Maj and Tor Nessling Foundation 1.4.2022, updated 2024

The Strategy for Responsible Investment

This document outlines the principles of responsible investment activities established by the Board of the Nessling Foundation. The document outlines the principles, definitions, governance structure, policies, and objectives of responsible investing. In addition, responsible investment practices are further defined as needed in the foundation's annually updated investment strategy and other documents that guide the practical implementation of asset management.

1. The foundation's purpose and mission as the basis for responsibility

According to Section 2 of the foundation's bylaws, the purpose of the foundation is to “advance technical and scientific research in order to prevent both direct and indirect pollution in air and water, to build cleansing systems for polluted waters and to improve environmental protection in general.” The foundation's Latin motto, “Pro Aere, Aqua, Terra,” translates to “For the Earth, Water, and Air” in English.

The foundation fulfills its purpose, according to its bylaws, by awarding grants as well as recognition and other prises to “scientists specialised in [technical and scientific research]. The foundation carries out its purpose also by providing working spaces and equipment for research and by supporting all activity useful for the cause.” (1978)

The foundation cannot direct its activities toward anything other than the public benefit purpose specified in its regulations. These regulatory provisions outline the boundaries within which the foundation's activities must be organised. The foundation's regulations enable a broad range of actions aimed at promoting environmental protection and related research, as well as the dissemination of its findings. In selecting these actions, flexibility allows for consideration of the requirements imposed by environmental protection at any given time.

Based on its bylaws, the foundation has defined its mission as follows: "The Nessling Foundation's mission is to seek systemic solutions for an ecologically sustainable future by supporting research and providing opportunities for encounters and researched information for the use of society."

2. The principles and risks of responsible investing, with the goal of long-term sustainability

The foundation's investment activities are based on generating sufficient returns from its assets to enable the foundation to fulfill its purpose in the most impactful way possible, while ensuring the preservation of its capital. Naturally, all foundation's operations should be sustainable, with a particular emphasis on ecological sustainability.

In capital markets, risk and return are correlated. Risk management is essential for the long-term investment returns as stable cashflows cumulate better. Risks are primarily managed through diversification of investments and high-quality risk-return analysis. Responsibility and sustainability criteria are an important part of the risk-return analysis for all investments, and they must therefore be significantly considered in all investment decision-making.

To ensure long-term sustainability in investment returns and the foundation's activities, ESG criteria—related to the environment (E), social responsibility (S), and good governance (G)—form a central part of the investment process, providing a foundation for evaluating long-term risks and opportunities. There are strong indications[1] that sustainable investments are also attractive from a long-term return perspective. In practice, this can be seen in lower capital costs and higher profitability, as well as potentially reduced risk if various risk factors, such as misconduct, or reputational risks, can be eliminated. The foundation believes that taking ESG factors into account has a positive impact on the long-term financial performance of investments, though the significance of individual ESG metrics may vary by asset class, industry, geography, and as a function of time and calculation methods.

In line with its commitment to sustainable development (2016), the foundation is dedicated to assessing and continuously improving the sustainability of its investments in collaboration

[1] Cheng, B., Ioannou, I. and Serafeim, G. (2014): Corporate social responsibility and access to finance, Strategic Management Journal, 35(1), pp. 1–23.
Khan, M., Serafeim, G. and Yoon, A. (2016): Corporate Sustainability: First Evidence on Materiality, Accounting Review, 91(6), pp. 1697–1724.

with its asset managers. Continuous improvement is essential, as expertise in responsibility and sustainability, as well as the opportunities for more responsible investment practices, are rapidly evolving. Asset managers are required to conduct high-quality and comprehensive evaluations of the sustainability of investments using the best available methods and metrics, and to provide essential and reliable reporting related to responsibility.

The highest emphasis in the foundation's responsible investment criteria is placed on environmental responsibility (E), which in this context refers to issues such as climate change, the scarcity of water and other resources, biodiversity, emissions to land, water, and air, as well as the circular economy.

The climate crisis, which has escalated into a climate emergency, and the issues related to carbon dioxide emissions are currently at the center of responsible investment considerations. The taxonomy related to environmental responsibility (E) is relatively well-developed and clear, especially compared to the taxonomy for social (S) and governance (G) factors, which facilitates the quantification of risks and opportunities.

