LUT University

LAB University of Applied Sciences

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INVESTMENT STRATEGY

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MORE INFORMATION:

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1. General investment principles

The investment activities of LUT Universities (Lappeenranta–Lahti University of Technology LUT and LAB University of Applied Sciences) are governed by the Universities Act, the University of Applied Sciences Act, LUT and LAB regulations, securities legislation, the investment strategy approved by the LUT and LAB boards, policy outlines by the investment committee, and obligations and generally accepted principles applying to public entities.

The investment capital of LUT Universities consists of fixed capital, donations placed in reserves, and liquid assets. In the planning of investments, attention is paid to the liquidity of both institutions and to securing cash reserves.

Investment activities aim to make LUT's and LAB's investments profitable – taking responsibility into consideration – to guarantee liquidity for daily payment transactions by making investments flexible, to increase financial stability at LUT and LAB in the long run, and to support LUT and LAB in implementing their strategies with the help of returns on investments.

The long-term (ten-year span) average annual profit target is 5%. Returns on invested capital will be used in accordance with board decisions for measures aiming for the strategic renewal of LUT and LAB (excluding dependent foundations), where funding needs vary annually. Portfolios outsourced to asset managers are taken care of solely through funds.

2. Responsibility and sustainable development

Responsibility and commitment to sustainable development are essential in LUT's and LAB's values and strategies. Responsible investment activities must support both institutions' goals concerning carbon-neutrality and the UN's Sustainable Development Goals (SDGs). LUT University aims to be carbon-negative by the end of 2024, and the LAB University of Technology aims to do so by 2030.

Both institutions require their asset managers to commit to the UN's Principles for Responsible Investment. Investments are chosen taking LUT's and LAB's responsible investment obligations into consideration and require environmental, social and governance (ESG) reporting in addition to conventional profit and risk indicators. Responsible investment takes into consideration eco-friendliness, the preservation of biodiversity, the promotion of the EU's climate targets, sustainable development, human rights, equality and responsible governance.

The responsibility risk and carbon footprint of LUT Universities must be below the agreed benchmark index and their trends declining. The objective is to select investment products that improve the ESG coverage of invested funds without compromising profit. LUT Universities favour the carbon handprint, which focuses on the institutions' own activities, and do not believe in paying carbon compensations. The amount of euros corresponding to the theoretical compensation can be used to support global responsibility through the activity of LUT Universities.

LUT and LAB do not invest in unethical or illegal business enterprises. Exclusion is carried out primarily by selecting suitable investment funds and monitoring the investment objects in them. LUT Universities may favour companies in a certain sector or companies that offer products or services that support sustainable development.

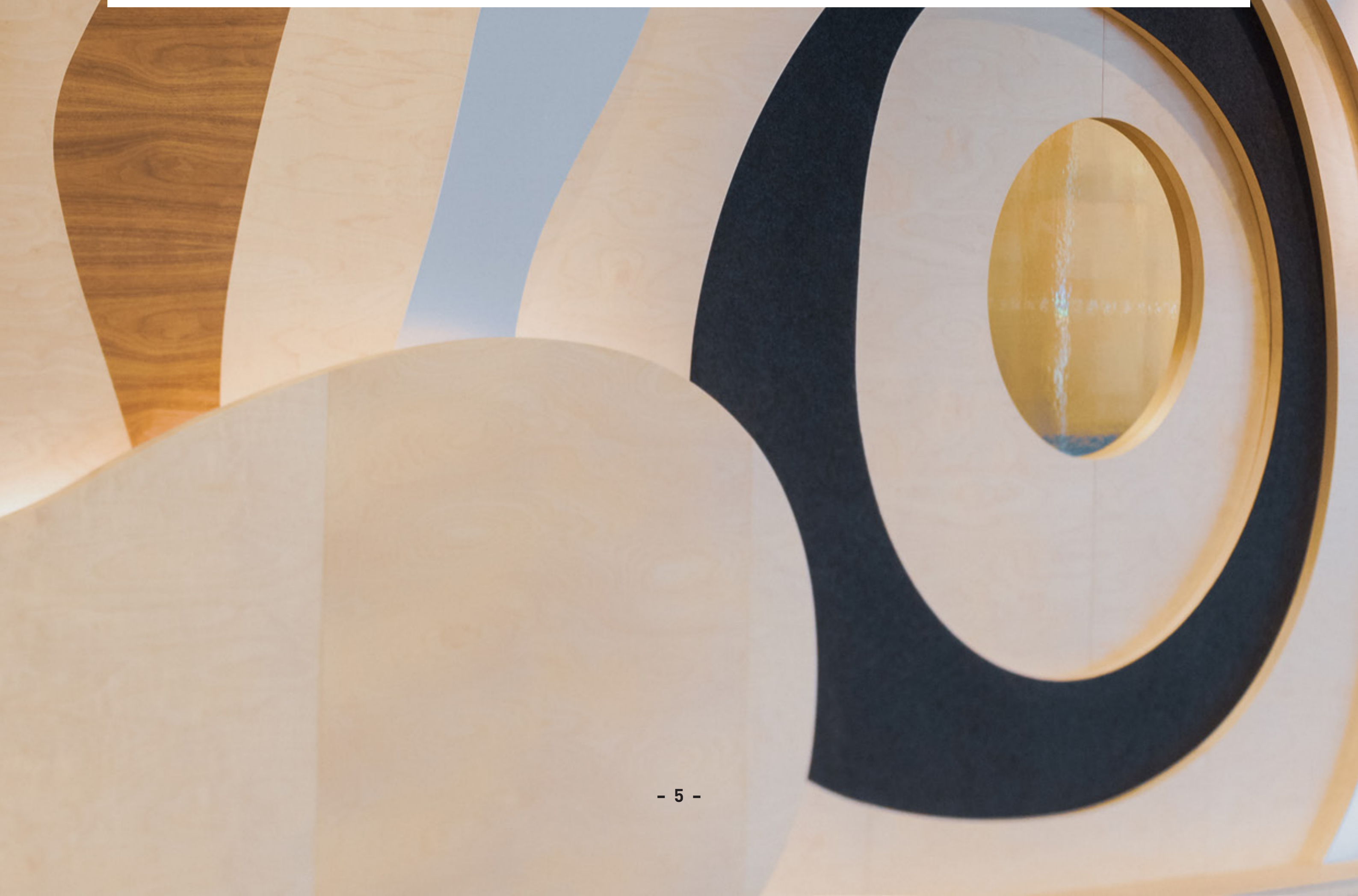
3. Investment risks and their management

