



Investment policy for Aalto University Student Union investments

I. Investment objective

The objective of Aalto University Student Union's (AYY) investment activities is to invest the Student Union's assets responsibly to ensure the financial sustainability of AYY's operations. The objective of investments is to support current operations and secure the Student Union's future. Therefore, a reasonable return and performance is sought for the 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 is to support and guide the Finance Board, asset managers, and Chief Financial Officer in their work.

2. Structure of investment assets and decision-making

The Student Union's assets include a) real estate assets intended to support AYY's operations and members, but not to generate investment income, and b) investment assets intended to support the student union operations (see the previous section). This policy focuses on investment assets that aim to generate returns to support the 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 for specific student groups or projects), as well as separate funds, such as the TTE Fund. The capital and returns of these funds must be kept separate in the accounts but invested as part of the Student Union's investment assets or otherwise with the Student Union's assistance, as decided by the fund's own decision-making body.

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

3. Decision-making

The duties 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. Within the Finance Board, there is an investment section responsible for preparing investment decisions and recommendations, as well as overseeing the implementation of AYY's current investment policy.

4. Time horizon of investments and need for liquidity

Investment activities are guided by the Student Union's need to use funds for operations. The aim is to secure the Student Union's operational needs by ensuring that bank accounts and/or credit limits always have a sufficient amount available for short-term operations, which is currently approximately EUR 1 million.

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

These time horizons are considered in the Allocation section of this investment policy.

5. Target rate of return

The target rate of return is defined as long-term return targets. In the short term, returns may fluctuate according to the risk profile of the investment portfolio. An investment horizon of 5–10 years is considered long term.

The long-term average annual real return target for investment assets¹ is 3.0 % p.a.

6. Allocation

A key tool in investment policy is investment allocation. The return target and risk appetite determine the allocation decision. AYY aims to achieve the return target by allocating investments to different asset classes based on their expected return and risk, ensuring the return target can be achieved through the selected allocation.

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

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

PUBLICLY LISTED LIQUID INVESTMENTS					80% OF AYY'S INVESTMENTS	Fluctuation margin 70-100%
Portfolio	Asset class	Weight of the class among the Publicly listed, %	Sub-class	Target weight of the sub-class, %	Fluctuation range %	
Publicly listed liquid investments	Equity risk	60	Finland	5	0-10	
			Europe	15	0-25	
			North America	30	0-40	
			Japan, rest of the world	5	0-10	
			Emerging market	5	0-10	
			Total weights	60		
	Debt risk	40	Money market	5	0-10	
			Government bond	10	0-15	
			Corporate bond	12,5	0-17	
			High yield	7,5	0-12	
			Emerging markets	5	0-10	
			Total weights	40		

ALTERNATIVE INVESTMENTS	20 % OF AYY'S INVESTMENTS	Fluctuation range 0-30 %
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The most significant difference between the investment classes is that the value data for Publicly listed liquid investments is obtained on a daily basis, while for Alternative investments, it is obtained less frequently. These reports differ, and the risk indicators are also different, among other things. Accordingly, the success of the investments is monitored based on various reports.

The allocation of investments is defined through minimum and maximum shares (the so-called allocation pipeline). Exceptions to the target allocation pipeline may be made in exceptional cases and for a justified, significant reason by a decision of the CFO advised by Finance Board, for example, if the value of the assets deviates from the target allocation due to market turbulence, but corrective sales or purchases are not necessary (since purchases would be unprofitable during market turbulence). The Student Union's

Representative Council and the Board are immediately informed of the allocation deviations. In this case as well, the aim is to return to the investment policy allocation as soon as it is reasonable and feasible in terms of investment activities.

The transition to Alternative investments is expected to take 2–5 years (due to time diversification and careful selection, among other things), so the amount invested in Alternative investments, and thus the allocation, may deviate from the target in the early years.

Alternative investments include funds², that invest in assets without a continuous listing or an organised market (for example, unlisted companies or private debt contracts). Funds may offer investors a redemption opportunity at certain times or upon request, but in principle, investments are made for the lifespan of the fund (typically 5–10 years). Some funds may be open-ended special mutual funds where units can be subscribed and redeemed multiple times a year. The Student Union considers funds of funds favourable, as they offer effective diversification. The Student Union's aim is to make alternative investments in a time-diversified manner, ensuring that funds returned from investments over time can be smoothly redirected into new investments. Investments are diversified across different asset types to achieve diversification benefits for the Student Union's overall portfolio. An individual investment class in Alternative investments must not exceed 50% of the basic allocation of Alternative investments at the time the investment is made.

