey, a list of supervised entities from the Finnish Financial Supervisory Authority (Finanssivalvonta, n.d.) was used together with the expertise of the employer of the thesis, SFR. Eventually, 31 asset managers operating in Finland were identified, creating the population for the survey. According to SFR, these asset managers represent all the notable asset managers operating in Finland, which means that this survey should cover nearly every asset manager operating in Finland. Therefore, the thesis should also cover the majority of the assets under management in Finland.

The survey was sent to 31 asset managers operating in Finland using e-mail. Primarily the survey was sent to a sustainability specialist if the company had included one on their website, because they would be best equipped to answer the survey. Otherwise, the survey was sent to a person in the organization that SFR saw fit to answer the survey. The person receiving the invite to the survey could have also forwarded the survey to someone else in their company if they did not have time themselves to answer it. Only one person per asset manager was asked to respond to the survey. Eventually,

25 asset managers started to reply to the survey, but there were three partial responses. This means that 80,6% of the population responded to the survey and 71,0% of the population completed the survey. It should be noted that two out of the three partial respondents still answered all the mandatory questions. Therefore, the official rate for response is considered to be 77,4%.

The response rate can be used to measure the survey's reliability. The survey results can be somewhat questionable if the response rate is very low. Nowadays, the rate for response in surveys is traditionally lower than 50%. (Vehkalahti, 2019, p. 44.) As concluded in the paragraph above, the response rate in this survey was 77,4%, which is relatively high. This makes the survey results more reliable and allows for a thorough analysis of the sustainable investing practices of asset managers operating in Finland.

The validity of a survey describes whether appropriate characteristics are being measured (Vehkalahti, 2019, p.41). Thus, careful planning is needed when constructing the survey. To improve the study's validity, four interviews were conducted with people with experience in sustainable investing and the asset management industry. In these interviews, topics such as defining the concept of sustainable investing, sustainability measuring and reporting methods, sustainability regulation, and greenwashing were discussed. This exploratory research is convenient when the understanding of a problem needs to be clarified. It can also help to see the phenomenon in a new way. (Saunders et al., 2007, pp. 133-134). Therefore, these interviews significantly impacted this study and provided helpful insight for creating the questionnaire. Based on these discussions and the literature review of this thesis, the themes and the questions for the survey were made. To increase the validity, the questionnaire was also tested before sending the survey to the asset managers by sending it to a sustainable investing professional as well as to employees of SFR. According to Vehkalahti (2019, p. 44), it is necessary to test the survey before sending it out to respondents, as the creator can't notice all possible difficulties and problems regarding the survey.

The survey should not be too long, otherwise, the respondents will not answer the questions (Vehkalahti, 2019, p. 48). This is why this survey was designed to be

answered in 30 minutes or less. It contained 38 questions, out of which two were voluntary, and their purpose was only to collect the asset manager's name and the respondent's contact information. Thus, there were 36 questions regarding the topic for asset managers. 31 questions of these were mandatory, and two of these appeared only if the respondent had replied in a certain way to a previous question. Five questions were voluntary.

6.2 Research methodology

Surveys traditionally create a good base for quantitative analysis (Saunders et al., 2007, p. 355). Additionally, a quantitative approach can be combined with qualitative data, creating a mixed methodology. According to O'Leary (2017, p. 312), the shortcomings of the individual methods can be overcome using a mixed methodology. A mixed methodology can also lead to more extensive views on the research topic. On the other hand, this approach can be more time-consuming than using just either qualitative or quantitative methods. In this survey, a mixed methodology is used. Quantitative questions comprise a more significant portion of the survey, but qualitative questions are included to acquire more in-depth results concerning the thesis topic.

This thesis is a descriptive study, which means that the aim is to describe the phenomenon studied rather than to explain it. This descriptive research allows to evaluate and report on the variability of the phenomenon that is studied. Surveys are often used in the data collection of descriptive studies because they can contain many different types of questions. (Saunders et al., 2007 p. 134; 356). O'Leary (2017, p. 419) concludes that descriptive surveys aim to describe the respondents by gathering information related to their demographics and behavior. As this survey targets companies and not individuals, the traditional demographics, such as age, gender, and socio-economic status, are irrelevant. To separate respondents, the survey collects information related to the amount of assets under management that the asset manager has. Based on this, the asset managers are divided into three groups, small, medium, and large.

As in the case of the methodology of this study, the research approach of this study will be a combination of two approaches, inductive and deductive. In a deductive approach, previous academic literature is used to find ideas that will be tested using the data. In this thesis, there are no hypotheses, but previous studies were used in creating the questionnaire, and the results were analyzed using this past academic literature. The survey also collects quantitative data in a structured way, which is fundamental for deductive approach. Some features of the inductive approach are also used, as it is helpful in the case where there is not much previous research regarding the topic. In inductive approach, a theory is constructed based on the results of the analysis. It allows for more flexibility in the study and makes it possible to make changes in the research process. (Saunders et al., 2007, pp. 57,119,120.)

In this survey, the questions were designed to be simple and short to answer to avoid a too complicated and time-consuming analysis. Therefore, most of the questions were closed questions, including 20 yes or no questions and seven multiple choice questions. The remaining nine questions were open-ended, and they were used to get more extensive information regarding the research topic. Additionally, in 13 of the closed questions, the respondent could specify their answer more in a comment box, and in 5 of these closed questions, the respondent was specifically asked to specify their answer. Traditionally closed questions are more common in a survey and are easier to analyze than open-ended questions. But, in certain situations, open-ended questions can perform better, as they can collect information that would otherwise be unnoticed. Open-ended questions are also necessary for cases where the answer options cannot be listed. (Vehkalahti, 2019, pp. 24–25.)

The survey had four pages, each with its own theme. The first page contained questions 1-12, and they were the questions related to the practicing of sustainable investing. These questions considered topics such as the definition of sustainable investing, asset classes in which sustainable investing is practiced, and motivations and strategies behind sustainable investing. On this page, the asset managers were also asked how much assets under management (AUM) they had in their organization. This question was created to classify the asset managers into three groups: small (AUM under 1 billion €), medium (AUM between 1-5 billion €), and large (AUM over 5 billion €).

The second page had questions 13-22, and they were related to the measuring of the sustainability of investment assets and the reporting of sustainable investing. This page included questions considering sustainability initiatives and public commitments, disclosure of information, and the data used in sustainability analysis. Asset managers were also asked about what they see as the biggest challenges in reporting and measuring sustainability.

The third page had questions 30-36, and they were related to sustainability regulation and greenwashing. Asset managers were asked about their views on the EU sustainability regulation and whether the current lack of standardized regulation can lead to greenwashing practices. Asset managers were also asked to describe how they prevent greenwashing in their practices.

The fourth page had questions 37 and 38. These questions were voluntary, and the answers will not be used in the analysis together with the rest of the questions. In this part of the survey, the respondent could have disclosed which asset manager they represented and who they were. These answers will not be shared publicly.

While interpreting the results, it is essential to consider the possible limitations of this research methodology. Firstly, as there does not exist any official list of the asset managers operating in Finland and the population for the survey was decided based on the views of SFR, it might not truly represent all the asset managers in Finland. Also, the invite for the survey was sent to a sustainable investing professional in the company, but not all the asset managers had specified one on their website. The survey could also have been forwarded to someone else inside the company. Thus, the respondents might have a different level of knowledge related to these topics, which can affect the results. Additionally, as the invite was sent using email, it is possible that it was ignored as it could have been seen as spam mail. Also, different respondents could have interpreted the questions differently, and the interpretation of the answers to the qualitative questions is subjective, which must be remembered when evaluating the results of this thesis. All these limitations were identified when creating this to minimize their adverse effects.

6.3 Data-analysis techniques

After collecting data, it should be explored to see what the information looks like. Browsing is a good way to get acquainted with the data and to make sure that everything seems to be in order. (Vehkalahti, 2019, p. 51.) In the case of this survey, the results were first checked over to form an overview. After seeing that the results, in general, seemed sufficient, a more careful analysis was carried out.

First, the material was analyzed to find any missing data. The more data is missing in the material; the more uncertainty is linked to the results. (Vehkalahti 2019, p. 81.) In this survey, as there were 27 closed questions with ready-made choices, there is no missing data regarding them. But in the case of the open-ended questions, there were a few answers with only random letters or symbols to fill out the question. These answers were excluded from the qualitative analysis. Additionally, any inadequate responses are excluded from the analysis. These are answers to the open-ended questions where the respondent had not answered clearly to the question, and therefore the answer cannot be interpreted correctly. After the data was explored and missing data was found and deleted, the questions were thoroughly analyzed using appropriate measures.

Quantitative data can be divided into different types regarding the ability to use numerical measurements for the data. This affects the interpretation of the data and creates limitations for the measures that can be used in the analysis. The quantitative data obtained from this survey is considered categorical data, which is data that is not possible to evaluate numerically. It can be divided into two subcategories: descriptive data and ranked data. Descriptive data can be classified into different categories and ranked data can be ranked in order. (Saunders et al., 2007, pp. 408–409.) The data in this thesis is primarily descriptive, and therefore, appropriate approaches to analyze descriptive data were used. According to Saunders et al. (2007, p. 442), in the case of descriptive data, statistics including, for example, regression analysis, independent t-tests, or variance analyses cannot be used. Therefore, these types of statistical analyses are not done in this thesis.

The data analysis for the quantitative questions was conducted in Zoho. Zoho has integrated analysis software into its services, making data handling simple. It was not necessary to code the data prior to analyzing it, as it was already in a usable form. Using Zoho, different reports could be made, and appropriate tables and pictures were able to be constructed. It was also possible to customize them if it was needed. Additionally, Zoho was used to create cross-tabulations of the questions. Because the data is descriptive and therefore cannot be analyzed numerically, there was no need to use any other programming software. The analysis for the quantitative questions thus consists mainly of describing and analyzing the answers and making conclusions about them.

The answers to quantitative questions were evaluated while keeping in mind the research questions of this study. First, the individual questions were analyzed by looking at asset managers' answers. As Zoho automatically created tables and charts of the responses, it was easier to interpret and analyze them. In the results section of the thesis, these graphical representations are used only in questions, where they provide useful information and thus, figures are not made for every question. These figures shown in this thesis were constructed in Excel. Additionally, cross-tabulations were made in analyzing the data because analyzing two variables simultaneously provides more interesting results than examining just one variable. In this analysis, cross-tabulations were created using question number 10, where asset managers were asked to classify their assets under management into one category of the following: Under 1 billion (small), between 1-5 billion (medium), and over 5 billion (large). This question classifies the size of the asset manager. Using this question as the basis for the cross-tabulation, differences in sustainable investing practices amongst asset managers with different amounts of assets under management can be identified. Cross-tabulation was not used in every question but in the questions where it was relevant to separate the responses of asset managers in different size categories.

