

# Aalto University endowment sustainability report

30.12.2022



Aalto-yliopisto

# Policy summary

The purpose of Aalto University is to create a sustainable future through research, education, and positive societal impact. In support of this mission, the endowment provides stable and predictable funding for the university's academic work to enable this impact.

Sustainability is central to long-term investing, and we evaluate the alignment of our investments with the goal of a sustainable, net-zero future. These considerations are integrated in all investment decisions, as we believe that non-sustainable investments will ultimately lead to worse outcomes and is counterproductive to both the financial outcome of the investments and the transition to a sustainable future.

The endowment is committed to investing in opportunities that promote a sustainable future, but the transition to this future is very complex and will take time. Instead of trying to guess far out to the future, we focus on aligning the investments with the ongoing transition while securing the University funding and the resulting positive impact.

Information regarding sustainability is fundamental information that complements traditional financial information, providing a more holistic picture on the risks and broad impact of any given investment. The endowment employs a broad range of investment strategies, each with different focus, horizon, and role in the portfolio. Hence the sustainability assessment and materiality of this information varies.

All our selected investment managers are required to attend to good governance, focus on transparency and disclosures and integrate sustainability and climate related aspects in their investment decisions, as applicable. When the strategy allows, engagement with companies is the preferred way to achieve positive impact. When investments are clearly unsustainable or against our values, they can be excluded from the portfolio.

In addition, we also look to promote sustainable practices in the investment industry by engaging in discussions, industry networks and complying with reporting standards. Aalto University is a member of FINSIF and a PRI signatory.

We are significantly reducing the carbon intensity of the portfolio in the medium term and target a carbon neutral portfolio in the long run. We also address transition related risks by striving to invest in beneficiaries of the transition and shy away from losers.

We include sustainability in all decision-making processes and seek to choose external investment managers that credibly integrate sustainability considerations.

# Sustainability objectives & targets

- 1. Reducing carbon intensity, a measure of risk related to GHG emissions, of at least 30-50% by end of 2022 compared to a global market index. Thereafter targeting a declining trend of carbon intensity.**
- 2. All external managers have integrated sustainability considerations into their investment process and act as active owners (as applicable).**
- 3. Continuously develop ways to add active investment strategies with positive contribution to both sustainability targets and return profile.**

The carbon footprint of the endowment is managed due to financial risks related to carbon emissions. The aim is to align the portfolio with the expected transition to a carbon neutral world. We acknowledge that actions taken to reduce the carbon footprint of the endowment have no direct impact on the actual global GHG emissions. Our long-term target is a carbon neutral endowment.

The carbon intensity of the endowment's public equity investments at the end of 2022 was 44% below global market index and has declined since 2020, please refer to the graph later in this document. In 2022, the endowment converted one of its existing global equity funds into a zero-carbon intensity fund. This is achieved by selling short the highest emitting companies within industries while controlling for other risk exposures. We aim to expand the carbon risk analysis and reporting to other asset class as emission data becomes available.

Investments with no credible transition path to a carbon neutral world or investments that are incompatible with our values have been excluded from passive investments. These are:

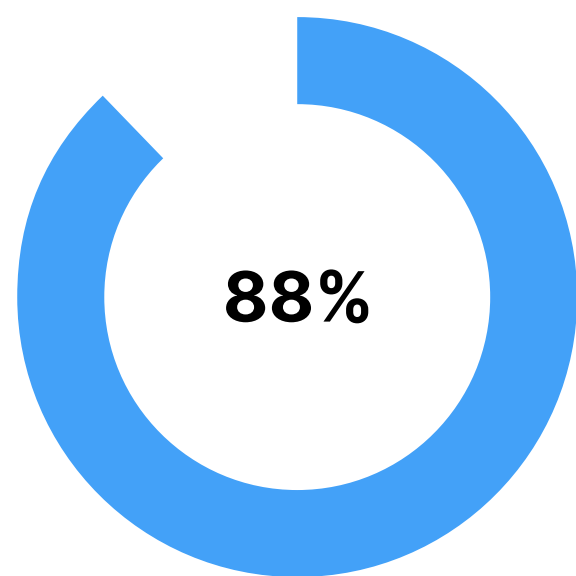
- Global norm violators measured by UN Global Compact (UNGC).
- Controversial weapons manufacturers
- Thermal Coal and Oil Sands (at a 25% revenue threshold)

Active managers may include such investments when in line with a credible sustainability policy. An increasing emphasis is also on utilizing opportunities born out of the transition. This includes investments with positive sustainability profiles and trends and positive contribution to the real economy transition on a forward-looking basis.

