# UNIVERISTY OF HELSINKI INVESTMENT PLAN 2021–2022

# INVESTMENT PLAN 2021-2022

**The University of Helsinki is the largest, highest-ranked and oldest university in Finland. The University of Helsinki Group (hereafter "we") manages assets worth circa two billion Euros, of which some trace back to at least the mid-18th century. Our assets include approximately one and a half billion Euros in real estate and half a billion Euros in securities.**

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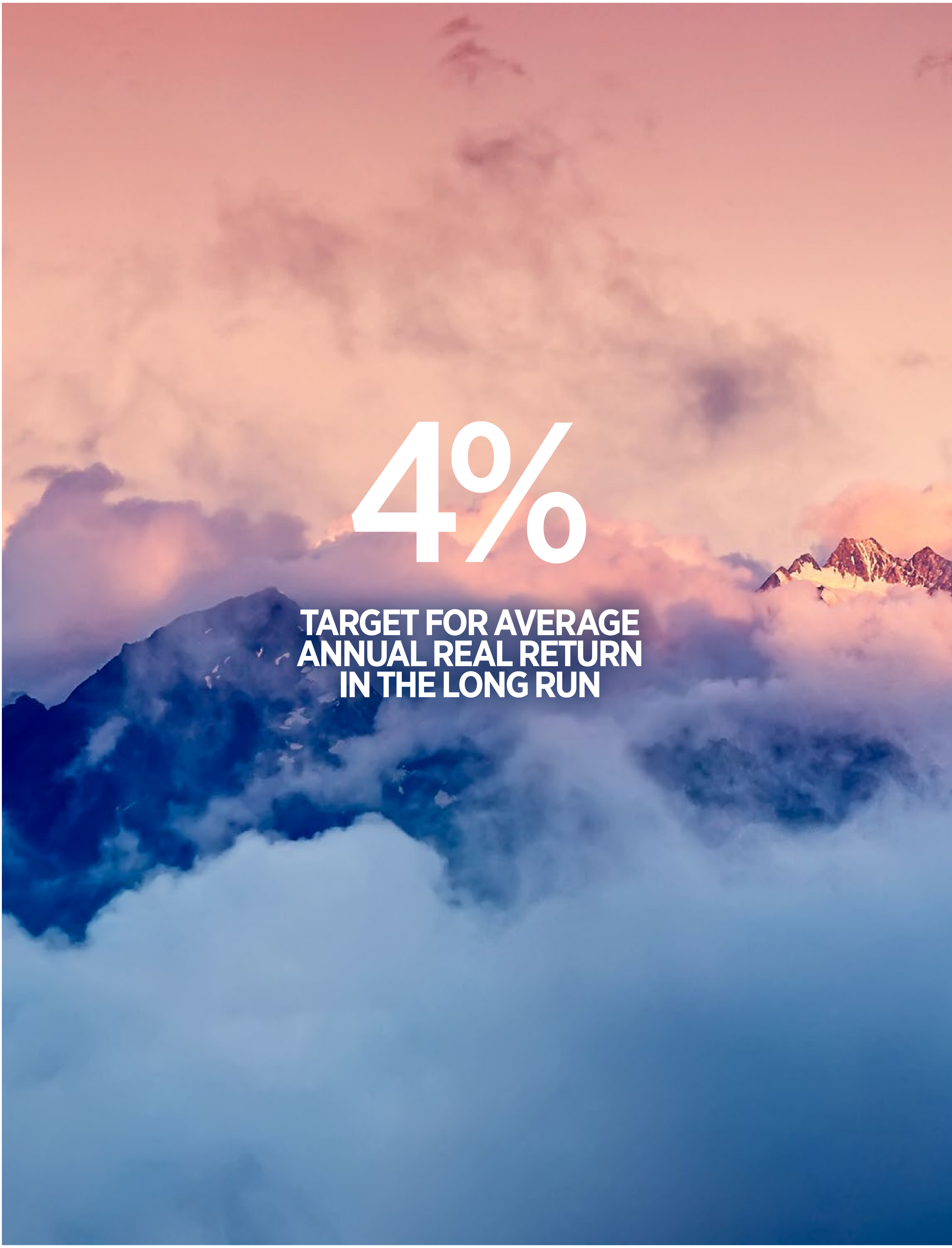
4%
TARGET FOR AVERAGE
ANNUAL REAL RETURN
IN THE LONG RUN