The qualitative data of the survey consists of the open-ended questions and of the comments that were optional in 13 of the quantitative closed questions. There is no official approach to analyze qualitative data because of its diverse characteristics. Usually, in the case of inductive approach, less structured ways to analyze data are used, and in the case of deductive approach, the ways to explore data have more

structure. But it can be concluded that the first step in qualitative analysis is to categorize the data because it cannot be evaluated otherwise. After categorizing the data, it is analyzed by searching for themes and patterns. (Saunders et al., 2007, pp. 478–482.) Because this survey had only a maximum of 25 responses per qualitative question, complicated analytical tools to categorize and analyze the data were not necessary, as it was possible to go through all the answers manually.

As in the case of the quantitative questions, the data from the qualitative questions was already in the Zoho program in an understandable form, which made the analyzing process simpler. Unlike in quantitative questions, qualitative questions were also analyzed using Excel. The questions and answers were downloaded from Zoho, and then replies to individual questions were categorized and color-coded to make them easier to interpret. Depending on the question and its answers, different basis for the categorization was used. Most commonly, answers were categorized based on some common words and similar attitudes towards the questions. Based on these groupings, the analysis was written. As there was a lot of data, not everything can be discussed in this thesis. In analyzing the data, the aim was to highlight the most relevant and frequently mentioned aspects of the answers. It must be kept in mind that this process is affected by the subjective views of the researcher.

To conclude, because the quantitative data in this thesis is descriptive, the amount of possible analysis methods that could be used is limited. Therefore, the analysis for the quantitative questions consists of describing the results using the tables and charts created in Zoho and then evaluating these answers and comparing them to the previous academic literature. In the case of qualitative questions, coding was done in Excel to categorize and interpret the results. The answers were grouped and then analyzed and compared to previous academic literature. In the next chapter, the results of this study are presented and evaluated in detail.

7 RESULTS

In this chapter, the results from the survey are evaluated in detail and compared to the previous academic literature. First, the answers to the questions related to practicing sustainable investing are presented. After that, the responses relating to sustainability reporting and measuring are evaluated, and lastly, the answers regarding sustainability regulation and greenwashing are examined. Answers to the questions are presented in an order relevant to this analysis which is not necessarily the same as in the survey. The questions for the survey can be found in appendix 2 of this thesis.

In this analysis, the asset managers are classified into three categories based on the amount of their assets under management, which they were asked to define in question 10. 56 % of the respondents have over 5 billion euros of assets under management and are considered large asset managers. 32 % of the respondents have between 1-5 billion euros of assets under management and are regarded as medium-sized asset managers. 12 % of the respondents have under 1 billion € of assets under management and are considered small asset managers. The differences between different sized asset managers are evaluated using cross-tabulations in questions that it is relevant. When interpreting the results, it must be taken into account that large asset managers make up most of the population. Therefore, the sizes of the different categories are not the same.

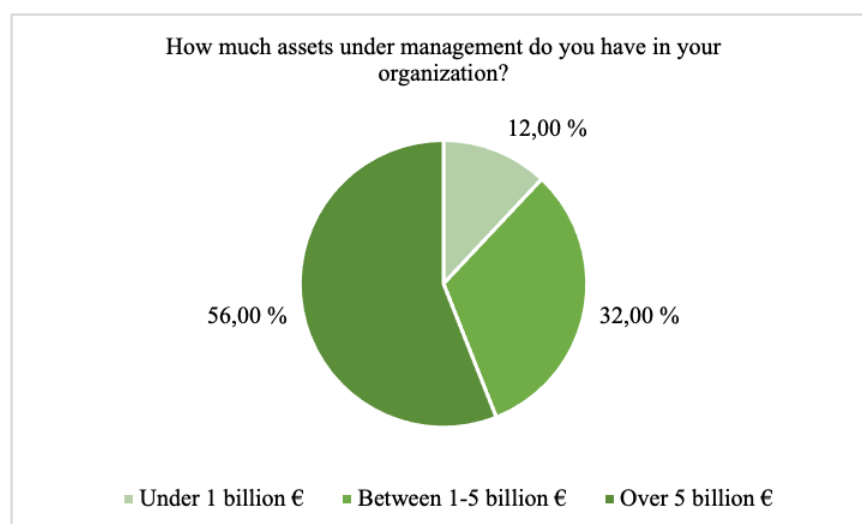


Figure 2. AUM of the respondents

7.1 Practicing sustainable investing

In the survey's first question, asset managers were asked if they practiced sustainable investing. As sustainable investing is such a large part of the modern financial markets, it is not surprising that all the respondents answer yes. But it is interesting to find that not every asset manager has a strategy for sustainable investing, which raises the question of how it can be practiced if there does not exist a strategy for it. According to the results of the second question, 96% of the respondents have a strategy, and 4% do not. These results are in line with the questionnaire that Finsif conducted in 2019, as they also found that 96% of the respondents have created principles for their sustainable investing practices (Finsif, 2020, p. 11). Based on this question, we can conclude that almost every asset manager has a strategy for sustainable investing, which means that they have created at least some guidelines for practicing it. On the other hand, a strategy is not proof that the asset manager behaves sustainably. In the upcoming questions, the actions related to sustainability and sustainable investing are evaluated in more detail to understand how exactly sustainable investing is practiced amongst asset managers operating in Finland.

As stated in chapter 2.1, there does not exist any official definition for sustainable investing. Therefore, it is interesting to see how the asset managers operating in Finland define sustainable investing. Based on the responses to question three, the asset managers share similar views on the definition of sustainable investing, but they seem to emphasize different aspects of it. Most respondents refer to ESG factors in their definitions and conclude that sustainable investing means incorporating ESG factors into the investment decision-making processes. This is in line with the general definition of sustainable investing introduced in chapter 2.1. Several asset managers also mention sustainability risks and opportunities in their definitions and state that they should be considered when investing sustainably. It should be noted that only a few asset managers include the profitability aspect of sustainability in their definition, that, for example, Hyske et al. (2020, pp. 29–31) use.

In the fourth question, asset managers were asked if they think there is a consensus amongst investors and asset managers on what sustainable investing means and the answers are not unanimous. 56% of the respondents say that there does not exist, 40

% of the respondents think that there does exist a consensus amongst investors and asset managers of what sustainable investing means, and 4% do not know whether this consensus exists or not. Thus, there seems to be some confusion amongst investors and asset managers on how sustainable investing is understood. These results are in line with the previous academic literature, as, for example, Chong and Phillips (2016) discuss the incoherence of the definition and the confusion that it can cause for operators in the financial markets.

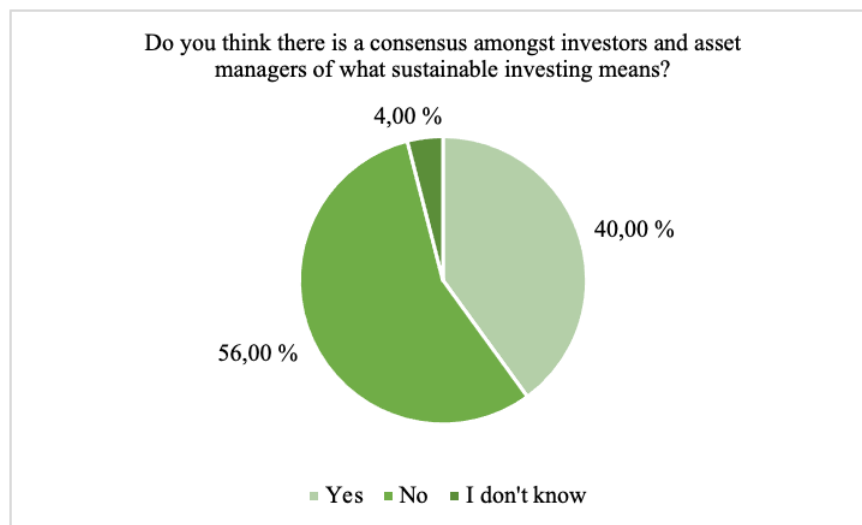


Figure 3. The consensus on the definition for sustainable investing

When the asset managers had a possibility to specify their answer to the fourth question, the responses varied. One respondent points out that because the field of sustainable investing is developing rapidly and there is no common understanding of the topics related to sustainable investing, there does not exist a consensus on the definition. Another respondent also highlights the number of different concepts around sustainable investing, including, for example, ESG investing and responsible investing. One respondent also states that there does not exist a consensus on the definition because investors do not have enough knowledge of the topic. Three of the respondents say that the upcoming EU regulation should improve the overall understanding of the definition for sustainable investing. These responses give proof to the statement that sustainable investing is a complex construct and can cause confusion between different operators in the financial markets. Thus, asset managers

should explain clearly what they mean by sustainable investing to avoid misunderstandings.

When asset managers were asked to define which asset classes they practice sustainable investing in in question five, fixed-income investments were the most popular, with 92% of asset managers choosing it as their answer. This result is somewhat surprising, as equity investing is traditionally seen as the most popular way to invest sustainably, and previously fixed income investments have faced difficulties related to ESG integration (Bioy et al., 2021a, p. 15; Hyske et al., 2020, p. 144). There are differences in popularity in the alternatives, as real-estate investments have 76%, private equity 68%, private debt 56%, and commodities only 8% of asset managers investing sustainably in these asset classes. 16% of the asset managers also invest sustainably into other asset classes, which include renewable energy, bioindustry investments, and timberland. One asset manager also concludes that they use both active and passive investments when investing sustainably. As stated in chapter 2.5.3, practicing sustainable investing in alternative investments is not as common as in equity or fixed income investments, and the ways to practice sustainable investing also vary largely in different alternative investments. Therefore, the results regarding the popularity of sustainable investing in alternative investments are not surprising.

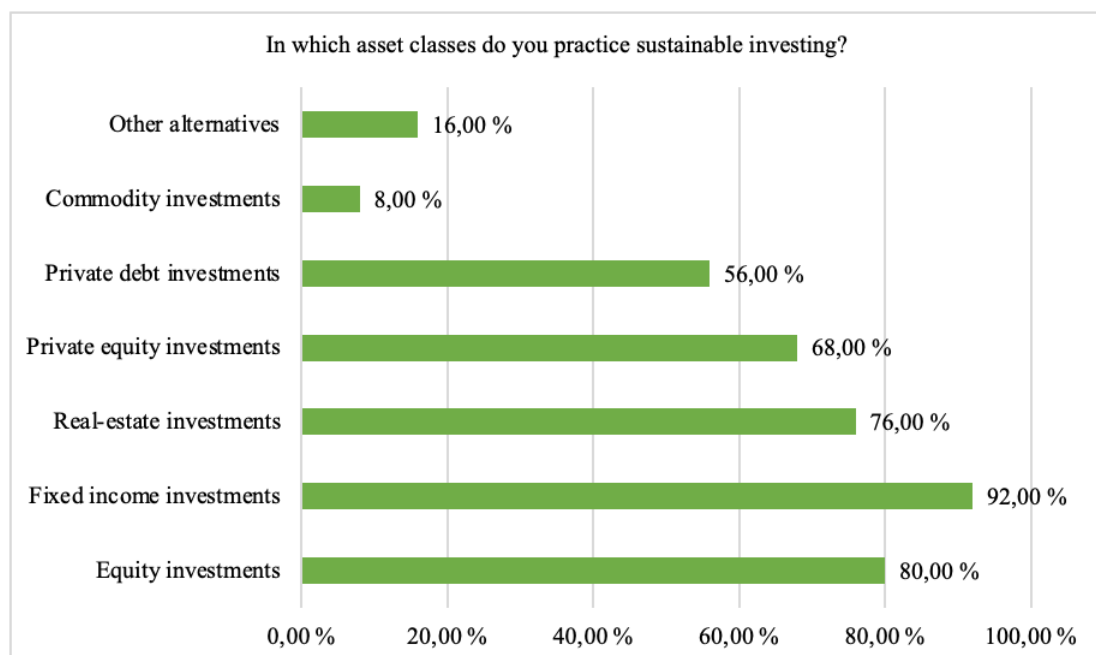


Figure 4. Sustainable investing in different asset classes

In question six, asset managers were asked to define which asset classes sustainable investing is the easiest and most difficult to practice. Based on the responses, most of them find listed equity investments as the easiest asset class. Many respondents state that this is because there is the most significant amount of available data and practicing active ownership is the easiest. For the second most easy asset class asset to invest in, managers list fixed income, also because of the good data availability. These responses seem to be in line with the previous academic literature, as equity investments are often found as the easiest asset class to practice sustainable investing. The answers differ when defining the most challenging asset class to invest in sustainably. The respondents list various alternatives, for example, commodities, private equity, and private debt. This is not surprising, as sustainability practices in alternative investments are not as developed as in traditional asset classes.

