



# Investment policy for Aalto University Student Union investments

## 1. Investment objective

The investment activities of Aalto University Student Union (AYY) aim to invest the Student Union's assets responsibly to enable financial sustainability in AYY's activities. The objective of investments is both to support current activities and to secure the future of the Student Union. Therefore, the Student Union is aiming at reasonable return and performance for assets. The investment policy defines the long-term return objectives and risks of investments, and on their basis, the allocation of investments and suitable investment targets. The purpose of the investment policy document is to support and guide the Finance Board, asset managers and Financial Director in their work.

## 2. Structure of investment assets and decision-making

The student union assets include a) real estate assets intended to support AYY's activities and members, but not to generate investment income, and b) investment assets intended to support the student union activities (see the previous section). This policy focuses on investment assets that aim to generate return to support operations.

Investment assets include so-called tied funds (donations, the funds of which are used for a purpose decided by the donor, such as grants to a specific group of students or projects). The capital and return of these funds must be kept separate in the accounts but invested as part of the Student Union's investment assets.

For the sake of clarity, it is noted that cash reserves relating to real estate assets are invested as necessary and their investment is outlined in Appendix 1 to this policy.

## 3. Decision-making processes

The highest decision-making body of the Student Union is the *Representative Council*, which annually appoints the Student Union *Board* based on the proposal of the former of the Board. The Board has executive authority over the affairs of the Student Union. These two bodies are composed of Aalto University students. On the proposal of the Board, the Representative Council elects the *Finance Board* consisting of external specialist members and students.

The Finance Board is responsible for the management and administration of the Student Union assets and the preparation and implementation of matters prescribed in the rules of procedure and the Student Union's Administrative and Economic Regulation. The Finance Board is a major advisor or decision-maker in investment matters. The Finance Board serves as the supervisor of Financial Director. The role of the Finance Board and the decision-making processes related to finances are further regulated in Aalto University Student Union's Constitution and the administrative and economic regulation.

35 Within the Finance Board, there is an *investment section* which prepares investment decisions and  
36 policy guidelines for the decision of the entire Finance Board.

#### 37 **4. Time horizon of investments and need for liquidity**

38 Investment activities are guided by the need for the Student Union to use funds for activities. The  
39 aim is to secure the needs of the Student Union by ensuring that a sufficient amount is available for  
40 operations in the near future in bank accounts and/or credit limits, which is currently approximately  
41 EUR 1 million.

42 The other time horizon for investment activities is long because the Student Union also seeks to  
43 ensure the preservation of asset value and, if appropriate, increase in value. The amount of funds  
44 used each year is small in relation to the value of the entire investment portfolio. Thus, a significant  
45 share of investment activities can be allocated to investments in which assets are committed for 5–  
46 10 years, and the investment horizon for a large part of the portfolio can be considered at least 5–10  
47 years.

48 These time horizons are taken into account in the Allocation section of this investment policy.

#### 49 **5. Target rate of return**

50 The target rate of return is defined as long-term return targets. In the short term, return may vary in  
51 accordance with the risk profile of the investment portfolio. An investment horizon of 5–10 years is  
52 considered a long term.

53 The long-term average annual real return target for investment assets<sup>1</sup> is 3.0 % p.a.

#### 54 **6. Allocation**

55 A key tool in investment policy is investment allocation. The yield target and the risk appetite  
56 determine the allocation decision. AYY aims at achieving the return target by allocating investments  
57 in different asset classes based on their expected return and risk, so that the return target can be  
58 achieved through the selected allocation.

59 Expected yields at the end of 2021 were as follows (Investment Research Finland Ltd, a compilation  
60 of the views of Finnish asset managers):

	<b>Basic</b>
<b>Interest</b>	
Money market	-0.4 %
Government bonds	-0.3 %
Investment Grade	0.1 %
High Yield	2.1 %
Emerging market	2.9 %
<b>Stock</b>	
Finland	7.1 %
Europe	6.6 %
USA	6.8 %
Emerging market	8.2 %
Japan	6.5 %
Global	6.8 %
<b>Alternative</b>	
Private Equity	10.2 %
Private Credit	6.7 %
Property investments	4.5 %
Other alternatives	4.0 %

<sup>1</sup> Real return is calculated by deducting actual annual inflation from the nominal return on investment assets. At present, the European Central Bank's long-term inflation target is approx. 2%.

