The Impact from Sustainable Responsible Investment

A study with a focus on measurement and follow up work

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Abstract

The purpose of this thesis is to examine the Swedish sustainable and responsible investment (SRI) market focusing on pension and life insurance companies. The purpose is to understand how the companies work with SRI and if there is a process in place to follow-up the investments and their possible impact. In the thesis a qualitative research method is conducted as the purpose is to understand the behaviour of the different companies relating to SRI. The empirical study consists of interviews with representatives from larger companies in the pension and life insurance space focusing on how they conduct their SRI work. The finding in this paper is that there are similarities regarding SRI strategies in place however the type of insurance being offered affects how they work. This thesis found that all companies follow-up their investments to ensure that they are sustainable. Further the process of measuring the impact of SRI is very much still in its early stage but there are initiatives taken to measure both soft and hard measurements. The future of the SRI market seems to be moving towards more transparency, both from possible legislation as well as initiatives. The other key area of focus when looking to the future of SRI in Sweden, is the sustainable development goals created by the UN.

Key-words
Sustainable and responsible investments, SRI, pension and life insurance, ESG factors, impact investment, the principal-agent relationship, stakeholder theory, asymmetric information, economics, green economics
Acknowledgements

Firstly, we would like to thank Kristina Nyström, our examiner, for always taking her time to answer questions and providing guidance. We are also thankful to Pontus Braunerhjelm who mid-term took on the responsibility of being our supervisor.

We are also grateful for our supervisor at SEB, Marja Carlsson, who inspired us to write our thesis about this specific topic. Lastly, we would like to thank all the participants for making this research possible: Annelie Götbring (AMF), Rebecka Elkert (SEB), Linda Haracke (Handelsbanken), Mats Nilsson (Handelsbanken), Michael Timm (SPP), Olle Kylhed (Wassum for Danica), Peter Lööw (Alecta) and Ylva Hannestad (Nordea).

The Royal Institute of Technology,

Stockholm, June 2017

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<td>CDP</td>
<td>Carbon Disclosure Project</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>ESG</td>
<td>Environmental, Social, Governance</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<tr>
<td>OECD</td>
<td>The Organisation for Economic Co-operation and Development</td>
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<td>PRI</td>
<td>Principle for Responsible Investment</td>
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<td>SDG</td>
<td>Sustainable Development Goals</td>
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<td>SIF</td>
<td>Sustainable Investment Forums</td>
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<td>SOU</td>
<td>Statens Offentliga Utredningar (The governments official investigations)</td>
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<td>SRI</td>
<td>Sustainable Responsible Investment</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNEP FI</td>
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1. Introduction

The market for Sustainable Responsible Investment (SRI) has experienced a significant growth over the last 20 years, from being negligibly small to globally containing about 22% of all assets under management. Of all assets invested in a sustainable and responsible way, 65% comes from the European market (Global Sustainable Investment Alliance, 2012). The Swedish financial market can today be counted as a mature and leading player in the SRI space as investors have been investing in a sustainable and responsible way for over 10 years (Eurosif, 2016). Furthermore, the majority of Sweden’s institutional investors are investing in a way relating to SRI (Swesif, 2015).

The reason for this trend is according to Biel et al. (2014) that the majority of pension savers in Sweden believe environmental, social and governance to be important factors and think that they should be considered. Important to note is that this is considered important as long as they do not have a negative impact on the return. The best explanation of why pension savers consider it to be important is according to research their personal beliefs rather than strive for social status or a higher return Biel et al. (2014). However, an issue for pension savers today is that even though there is information available regarding SRI as there is no regulation or standards regarding how to present information. Therefore, there are doubts if the information helps their understanding of the subject (Nilsson, Siegl and Korling, 2012). According to SOU 2016:45 (2016) the savers think that they lack information and have low trust for available information.

The shift towards more sustainable investments are not only demand driven, during the Arthur Burns Memorial Lecture, Mark Carney the Governor of the Bank of England (2016) commented on the fact that climate issues are threatening financial stability. Further concluding that the accompanying risks and opportunities can impact the values of many different assets. As the SRI markets grows larger, the demand for sustainable investments increases as well as the understanding that these factors might have an actual impact on asset values. Therefore, the need for understanding the impact and consequences of SRI becomes vitally more important.
1.2 Problematisation

Impact investing is today the fastest growing investment strategy related to Environmental, Social and Governance factors (ESG) factors in Europe as well as in Sweden. It still makes up a very small portion of invested assets however it is counted as the most promising investment strategy at the moment (Eurosif, 2016). Impact investing is a strategy committing to having an actual impact relating to ESG factors and should therefore be transparent and measurable (Eurosif, 2016). Hence, this aligns well with one of the six Principles for Responsible Investments (PRI) which highlights the importance for investment management to explain the work they do as well as the progress they have within the area of SRI (PRI, 2016). Further this relates to one of the largest challenges facing the actors, i.e. to know the actual impact of their investments (Swesif, 2015). It is common to sign international principles as well as incorporating global goals into the investment strategy, often based on initiatives started by the UN and other multi-stakeholder groups among others. Today a majority of the institutional investors in Sweden have signed the PRI, principles that aim to support the implementation of ESG factors into investments as well as increasing transparency (PRI, 2016). PRI alongside other initiatives introduces tools to align investors to work towards common goals, and since many use them it is important to comprehend how their investments work to support them.

The rapid growth of impact investing shows the growing interest for making a visible impact through investments. However, there are other strategies when working with SRI than impact investing. Eurosif classifies the different ways into seven strategies that either focus on including, excluding or impacting (Eurosif, 2016), all striving towards a more sustainable investment therefore there is a need to understand the consequences of these investments and follow-up its sustainability. As concluded in a research by Dillenburg, Greene and Erkeson (2003, p.170) “what gets measured gets managed” which highlights the importance of measuring the impact SRI has as that might possibly increase the impact.

Since investors claim to strive to be more sustainable through their investments there is a need today to understand how they follow up their investments and the effect they might have through their investments. Especially since there are no set standards in Sweden today for how to handle the measurement of such investments or how to present information. Also, as there are so many different ways to be more or less sustainable through, today’s investors can
be sustainable by excluding some industries or by investing in specific projects that help the environment or society (SOU 2016:45). As of that, the different strategies as well as the different goals incorporated, there is a need for transparency in how their work actually is contributing and followed-up. This is important both for their customers which today feel they lack information (SOU 2016:45) but it is also significant for the further development within the SRI field.

1.3 Purpose

As mentioned in the problematisation there is today a lack of transparency regarding the effect of responsible and sustainable investments, but also if the companies follow-up regarding these aspects of their investments. Therefore, this is an important area to explore further and the purpose with this thesis is thus the following:

This thesis aims at empirically examining how pension and life insurance companies in Sweden work with Sustainable Responsible Investments. Furthermore, this paper aim to create an understanding for how the companies follow up their investments and try to measure the impact they have through their investments as there is little transparency in regards to this in the Swedish SRI space today.

To clarify, these are the question intended to be answered:

i) What strategies do pension and life insurance companies use when working with SRI today?

ii) Do the companies follow up the effect they have on society or the environment through their investments? If so, how do they follow up their effect and how does it relate to the investment strategy they use and/or their principles and goals.

iii) What is the future of the Swedish SRI market according to the companies?

To enable answering the questions presented above a literature review will be conducted and interviews with representatives from pension and life insurance companies will be conducted. This will be the foundation of this thesis and through an analysis of the material collected the aim is to answer the questions.
Previous research in the subject of SRI has been almost only focused on the relation between financial performance and consideration of ESG factors but in recent time the research within this area has started to focus on other areas as well (Klein and Wallis, 2015). Weber (2013) contrasts how financial returns always are measured and presented but the impact rarely is measured or evaluated in any construct way. Further concluding that the methodology of the measurement needs to be founded on the investment strategy in place and the goals of the investors, as there is no clear methodology for measuring the impact SRI has. Similar conclusions are made by Reeder and Colantonio (2013) in a paper funded by European Investment Bank Institute where they found that no concrete or organized way of measuring impact in relation to impact investing exist. Furthermore, they mention the importance of additional research in this area to help the development.

As there is little research about how to measure the impact of SRI or how institutional investors are working with the process today. Hopefully this thesis will add to the few previous research works within this area and shed light on how Swedish institutional investors are coming along in this process.

1.4 Sustainable and Responsible Investments (SRI)

“Sustainable and responsible investment (SRI) is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies” (Eurosif, 2016).¹

This definition is from Eurosif (2016) and captures key elements when looking at SRI. The decision to use Eurosif’s definition for SRI is because they are the leading association in Europe for encouragement of sustainable responsible investments (Eurosif, 2016).

1.5 Sustainability Aspects

This study aims to imply many issues related to all the ESG factors (environmental, social and economical) and their sustainable development. Environmental and social as the study
discusses green bonds, sustainability themed investment strategies related to the environment, human rights, labour standards and how to the involved companies are striving to implement SDG (Sustainable Development Goals) and the future development of it.

1.6 Outline of the thesis

Chapter one introduces the subject in focus and formulates the problematisation. Within this chapter the purpose and the research questions are presented.

Chapter two presents the background, the institutional settings, investment strategies used within the industry as well as initiatives created to increase SRI.

Chapter three includes important definitions within this area and presents economic theories that will be used in chapter seven to explain the subject.

Chapter four consists of a literature review presenting SRI as a subject within the literature and research that has been conducted within the field.

Chapter five presents the methodology in this paper. The methodology behind the literature review, theories and the empirical study are presented and discussed.

Chapter six presents the results from the empirical study. Each interview is presented separately and describes their strategies, how they follow up their work and their beliefs about the future for SRI.

Chapter seven analyses the result presented in chapter four in line with answering the proposed research questions in chapter one.

Chapter eight presents the conclusion from the analyse in chapter five, answers the research questions and presents suggestions for further research within this field.
2. Background

As SRI as a subject is rather new, a background of the settings is appropriate to present how investors work with SRI today. Therefore, this chapter will include a presentation of the development of SRI and the settings today, strategies when working with this type of investments as well as initiatives to increase and conform how SRI work is conducted.

2.1 The development of SRI

There is a perception that the modern SRI market originated from the US and then spread globally, however as discussed in a paper by Bengtsson (2008) there is no clear evidence for this as well as the factor that there is no homogeneous method for SRI used globally (Louche and Lydenberg, 2006; Louche, 2004). The Swedish SRI market originated from the Swedish church that avoided investing in areas which they found morally wrong such as tobacco, alcohol and weapon. The Swedish church created the first ethical fund in Sweden 1965 (Aktie-Ansvar Aktiefond) that excluded certain areas viewed as unethical by them (Bengtsson, 2008). From being a moral concern focused on the values of the church the centre shifted towards being a social concern for the society in the 1980s (Sparkes, 2001). This shift can according to McCann et al. (2003) be explained by a change in ethics that made the society more concerned regarding ESG factors. That lead to the development of smaller niched funds focusing on the environmental factors as the environmental interest grew stronger during the 1980’s and the 90’s. Moreover, UN had a major impact with the Brundtland report\(^2\) for the World Commission on Environment and Development issued 1987. A number of environmental accidents and scandals also contributed to further engagement for increased corporate environmental responsibility (Bengtsson, 2008).

In the beginning of the 2000s the SRI market became more developed, from setting up specific departments within firms working with SRI and starting boards focusing on the subject (Bengtsson, 2008). During this period of time investors experienced how expensive corporate misconduct could be consequently leading to an increased understanding of the importance of the financial part of SRI, besides the ethical side (Sklair, 2001). As disposals of

\(^2\) The Brundtland report, also known as Our Common Future, explained and defined sustainability by linking together economics, environment and social problems (UN, 1987).
shares in the company became a way for some shareholders to protest against what was considered a lack of responsibility of individual companies. From the mid of the 2000s until today, many international principles and standards in regards to SRI was created and incorporated by institutional investors in Sweden as well as the creation of a SRI index which could serve as a benchmark (Bengtsson, 2008). Even if SRI today to some extent is considered to be mainstream and conventional knowledge (Eurosif, 2016) SRI is still just in the beginning of its potentially influential journey according to Sandberg et al (2009). The fact that SRI is still growing can be confirmed by the yearly reports from Eurosif where the CAGR (compounded annual growth rate) keeps being excessive and especially when evaluating the newer strategies both in Sweden and in the whole of Europe (Eurosif, 2016). Looking at new strategies in the whole of Europe, impact investing has grown by 120% the last two years and sustainability themed investment by 57% (Eurosif, 2016).