There are also differing opinions as, for example, some respondents say renewable energy and real estate are the easiest asset classes to invest in. Additionally, one asset manager lists global farmland as the easiest asset class to practice sustainable investing in because there are well-defined best practices, and any landowner has an incentive to protect the asset's value. They also list equity as the hardest because the incentive structures are inefficient and mixed between owners, management, and society. They see that ESG products are often only greenwashing and have no actual impact or control. This response is fascinating, as it drastically differs from the majority of the responses.

The most common motivation for sustainable investing, according to question seven, is to make a positive impact on society and the environment, which 92% of the respondents list as a motivation. After that, improving profits, risk management, and keeping up with the customer demand are supported by 88% of the respondents. Complying with regulation is supported by 80% of the respondents. These answers seem to align with Finsif's list of most common motivations for sustainable investing discussed in chapter 2.3. Investing according to personal values is less popular as 60% of the respondents list it as a motivation, but it still is an important motivation. This is in line with the development of the sustainable investing industry, as the focus of sustainable investing is no longer on investing according to one's values like in ethical investing, but sustainable investing is seen as a way to improve profits and reduce risks

(Hyrskel et al., 2020, p. 22–23). Additionally, one asset manager concludes that as they invest money on behalf of their clients, their motivations for sustainable investing can also depend on the client's needs.

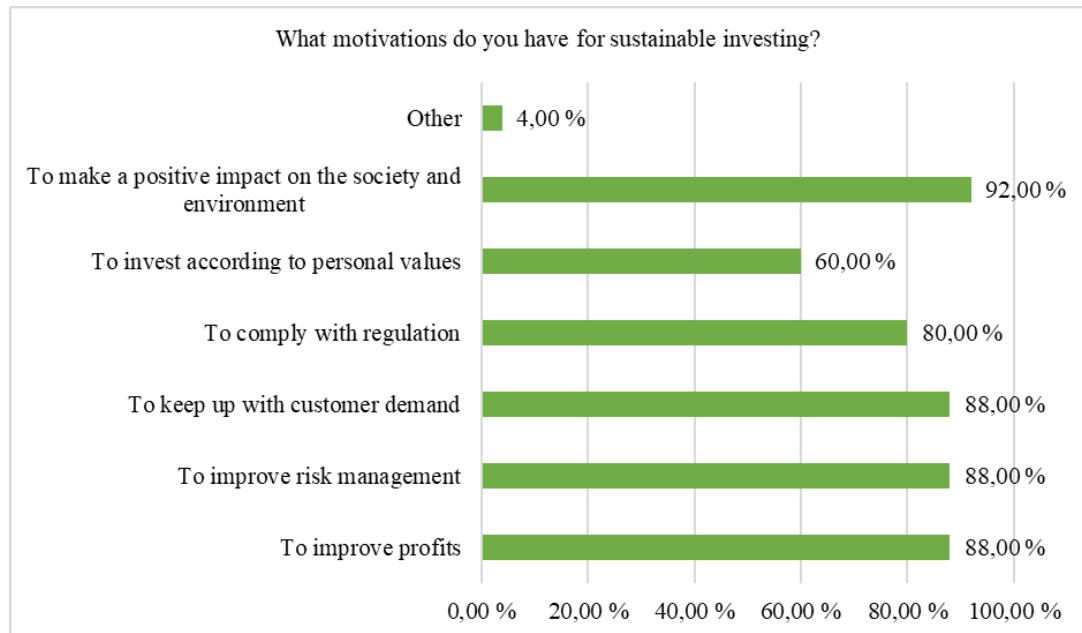


Figure 5. Motivations for sustainable investing

The most popular strategy for sustainable investing is ESG integration, which 92% of the respondents list as a strategy they use in question nine. Also, amongst the most popular strategies are negative screening, with 84% of the respondents choosing it, and corporate engagement and shareholder action and positive screening, both being strategies of 80% of the respondents. These results seem to align with Finsif's (2020, p. 18) results, but compared to findings in GSIA (2021, p.11) report, asset managers in Finland seem to practice more positive screening than is traditionally done in the world.

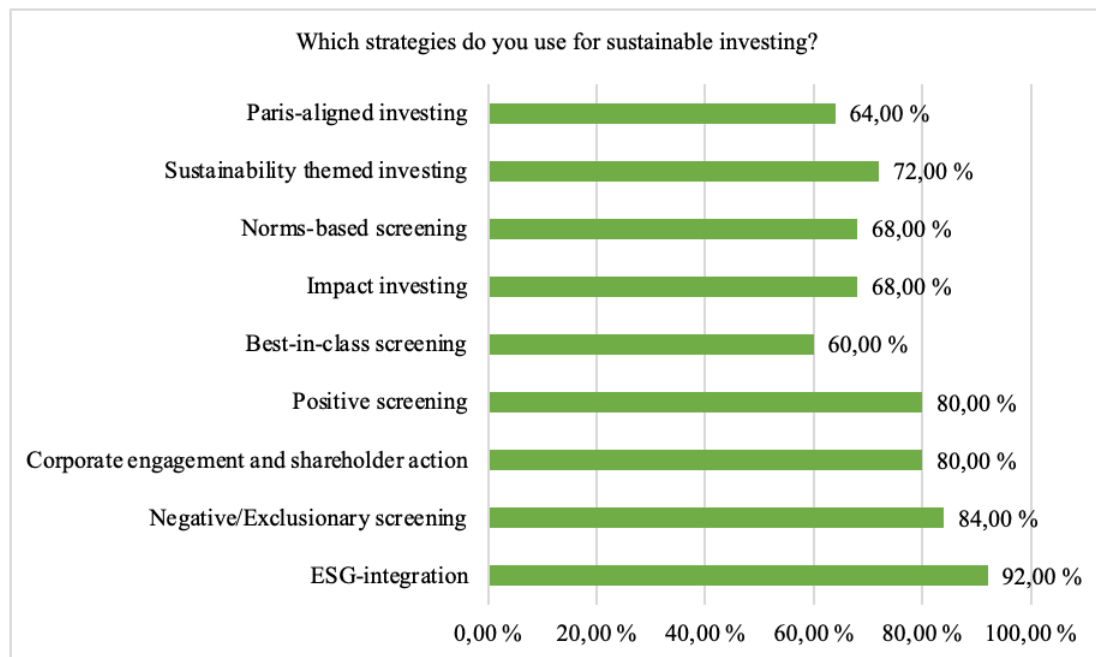


Figure 6. Strategies for sustainable investing

In question, eight asset managers were asked whether they believe that investing sustainably can lead to excess returns in the long term, and 84% of the respondents say yes, 4% say no, and 12% say that they do not know. As stated in chapter 2.6, the academic literature has mixed views on whether investing sustainably can cause financial overperformance. Thus, it seems that asset managers operating in Finland are optimistic about the future of the sustainable investment industry. To justify their responses, two asset managers state that in the long run, the companies that take sustainability into account in their practices will perform better. One asset manager also points out that as sustainable investing has many methods and available objectives, it would be too simplistic to say that it always leads to excess returns. This is an important matter to highlight and should be noted when making investment decisions. As there is no one correct way to practice sustainable investing, it should be taken into account that not every practice can cause financial overperformance.

When the asset managers were asked to define how much of their assets under management are invested according to their sustainable investment policies in question 11, 60% of the respondents state that 81-100% of their assets under management, and 16% of the respondents say that 61-80 % of their assets under management are invested according to their sustainable investing policies. Thus, it can be concluded that most

of the assets under management of asset managers operating in Finland are invested according to some sustainable investing policies. Doing a cross-tabulation of the results reveals that large asset managers invest more of their assets under management according to their sustainable investing policies than medium-sized or small asset managers. This is an interesting finding and raises the question of why this is the case.

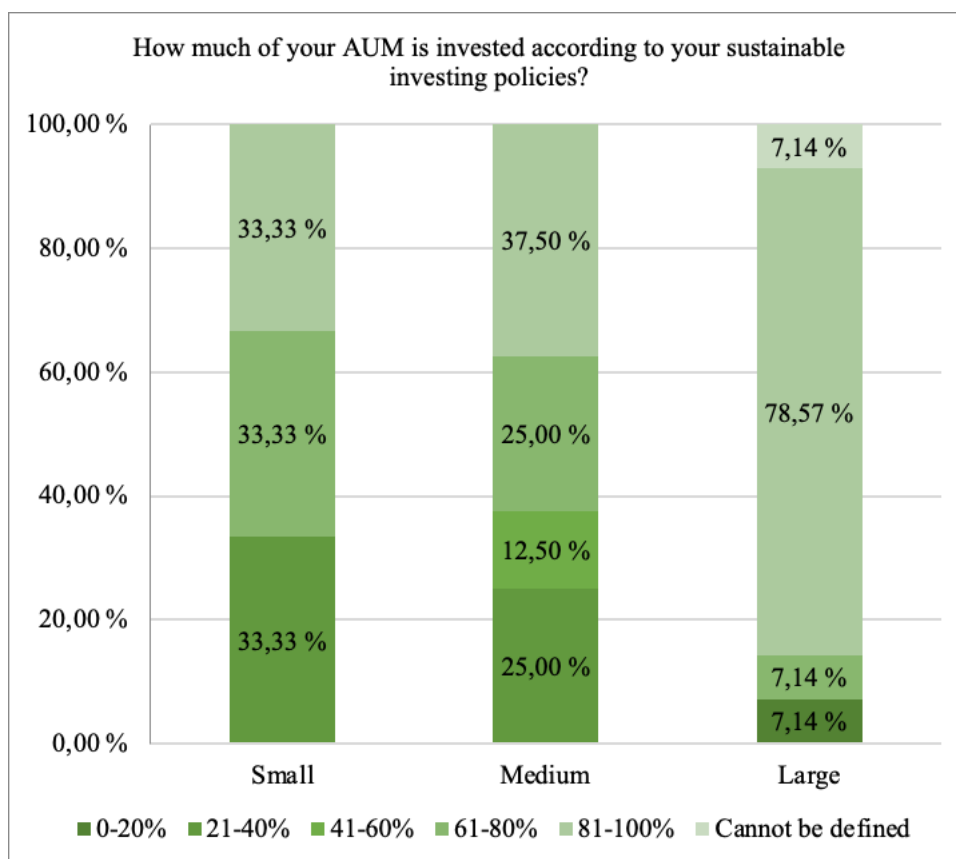


Figure 7. Cross-tabulation of assets invested according to sustainable investing policies

In question 12, the asset managers were asked to describe their sustainable investing organization. Most of the respondents state that they have an ESG team or an ESG committee and a bit over half of the respondents also say that they have a head of ESG or some other person in charge of sustainable investing in the organization. Some respondents also say that they have ESG specialists in their investment teams to help portfolio managers make decisions. One asset manager concludes that they have outsourced their sustainable investing organization to other asset managers. Overall based on the responses, sustainable investing seems to be integrated into the investment practices of many asset managers operating in Finland. Thus, sustainability

is not seen as a separate aspect of investment decisions, and it is not delegated only to a few people, but rather it is taken into account in all decisions made in the organization. It seems like many asset managers operating in Finland are taking sustainable investing seriously and therefore are using a lot of resources to improve their sustainability practices.

