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City of Espoo, Investment Funds

Placerings- och finansieringsstrategier för offentlig sektor
26 September 2011



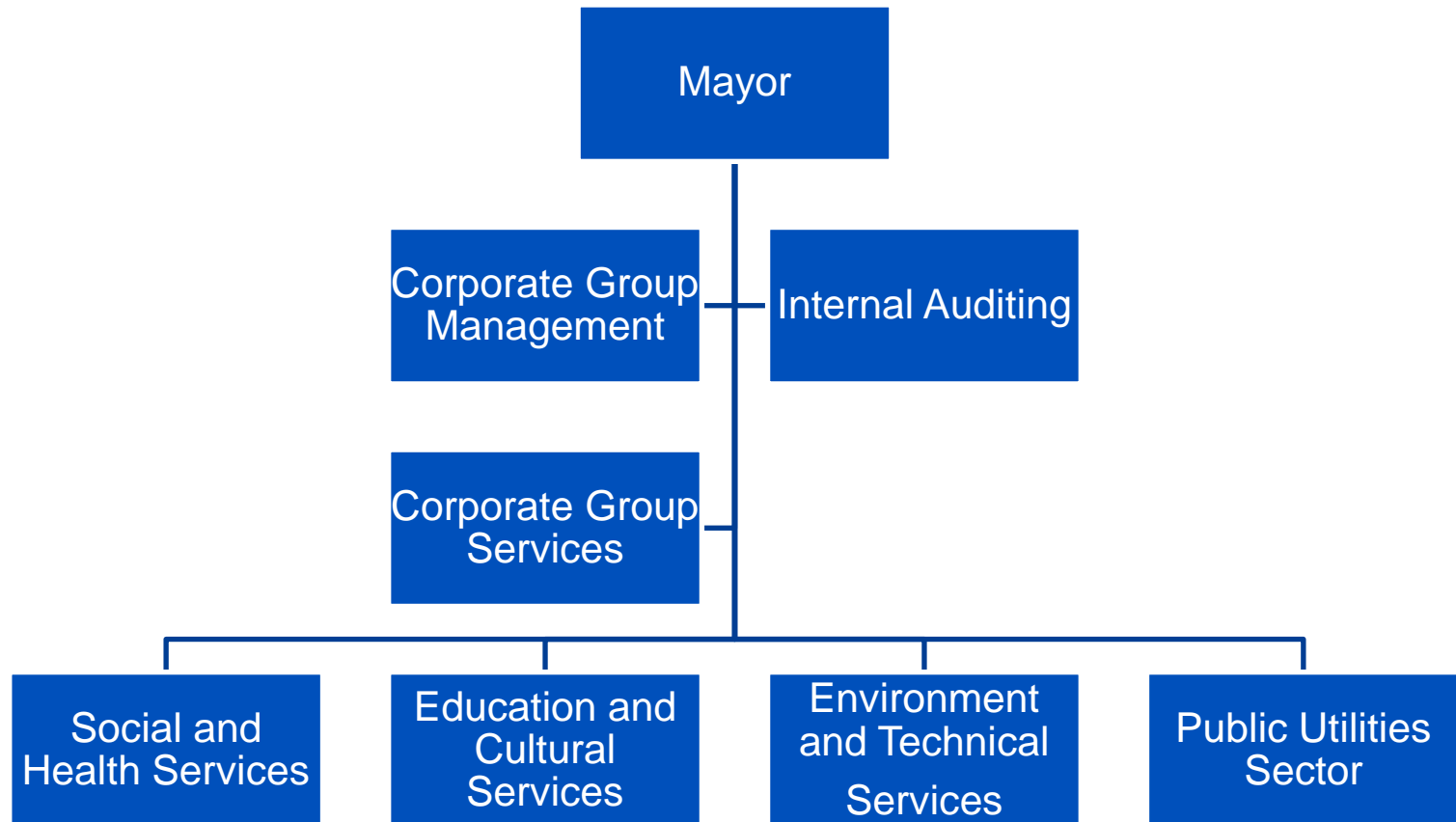


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City of Espoo

- Espoo is the second largest city in Finland
- Population is 251 000 inhabitants (Helsinki 590 000, Vantaa 202 000) and the city grows by 3500 persons per year.
- Average educational and income level is high compared to rest of the Finland. This creates a strong and solid taxbase to the city.
- City`s budget in total 1,67 milliard euros (Helsinki 4,1 milliard euros, Vantaa 1,32 milliard euros). Basic services is 1,4 milliard euros and investments around 187 million euros
- Loans 867 euros/ inhabitant (Helsinki 1 989 euros/ inhabitant, Vantaa 3 775 euros/inhabitant)
- After planned investments city`s long-term loans and other long-term liabilities are still under Finland`s average level
- Espoo`s Tax rate 17,75% (Helsinki 18,5%, Vantaa 19%)

City of Espoo, Organisation





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Organising of investment operations

- The City Council approves the rules of finance
- The City Board approves the principles of investment for funds
- The Mayor uses the highest operative authority in investment operations
- The Finance Director decides on the practical aspects of asset management
- The Development Manager is responsible for monitoring the operations of asset managers, managing investment operations and reporting
- The profit and risk of the funds and the success of the asset managers against both the index and each other is monitored on a monthly basis and reported to the Finance Director and the Mayor in a monthly report
- Investments are also reported in connection with the half-year reports and the financial statement to the City Board and City Council.



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Participants in investment operations

- Practical arrangements for investment operations are managed by Development Manager Maarit Vierunen with support from Planner Eero Aitkoski

Maarit (M.Sc.(Econ.), CEFA)

Investment operations, Borrowing, Tendering for subsidiary loans, Financing projects outside of the balance sheet, including the West Metro Extension and Espoo Hospital

- Monitoring of investment operations (outside managers) and risk management
- Communications with the asset managers
- Carrying out and monitoring direct investments (private equity, hedge funds, government bonds)