There is plenty of evidence on how sustainability matters prove to be of relevance for financial markets. An example is when the credit rating of South Africa was lowered from A3 to Baa1. This was due to dissatisfaction among labourers in the mining industry, which led to death shootings by the police, and a more extensive corruption among the political sphere. Consequently, leading to the mentioned downgrading of South Africa’s credit rating. Another example is Deutsche Bank, who also suffered financial loss due to lack of corporate governance. Today the trend points to that managers adopts an ESG perspective on their investments, without branding them sustainable or ethical as well as not only providing funds that explicitly takes sustainability into account. As more managers have embraced ESG methods and models for analysis and investment decisions, they are expected to become more refined and useful as the transparency and the supply of relevant information should increase in the future (Sjöström, 2014).

### 2.2 Institutional setting

Today Sweden lacks any form of legislations in regards to SRI. Nevertheless, according to Finansinspektionen (the Swedish Financial Supervisory Authority) (2016) the development of SRI moves along in a good pace. The development of SRI is today handled by firms and associations within the industry, this was from the beginning initiated by the government (Finansinspektionen, 2016). Suggesting that environmental and ethical aspects should be
taken into consideration when investing however, without by that compromising the purpose of the investment, that is the financial return (SOU 2016:45).

As the Swedish SRI market today is largely self-regulated (Eurosif, 2016) there are no common standards defining SRI or how to measure it, thus bringing some confusion and frustration among institutional investors. Nevertheless, the topic of measurements is still new hence some kind of standardization should be expected to be developed in the future (Finansinspektionen, 2016). One step towards that direction in Sweden comes from Fondbolagens Förening (2016), which is an investment fund association in Sweden, that suggests that there is a need for common guidelines for how to measure a portfolio’s carbon footprint. They present initiatives but also comments on the problems with the measurements conducted today. The problems today relate to the fact that measurements only include scope 1 and 2 but not scope 3, which is the indirect effect from the production of the product not covered by scope 2. Scope 1 is a company’s direct emissions while scope 2 are emissions which come from indirect usage of the product (Montréal Carbon Pledge, 2017), and depending on the branch this can have a large impact on the degree of emission measured (Fondbolagens förening, 2016).

Equity is the asset class which is primarily focused on in the literature regarding the SRI market (SOU 2016:45). As the interest for SRI has grown, there has been a shift towards SRI in other asset classes as well which is important as other assets make up a large part of the portfolios. Examples of such developments are green bonds and social bonds. Green bonds are bonds that are issued by corporations, banks and governments in order to enable projects linked to creating a greener and more low-carbon economy (Croce, Kaminker and Stewart, 2011). Similarly, a social bond is a bond where the income is used to finance or refinance projects which have a social connection (The International Capital Markets Association, 2016). Integration of ESG factors is also relatable to real estate investments, PRI together with other associations has come out with guidelines for how to integrate those factors as well as handling other climate issues relating to real estate (Bosteels and Sweatman, 2016).
2.3 Responsible investment strategies

As the market for SRI has matured there are now some commonly used strategies when investors are looking at non-financial criteria. These strategies are all ways for investments to become more sustainable and responsible. The Eurosif’s (2016) definitions of the strategies are the most commonly used ones and will be presented in this section. Strategies for advocacy were also presented in the appendix section as they describe common ways for investors to affect the firms they have invested in. In the figure below, each strategies growth is presented.

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*Figure 1* Overview of SRI assets in Sweden (Eurosif, 2016)
2.3.1 Sustainability themed investment

A strategy focusing on a specific subject, that could be addressing an environmental or social issue through the investment. This involves focusing on investing in products but also funds and other securities that are linked to the issue. The focus could for example be renewable energy or sustainable building (Eurosif, 2016).

2.3.2 Best-in-class investment selection

This investment strategy involves finding out the best performing alternatively most improved assets through an ESG analysis, which then are selected or weighted in to the portfolio. This strategy has the benefit that it does not exclude whole industries as the exclusion strategy and can therefore still follow a chosen benchmark index. Another advantage being its simplicity, choosing to invest in high performing or improving assets according to ESG analyses (Eurosif, 2016).

2.3.3 Exclusion of holdings from investment universe

This strategy is a more passive one as it tries to have an effect by excluding holdings. This strategy can exclude companies, sectors or countries from possible investments for either specific funds or for the whole asset management. Exclusion is based on criteria chosen by the investors, example on criteria are animal testing, pollution, weapons, tobacco and pornography (Eurosif, 2016).
2.3.4 Norm-based screening
This strategy focuses on international standards and norms that incorporate ESG factors and through them carries out a screening for assets violating these standards. How to handle assets that violate the standards differ but can for example lead to exclusion or actively trying to affect it by engagement, the importance is that the screening will have some effect on the portfolio. These norms and standards can be set for example by the UN, OECD and other international organizations (Eurosif, 2016).

2.3.5 Integration of ESG factors in financial analysis
The use of ESG factors when performing more conventional financial analysis, viewing risks as well as opportunities associated with ESG factors. Investors therefore look at for example greenhouse gas emissions, renewable energy, chemical pollution and other activities that might affect the environment in either a positive or a negative way. They would also look at human rights issues, labour standards, stakeholder engagement and other social issues which might have an impact on the society. Looking to the governance part of ESG, the management, culture and risk are key factors affecting the company. These three factors are taken into consideration when taking on an investment (Eurosif, 2016).

2.3.6 Engagement and voting on sustainability matters
This is an active strategy when comparing with for example an excluding strategy, where the focus is on affecting how the company acts in terms of ESG and their general approach to sustainability. This strategy uses many approaches such as dialogue, voting, meetings, seminars, media influence, written communication and open discussions with executives. This strategy is most commonly applied for investments in equity but can be applied to other asset classes (Eurosif, 2016). For a deeper understanding of strategies for advocacy please see Appendix 3.

2.3.7 Impact investing
This strategy involves investing where there is some intent to influence different issues within social or environmental ones. This should be separated from philanthropy since the investors are expecting a financial return on the investment. Impact investment can range from for example healthcare, micro financing to clean technology. The importance is that the assets
that are invested in are targeted against some kind of issue where there are relevant objectives, focusing on relevant stakeholders and managing performance (Eurosif, 2016).

2.4 Different initiatives to increase SRI

The two most commonly used principles among institutional investors are PRI and CDP, further explained in this section. UN global compact is also important as it is used as guidelines for exclusion of sectors and industries. There are more initiatives that companies use as guidelines for their behaviour and investment strategy but these are the most common ones among the participants in the empirical study.

2.4.1 Principles for Responsible Investment

The Principle for Responsible Investment (PRI) is an independent advocator for responsible investment which is supported by the UN and has contact with other global policymakers. For a long time ESG factors were disregarded, therefore the PRI was created in 2006 to support investors and enrich the knowledge around ESG factors and their implications for investments (PRI, 2016). The PRI believes in a long-term value creation and works for the economy, environment and society. To enable this a framework was created that are concluded into the six principles (see table 1 below) that PRI encourages investors to adopt as to create a more sustainable investment environment (PRI, 2016).

<table>
<thead>
<tr>
<th>Principle 1</th>
<th>Principle 2</th>
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<tbody>
<tr>
<td>We will incorporate ESG issues into investment analysis and decision-making processes.</td>
<td>We will be active owners and incorporate ESG issues into our ownership policies and practices.</td>
</tr>
<tr>
<td>Principle 3</td>
<td>Principle 4</td>
</tr>
<tr>
<td>We will seek appropriate disclosure on ESG issues by the entities in which we invest.</td>
<td>We will promote acceptance and implementation of the principles within the investment industry.</td>
</tr>
<tr>
<td>Principle 5</td>
<td>Principle 6</td>
</tr>
<tr>
<td>We will work together to enhance our effectiveness in implementing the principles.</td>
<td>We will each report on our activities and progress towards implementing the principles.</td>
</tr>
</tbody>
</table>

(PRI, 2016)

*Table 1 Principles for Responsible Investments*
2.4.2 CDP

CDP previously known as Carbon Disclosure Project is a charity created to encourage openness in regards to companies’ impact on the environment. CDP have through their encouragement on companies to disclose information created the world’s largest database for self-disclosed environmental information. This information is structured and presented by CDP to investors and decision makers so they know the effects that companies and cities have on the environment, thus they can find opportunities but also find out about risks (CDP, 2016).

2.4.3 UN Global Compact

UN Global Compact was established in 1999 with the purpose to encourage firms to strive towards a more sustainable world, through encouraging them to adopt a business strategy that is in line with the ten principles as well as UN sustainable development goals. The ten principles focus on increasing human rights, labour standards, creating a better environment as well as working against corruption (UN Global compact, 2014). UN SDGs are described below. UN Global Impact supports firms who wish to adopt the principles and SDGs in their business strategy through principles-based methods, events and providing resources (UN global compact, 2017).

2.4.4 UN Sustainable Development Goals (SDGs)

In 2015 seventeen goals were created in order to work for a more sustainable world and build on the previous Millennium Development Goals (MDGs). The difference between the SDGs and MDGs is that the new goals include more as well as all countries must strive against the goals regardless of if the countries are rich or poor. Until 2030 all countries will strive to create a more sustainable world both socially and environmentally. The goals promote wealth and the end of poverty while at the same time addressing the need for economic growth, basic social needs as well as handling the consequences of climate change. Recognizing the need for all of this to ensure a sustainable world (United Nations, 2016).
2.4.5 The Montréal Carbon Pledge

The Montréal Carbon Pledge (2014) was presented by PRI during their annual conference, the pledge is supported by PRI and UNEP FI. The pledge commits the investors who sign it to disclose their portfolios annual carbon footprints. The pledge was created due to scientific evidence on the importance of reducing greenhouse gas emissions as it can limit the impact on the environment, this was presented in the IPCC’s 2014 Synthesis Report that suggests that fossil fuels should not be used after 2100. The Montréal Carbon Pledge uses five steps in its pledge which is build support, choose how to measure the carbon footprints and how often, who will undertake it, review the findings and communicate the result in a transparent way (Montréal Carbon Pledge, 2014).

2.4.6 The 2 Degrees Investing Initiative

The climate goal of 2° relates to UN sustainable development goals number 13, which encourages to take immediate action to prevent climate change. One initiative encouraged by UN SDG is the Paris Agreement from 2015 which is an agreement that all must try to prevent the temperature in the world from rising and attempt to limit the rise to 1.5° (United Nations, 2016). The 2 degrees Investing Initiative aligns the financial sector with mentioned climate goals and contributes with tools. 2 degrees Investing Initiative supports the measurement of financial actors effort towards working in line with the 2° climate goal and help them to know if they are aligned with the goal (2 degrees Investing Initiative, 2017).
3. Theory

In this chapter necessary definitions of concepts and actors will be presented. Further the economic theories will be explained which later will be used in the discussion part of the thesis.

3.1 Key definitions

3.1.1 Defining sustainability

When defining sustainability, the most frequently used definition is the one from the UN report World Commission on Environment and Development (1987, p. 41):

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”

Focusing on two key areas; the needs of especially the less fortunate as well as the importance of limitations as to ensure that the needs of future generations can be met as well. Consequently, it is of high importance to incorporate sustainability themes when setting economic and social goals. This definition of sustainability suits several areas, environmental, human rights, ethics, corruption, diversity and so forth (UN, 1987).

ESG is a common abbreviation in this paper and stands for Environmental, Social and Governance, the three most essential factors when measuring sustainability (Regeringen, 2016).

3.1.2 Important actors within this space - SIFs

Eurosif is one of the main actors within this area and will be frequently mentioned in this paper. The association is leading in Europe and focuses mainly on the advancement of SRI on the behalf of the members which are different sustainable investment forums (SIFs) across Europe (Eurosif, 2017). Eurosif exist to promote practices connected to SRI, lobby for regulations, support members, improve relationships between SIFs in Europe and the rest of the world, research as well as increase knowledge in regards to SRI (Eurosif, 2016).
Sweden has its own SIF-organization called Swesif that works with similar objectives as Eurosif but with a more national focus. The organization is independent and non-profit, and by organizing different seminars throughout the year, it creates opportunities for increased networking between members and stakeholders (Swesif, 2016).