7.2 Communicating about sustainability and sustainable investing

As concluded in chapter 3, measuring the sustainability of investments can be difficult because there do not exist official standards for it. Here we will discuss the different ways asset managers can communicate about their sustainability to investors to reduce the asymmetric information in the markets. These include, for example, signing the PRI, becoming a member of Finsif, signing different initiatives, and disclosing sustainability-related information online, which we have discussed in the literature review of this thesis.

Asset managers operating in Finland agree with the statement that measuring the sustainability of sustainable assets is difficult, as in question 23, 75 % of the respondents say that they find it difficult to measure the sustainability of sustainable investment assets. Based on the specifications that some respondents gave, it can be concluded that this is because sustainability is a complex construct, and the methodologies for measuring sustainability can vary between different investors. This is in line with the academic literature. For example, Feifei and Polychronopoulos (2020) conclude that the methodologies between different ESG data providers are different, which can be difficult in the portfolio creation processes. When comparing the differences among different asset manager categories, 71,43% of both large and medium-sized asset managers and 100% of the small answer find measuring the sustainability of investment assets difficult. Therefore, 28,57% of large and medium-sized asset managers do not find measuring sustainability difficult, which is an interesting finding.

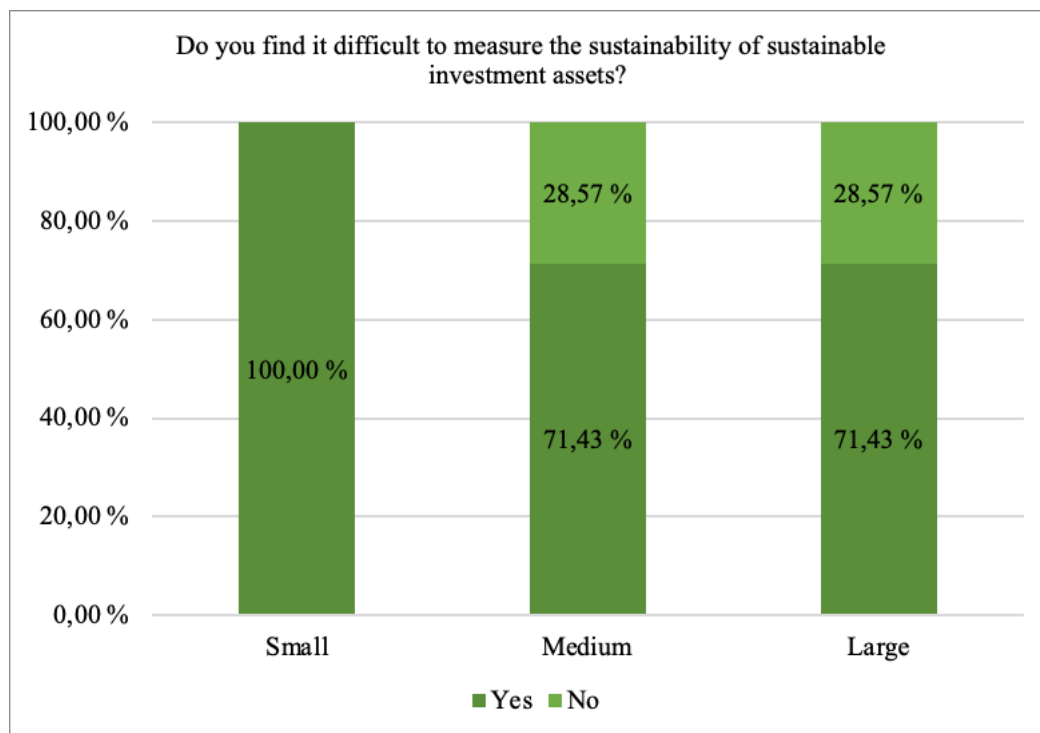


Figure 8. Cross-tabulation on the difficulty of measuring the sustainability of sustainable investment assets

Because most of the respondents find this measuring difficult, it is interesting to see how the asset managers currently do this in question 22. The answers to this question differ significantly, as some asset managers share specific details of their processes, and some answer more concisely. Most commonly, the respondents use ESG ratings from different providers and some carbon footprint metrics. Other external data regarding, for example, controversial weapons, SDGs, and climate data is also used. Additionally, many asset managers do sustainability research themselves, and one of the respondents describe their practices in much detail. Their portfolio managers go through every investment with fund-specific sustainability indicators, and they, for example, evaluate how environmental questions are taken into account in business operations and how companies promote sustainable procedures. They also pay attention to the composition of a company's board of directors. Additionally, the portfolio managers communicate directly with the companies regarding both positive and negative sustainability-related questions, highlighting the need for good quality sustainability reporting. Therefore, it can be concluded that there are differences in how asset managers operating in Finland measure the sustainability of their investments. Based on the responses, some asset managers have dedicated a lot of

resources to their processes by doing internal research, while some asset managers rely only on external information. It would be expected that by doing research, the asset manager would get a better understanding of the sustainability matters related to their investment assets.

In question 24, the asset managers were asked to define the biggest challenges related to measuring the sustainability of investment assets. The majority of the respondents mention data availability and comparability, and a few also say that different views on sustainability cause challenges in the measuring processes. Interestingly one of the respondents' answers "nothing," which seems a bit strange, as 75% of the respondents find measuring the sustainability of investment assets difficult. As issues including greenwashing have been highlighted in the discussions related to the sustainable investing industry, it seems odd that some asset managers do not find anything difficult in the sustainability measuring processes. This raises the question of whether the asset manager is overconfident regarding their actions.

Signing the Principles for Responsible Investment is one of the most popular ways to commit to sustainable practices in investing, as the signatories promise to develop their sustainable investing practices and regularly report about them. According to question 13, 91,67% of the respondents have signed the PRI, which means that nearly all of the asset managers operating in Finland must at least commit to some requirements for sustainable investing. But it must be recalled that signing the principles does not automatically make some asset manager responsible. According to Hyske et al. (2020, p. 285), the PRI reporting requires resources, which is why some smaller organizations might not sign these principles. Interestingly, all small asset managers and large asset managers have signed the principles, but only 71,43% of the medium-sized asset managers have signed them. When asset managers that answered yes were asked if they had ever published the assessment report made by PRI publicly on their website, only 36,36% answered yes. All these respondents were larger asset managers, which means that 57,14 % of them have published the report. Open reporting creates transparency, which is why it would be desirable that more asset managers publish these assessment reports on their websites.

Being a member of Finsif is another way to openly disclose that an asset manager takes sustainability issues into account in their practices. According to question 15, 83,33% of the respondents are members of Finsif. When comparing the differences between different asset manager size categories, 85,71% of the large asset managers, 71,43 % of the medium-sized asset managers, and 100% of the small asset managers are members of Finsif. Therefore, we can conclude that the majority of the asset managers operating in Finland are members of Finsif.

As concluded in chapter 3.3, organizations can publicly communicate about their sustainability targets to outsiders by publicly committing to certain initiatives. The Net-Zero Asset Managers initiative is specifically designed for asset managers, and according to question 16, 54,17% of the respondents have signed it. When comparing the three different asset managers categories, signing this initiative is most common among large asset managers, as 71,43% have signed it. Only 28,57 % of the medium size asset managers and 33,33 % of the small asset managers have signed the initiative.

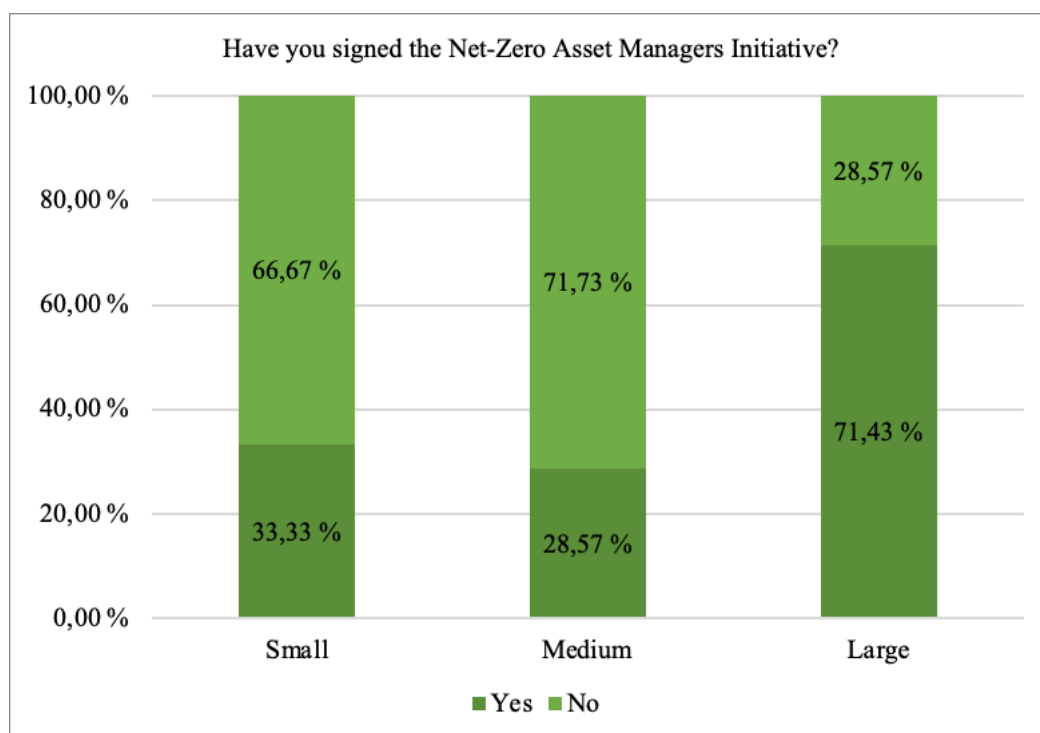


Figure 9. Cross-tabulation of signatories of the Net-Zero Asset Managers Initiative

There exist many other initiatives that asset managers can commit to, and in question 17, 75% of the respondents state that they have also signed other initiatives. Again, there are differences between the different asset manager categories. 100% of the large asset managers have signed other initiatives, but only 42,86% of the medium-sized asset managers and 33,33 % of the small asset managers have signed other initiatives. When asset managers were asked to mention which initiatives they have signed, many different initiatives were presented. In total, over 20 different initiatives were mentioned, most commonly TCFD, Climate 100+, CDP, and Montreal Pledge. Thus, it can be concluded that asset managers operating in Finland take part in multiple initiatives regarding sustainable investing, and larger asset managers take part in them more likely than smaller and medium-sized asset managers. Could this be because larger asset managers probably have more resources for sustainable investing?

