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How does sustainability impact Swedish fund managers' investment choices?

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Abstract

The purpose of this essay is to examine and to get a better understanding of how fund managers in Sweden invest according to sustainability and how their investment decisions are affected by sustainability. To examine this subject, a qualitative study was conducted in the form of several interviews with Swedish fund managers from equity funds and Swedish national pension funds. The result showed that sustainability is deeply integrated and has a fundamental role within the entire investment process by all fund managers. However, divergences between the different types of fund managers were found regarding prioritization of sustainability and profitability. Fund managers from Swedish national pension funds clearly prioritize profit, and use sustainability as creation of future return. While equity fund managers integrate sustainability in the investment process with a combination of values and beliefs, which they think will contribute to long-term profit. Based on the analysis of the fund managers, a seven step model is presented showing how sustainability is implicated in the investment process.

Keywords: Sustainability, fund manager, investment process, equity fund, pension fund, profitability, ESG, SRI, SDGs, Paris Agreement.

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Abbreviations

SDGs Sustainable Development Goals

UN United Nations

SRI Socially Responsible Investment

ESG Environmental, Social and Governance

CSR Corporate Social Responsibility

GNP Gross National Product

AMCs Asset Management Companies

CSP Corporate Social Performance

CFP Corporate Financial Performance

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1. Introduction

In this first chapter, the background of sustainability is presented and why the subject has become more popular during the last decades. Then, a problem discussion about how profitability and sustainability connect with each other and why the subject is interesting to investigate. Later on, the chapter narrows down to the purpose of the study, research question and scope of the thesis.

1.1 Background

During the last decades, sustainable development has become one of the most debated issues. The concept got a breakthrough in 1987 when the World Commission on Environment and Development introduced it in the Brundtland report (Keeble, 1988). They described sustainable development as: "*development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*. Decades later in 2015, the United Nation stated the 17 Sustainable Development Goals (SDGs), which is a part of the 2030 Agenda for Sustainable Development (UN, 2021). The 2030 Agenda is a plan that the world's leaders made for a global sustainable development. The purpose of the 2030 Agenda is to stop climate change, exterminate poverty and to make peaceful and safe societies. The UN also came up with a framework called Global Compact to encourage businesses worldwide to adopt sustainable actions (UN Global Compact, 2021). With this in mind, the political leaders around the globe have brought up the responsibility to create a more sustainable, equitable and better world before 2030.

Rank	Country	Score
1	Sweden	84.7
2	Denmark	84.6
3	Finland	83.8
4	France	81.1
5	Germany	80.8
6	Norway	80.8
7	Austria	80.7
8	Czech Republic	80.6
9	Netherlands	80.4
10	Estonia	80.1

Table 1. Top 10 of the 2020 SDG Index scores
Source: Sachs et al., 2020

To examine how well a country performs regarding the 17 SDGs, there is a SDG Index which tracks country performance. On top of the 2020 SDG Index, you will find Sweden leading the score (Sachs et al., 2020). Yet even Sweden faces significant challenges in achieving several SDGs, having a "red" score on two SDGs, which means major challenges remain (Sachs et al., 2020). On this basis, in 2018, the Swedish government developed a plan of action to be a leading example in the 2030 Agenda process. The plan contains gradual conversion of the modern state of Sweden, to become a sustainable state of welfare in the global system. The Swedish government (2018)

suggests that the role of the state is to, through instruments and framework, ensure good conditions to accomplish sustainable business. As an extra helping hand, the European Commission has established the EU taxonomy (2021). The taxonomy is a tool to help investors to identify and compare investment through a classification system, establishing a list of environmentally sustainable economic activities. At the same time, many companies meet the new demand from the regular customer to become more sustainable in their business. Due to fast development in the question of sustainability, the companies no longer have an option to either push the issue of sustainability or not, it is essential to survival (Beyond Internt, Fossilfritt Sverige & Företagarna, 2019). Not to mention how much responsibility lies with companies in this issue, mostly because business is a major cause of environmental and social disruption (Kemper, 2012). However, Kemper (2012) also argues that business is the solution to the problem due to their strong position and power of action.

In Sweden, the role of the financial market is central in the matter of sustainability (Hansén & Wallenberg, 2020). Pensions and other asset management are important sustainability tools and the government has great influence on how business and society place their capital. Having said that, many decisions regarding pension and asset management on behalf of the state are made with a lack of demand for sustainability (Hansén & Wallenberg, 2020). In fact, billions of capital within the Swedish national pension funds is placed in the exact opposite direction of where we should go for a sustainable world. According to a report from Swedish Society for Nature Conservation (2020), the Swedish national pension funds managed by the state are investing in 89 of the world's 200 largest companies operating in fossil energy during 2020, an investment worth 16,4 billions SEK. More sustainable national pension funds and asset management on behalf of the state could make a major difference in the matter of achieving sustainability goals (Hansén & Wallenberg, 2020).

1.2 Problem discussion

Based on this background, the question has risen if it is possible to affect companies to become more sustainable. Do stakeholders and specific investors have any responsibility to influence companies further along a greener path? The only thing investors want is to make a profit on their investment, or is it? Is it possible to make "feel-good" investments and at the same time make money? According to Dagens Industri (2020) the most profitable Swedish registered mutual fund of 2020 is "Handelsbanken Hållbar Energi" (Sustainable Energy) with a return of

over 100% the past year 2020, which means it is possible to make profit with green investments. Although, the relation between sustainable investment and financial return is not always linear. Barnett and Salomon (2006) finds a curvilinear relationship between the number of sustainable screening processes and financial return. What's more, only 56% invest in high scoring sustainable funds because of their eventual higher return, while 76% invest in sustainable funds due to personal values (Natixis, 2019). Which implies investors do not always prefer profit instead of sustainable investments, or think profit is a must have. Which is in line with previous research (Nilsson, 2009), where there are found various reasons to make Socially Responsible Investments (SRI).

In a historical view, it has been difficult to measure sustainability of a company and convert it into numbers. However, this subject has later improved and nowadays the most global and well-known measurement is the ESG-index, which stands for Environmental, Social and Governance (Nasdaq, 2019). This measurement takes both environmental, social and corporate governance into consideration when rating a company and it is possible to see how well the company performs in each category (Nasdaq, 2019). 30 parameters shall be taken into account when estimating a company's ESG-index. These parameters involve quantitative measures, for example risk of injury, where the proportion of accidents and deaths is measured. Also qualitative measures are taken into account, like motivation from the board regarding making ESG investments (Nasdaq, 2019).

In general, the relationship between investors and companies is sometimes a complex story, but the objective from both sides is to create common long-term economic relationships (Tuominen, 1997). Attraction, trust and commitment are three key instruments in the relationship and are in some cases difficult to develop (Tuominen, 1997). One problem which is often occurring is that fund managers sometimes are forced to make investment decisions based on limited information of companies. On the other hand, sometimes fund managers are given so many details about the investigating company that they miss the holistic view (Henningsson et al., 2015).

When the transparency level between corporations and investors is low, there is a risk of greenwashing (Wu, Zhang & Xie, 2020). The concept of greenwashing is acting misleadingly to consumers and investors regarding sustainable action on firm-level or product-level (Delmas & Burbano, 2011). The reason is often to earn higher sustainability scores, but the outcome often leads to decreasing financial results (Muñoz, Vargas & Vicente, 2021).

Since Sweden is supposed to be one of the leading countries regarding sustainable development (Sachs et al., 2020) and the financial market seems to have an important role in that aspect (Hansén & Wallenberg, 2020), it makes it interesting to investigate how fund managers in Sweden make investments regarding sustainability. If sustainability is not taken into consideration at all or if it is their prime priority. To examine this subject, several interviews have been conducted with fund managers from equity funds and Swedish national pension funds. This will be further described more clearly in the method section.

1.3 Purpose

The purpose of the report is to examine and contribute to better understanding of how fund managers invest according to sustainability and how their investment decisions are affected by sustainability in 2021. Which leads to the following research questions:

- *How does sustainability impact Swedish fund managers' investment choices?*
- *Are there any differences between Swedish equity funds and Swedish national pension funds regarding implementation of sustainability in the investmentprocess?*

1.4 Scope of the thesis

The limitations regarding the scope of the research will be described in this section. The general purpose of the study is to contribute to better understanding of how fund managers in Sweden invest according to sustainability. Therefore, interviews with various fund managers in Sweden have been made to get their point of view and knowledge in the matter. By doing so, the purpose of the study has been fulfilled and the research questions have been answered.

The duration of the study and the amount of time allocated was about two months during the spring semester 2021. Due to the time limit, only 7 interviews with Swedish fund managers were conducted. Nevertheless, the number of interviewed fund managers showed to be sufficient to answer the research question. Another possible limitation is the fact that this study has been conducted during the time of the corona pandemic, restricting pretty much all physical contact. Therefore, all contact with interviewed fund managers have been carried out remotely.

