
**UNIVERSITY OF STAVANGER BUSINESS SCHOOL**

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TITLE: Fund Companies' Adaptation to the EU Taxonomy for Sustainable Activities

NORWEGIAN TITLE: Fondsselskapers tilpasning til EUs taksonomi for bærekraftige aktiviteter


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## Summary

In 2019, the European Commission presented the European Green Deal, a plan to achieve the goal of no net emissions of greenhouse gases by 2050 (European Union, 1995-2021a). Within this framework, an action plan on financing sustainable growth was developed (Financial Stability, Financial Services and Capital Markets Union, 2020). Central to this action plan is the establishment of a clear and detailed EU taxonomy for Sustainable Activities (Financial Stability, Financial Services and Capital Markets Union, 2020).

Financial market participants are required to prepare their first set of disclosures against the taxonomy by 31 December 2021 (EU TEG, 2020b). Based on this, it was desirable to study the impact of the taxonomy on fund companies, as well as how fund companies will use the classification system. On that basis, the following research question were formulated:

*"How will fund companies adapt their investment strategy to the EU Taxonomy for Sustainable Activities?"*

The research question was studied based on the topics of competition, investment frameworks and challenges of adaptation. Three hypotheses derived from the topics and were central to the analysis. A qualitative study was conducted using semi-structured interviews for data collection, where data was collected from five fund companies and two consulting companies. Key findings from the hypotheses was that all fund companies will adapt to the taxonomy due to market competition. However, competition will not have such a large impact on the extent to which they will adapt their investment strategy. The EU taxonomy will not be the main framework in fund companies' investment strategies, but will be a key supplement to other frameworks. It was also found that the fund companies experience challenges related to lack of data and information necessary for the taxonomy, which makes it difficult to adapt.

It was concluded that how fund companies will adapt their investment strategy to the EU taxonomy can be divided in two phases, the initial phase and the further phase. Although the taxonomy will apply to fund companies by the end of 2021 there will be a gradual adaptation. The classification system will be central to the companies' work, but will not govern all investments until it is fully developed. It is therefore concluded that fund companies will to a greater extent adapt their investment strategy when the classification system becomes more developed.

# Preface

This thesis is written as a final study in the Master of Science in Business Administration, specializing in Strategic Marketing and Analysis, at the University of Stavanger. The thesis addresses the EU's work with a taxonomy for the classification of sustainable activities, and its impact on fund companies. The topic is relatively new, and the study process has therefore been very educational.

We would like to thank all fund companies and consulting companies that participated in the interviews. You contributed greatly to the study and promoted several important and interesting views on the adaptation to a new classification system within sustainable finance.

We would also like to thank our supervisor at the University of Stavanger, Thomas Laudal, for great guidance throughout the process, through inputs and useful comments.

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# 1 Introduction and Motivation

This section provides explanations of abbreviations and terms used in the thesis. Furthermore, the background for the study is presented, before a definition of research question and study hypotheses is given. Finally, the structure of the thesis will be summarized.

## 1.1 Explanation of Terms

*High-Level Expert Group on sustainable finance (HLEG)* - The High-Level Expert Group on Sustainable Finance was established in 2016 and had a mandate to provide the EU Commission with advice on sustainable finance (Financial Stability, Financial Services and Capital Markets Union, 2016).

*Technical Expert Group on Sustainable Finance (TEG)* – The Technical Expert Group on Sustainable Finance was set up by the European Commission to assist them developing the EU taxonomy and other actions to reorienting capital flows towards a more sustainable economy (Financial Stability, Financial Services and Capital Markets Union, 2018).

*Non-Financial Reporting Directive (NFRD)* - The Non-Financial Reporting Directive decides rules on disclosure of non-financial and diversity information by certain large companies (European Union, 1995-2021b).

*Task Force on Climate-Related Financial Disclosures (TCFD)* - The Task Force on Climate-Related Financial Disclosures developed climate-related disclosures on financial risk that is used by companies, banks and investors to provide information to stakeholders (UNEP FI, 2021b).

*GRI Standards* – GRI Standards is the most widely used standard for sustainability reporting in the world, provided by The Global Reporting Initiative (GRI, 2021).

*MSCI* - MSCI is a leading provider of tools and services for investment decisions, including measurements of environmental, social and governance factors (ESG) (MSCI, 2021).

*Sustainalytics* - Sustainalytics provides institutional investors and companies with analytical environmental, social and governance (ESG) research, rankings and high-quality data (Sustainalytics, 2021).

## 1.2 Background for the Study

Climate change and environmental degradation are an ever-increasing threat to Europe and the world (European Union, 1995-2021a). The world is facing global warming in the atmosphere, and the climate is changing annually (European Commission, 2019). There is a risk of losing one million of the eight million species on the planet. In addition, forests and seas are polluted and destroyed (European Commission, 2019).

In 2015, all United Nations Member States adopted the 2030 Agenda for Sustainable Development (United Nations, 2021d). The core of the Agenda is the 17 Sustainable Development Goals (SDGs) (United Nations, 2021d). These goals are a plan for achieving a sustainable future for all, and focus on global challenges such as poverty, peace, rights, inequality, climate change and environmental degradation (United Nations, 2021b). Achieving the SDGs requires a transformation of the financial and economic systems (United Nations, 2020). Goal number 13 deals with combating climate change and its consequences (United Nations, 2021a). This is an important goal, as it affects all 16 other goals. Based on this, the Paris Agreement, a legally binding international treaty, was adopted in 2015 to limit global temperature rise (United Nations, 2021a).

To overcome climate change and environmental degradation, a new strategy was needed for Europe (European Union, 1995-2021a). In addition to the UN's Paris Agreement, the EU presented a European Green Deal, with goal of becoming the first climate-neutral continent (European Union, 1995-2021a). To achieve the UN's goals for 2030, the Paris Agreement and the European Green Deal it is necessary to invest in sustainable projects and activities (European Union, 1995-2021c). Within the framework of the European Green Deal, an action plan on financing sustainable growth was therefore developed in March 2018 (European Union, 1995-2021e). Central to this plan is the establishment of a classification system for sustainable activities, an EU taxonomy for Sustainable Activities, referred to as the "taxonomy" in the thesis (European Union, 1995-2021c).

As global efforts have not yet delivered the desired sustainable change (United Nations, 2020), the taxonomy will be an important contribution to achieving the environmental goals through channeling of investments (Financial Stability, Financial Services and Capital Markets Union, 2020). Against this background, it is desirable to examine the topic of the EU taxonomy for Sustainable Activities in more depth, as it is one of the most notable developments in sustainable finance (EU TEG, 2020b). The classification system has still not entered into force. It will be developed in two phases, where the first phase will be valid from the end of 2021 and the second phase will take effect at the end of 2022 (EU TEG, 2020b). It is relevant to examine this topic in more detail, as companies will be required to report on the classification system in near future. Those obligated by the taxonomy should therefore start preparing, by examining how they will be affected.

To gain better insight into the EU taxonomy, it is desirable to examine it from the perspective of fund companies. It must be pointed out that this is not a thesis focusing on the content of the EU taxonomy. The study is about examining fund companies' perceptions and expectations of the taxonomy's purpose and effect as a classification system for sustainable activities. It will be based on data on Norwegian fund companies. Norway is not part of the EU, but the taxonomy will apply to Norwegian companies because of the EEA agreement (Fjeld & Thommessen, 2020). The reason why fund companies are relevant when examining the EU taxonomy is that the financial sector has a key role in achieving the environmental goals for 2030 (European Union, 1995-2021e).

In September 2020, the European Commission presented the climate target plan for 2030 (European Union, 1995-2021e). It shows that every year in the 2021-30 decade, the EU needs to invest 350 billion euros more than in previous years. The public sector does not have the capacity for this alone. Therefore, the financial sector and fund companies are important, as they can restructure their investments towards sustainable activities, finance growth in a sustainable way and help create a low-carbon, climate-resistant and circular economy (European Union, 1995-2021e). In this study, the EU taxonomy will be seen as a tool for investors in assessing sustainable activities. The thesis bases the definition of sustainable investment on socially responsible investment (SRI), as well as environmental, social and governance factors (ESG). The term is also referred to as responsible investment in some of the parts.

## 1.3 Research Question and Hypotheses

It is desirable to examine how fund companies will adapt their investment strategy to the EU taxonomy. This is based on the importance of the financial sector's contribution to the 2030 Agenda for Sustainable Development, the Paris Agreement and the EU Taxonomy for Sustainable Activities within the framework of the European Green Deal.

### 1.3.1 Research Question

The following research question have been formulated for the study to investigate:

*"How will fund companies adapt their investment strategy to the EU Taxonomy for Sustainable Activities?"*

By studying this research question, the study will provide insight into fund companies' adaptation to the EU taxonomy. Challenges will be identified, as well as the extent to which fund companies are expected to adapt their investment strategy to the EU taxonomy. The research question will in this study be investigated on the basis of three topics; competition, investment frameworks and challenges of adaptation. Within these topics, three study hypotheses have been prepared that will be helpful in investigating the research question.

### 1.3.2 Hypothesis 1 – Competition

Within the topic of competition following hypothesis will be investigated:

1. *"All fund companies will adapt to the EU taxonomy due to market competition"*

The hypothesis is derived on the basis that there is no required share for investments in taxonomy-aligned activities (Chapter 2.5.7.3). Fund companies can choose whether they want to invest in activities that are classified as sustainable according to the taxonomy. If desired, the company's own framework for sustainable investment can be used rather than the taxonomy (Chapter 2.5.7). Nevertheless, it is assumed that all fund companies will adapt to the taxonomy due to market competition. If companies want to perform well in external rankings and not be accused of greenwashing, it will be an advantage to use the taxonomy as a basis for sustainability work. Precisely because it offers a comparable standard to competitors in the market.

### 1.3.3 Hypothesis 2 – Investment Frameworks

With regard to investment frameworks, the following hypothesis stems from the fact that there has not previously been a common framework for what is sustainable:

2. *"The EU taxonomy will be the main framework in fund companies' investment strategies"*

Factors such as environmental, social and governance (ESG) are widely used in investments. This has led companies to develop their own investment philosophies that emphasize exclusions and active ownership. Due to lack of standardization, questions have been asked about whether ESG is the best approach to sustainable investment (Chapter 3.4). It is therefore assumed that the taxonomy, as a new common framework for sustainable activities, will be emphasized to a large extent in fund companies' investment strategies.

### 1.3.4 Hypothesis 3 – Challenges of Adaptation

Challenges of adaptation are a relevant topic for the initial phase of the taxonomy, and the following hypothesis has therefore been developed:

3. *"Lack of necessary data makes it difficult to adapt to the EU taxonomy"*

The EU taxonomy is still under development, which means that not all activities are included yet. Constant changes create problems related to information about the classification system. In addition, fund companies are required to report on the taxonomy before the companies they invest in (Chapter 2.5.7). This creates problems related to data collection. On this basis, it is assumed that lack of data will create challenges for adaptation to the taxonomy.

## 1.4 Structure of the Thesis

In the study of fund companies' adaptation of investment strategy to the EU taxonomy, the background for the taxonomy will first be presented. This includes the reason why it was developed, as well as the current content on which this study is based. Thereafter, theoretical frameworks relevant to the study of the research question and the hypotheses will be reviewed. Furthermore, the choice of qualitative method with semi-structured interviews will be justified, before the method's quality and rigor will be discussed.

The further structure of the thesis will be based on the study hypotheses. First, the interview results will be presented and analyzed according to Hypothesis 1. Then the same practice will

be carried out according to Hypothesis 2 and Hypothesis 3. The next part of the thesis follows the same structure and looks at the significance of the hypotheses' validity for the study of the research question. Finally, a conclusion will be given on the study of how fund companies will adapt their investment strategy to the EU Taxonomy for Sustainable Activities.

# 2 Background for the EU Taxonomy for Sustainable Activities

In order to examine the research question, it is first relevant to take a closer look at what the EU taxonomy is, especially since the classification system is constantly evolving. This section therefore presents the content and development process of the taxonomy at the time of study. In short, the EU taxonomy is a list of sustainable economic activities to drive capital towards sustainability objectives (EU TEG, 2019b). For an economic activity to be included in the taxonomy, it must contribute to at least one of six environmental objectives, while at the same time not doing significant harm to the other five. In addition, it must meet minimum social safeguards. Contribution to the environmental objectives and no significant harm is determined on the basis of technical screening criteria (EU TEG, 2019b).

## 2.1 UN's Sustainable Development Goals

In 2015, the international organization, United Nations (UN) launched an Agenda for Sustainable Development (United Nations, 2020). This with the intention of ending poverty and focusing on a healthy planet characterized by peace, prosperity and opportunities for all. The Agenda consists of 17 different Sustainable Development Goals (SDGs), which are intended to be achieved by 2030. Achieving the SDGs requires a transformation of the financial, economic and positive systems that govern today's society. It involves political will and ambitious action from all stakeholders. At the SDG Summit in September 2019, it was recognized by the Member States that global efforts to date have not delivered the desired change. Furthermore, this has jeopardized the agenda's promise for 2030 to current and future generations. The presence of COVID-19 makes the work towards the goals even more challenging. The virus has led to a crisis both economically and socially, and not least in health, which threatens life and livelihoods. The impact of COVID-19 makes it clear why The 2030 Agenda is important to achieve (United Nations, 2020).

## 2.2 The Paris Agreement

The Sustainable Development Goal number 13 calls for urgent action to combat climate change and its effects (United Nations, 2021a). This goal is inherently linked to all 16 other goals in The 2030 Agenda for Sustainable Development (United Nations, 2021a). In this context, the Paris Agreement was implemented to limit the global temperature rise to below 2°C, as an international, legally binding agreement on climate change (United Nations, 2021c). In Paris on 12 December 2015, 196 parties adopted the agreement, which entered into force November

4, 2016. The Paris Agreement is a milestone in the multilateral climate change process, because it is a binding agreement that, for the first time, puts all countries in a common cause to make ambitious efforts to tackle and adapt to climate change. To achieve the long-term temperature target, the goal for all countries is to reach the global peak of greenhouse gas emissions as soon as possible, in order to achieve a climate-neutral world before the middle of this century (United Nations, 2021c).

## 2.3 The European Green Deal

Dealing with environmental problems means for Europe a new growth strategy, which can transform the Union into a modern, resource-efficient and competitive economy (European Union, 1995-2021a). The goal is to have no net emissions of greenhouse gases by 2050. In addition, economic growth must be decoupled from resource use, and no person and no space must be left behind (European Union, 1995-2021a).

In December 2019, the EU presented the European Green Deal as a plan to make the EU economy sustainable (European Union, 1995-2021a). This can be achieved by turning climate and environmental challenges into opportunities, through a transition that is fair and inclusive for all (European Union, 1995-2021a). The Green Deal is part of the Commission's strategy to deliver on the UN's 2030 Agenda and SDGs (European Commission, 2019). The Commission states that it will place sustainability and the well-being of citizens at the heart of economic policy, and emphasize the SDGs in the EU's policymaking and action (European Union, 1995-2021a).

The European Green Deal contains an action plan to increase efficient resource use by switching to a clean, circular economy, as well as restore biodiversity and cut pollution (European Union, 1995-2021a). The plan identifies necessary investments and available financing tools. Furthermore, it explains how to ensure a fair and inclusive transition (European Union, 1995-2021a).

The EU aims to be climate neutral by 2050 and proposed a "European Climate Law" in March 2020 to make political commitment a legal bond (European Union, 1995-2021a). It will require action from all sectors of the economy to achieve this goal (European Union, 1995-2021a). Transforming the EU's economy for a sustainable future can be achieved by designing a set of

deeply transformative policies and mainstreaming sustainability into all EU policies (European Commission, 2019). These activities further include following steps (European Commission, 2019):

Designing a set of deeply transformative policies

1. Increasing the EU's climate ambition for 2030 and 2050.
2. Supplying clean, affordable and secure energy.
3. Mobilizing industry for a clean and circular economy.
4. Building and renovating in an energy and resource efficient way.
5. Accelerating the shift to sustainable and smart mobility.
6. From 'Farm to Fork': designing a fair, healthy and environmentally-friendly food system.
7. Preserving and restoring ecosystems and biodiversity.
8. A zero-pollution ambition for a toxic-free environment.

Mainstreaming sustainability in all EU policies

1. **Pursuing green finance and investment and ensuring a just transition.**
2. Greening national budgets and sending the right price signals.
3. Mobilizing research and fostering innovation.
4. Activating education and training.
5. A green oath: 'do no harm' (European Commission, 2019).

This study concentrates only on the first step of mainstreaming sustainability in all EU policies. Achieving the ambition of the European Green Deal indicates significant investment needs (European Commission, 2019). It is estimated that €260 billion in additional annual investment, approximately 1.5% of GDP 2018, will be required to achieve the current 2030 climate and energy goals. It is essential that the flow of investment is maintained over time. The investment challenge necessitates the mobilization of both the public and private sectors. Long-term signals are needed to divert financial and capital flows to green investments, and to avoid stranded assets (European Commission, 2019).