In addition to different initiatives, asset managers can also make public commitments related to sustainability to make investors and society aware of their sustainable practices. When asset managers were asked about this topic in question 18, 83,33% of the respondents said they have sustainability-related public commitments. Again, there are differences between different asset manager categories. 100% of the large, 71,43% of the medium-sized, and only 33,33% of the small asset managers have made public commitments related to sustainability. When asset managers were asked to define these commitments, the responses vary greatly. Most of the commitments are related to the environment, the most popular commitment being becoming net zero with greenhouse gas emissions before 2050. Other popular commitments are, for example, lowering Co₂-emissions and increasing the number of funds classified as article 8 or 9. Also, a few commitments related to governmental issues were introduced. These included, for example, increasing the share of women in boards and senior management roles and reducing gender pay gaps. Many of these public commitments are related to the initiatives that asset managers have signed, for example, becoming net-zero before 2050 is the objective of the Net-Zero Asset Managers Initiative.

As negative screening is a popular sustainable investing strategy that asset managers use, it is relevant to examine how they publicly report about their screening practices. In question number 20, the asset managers were asked if they published a list of firms that are excluded from their portfolios based on some sustainability criteria. Only

37,50 % of the respondents say yes, and again this is more popular amongst larger asset managers, but still only 50 % of them publish this. 28,57 % of the medium-sized asset managers and 0 % of the small asset managers publish this list of excluded firms. One of the respondents also specified that even though they do not disclose a list of excluded firms, they disclose information related to their screening principles. Thus, it can be said that it is not popular amongst asset managers to publish information related to firms that are excluded from their portfolios. But even though asset managers do not publish information regarding individual firms, they can still disclose some information related to their screening practices.

Question 21 appeared only if the asset manager had answered that they practiced corporate engagement and shareholder action as their sustainable investment strategy in question 9. Here the asset managers were asked if they disclosed information related to corporate engagement and shareholder action, for example, by disclosing a list of annual meetings they had attended. 63,16 % of the respondents answered yes, and this was the most popular amongst large asset managers, where 71,43% of the respondents responded yes. In the case of medium-sized asset managers, 50% answered yes, but none of the small asset managers answered yes. It must be noted that the formulation of this question can be somewhat unclear, as there are two questions in it. This must be taken into account when evaluating the results and making conclusions. When the asset managers were asked to specify how they report on their corporate engagement and shareholder action, the answers varied. Many respondents said they include information related to corporate engagement and shareholder action in their annual reports. Some asset managers also disclose a list of their attended annual meetings and voting patterns on their website. One asset manager also states that even though they do not currently report this information, they are developing their processes related to disclosing information regarding engagement activities.

In question 25, the asset managers were asked which reporting frameworks they used in their sustainability reporting. The PRI was the most popular framework, with 87,50% of the respondents using it. The next popular framework was the TCFD framework (50 %), followed by SASB (33,33%) and GRI (29,17%). 8,33% of the respondents say that they do not use any reporting frameworks. When comparing asset managers in different categories, some differences can be found. Small asset managers

only use PRI, but medium-sized and large asset managers use all of the mentioned reporting frameworks. Overall large asset managers use these frameworks more often, as 71,43% use TCFD, 92,86% use PRI, and 42,86% use SASB and GRI, when in the case of medium-sized asset managers, only 28,75% use TCFD, 71,43% use PRI, 28,57% use SASB and 14,29% use GRI. Thus, it could be concluded that reporting frameworks are more commonly used amongst large asset managers.

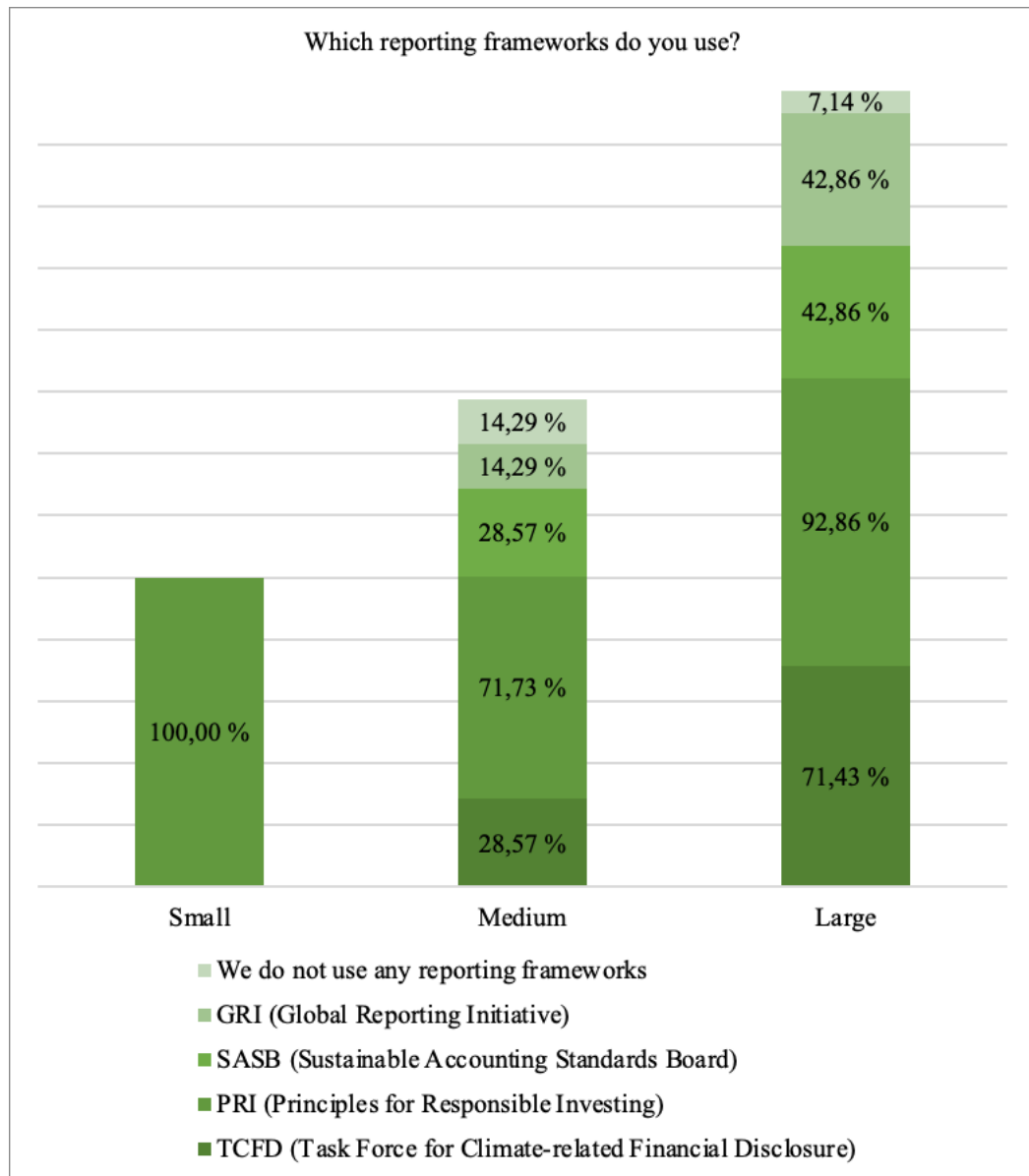


Figure 10. Cross-tabulations of the used reporting frameworks

In question 25, the asset managers were asked about the data they use in sustainability reporting and measuring. 70,83% of the respondents use their own data, 62,50% use

MSCI, 50% use Morningstar, and 41,67% use Sustainalytics, and Bloomberg. 37,50% use ISS and 4,17% use Refinitiv. In the “other” field, asset managers also mentioned, for example, Upright Project, Impact Cubed, Verisk Maplecroft, Util, and CDP. Thus, based on this question, it can be said that there are various sources that asset managers can get data for their sustainability reporting and measuring. When comparing the different asset manager categories, it seems that large asset managers use more sources for their data. They, for example, use ISS and Refinitiv, which medium-sized or small asset managers do not use. But it must be concluded that as there are more respondents in the large asset managers category, it can be expected that they will form a more comprehensive list of data sources.

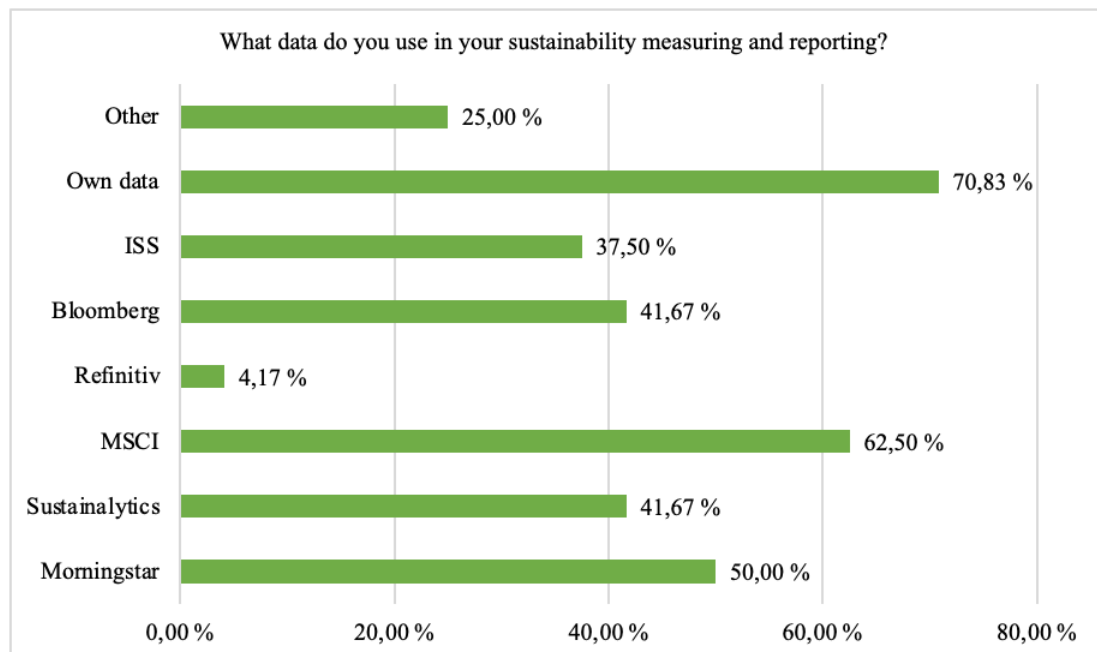


Figure 11. Data used by the respondents

Better disclosure creates transparency, which is why in question 27, asset managers were asked if they disclosed information related to UN global compact violations in their reports. Overall, 57,14% of the respondents answer yes, but this is more common amongst large asset managers, where 71,43% answer yes. Only 28,57% of medium-sized asset managers and 33,33% of small asset managers answer yes. Additionally, auditing also increases transparency and reduces asymmetric information in the markets. Auditing the sustainability reports is not yet mandatory, but it will be in the future when CSRD takes action, as stated in chapter 4.2.1. In question 28, the asset

managers were asked if they currently use a third party to audit their sustainability reports. Overall, 41,67% of the respondents say yes, but again this is more common amongst large asset managers, as 57,14% of them say yes, and only 28,57% of medium-sized asset managers and 0% of small asset managers audit their reports.

