UNIVERSITY OF HELSINKI INVESTMENT PLAN 2023–24

UNIVERSITY OF HELSINKI

INVESTMENT PLAN 2023–24

At the University of Helsinki Group, we manage assets worth circa two billion euros, of which some trace back to at least the mid-18th century. Our assets currently include approximately one and a half billion euros in real estate and half a billion euros in securities.

Published 25.10.2023

AUTHOR
ANDERS EKHOLM

The author is grateful for the helpful comments and suggestions by the University of Helsinki investment team and committee.

The primary purpose of this document is to lay out an Investment Plan for our securities portfolio investment management two years ahead.

The Finnish university reform in 2010 increased our securities portfolio significantly, as the state encouraged universities towards greater economic independence and responsibility. This catalyzed the development of our investment function, including a professional Investment Committee. Furthermore, it resulted in increasing our risk to its current level, where we expect a 4% average annual real return over the long run. While the first few years at our current risk level gave us some welcome tailwind, with a realized average return over 13% per annum from January 2019 to June 2022, our expectation for the long run however remains unchanged.

The primary purpose of this document is to lay out an Investment 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 ideas that govern any future adaptations of the Investment Plan.

Approach

Our approach to investments builds on the central values that guide the University of Helsinki overall; truth, bildung, freedom and inclusivity. To us, truth and bildung mean accepting scientific findings from financial economics, as well as other sciences (e.g. CO_2-emmissions leading to global warming). Freedom and inclusivity are reflected primarily by our ambition to support equality and social development with our investments.

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.

We acknowledge and accept the concept of market efficiency. To be more precise, we believe in the concept of equilibrium market efficiency, which 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.

Within the framework of equilibrium market efficiency, the empirical evidence implies that the market has been "overly" efficient – or that too much capital has been managed actively. While past (under)performance is no guarantee for future (under)performance, we hence 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) related uncertainty. Consequently, we seek to manage these uncertainties for ourselves, 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 (primarily) through our unlisted investments.

In summary, cost-efficient index funds that mitigate ESG uncertainty are the bedrock of our investments. On top of that, we add extremely selective unlisted investments – but only when we possess sufficient proprietary information or/ and can achieve significant positive impact.

Our approach to investments builds on the central values that guide the University of Helsinki overall; truth, bildung, freedom and inclusivity.

Allocation

During the quarter-millennial lifetime of our endowment, society has transformed multiple times through both gradual development and disruptive shocks. We have – so far – managed to adapt to and prosper with all these transformations.

Change is perhaps the only thing we can safely assume about the future. While shocks might set us back over the shorter term, development will hopefully propel us forward over the long run. As we have a practically perpetual investment horizon, we should hence perhaps invest solely into equity shares of value-creating companies. However, we still maintain a reasonable allocation to government bonds, to reduce shorter-term volatility and enable a steady spending policy.

Listed investments

During 2019–20, we switched from managed accounts to execution only investments – meaning that we make investment decisions ourselves, without nonessential counterparties. In this process, we particularly stressed cost control, transparency, and improved our risk management – including ESG uncertainty. In 2021–22, we continued optimizing our listed investments, for instance by modifying counterparty and duration risks.

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

As we have relatively recently reallocated capital to our current equity funds, and they are long-term investments, we plan to continue engaging with them in 2023–24. As one of our goals is a carbon neutral securities portfolio by 2030, we have excluded fossil fuel producing companies, and will continue focusing on this topic.

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 both developed and emerging local currency markets. As we primarily seek pure interest rate risk through listed bonds – not corporate risk – we have allocated approximately 2/3 into global government bonds. However, we have also allocated 1/3 into high environmental impact green bonds. In the next two years, our plan is to continue monitoring the fixed income market conditions and look for opportunities.

Unlisted investments

Our other investments constitute less than 10% of our portfolio. They include research-based spinouts and student-lead startups, other private companies, and alternative investment funds.

Our approach suggest that we focus our new investments to University of Helsinki related startups and spinouts, where we should have an information edge – often even intellectual property rights. We leave operations to the entrepreneurs but provide guidance and support with for instance legal work, governance, communications, and funding. We particularly stress sustainability, and only invest into companies we believe will affect society positively, e.g., through their projected environmental, fiscal and social footprints. During 2023–2024, we aim to support our portfolio companies in better ESG reporting.