Important issues for the foundation, such as biodiversity and nature loss, are only now starting to gain recognition among investors. However, actionable data on risks and effective solutions are still awaited[2]. Nevertheless, the foundation considers it important to attempt to analyse these factors already as part of its investment decisions. The foundation closely monitors developments in this area.

Governments, companies, institutional investors, and other organisations have recently set carbon neutrality goals for the years 2030—2050. Even the most ambitious targets imply a significant economic transition and a long transition phase from fossil fuels to renewable energy sources. Changes in the real economy are slow and challenging, even if responsible investors quickly move in a new direction, guided by ESG metrics and taxonomy. Capital is likely to be reallocated in new ways during this transition phase.

In line with the foundation’s mission, the goal is to provide the best possible research-based knowledge for society’s use. However, there is no guarantee that independent scientific knowledge will be the strongest argument when making decisions.

The transition phase will likely require not only large private sector investments, but also significant public sector contributions, subsidies, or regulations aimed at promoting technological innovations and influencing the behavior of companies and individuals to accelerate the transition. The taxonomy created through political decisions aims to direct capital toward the desired direction.

[2] TNFD — Taskforce on Nature-related Financial Disclosures

Responsible investing based on facts and reliable data remains challenging, and investment decisions are often made using incomplete, indicative, or historically limited information. Widely used ESG classifications and metrics do not yet adequately account for future activities and investments.

A potential shared risk of the above factors is that capital may flow toward green targets favored by indicators or subsidies, while transition-phase innovators and companies making changes to their operations may be left without the capital they need.

This could lead to a greenwashing risk or the creation of a “green bubble” in the markets. As with all its activities, the foundation strives to build the responsibility of its investments on the best available information and the “Pro Aere, Aqua, Terra” perspective. ESG metrics and taxonomy are important tools, but they are only means to facilitate an investor's decision-making on responsibility issues. In terms of environmental matters, the foundation is prepared, when necessary, to form independent opinions that may, in certain cases, diverge from the mainstream ESG perspective, both in terms of environmental and financial impacts.

3. The foundation’s mission enables impact investing

Impact investments are investments aimed at generating a positive, measurable social or environmental impact in addition to financial returns. The return expectations for impact investments can be market-based or below market-based, depending on the strategy and objectives set by the investor.

The foundation’s assets exist solely for the purpose defined in the foundation's bylaws. In its investment activities, risks that could jeopardise capital preservation in real terms must be avoided. The effective fulfillment of the foundation’s purpose requires the use of modern investment instruments and risk management mechanisms, as well as responsible selection of investment targets. At the same time, the foundation's purpose must be pursued as efficiently and comprehensively as possible.

Thus, in addition to the investment objectives—namely, safeguarding the real value of the assets and ensuring responsibility—impact can also be pursued through investments. The foundation’s purpose allows for the use of impact investing instruments as part of the overall investment portfolio, provided that the impact of the investment is clear and verifiable within the foundation’s mission and can be reliably measured and reported.

The foundation’s purpose is not primarily or predominantly pursued by concentrating a large portion of its assets into investments that are central to, for example, water or circular economy, especially if the expected returns on these investments are low or if they involve significant risks. However, the thematic connection of an investment to the foundation’s purpose may provide a reason to accept a higher risk compared to other investments.

4. The good governance structure of responsible investing

The foundation's governing board is responsible for ensuring the legality and alignment of the foundation’s activities with its purpose. The board oversees the foundation’s strategic decisions, the guidance of daily operations, and supervision.

As part of its work, the foundation's board develops and outlines the responsible investment strategy, sets the objectives for responsible investment activities, and monitors the implementation of these activities in line with the objectives using a robust set of metrics and reporting. The board also regularly assesses the need to update the responsibility policy, at least every three years.

The foundation's responsible investment strategy is openly available on the foundation’s website. The asset manager reports on the progress of responsible investing to the foundation’s finance committee annually, after which the matter is discussed by the board.

The foundation's board annually approves a written investment plan, which defines the foundation's return objectives, risk limits, responsible investment guidelines, and instructions for asset management.

The foundation does not have its own full-time investment organisation to research individual investment opportunities and build a portfolio aligned with the foundation's objectives. For this reason, the board decides, at its discretion, to use one or more external asset managers. The foundation requires its asset managers to make investment decisions in accordance with the foundation's responsibility policy and investment strategy, as well as to continuously improve the assessment, monitoring, and reporting of the sustainability of investments (targets). The asset managers must be reputable entities, licensed to operate in Finland, and supervised by the Financial Supervisory Authority (Finanssivalvonta).

