# OUR INVESTMENT BELIEFS

VER is an off-budget fund and a long-term investor, whose investment objectives extend several decades ahead. Our investment beliefs reflect the conceptions underlying our investment policy and strategic planning. The investment beliefs are based on both financial theory and empirical observations. Our investment beliefs are general principles and always applied on a case-by-case basis.

**Strategic allocation of investments**

- Asset allocation determines the portfolio's return and risk level, and serves as a key tool in reconciling investment portfolio and strategic objectives.
- To achieve optimal outcome, it is necessary to analyse the risk return ratio of the entire portfolio instead of optimising sub-portfolios.
- As the expected returns on low-risk investments are low, the role of higher risk investments in attaining strategic objectives is emphasized.

**Long investment horizon**

- Investment decisions are, above all, based on expected long-term returns and portfolio performance is evaluated especially over a longer period of time.
- A long investment horizon makes it possible to have exposure to compensated risk factors and earn returns exceeding those of more low-risk investments in the long run.
- By investing in higher risk assets, it has been accepted that the volatility of the portfolio increases and that returns may be negative from time to time.
- Compensated risk premiums utilised in portfolio are for example liquidity, equity, credit risk and maturity premiums.

**Diversification and risk**

- By diversifying the portfolio investments into various asset classes and in terms of maturity, geographic area, business sector and currency, it is possible to improve the risk return ratio of the portfolio.
- An increase in the number of asset classes offers diversification benefits in most market conditions, although the diversifying effect may be limited in the event of major systemic crises.

- The nature and risk of investments is determined not only by the asset class but also by factors independent of asset classes.
- Risks and correlations between asset classes vary geographically and change over time, which underlines the importance of ongoing effective monitoring and management of risks.
- Risk numbers alone do not reflect the overall risk level of the portfolio; effective risk management calls for both a qualitative and quantitative analysis.
- Investment returns do not follow a normal distribution and vary by asset class.

**Efficiency of the market and active portfolio management**

- In general, markets are efficient; however, market efficiency varies by asset class, geographic area and market size.
- Liquid and mature markets are normally more efficient than others.
- To some extent, markets are mean reverting, which may justify deviating from strategic allocation.
- In the long term, security prices are determined by the general financial performance of the economy and companies, but in the short term, sentiment and investor behaviour may make a considerable difference.
- Perceived market efficiency is an important consideration when choosing between passive and active portfolio management.
- New markets are often less efficient and it may be profitable to be involved in the early stages.

**Sustainability**

- Sustainable investing reduces the negative externalities of our investments on nature and the social environment in the long run.
- A careful assessment of environmental, social and governance (ESG) issues in making investment decisions reduces risks and creates new investment opportunities.
- By staying current on ESG developments, it is possible to foresee changes in regulation, legislation and investor behaviour.
- A prerequisite for efficient sustainable investing is that ESG information is integrated into the investment processes and decisions.

**Personnel**

- Efficient investment operations call for qualified, motivated and sufficient personnel as well as up-to-date tools.
- Continual skills development through versatile work duties and training is essential to successful investment activity in the long term.