UNIVERSITY OF HELSINKI INVESTMENTS REPORT

2020

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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. The focus of this report is our securities portfolio, which currently is valued at over half a billion Euros. Our aim is to financially support our academic mission, and simultaneously support our efforts to advance society and sustainable development.

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100%
CARBON NEUTRAL
PORTFOLIO BY 2030

During the years 2018–2020, we insourced key functions of our investment management – including strategy, allocation and analysis – and reallocated our portfolio in order to promote cost and risk control. Our Rector and Chief Financial Officer (per procurationem) make our investment decisions and supervise execution. Furthermore, our Investment Committee advises and Audit Committee monitors our investments.

Our Principles of Responsible Investment Activities define that in terms of investments, "... the most important responsibilities involve the University itself, its partners, society and sustainable development." Consequently, we execute and measure responsible investing primarily in these four dimensions. We have a responsibility to manage our investments in a financially efficient way, which best supports our goal of providing annual contributions to our research, teaching, and other operations. Simultaneously, we must accumulate a financial buffer in order to develop our investments, as well as prepare for future challenges and opportunities.

We have a responsibility to report about our investments to our partners and society, who largely finance us. Finally, we have a responsibility for sustainable development, and must holistically consider it in our strategy, as well as each investment.

Looking at our principles through the lens of financial theory and academic research, we believe that our portfolio should consist mostly of diversified cost-efficient ESG index funds and high-impact university-related unlisted investments. We target a 4% average annual real return over the long run, aim for a carbon neutral portfolio by the year 2030, honor the principle of public access to information, and seek positive social and environmental impact through our investments.

OUTCOME

EXTRAORDINARY RETURNS DURING UNUSUAL TIMES

Our portfolio returned 19.43% in 2020 net of external investment management fees and expenses. Our benchmark index, which consists of 70% MSCI ACWI and 30% BBGA Bond Index, returned 6.54%. Extraordinary and nonrecurring developments within our unlisted investments largely drove the excess return – particularly the listing of one of our portfolio companies – as our unlisted investments almost eight-folded in value. However, our listed investments also outperformed.

The road to our annual return was bumpy, as the COVID-19 pandemic rocked financial markets during the first half of the year. While we cannot take much credit for the outcome of one single year, we are pleased with the fact that we were able to keep a steady course throughout the turbulence. It can sometimes be hard to avoid trying to "time the market" when asset values decline rapidly, even though research has shown that it is extremely challenging to predict short-term market fluctuations.

No matter how inconvenient it may be, chance mostly drives the return of an individual year. Annual market returns mostly represent a random walk process, and we should hence be very cautious not to draw too many conclusions from it. By examining multiple years of data, we can improve the reliability of our analysis approximately inversely proportionally to the square root of the number of years. This is true given that the returns are valid observations – generated by the same investment policy – and some other statistical conditions. We introduced the current investment policy in 2019, and examining the returns from this point in time should hence provide us with the most valid and reliable results.

Our annual return is 20.70% since the beginning of 2019, when we introduced our current investment principles, and 13.83% for our index. The difference is primarily explained by the positive performance of our unlisted investments, which in turn is driven by both nonrecurring markups (stale pricing) and extraordinary outcomes (pre and post IPO). Partially connected to this, and partially separate from it, the return difference is probably also explained by higher risk – and our portfolio volatility has indeed been around a tenth higher. The volatility estimate drawn from only two years of data is however associated with the same considerable reliability concerns as that of the return.

Our listed equity funds outperformed our equity index by 0.65%-points in 2020, mainly due to an underweight in fossil energy producers. While we cannot claim that this outperformance was alpha – based on proprietary information by definition – it is was a result of our deliberate ESG risk management, which we actively develop and expand. Our listed fixed income portfolio underperformed our fixed income index by 3.86%-points, which was mainly due to notably lower interest rate risk than our fixed income benchmark. Our interest rate risk is however now more in line with our benchmark, as the reallocation is complete.