2. Literature review

In the following chapter, a review of previous research has been conducted. Firstly, a presentation of why investors make socially responsible investments and pros and cons with it is given. Secondly, how ESG is integrated in the financial sector and how to handle the measurement is presented. Later on, it is stated how the link between profitability and sustainability is looked upon in previous research. Lastly, how the relationship between investors and corporations sometimes could be a complex matter and an interpretation of the concept of greenwashing is represented.

2.1 Socially Responsible Investment

Why investors make SRI investment is not always a straight way to an answer. In a study by Nilsson (2009), he forms two major conclusions to answer the issue in question. The first conclusion builds on the assumption that some investors regard financial return to be more important than social responsibility. And therefore, it can not be assumed that these investors who make SRI investments are concerned with social responsibilities. They may just as well be profit maximizing investors that happen to choose SRI investment due to financial return (Nilsson, 2009). The second conclusion drawn from the study is the opposite from the first one, that some investors put socially responsible issues ahead of financial return when making SRI investments. This behavior is explained by Beal, Goyen and Phillips (2005) who argue that when investors make socially responsible investments, they do not only get financial return, they also get something they call "psychic return". Which means, even though investors do not get to maximize their profit of the investment, they get psychic return, good will of their SRI investments. In this way, it is possible to add some extra value to the investment in terms of this extra psychic return (Beal et al., 2005).

Chang and Witte (2010) examine whether SRI funds sacrifice return performance while making socially responsible investments. Although the study is a couple of years old and much has developed in the subject since the study was made, they found some noteworthy results. They compared SRI funds and conventional fund-operating characteristics as well as risk and performance measures over between 1995-2010. Even if SRI funds had relative advantages in some areas like lower expense ratios, lower annual turnover rates, lower tax cost ratios and lower

risk, they also showed disadvantages like lower returns and poorer risk-to-reward ratio. However, during the last three years of the study, SRI funds in balanced fund and fixed-income fund categories have performed better than category average with lower risk, higher returns, and higher risk-to-reward ratio (Chang & Witte, 2010). All things considered, the authors suggest that there is not a "fixed" or homogeneous cost associated with SRI.

Criticism on SRI investments has been made by Joly (2010) where he thinks the concept of CSR and SRI have fallen short of its purpose and on the issue of economic fairness. He clarifies that in countries like the US, the UK and France, managed SRI assets have grown, but at the same time income and wealth inequality have grown as well, arguing for SRI has no noticeable positive effect. In addition to this in the matter of environmental issues, CSR and SRI have failed to reduce net pollution growth due to GNP growth, even if the eco-efficiency has improved and the industry voluntarily goes beyond compliance with existing regulations (Joly, 2010). To handle the problem, governments need to step up their game with tough regulation of capitalism; prescribe standards, control results, and enact macro-prudential legislation in a way that pays for the problems it creates when creating goods (Joly, 2010).

2.2 Integrating ESG on the financial sector

Sciarelli, Cosimato and Landi (2020) investigates how ESG criteria have been applied to fund management in terms of investment strategy and ESG communication. In their study, they examined several Asset Management Companies (AMCs) and their results showed a growing awareness in terms of how important sustainability is in the financial sector. Although, to retain investors' trust, it is essential to conduct transparent communication about ESG. Therefore, AMCs are gradually integrating the ESG criteria into their financial communication to attract investors and to meet their need for information about social and environmental externalities of their asset management practices (Sciarelli et al., 2020). The authors explain that both institutional and individual investors need standardized tools to accurately get access to financial and nonfinancial information to better manage the related decision-making process when investing in sustainable companies. Although these standardized tools are not always accessible, which makes AMCs adopt self-regulating approaches to the need of financial and nonfinancial information.

Another study made by Sakuma-Keck and Hensmans (2013) regarding the motivations of fund managers when they are faced with pressures for transparency, sustainability and responsibility and how they improve their investment strategies by integrating external ESG information clarifies that the motivation tends sometimes to be remarkably short term and just symbolic. (Sakuma-Keck & Hensmans, 2013). The authors explain one reason for this short-term agenda is if the fund managers have a narrow view and are only concerned with their own image. The movement of sustainable investment will lose speed and the possibility to change corporate behavior will decrease to this fact, despite the extraordinary market growth and emergence of specific sustainable strategies. Sakuma-Keck and Hensmans (2013) suggests that to ensure companies behave sustainably yet competitively, it is necessary to require a long-term commitment on the part of fund managers. When the integration of sustainability and financial terms becomes an important and fundamental core strategy of corporations, only then, a long-term commitment seems possible (Sakuma-Keck & Hensmans, 2013).

2.3 Profitability vs. Sustainability

According to Barnett and Salomon (2006), in their study they find a curvilinear relationship in an U-shape between sustainability and profit. Which means that the number of sustainable screening processes made by the investor matters in the investment process. At first, when the number of screening processes increases, the financial return decreases (Barnett & Salomon, 2006). On the other hand, when the number of screening processes reaches maximum, the financial performance starts to rise, making a U-curve (Barnett & Salomon, 2006). That said, the authors argue that different types of sustainability screens have unsimilar effects. The special different types examined were screening based on labor relations, community relations and environmental performance. Where screening based on community relations was the one having significant positive effects on financial performance. Meaning that costs incurred by companies to improve their relationship with local communities pays off on the bottom line (Barnett & Salomon, 2006). By contrast to previous findings by the authors, screening based on labor relations and environmental performance does not have the same positive effect on financial performance. Meaning that if companies increase their costs due to equal employment opportunity and diversity, as well as increasing costs due to getting environmental performance to levels acceptable to pass the screening standards of SRI funds, the financial benefits will not outweigh these costs (Barnett & Salomon, 2006). Despite these findings, Barnett and Salomon

(2006) explains that their findings must be interpreted with caution. Since many of these kinds of SRI investments may pay off in future years and the majority of funds in their study were less than 5 years old.

In a study by Turcsanyi and Sisaye (2013), they found empirical evidence suggesting that if you effectively integrate economic performance with social and environmental objectives into business strategy, profitability can be sustained for a long time. Meaning that sustainability will encourage transparency and adherence as well as it will encourage social equity, environmental restoration, and financial performance. They came up with the conclusion that organizations in the long run will pursue economic growth and profitability performance but at the same time also promote social, natural, and environmental conservation of resources and align future technological developments with sustainability programs.

2.4 Relationship complexity

As mentioned in the problem discussion, sometimes fund managers are forced to make investment decisions based on limited information of companies. While they, on the other hand, are given so much detailed information about the insights of companies that they miss the holistic view which is the basis for assessment (Henningsson et al., 2015). Henningsson et al. (2015) describes these two scenarios as a matter of different operation modes of trust and distrust.

In the first operation mode of trust, fund managers trust the top management when they present the stable context of corporate information (Henningsson et al., 2015). When the company presents a corporation context like this, fund managers are forced to apply a holistic view of the company and make investment decisions on limited information. Having said that, this kind of use of trust creates a need from fund managers to constantly reaffirm this holistic view of the company. Which makes us go into the second mode of operation, which is based on distrust (Henningsson et al., 2015). This mode of distrust makes fund managers try to open up corporate information and search for deviations in the established view of the company. Henningsson et al. (2015) means that once distrust has emerged as an operation mode, it is difficult to restore trust.

While fund managers have to oscillate between how to behave regarding mode of trust or distrust, companies are put into a dilemma as well with how they should communicate with the financial market (Henningsson et al., 2015). Companies are faced with two specific dilemmas: (1) the fund managers' disinterest in details (trust-mode) and (2) what Henningsson et al. calls the "representation dilemma" (distrust-mode). At first, when fund managers behave in trust, the dilemma faced by companies is about the exposure of details. Henningsson et al. (2015) means that it is a struggle communicating with investors that are only partially interested in details, although details might be of great significance. The second dilemma of representation, when fund managers behave in distrust of the company and have an open mind about corporate information complexity (Henningsson et al., 2015). The representation dilemma is about fund managers concerned with the source of information, who the messenger is makes a difference. So the issue in this situation is not about attracting attention to details, but how to play the role of messenger presenting corporate information.

Regarding the dilemma of corporate information presented above, Gates (2013) describes how companies are able to play a proactive role in enhancing the quality and delivery of corporate social performance (CSP) information to investors. To do so, companies are able to connect the CSP with corporate financial performance (CFP) and therefore fill the gap between sustainable and financial factors. One approach is to make ESG information more relevant and focused. And by doing so, Gates (2013) suggests that different ESG activities and metrics can be categorized using four investment factors which are more recognizable to investors. The four factors used are:

- Growth
- Return of capital
- Risk management
- Management quality

Even if some of the factors may have an indirect link between ESG activities and financial performance, for example impact on corporate reputation or talent management. Others may be more direct and clearly quantifiable, for example in increased revenue or reduced costs (Gates, 2013). When you break down ESG information into these factors, it results in a better link between CSP and CFP in the eyes of an investor.

Furthermore, Gates (2013) adds that the more advanced the dialogue between the management/board of the company and investors, the better social performance will be

understood and the link with financial performance. Which in turn adds better value by security analysts, and therefore, improves the long-term share valuation of the company. Likewise if security analysts better understand ESG performance generally, the better they will understand how companies' ESG performance is linked to its financial performance due to the increasingly sophisticated presentation of corporations (Gates, 2013).