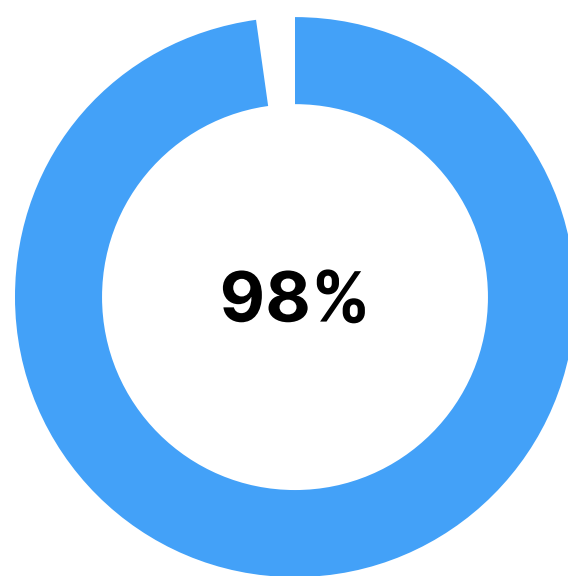
An example of forward looking information is net-zero commitments. We track net-zero commitments made by companies according to the Science Based Targets initiatives (SBTi's) Net-Zero Standard framework. The share of companies with net zero commitments in our public equity portfolio is 34% versus 23% for the public equity benchmark.

# Portfolio sustainability profile

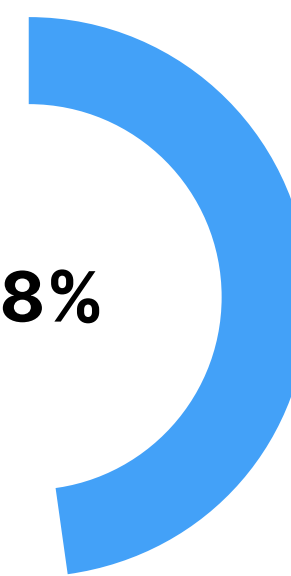
Of our external managers...



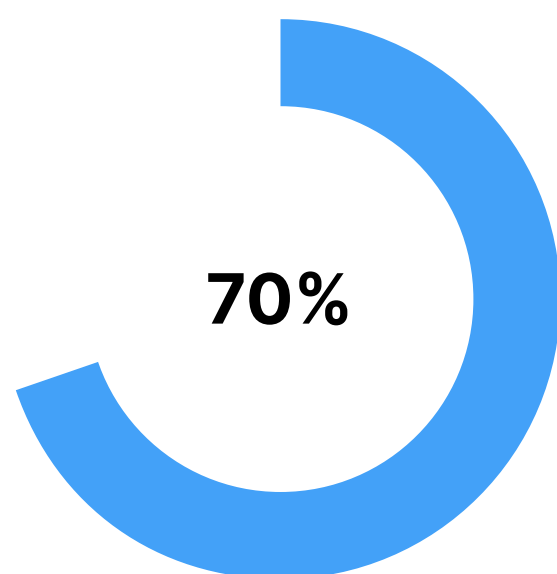
...have signed the Principles of Responsible Investment (PRI).



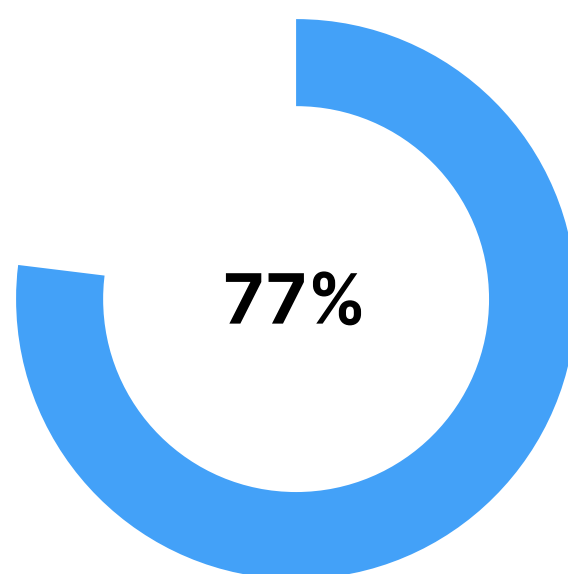
...have a dedicated Environmental, Social & Governance (ESG) Policy.



