

TEOSTO FUND INVESTMENT POLICY

This document contains the principles governing the Teosto Fund's investment policy. This investment policy was approved at a meeting of the Teosto Board of Directors on 1 February 2017 and the Association's Annual General Spring Meeting on 26 April 2017.

1 Background

1.1 The framework established by the Teosto Fund rules*

Purpose of the Fund

The purpose of the Fund is to maintain and secure the continuity of funding available for Teosto's activities to promote the Finnish musical arts and the general conditions that underpin it in a situation where the funding sources available at the time of the Fund's inception and relating to the promotional activity, are due to be reduced or eliminated.

Fundraising activities

The Fund may raise capital through fees, which

- Teosto may deduct from the royalties paid to rightholders in accordance with the client agreement concluded with them
- may be used for the purpose of promoting Finnish music as set out under Article 2 of the Fund rules
- Teosto may raise for social, cultural or other purposes in line with agreements concluded between Teosto and international copyright management organisations or Teosto and other rightholders,
- as well as any other funds designated for the purpose of promoting Finnish musical arts and the general conditions that underpin it and are allocated to the Fund.

The Fund may additionally raise funds through

- donations, bequests, grants and other forms of financial aid,
- merging other funds with it,
- income derived from property, stocks and shares or other movable assets or the sale of such assets and
- other funds which are designated for activities that serve the purpose of the Fund.

Distribution of funds

The Fund's assets will be distributed for the purpose of promoting Finnish musical art and the general conditions that underpin it, as proposed by Teosto's Board of Directors and in line with the decisions taken at the Teosto General Meeting. Teosto's Board of Directors may appoint a separate working group or working groups for the purpose of preparing and presenting proposals to the Board on how the Fund's assets should be distributed. Any such working group must be able to demonstrate sufficient expertise in financial management and cultural matters.

Powers relating to the Fund

Teosto's General Meeting determines the Fund's operating principles and the manner in which the funds will be distributed. Teosto's Board of Directors is responsible for decision-making on revenue raising activities and investing the Fund's assets as well as the management of the Fund's administrative aspects. Teosto's Board of Directors will present a plan setting out future activities as well as a report on the previous year to the Teosto general meeting.

The Fund's assets must be held separately from other Teosto funds. The Fund will be managed by a treasurer appointed by Teosto's Board of Directors. The funds must be managed in a manner in line with the purpose of the Fund and in accordance with the investment plan adopted by Teosto's Board of Directors annually. Teosto's Board of Directors may also issue more detailed guidance and instructions on the management.

2 Authority and responsibilities

Teosto's General Meeting is responsible for

- Determining the Fund's investment principles and the manner in which the funds will be distributed.
- Accruing funds as proposed by the Board of Directors.

Teosto's Board of Directors is responsible for

- bringing forward proposals for raising and distributing funds to Teosto's General Meeting.
- authorising the investment policy subject to annual review.
- the organisation of investment activities.
- the monitoring of investment activities.
- making decisions on the use of additional working groups to manage the Fund.

Teosto's Investment Committee is responsible for

- assisting the Board of Directors and preparing investment-related matters for presentation to the Board of Directors.
- approving individual investment targets.

The management (the CEO and CFO) is responsible for

- preparing and presenting the Fund's investment policy to the Board of Directors.
- presenting investment proposals in line with the investment policy for approval by the Investment Committee.
- the practical implementation of investment activities, monitoring and reporting.

The National Funds Working Group is responsible for

- presenting to the Board of Directors its views on the Fund's policies and the allocation of funds to recipients.
- preparing and putting forward proposals to Teosto's Board of Directors on how funds are allocated.

3 General investment principles

The investment strategy will be informed by a long-term approach, which will ensure that the Teosto Fund is positioned to withstand short-term fluctuations in value.

- The key allocation decision in terms of long-term investment will be taken in view of the specialised nature of the Fund. The allocation decision will involve a long-term commitment, provided that no significant changes are expected in the long-term profit forecast (10 years).
- The plan is to take an active approach to fund management but not to engage in active trading.
- Index investing is prioritised when achieving added value through active asset management is unlikely.
- Compliance with the principles of responsible investment, as set out in the United Nation's Principles for Responsible Investment, is required of all fund managers.

Summary of the Teosto Fund's investment policy

- Short-term shifts in value will not automatically trigger a re-evaluation of the investment decisions except in the event that the long-term investment prospects are considered to have changed significantly and permanently. The shifts in value will be monitored but with a patient approach.
- The liquidity of investments is not as important a criteria for long-term investment as it is for short-term investment activity. Increasing the value of the Fund is the key objective for investment activity while the Fund is being established. Illiquid investments, by default, offer better returns than liquid investment. Cash flow is kept under review and will be used to inform the investment policy.