The board regularly puts the foundation's outsourced asset management up for tender. The quality of responsible investing, alignment with the foundation's objectives, and leadership in the field of responsible investing are important criteria when selecting an asset manager.

5. The foundation's goals, methods, and reporting for responsible investment activities

The goalsetting for responsible investing can be approached in various ways. Different objectives complement one another and support or promote diverse perspectives in responsible investing. Goals can be set, for example, for individual assets within the portfolio, for the overall characteristics of the portfolio, its structure, or the impact of the investments. Objectives can also be established for the development of the foundation's own operations or the activities of its asset managers. Additionally, aspirational goals can be set to communicate intent, aiming to influence sustainable development indirectly. The portfolio's current goal of carbon neutrality is an example of such an indirect impact objective.

Below are the responsible investment goals that the foundation has set for itself and its asset manager.

5.1 Portfolio-level goals related to the characteristics of investment targets

The table below (in Finnish) shows all the responsible investment criteria and goals set by the Nessling Foundation in 2016. These are traditional ESG-based goals, focusing on the characteristics of investment targets, including MSCI sustainability ratings, norm violations, or the quality of business operations. Progress measured by these indicators has been positive since 2016. The foundation continues to monitor these criteria and strives for even greater responsibility in these areas.

	30.12.2016	29.12.2017	31.12.2018	31.12.2019	31.12.2020	31.08.2021	Raja-arvot	
Analyysissa mukana olleet instrumentit	↓ 6636	→ 9570	→ 9984	↑ 13311	↑ 14239	↑ 9037		
Analyysissa mukana olleet rahastot	20/20	19/19	20/20	23/23	31/31	33/33		
MSCI:n ESG-luokittelun kattavuus	↓ 78%	↑ 86%	→ 82%	↑ 84%	↑ 86%	↑ 88%	75%	85%
Sijoitusten ESG-arvosana	A	A	A	A	A	AA		
A-AAA -yhtiöt	↓ 44%	↑ 53%	→ 48%	↑ 51%	↑ 51%	↑ 60%	50%	66%
B-BBB -yhtiöt	↓ 32%	↓ 32%	↓ 32%	↓ 32%	↑ 34%	↑ 28%	33%	25%
CCC -yhtiöt	↑ 2%	↓ 1%	↑ 2%	↓ 1%	↓ 1%	↑ 0%	2%	1%
Luokittelemattomat	↑ 22%	↓ 14%	→ 18%	↓ 16%	↓ 14%	↑ 12%	15%	10%
YK Global Compactia rikkovien yhtiöiden osuus	↑ 0.8%	↑ 0.9%	↑ 0.9%	↓ 0.5%	↓ 0.4%	↑ 0.0%	0.5%	0.1%
Erittäin vakavat lapsityövoimarikkomukset	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.1%
Erittäin vakavat ihmisoikeusrikkomukset	→ 0.2%	↑ 0.4%	→ 0.2%	↓ 0.1%	↓ 0.1%	↑ 0.0%	0.5%	0.1%
Tupakkaan liittyvä toiminta*	↑ 0.4%	↑ 0.4%	↑ 0.3%	↓ 0.0%	→ 0.2%	↑ 0.1%	0.5%	0.1%
Alkoholiin liittyvä toiminta*	↓ 0.0%	↓ 0.0%	↓ 0.0%	↑ 0.7%	→ 0.4%	↑ 0.3%	0.5%	0.1%
Aikuisviihteeseen liittyvä toiminta*	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.1%
Uhkapeleihin liittyvä toiminta*	↑ 0.5%	→ 0.4%	↓ 0.2%	→ 0.3%	↓ 0.2%	↑ 0.1%	0.5%	0.1%
Aseisiin liittyvä toiminta*	↑ 0.6%	↓ 0.3%	↓ 0.3%	↓ 0.2%	↓ 0.3%	↑ 0.1%	0.5%	0.1%

*Toiminnalla tarkoitetaan, että yhtiön liikevaihdosta tulee kyseisestä toiminnasta vähintään 20%.

5.2 Structural goals for the portfolio

The foundation's absolute goal is that all investments (targets) must consider responsibility at least at the level of passive ESG integration. This means that the portfolio should not contain any investments that completely disregard fundamental ESG criteria, such as good governance or basic social responsibility standards.