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

In line with its main purpose, the Student Union's real estate assets are substantial. Accordingly, the Student Union considers that no direct investment in residential property, including related plots of land and other assets associated with residential property, is made in the portfolio of direct investment assets. However, Alternative investments may include funds that own different types of properties or plots.

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

7. Investment risk management

Investment risks are diversified by allocating investments to different targets, asset classes, and regions, in accordance with the allocation objectives. The allocation considers the intercorrelations between the different asset classes, long-term expected returns, and the related uncertainty. The risks are further specified in Appendix 2.

² Or funds of the funds. For clarity, it is noted that investments are not made as direct investments in stocks or projects, for example.

8. Responsibility of investment activities

The responsibility of investment activities (Environmental, Social and Governance issues, ESG) is considered in investment activities. In practice, the focus is on selecting asset managers with a good reputation for monitoring responsibility and a commitment to complying with responsibility standards. The Finance Board and CFO regularly monitor the implementation of responsibility.

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

- consider issues related to environmental responsibility, social responsibility, and governance (ESG) in investment analyses and decision-making processes, in addition to economic analysis
- report on responsible investment activities and their progress
- apply ESG issues in ownership practices and promote the responsibility of investments and related reporting
- promote the adoption of the principles of responsible investing in the investment sector and collaborate with other investors.

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

- AYY has no direct investments in fossil fuels (oil, natural gas, coal, peat)
- Wherever possible, AYY invests in impact targets, provided they fall within the investment areas defined by AYY's investment policy. Impact investments aim to generate significant environmental and social benefits in addition to returns.

9. Investment instruments

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

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

Money market investments:

- Short-term, euro-denominated debt securities with a maturity of less than one year and a good credit rating, or those classified as such, such as commercial papers, deposit certificates, or fixed-term deposits.

Bonds:

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

Equity investments:

- Listed domestic, European, North American, or other developed regions' stocks.

Alternative investment strategies:

- Private equity investments (including various strategies, such as buyout, growth, VC, etc.), hedge funds, commodities, infrastructure investments, or other unlisted investments.
- Funds of the funds are included in the potential targets of the investment policy.

10. Restrictions

Investment activities are mostly restricted by allocation decisions. Allocation limits are presented in the Allocation section.

To ensure adequate risk diversification, maximum allocation limits are defined for individual liquid assets. *The percentage share* of an individual investment in ***the total portfolio's market value*** must not exceed the following shares:

Stocks:

- Direct stock ownership in an individual company max. 5%
- Individual equity fund max. 20%

Fixed income investments:

- Bank deposit max. 50%
- Individual issuer of debt securities maturing within one year max 20%
- Issuer of a public-sector bond max 20%
- Individual issuer of an Investment Grade bond max 5%
- Individual bond or money market fund max 20%

Alternative:

- Individual fund investment not exceeding 5% of the Student Union's total portfolio at the time of the investment

- If the value of the holding increases significantly during the investment period, the Finance Board will assess whether it is appropriate risk management to divest from the asset or limit other similar investments.

II. Asset monitoring, practical management, and reporting

Responsibility for monitoring lies with the CFO and Finance Board, which regularly report to the Student Union Board.

The Student Union's Chief Financial Officer regularly reports to the Finance Board in cooperation with asset managers and a reporting consultant. The Chief Financial Officer also monitors the general investment situation outside the finance board meetings.

1§ Practical arrangement of asset management

The Student Union may use external asset managers for asset management. Decisions regarding asset managers are made by the CFO advised by the Finance Board. When selecting asset managers, the following should be considered:

- Asset managers must be reputable and solvent
- Asset management mandates are regularly put out to tender
- Asset management is decentralised to at least two asset managers

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

In addition, the Student Union may use expert firms to compile overall reports. The purpose is to consolidate all asset management portfolios into a single student union portfolio to be reviewed as a whole. The Finance Board selects such a reporting service.