3.1.3 Pension and life insurance company definition

A life insurance company is a financial intermediary which shares the monetary risk of the unfortunate death of its policyholder, in other words, the insured one. A pension company has a similar definition, but they are mainly focusing on pensions whilst a life insurance company could have more products in its range such as a common insurance (Konsumenternas, 2017). Such as with most businesses, the business of insurance companies, starts with the pledge and commitment of capital. The commitment is a contract between the insurer and the policyholder who typically regularly pays a premium in exchange for a beneficiary sum upon death as mentioned earlier. Terminal or critical sickness can also cause or generate payment, varying depending on the contract (Kutty, 2008).

Important to note is that there are two different types of insurance, traditional insurance and unit-linked insurance. Some companies provide both and some just one of the two types. The main different between them is that traditional insurance takes on the responsibility to invest and manage your money, and usually a guarantee is offered. When it comes to unit-linked insurance the savers choose which mutual funds provided by the company they will invest in or they have a pre-selected fund package. There is no guarantee offered, a higher degree of risk but also more possibilities to affect the money invested (Konsumenternas, 2015).

3.2 Frameworks

In order to answer the research questions, three theories have been selected. These theories are commonly used theories within the area of business and economics. The theories are the following ones; The principal-agent relationship, the stakeholder theory and asymmetric information. All theories are included in the paper as they are helpful to explain the relationships that are in focus in this paper. The principal-agent relationship helps explain the relation between the pension and life insurance companies and their customers but also their relation to the firms they invest in. The stakeholder theory is presented as it gives a broader concept of what can be included as a stakeholder, hence important when discussing sustainability and SRI
as there is not only the shareholder in focus anymore. Asymmetric information is included as it helps explain behaviour among pension and life insurance companies in relation to SRI.

3.2.1 The principal–agent relationship
This theory is also called agency relationship and is a relationship created when the agent is hired by the principal in order to execute a job or make a decision. The payoff to the principal is in this relationship dependent on the agent and the decision he or she make. As the framework for this relationship is comprehensive it can be applied to many different professional relationships. The main reasons to why this relationship is widely discussed and is relevant is the problems caused by this relation, which can happen when two conditions hold. One of the conditions is in regards to the objectives, as they can differ between the stakeholders. Secondly, it can be difficult for the principal to notice the agent’s behaviour and actions. Hence, the problematics with the relations come down to whether the principal can interpret the agent’s actions or not (Besanko et al., 2013).

3.2.2 The important effect of asymmetric information
Asymmetric information occurs when one party is aware or knows something that the other one is not aware of. In other words, when the two parties of an economic agreement do not have equal information which is also referred to as information failure. Generally, this phenomenon tends to arise when a seller of a good or service has more information than the buyer, and the more well-informed may distort or twist the information to his or her advantage (Besanko et al., 2013).

3.2.3 Stakeholder theory
Stakeholder theory is a well-known framework within the fields of sustainability as well as economics and is used as a Corporate Social Responsibility (CRS) method. Stakeholder theory goes against the traditional perception of a company’s shareholder as the sole important to the firm (Miles, 2012). The traditional view is that the company's duty is to maximize the wealth of the shareholder and base their decision in regards to that (Eccles, Ioannou and Serafeim, 2014). The stakeholder theory provides a broader concept than the traditional theories as it includes more interested parties. It includes clients, employees, competitors, investors, the society, government, organization and so on (Miles, 2012). All stakeholders as well as the owner have different goals and for all the company can help
achieve those goals (Baka et al., 2006). Freeman (1984) who created the theory, defined the stakeholder as the following:

“A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984, p.40).
4. Literature review

4.1 SRI in the literature

The subject of SRI is receiving great attention among researchers and can therefore be considered an important subject (Escrig-Olmedo, Fernández-Izquierdo and Muñoz-Torres, 2013). Especially in the aftermath of the financial crisis 2007 a growing interest in SRI can be viewed among academic researchers and in public debates (Klein and Wallis, 2015). This growth can according to Klein and Wallis (2015) be viewed as a way to offset the perception of the financial markets as an industry which commonly uses unethical practices.

The SRI market is globally very heterogeneous, according to Sandberg et al. (2009) this relates to culture and the differences within culture. Different cultures can have diverse perceptions about what is ethical, as quoted by Gasparino and Tam (1998)\(^3\) “one person’s taboo is another person’s sacred cow”. That exemplifies the global heterogeneity, as different countries and cultures have different views on ethics and therefore would invest differently when it comes to taking ethical aspects into considerations. A consequence of this is that some companies might be excluded in regards to SRI in some countries but not in others (Radu and Funaru, 2011). This aligns with the fact that the SRI market changes and develops, the market constantly displays the change in the culture, values and norms in its surroundings (Bengtsson, 2008).

Through SRI investors receive a non-financial return in addition to the financial return of the investment (Beal, Goyen and Phillips, 2005). Associating to the belief that sustainability generates long-term value (Bebbington, 2001) as the process of SRI might increase the sustainability of companies business models leading to greater financial returns (Epstein and Widener, 2011). A finding by Sjöström (2014) is that Governance, which aims at the work and rules regarding the corporate governance, seems to be an essential part when spreading the sustainability mindset further, as it could control the behaviour in a desirable direction. Corporate governance also promotes relevant information disclosure, something lacking during the financial crisis and today is counted as one of the contributing factors.
Researchers have today widened their perspective from the previous purely performance focused view of SRI (Klein and Wallis, 2015). An important research question posed by Ballestero et al. (2012) is how social performance is viewed in comparison to financial performance. Research by Dillenburg, Greene and Erkeson (2003) suggests a system to measure SRI impact, which is claimed to greatly influence companies and their future SRI work. However, there are obstacles when creating a measurement system, especially in regards to creating a measurement that is non-subjective when the subject is subjective to values and likings (Koellner et al., 2005). As SRI highly relates to values and beliefs, a common standard for it is hard to achieve as an investment can incorporate many different kinds of non-financial factors (Sparkes, 2001; Dorfleitner and Utz, 2012).

### 4.2 Reasons for SRI

According to neoclassical economic theories, an entity’s main purpose should be to maximize the wealth of its shareholders and its decisions should be based on this (Eccles, Ioannou and Serafeim, 2014). Still there is a vast interest for funds taking consideration to ESG factors when making their investment decisions (Sandberg et al., 2009). The reasons for the engagement and interest in SRI varies. In a report from Eurosif (2013) four reasons are mentioned; risk related to reputation, ethical views, improving risk adjusted returns and increasing sustainability.

One reason often discussed is understandably related to the perception of the investor, how by featuring ESG factors the funds can attract more capital (Sandberg et al., 2009). Hence, this relates to a risk described in the report by (Eurosif, 2013), i.e. reputational risks which occurs when investments might ruin the reputation of an investor. Hence, there are initiatives to avoid investments which could be regarded as immoral by the society (Scholes, 2006).

SRI can also come from consideration to ethics, that savers wish their return to come from companies which share their values and behave in an admirable way. The long-term risk in ignoring environmental problems or social issues can act as a reason for investors to invest in a way that increases sustainability in society (Eurosif, 2013). This is especially true for pension funds as their assets are so diversified that they might act as universal owners and then may act in a way that naturally supports the public interest (Monks and Minow, 2008). Since ESG factors present both new risks and new opportunities, there is a recognizable need
to take them into consideration (Alsford et al., 2015). These factors can have an important impact on the financial return of investments (Eurosif, 2013). These new risks should be related to future distress, and there is a belief that these ESG factors present new opportunities for certain industries or companies (Alsford et al., 2015). As mentioned in a report written by Bordin et al. and produced by PRI, UNEP FI and UN Global Compact (2015) a conclusion is made in regards to what is the fiduciary duty of institutional investors today. They conclude that all value drivers which are long-term focused must be included as a part of the fiduciary duty and among those drivers, environmental, social and governance are included.

Today there is no clear proof regarding the relationship between ESG factors and financial performance (Hale, 2016). Besides the fact that it can be costly for investors when companies misconduct as mentioned previously, highlighting the importance to manage that risk (Sklair, 2001). ESG factors can therefore either be viewed as helping the financial performance alternatively be used as a consideration beside financial performance (Eurosif, 2013).

4.3 Sustainability without compromising the return

As investments is not a philanthropic project, the return is of great importance for the investors. One discussion regarding SRI is the perception that these type of investments would have a lower return than common investments without consideration to ESG factors. Therefore, a large degree of previous research regarding SRI focuses on this. This view is supported by the classical portfolio theory, which argues that taking ESG factors into consideration limits the investors choices and therefore would lead to additional risk and added costs (Rudd, 1981). As only 12% of Swedish people want fund managers to invest their pension savings with consideration to ESG factors if the return might be effected negatively (Biel et al., 2014) it is important to look at the relationship between return and sustainability. According to Hale (2016) there are today no clear evidence that sustainability considerations would have a negative impact on the financial return.

In a meta-analyse conducted by Bassen, Busch and Friede (2015) over 2200 different studies were combined and examined. The result showed that over 70 % of the studies had either a neutral or a mixed result. Concluding that neither a positive or negative influence could be confirmed. Revelli and Viviani (2015) endorsed this result in their meta-analyse of 85 studies,
stating that there is no significant result between SRI and performance. Hence forth neither extra costs or benefits could be found related to SRI.

A study by Eccles, Ioannou and Serafeim (2014) divided in 1993 up similar companies into groups of high and low sustainability. They found that committing to sustainability had a positive effect in the long run when they compared them again in 2009. The sustainable companies had outperformed the less sustainable ones in both stock price as well as financial accounting measurements. A similar result was obtained in a study by Bauer et al. (2005) which compared environmental stock portfolios with non-environmental ones and found that the environmental portfolios outperformed.

There were mixed results obtained in a study by Hill, Manullang and Shank (2005) showing that in the short-term (3 and 5 years) selected SRI funds and 11 firms with a high degree of sustainable behaviour could not beat a conventional benchmark (in this case NYSE). However, in the long run (10 years) a different result was found, in the long run the 11 firms outperformed the benchmark index. Another study that found mixed results was one carried out by Ainscough et al. (2007), analysing different firms in Europe, the US and Asia that all focused on sustainability. In the study these companies were compared to different regional benchmarks (FTSE 300, S&P 500 and Nikkei 225). The results were mixed as neither the US companies nor the Asian companies outperformed their benchmark indices while the European companies did.

In an empirical study performed by Aslaksen and Synnestvedt (2003) they found no evidence that financial performance would be compromised by a screening process removing unethical companies. However, they reserve themselves that this might depend on how the ethical screening process is performed. On the contrary, Tippet (2001) found underperformance by the largest Australian SRI funds when comparing to benchmarks, the reason being the added cost.

A study funded by Arabesque Asset Management written by Clark, Feiner and Viehs (2014) investigated 200 different studies and other academic sources and found that 80% of these had found that commitment to sustainability had a positive effect on the stock price, they concluded that sustainability and profitability are complementary.
The results from different studies are very diverse and there is no clear conclusion on whether ESG factors yield a positive or negative outcome. According to Mercer (2009) this is because of the factors are taking into consideration as it affects the outcome. Tipper (2001) explain this varied result by the strategy being used. If exclusion of unethical sectors or industries is the strategy in practice, there might be a possibility of exclusion of well performing companies that could lead to a negative result. However, when taking into consideration the management's behaviour and their ESG considerations and excluding based on those, it could lead to better performance as additional costs can be avoided. Further explanation of this mixed outcome is according to Sandberg et al. (2009) that there are many definitions and strategies relating to SRI and therefore, it is difficult to find one answer.