2.5 Greenwashing

The concept of greenwashing is acting misleadingly to consumers and investors regarding sustainable action on firm-level or product-level (Delmas & Burbano, 2011). Delmas and Burbano (2011) means that the prevalence of greenwashing in the business world has increased in recent years. Which means, an increasing number of companies combining poor sustainable performance with positive communication of sustainable performance. Because of this, investors' confidence has declined in sustainable responsible companies, making these investors reluctant to reward companies which perform well in the sustainable aspect. This makes the incentives for companies to engage in greenwashing behavior to increase, which in turn has shown to create negative effects on externalities and hence have negative effects on social welfare (Delmas & Burbano, 2011). The authors argue that the reason for greenwashing is limited and imperfect information about companies' sustainable performance, as well as uncertainty about regulatory punishment. As uncertainty increases due to increasingly limited or imperfect information, cognitive tendencies such as decision framing, hyperbolic intertemporal discounting and optimistic bias has heighted as individuals make decisions (Delmas & Burbano, 2011). To decrease these uncertainties about regulatory punishment for engaging in greenwashing and to moderate these cognitive tendencies, regulators and non-profit organizations could take a leap forward to improve the availability of information (Delmas & Burbano, 2011). Simultaneously, it is up to the managers to adjust incentives to counter these individual-level cognitive tendencies, together with organization-level drivers of greenwashing (Delmas & Burbano, 2011).

Wu et al. (2020) take the issue of greenwashing one step further. In their study, they draw from the conclusion very similar to Nilsson (2009), that companies may either be socially responsible or profit maximizing. Where companies which are socially responsible have intrinsic motive to

provide social good, when profit maximizing companies may invest in CSR but only due to good reputation and customer satisfaction (Wu et al., 2020). The authors imply that with low transparency of CSR information, there is a possibility the profit maximizing company comes up with a greenwashing strategy to copy the socially responsible company to obtain good reputation and customer satisfaction. In this scenario with low transparency of CSR, it is difficult for consumers to distinguish between the two types of companies. However, though the motive of the profit maximizing companies investing in CSR seems to be selfish, it can actually benefit society because it increases CSR investment (Wu et al., 2020). Given the assumption that the transparency level is not too low. On the other hand, when transparency is high, there is a chance that the socially responsible company overinvest in CSR just to try to separate itself from the profit maximizing company (Wu et al., 2020). At first sight, to overinvest in CSR seems to be beneficial to society. Although, the authors argue that the separation between the two companies are unbeneficial, due to the decreasing incentive for the profit maximizing company to invest in CSR. If the transparency level increases further, the socially responsible company feels a reduced threat of greenwashing, which decreases their overinvestment in CSR and could possibly lead to lower social welfare (Wu et al., 2020).

In a recent study, Muñoz et al. (2021) investigates what the consequences are when SRI funds deviate from the financial style reported in their prospectuses. In other words, they act in another way than they suppose to. According to Muñoz et al. (2021), the reason for this is that the managers of the SRI funds try to earn higher sustainability scores. That said, they also find that style deviation has a negative effect on financial performance, while greater style consistency leads to better financial outcomes. Meaning that when SRI fund managers try to earn higher sustainability scores by deviating from the financial style reported in their prospectuses, they earn decreasing financial results.

3. Method

In this chapter we will describe the methodology used in this paper to answer the research question. The chosen methodology will also be analyzed and discussed in this part.

3.1 Research Process

An inductive approach where theory is the outcome of our analytical process rather than precursor to it was used to answer the research question. We decided to follow Bryman's six steps for conducting qualitative research to answer our research question. (Bell, Bryman & Harley, 2019). Therefore, we started with step one which meant to create a general research question and we decided the following one: "How does sustainability impact Swedish fund managers' investment choices? We chose this question based on our research background and decided to focus on Sweden since Sweden is a leading country within sustainability (Sachs et al., 2020) We then moved forward to step two which was to select relevant people to interview. We decided to interview portfolio managers who work within Swedish equity funds or Swedish national pension funds. We then went on to step three which included the collection of relevant data. Since we had a clear focus from the beginning on what we wanted to investigate, we decided to use semi structured interviews. This means that we had a list with questions on the topics which we want to cover (our interview guide), but still offered the interviewed person freedom in answering the questions since they were not leading questions. The semi structured interview also gave every interview participant the possibility to ask questions which come up and are not part of the interview guide. After step three we went on to step four which was the interpretation of the data. This was done by analyzing and comparing the interview answers. After this step we proceeded to step five which included the conceptual and theoretical work and then we proceeded to step six which also was our last step where we wrote up our findings and visualized them.

3.2 Interview Guide

While preparing our interview guide we started with deciding what questions would be relevant for our study. To do so we created a list of questions about the fund managers investment decisions which include sustainability factors such as the UN's 17 SDGs, ESG and SRI, which means that the questions include environmental, economic and social sustainability. We decided to not make the questions too specific. The reason for that is to offer the interviewee more freedom in answering to eliminate narrow mindedness. We also focused on a clear and professional use of language and avoided sounding unnecessarily complicated. To be able to deeply analyze the interviews, we recorded and transcribed the interview since that leads to the possibility to examine the answers and eliminates the risk of the natural limitations of our memories. It also opens up our data to the public which makes the study easier to replicate and it

offers other researchers to use our data for other research. Besides that, it also helps against accusations that our study could have been influenced by our own personal values or beliefs. We also tried to get as much flexibility as possible in the interview since we wanted the interviewee to feel that he/she can answer freely so that we would get the most reliable answers without pressuring the interviewee of any kind. We wanted the answers to be true rather than to be our expectation. Our questions follow Kvales (2019) suggestions for interview questions and include all nine questions typed. We especially focused on interpreting questions. But mostly our introducing questions naturally lead to follow up questions and a natural interview process started.

3.3 Credibility

To ensure credibility, every interviewee was asked the questions in the interview guide with a similar wording. The interviews are the basis for our conclusion. After our interviews, we decided to interpret the data by analyzing the answers of all the interviewees and compare them with each other to find similarities or differences. Later on we then compared our data to previously conducted studies. We then controlled our research question to see if we needed any further specifications or further data. In the final step we wrote up our findings and conclusions to ensure that our readers are convinced about the credibility and significance of our study. Our focus was also to maximize the degree to which our study can be replicated, this to ensure external reliability. In order to maximize the internal reliability, we made sure to discuss the answers to ensure that we have the same understanding of what was said and meant. To ensure our studies quality, we decided to rely on trustworthiness and authenticity. Which means that we choose our method based on the four criteria of trustworthiness (Lincoln & Guba, 1985). We established credibility by carrying out the study according to the canons of good practice which means that we submitted our research findings to the people who were studied (Bell et al., 2019). We also used more than one method or source of data to establish triangulation which results in greater confidence in findings (Bell et al., 2019). Besides that, we keep all complete records (interview transcript) throughout the study process. The reason for that is to maximize the degree to which theoretical inferences can be justified. An important part of the research for us was the fact that we act in good faith since that leads to more confirmability. Furthermore, authenticity is a crucial part in our study. We ensure authenticity by representing different viewpoints of our findings.

The semi structured interviews were approximately 30-45 minutes long and were held through video conference platforms such as Zoom or Microsoft Teams. These services make the interview very similar to a face-to-face interview since it is possible to see and hear the interviewee and to interact as in a face-to-face interview. We chose this type of interview because it makes it easier to be flexible regarding the interview time and place. This made the scheduling easier. Additionally, it also saved time and cost for all involved since no travel is needed. Offering the possibility to interview through an online service increases the chances of getting an interview because of the advantages mentioned above (Bell et al., 2019). This type of interview also made it possible for us to record the interview which makes the transcription a lot easier. This would only be the case if the interviewee would agree to be recorded since a fundamental criterion of our study is the ethics in business research. The main ethical principles which were followed are to eliminate harm to participants, lack of informed consent, invasion of privacy and deception. This was established through making the participation completely voluntarily and informing the participant about the entire research process which also includes the analysis of the interview. Furthermore, no personal information about participants was shared without their consent. The interviews were completely free from physical or mental harm and were held without any pressure on the interviewee. We also eliminated deception by representing the study as what it really is.

3.4 Documents as source of data

While analyzing prior studies and documents for our research we used Scotts (1990) criteria for ensuring the documents quality. We analyzed every document for authenticity to make sure it is genuine. Then we analyze the document's credibility. In particular we looked if the evidence is free from the researcher’s personal opinions and if the used method is ethically and scientifically accepted. We then analyzed the document for representativeness. That was established by comparing it to other similar studies and to look if it is typical for that kind of study or do the researchers clearly state that the conclusion is atypical. After that, we analyzed the meaning of the document by making sure that the evidence is clear. Furthermore, we followed Eisenhardt’s satisfaction theory. Which means that we did not collect more documents or data then needed to answer our research question with scientific evidence (Eisenhardt, 1998). We also followed Eisenhardt’s theory about collecting data from different sources with different methods to ensure credibility by including more relevant people and making the study more objective and

eliminating subjectiveness. After all, the entire data used in the research was analyzed to ensure credibility and to make sure that copyrights were not stolen.