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The Student Union's investment assets are divided into Publicly listed liquid investments and Alternative investments as follows:

PUBLICLY LISTED LIQUID INVESTMENTS				80% OF AYY'S INVESTMENTS	Fluctuation margin 70-100%
Portfolio	Asset class	The proportion of the class among the Publicly listed, %	Sub-category	Target proportion of the sub-class, %	Fluctuation margin, %
Publicly listed liquid investments	Equity risk	60	Finland	7.5	0-12
			Europe	15	0-20
			North America	17.5	0-25
			Japan, rest of the world	5	0-10
			Emerging market	15	0-20
			Proportions in total	60	
	Debt risk	40	Money market	7.5	0-10
			Government bond	10	0-15
			Corporate bond	12.5	0-17
			High yield	5	0-10
			Emerging market	5	0-10
			Proportions in total	40	

ALTERNATIVE INVESTMENTS				20% OF AYY'S INVESTMENTS	Fluctuation margin 0-30%
Portfolio	Asset class	Sub-class	Target proportion of alternatives	Fluctuation margin, %	
Alternative investments	Alternative	Equity investments	Max 60% of the alternatives	0-60	
		Real estate funds	Max 60% of the alternatives	0-60	
		Other	Max 60% of the alternatives	0-60	

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The most significant difference between investment classes is that the value data for Publicly listed liquid investments is obtained on a daily basis and less frequently for Alternative investments. These reports differ and risk indicators are different, among other things. Accordingly, the success of the investments is monitored on the basis of various reports.

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The allocation of investments is defined through the minimum and maximum shares (the so-called allocation pipeline). Exceptions to the target allocation pipeline may be made exceptionally and for a justified, weighty reason by a decision of the Finance Board, for example, if the value of the assets

70 deviates from the target allocation due to market turbulence, but it is not necessary to make  
 71 corrective sales or purchases (since purchases would be unprofitable at the time of market  
 72 turbulence). The Student Union's Representative Council and the Board are immediately informed of  
 73 the allocation deviation. In this case as well, the aim is to return to investment policy allocation as  
 74 soon as it is reasonable and possible in terms of investment activities.

75 The transition to Alternative investments takes an estimated 2-5 years (due to time diversification  
 76 and careful selection, among other things), so the allocation may deviate from the target in the early  
 77 years.

78 Alternative investments include funds that invest in investments for which there is no ongoing listing  
 79 or market (for example, unlisted companies or private debt contracts). Funds may offer investors a  
 80 redemption opportunity at certain times or upon request, but in principle, investments are made for  
 81 the lifespan of the fund (generally 5–10 years). Some funds may be open-ended special mutual funds  
 82 where units can be subscribed and redeemed several times a year. The Student Union's aim is to  
 83 make alternative investments in a time-diversified manner so that funds returned from investments  
 84 over time can be redirected to new investments smoothly. Investments are diversified to different  
 85 types of investments, and the aim is also to achieve diversification benefits in relation to the overall  
 86 portfolio of the Student Union.<sup>2</sup>

87 Alternative investments may also be implemented through a mandate or programme managed by an  
 88 asset manager.

89 Real estate assets consistent with the main duty of the Student Union are significant. Accordingly,  
 90 the Student Union considers that no direct investment in residential property is made in the portfolio  
 91 of direct investment assets, including the related plots of land and other similar assets related to  
 92 residential property. However, alternative investments may include funds that own other types of  
 93 property or plots.

94 As stated in section Time horizon and structure of investment activities, a certain amount of liquidity  
 95 is to be reserved for the student union activities. The availability of these assets is ensured by  
 96 maintaining sufficient cash reserves and supplementing needs from the portfolio of Publicly listed  
 97 liquid assets.

## 98 **7. Investment risk management**

99 Investment risks are diversified by allocating investments to different objects, different asset classes  
 100 and regions, in accordance with the allocation objectives. The allocation takes into account the  
 101 intercorrelations between the different asset classes, long-term prospective yield and the related  
 102 uncertainty. The risks are further specified in Appendix 2.

## 103 **8. Responsibility of investment activities**

104 Investment activities take into account the responsibility of investment activities (Environmental,  
 105 Social and Governance issues, ESG). In practice, the focus is on selecting asset managers who have a  
 106 good reputation for monitoring responsibility and who are committed to compliance with  
 107 responsibility standards. The Finance Board monitors the implementation of responsibility on a  
 108 regular basis.

109 AYY monitors and promotes the United Nations Principles for Responsible Investment, UNPRI). This  
 110 means that AYY and/or its asset managers

- 111 • take into account issues related to environmental responsibility, social responsibility and  
 112 governance (ESG) in investment analyses and decision-making processes, in addition to  
 113 economic analysis

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<sup>2</sup> Or the funds of the funds. For the sake of clarity, it is noted that investments are not made as direct object investments to shares or projects.

- 114 • report on responsible investment activities and their progress
- 115 • apply ESG issues in ownership practices and promote the responsibility of investments and
- 116 the related reporting
- 117 • promote the adoption of the principles of responsible investing in the investment sector and
- 118 collaborating with other investors.

