



# UNIVERSITY OF HELSINKI

ANNUAL REPORT ON RESPONSIBLE  
INVESTMENTS IN 2019



UNIVERSITY OF HELSINKI

In 2019, the University of Helsinki Group approved the new Principles for responsible investments.<sup>1</sup> During the year, we allocated roughly the equivalent of two years of work to the promotion of responsible investment activities. The purpose of this report is to describe the measures taken. We examine responsibilities in three different dimensions: **the University, its partners and society, and sustainable development.**





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1. See [https://www.helsinki.fi/sites/default/files/atoms/files/hu\\_principles\\_for\\_responsible\\_investment\\_activities.pdf](https://www.helsinki.fi/sites/default/files/atoms/files/hu_principles_for_responsible_investment_activities.pdf)



# UNIVERSITY

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**472 MEUR**

**INVESTMENT PORTFOLIO  
IN 2019**

**21,66 %**

**RETURN OF LISTED  
INVESTMENTS IN 2019**

The responsibilities of the investment activities towards the University include safeguarding its financial stability and increasing its independence. In other words, investment activities must both balance University finances, much like the fund of private University assets known as *Fiscus Rectoris* in the old days, and accumulate capital for the future.<sup>2</sup>

In 2019, our listed investments generated a return of **21.66%**, while the benchmark index returned **21.90%**. Hence, our investments returned **0.24 percentage points** – a little over one million euros – less than our benchmark index. Even though this may at first sight seem like a poor return, it must be perceived in a wider context: financial research shows that active asset managers have, on average, in the long run and with costs deducted, fallen significantly behind their benchmark indexes.<sup>3</sup>

In 2019, we transferred approximately one-third of our listed investments to cost-efficient and globally diversified index funds. Nevertheless, at the end of the year, **40%** of our investment portfolio of **€472** million remained under discretionary asset management. Our aim is to

close up the gap between our returns and those of the index by continuing our reallocation into increasingly cost-efficient funds during this year.

Underlying this aim are the theoretical foundations of financial theory and empirical evidence of the efficiency of public capital markets, which make it extremely difficult to beat the benchmark index through active asset management after costs. For this reason, we are primarily satisfied with returns in line with the benchmark index, known in financial theory as beta ( $\beta$ ) returns. Beta returns reflect the value that businesses generate through their operations and require no activity from investors. Therefore, roughly **95%** of our investments will fall primarily under this category from the beginning of 2021.

Financial theory shows that costs are one of the best predictors of future returns.<sup>4</sup> Our new investments are very cost-efficient, thanks to their annual costs being under **0.1%** of the capital. For example, the indirect costs of employment pension insurance companies were, on average, approximately **0.8%** of the capital in 2017.<sup>5</sup> Of course, comparisons of this

kind are hampered by variances in investment distribution. Alternative asset categories in particular increase the average costs of employment pension insurance companies, but the figures do provide an overview of the scale.

Diversification is another method promoted by financial theory for improving the performance of investment activities. In practice, it seeks to reduce risk without affecting returns. Our new listed equity investments are diversified in such a way that they comprise of shares in more than a thousand companies globally. The goal is to make sure that we will have our share of global economic growth, while limiting our dependence of the prospects of individual companies, industrial sectors or countries.<sup>6</sup>

The success of active investing hinges on valuable knowledge not available to all investors. We believe that we possess such knowledge, for example, regarding research conducted at the University and other innovations for which the University receives disclosures.<sup>7</sup> Therefore, our active investments focus on non-listed companies founded on invention disclosures, as well as the intellectual property rights often

associated with them. We aim to utilise the knowledge available to us to select the best business ideas for commercialisation.

A good business idea is no guarantee of a successful company. Establishing a successful company requires good management and leadership as well as a well-functioning administration, also known as good governance. Governance always stems from the board of directors, elected by the owners. In 2019, we actively promoted good governance in both our current and future non-listed companies.

We developed the governance of our existing businesses by attending almost all general meetings to which we were invited to in 2019. As we have roughly 50 unlisted companies in our portfolio, the total number of ordinary and extraordinary general meetings was slightly higher. In the meetings, we strove to defend the principle of the equality of shareholders by opposing motions potentially harmful to minority shareholders. Furthermore, we attempted to support the boards in various problem situations relating to, for example, funding and operations.