In question 29, the asset managers were asked to define the biggest challenges related to sustainability reporting. Like in question 24, the biggest challenges are data-related, according to most respondents. The respondents highlight issues, including data coverage and data availability. One asset manager also mentions that making the data understandable for a non-professional client is difficult. Differences in methodologies and the lack of harmonization are also presented. Additionally, one asset manager concludes that there are no uniform standards for reporting on sustainable investing to clients. One asset manager states that the new regulation under the EU Action Plan, including, for example, EU Taxonomy, CSRD, and SFDR, should help with the problems related to the lack of harmonization in sustainability reporting. Thus, it can be said that there are many challenges associated with reporting about sustainable investing at the moment.

Based on the responses, it can be concluded that asset managers operating in Finland use various ways to communicate about sustainability. It must be pointed out that larger asset managers more commonly use more ways to disclose information about their sustainable investing practices than smaller and medium-sized asset managers. This is an interesting finding, and one explanation could be that larger asset managers most likely have more resources for these processes. But it must be concluded that the category for large asset managers is larger in size than the categories for medium-sized and small asset managers, which could affect the results. Nearly all of the respondents also find sustainability difficult to measure and conclude that the most significant challenges related to sustainability measuring and reporting include data comparability and availability.

7.3 Regulation and greenwashing

In question 30, the asset managers were asked if they think the EU regulation related to sustainable finance is sufficient. 50% of the respondents say yes, 16,67% say no,

and 33,33% say they do not know. When asset managers were asked to specify their answers, their responses varied. Some asset managers see that these new regulations are improvements in the right direction, but it is hard to say now whether it is sufficient. Some asset managers do not see regulation as a positive thing and conclude that the upcoming regulation can even increase the confusion amongst investors and make things even messier in the sustainable investing industry. One asset manager concludes that this regulation increases transparency but will not make investments more sustainable in real life. It must be noted that the formulation of this question was somewhat unclear, and different asset managers could have understood it differently, which must be kept in mind when analyzing the results.

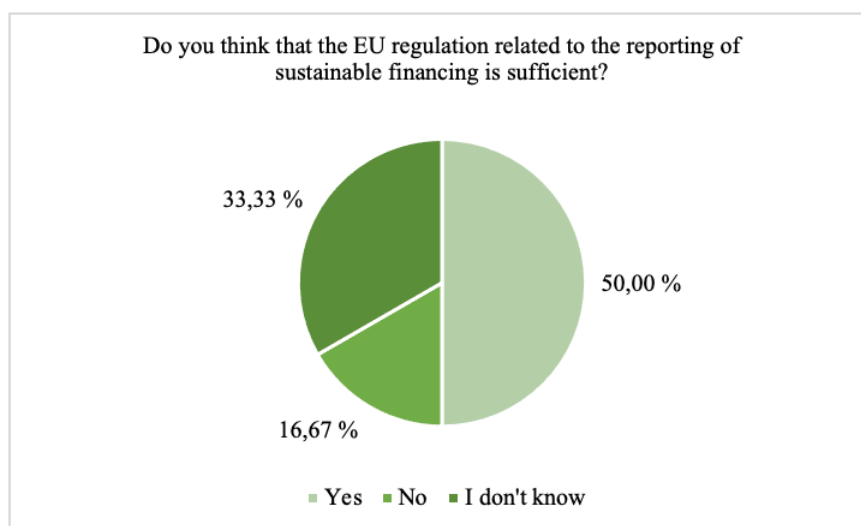


Figure 12. Sufficiency of the EU sustainable investing regulation

In question 31, asset managers were asked whether they think that it is easy to keep up with the global regulation related to sustainability reporting. As stated previously, there is a lot of regulation currently in development, but there are no universal standards for reporting yet. Therefore, it is not surprising that 70,83% of the respondents say it is not easy. One asset manager specifies that keeping up with the regulation requires a lot of resources. Another asset manager mentions that because the guidelines are not ready, keeping up with the regulation becomes difficult. The different interpretations of the regulation and the pace of updating the reporting practices were also mentioned when asset managers specified their answers. When comparing the differences between asset managers from different categories, it can be

said that all the small asset managers feel that keeping up with the regulation is not easy. This seems understandable, as based on this survey, the smaller asset managers seem to not have as advanced sustainable investing practices as larger asset managers do. Perhaps surprisingly, medium-sized asset managers are more confident about keeping up with the regulation than large asset managers, as 42,86% say it is easy and only 28,57 of the large asset managers consider it easy.

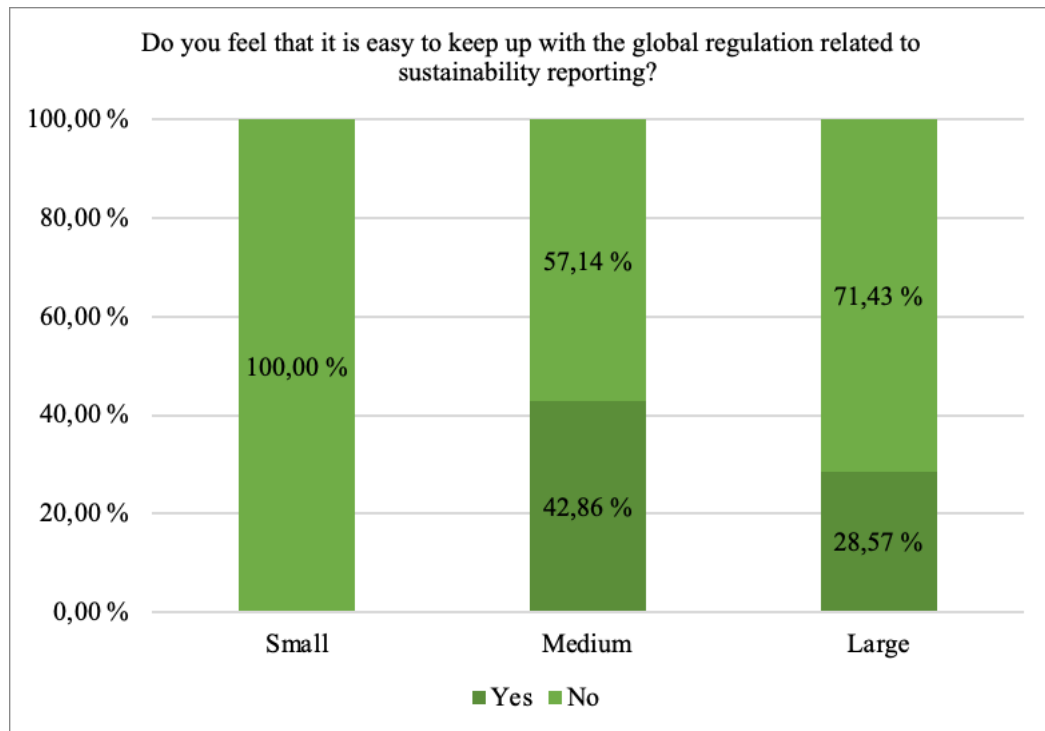


Figure 13. Cross-tabulation on the difficulty of keeping up with the global regulation

As stated previously, the EU regulation related to sustainable finance is not yet finished. In question 32, the asset managers were asked if they think the current lack of standardized regulation can cause greenwashing practices. 62,50 % of the respondents say yes, 20,83 % say no, and 16,67 say they do not know. These results confirm that unclear regulation can lead to greenwashing, which is a significant finding. At the same time, this is very alarming, as it raises concerns whether there is currently greenwashing in the European financial markets. When allowed to specify, one asset manager states that vague and lacking definitions create a situation where different asset managers classify either products or/and investee companies with the same term, yet the methodology underneath is totally different. Another asset manager

agrees as they state that vague requirements leave room for subjective assessment. One of the asset managers emphasizes that financial institutions lack concrete knowledge of sustainability in real life, as they have no knowledge of natural sciences. This could result in intended or non-intended greenwashing, as people with financial backgrounds do not understand the sustainability criteria set for EU regulation. This is a very interesting finding.

Because of the concerns related to greenwashing, it is relevant to ask asset managers whether they think greenwashing is currently a problem in the sustainable investing industry. In question 33, 54,17 % answer yes, 16,67 % say no, and 29,17 % do not know whether it is a problem or not. One asset manager state that greenwashing is a problem because there are no universal standards. A few respondents state that this greenwashing is not always done on purpose, but it occurs because of confusing frameworks and a lack of knowledge. One asset manager also highlights that there is a temptation to rebrand one's offering towards sustainable investing to get a share of the trend. But they do not believe this is a huge topic among institutional investors and High-Net-Worth Individuals, but it could occur among retail clients.

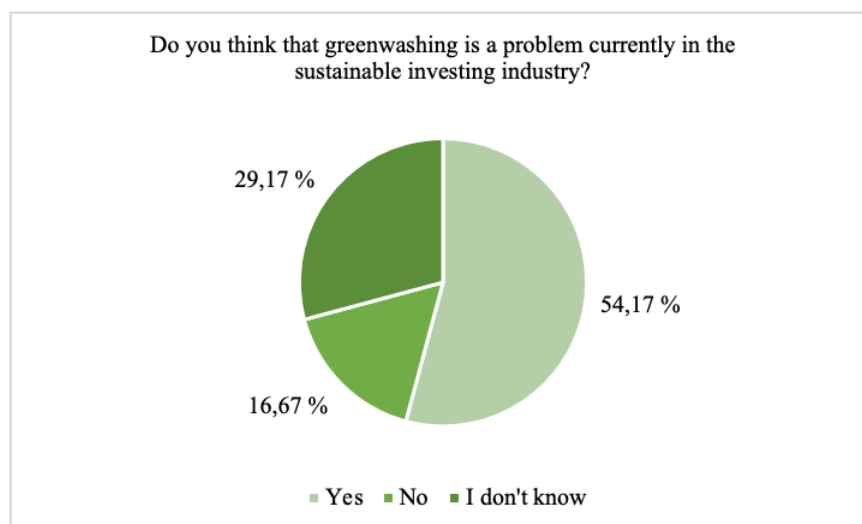


Figure 14. Greenwashing as a problem in the sustainable investing industry

According to previous academic literature and the results from this survey, greenwashing seems to be a problem in the sustainable investing industry. Therefore, it is essential to know how asset managers prevent it in their practices. In question 34,

asset managers defined various ways to do that. Most commonly, the respondents mentioned practicing transparency in their actions. Some asset managers concluded that they avoid too optimistic wording when discussing the investment products and do not promise too much, and a few of the respondents also highlight integrity as a way to prevent greenwashing. Additionally, measuring and reporting are mentioned by a few asset managers. One asset manager concludes that ESG principles are included in instructions for the employees, and they are monitored by the middle office, compliance, and supervisors. Another asset manager describes their practices in detail and states that they carefully examine all investment targets and have a direct dialogue within companies in both positive and negative questions about sustainability. They also report openly both on their investment products and on their operations. Additionally, they implement the SFDR classifications very carefully for our financial products. A few asset managers also emphasize using conservative approaches in the SFDR classifications. These responses provide essential information on the prevention of greenwashing among asset managers. These answers are understandable and seem logical, but not many concrete explanations were presented. They would have provided even more useful information.