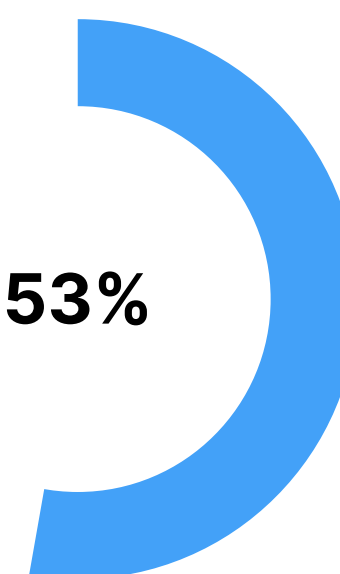
...explicitly target a positive sustainability profile.



...use negative Screening or have an Exclusions policy.



...have an Active Engagement Policy.

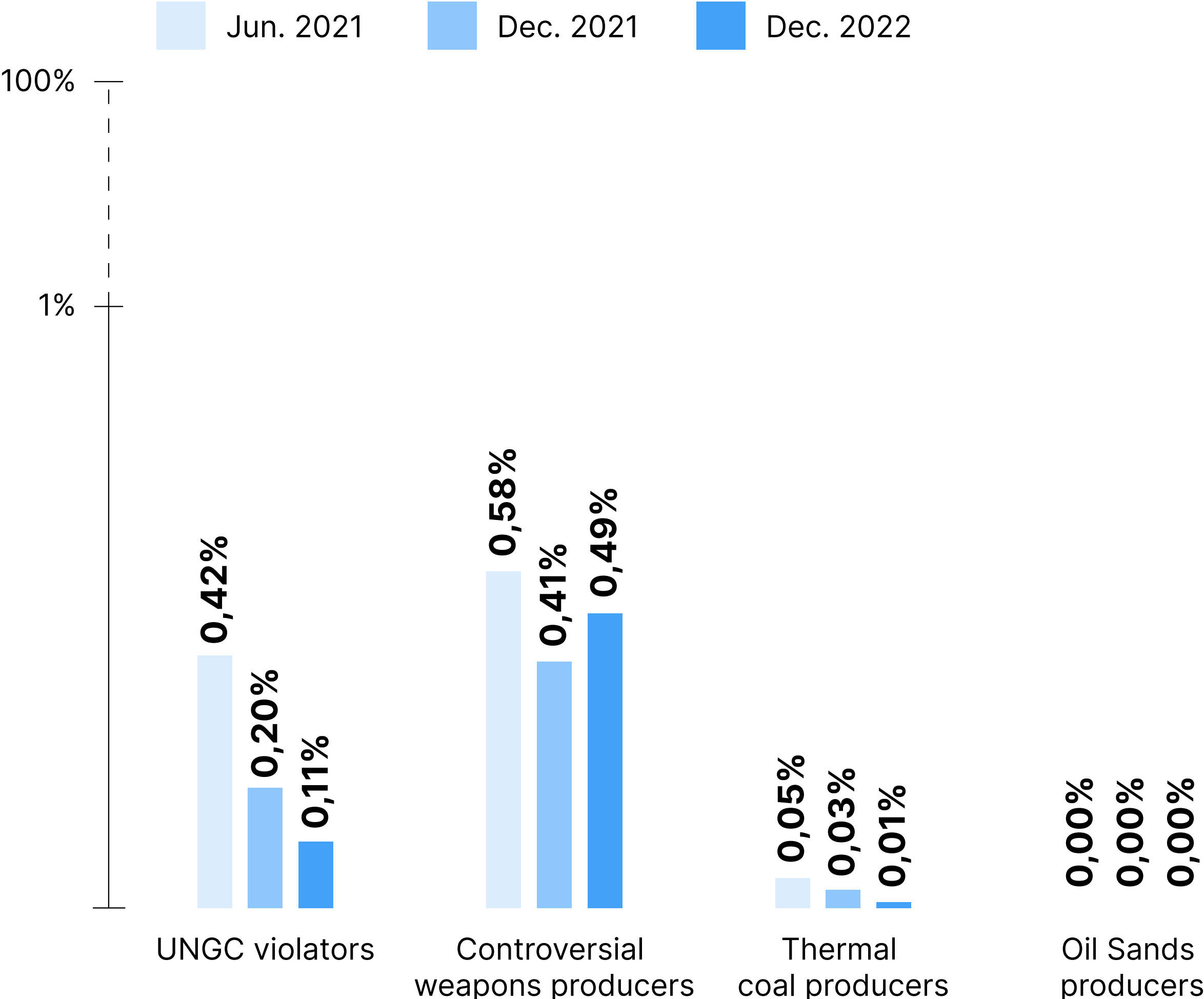


...are classified as Article 8 or 9 according to the EU Sustainable Finance Disclosure Regulation (SFDR).