- Front and middle office operations

Eero (HM – Master of Administrative Sciences)

Investment operations, Planning and development (TYT and Public services departments, systems)

- Accounting for investment operations
- Back office operations



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City of Espoo's funds

- Basic services and land acquisition fund
408 million euros (market value 31.7.2011)
- Basic services development fund
111 million euros
- Economy and employment fund
27.7 million euros
- Loss fund (Insurance fund)
5.5 million euros
- Investment fund
16.6 million euros



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Asset management procurement process

Carried out in two phases

Phase 1: Precualification procedure

- selection of bidders
- number announced beforehand

Phase 2: Tenders

- calling for tenders from those selected in phase 1
- selection of manager (s)

As a one-phase process the workload for both the tenderers and the city would have been so heavy that it would not have led to a positive outcome



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Evaluation criteria for applications to participate

Tenderer, 35%

- prerequisites for operating in the long-term
- resources
- organisation and extent of business operations
- structure of ownership
- background

Demonstration of profitable operations, 30%

- history of profitability or the like (by asset classes)
- references

Tenders investment philosophy and operational model for portfolio management, 35%

- description of the operational model for portfolio management
- selection of targets for investment
- decision-making for allocations
- risk management

If we were looking for one finance manager, we indicated that we would select 4 to 6 to make a tender



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Criteria for evaluating tenders

Tenderer, 30%

- personnel resources for asset management
- background
- investment philosophy and method of operations
- demonstration of the profitability of operations

Suggestion for the content of the investment portfolio, 40%

- suggested portfolio structure
- investments in different asset classes in detail
- risk level of the portfolio
- neutral allocation and range of different asset classes
- presentation of tender

Cost of service, 30 %

- total cost of service, including the commission for financial management and custody



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Evaluation of registration applications and tenders