In question 35, the asset managers were asked how the sustainability regulation should be improved to improve sustainability reporting and reduce greenwashing. Many of the respondents think that the regulation should be clearer and simpler. One asset manager emphasizes that the different regulations should be aligned with each other, and all reporting requirements should have a clear and detailed methodology. Another asset manager states that regulators should think carefully about what they are trying to achieve with their regulation and mentions that, for example, nuclear power generation can be considered an unsustainable use of capital.

In the last question, asset managers could have concluded if they still had something else to say related to sustainable investing practices, sustainability measuring, sustainability reporting, greenwashing or sustainability in the asset management industry in general. One asset manager says that the playing field regarding sustainability is uneven in our mind because the sustainability data is very costly to acquire and thus is an obstacle to smaller asset managers. This statement supports the previous results of this thesis, as larger asset managers seem to have more experience

from sustainable investing and more resources to report about it than smaller asset managers. Another asset manager says that we should have open discussions on challenges and solutions and discuss openly how different terms should be used. They state that we should not communicate things only for the sake of marketing and that the level of sustainability cannot be measured based on someone's perception, but it has to be based on the actions. They conclude that the topic is far more complicated than a tick-the-box exercise and depending on the investor's investment universe and product range, the approaches may have to differ.

8 CONCLUSIONS

The chapter focuses on the conclusions of the thesis. First, the research questions are presented, and then the results of the study are reviewed while keeping the research questions in mind. Results are also compared to the previous academic literature. At the end of this chapter, the limitations of the study are identified, and possible future research topics are discussed.

This thesis's objective was to understand better the sustainable investing practices of asset managers operating in Finland. The preliminary research questions were 1) How do asset managers operating in Finland practice sustainable investing? 2) How do asset managers operating in Finland disclose information related to their sustainability and sustainable investing practices? And 3) How do asset managers operating in Finland prevent greenwashing in their practices? To answer these questions, in the literature review part of this thesis, definitions for sustainability and sustainable investing were given, and different ways to practice sustainable investing were introduced. Ways to measure sustainability and report about it were also presented. Additionally, greenwashing as a concept was explained, and the current EU-regulation related to sustainable finance was evaluated.

The empirical part of this thesis was conducted in the form of a survey aimed at asset managers operating in Finland. In this survey, questions related to the topics of the literature review were asked from the asset managers. In the results section of the study, these answers were presented and thoroughly evaluated. The survey was sent to 31 asset managers operating in Finland, and 24 answered all mandatory questions, making the official rate for response 77,4 %. Asset managers were divided into three groups, small, medium, and large, based on the amount of assets under management that they have, and in questions where it was relevant, the differences between these three categories were investigated. It must be kept in mind that the majority of the respondents were large asset managers, which can affect the interpretation of the results.

The definition for sustainable investing is not clear according to the previous academic literature, so it is not surprising that even though asset managers operating in Finland

share similar views on the definition and commonly view it as incorporating ESG factors into the investment process, they do highlight different aspects of it. As Finsif (2021, p. 4.) states, sustainability is viewed differently by different investors. Due to these slight differences in the definitions, there does not always exist a consensus amongst asset managers and investors on what sustainable investing means. It can be concluded that sustainable investing is a complex construct, and operators in the financial markets do not always view it in the same way, which can lead to confusion. Therefore, it is essential that asset managers explain their sustainable investing practices in detail and promote transparency in their actions. When operators in the financial markets see sustainability differently, misunderstandings and even greenwashing can occur.

Based on the survey, every asset manager operating in Finland practices sustainable investing, and nearly everyone also has a strategy for practicing it, which is excellent news for the sustainable investing industry. This also further gives proof for the statement that sustainable investing is a remarkable part of the modern financial markets. The motivations behind practicing sustainable investing are similar among asset managers, with the most popular being making a positive impact on society and the environment. Also, improving profits, practicing risk management, and keeping up with the customer demand are common motivations for sustainable investing. These results are similar to previous academic literature.

The most popular strategy for sustainable investing is ESG integration, followed by negative screening. These results regarding the sustainable investing strategies are in line with Finsif's (2020) study, but compared to GSIA (2021), asset managers operating in Finland practice positive screening more than generally is done in the world. The most common asset class to practice sustainable investing amongst asset managers operating in Finland is fixed income, followed by equity investments. This is surprising, as equity investments have traditionally been seen as the most popular asset class to practice sustainable investing in. The popularity of different alternative investment assets differs, but real estate and private equity investments seem to be amongst the most popular ones. As expected, asset managers often find equity investments as the easiest asset class to practice sustainable investing in because there exists the most available sustainability data. There are differing opinions regarding the

most difficult asset class to invest in, but most respondents mention different alternative investments. These results are not surprising, as there do not exist as much data and measurement methods to evaluate the sustainability of alternative investments.

The ways how asset managers operating in Finland have organized their sustainable investing differs. The majority of the asset managers have sustainability leaders and teams, but not everyone. Overall, the asset managers seem to have integrated sustainability as a part of their everyday operations, and sustainability is not seen as separate from their investing practices. Despite the mixed evidence from the academic literature, asset managers operating in Finland are optimistic about the ability of sustainable investing to provide excess returns in the future. This statement is also supported by the fact that most of the assets under management of asset managers operating in Finland are invested according to some sustainable investing policies. But the study reveals that large asset managers have more of their assets under management invested sustainably than medium-sized or small asset managers.

According to the previous academic literature, measuring the sustainability of sustainable investment assets is difficult because there do not exist any official standards for it, and asset managers operating in Finland agree. Additionally, the measuring can be complicated because of the differences in understanding the concept of sustainability and because there are difficulties in the comparability and accessibility of sustainability data. It must be noted that not every asset manager finds this measuring difficult, which is an interesting finding, and together with the overall challenges related to sustainable investing, raises the question, why not?

The measurement methods for sustainable investing vary among asset managers, and some describe them in more detail than other asset managers. Therefore, it can be concluded that asset managers have different amounts of resources dedicated to sustainable investing practices. When measuring sustainability, most commonly, the respondents use ESG ratings and different carbon footprint and climate metrics in their processes. The most common external data providers are MSCI and Morningstar, followed by Sustainalytics and Bloomberg. Most asset managers also use internal sustainability data in their processes. It would be expected that asset managers who

conduct their own sustainability analyses are more familiar with sustainability and can therefore measure it in a more equipped way.

There exists asymmetric information in the markets, which is why it is essential that asset managers transparently communicate about their sustainable investing practices. In the literature review part of this thesis, we listed, for example, signing the PRI, becoming a member of Finsif, committing to different sustainability initiatives, and disclosing and reporting sustainability-related information online as ways to communicate about the sustainable investing practices of asset managers.

Most of the respondents have signed the Principles for Responsible Investment and are members of Finsif, which indicates that most asset managers operating in Finland have committed to some sustainable investing practices publicly. Most asset managers are also signatories of the Net-Zero Asset managers initiative, meaning that these asset managers aim to become net zero of greenhouse gases before 2050. Also, the majority of the respondents have committed to some other initiatives and have public commitments related to sustainability. Additionally, over half of the respondents disclose information related to active ownership and shareholder action report about the UN Global Compact violations. It is less common to report about a list of firms excluded from the investment universe and use a third party to audit sustainability reports. The most common reporting framework that asset managers use is PRI, followed by TCFD.

Communicating about these sustainability-related matters is more common among large asset managers than in the case of medium-sized or small asset managers. This can be observed from the cross-tabulations made in the results section. Even though these results must be reviewed carefully, as the amount of asset managers in each category differs, it can be seen that larger asset managers seem to take part in more initiatives, disclose more information online, have more commitments related to sustainability, audit their reports more and use more diverse data sources. These results apply even if medium-sized asset managers and small asset managers would have been grouped together. Therefore, it can be concluded that large asset managers seem to be more equipped to communicate about sustainable investing. The probable explanation is that large asset managers have more resources than small or medium-sized asset

managers. Sustainability data is costly, making it more difficult for smaller asset managers to acquire it, as one asset manager explained in their answer. Another possible explanation could be that larger asset managers face more demands from the public and are expected to have more refined ways to practice sustainable investing.

In chapter 3.1.4, it was concluded that more ways exist to disclose information related to environmental factors than to social and governance aspects of the ESG. This can also be seen from the survey, as more information related to measuring the environmental aspects of the survey was obtained from the answers. Regarding environmental issues, numerous initiatives and commitments exist, but in the case of social and governance, the number is much lower.

Based on the academic literature, one of the problems related to sustainable investing is the lack of standardized regulation, which can lead to misunderstanding and even greenwashing. The asset managers operating in Finland agree and conclude that the current unfinished EU regulation can lead to greenwashing practices. This is because vague definitions can create a situation where different asset managers classify products with the same sustainability term when in fact, the methodologies are different. Unclear requirements of the regulation also leave room for subjective assessment. But it must be noted that greenwashing is not always done on purpose, and it can be non-intentional, for example, when people with financial backgrounds do not understand the sustainability criteria in EU regulation.

According to the survey, most asset managers in Finland see greenwashing as a problem in the sustainable investing industry. This is worrying, and therefore it is essential to evaluate the ways that asset managers use to prevent greenwashing in their practices. Most commonly, the respondents state that they use transparency in their processes to avoid greenwashing. Some of them also concluded that they avoid too positive wording when describing their investment products and use conservative approaches when naming SFDR articles for their products. Additionally, monitoring, reporting, and using high integrity are mentioned as ways to prevent greenwashing.

The regulation related to sustainable investing has developed rapidly over the past few years and is expected to continue evolving. As can be expected, the majority of the

respondents feel that it is not easy to keep up with the global regulation related to sustainability reporting. This is because it requires a lot of resources, and the changes to regulation develop at a rapid pace. As with communicating about sustainability, there are some differences between asset managers in different categories, as a larger percentage of small asset managers feel that keeping up with the regulation is difficult than in the case of medium-sized and large asset managers.