## 2.4 Commission Action Plan on Financing Sustainable Growth

In May 2018, the European Commission adopted a package of measures that implements several of the key activities of the action plan for sustainable finance (Financial Stability, Financial Services and Capital Markets Union, 2020). This was based on recommendations from the High-Level Expert Group on sustainable finance (HLEG), explained in Chapter 1.1. The package primarily included a proposal for an EU taxonomy regulation. In addition, it included a proposal for a regulation on the publication of sustainability, as well as on the development of reference values with a low carbon level (Financial Stability, Financial Services and Capital Markets Union, 2020).

The proposal for a regulation on the establishment of a framework to facilitate sustainable investments creates conditions for a uniform classification system, a taxonomy, on what can be considered as environmentally sustainable economic activity (Financial Stability, Financial Services and Capital Markets Union, 2020). This is a necessary implementation to channel investments into sustainable activities. The action plan presented a strategy for linking finance and sustainability. It consists of ten key actions, divided into three categories (Financial Stability, Financial Services and Capital Markets Union, 2020). This study only examines the first action in more detail, as the thesis' focus is on the taxonomy for sustainable activities.

Reorienting capital flows towards a more sustainable economy

1. **Establishing a clear and detailed EU taxonomy, a classification system for sustainable activities.**
2. Creating an EU Green Bond Standard and labels for green financial products.
3. Fostering investment in sustainable projects.
4. Incorporating sustainability in financial advice.
5. Developing sustainability benchmarks.

Mainstreaming sustainability into risk management

1. Better integrating sustainability in ratings and market research.
2. Clarifying asset managers' and institutional investors' duties regarding sustainability.
3. Introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies.

Fostering transparency and long-termism

1. Strengthening sustainability disclosure and accounting rule-making.
2. Fostering sustainable corporate governance and attenuating short-termism in capital markets (Financial Stability, Financial Services and Capital Markets Union, 2020).

### 2.4.1 Renewed Sustainable Finance Strategy

The Commission announced a renewed sustainable financial strategy, within the framework of the European Green Deal (Financial Stability, Financial Services and Capital Markets Union, 2020). The strategy is based on previous invitations and reports, such as the action plan on financing sustainable growth and the reports of the Technical Expert Group on Sustainable Finance (TEG), explained in Chapter 1.1. The purpose is to ensure that the financial system supports companies' transition to sustainability, seen in the context of the consequences of COVID-19. The renewed strategy is an important contributor to achieving the goals of the European Green Deal investment plan. This is especially due to the framework that facilitates sustainable investments (Financial Stability, Financial Services and Capital Markets Union, 2020).

## 2.5 The EU Taxonomy for Sustainable Activities

The Green Deal presents pursuing green finance and investment and ensuring a just transition as a step towards mainstreaming sustainability in all EU policies (European Commission, 2019). This further forms the basis for establishing a clear and detailed EU taxonomy, a classification system for sustainable activities to reorient capital flows towards a more sustainable economy, which is the first action of the Commission Action Plan on Financing Sustainable Growth (Financial Stability, Financial Services and Capital Markets Union, 2020). The EU taxonomy functions as a tool to guide investors, companies, issuers and project managers in the transition to a low-carbon, resilient and resource-efficient economy (EU TEG, 2020b). Another purpose of the EU taxonomy is to protect investors from greenwashing (European Union, 1995-2021c). The taxonomy is a list of economic activities and relevant criteria (EU TEG, 2019a). It is flexible to adapt to different investment styles and strategies. The classification system is based on the latest scientific experience and industry experience, and is dynamic in that it responds to changes in technology, science, new activities and data (EU TEG, 2019a).

The EU taxonomy is one of the most notable developments in sustainable finance (EU TEG, 2020b). It will be significant for investors and issuers in the EU and beyond. The Taxonomy Regulation was agreed at the political level in December 2019. The Taxonomy Regulation creates a legal basis for the taxonomy and sets the framework and environmental objectives. In addition, the regulation sets out new legal obligations for financial market participants, large companies, the EU and the member states (EU TEG, 2020b). The regulation establishes criteria for determining whether an economic activity qualifies as environmentally sustainable, with the intention of determining the extent to which an investment is environmentally sustainable (European Union, 2020). The Taxonomy Regulation establishes six environmental objectives, shown in Figure 1 (EU TEG, 2020b).

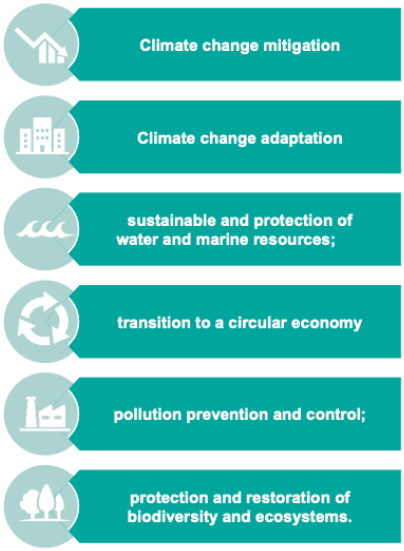


Figure 1 – Environmental Objectives in the Taxonomy Regulation
*Source: (EU TEG, 2020b).*

For each environmental objective, the Taxonomy Regulation designates two different types of substantial contribution that can be considered taxonomy-aligned (EU TEG, 2020b). First, economic activities that based on their own performance make a substantial contribution. For example, an economic activity that is carried out in a way that is considered environmentally sustainable. Second, enabling activities, which are economic activities that enable a substantial contribution to other activities by delivering their products or services. For example, an economic activity that produces a component that helps improve the environmental performance of another activity (EU TEG, 2020b).

### 2.5.1 Criteria for Environmentally Sustainable Economic Activities

The taxonomy sets criteria for environmentally sustainable economic activities (EU TEG, 2020b). An economic activity is qualified as environmentally sustainable if it meets the requirements shown in Figure 2 (EU TEG, 2020b).


Figure 2 – Requirements for Environmentally Sustainable Activities

*Source: (EU TEG, 2020b).*

Activities are recognized as green by the taxonomy if they do not cause any significant harm and meet minimum social guarantees, in addition to making a substantial, rather than a marginal, contribution to achieving the EU's environmental goals (European Commission, 2021). Criteria are set based on a level of ambition that strengthens the EU's credibility and signals the activities that can substantial contribute to the goals of the European Green Deal. The most important goal is to adapt the taxonomy criteria to the ambition of the European Green Deal goals. There is also a particular difference between making a substantial contribution and doing no significant harm. Less than substantial improvements in the current level of environmental performance will not in themselves be sufficient to achieve the green goals, although these are also important. This given the enormous investment needs and the necessary broad transformation of the EU economy (European Commission, 2021).

The Taxonomy Regulation will be assigned delegated actions, with detailed technical screening criteria for sustainable economic activities (EU TEG, 2020b). Based on these, it will be possible to assess which activities are taxonomy-aligned. To develop recommendations, the European Commission established a Technical Expert Group on Sustainable Finance (TEG), explained in Chapter 1.1. The recommendations included what the taxonomy technical screening criteria should be for the objectives of climate change mitigation and adaptation. Recommendations on

technical screening criteria for the four remaining objectives will be developed at a later date (EU TEG, 2020b).

### 2.5.2. Climate Change Mitigation

For an economic activity to make a substantial contribution to climate change mitigation, it must qualify as significantly reducing climate change through contributions to stabilizing greenhouse gas concentrations in the atmosphere in accordance with the long-term temperature target of the Paris Agreement (EU TEG, 2020a).

An economic activity with no technologically and economically feasible low-carbon alternative shall qualify as contributing substantially to climate change mitigation where it supports the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1,5 0°C above pre-industrial levels, including by phasing out greenhouse gas emissions, in particular emissions from solid fossil fuels (EU TEG, 2020a). This type of activity is referred to as a transition activity (EU TEG, 2020a).

For this environmental objective, the TEG has published 70 screening criteria that determine the conditions that apply for a particular economic activity to be qualified as significantly contributing to climate change mitigation (EU TEG, 2020a). These screening criteria have been developed and apply to the following sectors (EU TEG, 2020a):

- Forestry
- Agriculture
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water, sewerage, waste and remediation
- Transportation and storage
- Information and communications
- Construction and real estate activities

### 2.5.3 Climate change adaptation

An economic activity qualifies as contributing substantially to climate change adaptation if it (EU TEG, 2020a):

a) includes adaptation solutions that either substantially reduce the risk of the adverse impact of the current climate and the expected future climate on that economic activity, or

substantially reduce that adverse impact, without increasing the risk of an adverse impact on people, nature or assets (EU TEG, 2020a); or

b) provides adaptation solutions that contribute substantially to preventing or reducing the risk of the adverse impact of the current climate and the expected future climate on people, nature or assets, without increasing the risk of an adverse impact on other people, nature or assets (EU TEG, 2020a).

For this environmental objective, TEG has published 68 screening criteria that determine the conditions that apply for a particular economic activity to be qualified as significantly contributing to climate change adaptation (EU TEG, 2020a). These screening criteria have been developed and apply to the following sectors (EU TEG, 2020a):

- Forestry
- Agriculture
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water, sewerage, waste and remediation
- Transportation and storage
- Buildings
- Financial and insurance activities
- Professional, scientific and technical activities

### 2.5.4 Sectors Covered by the Taxonomy

The economic sectors and economic activities included in the taxonomy to date are believed to potentially make a significant contribution to reducing climate change or adapting to climate change (European Union, 2020). The environmental target for climate mitigation prioritized sectors responsible for 93.5% of direct greenhouse gas emissions in the EU when identifying economic activities for which technical screening criteria were developed. This indicates that the TEG prioritized sectors with a large emissions footprint. Identification of activities making a significant contribution to climate mitigation is believed to have a major impact (European Union, 2020).

According to the TEG, it is likely that a fully resolved taxonomy will not include a performance threshold for substantial contribution to climate change mitigation for all economic activities

(European Union, 2020). Furthermore, this follows for investment portfolios and financing decisions. It will not be the case that all investments or financing decisions align with a substantial contribution threshold. That said, it will still be possible to identify improvement measures in such cases, for example through improved energy efficiency in buildings, where these are considered to make a significant contribution in their own right (European Union, 2020).

In principle, any economic activity can be covered by the technical screening criteria for substantial contribution to climate change adaptation (European Union, 2020). The TEG has not given higher priority to any single part of the economy in terms of climate change adaptation. However, an economic activity must have criteria for avoiding significant harm to the other environmental objectives, including mitigating climate change, in order to be included in the taxonomy. Activities that undermine the objectives of climate change mitigation could thus not count improvements in their resilience as taxonomy-aligned. During the development process, the TEG has amended and added activities, and it is not inconceivable that further activities which can make a substantial contribution to climate change adaptation will be added to the taxonomy (European Union, 2020).

### 2.5.5 Urgency and Transition

The urgency of environmental challenges has increased since the TEG commenced work on the taxonomy in 2018 (EU TEG, 2020b). Global greenhouse gas emissions continued to grow until 2019, when they flattened out. This, despite clear targets for emission reduction in the 2015 Paris Agreement on Climate Change. Scientific agreement states that global emissions must be reduced by 50% over the next ten years for it to be possible to stay at 1.5 degrees of global warming. Businesses will face immediate implications as a result of this fact (EU TEG, 2020b).

In the present, the consequences of climate change are inevitable (EU TEG, 2020b). In the last two decades, we have faced 18 of the warmest years on record. In addition, Europe has experienced heat waves in four of the last five years. Both communities and businesses in Europe and around the world have already felt the impact of climate change. Furthermore, it will be necessary to develop understanding, as well as to be able to handle the risks and effects that result from a changing climate (EU TEG, 2020b).

The taxonomy is a planning and reporting tool for the transition to an economy that is consistent with the EU's environmental objectives (EU TEG, 2020b). The taxonomy disclosure bonds encourage the reporting of progress toward meeting screening criteria, as well as reporting achievement. Not all investment and financing decisions are expected to provide additional environmental benefits. Tools for financing the transition of economies towards clear environmental targets include screening criteria, recognition of capital and operating expenses that contribute to meeting the screening criteria over time, as well as improvement measures to reduce emissions and improve energy efficiency. Despite the importance of all economic activities, not all will significantly contribute to the achievement of environmental objectives (EU TEG, 2020b).

Going forward, the taxonomy criteria will be the reference point for finance and investments, marketed as financing of the transition to climate mitigation targets (EU TEG, 2020b). Disclosures on this point will be crucial in assessing which economic activities make a significant contribution to the objectives of climate mitigation. Additional tools will be needed to explain the required rate of emission reduction for specific activities. In the context of Europe's emission reduction targets, some economic activities have threateningly high emissions. Thus, the development of criteria for significantly harmful emission levels will contribute to investors, companies, issuers and project actors perceiving the necessary speed of the transition going forward (EU TEG, 2020b).

The TEG published the first draft proposal for the taxonomy in 2018 and requested public feedback (EU TEG, 2020b). Subsequently, the TEG released a technical report in 2019 containing proposed technical screening criteria for significant contributions to reducing climate change across 67 economic activities. A conceptual approach to adapting to climate change and initial guidance on how to use the taxonomy was also included in that report. The TEG opened for feedback, inviting input on the report from a wide range of stakeholders. A total of 830 responses were received, with most respondents addressing several different topics. Most comments were made on multiple sectors under climate change mitigation. A total of 3920 individual items of feedback were received (EU TEG, 2020b).

### 2.5.6 International Use of the EU Taxonomy

International actors associated with globally integrated capital markets and economic supply chains will experience implications for the information obligation of EU issuers and companies of financial products (EU TEG, 2020b). The TEG proposes disclosure principles to address these international considerations. The principles will help companies and investors with businesses outside the EU to deal with probable gaps in performance data, as well as differences in expectations about environmental objectives and company performance (EU TEG, 2020b).

The TEG recognizes that locally relevant standards may also be used in countries outside the EU, in assessing substantial contribution or Do No Significant Harm (DNSH) performance (EU TEG, 2020b). In assessing the environmental performance of an economic activity, including DNSH, based on a locally relevant standard, companies and investors may wish to add a second disclosure describing the details and rationale for the variation from the TEG standard. The second disclosure will provide a better understanding of the activity's environmental performance, but will not necessarily make the activity EU taxonomically adapted, unless the criteria are equivalent to or more ambitious than the EU threshold (EU TEG, 2020b).

EU Member States are the first in the world to introduce a cross-market legal bond, in the form of a taxonomy (EU TEG, 2020b). That said, it is necessary to consider the EU taxonomy as a global incentive to standardize environmental performance reporting, as there is a wide range of different taxonomies in both the public and private sectors. Various countries on other continents have also begun to explore taxonomies. The design and content of these taxonomies will differ from the EU taxonomy, as variations may depend on specifics of local markets. The EU has convened an International Platform on Sustainable Finance to encourage dialogue and coordination in development of taxonomies. A common approach between international taxonomies would enable a common taxonomy framework, as well as a better market understanding of environmental performance for economic activities and investments (EU TEG, 2020b).

### 2.5.7 Taxonomy in Practice

The EU taxonomy can be used by financial market participants to design green financial products, but the classification system is not a list of economic activities mandatory to invest in (European Commission, 2021). Nor are there mandatory requirements for environmental performance for financial products. Fund companies are therefore free to choose what they want

to invest in, but over time it is expected that the EU taxonomy will encourage and enable a transition to sustainability. Nevertheless, the EU taxonomy introduces disclosure obligations that will be mandatory for some companies and investors (European Commission, 2021).

The Taxonomy Regulation covers three groups of taxonomy users (EU TEG, 2020b):

1. Financial market participants who offer financial products in the EU, this includes occupational pension providers.
2. Large companies already subject to a non-financial statement under the Non-Financial Reporting Directive (NFRD), explained in Chapter 1.1.
3. The EU and the Member States in the practice of setting public measures, standards or labels for green financial products or green (corporate) bonds (EU TEG, 2020b).

Financial market participants are required to prepare their first set of disclosures against the taxonomy by 31 December 2021, which should cover activities that substantially contribute to climate change mitigation and/or adaptation (EU TEG, 2020b). In the course of 2022, companies will be required to disclose. The TEG understands that this creates difficulties for the implementation of the taxonomy, as financial market participants will not have access to corporate disclosures for their 2021 disclosures (EU TEG, 2020b).

#### *2.5.7.1 The Taxonomy Disclosure Requirement*

Alignment with the taxonomy is assessed on the basis of economic activity rather than by sector or industry (EU TEG, 2020b). Financial market participants will be required to state how and to what extent they have used the taxonomy to determine the sustainability of the underlying investments. In addition, it must be stated to which environmental objective(s) the investments contribute. Finally, the share of underlying investments that are taxonomy-aligned must also be stated as a percentage of the investment, fund or portfolio. In this disclosure, the respective proportions of enabling and transition activities should also be presented (EU TEG, 2020b).

#### *2.5.7.2 Proportion of Underlying Taxonomy-Aligned Funds*

According to the TEG, it is recommended to perform the calculation separately for each of the environmental objectives for which substantial contribution technical screening criteria have been developed (EU TEG, 2020b). Furthermore, two steps are recommended in investors' presentation of their disclosures for economic activities which have substantial contribution

criteria defined. First, the percentage of fund that can be demonstrated as taxonomy-aligned should be presented. Second, the percentage of fund that is potentially aligned should also be presented. Investors are not obliged by the Taxonomy Regulation to seek external confirmation of their disclosures. This will be reviewed by the commission by 2022 (EU TEG, 2020b).