We promoted good governance of companies yet to be established primarily through the development of our investment activities. We made the decision to make principally smaller seed investments related to the establishment of non-listed companies. A precondition for any potential further investment is that a company first succeeds in acquiring a professional investor from outside the University Group as principal investor. These changes promote good governance in our non-listed companies in many ways.

First of all, this is an efficient and equal operating model. For practical reasons, we are unable to serve as a principal owner that safeguards and develops governance in all of our portfolio companies. Thus, we help companies to get started with a limited investment, after which the entrepreneurs must attract a professional investor for the first actual funding round. This aligns incentives and, above all, reduces the risk of moral hazard.<sup>8</sup>

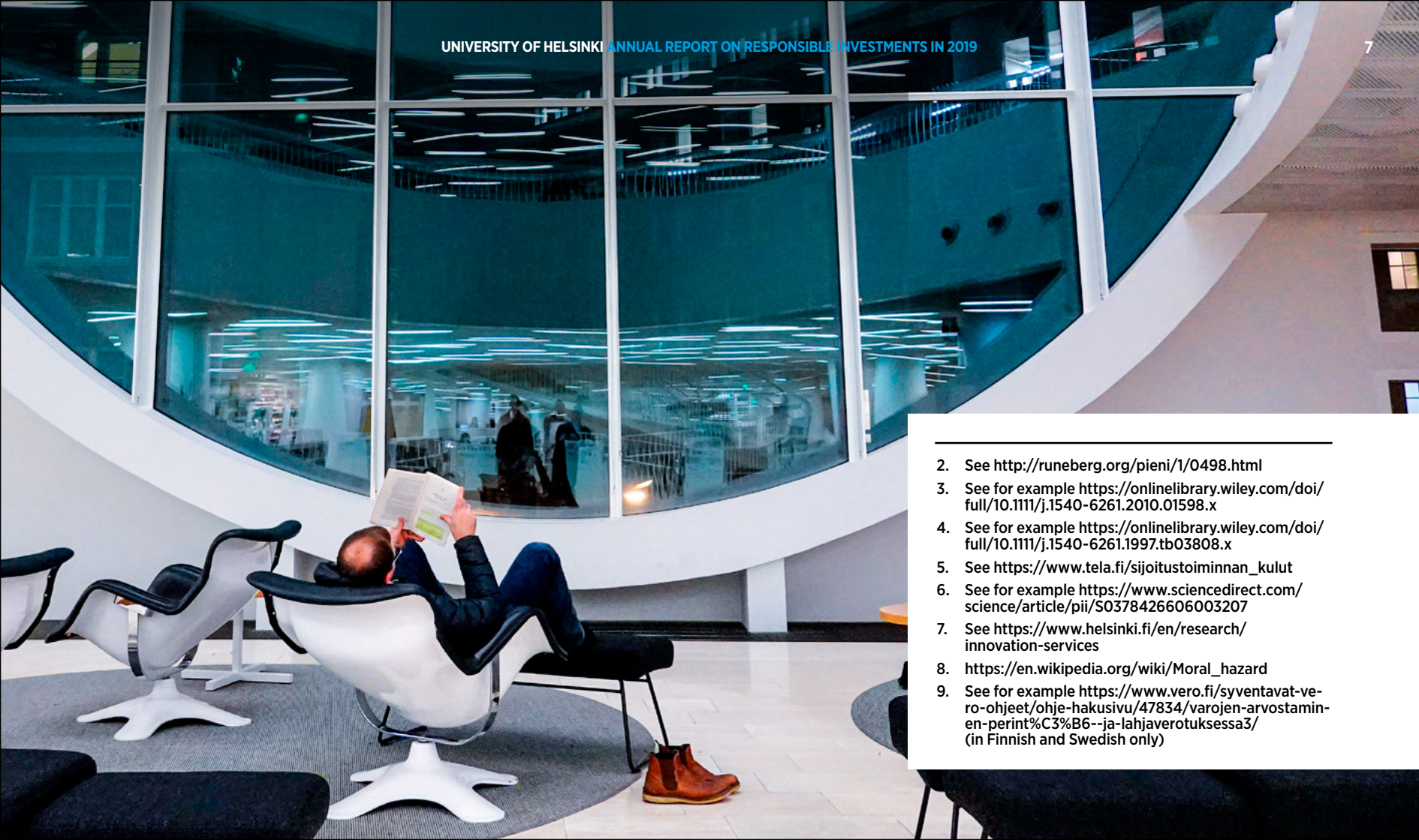
Secondly, a professional investor offers a market value for the company through their investment.<sup>9</sup> This way, the University and the company have the opportunity to agree on

further investments at this value, avoiding any concerns regarding its 'fairness'. In addition, the investor involved will often offer assistance in assembling a qualified board and in developing operations.