As regulation can be seen as a way to improve sustainable investing practices and reduce greenwashing, it is interesting to know how the asset managers operating in Finland feel about the current EU regulation related to sustainable investing. Only 50% of the asset managers see it as sufficient, and some asset managers state that this regulation can lead to even more confusion amongst investors. The regulation is also criticized because it is too wide and not always relevant. Some asset managers state that the regulation is a step toward the right direction and that the relevancy of it will become clearer in the future. It can be concluded that the regulation should be simplified and more precise for it to work. Different regulations should be aligned with each other, and all terms and reporting frameworks should have clear methodologies so that everyone would understand them in the same way.

The possible shortcomings related to this survey and analysis must also be addressed. Because of the nature of an online survey as a research method, there are some related shortcomings. One of these includes overlooking the survey as spam mail which could lead to a low response rate. This did not become a problem in this thesis as the official response rate for the survey was 77,4% which is relatively high. Another issue related to online surveys is that the questions need to be formatted carefully so that everyone can understand them correctly. To overcome this problem, interviews with sustainable investing professionals were carried out to improve the validity of them, and additionally the survey was tested out with multiple people before sending it out. It must be noted that afterward a few questions could have been formulated better, as there was some confusion amongst asset managers about the meaning of the question. Perhaps the most significant shortcoming of the survey was the categorization of the asset managers, as the number of asset managers in the categories differed. A more appropriate way would have been to categorize the respondents into just two categories, so the sizes of these categories would have been more equal. Therefore,

when conducting the cross-tabulations of the questions, the results are not as comparable, as the large asset managers category has more responses than the two other categories. Additionally, one limitation related to this thesis is that because of its qualitative nature, the analysis is affected by the subjective views of the researcher.

This thesis contributes to the literature on sustainable investing practices of asset managers operating in Finland. In addition to Finsif's studies, there is not much literature relating to the practices of asset managers in Finland. New information was obtained, especially regarding asset managers' views on the EU regulation and how asset managers use prevent greenwashing in their practices. Also, this study provides information about the current state of the asset management industry in Finland and reveals how asset managers practice sustainable investing. Additionally, one important finding is that smaller asset managers do not have as advanced practices related to sustainable investing and do not disclose as much information compared to larger asset managers. This could be due to the smaller number of available resources or larger asset managers being under stricter demands from the public.

In the future, it would be relevant to examine the non-financial matters of sustainable investing even further. The differences between the practices of sustainable investing amongst asset managers in different categories could be investigated more to find reasons for their differences. Also, as the regulation related to sustainable investing is developing and certain regulative actions become finalized, it would be appropriate to examine how these regulations are followed in practice. For example, the implementation of the SFDR articles in practice could be evaluated as soon as their official definitions are published and the data becomes available. Greenwashing in the sustainable investment industry deserves to be investigated more, for example, by studying whether asset managers, institutional investors, or fund managers take part in greenwashing. But, there are problems related to conducting this study, as there are no official definitions for greenwashing yet.

To conclude, all of the asset managers operating in Finland practice sustainable investing, and they do it in all asset classes and use many different strategies. These asset managers want to impact the environment and society positively, and they see that sustainable investing can lead to excess returns in the future. Asset managers have

different amounts of resources available for their practices, which can lead to smaller asset managers not being able to communicate as much of their sustainable investing as larger asset managers can. Most asset managers operating in Finland are signatories of PRI and members of Finsif and communicate about their sustainable investing by committing to different initiatives, reporting according to different reporting frameworks and disclosing sustainability-related information on their website. Currently, greenwashing is a problem in the industry and asset managers prevent it in their practices by promoting transparency and avoiding describing their products in too optimistic ways. The thoughts related to upcoming EU regulation are not unanimous, as some feel that the regulation is not sufficient, and others see it as a positive change for the industry. All in all, the asset managers operating in Finland seem to take sustainability seriously and use resources to improve their sustainable investing practices. In the future, it will be interesting to see how well the set sustainability targets can be achieved, whether these ambitious goals to prevent climate change can be met and how sustainable investing will contribute to resolving these challenges.

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Appendix 1**LIST OF THE ABBREVIATIONS USED IN THIS THESIS**

CDP	Carbon Disclosure Project = an initiative related to collecting data related to firms' greenhouse gas emissions.
CSRD	Corporate Sustainability Reporting Directive = EU's new directive which sets guidelines for sustainability reporting to large companies and all listed companies on regular markets.
ESG	Environmental, Social, and Governance = often used definition for sustainable investing.
EUROSIF	The European Sustainable Investment Forum = a European membership association related to sustainable investing.
FINSIF	Finland's Sustainable Investment Forum ry = a Finnish membership association related to sustainable investing.
GRI	Global Reporting Initiative = an organization focused on sustainability reporting.
GSIA	The Global Sustainable Investment Alliance = an organization focused on sustainable investing.
HLEG	High-Level Expert Group on sustainable finance = a group which was created to develop a strategy related to sustainable development for the EU.
NFRD	Non-Financial Reporting Directive = directive emerged from the EU taxonomy which forces large firms with over 500 employees to report about their taxonomy-aligned activities.

NZAM	The Net Zero Asset Managers initiative = an initiative for asset managers with the objective of having net zero greenhouse gas emissions before 2050.
PRI	The Principles for Responsible Investment = six principles for responsible investing supported by the United Nations released on 2006.
SASB	Sustainability Accounting Standards Board = an organization focusing on sustainability reporting tools.
SBTi	The Science Based Targets initiative = an initiative related to climate issues.
SDG	Sustainable Development Goals = 17 goals for sustainable development set by the United Nations.
SFDR	The Sustainable Finance Disclosure Regulation = EU regulation that applies to all financial institutions with financial products, forcing them to disclose their taxonomy-aligned activities.
SRI	Socially Responsible Investing = an often-used term for sustainable investing.
TCFD	Task Force on Climate-related Financial Disclosures = a reporting framework for environmental and climate practices of organizations.

Appendix 2**SURVEY QUESTIONNAIRE**

Questions with * are mandatory.

Page 1: Basic questions related to sustainable investing

* 1) Do you practice sustainable investing?

Yes No

* 2) Do you have a strategy for sustainable investing?

Yes No

* 3) How would you define sustainable investing in a few sentences?

* 4) Do you think there is a consensus among investors and asset managers of what sustainable investing means?

Yes No I don't know

Specify your answer if you want to

* 5) In which asset classes do you practice sustainable investing? (You can choose more than one)

Equity investments Fixed-income investments Real-estate investments Private equity investments Private debt investments Commodity investments We do not practice sustainable investing Other alternatives (Please specify)

6) In which asset class is sustainable investing the easiest to practice and in which is the hardest? Why? Describe in a few sentences.

* 7) What motivations do you have for sustainable investing?

To improve profits To improve risk management To keep up with customer demand To comply with regulation To invest according to personal values. To make a positive impact on the society and environment Other (Please specify)

* 8) Do you believe that investing sustainably can lead to excess returns in the long term?

Yes No I don't know

Specify your answer if you want to

* 9) Which strategies do you use for sustainable investing?

ESG-integration Negative/Exclusionary screening Corporate engagement and shareholder action Positive screening Best-in-class screening Impact investing Norms-based screening Sustainability themed investing Paris-aligned investing Other (Please specify)

* 10) How much assets under management do you have in your organization?

Under 1 billion € Between 1-5 billion € Over 5 billion €

* 11) How much of these assets under management are invested according to your sustainable investing policies?

0-20% 21-40% 41-60% 61-80% 81-100% Cannot be defined

* 12) Describe your sustainable investing organization in a few sentences. Do you for example have a Head of ESG and an ESG team, or have you organized your sustainable investing in some other way?

Page 2: Questions related to sustainability reporting and measuring

* 13) Have you signed the Principles for Responsible Investing (PRI) supported by the UN?

Yes No

* 14) Signatories of the PRI are required to report on their responsible investment activities each year. PRI conducts an assessment report to provide feedback for the signatories. Have you ever published this assessment report made by PRI publicly on your website?

Yes No

* 15) Are you a member of Finsif?

Yes No

* 16) Have you signed the Net-Zero Asset Managers Initiative?

Yes No

* 17) Have you signed any other initiatives related to sustainability?

Yes (Please specify to the comment box below) No

Which initiatives?

* 18) Do you have any public commitments related to sustainability? For example to become carbon neutral before a certain year etc.

Yes (Please specify to the comment box below) No

Please specify these commitments

* 19) Do you take SDGs (Sustainable Development Goals) into account in your investment practices?

Yes (Please specify to the comment box below) No

Please specify which SDGs

* 20) Do you publicly disclose a list of firms that are excluded from your portfolios based on some sustainability criteria?

Yes No

Specify your answer if you want to

* 21) Do you disclose information related to corporate engagement and shareholder action? For example, do you publicly report a list of annual meetings you have attended?

Yes (Please specify to the comment box below) No

Please specify what information you disclose

* 22) How do you measure the sustainability of your investment assets? Do you use for example ESG-ratings, sustainability labels or carbon footprint measures?

* 23) Do you find it difficult to measure the sustainability of sustainable investment assets?

Yes No

Specify your answer if you want to

24) What are the biggest challenges related to the measuring of the sustainability of investment assets?

* 25) Which reporting frameworks do you use for sustainability reporting?

TCFD (Task Force for Climate-related Financial Disclosure) PRI (Principles for Responsible Investing) SASB (Sustainable Accounting Standards Board) GRI (Global Reporting Initiative) We do not use any reporting frameworks Other (Please specify)

* 26) What data do you use in your sustainability measuring and reporting?

Morningstar Sustainalytics MSCI Thomson Reuters Refinitiv Bloomberg ISS Own data We do not use any data Other (Please specify)

* 27) Do you disclose information related to UN Global Compact violations in your reports?

Yes No

* 28) Do you currently use a third-party to audit your sustainability reports?

Yes (Please specify to the comment box below) No

Which reports

29) What are the biggest challenges related to the reporting of sustainable investing currently in your opinion?

Page 3: Questions related to regulation and greenwashing

* 30) Do you think that the EU regulation related to the reporting of sustainable financing (including for example the Taxonomy, SFDR and CSRD) is sufficient?

Yes No I don't know

Specify your answer if you want to

* 31) Do you feel that it is easy to keep up with the global regulation related to sustainability reporting?

Yes No

Specify your answer if you want to

* 32) The EU Regulation related to sustainable finance is not yet finished. Do you think that this current lack of standardized EU regulation can cause greenwashing practices?

Yes No I don't know

Specify your answer if you want to

* 33) Do you think that greenwashing is a problem currently in the sustainable investing industry?

Yes No I don't know

Specify your answer if you want to

* 34) How do you prevent greenwashing in your practices?

35) How should the regulation related to sustainable investing be improved in order to improve sustainability reporting and to reduce greenwashing?

36) Is there anything else that you would like to say related to sustainable investing practices, sustainability measuring, sustainability reporting, greenwashing, or sustainability in the asset management industry in general?

Page 4: Contact information

37) Which asset manager do you represent? (This information will not be shared publicly)

38) Leave your contact information here if you want. (This information will not be shared publicly)