#### *2.5.7.3 Narrative Disclosures*

Investors are required by the Taxonomy Regulation to disclose how and to what extent the investments underlying the financial product are invested in environmentally sustainable economic activities. No specific percentage of taxonomy alignment is required in funds, but it may be appropriate for investors to explain elements of the strategy or approach to the low percentage funds (EU TEG, 2020b).

#### *2.5.7.4 Dealing With Limited Data*

The TEG recognizes the difficulties involved in assessing compliance in cases where full disclosure is not made (EU TEG, 2020b). In this context, a five-step approach is recommended for investors (EU TEG, 2020b):

1. Identify the activities that could be aligned, and for which environmental objective(s).
2. For each potentially aligned activity, it must be verified whether the company or issuer meets relevant screening criteria.
3. It must also be verified that the issuer meets the DNSH criteria.
4. Due diligence to avoid violation of the social minimum safeguards must be conducted.
5. Alignment of investments with the taxonomy must be calculated, and disclosures must be prepared at the investment product level (EU TEG, 2020b).

### 2.5.8 Looking forward

Results from estimates and early testing of the climate taxonomy criteria show a low overall taxonomy alignment today in the companies' activities and investment portfolios (European Commission, 2021). More specifically, this means between 1% and 5%, with many companies and investment portfolios at zero. This highlights the extent of the transition that is still required towards carbon neutrality by 2050, although the percentage of alignment is expected to increase significantly with the implementation of the Green Deal (European Commission, 2021).

According to the TEG, a fully realized taxonomy should incorporate additional dimensions (EU TEG, 2020b). Social objectives to identify substantial contributions in addition to minimum safeguards should be included. In addition, it should contain technical screening criteria for significant levels of harm to environmental objectives, so-called "brown" taxonomy criteria. Establishment of "brown" criteria will create three performance levels within the taxonomy structure; substantial contribution (green), significant harm (brown, or perhaps red) and a middle category of neither substantial contribution nor significant harm (EU TEG, 2020b).

Periodic revision and further development will be required on some of the screening criteria proposed by TEG (EU TEG, 2020b). Technical screening criteria will be issued for activities that make a substantial contribution to water, a circular economy, pollution prevention and control, and protection of ecosystems by the end of 2021. Thereafter, an expanded set of disclosures will be required by the end of 2022, covering activities that contribute substantially to all six environmental objectives (EU TEG, 2020b).

# 3 Theoretical Frameworks

In this section, theories relevant to the research question will be presented. Research on differentiation strategy will first be presented, before the concept of investment strategy will be looked at in more detail. The concept of socially responsible investment will then be presented, in addition to previous research on the performance of such investments. Furthermore, an overview of the Principles for Responsible Investment will be provided. In addition, theory in the areas of ESG, rankings and greenwashing will be presented. Finally, a derivation of the study hypotheses presented in Chapter 1.3 will be made from the theoretical frameworks.

## 3.1 Differentiation Strategy

In order to achieve carbon neutrality by 2050, a major transition is needed, which the EU taxonomy will contribute to (European Commission, 2021). Managers must at all times be adjustable to new sets of rules in the market (Porter, 1996). Companies must be flexible in order to be able to adapt to competition and market changes. Benchmarking should be a continuous practice, to achieve the best results. According to Porter (1996), efficiency is related to outsourcing. Companies must also grow and maintain a few core competencies, in order to gain an edge over the competition. Factors such as customers' needs, customers' accessibility, or the variety of a company's products or services can be fundamental to a company's strategic positions. Furthermore, strategic positions can be expected to have a horizon of a decade or more, not of a single planning cycle (Porter, 1996).

The EU taxonomy means that fund companies must comply with similar requirements, which makes it interesting to examine differentiation strategy in more detail. Differentiation arises from the company's activities and how they are performed (Porter, 1996). Porter (1996) states that choosing to perform activities differently than rivals do is the essence of strategy. Based on this, activities can be seen as the basic units for competitive advantage. He points out that general advantages or disadvantages are the result of all the company's activities, not just a few. According to Porter (1996), a company can only outperform competitors if it can establish a difference it can preserve. Operational effectiveness refers to performing similar activities better than rivals. On the other hand, strategic positioning is about performing different activities than rivals, or performing the same activities in different ways (Porter, 1996).

### 3.1.1 Investment Strategy

The study's research question examines fund companies' adaptation of investment strategy to the EU taxonomy. Therefore, it is relevant to investigate the investment strategy concept in more detail. Investment strategy can be defined as a set of principles that contribute to investors' achievement of financial and investment goals (Chen, 2021). The strategy is based on factors such as goals, risk tolerance and future capital needs, and serves as a guide for investment decisions. Investment strategies are prepared for various purposes, and may focus on, for example, wealth protection or capital growth. Investors can formulate portfolios based on the investment strategy. That said, strategies are not static, which means that periodic reviews are necessary to be able to adapt to the circumstances (Chen, 2021).

## 3.2 Socially Responsible Investment (SRI)

The goals and focus of investment strategies vary. In recent years, sustainability and social responsibility have become important factors in several fund companies' strategies. Socially responsible investment (SRI) are often characterized by socially consciousness (Chen, 2020). In practice, SRI involves investing in companies and funds with positive social impacts. Despite this, it is important for investors to weigh the potential for returns in decisions, as SRI is still an investment. SRI is represented by two inherent goals, social impact and financial gain. The two goals are not necessarily related and represented in any investment. It is therefore necessary to assess the economic outlook of the investment, while at the same time raising awareness of its social value (Chen, 2020).

Socially responsible investment reflects both the political and social climate (Chen, 2020). This involves a risk investors need to be aware of, as the social value the investment is based on may fall out of favor among investors when it is no longer trending. SRI is often assessed by investment professionals in light of the ESG factors for investment. This approach emphasizes companies' management practices and looks at its potential for sustainability and improvement of society. There is evidence that companies can improve their returns by focusing on this approach. However, there is no evidence of success for investments based on social values alone (Chen, 2020).

### 3.2.1 Strategies for Maximizing Financial Return and Social Benefits

Increased environmental awareness has helped make SRI visible to a wide range of investors (Schyndel, 2021). This has led to socially responsible investment trending towards companies that positively affect the environment by reducing emissions or investing in sustainable or clean energy sources (Chen, 2020). It is difficult to give a universal definition of SRI, since there are several different points of view on what values should characterize a company (Schyndel, 2021). Companies have different perceptions of what social responsibility entails. Social investors base their investments on five strategies to maximize financial return and try to maximize social benefits (Schyndel, 2021):

#### *3.2.1.1 Screening*

This process filters which specific securities are to be excluded, as well as which are to be included in the portfolio, based on social and/or environmental criteria (Schyndel, 2021). It is claimed that screening helps eliminate companies with risks that are not recognized by traditional financial analyzes (Schyndel, 2021).

#### *3.2.1.2 Negative Screening*

The original purpose of SRI was for investors to distance themselves from investments in undesirable activities, such as tobacco production (Schyndel, 2021). Based on social or environmental criteria, negative screens exclude certain securities from investment valuations (Schyndel, 2021).

#### *3.2.1.3 Positive Screening*

This type of screening identifies companies that score highly on a social or environmental basis (Schyndel, 2021). Investors realized that it was possible to actively seek out and include companies with desired qualifications, rather than avoiding companies engaged in unwanted activities (Schyndel, 2021).

#### *3.2.1.4 Divestiture*

Divesting securities means that selected investments are removed from a portfolio, on the basis of certain social and environmental criteria (Schyndel, 2021). Transaction costs complicate divestments in practice. In addition, it can be both difficult and expensive for larger investors to sell out (Schyndel, 2021).

#### *3.2.1.5 Shareholder Activism*

This practice aims to influence companies' social and environmental work in a positive direction (Schyndel, 2021). Shareholder activism includes initiating conversations with corporate management. This involves collaborative efforts between community investors, to stimulate more responsible management in the companies in which they invest (Schyndel, 2021).

### 3.2.2 The Performance of SRI

Ever since the introduction of Social Responsible Investment (SRI), questions have been asked about whether the inclusion of social and environmental considerations harms the return on investment (RBC Global Asset Management Inc., 2019). At best, there is no difference between the investment results of SRI funds and traditional funds, and fund companies will be able to invest responsibly with a focus on ESG without sacrificing financial returns (RBC Global Asset Management Inc., 2019). There is still a lack of consensus among researchers on performance of SRI, and some even claim that the results depend on factors such as context, sample and methodology (Wu, Dean, & Lodorfos, 2015).

Various studies and evidence highlight neutral, positive and negative effects on returns (Wu, Dean, & Lodorfos, 2015). According to RBC Global Asset Management Inc. (2019), studies have broadly concluded that socially responsible investment does not harm returns. Nevertheless, the question of whether SRI outperforms traditional investments remains uncertain. Based on this, fund companies can assume that the return on SRI funds will be equivalent to traditional funds. Findings in other research show that SRI reduces performance if negative screening is used, and on the other hand improves performance if positive screening is used (RBC Global Asset Management Inc., 2019).

A study presented by Cowton (2004) confirms a tension between the implementation of ethical factors in investment decisions and the achievement of decent financial performance. In addition, a potential positive correlation between financial performance and ethical efficiency of a fund is revealed. Some confirmation was given that an ethical approach in investment decisions can be more challenging than a traditional one. That said, the total effect of an inclusion of ethical factors depends on the investment strategy and means of management that fund companies would otherwise have adopted. Thus, it becomes difficult to establish a general definition of how such factors affect fund companies' investments (Cowton, 2004).

In another study presented by Wu et al. (2015), it was found that the financial performance of SRI is affected by the time frame of the investments. Short term, it seems that SRI is underperforming compared to conventional investments. Precisely because higher fees are required in gathering information and meeting ESG criteria. However, a reduction in costs in the medium term means that SRI may outclass conventional investments in the long term (Wu, Dean, & Lodorfos, 2015).

That said, companies need to be aware that investment performance can be affected by various periods and societal incidents, such as the financial crisis and COVID-19, in a long-term horizon (Wu, Dean, & Lodorfos, 2015). It will therefore be necessary to examine SRI funds and non-SRI funds in different stages and periods, in order to establish a complete picture of the relative performance. Another study showed increased awareness and discussion about sustainability and sustainable business practices in periods of financial crisis. This provides a basis for arguing that societal crises, such as COVID-19, can contribute to better performance of SRI (Wu, Dean, & Lodorfos, 2015).

## 3.3 The Principles for Responsible Investment (PRI)

UNEP FI is a unique partnership between the United Nations Environment Program (UNEP) and the global financial sector (PRI Association, 2021). In 2006, they established the Principles for Responsible Investment (PRI) (UNEP FI, 2021a), together with the world's largest voluntary sustainability initiative, the UN Global compact (PRI Association, 2021). In 2005, the formerly UN Secretary-General, Kofi Annan, invited a selection of the world's largest institutional investors to participate in the development of the Principles for Responsible Investment (PRI Association, 2021). The selection consisted of 20 investors from institutions in 12 countries, as well as 70 experts from the investment industry, intergovernmental organizations and civil society. Since the launch of the PRI, the number of signatories has grown from 100 to over 3,000 (PRI Association, 2021).

The PRI is the world's leading advocate for responsible investment (PRI Association, 2021). It works to understand the investment implications of ESG factors, in addition to supporting their international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatory, as well as of the financial markets and economies in which it operates, and ultimately the environment and

society as a whole. The PRI believes that an economically efficient, sustainable global financial system is a necessity for long-term value creation. This is because such a system will reward long-term, responsible investment and benefit the environment and society as a whole. The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation (PRI Association, 2021).

### 3.3.1 The Six Principles for Responsible Investment

The six principles for responsible investment are a set of investment principles that companies can voluntarily use to place greater emphasis on ESG in investment practice (PRI Association, 2021). Upon implementation, the signatories contribute to the development of a more sustainable global financial system. The Principles have a global signatory base, which represents a majority of the world's professionally managed investments (PRI Association, 2021).

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

## 3.4 ESG Measurements

Over 3100 managers with a total asset of $103 trillion have joined the Principles for Responsible Investment (PRI), which obliges them to invest in accordance with ESG factors (Klaveness, 2020). The term ESG is widely used in recent times (Gregersen, 2020). Among other things, it is used as a method for evaluating and ranking companies' results in relation to their impact on the environment, social conditions and rights associated with the company (Gregersen, 2020).

The left graph in Figure 3 shows the frequency of media mentions of “ESG” and “impact investing” from 2015 to 2020 (CB Insights, 2020). The right graph illustrates investments in sustainable funds from 2009 to 2019. Both graphs show a trend with a remarkable increase in 2019 (CB Insights, 2020). This supports the fact that the sustainability concept has become increasingly popular.

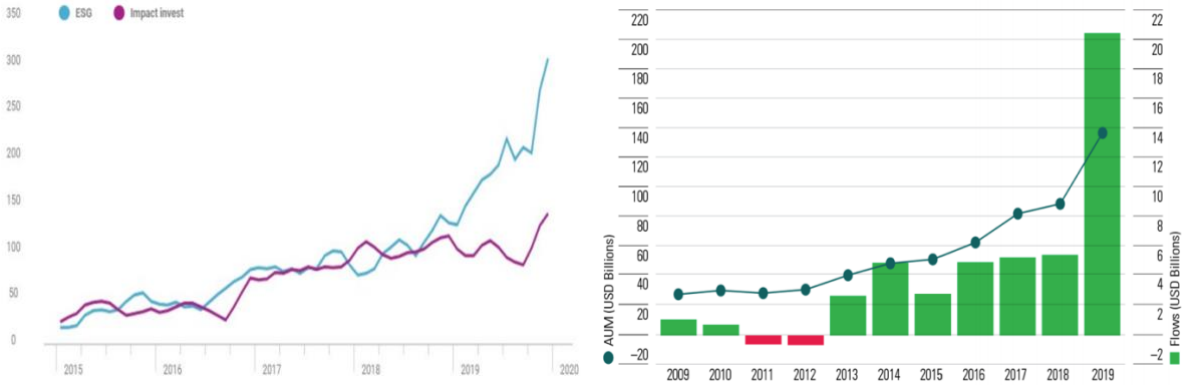


Figure 3 – Interest in ESG Measured by Media Frequency and Investment Interest

*Left graph: Media frequency related to ESG, 2015-2020.*

*Right graph: Investor interest related to ES, 2009-2019.*

*Source:* (CB Insights, 2020).

In response to the growing popularity, many ESG rating agencies have emerged (Mooij, 2017). Thorough ESG analyzes are performed with the intention of ranking companies according to their ability to comply with ESG factors (Gregersen, 2020). Furthermore, rankings are used as a tool for investors in investment decisions, with the aim of excluding companies with a weak ESG rating and including companies with a strong ESG rating (Gregersen, 2020). Research by Mooij (2017) examines the field of ESG ratings and rankings, as well as adoption of responsible investment, in more detail. The study shows that worldwide there are several different ESG ratings, in addition to around 500 rankings, 170 ESG related indices, more than 100 awards and at least 120 voluntary standards. Mooij (2017) points to doubts about reliability of ESG scores. Precisely because the lack of a standardized framework counteracts standardization and consensus on the topic, which in turn leads to several different strategies for responsible investment. The research therefore concludes that ESG reporting and lack of transparency have made the industry more immoral than moral in the adoption of responsible investment (Mooij, 2017).

Mooij (2017) is not alone in questioning ESG measurements. Schmidt (2019), Macdonald & Ho (2020) and Lowzow & Ringstad (2019) are just a few of several others who express uncertainty about such measurements. It is not surprising that questions are asked. Schmidt (2019) refers to an example with the well-known car brand Tesla. The brand was ranked at the bottom of the automotive industry in a Japanese ESG survey. MSCI, explained in Chapter 1.1, made a similar measurement where Tesla ranked as best in class. At the same time, Sustainalytics, explained in Chapter 1.1, considered Tesla to be in the middle of the pile. It is therefore understandable that the results of such measurements are questioned. Especially when three of the world's leaders in ESG rankings show such great variation in the ranking of Tesla (Schmidt, 2019).

The variety of ESG measurements creates confusion (Schmidt, 2019). Lars-Henrik Røren, responsible for equity investments in Formuesforvaltning, points out that they currently report on MSCI's standard due to lack of a better tool (Schmidt, 2019). Companies experience frustration in filling out a majority of different surveys (Riksen, 2019). Moreover, it gives fund companies incomparable measurements of ESG in invested companies (Riksen, 2019). Not least, it creates frustration in society and among politicians who want a shift towards sustainable investments (Riksen, 2019).

Varying definitions of sustainability, as well as lack of standards and common frameworks, have made it challenging to conclude how sustainable an investment actually is (Lowzow & Ringstad, 2019). The measurements can often be perceived to be based on emotional factors to a greater extent than facts (Schmidt, 2019). This makes it difficult for investors to orientate themselves, and the risk of greenwashing increases (Lowzow & Ringstad, 2019). Therefore, less capital is being transferred to sustainable investments and it becomes more difficult to achieve the climate goals of the UN (Lowzow & Ringstad, 2019). ESG measurements are therefore more of an obstacle to responsible investment (Schmidt, 2019). With this in mind, it can be argued that the EU taxonomy will provide a better overview of how ESG factors are integrated into companies' activities. Precisely because it offers reporting and measurement on a comparable standard.