The foundation excludes investments in coal mining and does not want its investments to be directed toward coal-intensive companies that lack a credible plan for transitioning to a carbon-neutral future. The foundation acknowledges that by limiting its investment universe, the portfolio is exposed to so-called active risk or tracking error, which may manifest as a performance difference between the portfolio and the chosen benchmarks over time. While the performance difference is likely to be positive in the long term, it may also be negative in the short term.

DIMENSIONS OF RESPONSIBLE INVESTEMENT

		TRADITIONAL	ETHICAL	ESG-INTEGRATION	THEMATIC	IMPACT
	MAIN FOCUS	RETURN	VALUES	RETURN & VALUES	RETURN & VALUES	IMPACT
	METHOD	• Traditional risk/return analysis	• In line with values • Excluding (e.g. weapons, tobacco, alcohol, porn)	• Return/risk potential from ESG standpoint • Inclusive (drivers of innovation and transition)	• Themes (e.g. environment, biodiversity) • Solution focused and forward looking	• Assessment of impact for nature and/or society
INVESTMENT STRATEGY IMPLEMENTATION	ACTIVE ESG		• Broad equity and fixed income indices, high active share	• Broad equity and fixed income indices, high active share • Articla 8 funds • Unlisted (private) investments	• Broad equity and fixed income indices, high active share • Green & Social Impact Bonds • Articla 8 & 9 funds • Unlisted (private) investments	• Loan guaratees • Venture Capital / Angel investments • Articla 9 funds • Unlisted (private) investments
	PASSIVE ESG		• Broad equity and fixed income indices, market value based active screening	• Broad equity and fixed income indices, market value based active screening • "Smart Beta" / factor-based ESG-integration (historical data)	• Portfolio weights based on sales or other relevant criteria	

The foundation's portfolio investments fall within the green-bordered boxes shown in the image above, which represent ESG integration, thematic, or impact investing. Over time, the foundation's overall responsible investment goals are likely to lead the portfolio to increasingly emphasise active, thematic, and impact investments, while the share of passive ESG integration in the portfolio decreases. In the future, unlisted investments, currently shown in gray in the box, may also become relevant. Their weight as investment targets could grow over time.

5.3 Impact investing goals

The foundation evaluates potential impact investment opportunities if such options are available in the market. However, there are few good and reliable impact investments, particularly since the impact must be clearly measurable and verifiable. The expected return of the investment is required to be at least near market based. The goal is to identify a few impact investment opportunities over the next three-year period, if possible within the set criteria. Decisions on impact investments are always made by the governing board.

5.4 The goal of continuous improvement

The foundation actively monitors the development of responsible investing and engages in dialogue with its asset managers. In particular, the foundation aims to promote discussions among investors on biodiversity issues and contribute to the development of criteria where possible. The responsible investment strategy and goals are updated whenever it is prudent, and when the prevailing environment offers opportunities for more advanced practices.

5.5 Goals aligned with the EU taxonomy and new sustainable finance regulations

The EU taxonomy, developed by the EU, will facilitate the assessment of the sustainability of investments both at the portfolio level and for individual investments. Together with the asset manager, the foundation monitors the adoption of the taxonomy in corporate reporting and will incorporate taxonomy alignment goals if deemed appropriate. Potential future goals could include the percentage of the portfolio or a portion of it that complies with the taxonomy or the increase in taxonomy-aligned activities over time.

Regarding funds that meet the criteria of the new regulations, such as so-called Article-compliant funds, the foundation will monitor industry developments and implement measurable objectives if it is seen as a feasible and relevant way to fulfill the foundation's responsible investment policy and goals.

5.6 Portfolio's carbon neutrality goal

In line with the Paris Climate Agreement, the world should limit global warming to well below two degrees Celsius. This would significantly reduce the expected negative consequences of climate change compared to a catastrophic scenario in which climate action is ignored. The IPCC estimates[3] that, under this target, such levels of warming could be reached as early as between 2030 and 2052. Therefore, there is urgency for leading actions to manage climate risks. Many institutional investors and companies have already set carbon neutrality goals for their portfolios or operations, in line with the ambitions of the European Commission, among others[4].

