Investment regulations for Lund University’s jointly managed foundations

From its inception, Lund University has managed donated funds primarily intended for research and education at the University in accordance with the terms specified by the donors. These investment regulations concern donations that comprise foundations jointly managed with Lund University, in accordance with the Swedish Foundation Act (1994:1220).

These investment regulations concern overarching aims and rules for how the management of the foundations jointly managed with Lund University is to be carried out.

1. Scope of the investment regulations

These regulations apply to all foundations where the University Board has overall responsibility as manager with the exception of foundations that are independently managed due to specific investment regulations. For donations that comprise real estate foundations (defined as all foundations that regularly manage real estate and where the real estate comprises the main capital in the foundation) there are specific rules (in section 3.3.1 and 3.4).

2. Objectives

Pursuant to Chapter 2 Section 4 of the Foundation Act, the capital is to be acceptably invested. When assessing acceptable investment, several different factors are to be taken into account such as:

- security and risk diversification
- protection against nominal loss
- inflation protection
- flexibility
- ethical guidelines
The aim is for the foundations’ capital to be managed so that long-term positive growth is achieved in combination with positive yields.

3. Investment rules

3.1 Evaluation

All of the restrictions provided in the investment regulations relate to the market value of the assets, i.e. their value in relation to the current price, exchange and interest rates at each point in time.

3.2 Asset balance

At all times, the foundations’ total assets are to be allocated according to the following: (foundations with specific investment regulations are exempt from the asset balance below)

Interest-bearing securities, interest funds, reversed convertible securities, equity-linked bonds, structured investments with interest rate exposure and/or capital exposure and liquidity (see 3.4 and 3.5):

- normal weighting 50 % max 70 % min 30 %.

Shares and shares-related instruments (see 3.3):

- normal weighting 50 % max 70 % min 30 %.

3.2.1 Individual exposure

Financial instruments issued by an individual company or a company in a group are permitted to amount to a maximum of 15 per cent of the shares and/or interest portfolio.

3.2.2 Counterparty risk

Interest-bearing instruments and shares may only be traded by, and kept at, licenced banks and stockbrokers under the supervision of the Swedish Financial Supervisory Authority or equivalent authority abroad to minimise the counterparty risk.

3.2.3 Liquidity risk

The aim is for the majority of investments in the joint portfolio to be invested in liquid securities, i.e. those that can be sold within a standard number of payment days at market price.

3.2.4 Specific investment guidelines

An acceptable investment means, among other things, the following. Active investment of the foundations’ funds is to follow the guidelines outlined in the Global Compact and the OECD’s guidelines for multinational companies and ILO. The point of departure is that investments are to be made in securities in companies that respect the principles within the areas of human rights, labour law, environment and corruption, irrespective of where in the world they operate.
3.3 Shares

Investments may take place in the following:

- shares registered on a Swedish stock exchange or in unit trusts and share-related instruments such as debentures, convertible bonds, participating convertible bonds, bonds with options of subscription for new shares, warrants, partial or subscription rights

- common funds containing shares, according to the Investment Funds Act (2004:46)

- Swedish and foreign private equity

- shares registered on foreign (EU, Norway, Switzerland, USA and Japan) stock exchanges, which are under the supervision of the equivalent financial supervisory authority

3.3.1 Allocation between Swedish and foreign share investments and private equity

Of the assets in shares, a maximum of 30 per cent is to be comprised of shares listed on foreign stock exchanges and in foreign unit trusts.

Of the total assets, a maximum of three per cent (a maximum of six per cent for real estate foundations) is to be comprised of Swedish and foreign private equity. The criteria for acceptable investment (section 2. Objectives) also applies to investment in private equity.

3.3.2 Derivatives

Standard call options and non-standard call options, so-called OTC trading, may be used for the management of capital to a maximum of 30 per cent of the underlying portfolio value on condition that Nasdaq Inc., a licensed bank or stockbroker under the supervision of the Swedish Financial Supervisory Authority is the market maker and/or clearing institute. The aim of writing call options for the underlying portfolio is to create distributable yield as well as to reduce the risks in the share portfolio.