3.5 Advantages and critical aspects of the chosen method

3.5.1 Advantages

The chosen method can be used to investigate issues that are resistant to observation. A lot of issues cannot be examined by observation, in our particular example it would not be possible to follow a fund manager's investments decision within a sustainable fund by observation of the fund manager. Asking the fund manager is therefore the only viable means of finding out how sustainability impacts the investor's investment decisions. Furthermore, our chosen method makes it possible to recreate events by asking fund managers what has happened in the past. For example, how sustainability has impacted their investment decisions in the past. This is not possible by other methods such as observations. Additionally, interviewees will less likely act differently than they would in the real world compared to people who know that they are observed. That means that they are less prone to the reactive effect (Bell et al., 2019). A great advantage for our research is that qualitative research makes it possible to maintain a specific focus by addressing specific research questions.

3.5.2 Critical aspects

Qualitative interviewing is not conductive to exposure deviations or hidden activities (Bell et al., 2019) In particular this means for example that the interviewee could hide information that would be important for the study because it for example could lead to a negative image for the fund manager or the organization which he/she works for. Also, qualitative interviews are less flexible when it comes to unexpected topics or issues since the interview concludes with some form of structure and because the interviewee can implicate structure in the interview by steering it into a direction which the interviewee wishes. That could then result in information not being stated which could be important for the research.

4. Result

In this chapter, the results of the study will be reported and categorized. First the results from the equity fund managers will be reported and afterwards, the results from the interviews with the Swedish national pension funds will be reported. This disposition of the result is due to the fact that the result from the different fund managers should not be mixed up.

For clarification, all interviewees do not have the title of fund managers, still they have strong insight in the investment process and major influence in investment decisions. To that end, all interviewees will be named as fund managers, regardless of their original title. For simplicity, from now on the Swedish national pension funds will be referred to only as pension funds.

4.1 Equity fund managers

In this section the results from the interviews with the equity funds will be represented.

4.1.1 Definition of Sustainability

Equity fund managers define sustainability as doing something that works in the long run, is in line with the Paris Agreement 2015 and helps the SDGs that we have agreed globally on. In addition, sustainability is also defined as a quality assurance of business models by looking more deeply at them from a qualitative perspective. This is done by looking at the financial aspects and then being able to secure these through sustainability aspects as the managers describe.

4.1.2 How sustainability is reflected in investment decisions

All participating equity fund managers agreed that sustainability is reflected in their investment decisions through systematic and quantitative management. The managers have several characteristics that they believe will give them a good return over time. Then the managers look for companies with these characteristics and zoom in on sustainability aspects.

The equity managers also use internally built models. For example, a model (evaluation model) with eight components is described. The first two components involve risk and opportunity. These two components are about managing their risks linked to sustainability in a good way and having good opportunities to develop the business and the industry on sustainability. Then the model contains the operational component, which analyzes how operations are conducted. The

next component is product and services, which considers the effect of the products and services. The model becomes a framework that consists of several different underlying components. Based on the model, the manager then looks, for example, at whether the company helps or overturns the SDGs or whether they are in line with the EU's taxonomy for what is a sustainable investment. Additional aspects that the managers look at are whether the company set goals to reduce its emissions in line with the Paris Agreement 2015 or how significant their emissions are, compared to comparable companies. All these components are aligned to a rating. The managers who have internal sustainability analysts work very closely with them, and one manager mentions that they internally set a benchmark where both parties sign off on the investment, but it is still the fund manager's decision. The managers also describe that all investment decisions go through sustainability, they do not start with sustainability, but they contain sustainability. The investments start with the financial aspect, which means that the managers find out what a company's return on equity is to see if the business model has a reasonable degree of efficiency. Then the sustainability analysis comes in by estimating the return on environmental capital, human capital, and social capital. So the managers describe that the investment goes through sustainability before investment decisions are made.

Furthermore, external frameworks are used if these are in line with the companies' opinions and if the managers think that they add value. These external tools can then, for example, be lists or databases which are used to work solidly with the companies or collaborate with other companies that conduct sustainability analysis. More specifically, the managers explain that sustainability is included in their investment decisions by choosing companies that work sustainably, opting out certain companies and not investing in certain types of industries that are considered unsustainable, such as tobacco, gambling, arms, alcohol and the fossil fuel industry. Other reasons for companies to be opted out are as the managers state, if they have been involved in excessive controversy.

According to the equity managers they mainly work with advocacy work to influence companies to become more climate-smart or get them to work on their difficulties. This is motivated by the managers because companies that have not come all the way yet in sustainability work need managers and guidance as well as companies who already have come far.

The equity managers describe that the sustainability analysis means, among other things, determining the position of a company more than giving it a ranking compared with something

else. One manager says that this can be described as setting up an x and y-axis and having the product or service on one axis and the business on the other to see if a company has an interesting product or service from a sustainability perspective and if the entire business is sustainable. The managers communicate that they usually want to find something far up in the right corner which means a sustainable product or service combined with a sustainable business. The reason for this is described by the managers that they mainly want to see the company's opportunities to create returns through its products and services in a long-term sustainable way.

One equity manager explains that within the evaluation process risk plays a major role since a chemical company has greater sustainability risks than, for example, an IT company. Therefore, higher ESG requirements are placed on companies in industries with major sustainability risks or banks that expose money laundering. According to one manager, an acceptable sustainability work which follows the SDGs is the requirement for them to consider investing in companies. The managers clarify that to have a company that contributes to the UN's global goals which means investing in medical technology, renewable energy, green buildings or electric vehicles is the goal. And as the managers explain, this whole process means that only a small part of all analyzed companies become investable. According to all participating equity managers, sustainability has become a more integrated part of their investment analysis.

4.1.3 Greenwashing

Greenwashing is a current theme according to the equity managers. The managers explain that it can often be the worst companies in terms of sustainability that look greenest on their websites because they have the greatest need to actually come out as sustainable. Therefore, the managers state that there are definitely incentives for companies to appear greener than they really are.

All participating fund managers in the study were clear that they are actively working against greenwashing by, among other things, looking at aspects such as whether the companies keep their policies or whether they only set up lots of policies. One manager gives an example of such a case, which would be a company that says that they work towards sustainable energy but only 2% of their business has gone to renewable energy. Thus the managers say, it is also controlled what the companies invest in and what they say they invest in through analysis of company reports. The managers summerieses that companies need to do what they advertise.

The managers continue with explaining that greenwashing also is counteracted by collaborating with other funds and investors. Managers purchase analysis services for global giants, who then meet the companies. This results according to the managers, in being good at getting to know when something starts to happen in the companies. The managers get warnings quite quickly and then dive into the company to see what is happening. If something unpleasant happens, the managers want to see a clear plan on how the companies handle the situation and how they intend to resolve it, otherwise they choose not to continue investing in the company.

One manager also describes that greenwashing means that sustainability work affects the business community in a good direction because all companies want to be green today. The manager describes that this means that the business community is moving in the right direction at a higher speed. However it is explained that, greenwashing of companies overall is never good, whether it is about sustainability or other issues.

4.1.4 The equity managers' use of sustainability measures

All fund managers stated that they use sustainability measures in investment decisions or the evaluation process of companies. ESG is especially mentioned. One manager says that the (G) for Governance, i.e. corporate governance, has more clearly stepped forward into the discussions. Explaining governance or traditional financial analysis has been around for a long time by companies, but it has now been clarified via sustainability or ESG. Therefore, clarifies that corporate governance is used for all investments. The manager explains that a company with a good product can last maybe 3-5 years, if they have good management (Governance) they can manage 5-10 years. So what drives the companies towards goals will according to the interview always be corporate governance and therefore governance is described as incredibly central to everything the fund managers work with. This is the reason why most energy is put into governance as it can create more sustainable business models over time. After that the manager moves on to the S and E. Also, the managers think that it is unusual for companies, to create renewable energy but at the same time use child labor and if someone has good governance in the ranks, E and S will align themselves.

4.1.5 External pressure to invest sustainably

The equity fund managers explain that they do not experience any direct pressure on more sustainability in investments, but that there is increased demand. According to them, both knowledge and interest have increased among institutions and private savers. The institutions which have money are starting to become more aware and want to advance positions where they invest in the funds as the managers explain. According to one fund manager this leads to the use of sustainability as an advertising slogan. In addition, the managers point out that the fund companies themselves have decided to focus on sustainability and that it will generally be bad if they would do things because they had to or because the customers demand it, instead of doing it because they themself want to do it.

When it comes to responsibility, the equity fund managers describe that they all see themselves as responsible, both in working life and privately as part of the society. One manager points out that the responsibility is even more important if their customer promise includes sustainability. The responsibility is according to the managers mainly represented in the advocacy work which is described by them as the influence work which they do to influence companies to become more sustainable.