3.1 Setting the target rate of return, risk and investment efficiency

Setting the target rate of return

- The target rate of return is based on the conservative growth of the real value of the Fund's capital over the long term.
- The target rate of return is inflation + 2.0 percentage points.
- The target rate of return will not be linked to the required cash flow until the Fund's activities are based on an annual revenue.

Determining, measuring and recognising risk

- The greatest risk faced by the Fund is the potential loss of capital.
- A secondary risk is a reduction in the real value of the capital if the returns are lower than the rate of inflation.
- In terms of long-term development, investment volatility represents a significantly lower risk than in short-term investment activity.

The Teosto Fund's capacity to withstand volatility is based on the Fund's long-term investment horizon (10 years). In addition, the accruals to the Fund from national assets means that time diversification takes place automatically. It will also be possible to provide a reasonably accurate estimate of the cash flow required.

Evaluating investment outcomes

- Long-term change in the investment market value is the key evaluation criteria used to inform investment activity.
- The accounting results, strongly affected by short-term volatility, will be a secondary factor for informing our investment activities.
- The results of the investment activities will be assessed not only based on the change in long-term market value, but also against benchmark indices on a fund manager-specific basis.

4 Investment plan

4.1 Aims and principles

The aim of the investment activities is the conservative growth of capital over the long term. A reasonable risk of fluctuation in value is accepted in pursuing this aim. The long-term target rate of return is inflation + 2.0 percentage points and the expected fluctuation in value (volatility) is approximately 7.0 per cent.

The key conditions governing investment activities are derived from the asset allocation principles. The aim of asset allocation is to ensure the sufficient diversification of investments between different asset classes as well as the achievement of the long-term target rate of return.

Summary of the Teosto Fund's investment policy

An allocation analysis to examine the investment portfolio's optimal risk/return ratio must be conducted annually.

In addition to diversification based on asset classes, the risk of the investment portfolio will be managed by diversifying the investments with respect to geographical regions and fund managers. Further considerations to be taken into account in making investments include their marketability, interest rate risk, credit risk, currency risk and country risk.

4.2 Investments and their allocation

The normal allocation of the Teosto Fund's assets shall be as follows:

Interest-bearing instruments (Standard weighting 30%)

- Short-term interest instruments: Bank deposits, money market investments and funds that invest in these.
- Bonds: Bonds issued by governments, municipalities and corporations as well as funds that invest in such instruments.
- These may include investments with a good credit rating, bad credit rating or no rating.

Equity investments (Standard weighting 40%)

- Publicly listed shares and funds that invest in them.

Alternative investments (Standard weighting 30%)

- Real estate, land, forests.
- Non-UCITS funds.
- Unlisted shares.
- Funds that invest in the above.

Compliance with the UN Principles for Responsible Investment is required of all fund managers and investment targets.

4.3 Forecasts and calculations to support investment decisions

All investment decisions are informed by an analysis taking account of the expected returns and risks implicit in the different investment options. To this end, we will:

- Assess the forecasts and assumptions made by fund managers regarding the global economy.
- Analyse investment targets and their expected returns across different investment periods.
- Assess the prospects of the different options based on market expectations and levels of assumed risk.
- Draw conclusions as to what extent these analyses will drive the need to adjust the investment portfolio in relation to the asset allocation.

5 Use of Fund assets

The Fund has set an objective of making EUR 2 million available annually for the purpose of promoting its aims. The target sum will be achieved through the so-called national funds deductions and through the Fund's investment activity.

Teosto's Board of Directors recommends that returns-based distribution be calculated on long-term real returns. This ensures that distribution will not dilute the Fund's capital.

Summary of the Teosto Fund's investment policy

6 Monitoring and reporting

Monitoring investment objectives

- The CFO is responsible for the ongoing monitoring of the fund managers and for disseminating guidance in line with the Fund's investment policy to them.

Evaluating investment outcomes

- The CFO will report to Teosto's Board of Directors 2–4 times annually in line with the Board's wishes.
- Teosto's Board of Directors will present the results to the Teosto General Meeting annually.
- Teosto's General Meeting will make decisions based on proposals issued by the Board of Directors.

The investment policy: authorisation, updating and dissemination

- The investment policy will be reviewed at least once a year at a meeting of Teosto's Board of Directors.
- Teosto's Board of Directors will present the investment policy to Teosto's General Meeting.
- Teosto's General Meeting will make decisions based on the general investment principles.