## 3.5 Rankings and Competition

Both Skjevestad (2011) and Dalen (2019) points to tougher competition to attract fund customers. The majority of society finds sustainability important, which creates an expectation that companies and financial institutions act sustainably. Various sustainability reports are prepared annually and published to the public. An example is the Norwegian Sustainability Barometer at BI Norwegian Business School, measuring which companies are most sustainable according to customers (BI, 2020), as well as the Sustainable Brand Index B2C, which examines sustainability in the business-to-consumer market (Sustainable Brand Index, 2021). A common classification system for reporting on sustainable activities, such as the EU taxonomy, will enable ranking on a comparable standard. This in turn can give results that better reflect the companies' sustainability compared to each other.

Chatterji & Toffel (2008) examine in their empirical analysis how companies react to corporate environmental ratings. The research points to factors that can create fear of low rankings, as well as destroy share value; reputation concerns, negative media coverage and the risk being excluded from the market for "green funds". Findings from the empirical analysis indicate that companies with poor rankings improved environmental performance to a greater extent than other companies (Chatterji & Toffel, 2008). Häßler (2013) points out in his study of the impact of SRI that 97% of surveyed companies expect a decent score in sustainability ratings to have a positive reputation effect. Moreover, 87.9% of the companies agreed that a respectable sustainability score is important. Häßler (2013) also presents that 84.4% of the companies use results from sustainability ratings in their external communication, if the score is decent of course.

## 3.6 Greenwashing

Increased focus on sustainability has led to more companies resorting to greenwashing (Sustainable Jungle, 2020). Greenwashing can be defined as presenting the company, funds or investments as more sustainable than what is reality (Sustainable Jungle, 2020). The common denominator is that more time and money is spent on marketing oneself as environmentally friendly than is spent on minimizing the environmental impact (Corcione, 2020). Greenwashing misleads investors and consumers who want to buy environmentally friendly products and services (Corcione, 2020). This in turn has negative effects, for example in that there may be a lack of credibility in sustainable solutions (Delmas & Burbano, 2011).

According to The European Commission (1995-2021d), environmental impact is the third most important factor for consumers in the EU. Today, there are over 400 eco-labels in the world, and 48% of consumers have the impression that these labels are not clear. In a survey of 94 companies, 585 different indicators were used in environmental reporting, and 55% of these were only used once. Therefore, only 6% of EU citizens trust companies' claims about their environmental performance (European Union, 1995-2021d).

Delmas & Burbano (2011) have investigated which drivers encourage companies with poor environmental performance to communicate positively about their performance. Findings refer to consumer demand, investor demand and competitive pressure as important drivers for greenwashing. Companies experience a lot of pressure to act sustainably, and in several cases it is more convenient to change communication strategy rather than the fundamental strategy of the company. This leads to greenwashing in that the actions expressed do not correspond to the company's actual values and priorities. Competition may have an impact on companies resorting to communicating incorrect environmental performance, due to fear of losing competitive advantage to competitors with more sustainable practices (Delmas & Burbano, 2011).

Uncertain regulation is another driver for greenwashing (Delmas & Burbano, 2011). Therefore, enforced regulation of greenwashing will serve as the most direct means of reducing the phenomenon. However, this has been challenging, as there has not been a specific classification system for sustainability. Moreover, this has created obstacles for the assessment of investment objects for investors and fund companies that base their selections on SRI. Precisely because there is a lack of verifiable information about these dimensions. In their research from 2011, Delmas & Burbano (2011) considers it unlikely that a regulation will be put in place in near future. Ten years later, the EU taxonomy is being developed into a classification system for sustainable activities, which aims to reduce greenwashing (Chapter 2.5).

## 3.7 Derivation of Study Hypotheses From Theoretical Frameworks

### 3.7.1 Hypothesis 1

Fund companies can use the EU taxonomy to design fund packages, but are not obliged to invest in activities that are in accordance with the taxonomy (Chapter 2.5.7). They are also not bound to use the classification system and can use their own frameworks if this is justified. In the

introduction of the thesis, a hypothesis was presented that all fund companies will adapt to the taxonomy due to market competition. According to Michael Porter (1996), managers must at all times comply with new sets of rules that arise in the market (Chapter 3.1), such as the EU taxonomy. He emphasizes that companies must have the flexibility to adapt to subsequent changes in competition and the market (Chapter 3.1).

Studies that deal with external rankings of companies show that those who perform the worst tend to improve more than other companies (Chapter 3.5). Using the taxonomy, it will be easier to rank companies based on the same factors. Fund companies that choose not to invest in sustainable activities according to the taxonomy, or those that do not choose to use the framework at all, may experience low scores in external rankings. In addition, an important part of the taxonomy is its intention to combat greenwashing (Chapter 2.5). There are constantly cases of companies marketing themselves as more sustainable than they actually are. The taxonomy will create more transparency, making it easier to identify cases of greenwashing. The hypothesis that all fund companies will adapt to the EU taxonomy due to market competition will be examined on the basis of differentiation strategy, external rankings and greenwashing.

### 3.7.2 Hypothesis 2

Socially responsible investment is becoming increasingly popular. As mentioned, it is difficult to find a definition of SRI that all consumers and companies identify with (Chapter 3.2.1). Socially responsible investment (SRI), the Principles for Responsible Investment (PRI) and the factors environmental, social and governance (ESG) have largely become the frameworks which fund companies base their responsible investments. Nevertheless, there has been lack of a common definition of sustainability and a standardized framework for sustainable investment. With the introduction of the EU taxonomy, a definition of sustainable activities will finally be in place. A hypothesis that the EU taxonomy will be the main framework in fund companies' investment strategies was therefore introduced. The hypothesis will be examined on the basis of companies' investment strategies, by looking at SRI, the PRI and ESG factors.

### 3.7.3 Hypothesis 3

The EU taxonomy is still in its initial phase, and currently addresses only two of six environmental objectives (Chapter 2.5.1). Consequently, not all sectors are covered yet. The

fact that the Commission received a large number of responses indicates a lack of agreement on content and requirements, which in turn gives fund companies an unclear overview to deal with (Chapter 2.5.5). In addition, not all requirements have been set yet (Chapter 2.5.8). Lack of data is a critical obstacle to companies' adaptation to the taxonomy, as financial market participants must report at an earlier stage than companies in which they invest (Chapter 2.5.7). The case is that there will not be enough taxonomy-related data on companies in which it is invested. On that basis, a hypothesis was introduced that lack of necessary data makes it difficult to adapt to the EU taxonomy. The hypothesis will be examined on the basis of information about the taxonomy and what the frameworks for reporting looks like today.

# 4 Methodological Approach

As the research question describes, it is desirable to examine how fund companies will adapt their investment strategy to the EU Taxonomy for Sustainable Activities. In the following chapter, the choice of method for answering the problem will be presented. Furthermore, it will be presented how data was collected and analyzed, before the study's quality and rigor will be reviewed.

## 4.1 Research Methodology

Dr. Catherine Dawson (2007) describes research methodology as the philosophy or principle that governs research. In this study, a qualitative approach will be used to answer the research question. Qualitative research is characterized by examination of attitudes, behavior and experiences (Dawson, 2007). An attempt is made to get a more detailed opinion from those who participate in the research. Due to this, qualitative studies often contain fewer participants, which in turn provides longer in-depth conversations (Dawson, 2007).

It is desired to examine how the new EU taxonomy will affect the investment strategy of fund companies. As the taxonomy has not yet entered into force, it is desirable to capture perceptions and expectations, which is difficult to quantify through quantitative research methodology. A qualitative approach therefore seemed to be most appropriate. Qualitative research provides the opportunity to explore ideas and experiences more thoroughly, which is crucial for answering the study's research question (Bhandari, 2020).

## 4.2 Research Method

The method, i.e. the tool that will be used to collect data, is interviews. There are several types of interviews (Academic Work, 2021). To be able to answer the research question in the best possible way, it is considered most appropriate to use semi-structured interviews. This type of interview is one of the most common in qualitative research (Dawson, 2007). Semi-structured interviews are characterized by questions being decided in advance and asked to all candidates (Academic Work, 2021). Nevertheless, there are opportunities for follow-up questions based on what the candidates answer. This means that the interviews are to a certain extent shaped by the candidates' responses (Academic Work, 2021). The reason why the study will use semi-structured interviews is that it is desirable to obtain specific information related to adaptation to the taxonomy, with the possibility of comparing the information across interviews (Dawson,

2007). It is therefore important that the same questions are asked to all candidates, while at the same time providing the opportunity for flexibility to obtain important additional information (Dawson, 2007). Dawson (2007) points out that in such interviews an interview guide is produced, either with specific questions or topics. The interview guide for this study will be prepared on the basis of the study hypotheses presented in Chapter 1.3. This is to confirm or disprove the hypotheses, which will further give an indication of a conclusion of the research question.

## 4.3 Data Collection

In this section, the study's data collection will be presented by looking at selection of candidates, interview guide, the conduct of the interviews and analysis of data.

### 4.3.1 Selection of Candidates

Within qualitative interviews, it is important to assess which participants are to contribute, as well as the number of participants (Sargeant, 2012). According to Sargeant (2012), the participants are selected on the basis of who can best provide information related to the research question, which in this study means who is affected by and has an understanding of the EU taxonomy. Based on the research question, study hypotheses and theoretical perspectives, e-mails were sent to relevant companies. What characterized most companies was that they were quite large in Norwegian fund management, with many investments, both locally and globally. The purpose of the research was described, in order to get in touch with the most suitable candidates within the companies. It was important that the candidates had knowledge of the investment processes and philosophy of the company, as well as knowledge of sustainability and the EU taxonomy.

In order to obtain external views of fund companies' adaptation to the taxonomy, consulting companies were also contacted. Precisely because they offer consulting related to sustainability work. It was also important that the consulting companies could relate to the financial sector, sustainability and the EU taxonomy. By sending a description by e-mail, as mentioned above, contact was made with the participants in each company who were most appropriate for the research. The candidates interviewed included senior portfolio managers, participants in responsible investment teams, ESG specialists and analysts, sustainability managers and consultants.

According to Sargeant (2012), the number of participants in qualitative research depends on the number needed to be able to obtain information about what is being investigated. The interviews were arranged with five fund companies and two consulting companies, with the opportunity to contact more if necessary. After the interviews were completed, the answers were considered sufficient to answer the hypotheses and research question, without the need for further interviews. This due to the emergence of both positive and negative views, without new concepts in need of elaboration being identified (Sargeant, 2012).

### 4.3.2 Interview Guide

An interview guide was prepared prior to the interviews, i.e. an overview of the questions to be answered in the interviews (Vøllo, 2020). The purpose of the interview guide was to plan the interview, as well as to ensure collection of necessary data for answering the research question (Vøllo, 2020). It was prepared two different interview guides on the basis of the study hypotheses derived in Chapter 1.3, one for fund companies and one for consulting companies. The same questions were fundamental in both interview guides, but adjustments were made to the two company types. In total, the interview guide for fund companies consisted of 30 questions and the interview guide for consulting companies consisted of 23 questions.

The main focus of the preparation of the interview guides was to design open and neutral questions, in order to avoid leading the candidates in a specific direction of the answer (Vøllo, 2020). An hour was set aside for each interview, and the interview guides was quality assured in advance with regard to time use (Vøllo, 2020). The interview guides were sent out to the candidates approximately one week before the agreed interviews. This was so that the candidates would have the opportunity to prepare by collecting the necessary data to answer the questions, as well as the opportunity to investigate conditions in the company in case of uncertainty.

### 4.3.3 Conducting the Interviews

Due to COVID-19, it was problematic to arrange physical meetings, and all interviews were therefore conducted via the digital service Microsoft Teams. The conduct of the interviews was not affected by digital problems. Digital interviews provided the opportunity to effectively conduct more interviews in one day than would have been possible with physical meetings. The

majority of the candidates represented the company alone, except for two companies which were represented by two candidates. The researchers participated separately, and there was therefore a total of three to four units connected to the digital interviews.

The interviews were conducted in that each of the researchers was responsible for different topics of the interview guide. In this way, the researchers varied who led the interviews and asked questions, which worked excellently. The time frame of one hour was followed in all seven interviews. The anonymity of the answers was clarified at the beginning of the interviews, where it was pointed out that statements can neither be traced back to the candidate nor the company. One reason why the interview results were chosen to be presented as anonymous is that the disclosure of candidates' or companies' identities does not provide a better basis for answering the research question. In addition, the choice can be justified by the fact that it gives candidates the opportunity for honest answers, without worrying about creating a difficult situation for themselves or the company afterwards.

### 4.3.4 Analysis of Data

During the interviews, both researchers noted their perception of the candidates' answers. It was decided not to record the interviews due to the so-called cooling effect (Datatilsynet, 2020). Recording interviews can create fear and anxiety. The cooling effect indicates that the use of recordings can lead to candidates moderating statements and behavior based on concerns associated with being recorded (Datatilsynet, 2020).

Shortly after the interviews were conducted, the researchers' notes were rewritten into a longer report, which Dawson (2007) recommends, as the interview is still fresh in mind. Furthermore, the reports were reviewed and compared to prepare a common response. This was done to investigate that the perceptions of the answers were similar, at the same time as it provided an opportunity to capture possible misunderstandings. Finally, one document was prepared with the answers of the five fund companies and one with the answers of the two consulting companies. Such a solution helped increase the anonymity of the candidates and companies. The data collected were presented and analyzed on the basis of the study hypotheses, and were further used to determine their validity. Moreover, the hypotheses were discussed against the research question, in order to further present a proposed conclusion to the study.

## 4.4 Quality and Rigor

Validity and reliability are important factors for quality in quantitative research. According to Sargeant (2012), there are two other main strategies that promote quality and rigor of qualitative research. These imply the authenticity of the data and the trustworthiness of the analysis (Sargeant, 2012).

### 4.4.1 Authenticity of the Data

Sargeant (2012) points out that the authenticity of the data refers to the quality and procedures of the data collection methods. Selection of interview participants is an important assessment to increase the authenticity of data. It is crucial to have the right participants to be able to answer the research question in the best possible way (Sargeant, 2012). In this study, the selection of participants was primarily based on companies relevant to answering the research question. As mentioned, a description of the research was sent out to potentially relevant companies, which then had the opportunity to connect their most suitable candidates in the field. It can therefore be argued that authenticity was enhanced by the selection of candidates being based on their knowledge in investment, sustainability and the EU taxonomy. Several data sources, in the form of fund companies and consultants, were used to obtain a comprehensive overview of fund companies' adaptation to the taxonomy. According to Sargeant (2012), this also increases the authenticity of the data collection.

Furthermore, the use of right method is important for authenticity (Sargeant, 2012). Quantitative methods could not have been used to answer the research question in this study, as what is to be investigated cannot be quantified. The study requires qualitative answers. Therefore, the use of a qualitative method in conducting semi-structured interviews was considered most appropriate. If, for example, structured interviews had been used, there would have been a risk that important elements would not have emerged when not specifically asked about. It was therefore crucial to have the opportunity to ask follow-up questions when needed. In addition, focus groups, for example, would have been less anonymous, which in turn could have resulted in a lower degree of quality in the answers.

As semi-structured interviews were used as a method for collecting data, an interview guide was prepared in advance. In this context, the focus was on avoiding leading questions, so that participants were not led to answer in a specific way (Sargeant, 2012). If that had been the case,

it would have weakened the authenticity of the results. The researchers influence the interviews in such a way that if someone else had used the same interview guide, there is no guarantee that the same result would have emerged. In order to increase the authenticity, a neutral third-party interview could have been necessary to reduce the researchers' impact on the data collected (Sargeant, 2012).

### 4.4.2 Trustworthiness of the Analysis

Connelly (2016) refers to Lincoln and Guba's criteria for trustworthiness, which are accepted by most researchers in qualitative research. These criteria address credibility, transferability, confirmability and dependability. Credibility refers to confidence in the truth of the study (Connelly, 2016). An important question to ask is how congruent the findings are with reality (Pandey & Patnaik, 2014). Among other things, techniques such as prolonged commitment, triangulation and member checks are emphasized to strengthen the credibility of the study (Pandey & Patnaik, 2014).

Prolonged commitment means using sufficient time to talk to more people, form relationships and observe to learn and understand (Pandey & Patnaik, 2014). This study was done over a limited period of time, which made it difficult to spend sufficient time on prolonged commitment. Throughout the study, several webinars have been attended to learn and understand the EU taxonomy, based on impressions from several business people with different professions. Participation in webinars was done according to the technique of triangulation, which involves acquiring understanding using several data sources (Pandey & Patnaik, 2014). On this basis, it can be argued that credibility is present in the study. Nevertheless, to increase the credibility of the study, the member checks technique could have been used. This technique refers to testing data, interpretations and conclusions with the candidates the data were obtained from (Pandey & Patnaik, 2014).