<table>
<thead>
<tr>
<th>Study</th>
<th>Sample period</th>
<th>Measurements</th>
<th>Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bassen, Busch and Friede (2015)</td>
<td>Not specific</td>
<td>Meta-analyse of 2200 studies</td>
<td>Mixed or negative for 70 %</td>
</tr>
<tr>
<td>Revelli and Viviani (2015)</td>
<td>Not specific</td>
<td>Meta-analyse of 85 studies</td>
<td>No significant relationship between SRI and performance</td>
</tr>
<tr>
<td>Hill, Manullang and Shank (2005)</td>
<td>2000-2003</td>
<td>Comparison with NYSE</td>
<td>Mixed, negative short term and positive long term</td>
</tr>
<tr>
<td>Aslaksen and Synnestvedt (2003)</td>
<td>Not specific</td>
<td>Comparing screened funds with traditional ones</td>
<td>Positive</td>
</tr>
<tr>
<td>Clark, Feiner and Viehs (2014)</td>
<td>Not specific</td>
<td>Meta-analyse of 200 studies</td>
<td>Positive for the majority</td>
</tr>
</tbody>
</table>

Table 2 Summary of studies presented
5. Methodology

In order to answer the purpose and research questions of the thesis a methodology was created, below the empirical study will be presented. Followed by a section discussing the studies quality and a drop-out analyse.

5.1 Methodology for the empirical study

Since the purpose of this paper was to understand how pension and life insurance companies work with SRI and how they try to monitor the impact their work has, a qualitative research method was thought to be appropriate. As a qualitative research method enables a deeper understanding as well as a wider perspective of human perception, different attitudes, thoughts and opinions on a particular phenomenon (Esaiasson, 2012).

5.1.1 Collection of data

The data collected for this study comes from two different categories, primary data and secondary data. Primary data is data collected first hand by the researcher through interviews and observations while secondary data is information that already exists and research that has been conducted by someone else (Saunders, Lewis and Thornmill, 2009). The primary data was collected through interviews with sustainability representatives from different pension and life insurance companies in Sweden. The selection of representatives was done in a so called two-step selection, meaning that the firms relevant for interviews were chosen first. Secondly the respondents who would participate in the interviews were selected from those firms (Ahrne and Svensson, 2011).

Firms were selected based on criteria described in section 2.3.3 and in total 11 firms were selected to represent the pension and life insurance market in Sweden. This amount was decided to be enough respondents as some disappearance is likely to occur and in accordance with Glaser and Strauss (1967) theoretical saturation is achieved after 6 to 8 interviews. When theoretical saturation is reached further collected data does not contribute with more insights, rather the relevance of already collected data tends to be confirmed (Denscombe, 2014). All interviews were recorded as well as notated and the empirical study was later sent to the respondent for confirmation, as to ensure relevance and accuracy. When undertaking the interviews one concern was that the respondents chosen to participate might be the ones that
currently are the best within this field, however as the participation rate in the empirical study was fairly high this might be a consideration but should not be a problem.

What could be seen as a flaw in this study was that the roles and the titles of the respondents vary between the companies. However, the same information was sent out to all companies, and in the same email they have been asked to send the person responsible for SRI alternatively another representative that could answer the questions. As the companies have chosen the respondents for the interviews themselves, it has been outside the study’s control.

5.1.2 Semi-structured interviews

As mentioned in the previous section, the primary data was collected from interviews with respondents from pension and life insurance companies. The method chosen for the interviews were semi-structured interviews which consists of open questions which serve as guidance (Bryman and Bell, 2011). However, unlike a conversation, a semi-structured interview includes both assumptions and knowledge in the area (Denscombe, 2014., Silverman, 1985). In accordance with Denscombe (2014) the interviews were held under three conditions: An agreement to participate, the interview is an unqualified meeting with the main purpose to produce materials and tools that will be used in research specifically of a study, if the opposite is not expressed. Another important condition is to not let their own beliefs and values affect the study, so the interviews must take place in an objective way.

There is always a prepared research question and/or issue that should be answered during a semi-structured interview. A semi-structured interview should be flexible in terms of the order of questions and how to schedule them. Moreover, the respondents should have the opportunity to develop their thoughts and ideas and talk widely about the topics that the interviewer brings up during the interview (Denscombe, 2014). The interviews were prepared by reading about the company and their sustainability initiatives. The respondents were given the interview questions before via email so all respondents had a chance to prepare. Most conversations were recorded to ensure that the answers from the respondents were understood correctly.

5.1.3 How the different companies were selected
When selecting the companies that would be used in this paper some criteria were formulated. As this paper focus on the Swedish SRI field, an apparent criterion was for the company to be active in the Swedish market, as the SRI market globally is fairly heterogeneous (Sandberg et al., 2009). Another criterion was that the money managed would belong to the common man, as to not only look at money invested by experienced investors but rather by every person within the country. Hence relating to the fact that a survey showed that 95% of the Swedish population expressed the wish that their pension savings would take ESG factors into considerations (Biel et.al, 2014). Consequently, another criterion was to look at pension companies as well as life insurance as it is the most usual investment by the common man. That aligns well with that the fact that the majority of money being invested in assets with a sustainable focus is today made by institutional investors (SOU 2016:45). Connected to this criterion is that some other kind of investors such as hedge funds would not be possible to look at as their strategies are not compatible with Eurosif’s strategies for Responsible Investments, example on this kind of strategies is that hedge funds hold short positions as well as use high frequency trading (Inderst, Kaminker and Stewart, 2012).

Another criterion was that the investment committed would need to have a longer term focus, as it aligns better with PRI which focuses on long-term value creation for both investors but also the economy, environment and society. Active management was another important criterion as most of the strategies for responsible investment are active approaches where the company needs to take active initiatives regardless of it is to exclude or to engage through for example dialogue or voting. Therefore, passively managed funds were excluded. Following these criteria, the largest pension and life insurance companies in Sweden were selected. The companies were selected from a list over pension and life insurance companies in Sweden created by Svensk Försäkring, please see Appendix 5 for the list. The selected companies are Alecta, AMF, Danica, Folksam, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia, SPP and Swedbank.

**Summary of the criteria:**

- Swedish focused company
- Pension and Life Insurance company
- Long-term commitment
- Active Management
5.2 Quality aspect

As quality is an important aspect, to assure this reliability and validity were taken into consideration. Reliability depends on repetition and whether the same result would be achieved if the study was repeated under similar conditions (Eliasson, 2006). As this is a qualitative paper and based on interviews, the exact same result would not be possible to achieve as it depends on the social context and the respondent participating. However, as the methodology as well as the interview questions are available a repetition would be possible, therefore repetition would be possible but the exact result would as mentioned not be received.

Validity assesses whether this study actually captures what it is intended to be measured and analysed (Eliasson, 2006). Since this is a qualitative paper it is less relevant than for a quantitative paper. Nonetheless as the questions answered by the respondents are formulated to assist answering the purpose and research questions of this paper, it should strengthen validity. Furthermore, validity can seem to be improved as the questions as well as an overview of the paper and its purpose was sent to the respondents beforehand. This should benefit the quality in their answers as well as ensure their understanding of the aim of the interviews and therefore increase validity. As all respondents work closely with or within the SRI teams, all respondents have great knowledge within the subject and can therefore enhance the validity. Although to further ensure the quality, notes from the interviews as well as material presented in the empirical study were sent to respondents for confirmation regarding on its correctness.

5.3 Dropout analysis

Totally, eleven pension and life insurance companies from a list of Svensk försäkring (see Appendix 5) were contacted and invited to participate in an interview. Seven semi-structured interviews were conducted, which means that four companies (Skandia, Folksam, Länsförsäkringar and Swedbank) which were contacted did not participate in the qualitative study. As mentioned earlier, theoretical saturation is achieved after at least 6 interviews according to Glaser and Strauss (1967), which is obtained. The credibility of the conclusions in the analysis part should therefore not be constrained by this. Even without the four companies, the sample contains both traditional insurance and unit-linked insurance. Therefore, the loss does not impact the variety among the participating companies and the
sample should still be representative of the pension and life insurance market in Sweden. The four companies do not represent a specific focus or stand out by being abnormally large or small, however, as they are not participating there is no way of knowing if the loss contains a very strong or weak actor within the SRI space. Hence, there is no way of knowing what impact the loss might have on the result. However, as previously mentioned, theoretical saturation is achieved and the participation rate can still be viewed as high. Nonetheless, there would have been a larger sample and perhaps a more interesting result with eleven respondents. By asking questions and discussing with the life insurance and pension companies responsible for sustainable and responsible investments, unique analytical material is provided in this paper that is not easily accessible to the individual saver. With this said, the companies not giving interviews are not included in the analysis.

5.4 Limitations of the study

The study is limited by only conducting interviews with life and pension insurance companies active in Sweden, and not taking other countries or cultural effects into account. The results are therefore not applicable to other countries outside Sweden. Since the study is based on answers to the interview questions of one or two representatives from each company, it is hard to tell if they are biased or trying to angle the answers in some way since many actors use their sustainability profile for marketing or PR. This could limit or affect the results even if the authors are objective.

Another limitation mentioned earlier in the methodology is that it is the company that are choosing the person to be interviewed, which resulted in a wide range of respondents with different titles, knowledge and responsibilities within the firm. This could have affected the results in our analyses. With this said, a proposal for further studies is to have a more homogenous range of respondents to increase the consistency and the validity of the study. The study is limited to the investigation of only pension and life insurance companies, thus more narrow conclusions could probably been drawn if the study was limited to only traditional life insurance companies as they have a more long-term focus.
6. Empirical study

In this chapter the results obtained from the interviews will be presented. Each company is presented separately for a better overview. In the table below all strategies that each company use is presented according to the participant, to read more about the strategies see chapter 2. Further all the interview respondents are listed below.

<table>
<thead>
<tr>
<th>Company</th>
<th>Sustainability themed</th>
<th>Best in class</th>
<th>Exclusion</th>
<th>Norm-based screening</th>
<th>Integration of ESG</th>
<th>Engagement and voting</th>
<th>Impact investing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alecta</td>
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<td>AMF</td>
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<td>Danica</td>
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<td>Handelsbanken</td>
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</tr>
</tbody>
</table>

**Interview respondents**

Alecta, Peter Lööw, Head of Sustainable Investments

AMF, Annelie Götbring, Head of Responsible Investments

Wassum for Danica, Olle Kylhed, Investment consultant

Handelsbanken, Linda Harake, Market and Business Development

Handelsbanken, Mats Nilsson, Product Owner

Nordea, Ylva Hannestad, Senior Adviser Sustainable Finance

SEB, Rebecka Elkert, Head of Sustainable Investments, SEB

SPP, Michael Timm, Head of Investments
6.1 The sustainability work of Alecta

Alecta differentiates from the other companies as they have chosen to have fewer holdings, more precisely a 100 companies are chosen alongside bond and real estate investments. As Alecta is choosing the investments by themselves and have an in-house management, they do not follow any index. Alecta has always worked with “soft” factors, for example they meet the management of the companies they own every year. They wish the entire business model to be long-term focused as it gives a better return, and never at the expense of any party: clients, employees, suppliers, or other stakeholders. Since their selection of investment are so narrow, their strategic focus is primarily on engagement and voting. Alecta as mentioned above meets all their companies every year, votes on general meeting as well as they are often involved in nominating board members by being in the nominating committee. Alecta has a large focus on gender and sustainability issues as well as trying to encourage companies to strive to follow SDGs. Lööw explains that he believes that the advocacy work is the strategy that provides the greatest effect in the long run especially when comparing with exclusion as a strategy.

Alecta has many concrete examples when they are following up work with sustainable responsible investments. Lööw says that they are continuously reporting their carbon footprint which relates to the Montreal pledge. Alecta is also reporting their work to PRI like most investors, but Lööw highlights the importance to look over and monitor their own work as they don’t get any feedback from PRI. To engage companies that don’t report to CDP, they are signing letters together with other investors to encourage them to report.

Alecta uses GES Investment Services for screening their holdings, if a company behaves in an undesirable way they receive a note. If this happens Alecta requires that they should get all information regarding the issue and if there is a problem, they require a plan of action on how to tackle the actual problem. This means that the companies must demonstrate that they are in a process and follow policies to resolve the problem. As a last resort if the company does not seem to work in line with this, Alecta would need to sell the company, though this has never happened. Lööw means that Alecta probably doesn't have as strict goals comparing to competitors, as Alecta owns larger proportions of the companies and thus has greater influence but also a larger responsibility.
Another example on how Alecta follows up its investments is through conducting field studies. For an example, since they have Nestle in their portfolio and has had an ongoing dialogue with them, Lööw together with GES flew down to the Ivory Coast to investigate the cocoa industry and meet with stakeholder groups. The field studies are being done to create a greater understanding of the industry and gathering knowledge. Much of the follow up work is ad hoc and reactive to issues. However, Alecta works proactively as well, where concrete examples are their work with sustainable development as well as their work against the use of palm oil. The CEO of Alecta, Magnus Billing, is actively working to strengthen policies on sustainability, as he is a part of the High Level expert group for Sustainability created by the European Commission. Today there are no EU regulations in regards to fiduciary duty and ESG factors so what responsibility an asset management has in regards to customer and the society is needed.

