

## **BSE Endowment Investment Policy**

Current version: November 2021

### *Principles of the Investment Policy of the Endowment*

As per the BSE regulations, the following applies:

- The Endowment is perennial, and all contributions to the Research Endowment Fund need to preserve their actual value over time, and this is considered the Principal Endowment
- The Principal Endowment cannot be spent.
- Any returns and revaluations on the investment of the Endowment Fund beyond the value of the Principal Endowment are considered the Endowment Surplus.

Given these regulations, the following three types of capital are distinguished:

- Nominal contributions to the Endowment
- Investment income generated to maintain the real value of the contributions (CPI-reservation)
- Endowment Surplus

Principal Endowment	Contributions
	Returns for CPI compensation
Surplus	Returns for spending

*Endowment Policy – Diversification and other requirements*

<b>Diversification and other requirements –</b>			
Percentages are expressed as the maximum percentage of total endowment			
	<b>Asset Class</b>	<b>New Diversification limitations proposal</b>	<b>Current criteria for reference</b>
A	Sovereign Government Bonds	OECD countries: no limits Emerging markets: 8% Single issuer OECD: 20%, Except for >=AAA, 100% Single issuer emerging market: 5%	OECD countries: no limits Emerging markets: 8% Single issuer OECD: 20%, Single issuer emerging market: 5%
B	Bank deposits	No limits	Same criteria
C	Structured Products	30%	30% for the combination of class C and D, where class C was IOU of Financial Institutions and debt of financial Board member institutions
D	Corporate Bonds	<b>50%</b> <b>17.5%</b> in High Yield (35% of corporate bonds) One single issuer: 2%	same criteria
E	Absolute Return Collective Investment Schemes	<b>20%</b> Single Fund: 5%	<b>15%</b> One single issuer: 5%
F	Public and liquid equity securities	Maximum of 30% of total AUM One single issuer: 2%	2x surplus with a maximum of 40% One single issuer: 2%

G	Alternative (illiquid) investments	<b>20%</b> Single subcategory: 10% with the exception of VC Funds: 5% Single Fund: 5%	<b>20%</b>
	Currency	Maximum 30% in other currencies outside Euro.	Only financial products expressed in euros are accepted for the contributions to the endowment.
	Diversification between financial institutions	Each board member should at least have a share of 25%.	Same criteria

*Endowment Policy – Asset Classes and Quality*

<b>Quality and timing requirements for investments of the endowment</b>			
	<b>Asset Class</b>	<b>Minimum quality</b>	<b>Old criteria for reference</b>
A	Sovereign Government Bonds	OECD Minimum Rating: A Emerging markets (MSCI Emerging Markets Index)	Emerging markets (MSCI Emerging Markets index)
B	Bank deposits	Preferably board members Minimum entity rating for those entities that are not board members: A	Preferably board members No minimum quality
C	Structured Products & Derivatives	Structured Products: Decomposed to its basic structure. Quality limits applied accordingly to underlines decomposition (for example, Bond Guarantee + Equity Optionality) Derivates allowed for Investment (no leverage) & Hedge purposes but only from official main listed Exchanges.	Contributions part: 90% guaranteed capital, Mid-Cap, 50% barrier Returns-part: 90% guaranteed capital, Mid-Cap, 65% barrier

D	Corporate Bonds	The rating of the corporate bonds is according to S&P's criteria. In the case of a downgrade of a corporate bond from investment grade to non-investment grade, a period of 6 months is allowed to regularize the indicators in this asset class. If more time is needed, the Economic Committee's approval is needed.	Same criteria
E	Collective Investment Schemes	Maximum 8% volatility objective of the Fund	Contributions-part: $\leq 6\%$ volatility average portfolio, according to the prospectus.  Returns-part: $\leq 12\%$ volatility average portfolio, according to the prospectus
F	Public and liquid equity securities	All Market Capitalization, except not allowed for below €300M Market Cap	Returns-part: Mid-Cap.
G	Alternative (illiquid) investments	Limited to <ul style="list-style-type: none"> <li>• direct leasing/lending</li> <li>• private debt</li> <li>• infrastructures</li> <li>• Private Equity / Venture Capital via single Funds or "Fund of Funds"</li> </ul> (No real estate, or student loans)	Limited to <ul style="list-style-type: none"> <li>• direct leasing/lending</li> <li>• private debt</li> <li>• infrastructures</li> </ul> (No real estate, private equity, or student loans)
	Currency	None-G11 currencies limited to 10% of portfolio  G11 currencies are the following: AUD, CAD, EUR, JPY, NZD, NOK, GBP, SEK, CHF, USD, DKK	No minimum quality