Furthermore, transferability is key for the study to be trustworthy (Connelly, 2016). The study is transferable if the findings can be used in other contexts (Cope, 2014). The study has only been carried out on a selection of fund companies in Norway, which indicates that findings may vary depending on which companies are interviewed. In the case of other EU member states, it is possible that they have come further or shorter in the process of implementing and adapting the taxonomy, which would have made the study less transferable. Nevertheless, it can be

assumed that some of the results will be transferable to fund companies in other countries, as the taxonomy will apply on the same terms.

The third criterion deals with dependability (Connelly, 2016). The study will be dependable if the findings are consistent and can be repeated (Connelly, 2016). If the same participants and context are present, it is likely that the findings would have been the same. This is because several interviews were conducted with different participants, where the companies largely expressed agreement on the topic and thus provided similar data. However, in order to achieve dependability, it is important that the study is conducted on the basis of the content of the EU taxonomy at the time of this study. Precisely because the classification system is continuously updated, which means that more data and information will be present in the coming years. Changes in the taxonomy can therefore result in changes in interview results, if a future study is based on the content at that time of conducting research.

The last criterion that is emphasized for the study to be trustworthy is conformability (Connelly, 2016). This means ensuring that the data from the candidates represent their perceptions and experiences, rather than the researchers' views and preferences (Cope, 2014). In the study, this criterion is strengthened by the fact that two researchers noted their perceptions when obtaining data through interviews. In addition, the answers were compared to check that there was agreement in the opinions. Conformability is also shown in the fact that the results were not consistent with the researchers' assumptions before data collection. This indicates that the focus was on the candidates' perceptions rather than the researchers' views. Nevertheless, conformability could have been further strengthened in the same way as credibility, by performing a member check of the results with participants of the interviews.

Overall, the study is characterized by quality and rigor in terms of authenticity and trustworthiness. Nevertheless, it would have been possible to increase the credibility by using the member check technique, and by emphasizing the techniques for prolonged commitment and triangulation to a greater extent. It could also have been relevant to investigate whether the results were valid for other fund companies in Norway, as well as for companies in other countries, both inside and outside the EU. However, this was not feasible due to time constraints.

# 5 Results and Analysis of Interviews

Previous parts of the thesis have presented the background for choice of topic, the background for the EU taxonomy, theoretical frameworks and the methodological approach of the study. Additionally, three study hypotheses have been derived from the research question (Chapter 1.3). In this part of the thesis, the interview results will be analyzed on the basis of a division according to the topics related to the hypotheses; competition, investment frameworks and challenges of adaptation. The thesis does not present the statements of all interviewed companies in detail, as the amount of information that can be included is limited. A selection of the most important points has been made that respond to the study's hypotheses, and thus contribute to the investigation of the research question.

## 5.1 Competition

First, Hypothesis 1 that all fund companies will adapt to the EU taxonomy due to market competition will be analyzed. Theoretical topics such as PRI and long-term value creation, differentiation strategy, greenwashing and rankings will be examined to conclude whether the hypothesis is valid or not.

### 5.1.1 Customer Demand and External Rankings

There is fierce competition to attract fund customers (Chapter 3.5). In order to retain existing customers under tougher competition, as well as acquire new ones, it is important to be able to offer funds in which customers want to invest their money. Figure 3 visualizes a growing popularity of sustainable investing (Chapter 3.4). Due to tougher competition to acquire fund clients, in addition to increased focus on sustainable investments, it may be desirable for fund companies to invest in accordance with the taxonomy to meet customer needs. It was therefore investigated whether fund companies experience great interest in sustainable funds among their customers. It was unanimous that both the interest in sustainability and the demand for responsible investments have increased. Especially after COVID-19, some companies experienced an increase in focus on sustainability. None of the fund companies have specific figures on the number of customers who are interested in the topic, but some map it to a greater extent than others. It was pointed out that it varies how actively customers want their investments to have a sustainable goal. That said, both private and institutional customers seem to be concerned with sustainability. It can therefore be assumed that it is important for fund companies to offer sustainable products in order to reach customers.

Different rankings map customers' perceptions of sustainability in companies (Chapter 3.5). Such surveys are based on customers' experiences and views related to the companies being examined. The outcome reflects the extent to which the companies communicate their sustainability strategy in a way that reaches the customers. With the introduction of the taxonomy, it may be easier to rank companies externally based on their sustainability work, precisely because it becomes a standard of what is sustainable. It was therefore desirable to investigate how fund companies relate to rankings and whether they use these in further work. Studies show an increased degree of improvement among those who perform poorly in rankings, due to competition (Chapter 3.5). The interviews revealed that not all companies are exposed to rankings often. That said, they want to use the results of the rankings in a beneficial way for company development. Nevertheless, the companies experience that rankings are difficult to handle, due to lack of standards. It turns out that rankings are often very simplified, which means that the results can create unfair comparisons that companies do not identify with. It was stated that this is expected to improve after the implementation of the taxonomy, as it becomes a standard for sustainability. The classification system requires stricter reporting, which in turn will create transparency and fairness.

All companies want the superior result of rankings, when it comes to evaluations from both external companies and customers. The reason is that it is crucial for the company's reputation, which is pointed out in Häßler's (2013) study (Chapter 3.5). If possible, the companies will improve strategically. This is something the consulting companies experience, as they themselves perform rankings of other companies. They experience that the companies being examined are interested in the result. One of the consulting companies has also worked specifically with improvement in companies that experience poor results in rankings.

### 5.1.2 Value Creation and Differentiation

Theoretical Chapter 3.3 presented the six Principles for Responsible Investment as a set of investment principles to guide companies in investment practices related to ESG (PRI Association, 2021). The Principles for Responsible Investment have been in force since 2006, and all interviewed fund companies became signatories between 2006 and 2012. PRI's mission states that long-term value creation depends on an economically efficient and sustainable global financial system (Chapter 3.3). Signatories of the PRI are committed to contributing to the development of such a sustainable global financial system. The EU taxonomy for sustainable

activity was developed on the basis of similar purposes. In that case, it was desirable to identify which factors fund companies consider necessary to achieve long-term value creation. This was due to the assumption that the majority of competitors in the market in the long term will have to adapt to the requirements of the taxonomy. Responsible investment and sustainability were highlighted as important factors. Furthermore, it was emphasized that respectable traditional management, based on suitable stock choices and fundamental analyzes, is necessary.

Some fund companies find it important to adapt to the market and capture new developments and trends, while filtering out short-term hype related to individual stocks. This is in line with Porter's (1996) research on strategy (Chapter 3.1). Profitability over time is another factor that was highlighted as important for companies in which to invest. A driver that enables the company to create long-term value must be present. Finally, adaptation to EU requirements and regulations was considered crucial for long-term value creation. The fund companies seem to understand the importance of a sustainable global financial system for long-term value creation.

The consulting companies stated that in order to achieve long-term value creation related to sustainability, companies must be consistently sustainable. Long-term growth depends on the fundamental work of the company being sustainable. Companies will quickly be exposed if they are not sincere in their sustainability work and instead resort to greenwashing, defined in Chapter 3.6. The study by Delmas & Burbano (2011) shows that competitive pressure, among other things, is a critical driver for greenwashing (Chapter 3.6). Market competition seems to lead to more companies marketing an excessive image of their sustainability, so as not to be inferior to the competition. The taxonomy will help reduce the incidence of greenwashing, as companies are expected to focus on integrating sustainability to invest in line with the new classification system (Chapter 2.5).

It was desirable to investigate the extent to which fund companies experience greenwashing. Greenwashing is perceived as a problem and a concern among investors. All fund companies pointed out that greenwashing is a fact, where the degree of occurrence varies. Green bonds listed on the Oslo Stock Exchange were presented as an example of greenwashing, as they only meet the minimum requirements for Norwegian construction technology and thus are not as sustainable as they appear. Some companies experience greenwashing to a large extent, while

others pointed out that it is not an outstanding problem in Norway and the Nordic countries in general.

The consulting companies, on the other hand, do not consider greenwashing to be a prominent problem in Norway. It emerged that Norwegian banks and fund companies have built up an excellent practice in corporate social responsibility. There will always be some cases that stand out negatively, but the majority of companies take their responsibility seriously. The consulting companies experience that the companies they work with are both transparent and decent in their communication. However, the problem of lack of sustainability standards was pointed out. This has led to the majority of companies developing their own standards, which in some cases can create doubt. That said, the lack of standards makes it difficult to identify cases of greenwashing, and in other cases, companies' communications may appear to be greenwashing without being so.

Based on the experiences with greenwashing, it was further desirable to investigate whether the fund companies believe that the EU taxonomy can contribute to reducing greenwashing by introducing precise and strict requirements. In the interviews, it emerged that the situation before the taxonomy was characterized by visualization of sustainability on websites and in social media, where companies tried to present themselves as sustainable through, for example, the use of images and videos in content. This was described as a qualitative storytelling by one fund companies interviewed. The new classification system, on the other hand, adds more weight to companies' reporting, which makes the expression of sustainability work more quantitative through specific measurements and figures. Despite this, a concern was expressed that greenwashing will not be completely eradicated. It emerged in the interviews that a potential risk is that the practice may now be shifted to political processes.

The EU taxonomy will become a new standard for sustainable investment and set similar requirements for all companies it covers. In Porter's (1996) definition, activities can be seen as the basic units of competitive advantage (Chapter 3.1). He argues that differentiation can come from operational efficiency or strategic positioning, defined in Chapter 3.1. There is agreement among the companies in this study that sustainability and responsible investment are critical factors for long-term value creation. Customers' demand for sustainable products is increasing, at the same time as a common sustainability standard, i.e. the EU taxonomy, makes

greenwashing more difficult. It was therefore relevant to examine fund companies' views on the possibility of differentiating themselves after the introduction of the taxonomy.

One fund company placed special emphasis on the fact that the new classification system can provide economies of scale. It was also pointed out that the taxonomy will provide a competitive advantage for large players in the industry. Furthermore, another view was that companies can differentiate themselves by being at the forefront, both in terms of documentation and reporting, as well as the content of the funds. If companies are early in acquiring the necessary knowledge, they can gain competitive advantage by becoming fist-movers.

It will also be important for companies to show that they take sustainability into account and that their funds have a high content of taxonomy-aligned activities. In this context, the majority of fund companies expressed that they want to see where competitors put the list for adaptation, for example by looking at how much taxonomy alignment they aim for. In addition, it was revealed that companies that have spent a long time designing a setup for sustainable investment may risk losing their advantage. First and foremost because all companies now have to report according to the same standard, but also because there is a chance that the existing layout deviates from the content of the taxonomy.

Another fund company emphasized particularly active ownership as an opportunity for differentiation through shareholder activism, defined in Chapter 3.2.1.5. This is also one of the Principles for Responsible Investment (Chapter 3.3.1). In the absence of necessary data for reporting, you can have an advantage as an active manager, as you know the invested company and its plans, at the same time as you have an influence on its decisions. This can create differentiation, not only because you have respectable knowledge of the company, but also because you can to a greater extent encourage sustainable choices. The taxonomy makes it easier to create dialogue with companies also for fund companies that are not so active owners. This is because the need for data can lead to a desire to uncover all aspects of the companies you invest in, in order to look them up against the taxonomy.

Finally, a point of view related to strategic positioning emerged, defined in Chapter 3.1, which emphasized the opportunities the taxonomy creates for differentiation. The complexity of the taxonomy opens up for differentiation in that companies can decide which environmental

objectives they want to adjust to. It is possible to be both creative and tactical, and put together a taxonomy-aligned product that reflects the company's investment strategy. The diversity of products and services is something Porter (1996) presents as fundamental for strategic positioning (Chapter 3.1). Additionally, he states that the essence of strategy is to choose to perform activities differently from the competitors. That said, fund companies need to keep in mind that this difference must be preserved in order to outperform competitors (Chapter 3.1).

From the consulting companies' perspective, major players in the financial industry may risk losing their competitive advantage after the taxonomy is implemented. That said, they will experience an advantage anyway, as sustainability is already implemented throughout the organization. For smaller fund companies, on the other hand, it will be difficult to differentiate when everyone meets similar requirements. Thus, operational effectiveness, defined in Chapter 3.1, will be important, as well as acquiring knowledge to become a first-mover.

### 5.1.3 Summary

In recent years, society and the business community have faced an increase in interest in sustainability. This has further created increased competition to gain fund clients, and it is therefore becoming increasingly important to offer funds that are in demand. The fund companies want to use external rankings of their sustainability work in an advantageous way for further development. This is supported by the consulting companies, who perform rankings and work directly with companies to improve their outcomes. The EU taxonomy is expected to lead to more information sharing and transparency, which may contribute to external rankings becoming representative.

According to PRI's mission, long-term value creation depends on an economically efficient and sustainable global financial system. Sustainability, SRI and respectable management were identified as important factors for long-term value creation. Adaptation to market developments and trends was also emphasized. Additionally, profitability and adaptation to political requirements, such as the EU taxonomy, were pointed out. The consulting companies pointed out the importance of having a company that is fundamentally sustainable, which is also crucial to avoid greenwashing.

Competitive pressure is an important driver for greenwashing. The companies interviewed pointed out greenwashing as a fact, but it did not seem to be an outstanding problem in Nordic countries. Lack of standards for sustainability has made it more difficult to measure companies' sustainability, as well as to point to examples of greenwashing. The fund companies assume that the taxonomy will contribute to reduced greenwashing. That said, it was expressed that it will be difficult to eradicate it completely.

The interviews revealed an assumption that the EU taxonomy will provide a competitive advantage for large players with integrated sustainability practices and decent resources. Strategic positioning and operational efficiency are important strategies for differentiating and achieving competitive advantage. In order to differentiate and gain competitive advantage, the acquisition of knowledge, being a first-mover and active ownership were emphasized as important factors. That said, the majority of fund companies expressed that they want to observe how much taxonomy alignment competitors aim for in their adaptation work.

The interview results have several points that are important for answering Hypothesis 1. Increased competition and focus on sustainability, as well as the fund companies' perceptions of external rankings and value creation are indicative. In addition, greenwashing is also related to competitive conditions, and the results refer to the preparation of a differentiation strategy to achieve a competitive advantage after the implementation of the taxonomy. There is therefore no impression that the fund companies have considered not using the taxonomy at all, or that they will refrain from investing in taxonomy-aligned activities. Based on this, it can be concluded that the hypothesis is valid, i.e. that fund companies will adapt to the taxonomy due to market competition. Nevertheless, it must be pointed out that the degree of adaptation will vary between companies.

## 5.2 Investment Frameworks

Next, Hypothesis 2 that the EU taxonomy will be the main framework in fund companies' investment strategies will be analyzed. This in light of SRI and both risks and performance related to it. Furthermore, the effect of ESG and PRI in fund companies' investment strategy, as well as ESG measurements, will also be looked at in more detail. Perceptions of the EU taxonomy and its impact on SRI motivation will then be analyzed. Finally, this part of the thesis will address the transition of fund companies to the taxonomy.

### 5.2.1 Socially Responsible Investment

Socially responsible investment is based on two inherent goals, social impact and financial gain (Chapter 3.2). Increased emphasis on sustainability and responsible investment necessitates a shift in focus for fund companies. Therefore, it was asked which factors they consider most important for sustainable investments. The majority pointed out that this is decided case by case, as certain factors are important for all sectors, while others only apply to specific sectors.

In addition, it was emphasized that requirements should be set, both backwards and forwards in the value chain. This becomes easier if companies act as active owners through shareholder activism (Chapter 3.2.1.5). Active ownership opens for better dialogue between fund companies and companies in which they invest. Furthermore, it provides a better basis for influencing in the desired direction (Chapter 3.2.1.5). Thus, ownership and responsibility are also decisive factors for socially responsible investment. These factors are rooted in the company's management, which is expected to take control and create long-term incentives. Knowledge is another important factor that was presented. Precisely because companies depend on knowledge to be able to perform necessary sustainability analyzes to map out how to handle different industries, challenges and solutions. The factor is also important in order to be able to act intact with political and international approaches, such as the EU taxonomy.

#### *5.2.1.1 Risks of Socially Responsible Investment*

According to fund companies, socially responsible investment can be linked to various risks. First and foremost, it was pointed out that it can be expected that there are different risks associated with different companies, and that it can therefore be difficult to define an overall risk. Lack of standardization of the sustainability concept is another risk that has been present until the taxonomy, which can further be related to the chance of being exposed to greenwashing. Sustainability has in recent years gained increased interest among consumers, which makes it tempting for companies to resort to greenwashing. Short term, this can be a promising business opportunity. However, it can be misleading, as not all companies present a true picture of the extent to which they are sustainable.

Questions were asked to uncover what risks the consulting companies associate with sustainable investment. Risks related to technology were identified. The reason for this is that changes in society, for example to a zero-emission society, require technological development,

which can be both challenging and expensive. Another presented risk concerned customers' preferences and demand. External influence on investment patterns can be seen in the context of social trends. Social trends often underlie SRI, as these types of investments are related to both the political and social climate (Chapter 3.2). Trends in society change and develop over time, which can affect the return on responsible investments. This creates fluctuations in the returns of the sustainable funds, which also was highlighted as a risk by fund companies.