2§ Reporting

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

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

Investment asset reporting consists of the following:

- Market value of assets by asset class
- Change in market value during the review period
- Returns by asset class over multiple review periods
- Current allocation vs target allocation, and allocation history
- Risk indicators

In addition, comparisons with benchmark indices for the portfolio and asset class are compiled where applicable. The CFO decides advised by the Finance Board the composition of the benchmark indices to best reflect the structure of the Student Union's

212 assets. The benchmark index in force at the time of deciding on this investment policy is
213 described in Appendix 3.

214 The Finance Board may also request additional information from the reporters in relation
215 to the portfolio. The total reporting also covers the assets managed by the various asset
216 managers, the returns achieved by them, and the risks within the portfolio.

217 **APPENDIX I: Investment policy on the investment of cash assets of real estate companies**

218 **1. Cash assets**

219 The Student Union's majority-owned real estate companies have cash assets intended
220 to finance future real estate investments in accordance with regulations (such as ARA).

221 **2. Objectives for investing cash assets and time horizon**

222 The objective of investing the cash assets of real estate companies is to preserve
223 capital and achieve a reasonable return in all market conditions. The target return
224 corresponds to the interest rates on money market instruments.

225 It is important to ensure the preservation of equity and the ability to liquidate
226 investments within a short period.

227 The investment time horizon is from six months to three years.

228 **3. Investment instruments and risk management**

229 In the investment of the cash assets of real estate companies, instruments that meet the
230 money market fund definition of CESR (Committee of European Securities Regulators)
231 and/or have a similar risk profile are used.

232 Money market instruments must have an adequate short-term credit rating of at least
233 A-2 (S&P) or P-2 (Moody's), assigned by a credit rating agency. If a rating is not
234 available, the asset manager must assess the instrument to have an equivalent level of
235 credit rating.

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APPENDIX 2: MORE SPECIFIC INFORMATION ON INVESTMENT RISKS

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

- Stock market and interest rate risks are limited through allocation limits.
- Credit risk primarily arises through fixed income investments. The majority of fixed income investments should be in Investment Grade fixed income investments or money market investments with strong credit ratings. Fixed income investments with lower credit ratings have a maximum allocation limit and should only be made on a diversified basis through funds.
- Currency risk arises indirectly when investing in securities outside the euro area. To minimize operational risk in currency management, the majority of investments should be in euro-denominated investment products. Currency risk in fund investments is not typically hedged if it is part of the investment target's overall risk profile.
- Commodity market risk may arise primarily through alternative investments. This risk is limited by allocation limits.
- Liquidity risk is hedged at the overall investment portfolio level by maintaining a sufficient proportion of assets in cash, short-interest instruments, or funds to support the Student Union's operations (see the Allocation section). Additionally, other publicly listed asset classes (or funds investing in them) are considered sufficiently liquid in terms of the Student Union's unexpected financial needs.
- Counterparty risks are diversified by using multiple asset managers to manage the Student Union's assets. The counterparty risks associated with investments are included in fund investments if the fund uses derivatives. Direct derivative investments are not made into the Student Union's direct ownership.

Additionally, the monitoring of responsibility matters aims to limit the risks associated with ESG issues in investment targets.

APPENDIX 3: Benchmark index

A benchmark index basket, determined by the CFO advised by the Finance Board, is used to assess the performance of investments. The goal is to achieve the best possible comparability with the allocation outlined in this investment policy (see the Allocation section).

Asset managers used in asset management use the same benchmark index in their reports.

The currently used benchmark index is as follows:

	Benchmark index	Index weight, %
Finland	OMX Helsinki Cap Index GI EUR	4
Europe	MSCI Daily Net TR Europe EUR	12
North America	MSCI Daily Net TR North America EUR	24
Japan, rest of the world	MSCI Japan (Daily TR EUR net)	4
Emerging markets, equities	MSCI Emerging Markets Daily Net TR	4
Money market	3-month Euribor	4
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)	6
Emerging markets, fixed income	ICE BofA Emerging Market external Debt sovereign Market index (EUR hedged)	4
Alternative	5% return	20

283 The Finance Board may decide on changes to the benchmark index basket if it improves
284 comparability and the appropriateness of the index. Such situations may include changes
285 to the above indices or other identified cases of unsuitability with the comparability
286 target. The index of publicly listed liquid assets can also be separated as its own
287 benchmark.
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