4.1.6 The advocacy work

It is through advocacy work where according to all interviewed managers, the most sustainable work is done. They describe that this is done both by themselves and through collaboration with partner organisations. The managers explain that as all Swedish fund companies are known in the nordic countries but not always, for example, in South America, these foreign companies do not always prioritize dialogue with the Swedish fund companies. In these cases the managers mention that advocacy work can be done by collaborating with organizations that pool capital from, for example, 20 fund companies at the same time to get quite a lot of money to influence companies that then have to listen to the fund managers.

The managers describe that with other companies who do know the importance of the Swedish fund managers the advocacy work can be done directly by contacting the companies and asking questions. The managers explain that these questions concern the company's plans and actions regarding sustainability and are announced as the first step in the advocacy process by the managers. As the interviewees describe, the questions which are asked depend on the industries

in which the companies are active in. For example, one manager explains that it is not so important for a software company to reflect on its supply chain while it is extremely important for them to reflect on product safety and human capital. The managers informed us that a typical advocacy dialog can lead the companies to be more sustainable through better choices of subcontractors. Furthermore, the managers also point out that the right amount of questions and the right way of asking them is fundamental for success. The easiest way to get a company to make changes is according to the manager by joining forces with other asset managers. This leads as described by equity managers to great opportunities in a short perspective to influence.

Other opportunities to directly influence companies towards a more sustainable future are according to the managers by having people dedicated to influence work within the fund. The managers continue explaining that these people meet the company managers and have nomination committees once a year where the trustees as owners can propose a board member and often the proposed board member is elected. Furthermore the managers mention that the board members that they propose have a clear sustainability and climate perspective. This is ensured by the interviews which are held by the equity fund managers with the potential board members prior to the proposing.

The managers state that the advocacy work is considered as important for being long-term investors. In general, the managers explain that they meet all companies in which they own larger shares and they affect all companies they invest in. The companies they focus on are monitored on an ongoing basis and they keep a log of which issues they pursue with each company. They also believe that influence is more important than exclusion and if they act as active owners, it is better that they remain in companies with certain flaws and try to influence them in the right direction rather than just escape from their responsibilities by selling off.

Lastly, another way of advocacy work is described where the managers bring companies on the Swedish stock exchange. The reason for this is that if more companies enter the Swedish stock market, the probability increases that they will stay there. So working for the nordic innovation is something that the managers see as something they can do in the long term. The manager explains that this is done to ensure that companies do not flee to other regions where sustainability is not given as high a priority.

When it comes to communication and sustainability reporting, the fund managers reveal that large listed companies have quite high demands to be transparent and that if they want a dialogue with a company and the company does not show any dialogue interest, it is considered a negative signal. If, on the other hand, the companies show interest in a dialogue by, for example, responding quickly, this is considered a positive signal. In general, according to investment managers, companies are open and want to discuss sustainability.

Larger challenges with communication around sustainability are experienced by managers in emerging markets, however, they explain that this means that they are not as likely to invest in these companies if they are not transparent with their sustainability work. In addition to companies in emerging markets, they state that there is also a lack of sustainability reporting in small companies. The reason for that is according to the managers that sustainability work requires resources and therefore small companies have more difficulty communicating sustainability and making sustainability reports than large companies which can put a lot of resources into their sustainability work .

Finally, the managers also mention that it is interesting with sustainability that there are not at all the same restrictions as with financial information. One manager states that someone can easily get financial information that does not apply to the entire market, however, this is not the case for the sustainability side. The financial data in the capital markets is very deep and broad and this is due to legislation, demand and history. The manager explains that there is not the same depth and breadth regarding sustainability data or ESG data, there it is much more about making estimates, comparing and thinking a lot about how to address issues and to have contact with the companies. Finally one manager states that the fact that there are not any requirements for some data leads to the managers often receiving information about the companies that are not yet public because there is no requirement for it to be public.

4.1.7 Sustainability vs. profitability

According to all interviewed equity fund managers, profitability and sustainability go hand in hand when right implemented. The fund manager's conviction is that there is no contradiction and that the managers are looking for companies with certain characteristics and sustainability is one of these characteristics. Over time, sustainable investments will go better according to the

managers and one manager points out that in 2020, all funds that have invested sustainably have performed very well on the Swedish stock exchange.

Also, one manager describes that if someone already has a product, service or business model that works, it can be strengthened or weakened through sustainability. Having a sustainable business model on the other hand is more difficult as the manager states. Therefore, one must start in the financial sector but very quickly have an increased understanding of how to run the business to get future cash flows. If sustainability is integrated in the right way in the funds, the managers believe that there is a return potential because value and growth are linked, so all companies that are to be successful over time and want a high return must have good sustainability work.

Another interviewee concludes this question by saying that their most important sustainability goal is to work so that the companies remain in the nordic region, and that they sometimes can dispense returns in the short term to get closer to the goal. Also, one manager explains that the saving horizon plays an important role. As the manager states, for short term funds profitability is a more central role than for long-term funds.

Regarding the managers profitability if they would focus more on companies with a sustainability focus, one equity managers states that, the question of whether the funds' profitability could improve is difficult as an increased focus on sustainability would lead to the organization being driven more towards certain business models and as the manager explains, only the future can tell if they are more profitable. Overall the managers think that they already are doing a good job but that there is still a lot to do.

When it comes to positive and negative aspects of only investing according to sustainability, No manager thinks that it is smart to only invest from a sustainable (SDGs & ESG) perspective. According to them, it is important to account for both sustainability and the financial figures. The reason why someone should look at both aspects is described by the managers that it otherwise becomes unstable if anyone just puts money into something that is sustainable without looking at the underlying stability, such as management and valuation.

If someone only looks at the SDGs, the managers state that there is the possibility to invest in companies that are overvalued. One example is given, if people want to invest in water

purification (of which there is not much), they can be overvalued and then it may not be a good investment. Then, according to the manager, someone should look at resource efficiency or waste management or something else that also is important but not as highly valued.

One manager adds a negative aspect that can arise if someone only invests according to sustainability, which is that this person can get factor risks in their savings, and as the manager describes this leads to ending up in places where there in a shorter perspective will be deviations from what the manager measures against.

Another fund manager mentions the biggest cleantech bubble ever where all cleantech companies went down 80-90% in 2009. The manager continues that there was a huge valuation bubble and today the valuation bubble is worse than it was then.

According to the same manager, the sustainability trend is good, but as a fund they do not want any division, for example that companies in Europe are very good with sustainability work while it does not matter in China. The reason is described by the manager by stating that it would not be good if European companies did worse just for that, and therefore could not cope with the competition . In addition the manager mentions that there can sometimes be too much focus on sustainability or greenwashing. Explaining that it is a bit of hypocrisy that a fund company, for example, is not allowed to invest in oil, but all people use oil when they go to work. Where to draw the line with what is reasonable is a question that the trustee keeps open. The manager ends the question by explaining that basically, all sustainability work that is done in the business world is a reflection of what society as a whole has for values and because it is so difficult to define sustainability, it is not possible to invest only from a sustainability perspective.

4.2 Swedish national pension fund managers

In this section the results of the interviews with the national pension fund managers are represented and categorized.

4.2.1 Definition of sustainability

Pension fund managers define sustainability as looking at the risks, responsibilities and opportunities they have from a sustainability perspective in order for them to do the best work

they can do. And when they do the best work they can do, they generate a mere return to as good a risk as possible, as they state.

4.2.2 How sustainability is reflected in investment decisions

All interviewed pension managers state that they have a solid due diligence process, where they primarily evaluate management teams. In addition, a manager also describes that they have certain main components in the investment process that contain sustainability strategies. This defines them according to the manager as value based which is described as no investment made in something that violates institutional conventions or something that Sweden stands for as a country. The pension funds explain that they integrate sustainability aspects so that they contribute to the return and so that they can make better and more informed investment decisions. According to one of the managers, they do not do this for the primary purpose of making the world a better place, but they do it to achieve a higher return.

Furthermore, the pension funds describe that sustainability work is included and carried out differently depending on the type of asset, i.e. for shares, fixed income products or real estate investments. This means according to them that sustainability issues are designed depending on the sector in which the companies are located.

The pension funds describe that the sustainability work itself is visible through dedicated investments that promote sustainable development. They explain that they have a specific focus precisely on identifying companies that provide products and services where the purpose is the fulfillment of the UN's global development goals, the 17 SDGs. At the same time they state that they have the overall required return which they can not ignore and therefore they would not enter a real estate transaction or buy a bond regardless of whether it is green or not if it does not have the same return and risk profile as a similar product.

Finally, the pension funds believe that the best way to achieve the goal of providing high returns to future retirees is to do so by investing responsibly. According to the pension funds sustainability risks always involve financial risks in the long run and this could cost the pension

funds money in one way or another. This is according to the pension funds why they see it as completely natural that sustainability is integrated into the investment processes.

One pension fund describes a scorecard that they have for all different parts and with which they evaluate sustainability work. They explain that they have built a model in exactly the same way as they value other parts, such as what the market looks like, what the company's future risks look like and what the legal side looks like in the financial situation. Thes scorecard is described as a scorecard for sustainability as a valuation tool based on a certain number of criteria. The manager further describes that they have two focus areas that include measuring the climate footprint in their portfolio for the last seven years which according to them, is very unusual in the unlisted world. Furthermore, it also includes measuring physical climate risks in the portfolio, which according to them also is not particularly common to do in an unlisted portfolio.