According to some fund companies, social trends do not have a direct impact on how they invest. Despite this, it was pointed out that such trends make it more visible which companies have an upward curve, at the same time as it brings in new customer groups. For example, some fund companies experience that younger customers in particular are more concerned about sustainability. It can be concluded that social trends are not a driving force for investment, but that it can provide new investment ideas. Furthermore, it creates capital flows towards funds that can be related to current societal trends. That said, it was emphasized that sustainability should be rooted in the investment philosophy, so that the company's sustainability work is not trend-based. This is supported by Cowton (2004), who states that the total effect of including ethical factors in investments is contingent by the company's investment strategy (Chapter 3.2.2).

#### *5.2.1.2 The Performance of Socially Responsible Investment*

Financial gain represents SRI on a par with social impact (Chapter 3.2). Despite this, there is a lack of consensus in the research of the return on sustainable funds compared to traditional funds (Chapter 3.2.2). According to Cowton (2004), it can be challenging to measure how ethical factors affect fund companies' investments (Chapter 3.2.2). Based on this, it was examined what view fund companies have of the return on sustainable funds. First and foremost, it was specified by some companies that they do not classify any of their funds as sustainable. Nevertheless, they have portfolios that to a greater extent than others contain investments that can be related to sustainability.

Increased focus on sustainability in recent years has yielded large excess returns, but this fluctuates. This can be related to the fact that SRI in several cases can be dependent on trends (Chapter 3.2). All fund companies were clear that the return on sustainable funds is difficult to define. That said, it was pointed out that integrating sustainability into various stages of the

investment process does not appear to be at the expense of returns, but rather to provide benefits in the form of better risk management. This is supported by studies in Chapter 3.2.2, which conclude that social responsible investment does not harm return. In fact, research presented by Chen (2020) shows evidence that by focusing on an ESG approach, companies can improve returns (Chapter 3.2). This is supported by research presented by RBC Global Asset Management (2019) (Chapter 3.2.2).

### 5.2.2 ESG and the Principles for Responsible Investment

Responsible investing is a concept that all fund companies have been relating to for a long time. Due to lack of a standardized concept of sustainability, all interviewed companies have developed their own philosophies fundamental to investments. It is clear that the strategies Schyndel (2021) presents as relevant for maximizing financial return and social benefits are central to the various investment philosophies (Chapter 3.2.1). These include screening, negative screening, positive screening, divestiture and shareholder activism (Chapter 3.2.1). Fund companies seem to emphasize the strategies differently. The majority have a strong focus on negative screening, while others consider shareholder activism to be most important.

According to the interviewed consulting companies, the Principles for Responsible Investment are well introduced in the financial industry. It was emphasized that several companies adhere to such principles and frameworks in order to acquire guidance on how to solve the big question of sustainability. Additionally, it gives guidance on how to work with sustainability, while also communicating the company's sustainability work.

All fund companies in the study are signatories of the Principles for Responsible Investment, and these therefore constitute an important framework for reporting. Two companies were particularly early to sign. Furthermore, this means that all fund companies relate to ESG, as signatories of the PRI commit to integrate ESG in investment and decision analysis (Chapter 3.3.1). In one of the interviews, it was stated that companies should sign the PRI if they work with sustainability. The Principles for Responsible Investment oblige signatories to detailed and time-consuming reports and surveys (Chapter 3.3.1). Nevertheless, this is perceived as positive, as it should not be easy to achieve a high score according to the PRI. Feedback is given on what can be improved, and signatories gain access to various working groups, as an important forum for dialogue between investors. The PRI can therefore be considered to have

an essential value through networking, which is part of one of the Principles that dictates that there should be cooperation in order to implement the Principles effectively (Chapter 3.3.1).

The majority of fund companies interviewed use MSCI and Sustainalytics to obtain ESG data, both explained in Chapter 1.1. External actors are used for data collection, but final ESG assessments are performed internally in the company. The fund companies pointed to challenges related to lack of a standard for ESG scores. The quality and content of ESG measurements is highly debated, as it tends to give different outcomes (Chapter 3.4). In several cases, fund companies experience lack of access to quality data. In addition, it was pointed out that the data sources are not well suited for small companies. These challenges associated with ESG were known to all fund companies. The approach is therefore only used as support and guidance. The consulting companies highlighted similar challenges with ESG, and also pointed to the need for a common standard as there are a number of different services available for guidance on how to manage investments in accordance with ESG. Until the taxonomy, the ESG approach has served as the best option, making the new classification system an important standardized framework for fund companies.

### 5.2.3 Perceptions of the EU taxonomy

Given that the new classification system will be a driver for investment, such as ESG, it was further interesting to examine fund companies' views on the EU taxonomy. The interviews revealed an unanimously positive attitude towards the taxonomy. That said, it was emphasized that the classification system is ambitious with high standards, which is necessary but comprehensive for companies to act on. It was pointed out that the development of new systems, especially for reporting, will be essential in the initial phase. In addition, it will be necessary to obtain large amounts of data, which are not yet available, to deliver on the reporting requirements. It was stated that it was both necessary and timely for the EU to introduce a framework that sets the industry at a comparable standard for sustainability.

According to the consulting companies in the study, the taxonomy will be important for the financial industry, as well as for the business community in general. It is advantageous that the definition of sustainability is concretized. At the same time, it is also beneficial that all companies will be committed to a corresponding standard. This will in turn create more transparency internally in companies, as well as across the business community. The

classification system was designated as an important step towards the targets for 2030 and 2050. That said, it was stated that it will initially be challenging to act in line with the taxonomy, as it is still evolving. One consulting company therefore emphasized the need for adaptation over time. The taxonomy can be seen as a new tool for fund companies in the context of analysis. Finally, adaptation to the taxonomy can create an image of the fund company, in that it reflects what it stands for, how it works and what is emphasized in its work.

The fund companies interviewed find it useful that the taxonomy assesses the activities of a company, rather than an entire sector or industry (Chapter 2.5.7.1). Such an approach increases the complexity and need for data, which is advantageous as it becomes more difficult to greenwash and assign a binary stamp to "green action". The consulting companies also seem to consider it sensible, as it gives companies a better opportunity to achieve and maintain a consistent sustainability profile. Nevertheless, it was argued that the EU taxonomy is in many ways more exclusive than facilitative. A general concern was expressed regarding the division of green and non-green activities, as well as whether it will ever be possible to cover all sectors and activities, and at the same time keep pace with technological development. That said, it must be pointed out that the taxonomy is dynamically designed to be able to respond to changes in technology, research and data (Chapter 2.5).

#### *5.2.3.1 Motivation for Socially Responsible Investment*

It was desirable to investigate in what way the taxonomy can provide increased motivation to emphasize socially responsible investment. All fund companies agreed that the new classification system will provide increased motivation. Nevertheless, one fund company emphasized that it would depend on the mandate, as the mandate of a fund determine in what and where the fund can be invested (Norges Bank Investment Management, 2019). It will have an impact if the company has a mandate that dictates that it should have green funds. It was also pointed out that the EU has a fine line between legal obligation and measures that aim to influence companies' actions in desired direction without use of coercion. Companies are not forced to use the taxonomy, but if they want to invest sustainably, they must comply with it. In addition to motivating investors to invest sustainably, the taxonomy can help clarify which companies are unique in the industry. According to one fund company, it can therefore be argued that the taxonomy will provide incentives to other companies in that industry.

It was also desirable to find out whether fund companies consider the taxonomy to have long-term effects, such as helping achieve the UN's 2030 Agenda and the Paris Agreement. This is important to map, as it creates motivation for companies if they perceive it as contributing to goals. The interviews showed positive attitudes towards the impact of the taxonomy. It was pointed out that it will set a framework for how the above goals can be achieved. One can therefore hope that it contributes to this in the long run and has long-lasting effects. That said, this depends on EU companies reporting on the taxonomy. The classification system is part of a leading financial policy, and it is therefore obvious that it will receive focus and money. This in turn contributes to a more extensive impact. It was also pointed out that the taxonomy will have a major impact as it will affect the direction in which capital flows. It will be important to develop incentives at all levels and be aware that at times there may be hype associated with certain types of companies. In conclusion, it was pointed out that with several types of taxonomies in development, one can expect a more comprehensive framework in the future that contributes to defining sustainability to an even greater degree.

In line with the fund companies, the consulting companies also believe that the taxonomy will have long-term effects. One of the consulting companies justified its answer with the fact that the classification system will be incorporated into law. This makes it easier to make demands on companies, at the same time as the authorities can take strict action against less sustainable companies. Furthermore, this can contribute to achieving the goals, through a comprehensive shift in the green direction. That said, questions can be asked as to whether the taxonomy as a contribution is enough to achieve the goals, or whether more measures are needed.

### 5.2.4 The Transitioning Process to More Sustainable Funds

The consulting companies expressed that the business community in general will experience a major transition to the EU taxonomy from existing frameworks. The largest transition relates to the development of systems that facilitate the taxonomy. Additionally, the challenge of lack of data in the initial phase was emphasized. One consulting company identified that the transition will not be remarkable for major players, since they have already established routines for sustainability work, and have quality-assured data from their reporting on TCFD and GRI Standards, explained in Chapter 1.1. There were a few fund companies that expressed that there will not be a major transition, given that their focus on sustainability has existed for years and that the taxonomy therefore provides little new to deal with.

Otherwise, most fund companies expressed that the taxonomy will be a major transition. The new classification system requires large amounts of data that do not currently exist. In addition, there must be a restructuring of reporting methods. The transition will be time-consuming as it requires a change in how companies act. Going forward, the taxonomy will therefore be given a remarkable focus by fund companies. The interviews also revealed a suspicion related to the new classification system, partly because it is undercommunicated how controversial the taxonomy has become in legislative bodies in the EU. Due to this, several companies and investors fear unintended consequences.

Based on the fund companies' focus on screening and integrating ESG into investments, it was interesting to investigate whether funds that are described as sustainable will still be considered sustainable according to the taxonomy. The interviews drew attention to the fact that not all selected fund companies specifically classify their funds as sustainable. That said, some portfolios are more sustainable than others. It is a conscious choice not to classify funds as fully sustainable, precisely because of the lack of standardization of sustainability before the taxonomy.

A few fund companies stood out by expressing that their funds will be considered sustainable even after the taxonomy, with minimal adjustment, as they consider their investments to already be in line with the requirements. However, most fund companies shared a concern that only a few, or none, funds would be classified as sustainable according to the taxonomy. Thematic funds based on sustainability, referred to as green funds, have the greatest chance of taxonomy alignment. The expectation of a low overall taxonomy alignment today in companies' activities and investment portfolios supports the fact that it may be difficult to achieve high alignment in the initial phase (Chapter 2.5.8). The fund companies stated that various surveys have been carried out to map how taxonomy-aligned their funds are expected to be. The outcome is perceived to be variable, which makes it difficult to predict the actual result. In a survey of three equity funds, conducted by one of the companies interviewed, the taxonomy alignment turned out to be around 5%. Over time, the taxonomy will develop to include all six environmental objectives, and more activities will be covered, which provides a better opportunity to achieve a higher taxonomy alignment (Chapter 2.5.8).

### 5.2.5 Summary

Social impact and financial gain are fundamental in SRI. The fund companies expressed in the interviews that important factors for socially responsible investment vary from case to case. It was considered crucial that requirements are set for the entire value chain, which is easier through active ownership. Furthermore, knowledge was identified as an important factor for responsible investment. Risks related to SRI are also decided case by case. That said, lack of standardization has resulted in an increased incidence of risk. Precisely because it has given rise to greenwashing. According to the consulting companies, risk related to SRI can be linked to technology, as societal changes require digitization. They also pointed to customer demand as a risk, as this may depend on social trends. Varied demand can in turn give fluctuations in returns. On the other hand, social trends are not perceived to have a direct impact on the fund companies' investments. It was emphasized that sustainability work should be based on the companies' investment strategy rather than being trend-based.

Various studies have examined the performance of SRI compared to traditional investments. In any case, it is crucial for fund companies to map potential returns on SRI on a par with traditional investments. Studies have concluded that socially responsible investment does not harm returns. The fund companies found it difficult to define the return on sustainable funds compared to traditional ones. That said, it is not perceived to be at the expense of returns, as the focus on sustainable investment has increased among both consumers and businesses.

Lack of a standardized concept of sustainability has led fund companies to develop their own philosophies fundamental to sustainable investment. The fund companies interviewed mainly use negative screening and shareholder activism as strategies for maximizing financial return and social benefits. All fund companies are signatories of the PRI, which means that they are committed to integrating ESG in investment decision analysis. Final ESG measurements are performed internally, but external actors are used for data collection. It emerged that there are various challenges associated with data sources on ESG. The data is characterized by being of low quality and there is therefore a need for a common standard such as the EU taxonomy.

The interviews gave impression of a positive attitude towards the taxonomy. It was stated that it creates a common standard for sustainable investments, which contributes to openness and motivation for socially responsible investment. The classification system was also considered

an important step towards achieving environmental goals such as the UN's 2030 Agenda and the Paris Agreement. It will affect capital flows and can thus provide incentives to companies in the industry. Nevertheless, it was stated that it has high standards and requires large amounts of data. Concerns about whether the taxonomy will ever be able to cover all sectors and activities, as well as follow the technological development, were expressed.

Reporting on the EU taxonomy is expected to be a major transition from existing frameworks, due to changes in reporting methods. That said, a few fund companies interviewed do not expect the taxonomy to offer a major transition, precisely because they have solid experience within SRI. The same few expect their funds to be considered sustainable according to the taxonomy. The rest of the fund companies shared a concern that only a few or none would be, which is in line with the EU's preliminary figures. It was expressed that final development of criteria for all six environmental objectives will provide a better opportunity to achieve a higher taxonomy alignment.

Despite positive attitudes towards the EU taxonomy, socially responsible investments can be related to various risks. In addition, research on the performance of SRI is inconclusive. For fund companies to make investments based on a framework developed for sustainable investment can therefore be perceived as uncertain. These facts form the basis for claiming that fund companies will not use the EU taxonomy as the main framework in their investment strategies. The hypothesis can therefore be considered invalid.

## 5.3 Challenges of Adaptation

Lastly, Hypothesis 3 that lack of necessary data makes it difficult to adapt to the EU taxonomy will be analyzed. Fund companies' adaptation to the new classification system will in this section be analyzed by looking at factors such as data, time frame and resources. Activities not currently included in the taxonomy, as well as the fact that the EU taxonomy only obliges countries affiliated to the EU, will be examined in more detail.

### 5.3.1 Adapting to the EU Taxonomy

To investigate whether it will be difficult to adapt to the EU taxonomy due to lack of data and information, it was first desirable to understand what the companies have done so far to prepare for the taxonomy. Only one fund company stated that the taxonomy will not promote major

changes, as it already invests socially responsible. The other companies are actively working towards the taxonomy and are planning further strategies for adaptation. First and foremost, the focus is on obtaining an overview of the content of the taxonomy, in addition to following its development. Attempts are being made to find answers to what significance this will have for the various investments, as well as how the content of today's products is taxonomy-aligned. Some fund companies mentioned that they are preparing a specification of their sustainability policy that will apply to the investments. Others mentioned that they are involved in industry organizations for dialogue with competitors about adaptation work to the taxonomy. Which is a well-known practice from the PRI (Chapter 3.3.1). It was further stated that it is important to have a regular dialogue with external actors such as experts, lawyers, consultants and data providers. This is supported by Porter's (1996) statement that efficiency is related to outsourcing (Chapter 3.1). Interaction with lawyers is especially important in the preparatory work, to understand what is required of the EU taxonomy. Data providers are crucial in obtaining the necessary data for reporting.

The interviews revealed that it is considered difficult to estimate a time frame for positioning to the taxonomy. Because the classification system has not yet been completed, the companies expressed that it is too early to talk about targeted positioning. Instead, one must adapt as the classification system evolves over time. This is supported by Porter's (1996) research, which states that strategic positions should have a horizon of a decade or more (Chapter 3.1). Thus, a single planning cycle for positioning in relation to the taxonomy will not be enough (Chapter 3.1). The consulting companies also pointed out that it is too early to talk about positioning, as the classification system is not finalized yet. For the time being, fund companies limit themselves to a particularly narrow segment if they are to only invest in accordance with the taxonomy.

Given that the taxonomy will be a major change for several fund companies, it was desirable to reveal whether they have enough resources for the transition. All fund companies agreed that they are internally resourceful. Nevertheless, it was pointed out that the transition process will be demanding as hard priorities are required. The consulting companies doubt whether fund companies have enough resources for a restructuring to deliver on the taxonomy. They have the impression that fund companies are actively working to hire resources with specific

experience in sustainability and the EU. Precisely because there is a knowledge gap between those who have worked in finance and those who have worked in sustainability.

In order to investigate fund companies' adaptation to the taxonomy in more detail, they were asked which factors they will focus on in their positioning work to the taxonomy. First and foremost, it emerged that the requirements must be met, while at the same time ensuring that the products provide a return. Data collection and restructuring were also identified as crucial to adapting to the taxonomy. In the interviews, it was pointed out that it will be useful to prepare estimates and calculations to measure preliminary adaptation to the taxonomy. Furthermore, one should avoid being drawn into a short-term positioning game. The taxonomy is here to stay, and it is therefore crucial that companies prepare long-term action plans. Emphasis was placed on open customer and market dialogue, in that companies should be able to document processes on what they claim.