When looking at the future, Peter Lööw believes that green bonds will increase and hopes that the Swedish Government will start emitting them within two years which then would lead to a bigger supply. It is still a philosophical thought, but he hopes it will become a natural choice for most people to choose green bonds as it will benefit society and probably themselves in the long run, even if you pay more the risk would become lower as there would be renewable energy. For the future, harmonized reporting as well as standards regarding third party auditing would be important. Another interesting opportunity for the future would be to be able to invest into projects in emerging markets, especially from an SRI perspective. Possibly, this could hopefully be made through the World Bank or the Government. Lööw means that this is what needs to happen when looking at the Sustainable Development Goals and Agenda 2030.

Lööw also believes that measurement of the impact will be greater in the future, especially from the customer’s perspective as the awareness of both return and impact increases. This will force the market to report on what is considered a bit hard today. Furthermore, he thinks that it is rarely good with statutory regulation, but within the sustainability space it might be needed. It would be enough if there would be recommendations which companies begin to follow, he concludes. Finally, he welcomes regulation of stress tests and scenario tests for climate change in the financial industry. It will probably create a ripple effect as it could spread over to the companies in the investment portfolio.
6.2 The sustainability work of AMF

Positive screening is a relatively new strategy for AMF, which today is incorporated in the whole portfolio. This strategy was put to use as AMF believes that if a company has its ESG factors under control they will yield a higher return looking over a longer term. Along this line, integration of ESG factors is done as AMF believes that this will have a positive impact on the return in the future as these companies will perform better in the future. This is not something done for good PR but rather a way to protect investment from unnecessary risks. Norm-based screening is an important strategy as there are incidents and violations of conventions relating to companies all the time. If there is a violation, a dialogue is started where they try to find out the reason and how they will try to solve it. According to Götbring it is very important for AMF to form its own opinion and from that take a decision. The last resort if a problem occurs is to sell.

PRI is an important actor as it is serious, professional and provides clear guidelines. It is important as it increases the transparency in how ESG factors are incorporated in all different asset classes and acts as an idea generator as well as a benchmark for the industry. Götbring also exemplifies PRI as a great platform for collaboration, as investors can go together and pinpoint companies which are risking to break conventions or behave unethically. This is more effective and resource-efficient. For example, every year the collaboration writes to the 125 largest companies that pollute and does not measure. Montréal carbon pledge is a great initiative to measure carbon footprints and a way to impact the companies to measure their carbon footprints. To help with this AMF writes personal letters to all the companies they have holdings in which do not measure their impact.

In relation to the strategy engagement and voting, AMF always measures the impact they have on the equality of the boards and if it moves along the right direction. With this said, every year they notice the change in the boards for their companies. In relation to this strategy, AMF keeps a company book where they note down all meetings or contacts with companies. In this book they keep track of ESG questions they have raised or will raise, follow up previous discussions and demands. This work they put down in always following up their work with ESG questions relates to their belief that companies considering ESG factors will outperform others in the long run.
Another important follow-up AMF does is that they request to be informed about the reward system in place in the different companies, to reassure that these are aligned with the overall goals of the firm and how this reward system might affect the choices being made by management. This is important in order to show how a short sighted reward system aligns with a long-term view. There is a need for transparency in regards to this, as it might affect how the company is achieving. Götbring notes that it is easier to discuss S and E questions with companies which already are focusing on G questions. There is usually then also more success over all of the areas probably due to a great in-house structure. As well as having their risks under control and know their opportunities better and are in general more prepared for the future. In relations to the SDGs, AMF is yet not sure how to tackle this in a great way. They are still in the process to find how they should incorporate this into their operations. Especially since some goals are not really compatible with each other, for example how to stop hunger but still cut down on resource use and environmental effects.

In regards to follow-up, some areas are easier than others. For example, as mentioned previously, carbon footprints are easier to follow up while for example child labour is harder. It is hard to know when success is reached, even if a company manages to get rid of it the possibility is that it comes back in the future, it’s harder to know its long-term effect. However, there are also problems with carbon footprints as well as today only scope 1 and 2 are being measured and not scope 3, which is what the final product actually emits. This can create an unfair picture, as companies producing very environmentally friendly products can get a worse score than for example a car factory.

Looking forward Götbring strongly believes in the methods used by 2 degrees Investing Initiative, as they create a deeper picture. To reach the Paris Agreement, it is very important that our politicians are more long term focused. There is a need for legislation and hard decisions need to be taken, everything cannot stay self-regulated. The legislation regarding the fact that companies need to report their CSR work are in the right directions. A combination between research, legislation and knowledge is needed to reach results.
6.3 The sustainability work of Danica Pension

Interview with Olle Kylhed from Wassum about Danica Pensions SRI work as Danica has outsourced their fund department to Wassum, for support for some fund selections, designing fund ranges, trading funds on behalf of Danica and also operate Danica’s SRI in practice. Danica’s overall SRI process divides between influencing fund managers in SRI investing and influencing companies through pooled engagement through ISS-Etix SRI then Danica decides that to provide from that.

According to Kylhed, Danica was first to mark funds in how sustainable each fund is. They started this by “Ethix Fund Screening” provided by Ethix, which is based on norm-based screening looking into how much of the capital of each fund is questioned by different conventions. This provides the saver with the choice to invest in more clean options. Danske Bank has a comprehensive policy which Danica also follows. Otherwise Danica puts demands on the funds that they must provide what they have promised, for example if the fund says that they perform norm-based screening they must do so. If anything is red flagged, for example a violation of a convention a dialogue rises regarding how to handle this. Either a fund manager excludes the company or begin a dialogue with the company. This is a type of affect a funded life insurance companies can have on the fund provider. In regards to pledges, one pledge Danica has not signed is the Montréal carbon pledge, as they do not invest directly themselves into the company it is not relevant.

Concrete example on how Danica works with following up the funds available are measuring the impact of their investments is that they measure how large proportion of their capital is questionable (screening provided by Ethics). If more than 5% of the capital is questionable under a longer period, the fund would be eventually removed. This works well with Sweden and other developed markets, however providing for example funds exposed against East Europe creates a problem as there is more “questionable” capital there. The question here is regarding if there is a wish for the saver to be more ethical or if they want the exposure to this area. This measurement is followed up every month through Ethix Fund Screening. Currently, the funds lie steady around 95% clean capital, however it is hard to come up to 100% as there are a lot of Index funds which bring in some more questionable investments. There is usually some loss as Ethics cannot see all the holdings or due to Hedge funds as they buy index futures.
Kylhed advocates the importance of good governance (G factor) as if good governance exists, there is usually not a problem with the rest of the factors. That is naturally as good guidance providing a clear vision on how everything should be handled. In the future Kylhed believes it might get trickier to create good return as many companies with stable and good returns are getting excluded. An example of this is the tobacco as well as the weapon industry which provides great return but are looked on as non-ethical. A direction towards this will also be that there will come more indices which has excluded industries that are not ethical hopefully proving a better benchmark for ethical funds.

Regarding the question about legislation, Kylhed questions on who will dare to provide this legislation on for example excluding some industries. As the government buys weapon, how can they then say that investors are not allowed to invest in the same. He therefore believes that media will be an important driver rather than the politicians. He believes the importance will be transparency and how to present material and investments in a transparent way.

6.4 The sustainability work of Handelsbanken

Handelsbanken has a palette of several strategies but integration of ESG is the Bank's main strategy according to Linda Harake and Mats Nilsson. Moreover, Handelsbanken has a lot of individual funds with a thematic investment approach and a wide selection of exclusive strategies (“their Criteria funds”) or positive screening. Harake emphasizes that the overall policy and the common values of Handelsbanken is reflected in all of their own funds. Further Harake mentions that their thematic funds which the management develops together have about 8-10 themes. Examples of themes can be global water supply, energy efficiency (but they also can vary depending on which areas of the world that are covered), where they integrate companies that provide solutions in these spaces.

On an annual basis they do the comprehensive sustainability report and the PRI report, both on an entity and group level, Harake and Nilsson say. The norm-based screenings, which are based on the Global Compact's goals, are reviewed twice a year together with the external company Ethics. Funds are then followed up on a daily basis, through their independent risk and performance department, looking at both risk and return. They also follow up the red marked companies, by conducting dialogues with them. Handelsbanken also measures and reports the carbon footprints in line with Montréal Carbon Pledge.
More concrete examples of the follow up are that they have different focus areas, which include climate issues, that they will continue to work hard on. Harake also says that they talked a lot about the effects and the need for a longer history there, the better the possibility would be to measure risk and return and help create a benchmark that is compared to peers and the industry average. Harake and Nilsson say that they conduct discussions when it comes to simplifying the measurement process, and have plans regarding the development of the entire range to be more sustainable. Henceforth, she says that when they meet global fund management companies they discuss how analysis tools can be used by managers and how they best can incorporate SRI within them.

Last year Handelsbanken began an analysis of SDG, to find the goals that mostly impact Handelsbanken and align with their values and work. Right now they have sorted down and decided to in the future focus on six different SDG goals, that are 5,8,9,11,13,16. They hope and believe that the measure will become more standardized and developed and Harake mentions that the CSR law is a good start. They also believe that there will be more EU directives regarding SRI. When looking more into the future, they also see how Handelsbanken's offerings can help customers find funds closely related to issues they believe to be the most essential and that they care about. This is important as the bank is working to have long term relationships with their customers and the idea is that they'll be there for them throughout their lives. They believe that it is a win-win concept as the bank also is striving to be more sustainable. Harake and Nilsson also believe that transparency will increase because the interest in sustainability is constantly increasing. With this said, they think they will develop and clarify the range so that customers can easily find products, etc. However, the need to bring common standards is important to make it happen, and that is a maturity issue.

6.5 The sustainability work of Nordea

The key strategies that Nordea mainly focuses on is integration of ESG factors into their investment analyses, engagement and voting as well as exclusion of companies mainly due to norm-based behavior. When working with these strategies and especially the engagement strategy, Nordea focuses on some key themes that are water, climate changes, human rights and corruption. These areas are in focus when they evaluate different companies’ business models. Hannestad believes themed investments to be a good idea as they provide a clearer
focus and can have a greater impact, there is also easier for savers to invest in areas they care extra about.

When looking at follow-up work on their investments, this is mostly done in their “stars funds”. These funds are niched funds actively focusing on investing in ESG companies which is done through ESG analysis but also thematic research, engagements and field trips. According to Hannestad this is a more qualitative process rather than quantitative as there is hard to set up specific targets in relation to financial results. Therefore, the process is rather that Nordea comes with specific sustainable areas where the companies should improve their work. Nordea has created a policy for active ownership if something is breached in regards to their policy, a dialogue will be started with the company. Depending on how Nordea classifies the companies, the dialogue can be conducted either directly with the board, acting as a group of investors or by going through the media. As Nordea believes in active ownership and working with the companies, it is rare that companies would be excluded if they are not breaching any international standards. Hannestad believes the demands regarding reporting requirements will increase, which will lead to a point where just having a dialogue with a company will not be enough. It will be important to report on the process of the dialogue and how the dialogue is having an actual impact.

An important part of Nordea’s sustainability work is their field studies, where they visit the sites to understand how the companies are working. After their visit, they put up recommendations which are followed up after 2 years to ensure that the issue was resolved and that their recommendations had been followed. The reasons behind their field studies are to understand the reality and to enable Nordea to give real input on problems arising for these companies. When reaching out to these companies, Nordea uses both direct contact with the companies but also through the media as this can put extra pressure on the companies to change their behavior. According to Hannestad, field studies are a good way where small owners can affect the companies as they can bring knowledge and have a real understanding of the problems. More companies listen a lot to their shareholders as they are realizing the risks and opportunities arising, that sustainability is more of a business-critical matter than pure ethics.
In general, there is a tendency of more soft rather than hard follow-up today, there is a need to set more clear KPI to enable measurement of the impact. This is an area under development for Nordea right now. One way Nordea is measuring impact today is that they measure their carbon footprints, in line with the Montréal Carbon Pledge as well as reporting their climate work to CDP. However, as the measurement today is slightly misguiding they are not using it to set target levels. Hannestad comments that this is general for the branch, that there is a lack of useful KPIs. In relation to the process of simplifying the measurement process, Nordea is not there yet. They are rather in the stage to found and set clear goals for their sustainability work, which needs to be done before going into the actual measurement process. Nordea does not only work with affecting the companies they work with but they also conduct dialogues with other organizations and institutes. For example, right now Nordea has a dialogue with Nasdaq to try to make the stock market come up with a way for all listed companies to report around their ESG work.