While we cannot draw too far-reaching conclusions about the success after two years, the evidence so far does not support rejecting our "90% listed index ESG beta +10% unlisted university-grown startup alpha" investment hypothesis. We underline that the notable weight of our unlisted investments comes with significant active risk, commonly measured as Tracking Error. This means that our individual annual returns can, and will, vary significantly and randomly both above and under those of the index.

Our goal is that our listed investment performance matches that of the index and unlisted investment performance lifts us above the index, on a risk-adjusted level and over the long run. This is very ambitious, as some research suggests that US educational endowments have underperformed their indices by more than one percentage point per year.


19.43%
PORTFOLIO RETURN IN 2020 NET OF EXTERNAL INVESTMENT MANAGEMENT FEES AND EXPENSES.
20.70%
OUR ANNUAL RETURN SINCE THE BEGINNING OF 2019

LISTED INVESTMENTS

THE TRANSITION TO ESG AND INDEX FUNDS

We reallocated the second half of our listed investments during 2020, as set out in our 2018 Investment Plan. In detail, we invested into two global equity index funds, one Green Bond fund, and two global government bond index funds. Our listed investments are now globally diversified, extremely cost efficient and ESG aware. Our current external Total Expense Ratio (TER) is 0.1%, which seems to compare favorably e.g. with that of US institutional investors. We have successfully excluded fossil fuel producing companies from our investments in 2019–2020.

All our global equity index funds now exclude fossil fuel producing companies, and companies that hold fossil fuel reserves. They also exclude tobacco, controversial weapons, adult entertainment, gambling and other companies in violation with the UN Global Compact principles. Our funds are furthermore active owners, and engage with their portfolio companies through stewardship activities, such as advocacy, engagement and voting. Our Green Bond fund invests in bonds and loans for predefined projects that reduce the environmental burden and support sustainable development. These funds together broadly reduce our carbon emissions, and propel us on our journey to a carbon neutral portfolio by 2030.