According to the consulting companies, an important part of the positioning is to obtain an overview of the content of the taxonomy. It will be necessary to look at which areas in the company are affected and adapt accordingly. The taxonomy is constantly evolving, which means that if companies are not classified as sustainable in the first phase, they can still become so over time. Therefore, it is important to think long-term, and find that the company will face a transition period in the initial phase. The consulting companies gave a recommendation to get an overview of the degree to which the company's products will potentially be aligned with the taxonomy. If fund companies come across types of activities they are unsure of, they should focus on improvement solutions that are in line with the taxonomy. It also emerged in one of the interviews with the consulting companies that the positioning work seems to lead to increased collaboration between companies.

### 5.3.2 Data Relevant to the Taxonomy

Reporting on the taxonomy requires large amounts of data. The challenge is that the reporting requirements first include financial market participants and then at a later date other companies (Chapter 2.5.7). The initial phase will therefore be characterized by a lack of necessary data. This problem was a common point in all interviews. It was asked whether the lack of data relevant to the taxonomy will affect which companies are invested in. This is because it may be

uncertain to include activities in the portfolio without being aware of how they will be ranked in line with the taxonomy.

Lack of data does not seem to influence the choice of investment objects, although the ambiguity in the requirements makes it difficult to predict which activities will be taxonomy-aligned. When requirements are final, it may be necessary to change certain portfolios for funds to be taxonomy-aligned. Furthermore, it will be important to spend time investigating how taxonomy alignment will be measured in funds. It may be essential to use an external supplier to screen existing portfolios (Chapter 3.2.1.1), preferably a supplier that is also used by competitors, in order to achieve comparable scores. It was also stated that companies should focus on dialogue with companies they have invested in, to push them to report before they are obligated to. This may be related to one of the Principles for Responsible Investment, which dictates that signatories should request information on ESG issues from the entities in which they invest (Chapter 3.3.1). It was pointed out that one should keep in mind that the taxonomy can provide better coverage over time, which means that activities that are not taxonomy-aligned now may be in the future.

The consulting companies also consider lack of data relevant to the taxonomy to be a significant problem. From experience, they see that challenges with data are repeated in several companies in the adaptation work to the taxonomy. The consulting companies stated an assumption that fund companies will eventually exclude companies through negative screening (Chapter 3.2.1.2) if they do not publish necessary data. Precisely because of the need to be able to measure companies' sustainability according to the taxonomy.

Based on the fact that the majority of fund companies invest international, concerns were expressed as to whether the EU will become a trendsetter for the rest of the world. The biggest problems related to taxonomy alignment will take place in countries outside the EU, and it is therefore desirable that the classification system is used in other continents in the long term as well. If not, the companies may encounter problems in obtaining the necessary data from countries outside the EU. Questions can be asked as to whether other countries will follow the EU taxonomy, as several countries are preparing their own taxonomies (Chapter 2.5.6). In that case, European fund companies will have different adaptations to deal with.

Lack of data is not the only challenge in the initial phase of taxonomy. So far, no screening criteria have been developed for sectors other than those listed for climate change mitigation (Chapter 2.5.2) and climate change adaptation (Chapter 2.5.3). It was therefore desirable to investigate how fund companies will relate to activities for which screening criteria have not yet been prepared. There were varied views among the fund companies. One company will exclude these activities completely, as it aims to invest in line with the taxonomy. This can be done through negative screening (Chapter 3.2.1.2) or divestment (3.2.1.4), depending on whether the company has the activities in the current portfolios.

Another fund company stated that it will be demanding to handle activities that do not have screening criteria, but that the extent of exclusion will depend on the mandate. For funds with broad mandates and minor requirements, it will be easier to include these activities. On the other hand, it will be a challenge for funds with higher formal requirements. It was stated that activities that in practice are sustainable, but not taxonomy-aligned yet, may experience not being invested in. Based on the preliminary state of the taxonomy, it emerged in the interviews that fund companies should look at which activities can potentially be included in further development. The choice of which activities to invest in can be linked to positive screening (Chapter 3.2.1.3), if the selection is intended to target companies with a high taxonomy-alignment.

The majority of fund companies will not exclude these activities completely. It was pointed out that it will be a long-term process, where one gradually becomes stricter with exclusions. The taxonomy is not the only framework companies have to deal with, and as of today it is therefore not appropriate to exclude all activities that are not taxonomy-aligned. This is also supported by the fact that there are different costs related to divestments (3.2.1.4). The interviews revealed that the companies assume that it will be easier to comply with taxonomy guidelines when technical screening criteria have been prepared for significant levels of harm to environmental objectives, so-called "brown" taxonomy criteria (Chapter 2.5.8). This will provide a better classification of sustainable, unsustainable and neutral activities, based on levels of contribution or harm to the environmental objectives.

Today's classification with criteria only for substantial contributions does not provide a comprehensive understanding of all activities. That said, it was pointed out by the consulting

companies that since the taxonomy has started with the most emission-intensive activities (Chapter 2.5.4), the most important risk activities are included. Fund companies were advised to base investments on a combination of investment strategy and the taxonomy's assessment of sustainability, until more activities are included.

### 5.3.3 Summary

The fund companies' preparatory work for the EU taxonomy is varied. For some it has not been necessary to a large extent, while others have prepared by acquiring an overview of content and development, and further plan strategies for adaptation. The fund companies pointed out important steps in the positioning work. It was stated that the companies must resort to restructuring, ensure that the requirements are met, focus on data collection and measure preliminary adaptation. Long-term action plans must be prepared, in which customers are included through open dialogue to prevent greenwashing. The consulting companies expressed that it is important for fund companies to accept that they are facing a transition process in the initial phase. Cooperation and dialogue through industry organizations have and will continue to play an important role. The fund companies in the interviews experience having the necessary resources for internal adaptation. That said, some practices will be outsourced, such as legal and consulting services, as well as data collection. The consulting companies, on the other hand, are doubtful whether the companies actually have the necessary resources. It was pointed out that it is difficult to estimate a time frame for positioning, as adaptation will follow the development of the taxonomy.

Large amounts of data are needed to report on the taxonomy. Participants in the financial market are required to report before companies they invest in, which results in a lack of relevant data in the initial phase. Lack of data does not seem to affect fund companies' choice of investment objects. That said, it may be necessary to change portfolios when the requirements are final. To address the problem of lack of data, external actors will play a crucial role in their portfolio screening to measure expected taxonomy alignment. The problem also encourages fund companies to engage in dialogue with the companies they invest in, to encourage them to report before they are obligated to. It is also important to keep in mind that more activities will be included in the taxonomy in the future. The fact that the EU taxonomy only affects countries that are part of the EU is also related to the challenge of lack of data, as several countries are developing their own taxonomies.

No screening criteria have been developed for activities other than those identified in Chapter 2.5.1. One company aimed to exclude activities for which no screening criteria have been prepared, while the others pointed to this as a long-term exclusion process. According to the consulting companies, fund companies should base their investments on a combination of investment strategy and taxonomy criteria.

Fund companies' preparatory work for the taxonomy has made them aware of the lack of data for reporting on companies in which investments are made. Even though they have the necessary resources internally, external actors will be crucial for data collection. Since data collection is decisive for fund companies' positioning to the taxonomy, and the initial phase is characterized by lack of data, it can be argued that the hypothesis can be found valid. Precisely because the lack of necessary data seems to complicate the adaptation work.

# 6 Interpretation and Discussion

This part of the thesis deals with findings from the interviews and study hypotheses, and discusses them further on the basis of the study's research question. It has the same structure as the previous part, with a division according to the topics related to the hypotheses.

## 6.1 Findings from the Hypotheses

In this study, the analysis of fund companies' adaptation of investment strategy to the EU taxonomy is based on the topics; competition, investment frameworks and challenges of adaptation. Competition is a crucial element of adaptation, precisely because of the importance of differentiation and competitive advantage. Hypothesis 1 assumed that all fund companies will adapt to the EU taxonomy due to market competition. The hypothesis was analyzed on the basis of various theoretical frameworks and was concluded to be valid. The interviews revealed that all fund companies want to perform at their best so as not to end up at the bottom of different rankings. In relation to the taxonomy, this means that if a company does not adapt to it, it will not have the opportunity to assert itself in relation to competitors.

The EU taxonomy aims to channel investments in a sustainable direction (Chapter 2.4). Based on this, Hypothesis 2 assumed that the EU taxonomy will be the main framework in fund companies' investment strategies. The hypothesis was concluded to be invalid. The interviews revealed that the classification system can be expected to be central to fund companies' work with socially responsible investment, although this will not be the only basis for the investment strategies. The EU taxonomy will have a certain impact on the strategies, but the extent will vary as the strategy of several companies is quite set.

Hypothesis 3 assumed that lack of necessary data would make it difficult for fund companies to adapt to the EU taxonomy. This was further assumed to have an impact on the adaptation of investment strategy. The hypothesis was concluded to be valid, as all fund companies in the study identified lack of data as a problem related to adaptation. That said, the problem is mainly related to the initial phase, before the taxonomy becomes final. Fund companies will have more available data when the companies they invest in also start reporting on the taxonomy.

### 6.1.1 Significance of Findings for the Research Question

How fund companies will adapt their investment strategy to the EU taxonomy depends on several factors and can be seen from different perspectives. In this study, the analysis of the research question is limited to the results from the study hypotheses. The fact that fund companies are affected by market competition is indicative of how they adapt to the taxonomy. It provides a basis for claiming that competition is an important influencing factor for fund companies' adaptation work. Furthermore, it can be argued that the EU taxonomy will not be the main framework in fund companies' investment strategies. The degree of adaptation of investment strategy to the taxonomy varies as the strategy of several companies is quite set. With this in mind, it can be discussed whether the fact that market competition contributes to adaptation is actually reflected in the companies' investment strategy. Competition can encourage a willingness to change, but does not necessarily lead to change in investment strategy.

Lack of data is another factor that is considered to influence how fund companies adapt their investment strategy to the taxonomy. The problem makes it more difficult to adapt to the taxonomy in the initial phase. It has a direct impact on the investment strategy, as it can affect which companies are invested in, as fund companies will not have sufficient information about all investment objects. The problem of lack of data will be similar for all fund companies in the market. What may be different, however, is the degree of adaptation of investment strategy to the taxonomy. Some fund companies may, to a greater extent than others, choose to adapt their strategy to the new classification system, despite lack of data in the initial phase. Various analyzes can be performed to map which investment objects can be assumed to be taxonomy-aligned, which can further provide a basis for deriving the investment strategy.

## 6.2 Competition's Impact on Adaptation

It is interesting to further discuss the results of the hypotheses on the basis of the study's research question. First, Hypothesis 1 and the topic of competition will be discussed against how fund companies will adapt their investments strategy to the EU taxonomy. The EU taxonomy is intended to be a guiding tool in the transition to a low-carbon, resilient and resource-efficient economy (Chapter 2.5). This means that fund companies do not have to adapt to it. In order to be able to investigate the research question, it was relevant to find out whether the companies will adapt to the taxonomy or not. Competition is an important factor in all business, and

therefore market competition is considered an important driver for fund companies to use the taxonomy in their investments. Thus, it was interesting to investigate whether market competition will impact them to adapt.

Increased customer needs and market competition related to sustainable investments create pressure to channel investments in that direction and further contribute to the achievement of the Paris Agreement and the UN agenda for 2030. This pressure is also affected by the EU's efforts to set a standard for sustainability through the taxonomy as a common framework. It can therefore be assumed that there is an expectation from society that companies should adapt to the taxonomy. This points in the direction that fund companies will adapt to the taxonomy and invest in activities that are taxonomy-aligned. However, if companies choose to use their own framework for classifying sustainable investments, an appropriate justification will be needed. If not, it may be questioned whether the company's investments are actually sustainable.

Sustainable activity depends on long-term initiatives, and based on the content of PRI's mission, a framework such as the EU taxonomy can be considered important for long-term value creation (Chapter 3.3). Precisely because the classification system will provide long-term benefits for the environment and society. In the interviews, socially responsible investment, among other things, were highlighted as important for long-term value creation. Companies' adaptation to EU requirements and regulations, such as the taxonomy, was also identified as crucial for value creation. The consulting companies emphasized that companies' fundamental sustainability work, as well as that sustainability is integrated into the entire business, is crucial for long-term value creation related to sustainability. This is also important to avoid greenwashing.

Competition has been a driving force for greenwashing (Chapter 3.6). This has arisen because companies seek to be as sustainable as competitors in the market, but often lack the resources or values necessary to actually be sustainable. Although greenwashing does not appear to be an outstanding problem in Nordic countries, it was emphasized that it is certainly present and poses potential risks. An important element in the taxonomy is precisely to reduce and identify cases of greenwashing (Chapter 2.5). This means that if companies want to act sustainably and socially responsible, they must adapt to the classification system to achieve an admirable sustainability score according to the taxonomy.

These findings show unanimity in adapting to the taxonomy. Hypothesis 1 was therefore found to be valid, as competition seems to influence fund companies' willingness to adapt to the taxonomy. The degree of adaptation, on the other hand, will vary depending on how much each company decides to adapt its investment strategy to the classification system. Therefore, it is interesting to further discuss the extent to which companies will adapt their investment strategy to the taxonomy due to market competition.

Although competition is considered to influence companies to adapt to the taxonomy, it is not perceived to have as great impact on the adaptation of investment strategy. Precisely because the investment strategy of the interviewed fund companies is quite set. This means that the fund companies want to deliver on the requirements set by the taxonomy and report in accordance with it, without making changes to the existing investment strategy. It can therefore be questioned to what extent the companies actually will adapt to the taxonomy, as the investment strategy governs choice of investments. That said, it is understandable that companies do not want to adapt their investment strategy to a large extent until the framework is fully developed and includes more activities. With the current taxonomy as a framework, investment opportunities would be very limited.

The companies' degree of sustainability is reflected in external rankings, which appears from the interview results to be important for further development. There is a common perception that the introduction of the EU taxonomy will make such rankings more objective and thus relevant, as a common reporting standard will be used. Increased interest in sustainability further increases market competition. An emerging desire among companies to be as green as possible sharpens the competition as no one wants to be the worst. In this context, it can be argued that competitors and the market in general have an impact on fund companies. Precisely because if some companies perform better, it leads to initiatives for improvement among competitors.

As the taxonomy means that all fund companies must report according to the same standard, new solutions are being devised to differentiate. Among other things, it was pointed out that a competitive advantage can be achieved if the companies are early in acquiring the necessary knowledge of the taxonomy, in addition to being at the forefront of adapting to the reporting standard. It was also pointed out the possibility of a competitive advantage by being a first-

mover. Especially since all companies must report on the same standard and it becomes more difficult to stand out. Nevertheless, this is in contrast to the fact that the fund companies expressed that they want to observe how competitors proceed in the adaptation work to the taxonomy. This applies in particular to the adaptation of investment strategy, as the companies pointed out that it will be interesting to see which taxonomy alignment competitors are aiming for. Such a practice is supported by Porter (1996), who argues that benchmarking should be a continuous practice to achieve the best results (Chapter 3.1).

There is a stark contrast between observing how competitors will adapt and being a first-mover. The fact that both views were identified in the interviews indicates an uncertainty related to fund companies' adaptation to the taxonomy. To further discuss how fund companies will adapt their investment strategy, it is interesting to examine whether the taxonomy will be the main framework in fund companies' investment strategies.

## 6.3 The Taxonomy as an Investment Framework

Emerging interest in sustainable investment has led to development of various frameworks. The interviews revealed that all fund companies have developed their own investment philosophies fundamental to all investments. Although the companies invest according to their own philosophies, there are several similarities. The fact that all fund companies are signatories of PRI is reflected in the investment strategies, as the focus is on active ownership and integration of ESG factors. The framework of the EU taxonomy is flexible to adapt to different investment styles and strategies (Chapter 2.5). It can therefore be argued that adapting fund companies' investment strategies to the taxonomy will not be that challenging. It builds on similar strategies that have been used so far, for example through a focus on ESG, where environmental perspectives are particularly emphasized. In addition, the classification system excludes activities that are not classified as sustainable.

According to the fund companies, the taxonomy can be assumed to have an impact on companies' motivation to invest socially responsible. To what extent will depend on the fund's mandate. The taxonomy will be useful for distinguishing between sustainable and unsustainable practices. It also sets a new standard for reporting and can be beneficial to use in analyzes of potential investment opportunities, through negative or positive screening (Chapter 3.2.1). Existing frameworks have been accused of being incomparable, which provides grounds for

assuming that the companies will use the EU taxonomy as the main framework in their investment strategies. All fund companies are optimistic about the new taxonomy and expressed that it will hopefully help define sustainability. That said, investment strategies are based on several other factors, such as mandate, customer groups, fund types, as well as the company's values and vision.