How the customers view their return might need to change, their time horizon need to be more long-termed focused than it is today as ESG factors’ impact might not realize until years later. Therefore, there is an issue that customers look at the return on a quarterly or yearly basis as this is too short sighted. In relation to this there might come new funds, where the financial return might be slightly lower but where customers receive another non-financial return which would be more long-termed.

Focus in the future will probably be on the SDGs and how to implement them in operations and strategies. Another focus which has been so for a long while is the climate change, which will probably still be in focus. Hannestad believes that the question regarding water will become a larger focus, both from a wider world perspective but also from a company perspective - as many companies cannot work without supply of water, it will be important to find out how investors can have an impact here. Another change of focus might be away from the collaboration seen today, especially if investing sustainable will turn into a competitive edge. Which might make this a more competitive market and could lead to less collaboration, comparing with what is seen today.
6.6 The sustainability work of SEB

SEB works mostly with the integration of the ESG aspects among other strategies, as it turns into all types of assets that they manage. SEB uses a positive selection where they for example choose companies that perform well in the environmental space. Integration will be more and more important going forward to make ESG a natural part of investment decision making. SEB has chosen to take ESG factors into consideration when they invest as they believe that will yield the highest return in the long run. Moreover, SEB has a focus on thematic investments/impact investments. The traditional insurance is since several years a long-term investor in microfinance specifically focusing on small entrepreneurs, especially women, in developing countries, which provides a good combination of returns and social development of society. Green bonds, which could be seen as a mix of thematic and impact investing are also included in the traditional portfolio. The future of green bonds is interesting; more governments are expected as issuers and if it will grow to be a larger part of the general bond market or if it will develop to a specific sub asset class.

SEB follows up its sustainability efforts in a variety of ways. The bank has a good system of keeping track of infringements, which means that you ensure that you do not invest in excluded areas. SEB has an external provider that follows this up and the portfolio list of companies invested gets updated semi-annually. Besides this, it has a daily compliance monitoring that keeps track so investments are not done in excluded areas. A systematic review of all investments is conducted to detect any breaches of international conventions and guidelines. Based on international conventions and guidelines, companies are flagged whether they have violations or not. An external screening expert is being used. If a company SEB invests in is implicated for violating these guidelines, they initiate an active dialogue with the company to influence them to change and improve their sustainability work. If, after a reasonable period, the company fails to meet these standards, SEB decides whether to exclude the company or not. Besides dialogues due to violation, SEB sets up goals in different themes and topics, such as integration of females in boards as an initiative to create more equal boards. As SEB sits on many election committees they can have an impact on these topics and this work has proven to have an impact.

In addition to that the company has measurements on carbon footprints, SEB demands different impact reports on the underlying project when investing in for example renewable
energy or wind turbines e.g. on how many pure green watt hours it got out compared to before when you changed the fossil to green alternatives. She believes that hard figures are somewhat more tangible and concrete for investors. Measurement in-house occurs mainly on the equity side where a structured model makes positive selection within the climate space, which takes up a lot of the underlying data from companies about their environmental work. The companies are being ranked based on hard data about the companies’ carbon emissions, water usage, toxic waste etc.

For all thematic investments, in this case microfinance and green bonds, impact reports are asked for as well as demands are set up. When it comes to the microfinance, there must be a clear social agenda and how to evaluate local financial institutions and follow up. Elkert says that she has been in different countries of the world and visited both borrowers and institutions to ensure that the work is in line with what the reports say. This gives a reason, and comfort, to continue investing because they know that the structure supports the development, and not for example over-indebtedness and usury rates, Elkert says. The pace of engagement recent years and the increased interest in sustainability, show how the issue has gone from being a side issue to get into the business for real, Elkert says. She also believes that the pace will increase and hopes that sustainable investments will be the obvious choice in about 5-10 years as the risks and opportunities already exist in the head of the managers, which means that it hopefully will be a more natural choice in the future. The question is already heavily driven by the authorities, organizations and customers. She also believes that customers’ demand for sustainable investments will increase, partly because of a generational shift where the new generation expects to work more ethical and green, partly because of real observable changes in the environment and in the society.

When discussing legislation specifically regarding carbon emissions, she also believes that it will wait for a while, as the industry worked together and came up with a proposal recently. As there is hard to create a law regarding what data sources to use, what measurement and how to interpret the result - very hard to create a legislation in regards to this. Elkert mentions that at an overall level she is a bit surprised that harder demands have yet not come as there are a lot of statements being made but no actual demands. Unfortunately, it can be hard to create a law which is 100% suitable and implementable as everyone – as it is now - interpret and measure somewhat differently, and there is no 100% data coverage, Elkert reflects. She
is, however, more positive about a law on transparency as it is easier to implement. She concludes by saying that it is probably not effective to implement legislation that tells what investments you should make.

6.7 The sustainability work of SPP

The strategies being used by SPP depend on the asset class in focus, looking at equity there is a large focus on the screening process that is conducted through both a positive and a negative process. Focusing on bonds and real estate, the strategies are more thematically and environmentally focused as well as through for example green bonds. There are three different levels for their sustainable funds, level 1 is just excluding, level 2 exclude and include while level 3 is like level 2 but it is also carbon free. When looking at including, SPP uses a best in class approach using an in-house created index that ranks companies with a score depending on how environmental friendly the operation is, market position and financial stability. As SPP look at how environmentally friendly the operation is, they can for example invest in oil companies as they then choose the best operating company in the sector from an environmental perspective. According to SPP there is no contradiction between sustainability and profitability, SPP believes that good returns will in the long-term come from sustainable companies as they will survive and be stable in the long run. The reason behind their SRI work is therefore neither PR related nor philanthropically.

In a way to follow up their equity investment and in line with Montréal Carbon Pledge, they report carbon footprints. The Carbon footprint also links over to the in-house sustainability rating. As SPP is a part of Storebrand, they place demands on Storebrand asset management on what minimum sustainability score they want their funds to have. This sustainability score comes from an in-house sustainability rating, through internal and external material each fund is given a score (1-10) showing how sustainable the fund is, depending on previously mentioned critera for the company ratings. Further the development of these funds are tracked and goals are set to ensure that the sustainability level increases.

SPP also follows up through engagement via calls, email and so on. They usually do not vote as the holdings usually are too small to have an impact there. If companies misbehave a dialogue is held before exclusion, which should be seen as a last resort. SPP does not use media to impact companies, as it can be a very sensitive question and the company might not
come back. In another effort in following up their investments, Storebrand produces sustainability reports, based on the ESG factors. In the reports they present their work with sustainability issues and present findings.

Timm believes the demands from customers will grow and that SRI will be a demand from all customers in the future. Because this is a customer driven market this will be an important driving force for the development in the future. Timm also mentions that he believes that we will see that taking ESG factors into consideration will have a positive impact on the financial return in the future. In regards to legislations, Timm does not believe that legislation is the way to go as the market is pretty much self-regulated but there might be some kind of EU regulation in regards to reporting carbon footprints for companies which would be good for increased transparency.
7. Discussion

In this section the empirical part will be analysed by linking the literature and the theories previously presented in this paper. The design of the interview guide forms the basis for the qualitative analysis. Following the discussion, a conclusion of the research questions will be given in section 8.

What strategies do pension and life insurance companies use when working with SRI today?

When examining the responsible investment strategies that the different companies are using to incorporate SRI there are some similarities. All participants from the pension and life insurance space in this thesis are using the two strategies “Engagement and voting on sustainability matters” and “Integration of ESG factors in financial analysis”. This relates well to the fact that all participants have signed PRI which clearly states that ESG factors should be incorporated in investment decisions and ownership policies as well as acting as active owners. Besides the fact that PRI encourage this behaviour, integration of ESG factors is an important factor according to Nordea, since this is not anymore a matter of pure ethics or values rather it is business critical today.

Furthermore, Alecta mentioned that they have for a long time taken softer factors into consideration as they wish for entities to have a long-term focused business model as they believe this to enhance the return. Furthermore, they wish to provide a return that is not at the expense of clients, employees, suppliers, or other stakeholders. The view that good return should not be at the expense of various stakeholders is in line with the stakeholder theory that emphasize that there are other actors affected by the actions than just the shareholder or in this case, the saver. This relates to what should be viewed as the fiduciary duty of a pension and life insurance company today.

Monks and Minow’s (2008) view is in line with the view suggested by Alecta, which is that pension companies naturally might act in a way that benefits the public interest. However as pointed out by Alecta, there is no regulations regarding the fiduciary duty they have towards the society in relation to SRI. However, SEB, SPP and Handelsbanken all mention the
increasing demand on SRI from their customers and how they as investors are expected to be more ethical and green by their customers according to SEB. That customer demand consideration to ESG factors described by participants in the study, is supported by the findings of Bordin et al. (2015) who says that ESG factors must be included as they are considered long-term value drivers. Also Eurosif (2013) who says that savers wish their return to be supported by their values and beliefs. Further support comes from the Swedish government which suggest that ethical and environmental factors should be considered however without making this a legal issue (SOU 2016:45). Also the reason for integrating ESG factors might be to attract more capital which is possible when featuring ESG factors according to Sandberg et al. (2009) as well as avoiding negative reputational risk, by avoiding investments which could be viewed as unethical (Scholtens, 2006).

Consequently, there is a variation of reasons to why the companies would take more stakeholders into consideration. However, they all link to the demand from customers on consideration of ESG factors which impacts the investment behaviour of pension and life insurance companies, this perception is also supported in the literature, assuming that today ESG factors and a broader stakeholder is a part of their fiduciary duty.

As previously mentioned Alecta believes that a good return comes from integration of ESG factors, a similar perception is held and mediated by AMF, SEB and SPP. This perception regarding the correlation between ESG factors and financial return is in line with findings by Eccles, Ioannou and Serafeim (2014); Bauer et al. (2005); Aslaksen and Synnestvedt (2003); Clark, Feiner and Viehs (2014); who all provided research proving that a positive relationship exists. The belief that a long-term focused business model provides this is also supported by Epstein and Widener (2011) who points to better financial return if the business model proves to be sustainable. The importance of integration of ESG factors is also according to Alsford et al. (2015) driven by the new opportunities and risks presented by ESG factors, this perception is confirmed by AMF who believes that companies need to have control over their ESG factors in order to have a higher return in the long run. That contradicts research Revelli and Viviani (2015) who states that there are no evidences that further benefits would arise from ESG integration.

Hence the thorough meta-study by Bassen, Busch and Friede (2015) is to some extent contradicted by the participants’ positive view on the relationship between ESG factors and
financial return. None of the responding companies said that ESG integration has a direct negative impact on the return however, Nordea mentions that the positive effect from ESG factors might not realize until years later, that fact can lead to complications as customers follow up the return on a fund yearly or quarterly. Further relating to Hill, Manullang and Shank (2005) finding that in the short-term SRI funds do not beat conventional benchmarks, only in the long run.

Nordea suggested the idea of creating funds that might have a lower return but yielding a non-financial return as well. This aligns with that SRI according Beal, Goyen and Phillips (2005) brings a non-financial return besides the financial one. The perception that a non-financial return is received alongside the financial return aligns well with what Alecta mentioned regarding a return which is not at the expense of any stakeholder, supporting the belief that the shareholder is not the only consideration. On the note on financial return but in relation to exclusion, Wassum (on behalf of Danica) says that a good return can be compromised by the exclusion of well-performing companies due the industry they belong to, this view is supported by Tipper (2001) which suggest a similar result. Therefore, the creation of ethical benchmarks might increase as a result according to Wassum (on behalf of Danica). The ideas of such funds and benchmarks are similar and bring the same thought to the table, that the return might be compromised and therefore should not be compared to benchmarks which normally are compared yearly or even more often, suggesting that the relation conveys to the time horizon. The perception that SRI is long-term focused is consistently mentioned in the literature review and supported by, among others, Bebbington (2001) who points out that long-term value is created by SRI.