The pension fund managers state that depending on what the work entails, it differs with the proportion of sustainability work that they do themselves. They explain that they usually do a certain part themselves and then they take input from others that they choose to feed into their own analysis. The managers clarify that when it comes to key figures relating to sustainability, data is purchased, but the analysis itself is conducted by themselves. Furthermore, they state that the screening of the portfolio is done by other companies who also inform them if there is any warning signal about the company of interest that must be taken into account.

4.2.3 Greenwashing

According to the pension funds, the main tool for counteracting greenwashing is clear communication. The key work is described by the managers as looking up what the companies really are doing and not only claiming. As the managers state, it can then, among other things, be about looking at emissions over time, what their goals are and what they deliver, this to ensure the relevance of what they report.

Another pension fund manager explains that they work hard to ensure that they themselves do not engage in greenwashing, this by following the EU's new guidelines on sustainable indices, sustainable equity indices, and sustainable bond indices. As the interviewee states, these guidelines are developed precisely for the purpose of counteracting greenwashing, so for their part, this means that they not only remove certain problem sectors but that they have an

emphasis on better companies and this also means according to the fund that they never go out with what they do or will do but only what they have done. The reason for this is that the managers believe that this ensures credibility and helps building relationships. In general, pension fund managers describe that they experience much less greenwashing now than they did before.

4.2.4 The pension managers' use of sustainability measures

When it comes to sustainability measures, a pension fund manager describes that, based on their values, they work a lot with the UN's Global Compact and its principles and conduct analysis to understand the companies from that perspective. Then the manager describes that the SDGs are considered as a framework for what they do in investments.

Another pension fund describes the process for evaluating sustainability risks. According to them, they do an ESG due diligence and as a complement also use a system called "Rep Risk" to assess if there have been any ESG-incidents and to see the ESG score in Rep Risk, which they say is based on geography and the type of business.

When it comes to the priorities within ESG, it is mentioned by a pension fund that based on generating a good return the climate issue is significant. They also describe that if they did not act in line with the Paris Agreement, it would probably have quite large consequences for them and their mission over time. At the same time, they point out that the adjustment in line with the Paris Agreement is something where they can see greater ambition among both states and corporations. An additional pension fund mentions that they absolutely prioritize climate because it is the biggest challenge and that it is also not only about how the earth is affected by that assessment but also that the climate will have a real economic impact. Furthermore, one pension fund explains that social sustainability gets more space because human rights are in focus.

Lastly one pension fund manager tells us that they are trying to identify the sustainability measures that say something about the future return on various assets such as the individual share, for example, they do not look at the ESG index in this way, but they look at basic data and then questions such as how many women are on the board of a company or how much

emissions the company generates are important. They also mention the Paris Agreement and that they will reduce the carbon footprint of their listed equity portfolios very much.

4.2.5 External pressure to invest sustainably

According to the pension funds, Sustainability has become more important for the companies in which they invest, which as they explain, leads to the fact that if they did not look at sustainability issues, they would deliver a poorer return. When it comes to closed-end funds one pension fund manager describes that no money goes in or out if they are not currently paid anything, which means that the money received when the fund was started and their return is what is available and built up in the fund. Thus, there is no external pressure according to the managers. Overall, the pension funds state that they are governed by the state, which claims that they must make responsible investments and be active and responsible owners, whilst not doing investments with a waiver of the return target. Therefore they explain that the return target is the most important thing in everything the pension funds do. Because of that, they believe that the sustainability work is about balancing up and making decisions that are fact-based and relevant to the portfolio in a return perspective.

Regarding the fund managers' responsibility, one fund manager describes that it is important to maintain dimensions in the whole and that the manager sometimes feels that those who are managers are sometimes given responsibility for the development of the whole world. They describe that for them, it is important that the entire market and society go in the same direction, as those who are investors according to the manager cannot make demands on the companies that are not reasonable for the companies to implement. Furthermore, the manager explains that it is important to acknowledge that there are market mechanisms and regulations and other types of instruments that make it profitable for the companies to take in the measures.

One manager goes on to explain that climate change, which according to the manager is the most central and pressing issue right now, is primarily a political issue, and therefore the solution should come from a political point of view. The manager points out that this does not exclude that the financial market also contributes, but continues that it is first and foremost a political issue and concludes that the solution not only lies within the financial market.

Furthermore, one pension fund manager says that the managers often when they continued investing in fossil fuels got blamed for destroying the climate. According to the manager it is not them who are to blame because they do not own what destroys the planet. The manager thinks that rather the ones who buy and use what destroys the climate are to blame. The manager also explained that last year they were analyzing a possible fossil investment which they in the end did not choose because of the financial risks but they did not reject it because they intended to save the world.

4.2.6 The advocacy work

When it comes to influencing companies to a more sustainable direction, the pension funds explain a process that kicks in if something with the company does not match the fund's expectations, such as current emissions. This means, according to them, that they work proactively and see industry-common issues, which may not be unique to a specific company without the entire industry struggling with it. The first step is described as a direct dialog with the company. Then they go on to the next step which is described as together with other managers trying to tackle the specific problem. The managers continue explaining that the companies are followed up quarterly on, among other things, sustainability aspects where they are examined for their entire equity portfolio based on their ESG analysis. The interviewee explains that there is an extra in-depth monitoring and follow-up around companies that are identified in the portfolio with a particularly high sustainability risk.

Another pension fund mentions that they collaborate with their so-called Ethics Council, where many of the sustainability issues are handled. According to the fund, if a company has violated any convention, or whatever it may be, it is flagged there and a process starts. The pension fund then hires a company that handles the process and makes a schedule for a number of years and different milestones. As the funds explain, they will keep the company if they see any improvement , but if they do not see an improvement at a certain point, they will sell it off if possible. However, according to the pension fund managers, this only works with listed companies. The problem in the unlisted world, as described by the manager, is that a company which already has been directly invested in, can not be sold off as with listed companies.

The manager explains that this means that a well done due diligence is required but that sometimes, however, things happen in companies and then it is the pension managers' responsibility to make demands together and to ensure that the problem will be solved to get better. The pension fund explains that they and the company which missbehaved have to continue working together, since it is not possible to get out of an unlisted company when a long-term investment is made.

When it comes to the communication and reporting from companies regarding sustainability, one of the pension fund managers describes that it is not relevant or sustainable to require companies to report on every single aspect that investors are interested in understanding. As the manager explains, sustainability has come a long way in different parts of the world. The manager describes one challenge, for example, the Chinese market, which is very large, and is beginning to integrate more and more into the global stock market. This becomes, according to the manager, a challenge if the companies have not come far with their sustainability work or if the state in the background has complicated the situation. Furthermore, another fund manager describes that being a minority owner means that the companies do not report to them directly and that this can lead to communication problems.

4.2.7 Sustainability vs. profitability

According to the pension managers, It is clearly profitability that they prioritize over sustainability. For them, as they mention, a lot is about profitability over time, so it is important for them not to make short-term decisions and this is where sustainability issues come in and become more material. This means according to one pension fund manager, that it is return that is the governing factor and that at best they go hand in hand. As the manager continues it is stated that this is not necessarily always the case and because their mission always is return and good return without sacrificing return, they must promote sustainability and take sustainability into account in their investments. In conclusion, the pension fund managers describe that one can either increase the return or reduce the risk through sustainability.

Lastly, a pension fund manager explains that not all sustainable companies are profitable and that not all unsustainable companies are unprofitable. At the same time, they describe that they see that the greater the focus and the more important sustainability issues become for the

companies, the more profitable it will be for the companies to act sustainably and then it will also be profitable for them as managers.

In case of the managers profitability if they would focus more on sustainable companies, the pension fund managers explain that in principle they already do have sustainability aspects through all types of assets and all investment processes, but that there are a few exceptions. They continue with explaining that sustainability issues continue to evolve all the time and will likely do so over time. This means according to the managers that they have to constantly change their perspective on sustainability and how it can affect different industries and companies.

Another pension fund manager announces that it can be argued that a sustainable company is less risky and then future cash flows should be discounted with a lower discount rate. The manager explains that investments which involve a lower risk also lead to a lower return. So therefore according to the manager, it can be discussed whether a sustainable company should have a lower expected return. The manager continues that if they would focus more on sustainability, the return would be a little less as well. Furthermore, the manager describes that they want what they think is important for a portfolio and that is to have as diversified a portfolio as possible. To achieve that, the manager states that risks have to be balanced. According to the manager, investing in more sustainable companies would lead to the opposite of a diversified portfolio and is therefore not desired.

When it comes to the positive and negative aspects of only investing according to sustainability, the pension fund managers describe that they can not take off their return hat because it would not be responsible towards the customers or themselves and that the portfolio's diversity would be risked if investments were only made according to sustainability.