The Finnish university reform in 2010 increased our securities portfolio significantly, as the state encouraged universities towards greater administrative and economic independence. This catalyzed the development of our investment function, including a professional Investment Committee. Furthermore, it lead to gradually increasing our securities portfolio risk to its current level, where we target a 4% average annual real return over the long run. We aim to achieve this return target over the long run by allocating 70% to listed equities and 30% to other assets globally, and our benchmark index consists of 70% MSCI ACWI Index and 30% Bloomberg Barclays Global Aggregate Float Adjusted Bond Index (EUR Hedged).

The primary purpose of this document is to lay out a plan for our securities portfolio investment management two years ahead. The development of the economy and financial markets is however inherently uncertain, whereby execution must continuously be adapted to new information and conditions. Hence, another important function of this document is to present the underlying principles that govern any future adaptations of the plan.

# OUR PRINCIPLES

## ACCEPTING THE SCIENTIFIC EVIDENCE

We renewed our Principles of Investments and Spending in 2018 as a part of our ongoing development work, and updated them in 2020. Furthermore, we introduced entirely new Principles of Responsible Investment Activities in 2019. In summary, our principles imply that our securities portfolio should lean mostly on highly cost efficient index funds, which take into account ESG-risk factors, and extremely selective unlisted investments – assuming that we possess proprietary information regarding them or/and can achieve positive impact though them.

**THE STARTING POINT FOR OUR PRINCIPLES ARE THE CENTRAL VALUES THAT GUIDE THE UNIVERSITY OF HELSINKI OVERALL; TRUTH, BILDUNG, FREEDOM AND INCLUSIVITY.**

The starting point for our principles are the central values that guide the University of Helsinki overall; truth, bildung, freedom and inclusivity. In the context of investments, truth and bildung mean accepting scientific findings from financial economics, as well as other sciences (e.g. CO2-emmissions leading to global warming). Freedom and inclusivity are reflected primarily by our ambition to support equality and social development with our investments.

We acknowledge the concept of market efficiency, which states that security prices reflect all information that is available in an efficient market. To be more precise, we believe in the concept of equilibrium market efficiency. It states that markets cannot be fully informationally efficient, as active investors need an incentive to perform costly information gathering. Index investors become active when expected rewards exceed information costs – and vice versa – whereby market efficiency is an equilibrium of disequilibria.

Market efficiency is one of the most thoroughly tested hypotheses in financial economics. Countless peer-reviewed scientific publications have examined it from different perspectives, including active investment management performance. In summary, the performance of indices has been better than that of active investment management on average. Within the framework of equilibrium market efficiency, this implies that the market has been "overly" efficient – or that too much capital has been managed actively. While past performance is no guarantee for future performance, we prefer index investment management – given that we have no information advantage or other special preference.

Finally, we recognize our exposure to environmental, social and governance (ESG) risks. We simultaneously need to manage these risks for the University of Helsinki, our partners, society, and sustainable development at large. For example, we strive to achieve a carbon neutral portfolio by the year 2030, honor the principle of public access to information by reporting about our progress, and seek positive impact through our unlisted investments.

# ALLOCATION

## VALUE CREATION THROUGH UNLEASHING HUMAN POTENTIAL

During the quarter-millennial lifetime of our endowment, the society has transformed multiple times. It has changed mostly as a function of scientific, technological and economic development. The driving force behind this profound change is however constant – in the words of Warren Buffett – unleashing human potential.

Human potential will surely continue yielding innovations that enhance our quality of life and create economic prosperity. Our endowment is equipped financially and philosophically to endure short-term fluctuations along the way – just as we have done in the past. In concrete, as the variation of the average return (SEM) declines inversely proportionally to the square root of the investment horizon, the variation of e.g. the 100-year average return is only one tenth of the annual return. Time is on our side, at least from a statistical perspective.