A distributed portfolio is necessary for risk management and enabling profit. The profit target requires that the investment portfolio not contain only the lowest-risk investments. To reduce risks, the aim is to decentralise investments efficiently to different asset classes – geographically and within asset classes.

Investment portfolios protect the basic capital and cash flows from inflation in the long term, which means a long-term inflation hedge would be called for. LUT and LAB are considered to be long-term investors. Investments do not need to be liquidated when the market values of the shares are temporarily low due to, e.g., a recession or market imbalance.

The neutral allocation of the investment portfolio describes the ideal distribution of asset classes in neutral market conditions, taking targets and risk tolerances into consideration. The long-term returns of the investment portfolio are mainly explained by this neutral allocation. In situations where the profit outlook of a given asset class is considered unusual, deviations from the neutral allocation are permitted within the minimum and maximum limits. The total return of the investment portfolio and the returns on individual asset classes are compared to the neutral allocation benchmark index return.

Sufficient risk distribution also within an asset class is an important part of efficient portfolio management. No more than 10% of the capital may be invested in the stock of individual issuers (excluding countries with three AAA credit ratings). (Investments with a weight of over 5% may compose no more than 40% of assets.) A fund investment is always a decentralised investment, meaning that the 10% and 5% limits above do not apply to it.



The objective of investing entails that in the choice of investments, special attention should be paid to tradability on the secondary market. Liquid assets should compose at least 50% of investments. If an investment proves low-yield, it must be possible to sell in a way that enables directing the capital tied to the investment to more profitable investments.

No more than 75% of LUT Universities' assets may be invested in foreign currency denominated investment instruments. No assets are invested in derivative instruments.

LUT Universities make investments solely through established banks, asset management companies and fund management companies of a good standing and supervised by authorities. To distribute the risks related to counterparties and asset managers, as a rule, more than one asset manager is used. Asset managers regularly undergo a tender competition to ensure cost-efficient pricing.

Assets may only be invested in investment objects with a clear and transparent expense structure. Structured products, such as index-linked bonds, are not used. With regard to investment funds, LUT Universities may only invest in funds that comply with the UCITS directive or in alternative investment funds (AIF).

If the 12-month yield is under +0.5% but not less than -10.0%, the portfolio has reached the so-called monitoring zone. If the portfolio reaches the monitoring zone, the asset manager contacts the director of HR and finance.

If the 12-month yield is under -10.0%, the portfolio has reached the so-called state of alert. In such cases, the asset manager must contact the director of HR and finance immediately to explain the reasons for the situation and propose suitable measures to reduce risks and avoid further losses. The director of HR and finance calls the investment committee to a meeting when the yield reaches the state of alert.

4. Responsibilities and authorisations

The responsibilities and authorisations related to investments at LUT Universities are defined as follows:

BOARDS OF DIRECTORS

- approve the investment strategy and oversee investments
- appoint the investment committee's members

INVESTMENT COMMITTEE

- chooses asset managers
- decides on asset class allocations and the assets allocated to them
- decides the benchmark index for returns, asset managers, and ESG indicators

DIRECTOR OF HR AND FINANCE

- reports on investments and the development of returns and risks to the boards, rectors and investment committee.