5. Discussion

In this chapter the results will be summarized, questioned and analyzed. Furthermore our study results will be compared to prior studies and the outcome will be represented. At last, based on the analysis from the result, a seven step model is presented showing how sustainability is implicated in the investment process.

5.1 Interpretation of result

The results clearly show that sustainability is an important part of the interviewees fund management, both for pension funds and equity funds. However, the results also show clear differences within the sustainability work and the purpose of the sustainability work. Within equity fund management, sustainability work seems to be a fundamental aspect for investors because it represents their personal values as well as influencing society in a better direction according to the UN's sustainability goals. Furthermore, the equity fund managers' answer clarifies that sustainability work is required to be sustainable and profitable in the long term, which is in line with previous literature (Gates, 2013; Sakuma-Keck & hensmans, 2013; Turcsanyi & Sisaye, 2013). This means that equity fund managers implement sustainability for personal, social and economic reasons to promote the positive development of the world. Sometimes, equity fund managers can refrain from short-term profit, and instead invest in companies that will be profitable in the long term due to their sustainability work. By doing so, the fund managers probably get an extra "psychic return" (Beal et al., 2005) of their investment.

On the other hand, the pension funds' response states that sustainability is important because it in specific, generates return. It depicts a clear focus on return and that particular factor cannot be sacrificed in order to be sustainable. These findings suggest that the pension managers act in a profit maximizing behaviour (Nilsson, 2009; Wu et al., 2020). The reason for this according to the pension managers is that they are required to generate returns so that pensioners can live a good life after retiring. This explanation is contraditionary to the literature when it comes to profit maximizers, because normally they behave in greed (Nilsson, 2009; Wu et al., 2020). While in this scenario, the pension managers strive for return for the better sake of pensioners. Then again, sustainability work is integrated from an economic perspective to ensure returns in the first place, and not to save the world. However, this does not diminish the positive effect on society and the climate that results from the pension fund managers' sustainability work.

Both the equity fund managers and the pension fund managers describe that sustainability is a tool for ensuring returns, which presents the fundamental role of sustainability work in economic aspects. The equity fund managers also agree that with the right implementation of sustainability, profitability goes hand in hand with sustainability. On the other hand, pension managers do not

share the same opinion and believe that sustainability and profitability can go hand in hand, but this is not always the case. Showing that pension managers have a more cautious approach to this link between the two concepts.

The actual sustainability work primarily involves due diligence work. Where the companies are carefully examined before an investment decision is made, in order to try to prevent large financial costs that may arise if the companies in which the managers have invested are subject to controversy. Furthermore, both equity managers and pension managers have their own internal models. These models are used in combination with sometimes purchased data from sustainability analysts to evaluate the companies from a sustainability perspective to ensure a good investment. When the investment is made, the sustainability work, according to the equity fund managers, primarily involves advocacy work to get the companies to act more sustainably. Furthermore, both types of the fund manager conduct follow-up work with the companies to understand what the companies are doing and what their future plans are. This is done to ensure that the companies do not act in any way that could result in financial consequences for the fund companies. It is not always possible to predict everything, which leads to some companies ending up in controversy. If a company ends up in a controversy or similar, equity fund managers and pension managers have the same approach, which means having a dialogue with current companies and seeing what their action plan is for handling the situation. When it comes to continued cooperation, the opportunities of equity fund managers and pension fund managers differ. If the equity fund managers think that the companies do not handle a situation well enough or do not have a clear trading plan, they can choose to sell the company and not have them in the portfolio anymore. This does not work for pension funds that invest in unlisted companies because they can not sell, if they have decided to invest directly in the long term in a company, it is not easy to get out, which means that they have to work together with the company to solve the controversy. This means that sustainability has different aspects depending on the type of asset. Thus, it can have major financial consequences for pension funds if the due diligence process is not carried out thoroughly enough.

In taking responsibility, it is made clear that equity fund managers see themselves as fellow citizens in society and are therefore also responsible for contributing to a more sustainable future by taking into account the Paris Agreement, the SDGs and the use of ESG analysis. They also

mean that by not investing in companies that act unsustainably and thus not supporting these companies, they act responsible. For the pension managers however, the play rules are different. They point out their government regulation, which means that they must make responsible investments but not lose any return. Therefore, they explain that it is above all a political issue and that regulations and rules should come from the politicians. They realize that they are a part of it all, but do not assume that they as pension managers can take responsibility for everything in sustainability. They also describe that as the owner of a fossil company, it is not the owner who contributes negatively to sustainability, but the user of the fossil product. This shows lower responsibility than with equity funds. This statement is not entirely true because as an investor, you contribute to more capital in the company which leads to fossil fuels being produced more.

Unsustainable companies that present themselves as sustainable and thus conduct greenwashing consider both fund types to meet to a greater or lesser extent. To counter greenwashing, all fund managers use similar processes that primarily involve communication and control of the companies to see what they really do and not just trust everything the companies say. According to previous research, this is the right way to avoid engaging in Greenwashing (Delmas & Burbano, 2011; Wu et al., 2020). It is important with a high level of transparency regarding CSR information, but not too high (Wu et al., 2020). Meaning that if the transparency level is not too high, profit maximizing companies will try to copy the sustainable strategies from socially responsible companies, which will lead to higher social welfare. As one equity fund manager also suggested, Greenwashing can be interpreted as a positive change in society. Meaning that Greenwashing could actually work as motivation regarding the strong green trend going on in recent years. The reason for this is that when every company says they are sustainable (even though they are lying), every other company will try to catch up due to competition.

However, it is also made clear that fund managers avoid major consequences in connection with greenwashing already through the due diligence process. Although all managers have the same opinion that greenwashing in itself is a bad thing, it is also explained that it can be a good sign because it shows how important sustainability is. This also means that sustainability has become an increasingly relevant theme and that society is moving towards a more sustainable future, which everyone will be able to benefit from in the long term. The fund managers' work to prevent themselves from being exposed to greenwashing and the use of ESG analysis, as well as consideration for the SDGs and the Paris Agreement, also means that they are taking responsibility that promotes sustainability development on a global level.

ESG is something that all fund managers use. The results show that depending on the fund manager's focus on industry or sector in which the companies are active. The various components within ESG play different roles for the fund managers, but in general all the components are relevant. This means that sustainability measures are integrated by both companies and Managers. Together with the information received that sustainability has become increasingly relevant in the last 5-10 years which is in line with previous literature (Sciarelli et al., 2020), this is a sign that the financial world is on the right track. According to the managers, the reason why the financial world is on the right track is above all that the interest in sustainability of small savers and institutions has increased. Thus, sustainability must be integrated because it is in demand and the fund companies are only profitable if they offer sustainable products/funds. It is also important to point out the statement of an equity fund manager; that the fund companies use sustainability as a slogan, which also means that sustainability is in demand and thus offered to create future cash flows.

The increased interest in sustainability in society also means that communication between companies and investors from a sustainability perspective becomes easier. For their own interest, the companies are usually transparent with the sustainability work they do because there is demand. This also means that the companies are willing to have a dialogue on sustainability issues with existing or potential investors, which facilitates the investment process from a sustainability perspective. To facilitate even more, Gates (2013) suggests that the companies could convert some of the sustainability factors to factors more recognizable to investors, factors more linked to the financial aspect. Which will improve the link between corporate sustainable performance and financial performance (Gates, 2013).

However, the managers point out that there can sometimes be problems in communication with companies if they, for example, concern emerging markets. But even then, the managers have the opportunity to influence by merging with other companies so that a large capital pool arises that the companies in emerging markets must take into account. The collaboration with other investors clarifies the investors' interest in sustainable development and the innovation to find solutions to influence the companies indirectly if it becomes difficult with ordinary dialogue due to the emerging markets company's disinterest. A fund manager states that small companies sometimes have very good sustainability work with smaller resources available than larger companies. This can lead to smaller companies' sustainability work not being so clearly visible

due to lack of resources and poorer reporting than larger companies. This makes it hard for investors, because they will have to oscillate between acting in a mode of trust or distrust (Henningsson et al., 2015). Because smaller companies lack required reporting of sustainability, they will probably present a holistic context of CSR information. Which forces investors to make investment decisions based on limited CSR information, and trust the corporate management. Gradually, this trust will create a need from fund managers to constantly reaffirm this holistic presented view and try to open up CSR information (Henningsson et al., 2015). This view from previous literature is well established by interviewed fund managers as well. As all fund managers agreed, when investing in small companies, it is important to have a close collaboration and to ask questions frequently. Large companies may have their own sustainability departments and full-time people who are responsible for reporting, making it possible to present detailed CSR information. Which probably will make investors behave in distrust (Henningsson et al., 2015), and therefore be concerned with who is the source of information. Meaning that large companies' issue in this situation is who is playing the role of messenger presenting CSR information. All things considered, depending on how large companies are which fund managers invest in, they will act differently regarding trust or distrust of CSR information.