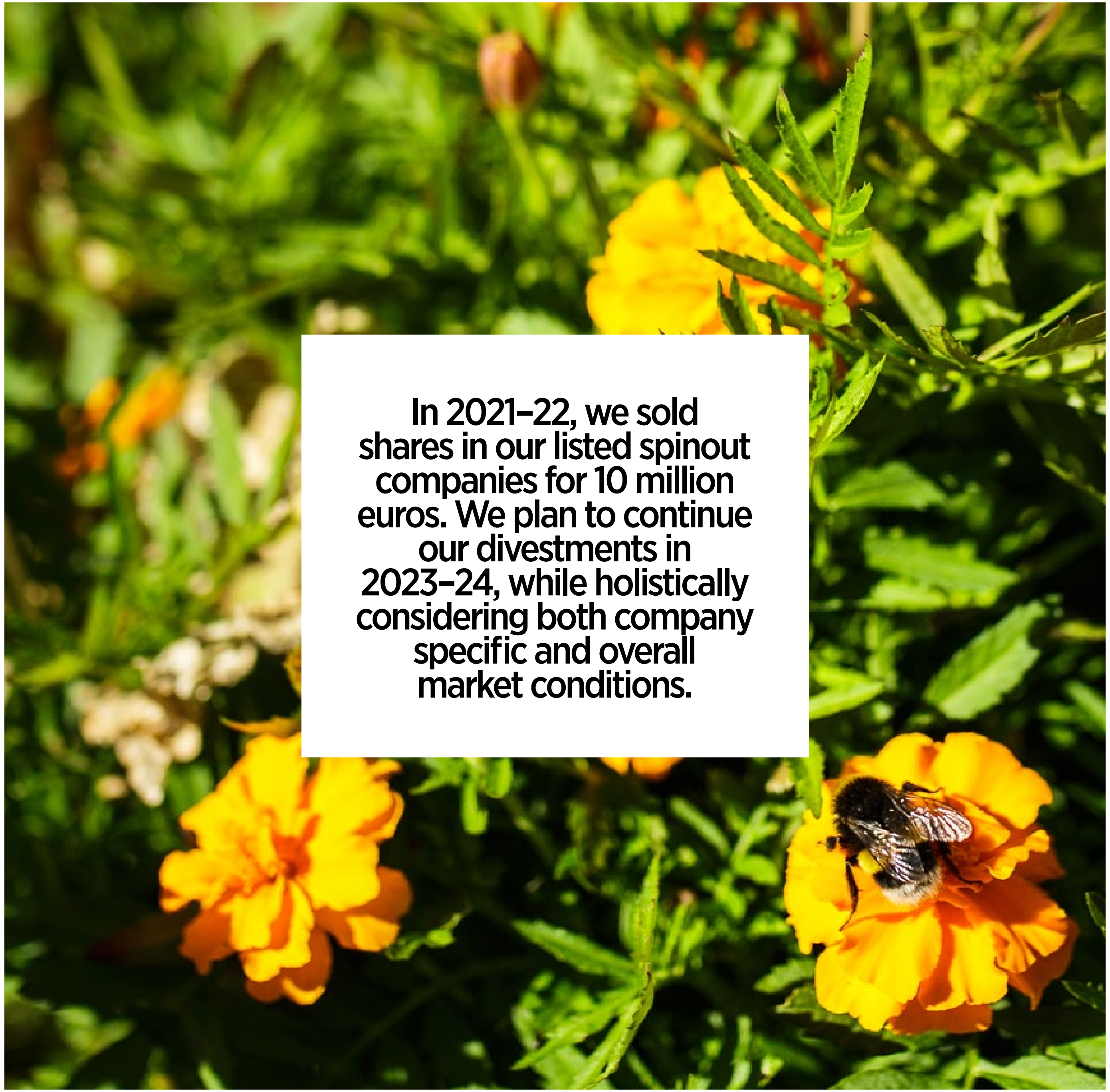
In summary, we seek to make a dozen new investments into University of Helsinki related spinouts and startups in 2023–24. Simultaneously, we aim to continue reducing our other unlisted investments. Ideally, our other investments positions should consist entirely of spinouts and startups by the end of 2024. Hence, 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.

From Unlisted to Listed

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 as we in most cases are a large shareholder, who can play an important signaling and governance role. Furthermore, liquidity is often 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.

In 2021–22, we sold shares in our listed spinout companies for 10 million euros. We plan to continue our divestments in 2023–24, while holistically considering both company specific and overall market conditions.



In 2021–22, we sold shares in our listed spinout companies for 10 million euros. We plan to continue our divestments in 2023–24, while holistically considering both company specific and overall market conditions.

Risks and Uncertainties

We control external governance uncertainties by limiting each counterparty to 25% of the portfolio. However, we simultaneously strive to invest a meaningful sum with each fund manager, in order to achieve competitive management fees and other terms. We manage liquidity uncertainty by investing primarily into relatively large investment funds that invest in liquid listed stocks and bonds. We furthermore diversify our counterparty exposure geographically. 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 uncertainty through monitoring, exclusions, engagement and impact investments.

The expected annual volatility of the portfolio returns is below 20%. The estimate is conditional on both method and timeframe, and includes considerable uncertainty. Assuming a 20% annual volatility, one year Value at Risk 97.5% is approximately -35%, or as of Q3/2022, 110 million euros for the University of Helsinki and 90 million euros for the University of Helsinki Funds. Hence, we expect such an annual drawdown – or worse – in one year out of forty. Accounting for historically fat-tailed return distributions, or 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 – sometimes referred to as Black Swans.

Operating model

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

STEP 1	• Investment Team examine potential investments. • Responsible Investment Principles and Investment 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.

Delegation and monitoring

Our Board has delegated authority to our Chief Financial Officer (CFO) to make investment decisions according to this Investment Plan. Investment monitoring is performed primarily based on monthly reporting:

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.


UNIVERSITY OF HELSINKI