- Evaluation team: Finance Director, Finance Manager, Development Manager and Lawyer
- Each member made a separate evaluation and the results were combined together, after which a meeting was held to decide if the result was of the type that could not be approved for a well-grounded reason – this did not happen
- The criteria were mainly evaluations based on each person's own experience and background, but the point of departure was that of investment strategy
- During the evaluation work, the aforementioned main areas of evaluation criteria were divided into smaller parts, which were weighted under the main criteria
- For the projected profitability and risk level, a laborious harmonisation had to be carried out, in which the projected profitability of different asset classes were unified as well as the volatility
- Settling out the total cost was also a laborious stage, as the targets for investments were mainly trusts and trusts of foundations
- Differences in the points for the top tenders were not large
- The evaluations were documented carefully and were also examined together with those tenderers who so desired



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Final decisions regarding the tendering

- It is wise to invest in the defining of evaluation criteria
- Having many evaluators is a good solution
- The call for tenders should be unambiguous and comprehensive
- It is important to document the evaluations well, even for the sake of the city jurisprudence
- It might be good to indicate already in the call for tenders what projections for profitability and volatility are used for different asset classes
- The clarity of fee structure is a challenge
- It would be wise to carefully consider the weight of costs in relation to the other criteria
- Open discussion following the competition with those who were not selected



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Basic services development fund

- The **Basic services development fund** was established in October of 2001. The fund is used, through the budget, to support investment in basic services.
- The strategy for investment of the funds, which has been approved by the city board, is the following: Fixed income 22–100%, equity 0–15%, alternatives 0–7%
- Allocation as of 31 July 2011: Fixed income 94%, equity 5%, alternatives 1%
- Managers: Danske Capital, SEB Gyllenberg, Alfred Berg
- Between 2004 and 2010, a total of 119 million euros were drawn from the fund



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Basic services and land acquisition fund

- The **Basic services and land acquisition fund** was established in October of 2006. The profits from the fund can be used to fund the city's investments and land acquisition. The funds are used via the budget.
- Total 364 million was placed into fund
- According to the rules of the fund, principal is to be preserved at origin level
- The annual profit will be capitalized until 2012
- The annual profit will be used for City`s investments from 2013 onwards
- The strategy for investment of the funds, which has been approved by the city board, is the following: Fixed income 30–80%, equity 20–55%, alternatives 0–15%
- Allocation as of 31 July 2011: Fixed income 59 %, equity 39%, alternatives 3%
- Asset Managers: Alfred Berg Suomi Oy, SEB Gyllenberg Oy, Danske Capital (Sampo Pankki Plc), Evli Pankki Plc and Dexia Asset Management



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Basic services and land acquisition fund, Investment strategy, City Board

- The point of departure for investment operations is that the capital of the fund is preserved at a level that is at least equal to that of the time when the fund was established
- The capital of the fund accumulates based on annual profit of the fund as long as the Basic services development fund is available for use (at least until 2012)
- The funds shall be used to form four to six investment portfolios
- The basic amounts of the investment portfolios include the same asset classes
- The portfolios may differ from each other in terms of additional amounts
- The investment portfolios are given to external asset managers to be managed based on financial administration agreements
- Funds may be invested with limitations into the different asset classes in such a way that the limits of the main asset classes are binding and the limits of the sub asset classes are advisory
- Areas of investment may be anywhere in the world, with the exception of apparent crisis areas
- In terms of fixed income investments, investments are made in euro amounts and/or as euro-protected investments, with the exception of emerging market bonds
- Global equity investments are chosen based on ethical principles (SRI funds)
- The goal is to achieve as good a profit as possible in such a way that the total risk (volatility) of the neutral allocation of the divided portfolio is at a maximum level of 10.5%, based on the historical development of different asset classes
- Investment operations are managed in such a way that the realisation of the approved Espoo strategy and budget as well as the financial plan can be ensured
- The investment portfolios must be planned in such a way that the capital of the fund can be safeguarded and that the profitability of the fund will not be negative for any year
- The mayor has the right to manage the tendering of asset managers and to decide on the selection of asset managers as well as to make the agreements required according to the procurement law. The mayor has the right, in the call for tenders, to make specifications to the second-round selection criteria by divided the bases for criteria presented into more detailed parts, within the framework of the weight that has been determined
- The mayor may decide on possible dissolution of finance management agreement and on the tendering and selection of new managers



