VER'S INVESTMENT BELIEFS

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

Strategic allocation of investments

- The allocation of investment by asset class determines the portfolio's yield and risk level, and serves as a key tool in reconciling VER's investment portfolio and strategic objectives.
- To achieve an optimal outcome, it is necessary to analyse the yield-to-risk ratio of the entire portfolio instead of optimising sub-portfolios.
- When the expected returns on low-risk investments are low, the role of more risk-filled investments in attaining strategic objectives is highlighted.

Long investment horizon

- Investment decisions are, above all, based on expected long-term returns, and success in investment activities is measured over a longer period of time.
- A long investment horizon makes it possible to increase exposure to compensated risk factors and earn returns exceeding those of more low-risk investments in the long run.
- When investments are made in more risk-filled assets, VER accepts an increase in the volatility of the portfolio and temporary negative returns.
- The risk premiums utilised in portfolio investments include liquidity, share, credit risk and maturity premiums.

Diversification and risk

- By diversifying the portfolio investments into various asset classes in terms of time, geographic area, business sector and currency, it is possible to improve the yield-to-risk 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 tracking and management.
- 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 according to asset class.

Efficiency of the market and active portfolio management

- In general, markets are efficient; however, market efficiency varies according to asset class, geographic area and market size.
- Liquid and mature markets are normally more efficient than others.
- To some extent, markets are average-oriented, which may justify a departure from standard allocation.
- In the long term, security prices are determined by the general financial performance of the economy and businesses, 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 VER's investments on nature and the social environment in the long run.
- Consideration of material ESG factors helps to identify long-term sustainability risks.
- By staying current on ESG developments, it is possible to foresee changes in regulation, legislation and investor behaviour.

- Effective responsible investing calls for the integration of ESG information into the investment processes and decisions as well as influencing portfolio companies and funds alone and in collaboration with other investors.

Personnel

- Efficient investment operations call for qualified, motivated and sufficient staff 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.