119 Combating climate change and other environmental crises requires not only responsible investing  
 120 but also a conscious transfer of cash flows to low-carbon and ecological investments. Functioning  
 121 ecosystems and abundant natural resources are critical factors in a functioning economy.  
 122 Investments must have a guiding impact on combating environmental crises and managing global  
 123 warming. The objective of the investment policy is that:

- 124 • AYY has no direct investments in fossil fuels (oil, natural gas, coal, peat)
- 125 • Wherever possible, AYY invests in impact objects, provided that these objects are considered
- 126 to be included in the investment areas defined by AYY's investment policy. Impact
- 127 investments aim to achieve significant environmental and social benefits in addition to
- 128 return.

## 129 9. Investment instruments

130 The Student Union invests through funds. Money market investments can also be made in  
 131 commercial bills, deposit certificates or fixed-term deposits. In exceptional cases, other direct  
 132 portfolio investments may be made by the decision of the Finance Board. The reason for the  
 133 deviation must be justified and in the interests of the Student Union. If direct equity investments are  
 134 made (by AYY or through an asset manager), the existing market information and related party  
 135 regulations should be considered.

136 The Student Union invests in funds that invest in the following:

137 Money market investments:

- 138 • Short-term (term to maturity less than a year), euro-denominated debt securities with a good
- 139 credit rating or classified as such, such as commercial bills, deposit certificates or fixed-term
- 140 deposits.

141 Bonds:

- 142 • Euro-denominated Investment Grade bonds issued by governments or other public sector
- 143 institutions or private companies, or funds investing in the aforementioned, or funds using
- 144 equivalent investment products.
- 145 • High Yield and Emerging Market Debt: Corporate loans with a lower credit rating than
- 146 Investment Grade or bonds issued by emerging market governments and other public sector
- 147 institutions.

148 Equity investments:

- 149 • Listed domestic, European, North American shares or listed shares of other emerging
- 150 regions.

151 Alternative investment strategies:

- 152 • Equity investments (including various strategies such as buyout, growth, VC, etc.), hedge
- 153 funds, commodities, infrastructure investments or other unlisted investments.
- 154 • Funds of the funds are included in potential investment policy objects.

## 155 10. Limitations

156 Investment operations are limited mainly by allocation decisions. Allocation limits are presented in  
 157 Allocation section.

158 To ensure adequate risk diversification, maximum allocation limits are defined for individual liquid  
 159 assets. *The percentage* of the individual investment object of the **market value of the total**  
 160 **investment portfolio** may not exceed the following levels:

161 Shares:

- 162 • Direct shareholding of an individual company max. 5%
- 163 • Individual equity fund max. 20%

164 Interest rate investments:

- 165 • Bank deposit max. 50%
- 166 • An individual issuer of a bond maturing within one year max 20%
- 167 • An issuer of a public-sector group bond max 20%
- 168 • An individual issuer of an Investment Grade bond max 5%
- 169 • An individual interest or money market fund max 20%

170 Alternative:

- 171 • An individual fund investment of up to 5% of total student union portfolio value at the time of  
 172 the investment
- 173 • If the value of the holding increases significantly during the investment period, the Finance  
 174 Board will review whether it is appropriate risk management to try to get rid of the holding in  
 175 question or limit other similar investments.

## 176 **11. Asset monitoring, practical management and reporting**

177 Responsibility for monitoring lies with the Finance Board, which regularly reports to the Student  
 178 Union Board.

179 The Student Union's Financial Director regularly reports to the Finance Board in cooperation with  
 180 asset managers and a reporting consultant. The Financial Director also monitors the general  
 181 investment situation outside the meetings of the Finance Board.

182 **1 Practical organisation of asset management**

183 The Student Union may use external asset managers for asset management. Decisions on asset  
184 managers are made by the Finance Board. When selecting asset managers, the following should be  
185 taken into account:

- 186 • Asset managers must be reputable and solvent
- 187 • Asset management mandates are put out to tender on a regular basis
- 188 • Asset management is decentralised to at least two asset managers

189 Asset managers report to the Student Union on the status of the portfolio they manage.

190 In addition, the Student Union may use expert companies to compile overall reporting. The purpose  
191 is to combine all asset management portfolios into a single student union portfolio to be reviewed as  
192 a whole. Such a reporting service is selected by the Finance Board.

## 193 2 Reporting

194 The purpose of reporting is to assess the success of investments for the Student Union.

195 Asset managers produce monthly reports on assets they manage. In addition, a report covering the  
196 entire Student Union's investment assets is compiled from the asset managers' reports. These  
197 reports are submitted to the Finance Board.