As we have a practically perpetual investment horizon, we should perhaps invest solely into equity shares of value-creating companies. At the time of writing, we allocate approximately 80% into shares of companies (70% listed and 10% unlisted), and the rest mostly into fixed income (with very low business risk). This level of risk should provide us with returns sufficient for supporting research and teaching, as well as accumulating capital over the long run, while limiting negative interim outcomes to a tolerable level.

# LISTED INVESTMENTS

## EFFICIENCY AND RESPONSIBILITY

During 2019–2020, we switched from managed accounts to execution only investments – meaning that we make investment decisions ourselves. In this process, we particularly stressed cost control, transparency, and improved our risk management – including ESG-risks.

Currently, our exchange listed stock weight stands at approximately 70%, and we are required to maintain it between 60–80%. Our benchmark is the global MSCI ACWI Index, which covers approximately 85% of the free float-adjusted market capitalization in 23 developed and 26 emerging markets. We have a structural overweight in Finland, due to our listed spinout companies, which currently constitute less than 10% of the securities portfolio.

As we have recently reallocated capital to our current equity funds, and they are long-term investments, we plan to engage with them actively in 2021–2022. As one of our goals is a carbon neutral securities portfolio by 2030, we will especially underline this topic. Furthermore, as part of our ongoing work we will continue to search for new low carbon or carbon offsetting investments opportunities.

Our listed bond allocation is currently circa 20%. Our fixed income comparison index is the Bloomberg Barclays Global-Aggregate Total Return Index hedged to Euros. It reflects global treasury, government-related, corporate and securitized fixed-rate bonds from 24 developed and emerging local currency markets.

We furthermore underline ESG risk management, including exclusion of fossil fuel producing companies. As we primarily seek interest rate risk through listed bonds, we have so far allocated approximately 2/3 into global government bonds, and 1/3 into high ESG-impact green bonds. In the next two years, our plan is to continue monitoring the fixed income market conditions, and look for opportunities to reallocate a part of our government bond investments into higher ESG-impact bond funds.

# UNLISTED INVESTMENTS

## LOCALLY GROWN IMPACT INVESTMENTS

Our other investments constitute less than 10% of our portfolio. They include University of Helsinki related research-based spinouts and student-lead startups, other private companies, alternative investment funds, and cash. Our investment principles suggest that we focus new investments to University of Helsinki related companies, currently startups and spinouts, where we should have an information edge – in spinouts even intellectual property rights.

In 2021–2022, we seek to make approximately a dozen new investments into University of Helsinki related spinouts and startups. Simultaneously, we aim to reduce our other unlisted investments. Ideally, our other investments positions should consist entirely of spinouts and startups by the end of 2022.

In detail, we hope to be able to identify and finance on average two spinouts and four startups per annum. Additionally, we prepare to select a few companies for second round co-investments each year. Our projected capital commitment is relatively modest; our typical seed investment is fifty thousand Euros and follow-up investment a few hundred thousand Euros. Consequently, we expect to allocate less than one million Euros annually into spinouts and startups in 2021–2022.

We leave operations to the entrepreneurs, but provide guidance and support with e.g. legal work, governance, communications, and funding. We particularly stress sustainability, and only invest into companies we believe will affect society positively. Hence, we stress the projected environmental, fiscal and social footprints. In 2021–2022, we aim to develop a model that supports our portfolio companies in sustainability reporting, including measures such as of economic activity and job creation.

# FROM UNLISTED TO LISTED INVESTMENTS

## THE GRADUAL PROCESS OF INDEPENDENCE

Listing on a public stock exchange is a major milestone for a spinout or startup company, as well as for us. It symbolizes that the company has been able to evolve from an innovation to a going concern business operating at the level required from a listed company. Typically, it also means that the company has an increasing economic and social impact, visible from e.g. its tax and employment footprint. However, it also affects the rationale behind our investment, as we cannot utilize proprietary (potentially insider) information anymore. In concrete, these holdings represent company specific idiosyncratic risk, which could be reduced through diversification. Hence, we need to begin the process of reducing our position towards neutral (market) weight when a company lists its shares.