In accordance with our investment policy, we aim to gradually step back as new investors join our portfolio companies, eventually resulting in the sale of our share or the discontinuation of operations. Put simply, our duty is to create new companies, not to control them. In addition to the expected beta returns, success in this will gain us what finance theory calls alpha returns ( $\alpha$ ), also known as "abnormal returns". However, alpha returns are extremely difficult to achieve, and their nature is inherently associated with great uncertainty, which is why we have limited the share of these investments to no more than **5%** of our portfolio.

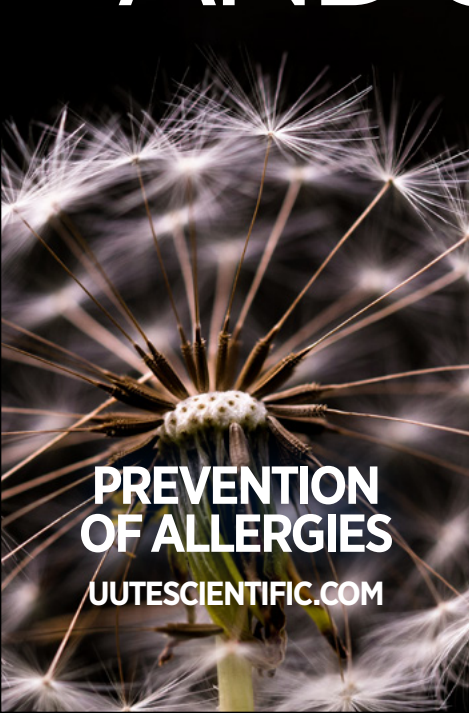
It is not meaningful to measure the financial returns of our non-listed companies annually, as those figures will only be known at the time of selling and closing down the businesses. In 2019, we divested one of our companies profitably, while another two companies were discontinued.





2. See <http://runeberg.org/pieni/1/0498.html>
3. See for example <https://onlinelibrary.wiley.com/doi/full/10.1111/j.1540-6261.2010.01598.x>
4. See for example <https://onlinelibrary.wiley.com/doi/full/10.1111/j.1540-6261.1997.tb03808.x>
5. See [https://www.tela.fi/sijoitustoiminnan\\_kulut](https://www.tela.fi/sijoitustoiminnan_kulut)
6. See for example <https://www.sciencedirect.com/science/article/pii/S0378426606003207>
7. See <https://www.helsinki.fi/en/research/innovation-services>
8. [https://en.wikipedia.org/wiki/Moral\\_hazard](https://en.wikipedia.org/wiki/Moral_hazard)
9. See for example <https://www.vero.fi/syventavat-vero-ohjeet/ohje-hakusivu/47834/varojen-arvostaminen-perint%C3%B6--ja-lahjaverotuksessa3/> (in Finnish and Swedish only)

# PARTNERS AND SOCIETY



**PREVENTION  
OF ALLERGIES**

[UUTESCIENTIFIC.COM](https://uutescientific.com)



**BEE  
VACCINE**

[DALAN.COM](https://dalan.com)



**MICROSCOPE  
TECHNOLOGY**

[NANOJET.COM](https://nanojet.com)



**DATA  
ANONYMISATION**

[VEIL.AI](https://veil.ai)



Even if we fail to generate alpha returns through our non-listed companies as described above, we will still have a positive impact by enabling innovations made at the University of Helsinki to benefit society. As a rule, very high risk is associated with seed investments, which is why many professional investors shy away from them. Then again, the weight of such investments of our relatively large overall investment portfolio is so small that we are able to bear those risks without difficulty. This way, we aim to bridge the funding gap at the establishment stage of companies, together with Business Finland and other partners. In 2019, we decided to invest in, for example, **the prevention of allergies, a bee vaccine, microscope technology and data anonymisation.**

Our relation with our partners and society is built on trust. Our investment activities must be sufficiently transparent to the donors and taxpayers that fund the University, which makes implementing the principle of public access an important part of our responsibility. In 2019, we decided to publish all significant new investments immediately, in addition to which all of our investments will be made public in

conjunction with the financial statement of year 2020.<sup>10</sup>

In 2019, we also paid attention to the transparency of our non-listed investments. We aim to ensure that we have sufficient and accurate information regarding the actual beneficial owners of each company. However, determining the actual beneficial owners of foreign non-listed companies may be challenging. This is one of the reasons why we decided to avoid investing in foreign non-listed companies in the future. In the case of Finnish companies, the situation is alleviated by a legislative amendment entering into force this year that requires the registration of actual beneficial owners in the Finnish Trade Register.<sup>11</sup> This requirement, which will be enforced from 1 July 2020 onwards, has already encouraged some of our companies to take relevant steps on their own initiative.

