LUT University

LUT Universities – investment strategy

1. General investment principles

1.1. General matters

Investments made by LUT Universities (Lappeenranta–Lahti University of Technology LUT and LAB University of Applied Sciences) are governed by the Universities Act, the Universities of Applied Sciences Act, LUT and LAB regulations, securities legislation, investment principles approved by the LUT and LAB boards, LUT and LAB strategies, and obligations and approved operating principles of public entities.

Investment capital and investment targets

Both institutions' investment capital consists of fixed capital, fundraising reserves and liquid assets. The planning of the amount of invested capital takes into account the requirements of the higher education institution's basic operations and the sufficiency of funding.

The most important objective of investment activities is to invest the institutions' capital profitably and responsibly, ensure daily liquidity for payments, increase the institutions' long-term financial stability and support the sustainability and responsible operation of the institutions by selecting suitable investment instruments.

The returns on invested capital will be used in accordance with decisions by the LUT and LAB boards primarily for strategic renewal (excluding dependent foundations). The need for financing such actions varies annually.

Responsibility and sustainability

The values and strategies of LUT and LAB highlight responsibility and commitment to sustainability. LUT and LAB take the UN's Principles for Responsible Investment and environmental, social and governance (ESG) criteria into account in all of their investments. Responsible investment activities must support both institutions' carbon neutrality targets, LUT University's target for carbon negativity by 2024, and the UN's sustainable development goals (SDGs).

LUT and LAB require their asset managers to comply with the UN's Principles for Responsible Investment. The choice of investment targets must take into account the requirements for responsible investment, conventional profit and risk indicators, and ESG reporting.

1.2. Investment risks and their management

The profit target requires that the investment portfolio does not contain only the lowest-risk investments.

The long-term role of investment portfolios in protecting basic capital and cash flows supports the pursuit of long-term inflation protection. The higher education institutions are considered to be long-term investors. The investments do not need to be liquidated when the market values of shares are temporarily low due to e.g. a recession or market imbalance.

1.2.1. RISKS - Decentralisation

To reduce risks, the aim is to decentralise investments efficiently to different asset categories, both geographically and within asset categories.

1.2.2. RISKS - Neutral allocation, maximum and minimum limits

The neutral allocation of the investment portfolio describes the ideal distribution of asset classes in neutral market conditions, taking the institution's 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 gross return of the portfolio and the return on different asset classes are compared in relation to the comparative index based on the neutral allocation.

1.2.3. RISKS - Limits specific to the issuer

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

1.2.4. RISKS - Liquidity

The objective of investing entails that in the choice of investments, special attention should be paid to tradability on the secondary market. The share of liquid investments should be at least 50%. 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.

1.2.5. RISKS - Investments in foreign currencies

The share of investments in foreign currencies may be no more than 50%.

1.2.6. RISKS - Derivatives

The institutions’ assets are not invested in derivative instruments.

1.2.7. RISKS - Objectives and limitations regarding partners

LUT and LAB make investments solely through established banks, asset management companies and fund management companies of a good standing and supervised by authorities.

The institutions are responsible investors and expect that their asset management partners have signed the UN’s Principles for Responsible Investment. In their investment activities, LUT Universities bear responsibility for sustainability by taking the sustainability and responsibility of investment objects into consideration. This responsibility entails especially that the sustainability impacts of individual investment objects are assessed before the investment decision and monitored continuously.

The responsibility of investment objects is assessed based on ESG criteria. An ESG assessment is included in the investment analysis alongside conventional financial indicators. LUT Universities may favour businesses that represent a certain industry sector or offer sustainable products or services.

LUT Universities will not invest in unethical or unlawful business enterprises. Such businesses are excluded primarily by selecting suitable investment funds and following the investment objects they own.

1.2.8. RISKS - Types of funds and expense structure of investments

Assets of LUT Universities 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 invest only in funds that comply with the UCITS directive or alternatively in AFI funds.

2. Decision-making and monitoring

2.1. Responsibilities and authorisations

The responsibilities and authorisations related to the institutions’ investments are divided between the following actors:

Boards of directors

- approve the investment strategy and oversee investments
- appoint members to the investment committee

Investment committee

- chooses asset managers
- decides on the allocations of asset classes and assets allocated into them
- approves the comparative index for revenues and asset managers

2.2. Implementation

The university's portfolio investments are primarily made through professional asset management service providers. To distribute the risks related to counterparties and asset managers, as a rule, at least two asset managers are used.

Investment decisions take responsibility into special consideration.

As a part of reporting, regardless of the possible measures ensuing from continuous quality management, asset managers are subjected to tender competitions at regular intervals to ensure cost-efficient pricing.

2.3. Reporting

The boards and investment committee receive monthly profit and risk reports.

The portfolio managers must include a regular ESG report on their own activity. Investment reporting services independent of asset managers must include the ESG viewpoint in their reports.