198 Investment asset reporting consists of the following:

- 199 • Market value of assets by asset class
- 200 • Change in market value during the review period
- 201 • Earnings by asset class over multiple review periods
- 202 • Allocation at the point in time vs target allocation, and allocation history
- 203 • Risk indicators

204 In addition, comparisons with benchmark indices for portfolio and asset class are compiled where  
205 applicable. The Finance Board decides the composition of the benchmark indices in such a way as to  
206 reflect the structure of the student union assets as well as possible. The benchmark index in force at  
207 the time of deciding on this investment policy is described in Appendix 3.

208 The Finance Board may also request other information from the reporters in relation to the portfolio.  
209 The total reporting also reports the assets under the management of the various asset managers, the  
210 returns achieved by them and the risks in the portfolio.



## 211 APPENDIX 1: Investment policy for the investment of cash assets of real estate companies

### 212 1. Cash assets

213 The Student Union's majority-owned real estate companies have cash assets, the purpose of which  
214 is to finance future investments in real estate in accordance with regulations (such as ARA).

### 215 2. Objectives for investing cash assets and time horizon

216 The objective of investing the cash of real estate companies is to preserve capital and achieve a  
217 reasonable return in all market conditions. Target yield is a return equivalent to interest rates on  
218 money market instruments.

219 It is important to secure the preservation of capital and the opportunity to liquidate investments in  
220 a short period.

221 As a rule, the time horizon of investments is from six months to three years.

### 222 3. Investment instruments and risk management

223 The instruments of the money market fund definition of CESR (Committee of European Securities  
224 Regulators) and/or similar instruments in terms of their risk profile are used in the investing of cash  
225 assets of real estate companies.

226 Money market instruments must have an adequate short-term credit rating of at least A-2 (S&P) or  
227 P-2 (Moody's) given by a credit rating agency. In the absence of rating, the instrument is required  
228 to have an equivalent level assessed by the asset manager.

## 229 APPENDIX 2: MORE SPECIFIC INFORMATION ON INVESTMENT RISKS

230 Investment risks are managed in accordance with the general principles of investment activities and  
231 portfolio theory.

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- 233 • Stock market and interest rate market risk is limited through allocation limits.
  - 234 • Credit risk arises mainly through interest rate investments. The majority of interest rate  
235 investments should be in Investment Grade interest rate investments or money market  
236 investments with a good credit rating. Interest rate investments with a lower credit rating have  
237 a maximum allocation limit and are invested only on a diversified basis through funds.
  - 238 • Currency risk arises indirectly when investing in non-euro area securities. The operational risk  
239 associated with currency management is to be avoided by investing the majority of  
240 investments in euro-denominated investment products. As a rule, the currency risk included in  
241 fund investing is not hedged if the currency risk is part of the overall risk profile of the  
242 investment object.
  - 243 • Commodity market risk may arise primarily through alternative investments This risk is limited  
244 by allocation limits.
  - 245 • Liquidity risk is hedged at the level of the overall investment portfolio by keeping a sufficient  
246 proportion of assets in cash, short-interest instruments or funds for the operations of the  
247 Student Union (see section Allocation). In addition, other publicly listed asset classes (or funds  
248 investing in them) are also considered sufficiently liquid in terms of the Student Union's  
249 unexpected financial needs.
  - 250 • Counterparty risks are diversified, firstly, by using several asset managers to manage the  
251 Student Union's assets. Counterparty risks associated with investments are mainly included in  
252 fund investments if the fund uses derivatives. Direct derivative investments are not made for  
the direct ownership of the Student Union.

253 In addition, the monitoring of responsibility matters aims to limit the risks associated with ESG  
254 matters in investment objects.

255 **APPENDIX 3: Benchmark index**

256 A benchmark index basket determined by the Finance Board is used to assess the success of  
 257 investments. The aim is to achieve the best possible comparability with the allocation of this  
 258 investment policy (see the Allocation section).

259 Asset managers in asset management use the same benchmark index in their reporting.

260 The currently used benchmark index is as follows:

	Benchmark index	Index weight, %
Finland	OMX Helsinki Cap Index GI EUR	6
Europe	MSCI Daily Net TR Europe EUR	12
North America	MSCI Daily Net TR North America EUR	14
Japan, rest of the world	MSCI Japan (Daily TR EUR net)	4
Emerging market, share	MSCI Emerging Markets Daily Net TR	12
Money market	3-month euribor	6
Government bond	ICE BofA All Euro Gment index	8
Corporate bond IG	ICE BofA Euro Corporate TR EUR	10
High yield	ICE BofA BB-B Global High yield constr. (EUR hedged)	4
Emerging market, interest	ICE BofA Emerging Market external Debt sovereign Market index (EUR hedged)	4
Alternative	5% return	20

261 The Finance Board may decide on changes to the benchmark index basket if it improves  
 262 comparability and the appropriateness of the index. Such situations include changes in the above  
 263 indices or other perceived unsuitability with the comparability target. The index of publicly listed  
 264 liquid assets can also be distinguished as its own benchmark.