Data collected by surveying all external managers. Figures weighted by invested capital.

# Norms violations and high sustainability risks

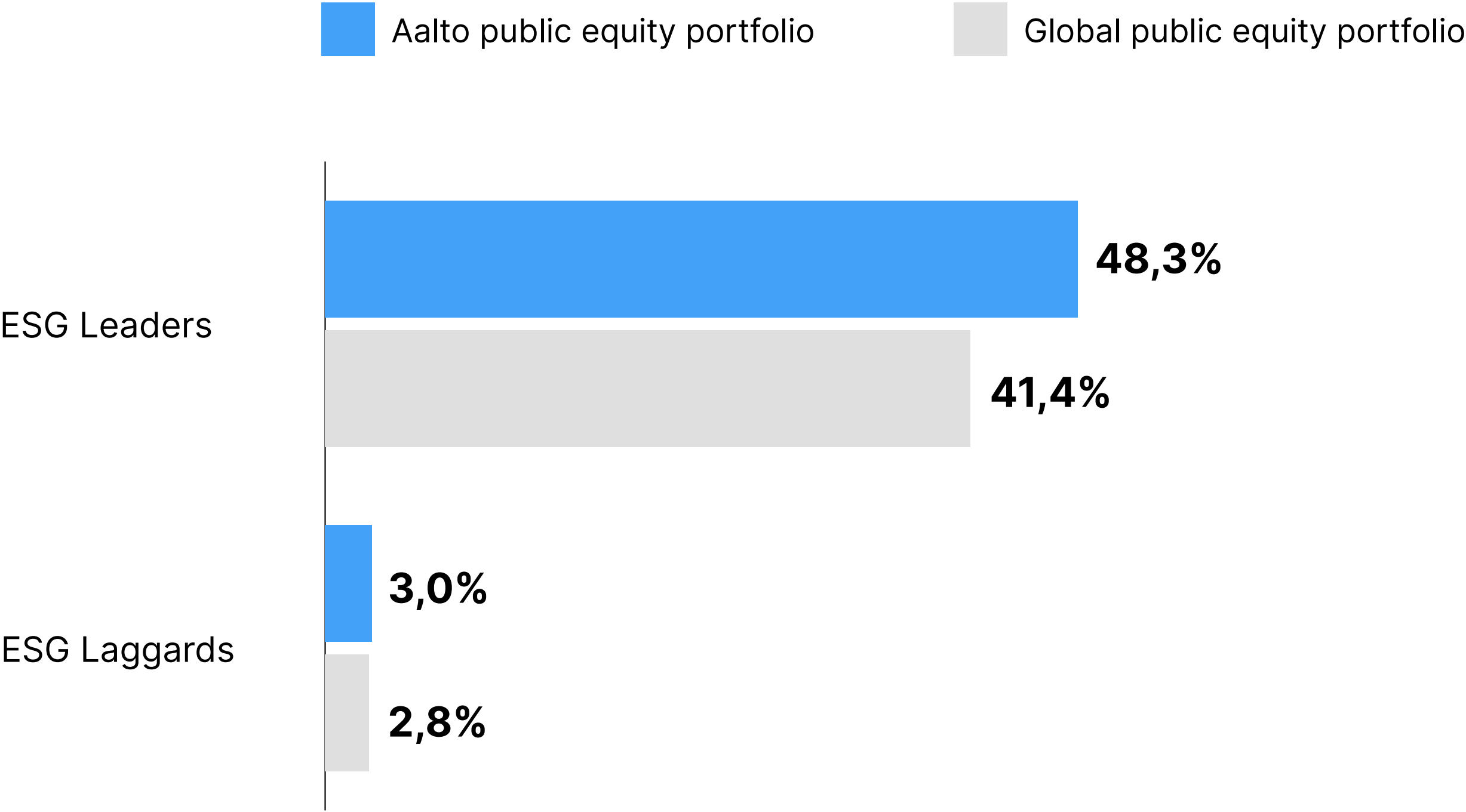
Holdings based screening of UN Global Compact violators (UNGC) and business involvement in high risk sectors. Figures as a % of capital in mutual funds and ETFs investing in listed corporate securities. 48% of the endowment portfolio covered.



# Public equity portfolio sustainability profile

ESG profile analyzed using external ESG rating and emissions data. Public equities cover 48% of the endowment portfolio.