All interviewees do not believe that their profitability would be improved if they integrated even more sustainability into the business than they already do. However, according to previous research, increasing the number of sustainability screening processes could increase profitability, but it could also decrease depending on how many screening processes were made in the origin (Barnett & Salomon, 2006). Although, every fund manager agrees that there is still work to be done, but based on their mission, they are already good at sustainability work. However, it is clear that they still have things to do and that sustainability is constantly evolving, which means that the managers will never be able to finish the sustainability work. It is also interesting that too much focus on sustainability can lead to risks for the companies, such as factor risks or overvaluation of companies. Companies can not only be considered profitable because they are sustainable, they must generate cash flows, which means that a balance between sustainability and financial aspects is the right way. This is in some way contrary to Barnett and Salomon (2006) with their U-curved relationship between number of sustainable screening processes and profitability, suggesting that either a small amount or high amount of screening process will result in higher profit.

Furthermore, it is also important that we at a global level oppose sustainable development at the same pace. So companies that conduct good sustainability work do not have any disadvantages compared with other companies in other countries which do not have as good sustainability work due to a lack of regulations. If this sustainable development is not consistent on a global level, there is a risk that companies could move to other countries where sustainability is not a requirement and this would not be good from an economic perspective. Furthermore, it would also lead to those companies with better sustainability financially looking worse than a company in the same industry that does not adhere to the sustainability goals.

All this indicates that a lot of resources are invested in sustainability work that costs the fund companies money. Since investors through sustainability work can increase the security for future cash flows, the sustainability work itself can be seen as an investment.

5.2 The Sustainable Investment process

Through our analysis of the interviews there can be seen a clear process of how sustainability is implicated in the investment process. Therefore we made a seven step model to visualize the investment process and to show which impact sustainability has within a fund's investment choice.

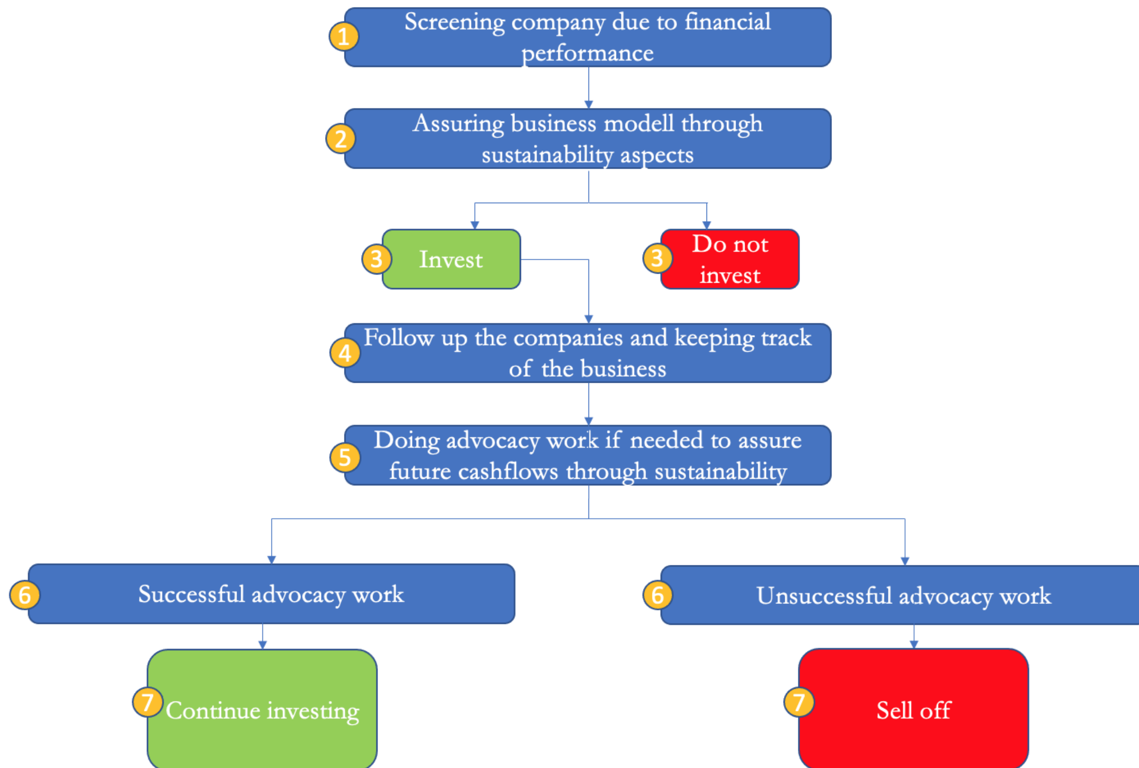

Figure 1. An outline of the Sustainable Investmentprocess. Source: Own elaboration

Explanation of the steps:

1. Screening the company from a financial point of view. This means to analyze the company's return on equity to see if the business model has a reasonable degree of efficiency.
2. Assuring the business model by estimating the return on environmental capital, human capital, and social capital.
3. Make investment decisions. If the investment will be made continue to step four. If the decision means not to invest, stop at step three.
4. Following up the companies through having dialogues with them and to be aware of future plans and presented data.
5. Influence the companies if necessary to become more sustainable by guiding them towards a more sustainable future. This step also involves influencing companies to keep being sustainable.
6. Analyze if the advocacy work is effective or not at a given moment.
7. If the advocacy work is successful, keep investing. If the advocacy work is not successful, stop investing and sell off.

Important to mention is that this figure does not take investments in unlisted companies into account. For investments in unlisted companies the figure will only have one step six which would be to keep investing. Therefore, there would be special focus on step one and two to make sure that the only possibility in step six will not be an issue. Furthermore, the model can be reused by the investors more than one time in the same company. If for example the decision is made that the investment will not be done because of the company's financial or sustainable situation, the investors can use the model again at a different point and if the company's situation has become better, they might invest. The model visualizes the Swedish fund manager's investment process and clearly shows the importance of sustainability within the investment sector.

6. Conclusion

In conclusion, we made a qualitative study where we interviewed Swedish equity and Swedish pension funds to get an insight of how sustainability impacts fund managers. The result shows that sustainability is deeply integrated and has a fundamental role within the entire investment process. The process and steps are shown in the discussion part above. Furthermore, there are differences between equity funds and pension funds regarding prioritization. The pension funds clearly prioritize return and use sustainability for creation of future return whilst equity funds integrate sustainability because of the combination of values and the belief that those value based investments will create return over time. The equity funds clearly also strive for return but compared to pension funds they will for exemple not invest in fossil to reach it and pension funds would not choose a green investment if it does not have the same return as a similar investment which is not green. Overall the study also shows that sustainability has an important role in our society and that the focus on it varies depending on region, industries, tasks and values. Future researchers are encouraged to dive deeper into the sustainable investment process by fund managers and asset management companies. It would be of especial interest to investigate differences between countries in the sustainable investment process or to have a more quantitative approach to the task. Other important questions arose while conducting this study which could be studied in the future. For example if there is a sustainability valuation bubble and if future cash flows of a sustainable company shouldbe discounted with a lower discount rate.

The study also made clear that it is through advocacy work that fund managers can influence companies to become sustainable or to become better at their sustainability work. Also, there is a higher demand for sustainability from institutions and private savers which also indicates that the society is striving towards a more sustainable future. Furthermore, the study also shows that the Paris Agreement 2015, the SDGs and ESG analysis positively contribute to the financial markets sustainability work and therefore are good agreements and tools. Therefore, sustainability is also a political question and legislation can have a positive sustainable impact on the financial market. In conclusion sustainability within the investment sector can be seen as an investment itself since according to the result of the study it is possible to assure future cash flows and therefore it is a key to success.

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Appendix

Interview guide (Swedish):

1. Hur skulle du/ni definiera hållbarhet?
2. Hur speglar sig hållbarhet i dina/era investeringsbeslut?
3. Hur värderas ett bolag som hållbart, vilka steg genomförs vid värderingen av hållbarhet?
4. Hur mycket kollar du/ni på hållbarhetsmått, i så fall vilka?
5. Begreppet hållbarhet brukar delas upp i tre grenar, ekologisk, ekonomisk och social hållbarhet. Finns det någon av dessa tre som du/ni fokuserar mer på?
6. Upplever du/ni något tryck från kunder/samhället att investera hållbart?
7. Vad tycker du/ni att intressenter, och speciellt investerare/fondförvaltare, har för ansvar när det gäller hållbarhet och påverkan på företag?
8. Upplever du/ni någon problematik i kommunikation med/rapportering från företag när det gäller hållbarhet?
9. Hur motverkar du/ni greenwashing?
10. Om ni märker att bolag ni investerat i inte längre sköter sig, har ni någon rutin för hur ni agerar då? Släpper ni bolaget direkt eller försöker ni hjälpa stötta tillbaka?
11. Vad prioriteras högst vid investeringsbeslut, avkastning eller hållbarhet?
12. Tror du att du/ni skulle förbättra er lönsamhet om ni skulle fokusera mer på företag med inriktning mot hållbarhet?
13. Om du/ni skulle investera dina/era egna privata pengar, skulle du/ni göra det i en fond/företag som har hållbar inriktning, eller i en fond/företag med så hög avkastning som möjligt?
14. Vad tror du/ni att det finns för positiva/negativa aspekter med att investera bara utefter hållbarhet?