As mentioned, the other strategy that all companies use is engagement and voting, here a clear pattern among all respondents could be observed which is the importance of active ownership. All companies explain that if a company is viewed to act in a non-sustainable way, either by breaching conventions or guidelines, a dialogue is begun. None of the responding companies in this thesis viewed direct exclusion as a direct option if there is not a breach against international conventions. All companies therefore set up goals for the companies and later followed this up, to ensure that an improvement has taken place. Exclusion can be viewed as a last resort as the companies believe the impact to be greater through active ownership and the knowledge will be deeper. Also as mentioned previously, exclusion as a strategy might have a negative impact on the portfolio.

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When looking at strategies for advocacy, most companies resolve to having a dialogue, either in person, via phone or email as well as conducting the dialogue in group form. Through this it can be concluded that among the strategies for advocacy presented by Eurosif (2017) (found in appendix 3) the most commonly used ones are “Dialogue” and “Efficient Cooperation”. The only company among the respondents using the media in order to impact the companies was Nordea, as they believe this to put extra pressure on the company to act as they believe to be ethical. The need for a dialogue might be explained by the theory regarding asymmetric information. In this case, the investors do not have all the information available regarding the company they have invested in, so when a breach happens it can be viewed as an information failure because the investing company had another perception regarding the behaviour of the company. In order to gain control and solve this information failure, the investing companies will start dialogues in order to gain knowledge in order to impact them to act in a desirable way and to avoid problems relating to asymmetric information.

Among the respondents from the pension and life insurance space there is a difference in how they are able to conduct their SRI work in terms of the strategies which is important to note. As mentioned in section 3.1.4, some of them provide traditional insurance, some unit-linked insurance and some provide both types. One consequence for unit-linked insurance is as mentioned that the savers look at the return on a yearly or even quarterly basis, therefore their long-term focus is a bit compromised when comparing with traditional insurance as the savers’ view of the financial performance impacts their work. There is also a difference depending on how large their holdings are, which has an effect on the possible impact they can have on companies. As some are large enough to sit on election boards, however many have solved this by acting as a group or through organizations. One division among strategies is the use or non-use of exclusion as a strategy, which probably partially can be explained by how many holdings different companies has as the need for an exclusion policy might increase as the holdings increase. Alecta who only has invested in a 100 companies, has today no need for exclusion as a strategy because they have few holdings and do not follow any index, relating to the fact that they believe that exclusion is not the most effective strategy in the long-run. While for example SPP who provides a variety of funds and therefore has a larger amount of holdings applies exclusion as a strategy and use exclusion as a minimum criterion on their total fund range.
Otherwise when looking at the strategies in use among the companies, almost all use norm-based screening which can be explained by the fact that they have all signed pledges in section 2.4, to uphold many of them especially UN Global Compact there is a need to screen for breaches of international conventions and guidelines. As the strategies can be viewed as a bit subjective, which strategies that are claimed to be used by the companies to some degree depends on the perception of the strategies from the companies. This can be viewed as an explanation to why some respondents seem to be working with so many strategies and some with very few even when the work otherwise can seem somewhat similar. This variation is also mentioned by Sandberg et al. (2009) who explains that there is a large amount of definitions as well as strategies which can lead to different outcomes when looking at SRI work.

**Do the companies follow up the effect they have on society or the environment through their investments? If so, how do they follow up their effect and how does it relate to the investment strategy they use and/or their principles and goals.**

The one method all respondents except for one mentioned that they use to follow up their work is by measuring the carbon footprint of their portfolios since they have signed the Montréal carbon pledge which encourage this procedure. That the majority is using this method to measure their impact can also be explained by Fondbolagens Förening (2016) encouragement regarding reporting carbon footprints. Many of the respondents however criticize the method used for measuring, as the structure today might give a misguided perception. AMF exemplifies this as with today’s measurement a car producing company can be receiving a better score than a company producing a more environmentally friendly product. This problem is also discussed by Fondbolagens Förening (2016) who raise the same inquiry regarding the impact the measurement method has on the amount of emission and how this can vary depending on the branch. However, the initiative to measure carbon emission has great support from the participants in this study as they believe this to be an important step in the right direction as well as the requirement to report still impacts the SRI work and the companies. That aligns well with research by Dillenburg, Greene and Erkeson (2003) who suggest that measuring SRI impact would have the same outcome as suggested by the respondents, impacting the companies and their work.
Another way the participating companies follow up their work is through a screening process in addition to the norm-based screening which take place before investing as to decide the investment universe. This screening is also norm-based as it is conducted as to ensure no companies breach any conventions or guidelines, this process can according to respondents take place as often as every day through the compliance or risk and performance department. The use of external screening companies, such as Sustainalytics, Ethixs and Ethical Screening, are common practice and occur about semi-annually where are holdings are reviewed from a norm-based perspective, Global Compact goals are for example used by Handelsbanken. This part of following-up investments does not measure the impact however ensures that investments undertaken can be considered sustainable.

Other from measuring carbon footprints and screening process, how the companies follow up their impact varies, one way to follow-up investments which is used by Nordea, SEB and Alecta is field trips where they visit companies’ sights and stakeholders in other countries. The main purpose according to the companies is to create knowledge regarding the industry which would bring a greater understanding of the industry and various stakeholders. The respondents conduct these field studies in various ways, for example Alecta’s motivation was to understand the industry which a company they were having a dialogue with is working in as well as how various stakeholders is impacted. The need for this can be explained by the stakeholder theory, as the theory brings up the importance of understanding how all stakeholders are impacted by the companies’ actions. With this said, they could understand the company and the industry better.

Nordea also highlights the importance of creating knowledge and how smaller owners can impact companies by having a greater understanding and by bringing that to the table can have an impact. Further from creating knowledge, Nordea works with setting up goals and then follow up them up two years later to ensure that an improvement has been made and that goals are achieved. This impact is in that sense tangible and puts pressure on the company they have visited. SEB follows up their impact investing, which is their micro finance loan project. Here the follow-up part is important as to ensure the structure is sustainable as well as that confirming that the work is in line with what has been reported to continue further investing in the project. That SEB has invested in impact investments is in line with the increase in this investment strategy which has been reported both in Sweden and globally according to Eurosif (2016) even if it still makes up a small part of the SRI space.
As found in previous research by Weber (2013) and Reeder and Colantonio (2013) there is no clear and structured way to measure the impact of SRI as well as a lack of methodology for measuring. A similar picture is presented by the participants in this study, further explanation for this is described by Nordea, today there is more of a soft follow-up as there is a lack of clear KPIs which would make it possible with a harder follow-up. Comparing this with how financial return usually is measured in a very structured way, in agreement with Weber (2013) regarding how sustainable impact seldom is measured with a constructive method. As described by Alecta, the work today is still very much ad hoc and reactive to specific issues occurring. For some, the reasons for no concrete measurements taking place is that they are not yet there but rather in a stage of creating their sustainability work. Handelsbanken mentions the lack of a history of following-up impact which complicates measuring and comparing impact. One initiative in order to create more tangible measurement points is taken by SEB, when investing in different projects SEB requires impact reports and in them they want data points exemplifying the impact that this project has, this is conducted as SEB believes that hard figures are more tangible. In the same spirit, in-house investment models have been made by SEB and SPP where companies are ranked depending on how they score according to different themes, which are conducted in order to follow-up that investments are sustainable. Thus, there are some initiatives for more hard measurements but also some more soft ones, such as initiatives taken to increase females on boards by SEB, Alecta and AMF which is followed up continuously to ensure progress with this goals. Similar work is mentioned by Nordea who sets up areas where companies can improve their sustainability, so a more qualitative process rather than quantitative. Thus, this proves there are variations in how companies follow up that their investment has an impact.

One example of proactive work is conducted by AMF who believes in the importance of understanding the reward system used by companies they have invested in because there is a need for the reward system to align with a long-term focus as it can influence the decisions made by the management. This dynamic relates to the principal-agent relationship which explains the problems with ensuring that the company invested in (the agent) acts in a way viewed as favourable by the investor (the principal). Therefore, the demand from AMF about information regarding rewards systems is a way for them to ensure the companies have incentives to act in a way that is beneficial in the long-term so their objectives align. Which is related to the importance of governance, which is brought to attention by AMF, if there is a good in-house structure in place there is usually more success in other areas related to
sustainability. This is also described by Sjöström (2014), as governance controls the behaviour in a favourable direction, which here would be towards sustainability.

Concluding, the work with following up investments has few common practices and KPIs yet. Today the most recognized method to measure actual impact is through measuring carbon footprints, which as discussed is criticized but can still be counted as the most common practice when measuring impact in the Swedish SRI space. Reason behind this being the only common practice for measuring impact might be that it is hard to create measuring system when it comes to a subject that is so subjective to values as SRI (Koellner et al., 2005). In line with the sustainable responsible investment strategies presented, all companies continuously follow up that their investments are sustainable. The work with following-up are otherwise as mentioned previously varied and the follow up can be both soft and hard however the work today still relates more to following-up investments to ensure that they are sustainable rather than measuring the actual impacts that comes from mentioned investments. Reason behind this is partially explained by the fact that there is no history to compare with but also as mentioned in earlier research, there is yet no structured way to measure impact the same way as financial factors are measured and interpreted. Further some factors are soft, such as the work with affecting companies to be more sustainable in certain issues or more gender equal. This obstructs the measuring process however also suggests that there might be a need for both soft and hard measurements in the SRI space.

<table>
<thead>
<tr>
<th>Company</th>
<th>Measuring carbon footprints</th>
<th>Internal screening process</th>
<th>Field trips</th>
<th>Control impact investment</th>
</tr>
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<tr>
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<td>X</td>
<td></td>
</tr>
<tr>
<td>AMF</td>
<td>X</td>
<td>X</td>
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<td></td>
</tr>
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<td>Handelsbanken</td>
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<td>Nordea</td>
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<td>X</td>
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</tr>
<tr>
<td>SPP</td>
<td>X</td>
<td>X</td>
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</table>

Table 3 Summary of section 2
What is the future of the Swedish SRI market according to the companies?

Most of the respondents have positive thoughts when discussing the future of SRI and the development that will proceed. Something that most companies, 6 out of 7, brought up was that they strongly believe that there will be an increased SRI reporting and thus greater transparency. It is clear that there is a demand for transparency in order to further develop the work and to continue to strengthen the collaboration within this space. This is also mentioned by Sjöström (2014) who believes that transparency will increase.

Interestingly, this is supported by PRI, which has been created among other things, to increase transparency. One of the PRI principles (number 6), found in the literature review in this work, states that “we will each report on our activities and progress towards implementing the principles” (PRI, 2016). Linking to the theories, the Principal-Agent problem could also occur when not increasing the reporting and the transparency, as it could be hard to see and realize the agent’s actions and behaviour. One example given by the respondents is field studies, conducted by SEB, Alecta and Nordea, when they are visiting countries in order to see how the agents really are working and how their work is affecting the stakeholders. Field studies would not be as necessary if the transparency and the reporting would increase. Same reasoning could apply to the theory of asymmetric information, which could occur both between the investing companies and the companies they have invested in. Further it also relates to the transparency needed for the pension savers in relation to pension and life insurance companies especially as a majority of the savers have low trust for the available information (SOU 2016:45).

“There is a need for legislation and hard decisions needs to be taken, everything cannot stay self-regulated” – Annelie Göthbring, AMF

There are different opinions when it comes to legislation in the future, but most of the respondents believes that there will be more regulations within this area, particularly around harmonized reporting as a EU directive. Furthermore, most participants in this study could agree that the fact that companies report their CSR work today are on the right path.

As mentioned in the background section there are no legislations or common standards regarding SRI or how to measure it. However, according to Finansinspektionen, the Swedish Financial Supervisory Authority, (2016) the development of SRI moves along in a good pace.
but it is most likely that some kind of standardization regarding measurements in relation to SRI will be presented in the future according to them. This aligns well with the fact that most respondents believe and hope for some kind of standardization, which would make it easier to compare and follow up.

A finding in the empirical part in this paper is that one of the respondents, Handelsbanken, believes that analysis tools integrating SRI used by managers, can possibly become an industry standard but also used for investment decisions.