Lending of held securities may take place against valid security to a maximum of 70 per cent of the portfolio’s total shareholding.

Foreign currency derivatives may be used to secure the currency exposure in foreign holdings.

3.4 Interest-bearing investment

Investments may be made in the following interest-bearing securities issued by:

- the Swedish government and/or securities guaranteed by the government
- Swedish municipalities and counties or wholly-owned subsidiaries of the aforementioned parties
- banks and their wholly-owned credit market companies
- companies registered on Swedish stock exchanges, approved counterparties based on rules that apply to investments in shares concerning counterparties, with the limitations shown in the table below.

Maximum share (% of interest portfolio) per issuer and maximum share per category according to the following limits:

<table>
<thead>
<tr>
<th>Individual exposure</th>
<th>Share of portfolio</th>
<th>Share per issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedish government, government-owned companies and/or guaranteed by the government</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Swedish municipalities and counties and companies wholly-owned by them</td>
<td>75%</td>
<td>20%</td>
</tr>
<tr>
<td>Banks and their wholly-owned credit market companies with a minimum rating of A- (Standard &amp; Poor’s)</td>
<td>100%</td>
<td>25%</td>
</tr>
<tr>
<td>Company registered on a Swedish stock exchange with a K1/A- rating (Standard &amp; Poor’s)</td>
<td>50%</td>
<td>15%</td>
</tr>
<tr>
<td>Company registered on a Swedish or foreign stock exchange (in accordance with point 3.3) with a BBB- rating (Standard &amp; Poor’s) i.e. investment grade</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Company registered on a European stock exchange without a rating or with a rating lower than BBB-</td>
<td>15%</td>
<td>5%</td>
</tr>
</tbody>
</table>

The approved credit-rating agencies are Standard & Poor’s and Moody’s. Investments may be made for issuers without a rating in accordance with appendix 1.

Companies registered on a Swedish stock exchange refers to companies that are registered on the Stockholm Stock Exchange according to Nasdaq Inc’s classification of large- and medium-sized companies.

The aforementioned rating requirements apply at the time of investment. In cases where an issuer (bank, company or similar) receives a lowered ranking there are no requirements on the investment needing to be divested during the period.
Investments in interest funds may be made if these comply with the Swedish Financial Supervisory Authority’s (or equivalent foreign authority’s) requirements.

The jointly managed real estate foundations are permitted to invest 100 per cent of their interest-bearing investments in one individual bank and their wholly-owned credit market companies with a minimum A rating (Standard & Poor’s).

3.5 Structured products and hedge funds

Investments may be made in the following:

- structured products with underlying assets in Swedish and foreign securities
- hedge funds if these comply with the Swedish Financial Supervisory Authority’s (or equivalent foreign authority’s) requirements.

Classification of structured products and hedge funds in accordance with 3.2 An asset balance is to be carried out in accordance with underlying assets.

4. Allocation of responsibilities and organisation

4.1 Allocation of responsibilities

*University Board / manager*

- ultimate responsibility for foundations management
- appoints and delegates the management of foundations to a Donation Board
- takes decisions on investment regulations
- approves the annual accounts

*Donation Board*

- takes decisions on general matters concerning the direction of activities
- takes decisions on investments
- submits proposals for investment regulations
- approves instructions that outline the allocation of responsibilities between the Donation Board, the university director and the Endowment Administration office
- approves the approval and delegation rules for the ongoing activities

*University Director*

- responsible for the ongoing administration with the support of the Endowment Administration office

*Endowment Administration (Division of Finance)*
- carries out investments within the framework of the investment regulations
- compiles documentation for follow-up/performance

4.2 Decisions, documents and signatories

In a separate decision, the university director approves the delegation of authorisations.

5. External management duties

The Donation Board decides on management duties in accordance with the investment regulations. The managers are to be under the supervision of the Swedish Financial Supervisory Authority or equivalent authority abroad. Management duties that include ongoing decisions on investments taken by the manager, so-called discretionary investment management, are acceptable.

The managers’ ability to achieve a positive return on investment at acceptable risk as well as compliance with the investment regulations are to be regularly evaluated.


For questions concerning this document, please contact: Klemens Ganslandt, Division of Finance