However, the transformation from unlisted to listed is not dichotomous; We are typically a large shareholder, who can play an important signaling and governance role – also after listing. Furthermore, liquidity is typically limited for newly listed smaller companies. Decreasing our position in a listed company is typically a long process and executed at the pace that – according to our holistic judgement together with the management – best serves the interests of the company. The availability of other strategic investors that could assist the company better than us, our position size, market liquidity, as well as several other factors play into this equation.

# RISKS

## VOLATILITY AND BLACK SWANS

We control external governance risks by limiting each counterparty to 25% of the portfolio, currently a bit more than 100 million Euros. However, we simultaneously strive to invest a meaningful sum with each fund manager, in order to achieve competitive management fees. We manage liquidity risks by investing primarily into relatively large investment funds that invest in liquid listed stocks and bonds. We leave currency risk open for stocks – where it represents a smaller fraction of total risk – but primarily hedge it for bonds. Finally, we manage ESG risks through monitoring, exclusions, engagement and impact investments. We are currently developing our external reporting in order to enhance our risk management, including our ESG risks.

The ex-ante estimated annual volatility of the portfolio returns is in the range of 10–20%. The estimate is obviously conditional on both method and timeframe, and includes considerable uncertainty. Assuming a 15% annual volatility, our one year Value at Risk 97.5% is approximately -25%.  Hence, we expect such an annual drawdown – or worse – in one year out of forty. Accounting for historically fat-tailed return distributions, or large kurtosis, the actual Value at Risk is probably larger. An inconvenient fact is that we do not and cannot know how much larger beforehand, as it is connected to uncertainty, popularly referred to as Black Swans.

# OPERATING MODEL

We manage internal governance risks by following a segregated operating model, which separates investment research, decisions, and monitoring:

**STEP 1**
- Investment Team examines potential investments.
- Investment Principles and Plan guides research.

**STEP 2**
- Investment Team presents analysis to Chief Financial Officer (CFO).
- CFO decides whether (or not) to present analysis to Investment Committee.

**STEP 3**
- CFO presents potential investment to Investment Committee.
- Investment Committee meeting notes submitted to Audit Committee.

**STEP 4**
- CFO makes final decisions regarding investment.

**STEP 5**
- Legal counsel checks investment documentation.
- Investment Team directs counterparties.
- Payment Team execute payments (never Investment Team).

**STEP 6**
- Counterparty confirms investment.
- Counterparty reports to Accounting Team, Investment Team, and External Reporting Provider.

**STEP 7**
- External Reporting Provider reports monthly on all investments to CFO, Accounting Team, and Investment Team.
- Investment Team monitors investments and communicates with CFO.

**STEP 8**
- CFO reports to Investment Committee, Audit Committee and the Board.

# ALLOCATION LIMIT MONITORING AND MANAGEMENT

Our Board has delegated authority to our Chief Financial Officer (CFO) to make investment decisions within and in order to execute the Investment Plan. We monitor and manage the investment limits set out in our Principles of Investments and Spending on a monthly basis, in order to maintain the selected risk profile but avoid excessive trading:

**STEP 1**
- Investment Team monitors that investment allocation is within defined limits.

**STEP 2**
- Investment Team notifies CFO immediately if an investment limit breach is observed.

**STEP 3**
- Investment Team presents a suggestion of how the investment allocation should be restored within the allowed limits to CFO.

**STEP 4**
- CFO decides on actions to restore allocation.

**STEP 5**
- The matter is reported to Investment Committee and Audit Committee.

**ATTACHMENTS**

UNIVERSITY OF HELSINKI
INVESTMENT REPORT 2020,
UNIVERSITY OF HELSINKI.

UNIVERSITY OF HELSINKI
PORTFOLIO REPORT 2020
DECEMBER, JAY SOLUTIONS.

UNIVERSITY OF HELSINKI