On the other side, some are more doubtful regarding the future of legislation and point towards how it would be possible to create legislations as well as to implement them. One example provided by Wassum (for Danica) is that it would be difficult to implement legislations regarding investments such as putting restrictions on for example weapons as it would be contradictory as the Swedish government itself buys weapons. Similar thoughts are brought by SEB who also believes it would be inefficient to implement legislations regarding the investment universe. However, as most respondents both Wassum and SEB are positive towards legislations towards increased transparency which according to them also would be easier to implement.

According to SEB, legislation regarding carbon emissions could also be hard to create as common standards must occur, and clearer guidelines when it comes to measurement and how to interpret results.

Another important factor that two of the respondents (Danica and AMF) mentioned is that governance (the G in ESG) is and will be an increasingly more important factor to further spread the sustainable mindset and will work as a guidance towards this. This thought ties together with Sjöström (2014), who found that governance is essential and could control the behaviour in the right direction, which supports this belief by Danica and AMF.

Furthermore, both Alecta and SEB emphasize the importance of green bonds and the probable increase of such in the future. Hence, as mentioned it is an important step as bonds is a large portion of the portfolios and an increase of green bonds could therefore help towards a low-carbon economy (Croce, Kaminker and Stewart, 2011). Green bonds can according to SEB be seen as a mix of thematic and impact investing which leads to a more visible effect. Further SEB mentions the fact that more governments are expected to issue green bonds and the
thought is shared by Alecta who hopes that the Swedish government will start emitting within the coming two years. The respondents who have commented within this area hope that it will become natural to choose green bonds for bond investments, even if it could be a bit more expensive, the risk on them should be lower as it is renewable energy.

“I hope it will be a natural choice for most people to choose green bonds as it will benefit society and probably themselves in the long run” – Peter Lööw, Alecta

The collaborations within SRI also increases significantly according to respondents, and the trend appears to continue in the future as organizations such as 2 degrees Investing Initiative and CDP are growing. Nordea, however, believes there might be more competition within this space if SRI will become a competitive edge which then could decrease the amount of collaboration comparing to what is seen today.

One future trend among the respondents is the increased importance of implementing UN Sustainable Development Goals, the set of goals to prevent and stop poverty and protect the planet, are something that every company in this analysis are striving to follow and collaborate with. As the goals exists to transform the world they are therefore very large, and it will take a lot of effort to achieve them. The focus the coming years will be to understand and implement them into the corporate culture according to the respondents.

However, a clear trend according to all respondents is that the interest of investing sustainably and responsibly is booming, and that this space will be a more customer-driven market in the future. This is supported by Eurosif (2013) who states that many nowadays wish their return from companies who align with their values and behaves in an ethical manner. Moreover, according to Sandberg (2009), ESG factors integrated when investing is attracting more capital, showing how important it is for pension and life insurance companies to constantly work on and improve their SRI work as to attract more customer and so forth more capital.
8. Conclusions

The purpose of this thesis is to explain how pension and life insurance companies in Sweden work with SRI. Based on an empirical study it can be concluded that a variety of strategies are in use however some strategies such as integration of ESG factors and engagement and voting are used by all participants. Motivation for integration of ESG factors and SRI in general is motivated partially by PRI as all participants are signatories but also by the belief that integration of ESG factors are expected to bring a better return in the long-term. Through the empirical study and the analysis it can be concluded that there is an underlying asymmetric information problem which can be explained by the principal-agent theory. To solve this all participating companies use the strategy engagement and voting. Further findings are that how they can work with SRI is dependent on the insurance type provided as it impacts their strategy work.

A second purpose was also to examine if the pension and life insurance companies follow-up their investments and the associated impact, and if so, explain how they conduct this process. The conclusion is that the companies within this space do follow-up their investments in order to ensure its sustainability. However, when measuring the impact, the results are more varied and no common market standard exists except for measuring carbon footprints in accordance with Montréal Carbon Pledge. The process of measuring impact is still very much in an early stage even though various initiatives are in progress. The participating companies are trying to measure with both soft and hard measurement but yet no decisive way has been found, which is in line with previous research presented within this area.

When answering the last research question regarding the future of the SRI market the companies agreed that there is a need for transparency today and that future legislation would most probably take this into account. That would help to develop and strengthen the SRI market. Other important factors for the future of the SRI market is the trend of integrating the SDGs into operations and strategies as well as further collaboration both within the market but also with different stakeholder groups which hopefully can bring more common practices. Furthermore, many point to the increased interest from savers in sustainability and hold this as evidence of the continuing growth of SRI in the future.
8.1 Proposal for further studies

As this is a reasonably new subject in the academic field, there is a need for continuous research to investigate paths for further progress regarding follow-up and measuring of impact. This corroborates previous research findings. If conducting research based on a similar method as in this thesis a suggestion would be to separate traditional insurance and unit-linked insurance because of the difference in how they are able to apply different strategies and the time horizon they consider. Furthermore, there is a need to explore other types of financial actors and their work towards more sustainable investments, especially actors with investment strategies that don’t align well with the responsible investment strategies such as hedge funds. Research regarding how they could conduct their work more sustainably would therefore be of interest as to widen the perspective of the financial market.

In this thesis it is understood how important future legislations is and a suggestion would therefore be to focus on how legislations could impact financial actors as well as investments. This research could be done either on a local country level such as Sweden, the regional Nordic level or by taking a more global approach as it seems like the legislations are likely to come from the international bodies such as the EU. In regards to this a study comparing SRI work within Europe could therefore bring interesting perspectives, considering that the SRI market is quite heterogeneous.

Because the subject of measurement and the follow-up of SRI work is difficult, it is important to conduct further research to come up with legit (worldwide) standardizations so that pension and life insurance companies more easily can set goals while comparing their sustainability work in order to improve.
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Reports by organizations


**Interview respondents**

Elkert, Rebecka (100317), Head of Sustainable Investments, SEB

Götbring, Annelie, (140317), AMF, Head of Responsible Investments

Hannestad, Ylva (270317), Nordea, Senior Adviser Sustainable Finance

Harake, Linda, (300317), Handelsbanken, Market and Business Development
APPENDIX

APPENDIX 1 - Principles the companies have signed and are collaborating with

<table>
<thead>
<tr>
<th>Company</th>
<th>OECD principles</th>
<th>UN Global compact</th>
<th>PRI</th>
<th>CDP</th>
<th>Swesif</th>
<th>Montréal Carbon Pledge</th>
<th>2 degrees initiative</th>
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APPENDIX 2 – Other SRI related organizations

OECD Guidelines for Multinational Enterprises

The OECD Guidelines make comprehensive proposals to Multinational Enterprises when it comes to responsible business behaviour and are heavily government-backed. The recommendations are in a wide range of areas such as anti-corruption, employment, industrial human rights, competition, taxation and the environment. Domestic law and regulations
should not be infringed by the OECD Guidelines. In addition, they are not a substitute for domestic legislature (OECD, 2016).

**The Morningstar Sustainability Rating**

Morningstar is the largest provider of objective and reliable information about different funds. They have created a measurement that can be used for comparing different funds by how well they manage ESG factors and associated risks comparing to others. The grade given to fund is created in two steps, firstly a sustainability value is calculated which describes how well the fund’s holdings are comparing with others. This value is calculated by taking the normalized weighted averaged of the ESG grade sourced from Sustainalytics. The average is normalized to enable comparison between different industries. Secondly all the funds are sorted according to normal distribution. With the best achieving 10% receiving highest ranking which is 5 globes, 22,5% getting the second highest being 4 globes, 22,5% getting 3 globes, 22,5% getting 2 globes and the lowest 10% scoring will receive 1 globe. There are some limitations with how the grade is constructed, firstly it does not reward exclusion. Secondly, it does not take into account if the manager of the fund has had any positive effect on the management. Lastly is in regards to the data as Sustainalytics mostly covers larger listed companies and few of the smaller ones (Morningstar, 2016).

**Hållbarhetsprofilen**

Hållbarhetsprofilen (“Sustainability Declaration for Funds”) is a sheet providing fund information, an initiative by Swesif and their members in 2013 to ensure transparency among ESG funds thus provide information in a clearer way to private investors. Hållbarhetsprofilen is to be viewed as a complement to the general fund information pamphlet, focusing on how the fund works on implementing ESG factors in their funds (Swesif, 2017). The sheet is divided in different sections, and provides a description of the fund and then focuses on the strategies the funds work with which can be inclusion, exclusion and engagement. Lastly, an explanation of the objectives for the fund as well as the process behind it. The aim here is to provide investors with information as well as giving them the opportunity to compare different funds and their work. It is important that Hållbarhetsprofilen is not used in a marketing purpose or contains information that would increase the investments in the fund (Swesif, 2017).
APPENDIX 3 - Strategies for Advocacy

Sustainable investments may be obtained by investors trying to influence the companies they own to improve their sustainability work. It is called “engagement and voting” or “active operation”.

Dialogue
A strategy for advocacy is to engage in a dialogue with the companies. This dialogue can take various forms, ranging from letters, constructive conversations either in person or through the phone. It is usually easier and more impactful when a major shareholder starts a dialogue. The dialogue could involve supplementing of information, or have the purpose of achieving a specific change. The need for a dialogue can also arise from a violation by a company, usually noticed by media or a stakeholder group. Where there is a need to get the company's version of what has been noticed and be informed if any actions have been taken (Sjöström, 2014).

Annual General Meeting and Shareholders Motion
One way to influence companies on sustainability issues is to make itself heard at the annual general meetings. Investors can use these meetings to express their opinions about the company and ask questions regarding the management of the companies. Moreover, they can also hand in their own motions for a vote which sends out a signal of the shareholder’s perception (SOU 2016:45).

Class Action
Class Action is a strategy where there are usually few investors who operates the main goal while others could join. Mainly, the strategy is to sue a company where irregularities have occurred that have contributed to a deterioration in the share price. This process often results in settlement - an agreement on a financial settlement without a judgment folds. Class action is a less common practice among Swedish investors (Sjöström, 2014).

Efficient Cooperation
A more efficient way to engage firms in ESG topics is that investors could choose to participate in large shareholder coalitions. When representing more capital together, a collaboration could highlight issues or strategies that would not be possible for investors to undertake on their own (Blackrock & Ceres, 2016)
Public Opinion and Media Influence
An investor could use the media to influence public opinion and impact its advocacy work, e.g. by publishing reports and rankings, write opinion pieces or use social media to get a company's attention. Historically, many asset managers prefer to act outside the spotlight, especially in Europe, but the opposite is becoming more common. The advantage of this strategy is that investors can effect change regardless of the size of the assets under management. However, some argue that the possibility to have a confidential dialogue with the companies drops if attacking them publicly (Sjöström, 2014).

APPENDIX 4 - Questions discussed during the interviews

Questions
Strategies:
- What strategies for responsible investment are you working with right now?
- Are there any strategies that you find working better than than others?
- Have you used any strategies previously but stopped using them for any reason?

Goals, pledges and other principles:
- Have you chosen to work common goals, signed any pledges or agreed to work in compliance with any principles?
Examples of that is: UN Sustainable Development Goals, UN PRI, Montréal Carbon Pledge, 2° investing or other similar initiatives.
- How did you choose which ones to work with and which to not work with?
- How does these goals/pledges/principles affect how you work with SRI?

Follow up:
- How do you follow up your work with sustainable responsible investments? Especially in regards to the goals/pledges/principles you follow.
- Do you measure the effect your investments have in any way?
Can you give a concrete example related to the strategies you use on how you follow up the result of your investments?

How do you follow up that your work with SRI actually are in line with pledges you have taken/principles you may follow or help you to reach goals you have taken on?

Have you any examples on how you have worked to simplify the measuring process or the process of following up the effect of investments?

Connect to the strategies they said they work with as well as the goals/pledges/principles they follow - guided question towards how they follow up that the strategies they work with are helping them to reach their goals/work are aligned with pledges and principles.

**The future:**

How do you think you will work with sustainability in the future? In 5 years? In 10 years? How do you look at the suggestion to legislate regarding sustainable investments? Especially the suggestion regarding how to clearly report on carbon emission footprints. Do you believe there will be more legislation in regards to transparency about the impact of investments?

**APPENDIX 5 - List from Svensk Försäkring**

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<td>-----------</td>
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**Other Life Insurance**

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