The interview results provide a basis for claiming that the taxonomy will not be fund companies' main framework for investments. This has several potential causes. First and foremost, the companies have over the years developed their own investment philosophies. It can be considered both demanding and risky to make fast changes to the strategies as they are fundamental in all the company's investments. In addition, the taxonomy has recently been introduced and is still evolving. Hence, it can be assumed that a gradual adaptation of the investment strategy to the taxonomy is most appropriate. Furthermore, there is also uncertainty related to how the final taxonomy will be designed and what activities it will include, which is an important argument for not using the taxonomy as main framework. Currently, there are elements that are not covered, and which therefore must be seen in the light of other existing frameworks. It must also be mentioned that the classification system currently concentrates only on E, and to a certain extent S, within ESG.

According to the interviews, responsible investments are perceived to be associated with various risks. Among other things, fluctuations in returns, technological development and greenwashing. As fund companies already have a strong focus on sustainability, it is conceivable that the taxonomy will not entail greater risk than what already exists related to the companies' responsible investments. Despite the fact that fluctuations in returns were identified as a risk, the fund companies do not experience that portfolios with a high content of sustainable investments harm returns. This is in line with various research on SRI, which proves that it can contribute to increased returns and potentially outclass traditional investments in the long term (Chapter 3.2.2). On this basis, it can be argued that fund companies should to a greater extent consider adapting their investment strategy to the EU taxonomy. Precisely because the taxonomy aims to lead investments in a socially responsible direction (Chapter 2.4).

As presented earlier, there is a demand for sustainable funds. The fund companies in the study have investment strategies that emphasize sustainability. Nevertheless, it turns out that only a

small percentage or none of the funds are assumed to be classified as sustainable according to the taxonomy. In this connection, it can be questioned whether the low taxonomy alignment stems from the fact that the classification system is still under development and does not yet contain criteria for all environmental objectives, or whether the companies' investment strategies are not as concentrated on sustainability as required by the EU taxonomy. On the basis of this, it can be argued that fund companies must adapt their investment strategy to the taxonomy to a greater extent, if they want to invest socially responsible and offer customers funds classified as sustainable.

## 6.4 Challenges in the Initial Phase

As discussed in Chapter 6.3, the taxonomy will not be the main framework in fund companies' investment strategies. One of the reasons may be related to the lack of data and information relevant to the taxonomy. Which constitutes the fact that the classification system is not complete yet. It is therefore relevant to further discuss this problem in order to examine how fund companies will adapt their investment strategy to the taxonomy. The problem of lack of data is perceived to be particularly prominent in the initial phase. The classification system is being developed over time, and it is difficult to predict when all necessary data and information will be available. The initial phase is important as it forms the basis for the companies' further adaptation work. The interviews revealed several proposed solutions to the challenges of adaptation.

The companies' priorities so far in the adaptation work are an important basis for understanding how they will actually adapt to the classification system. The main focus for the fund companies has been to get an overview of the guidelines for the taxonomy, as well as to follow developments closely. This is supported by recommendations from the consulting companies. The need to follow the development of the taxonomy has also led to a greater focus on having an open dialogue with competitors, as the taxonomy affects everyone in the industry in the same way. It can be argued that this is an important contribution in the fight against greenwashing, as it contributes to transparency. Additionally, all interviewed companies pointed out that it is important to act and think long-term, as the taxonomy develops over time and has come to stay.

It was emphasized that it is too early to think about positioning to the taxonomy, as the final guidelines have not been established. As a result, it becomes difficult to estimate the time frame

for positioning. This complicates the adaptation of investment strategy. Nevertheless, it emerged that the companies have the necessary resources for adaptation, but that it still requires priorities and will be a demanding period. They will also depend on external data providers to collect the necessary data. Based on Porter's (1996) research on strategy, it can be argued that outsourcing of data collection contributes to increased efficiency in the adaptation work. This by helping to solve the problem of lack of data in the initial phase.

Lack of data makes it difficult for fund companies to map the taxonomy alignment of companies in which they have invested. Nevertheless, the impression was given that this will not affect the companies' selection of investment objects to a very large extent. Precisely because the existing investment strategy will be used, at least until the taxonomy is completed. This can be considered appropriate as strategic changes must take place over time, and not least build on solid frameworks, which the EU taxonomy has not yet become. The role as active owners becomes important in the reporting process, to push companies they have invested in to report before they are required to. This will provide access to taxonomy related information about the companies and can help solve the problem of lack of data in the initial phase.

Another challenge related to data is the fact that the taxonomy only obliges countries affiliated to the EU. The taxonomy will thus not cover all investments of companies investing outside the EU, which all fund companies in this study do. Therefore, the companies will face implications due to the information obligation to the EU taxonomy, as there will be a need for additional frameworks in reporting (Chapter 2.5.6). On this basis, it can be argued that the taxonomy will be complementary to existing reporting systems and practices, and to any other classification systems that may apply in countries outside the EU.

There were divided opinions on how to handle activities for which screening criteria have not yet been developed in the taxonomy. TEG recommends a five-step approach to address this challenge (Chapter 2.5.7.4). The steps include identification of activities expected to be taxonomy-aligned, assessment of whether the activities meet relevant screening criteria and the DNSH criteria, due diligence to avoid violation of social minimum safeguards, and calculation of expected alignment. The fund companies expressed that they want to perform some of these steps, such as identification and mapping of taxonomy-aligned activities. Despite this, there are some who want to exclude these activities completely. This can be considered problematic, as

it may mean that activities that are sustainable in practice are not invested in because they are not taxonomy-aligned yet. Furthermore, this supports the importance of mapping activities with future possibilities for taxonomy alignment. Others want to follow their existing investment strategy and pointed out that there will be an exclusion over time as the taxonomy develops.

That said, it emerged in the interviews that is not appropriate to facilitate an industry that is not compatible with the Paris Agreement's goal of reducing CO2 emissions. Precisely because activities related to fossil energy will never be fully sustainable according to the taxonomy. It was stated that the taxonomy will be easier to comply with when the brown criteria are also in place. Today's criteria do not provide a complete overview of all activities yet, but the most emission-intensive are included (Chapter 2.5.4). TEG recognizes that some existing screening criteria will need further development (Chapter 2.5.8). In addition, technical screening criteria will be prepared for the remaining environmental objectives by the end of 2021, as well as an expanded set of disclosures for activities that will significantly contribute to all six environmental objectives by the end of 2022 (Chapter 2.5.8).

# 7 Conclusion

This section contains a short summary of the entire thesis, with emphasis on results and indications for a conclusion on the study's research questions. Suggestions for solutions will be presented, based on the outcome of the study's hypotheses.

## 7.1 Conclusion of the Research Question

In recent times, sustainability has become a highly debated topic, both among consumers and in business. The theme has been particularly emphasized in the financial industry, where, for example, fund companies have begun to increase their focus on sustainability through investments. This can be related to various policy measures, such as the UN's 2030 Agenda and the Paris Agreement, as well as the EU Green Deal, which led to the EU Taxonomy for Sustainable Activities. In addition, there is a focus on socially responsible investment and ESG factors among consumers, which also various external actors carry out rankings on the basis of.

The research question of the study deals with how fund companies will adapt to the EU Taxonomy for Sustainable Activities. The study examines the relationship between fund companies' adaptation of investment strategy to the EU taxonomy based on the topics; competition, investment frameworks and challenges of adaptation. The first study hypothesis that all fund companies will adapt to the EU taxonomy due to market competition was found valid. Furthermore, the next hypothesis that the EU taxonomy will be the main framework in fund companies' investment strategies was found invalid. Finally, the last hypothesis that lack of necessary data makes it difficult to adapt the taxonomy was found to be valid.

Possible reasons why competition has an impact on fund companies' adaptation can be linked to Porter's (1996) research on strategy and differentiation. External rankings and increased scope of greenwashing are also related to competition and adaptation. Investment frameworks are crucial to examine when looking at fund companies' adaptation. Precisely because it says something about the companies' adaptation of investment strategy to the taxonomy. Until the taxonomy, there has not been a common framework that signifies corporate sustainability, and different frameworks have therefore been developed for ESG and SRI. This has given rise to difficulties for comparison, and further greenwashing. Although all fund companies in the study expressed that they will comply with the requirements of the taxonomy, it will not necessarily have an impact on their investment strategy. It could therefore be asked how much impact the

taxonomy will actually have on the companies' investments, as the choice of investment objects is mainly governed by the investment strategy. Additionally, it was interesting to understand what challenges can be related to adaptation to the taxonomy. Investigation of this provided a better picture of fund companies' adaptation of investment strategy, as it shed light on factors expected to slow down adaptation work.

This study examined whether competition, investment frameworks and challenges of adaptation have an impact on how fund companies adapt their investment strategy to the EU taxonomy using a qualitative methodological approach. Unstructured qualitative interviews were conducted with 5 fund companies and 2 consulting companies. The interviewees from the various fund companies have varied positions but are all associated with ESG and/or sustainable investments.

It is difficult to present a clear answer to the study's research questions. This is primarily due to the fact that the EU taxonomy has not been implemented and completed yet. Therefore, this study is based on fund companies' preparatory work, as well as how the various companies envisage adaptation. There is still uncertainty related to the content and design of the classification system. It is extensive, which is reflected in the companies' use of lawyers to obtain an overview of the legal part. Another reason why it is difficult to present a clear answer is the fact that adaptation of investment strategy turns out to vary between fund companies. Some companies will adapt completely, while others will only partially adapt. That said, some key points can be highlighted and help conclude the study of the research question.

In the analysis of the interview results, it was found that fund companies' adaptation of investment strategy to the EU taxonomy can be divided into two phases. First the initial phase where the classification system is introduced, and then the further phase after implementation. The initial phase appears to be characterized by a lack of necessary data for reporting. In addition, the adaptation requires external resources for, among other things, data collection and consulting and legal services. Most fund companies expressed that the taxonomy will be a major transition from existing frameworks for sustainable investment. It was stated that the transition process will be demanding as hard priorities are required. Going forward, the taxonomy will therefore be given a remarkable focus by all fund companies. In the initial phase, adaptation will largely depend on the acquisition of knowledge about the taxonomy and its significance

for the company. Furthermore, it will be crucial that the companies follow developments closely. The majority of the fund companies expressed that it would be relevant to observe competitors' approaches to adaptation, despite the fact that being a first mover was highlighted as important for differentiation.

The impact of data and information challenges in investment choices seems to depend on fund companies' sustainability profile. The majority desire to make use of the existing investment strategy in the initial phase. On the other hand, a few expressed that they plan to exclude activities with lack of data and for which screening criteria have not yet been prepared. Several companies are also working to prepare a specification of their sustainability policy that will apply to investments. Active ownership seems to be one of the most important strategies in the initial phase.

Interest in sustainability and the demand for responsible investments have increased. The companies in the study recognized that sustainability, responsible investment and adaptation to EU regulations are critical factors for long-term value creation. In the further phase of adaptation, it will therefore be important to communicate the company's sustainability, for example by offering funds with a high content of taxonomy-aligned activities. It was emphasized that the investment strategy of all fund companies is very set. Nevertheless, the taxonomy is a game changer that will receive great focus in the companies' future investment practices. Although the taxonomy will not be used as the main framework for investments, it will still be an important supplement to the PRI and the company's existing investment strategy. Active ownership also plays an important role in the adaptation in the further phase. In addition, external rankings will be used to obtain an overview of competitors' and own performance. If fund companies experience a low sustainability score, it will trigger improvement and further work on sustainability.

To conclude, market competition seems to influence companies in the direction of adapting to the EU taxonomy. Fund companies want to adapt to the framework by reporting according to the requirements. On the other hand, the taxonomy is not expected to be used as the main framework for investments by fund companies. Fund companies' adaptation of investment strategy to the taxonomy will depend on the type of strategy, which factors are central, and how fundamental it is for the company's investments in practice. The problem of lack of necessary

data for reporting is considered to make adaptation challenging in the initial phase (Chapter 2.5.7). The majority of fund companies want to adhere to existing investment strategy until the taxonomy is completed and more data is available. This means that the investment strategy will not be adapted to the taxonomy in the initial phase. It can therefore be concluded that fund companies' adaptation of investment strategy to the EU taxonomy will be a gradual process. The classification framework will have a greater impact on investments when it deals with all six environmental objectives and more sectors included, as well as developed into a green and brown taxonomy.

## 7.2 Validity Outside Norway

A conclusion has been prepared on how fund companies will adapt to the EU taxonomy based on data from Norwegian fund companies. As the study area is relatively new, it is difficult to compare with previous research within the same topic. It may therefore be questioned whether the findings in this study are only applicable to Norwegian fund companies, or whether they may also be applicable to fund companies in general in the EU. Based on the findings, it is conceivable that there will be many similarities with fund companies outside Norway. This is based on the fact that everyone has the same guidelines to adhere to, everyone experiences the same start-up problems with lack of data and information, and everyone is in a market with competition. Sustainability has been worked on for many years, especially after the introduction of the UN's Agenda for 2030 and the Paris Agreement. The taxonomy will be a game changer for everyone in the EU.

## 7.3 Further Studies

It interesting, and not least necessary, with further studies on this topic. This study was conducted from January to June 2021 and is therefore based on available information on the EU taxonomy at this time. The taxonomy is constantly evolving, as has been presented previously. The Commission received several comments on the first draft, and screening criteria have currently been developed only for selected sectors within two of the environmental objectives, climate change mitigation and climate change adaptation. If the study had been performed at a later date, the same results might not have been obtained. It will be relevant to investigate whether the results and conclusion of this study prove to be valid after the taxonomy has been fully implemented and is complete.

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# Appendix

## Appendix 1 – Interview Guide for Fund Companies

### Background of The Company

1. What focus do the company have on sustainability and how does the company work with sustainability?
2. What proportion of the company's portfolios or funds are currently classified as sustainable?
3. What sets the company apart from other fund companies on a general basis?
4. What characterizes the company's investments?

### Market Competition Related to The Taxonomy

5. Does the company experience great interest in sustainable funds among customers?
6. What experiences have the company had with external rankings of sustainability? Does the company use these in further work?
7. What factors does the company consider necessary to achieve long-term value creation?
8. Do you experience a lot of greenwashing in the financial industry? Will the EU taxonomy contribute to less greenwashing?
9. How to differentiate and gain a competitive advantage after the introduction of taxonomy?

### Investment Frameworks

10. Which factor does the company consider to be most important in relation to sustainable investments?
11. What risks are the company aware of when it comes to sustainable investments?
12. In what way do social trends affect the company's investment strategy?
13. How does the company experience return on sustainable funds, compared to unsustainable funds?
14. What systems / frameworks does the company use for sustainable investments?
15. What relations does the company have with the Principles of Responsible Investment (PRI)?
16. What is the company's relationship with ESG, and how is this used in investments?
17. What does the company think about the EU taxonomy?
18. What positive effects does the company expect the taxonomy to have?
19. Can the taxonomy provide increased motivation to emphasize sustainable investment?
20. Do you believe that taxonomy will have long-term effects, such as helping to achieve the UN's sustainability goals and the Paris Agreement?
21. Will the EU's taxonomy be a major transition from existing frameworks?
22. What will be the biggest difference for the company as a result of the taxonomy?
23. Do you think that the company's funds that are sustainable today will be considered sustainable according to the taxonomy?

### Challenges of Adaptation

24. What have the company done to prepare for the taxonomy?
25. What do the company consider to be the time frame for positioning to the taxonomy?
26. Does the company have enough resources for a change to deliver on the taxonomy?
27. What factors will the company focus on when positioning to the taxonomy?
28. Can you identify any problems related to positioning to the taxonomy?
29. Will lack of data affect which activities the company invest in?
30. How does the company relate to activities that are not initially included in the taxonomy?

## Appendix 2 – Interview Guide for Consulting Companies

### Background of The Company

1. What focus does the company have on sustainability and how does the company work with sustainability?
2. What sets the company apart from other consulting companies when it comes to sustainability?

### Market Competition Related to The Taxonomy

3. Is there a great interest in sustainability among customers?
4. How does the company experience fund companies' views on external rankings for sustainability? Are these used for further work?
5. What factors does the company consider necessary to achieve long-term value creation?
6. Does the company experience that there is a lot of greenwashing in the financial industry? Will the EU's taxonomy contribute to less greenwashing?
7. How to differentiate and gain a competitive advantage after the introduction of taxonomy?

### Investment Frameworks

8. Which factor does the company consider to be most important in relation to sustainable investments?
9. What risks should companies be aware of when it comes to sustainable investments?
10. Do most of the company's financial customers have a relationship with the Principle for Responsible Investments (PRI)?
11. Do you find that most fund companies use the ESG framework in investments?
12. What does the company think about the EU taxonomy?
13. What positive effects does the company expect the taxonomy to have for the financial industry?
14. Can the taxonomy provide increased motivation to emphasize sustainable investment?
15. Do you believe that taxonomy will have long-term effects, such as helping to achieve the UN's sustainability goals and the Paris goals?
16. Will the EU taxonomy be a major transition for companies from existing frameworks?
17. What will be the biggest difference for companies as a result of the taxonomy?

### Challenges of Adaptation

18. What does the company consider to be the time frame for positioning in relation to the taxonomy?
19. Does the company think most financial companies have enough resources for a change to deliver on the taxonomy?
20. What factors should companies focus on when positioning to the taxonomy?
21. Can you identify any problems related to positioning to the taxonomy?
22. Does the company think that lack of data will affect which activities are invested in?
23. How should companies relate to activities that are not initially included in the taxonomy?