## ESG rating profile



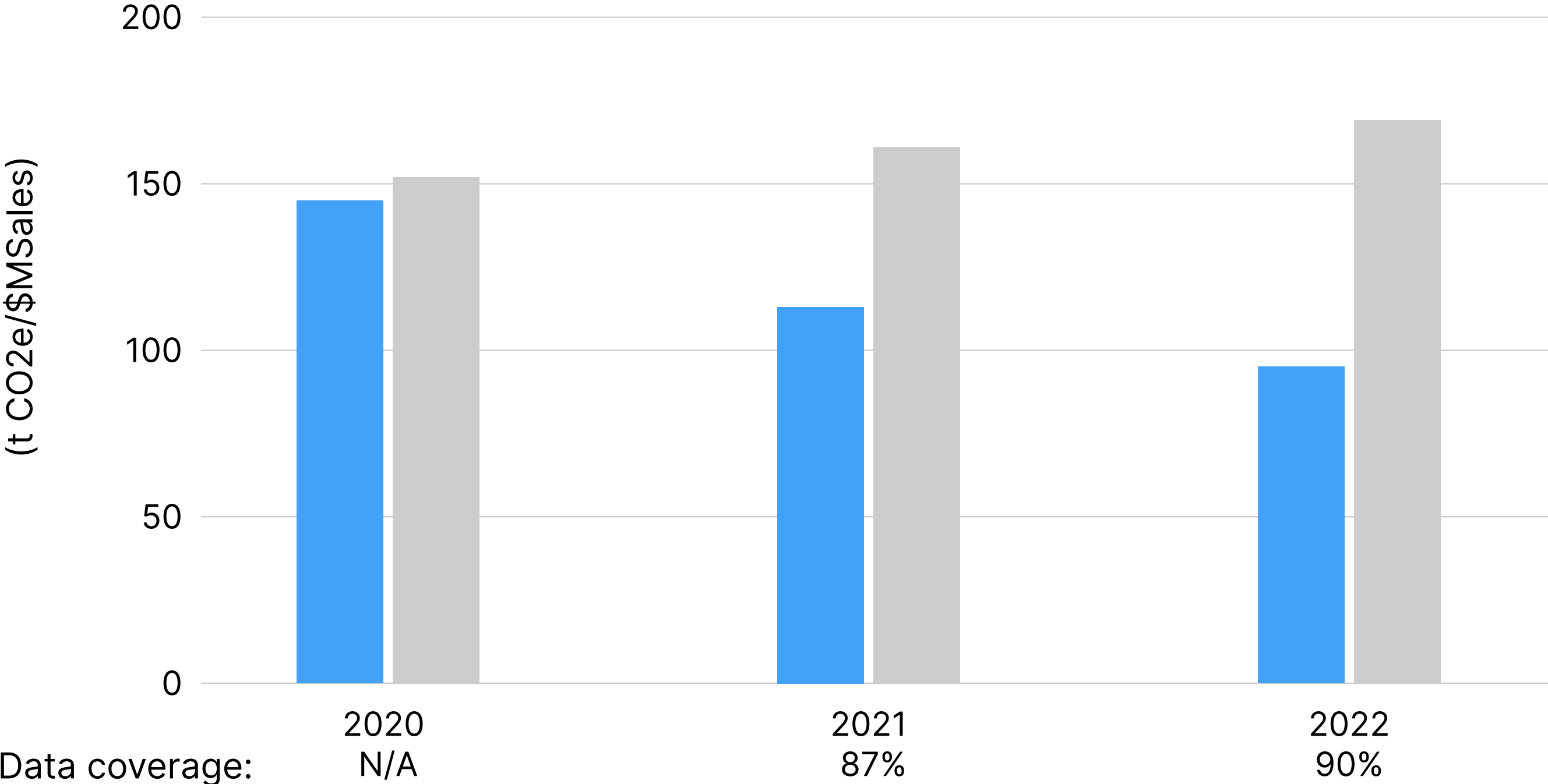
According to MSCI definition, Leaders are rated AAA or AA, Laggards are rated B or CCC. The data coverage for the Aalto Public equity portfolio is 83,7% and the figures have been rescaled to represent this sub-group. The benchmark coverage is 99.8%.

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ESG profile analyzed using external ESG rating and emissions data. Public equities cover 48% of the endowment portfolio.

## Weighted average carbon intensity

■ Aalto public equity portfolio      ■ Global public equity benchmark



# Sources

Sustainalytics, Bloomberg, MSCI, Aalto Endowment 2023 ESG Survey, Aalto Endowment Policy for Sustainable Investment, SBTi.

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