[3] "Special Report on the impacts of global warming of 1.5°C", IPCC, 2018 [4] "A Clean Planet for all", pages 3 and 5, EU COM (2018)
"Climate change: a threat to human wellbeing and health of the planet. Taking action now can secure our future", IPCC (2021)
[4] https://sciencebasedtargets.org/

The foundation aims for its investment portfolio to be carbon neutral by 2050 at the latest, but preferably much earlier. The foundation seeks to position itself as a pioneer in sustainable investing and strives for a portfolio that consistently aligns with the Paris Climate Agreement's objectives, progressing toward its long-term carbon neutrality goal.

However, the carbon neutrality target remains more of an aspirational impact goal than a fully data-driven measurable one at this stage. Achieving the target depends on whether the investment targets implement decisive transitions toward carbon neutrality in their real-world operations. The foundation’s directive to its asset managers regarding the carbon neutrality goal is that any company or investment with high carbon intensity, which is not clearly and verifiably participating in the transition toward carbon neutrality, should either be excluded or placed under review, with engagement efforts being pursued.

Companies should publicly disclose their plans for the green transition, as well as track and report on the implementation of those plans. Currently, for example, the targets set by companies in line with the so-called Science Based Targets (SBTi) framework are considered a good practical approach to facilitating the transition necessary to achieve the Paris Agreement’s goals.

Companies that are actively developing solutions to combat climate change are recommended investment targets, provided they also meet other, more traditional investment criteria.

Asset managers are expected to advance the concrete progress of their investor clients' carbon neutrality goals by influencing investment targets, market standards, their own practices, and their ability to comprehensively analyse and report the carbon footprint of investments.

5.7 Climate risk scenario goal

The asset manager prepares an annual climate scenario analysis of the investment portfolio for the foundation's board using the PACTA tool or another high-quality tool or model. The foundation recognises that the tools used in climate risk scenarios are still quite indicative, but it believes that they will improve significantly in the coming years as investor demand and need for such tools grow, and as the quality of data reported by companies improves.

5.8 Reporting goals and requirements

Informative, reliable, and comprehensive reporting is essential for the foundation's board to carefully monitor and manage the risks associated with the investment assets, as well as to ensure the implementation of a responsible and sustainable investment policy.

ESG ratings can provide some indication of the portfolio's responsibility and associated risks. However, since ESG ratings and criteria are not yet standardised, they alone are insufficient for a thorough analysis and comprehensive understanding of the true responsibility risks within the investment portfolio.

Responsibility and sustainability risks are fundamentally risks that need to be managed and reported like any other risks associated with investments and the portfolio, including in analysis, decision-making, and reporting. Sustainability risks manifest within traditional risk metrics, such as credit/counterparty risk, market risk, liquidity risk, operational risk, and reputational risk. Therefore, it is essential to identify and manage relevant sustainability risks as part of the traditional risk management and reporting process.

While measuring responsibility and sustainability risks remains somewhat challenging, asset managers are already expected to report on the sustainability risks affecting the portfolio and their management in a clear and transparent manner.

The business and investment opportunities associated with the transition to a sustainable future are seen as part of an improved return expectation, with the belief that these opportunities will translate into better long-term portfolio performance. Sustainability opportunities are reported through qualitative descriptions and narratives about the investment targets within the portfolio.

The foundation expects that the established responsible investment goals are reported to the board regularly, whether monthly, quarterly, or annually, depending on the nature of the goals. A more detailed reporting framework will be developed in collaboration with the asset manager, but the main principle is that the monitoring and reporting of the foundation's portfolio should be continuous, up-to-date, and evolving.

The foundations for responsible reporting and the expectations for asset managers are as follows:

- Information must be gathered from multiple sources
- The sources of information must be reliable
- The data must be reliable and verifiable (with primary sources clearly identified)
- Information from different sources must be compared and analysed
- Any gaps in the data must be clearly indicated
- The data and analyses must be presented in a clear and understandable manner

6. In conclusion

In asset management, it must be recognised that the foundation was established for an indefinite period, meaning both short and long-term risks must be considered in investment activities. Based on research, environmental challenges such as climate change and biodiversity loss pose significant risks to companies. For the Nessling Foundation, it is natural to avoid investments that do not actively consider the environmental impacts of their operations or do not meaningfully implement the green transition in their business. The foundation's mission is strongly reflected in its investment activities. For this reason, the foundation has worked and continues to work to promote responsible investing.