The decision to establish our non-listed companies primarily in Finland also has an impact on our tax footprint. Although these companies are mostly in their growth stages and not generating notable profits, we are through these activities ensuring that any

potential corporate tax income stays in Finland. Since the distribution of success rate for businesses like these is skewed, it may only be a question of time before our portfolio will include a company that generates extraordinary profits – something like Supercell – whose tax footprint is considerable.<sup>12</sup>

In 2019, we engaged our partners in active dialogue on our investments and their development. By sharing our knowledge and experiences, we actively strove to help our sister universities and foundations to further develop their investments. In addition, we introduced our goals and ongoing reforms to our donors. We also considered new ways of promoting entrepreneurship collaboratively with, among others, the City of Helsinki.

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10. See <https://www.helsinki.fi/en/news/society-economy/the-university-of-helsinki-is-improving-the-transparency-of-its-investments>

11. See [https://www.prh.fi/en/kaupparekisteri/beneficiaries\\_will\\_be\\_registered\\_from\\_1\\_july\\_2019.html](https://www.prh.fi/en/kaupparekisteri/beneficiaries_will_be_registered_from_1_july_2019.html)

12. See for example [https://www.researchgate.net/publication/42242002\\_The\\_Growth\\_of\\_Firms\\_A\\_Survey\\_of\\_Theories\\_and\\_Empirical\\_Evidence](https://www.researchgate.net/publication/42242002_The_Growth_of_Firms_A_Survey_of_Theories_and_Empirical_Evidence)

The background of the page is a dark green field filled with a complex, glowing pattern of particles and light waves. These elements create a sense of digital connectivity and movement, with brighter green and yellowish-white highlights that resemble data streams or energy pulses. The overall effect is a futuristic and dynamic visual texture.

# SUSTAINABLE DEVELOPMENT

Our responsibility for sustainable development is connected to the values and fundamental purpose of the University. Taking responsibility and sustainable development into consideration when making investment decisions is a complex matter. Among other things, we require our asset managers to consider environmental, social and governance (ESG) related factors in their investment activities, and that they act as active owners.

Considering sustainable development, it is above all difficult to see how we in our investment activities could overlook the caution sounded by the scientific community about a climate catastrophe threatening our planet. This is why responsibility entails especially the goal of divesting from investments in companies that produce fossil fuels.

In 2019, we made two significant new investments, the first in the Handelsbanken Global Index Criteria Fund of and the second in the SEB Sustainability Global Index Fund. The total value of these investments constitutes one-third of our entire investment portfolio. Despite being extremely diversified and cost-efficient

funds, they are not entirely passive. Both funds exclude fossil fuel producers and distributors, as well as businesses whose operations are based on producing controversial services or products. Additionally, the funds do not invest in companies that breach international norms and conventions.

The asset managers of our new funds also actively strive to influence their portfolio companies. In 2019, Handelsbanken voted in **473** general meetings and held **563** influencing discussions, of which **45%** were related to environmental issues. SEB voted in **265** general meetings and held, in collaboration with other investors, influencing discussions with more than **800** companies.

The share of companies classified as fossil fuel producers in our investment portfolio fell by roughly 10% in 2019. Due to an increasingly accurate measurement method, their share of our investment portfolio is however practically unchanged at just below 1%.<sup>13</sup> Our goal is to remove the remaining fossil fuel producers from our investment portfolio without undue delay, but in a controlled manner. We are confident

that our investments in these companies will be divested by the end of 2021, but the aim is to complete this process already this year.

In 2019, we also actively strove to improve the responsibility of our asset managers. Among other things, we have encouraged them to divest from fossil fuel producers. In addition, we have initiated the redesign of our reporting and launched a tendering process to be able to measure, as well as influence, the responsibility of our asset managers and investments more accurately. Our aim is to provide increasingly comprehensive reports on the responsibility of our investment activities for the current year.

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13. In 2019, the coverage of measuring rose to 80% of all investments from 68% in the previous year.





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