UNLISTED INVESTMENTS

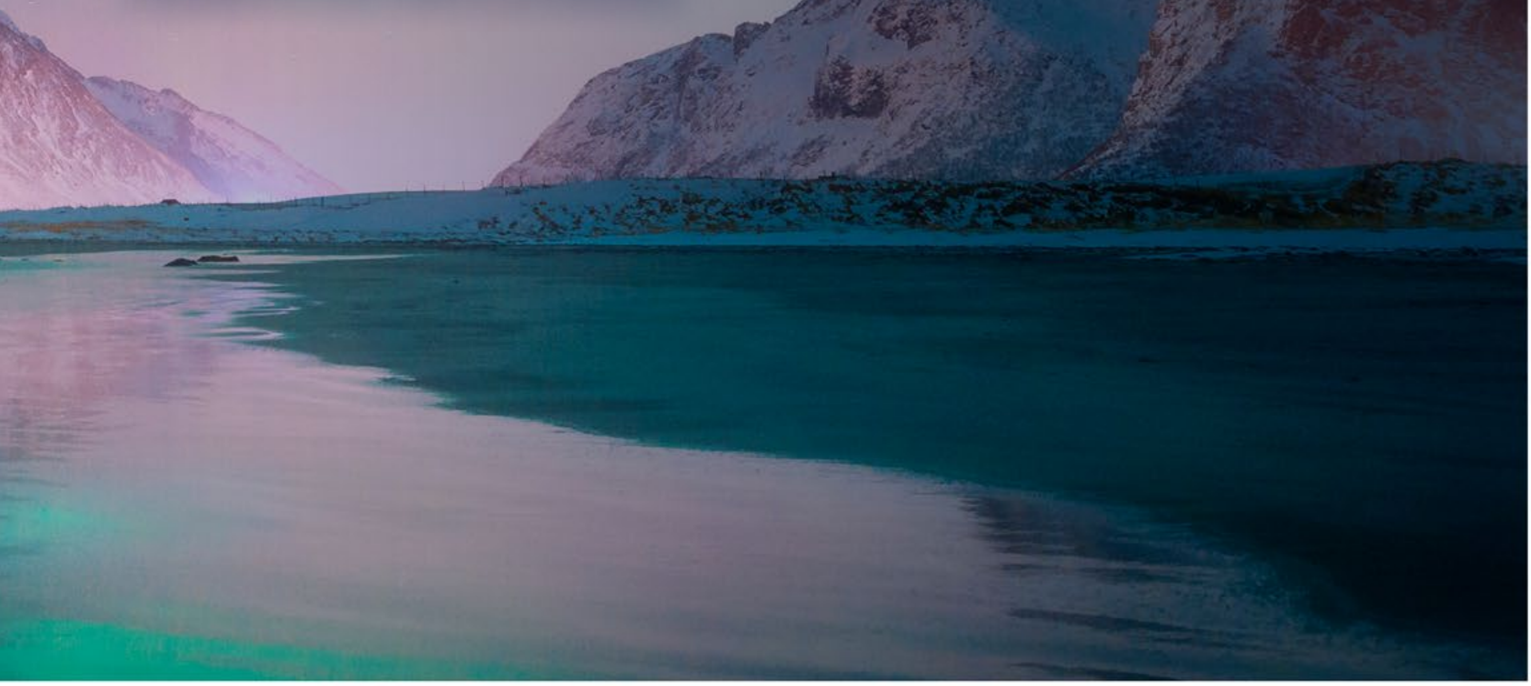
AN IPO AND STUDENT STARTUPS

Despite a somewhat challenging economic environment, our unlisted investments did well in 2020:
We co-founded two new spinouts and made one follow-up investment, and several of our portfolio companies successfully closed other financing rounds. We made four exits, of which three fully and one partially, at a considerable aggregate profit.

Our spinout company Nanoform listed its shares on the Nasdaq First North Growth Market in Helsinki (ticker: NANOFH) and Stockholm (ticker: NANOFS) in 2020. The listing signified a major milestone for the company, but also for us. Our founding investment of 300 thousand euros was valued at more than 20 million Euros by the market. While we cannot expect to see successes like it very often, it does however set an extremely inspiring example by showing that it is indeed possible. The fact that Nanoform seeks to develop novel medical technology that – if successful – could greatly benefit humankind makes it beyond inspiring: It really encapsulates the raison d'etre of our investments.

Another major event was the launch of our first student startup program HELSEED. The program encourages students to develop their ideas into business plans and startups, and furthermore offers the possibility to a pre-seed investment from us. The pilot was a success – especially considering the challenging circumstances during the pandemic. It yielded more than 20 business plans of good standard, and will likely result in at least a few investments. Encouraged by this, we have decided to expand the program in 2021.

Our unlisted investments are highly impactful, as their essence is to commercialize innovations in order to tackle global level challenges. Needle free glucose-monitoring, anonymization of sensitive data, and a bee vaccine, to name a few. They support the creation of economic value, employment opportunities, and tax revenues. In addition, they concretely present the entrepreneurial alternative to our researchers and students alike.



ENGAGEMENT

A YEAR OF MANY FIRSTS

We had numerous opportunities to engage with our fund managers, portfolio companies, donors, sister universities, and the public in 2020. As we reallocated most of our listed investments during 2019–2020, we engaged actively both during due diligence and post investment.

We developed our ESG reporting together with a reporting service provider and other institutional investors in order to better understand and manage our ESG-risks during 2020. We also followed up on the engagement activities of our investment managers, and specifically addressed their efforts to support biodiversity. We furthermore supported the development of an ESG equity index fund, by engaging with the investment manager. We participated in over twenty portfolio company shareholder meetings, and engaged actively with many of them outside of the formal meetings as well. We also supported them in e.g. legal matters, financial modeling and investor meetings.

Finally, we enhanced our visibility towards both donors, students, and the public through seminars, lectures, and interviews. We continued being an active member of Finland's Sustainable Investment Forum and furthermore joined the Finnish Business Angels Network and the Finnish Venture Capital Association.

ATTACHMENTS

UNIVERSITY OF HELSINKI
INVESTMENT PLAN 2021–22,
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DECEMBER, JAY SOLUTIONS.


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