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Basic services and land acquisition fund, Allocation limits , City Board

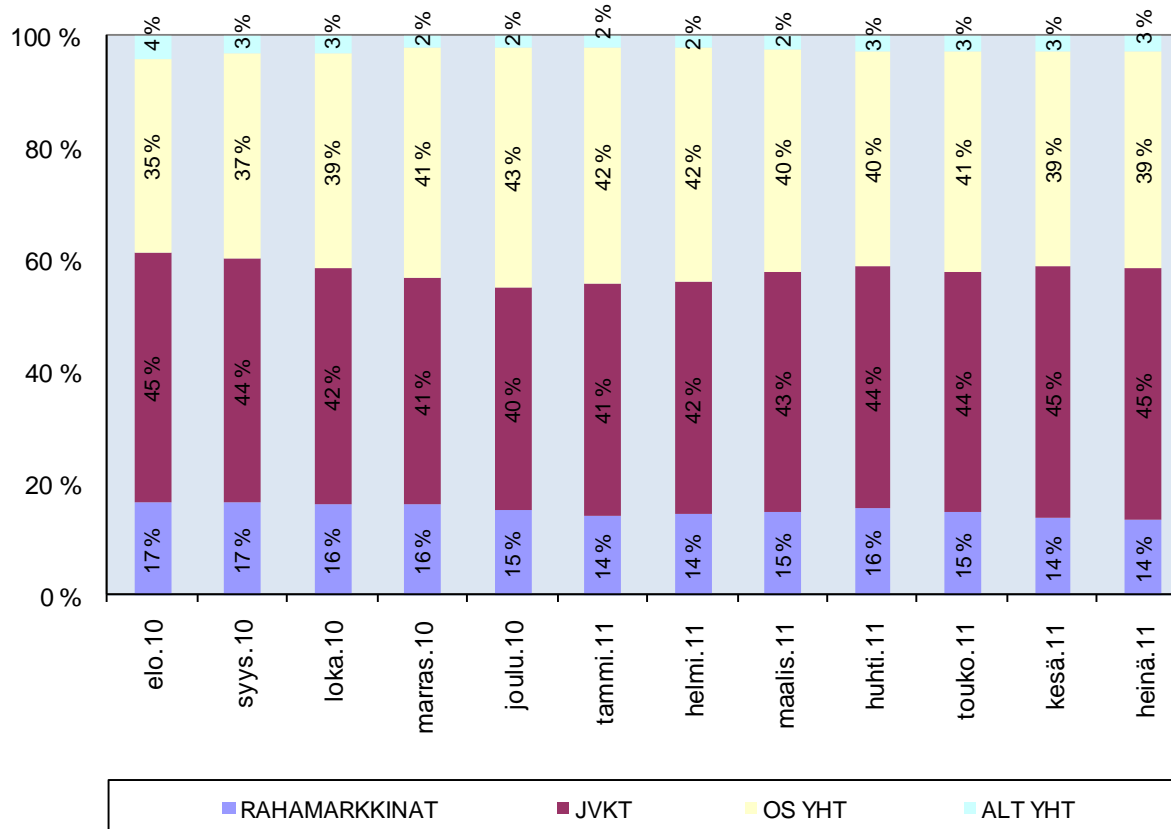
Range

EQUITY	20-55%
• EUROPE	0-20%
• NORTH AMERICA	0-10%
• FINLAND	0-10%
• EMERGING MARKETS	0-5%
• GLOBAL (SRI)	3-15%
• JAPAN	0-3%
FIXED INCOME	30-80 %
• EMU GOVERNMENT BONDS	15-50%
• INVESTMENT GRADE (BBB-AA)	0-10%
• HIGH YIELD	0-5%
• EMERGING MARKETS	0-5%
• MONEY MARKETS	0-80%
ALTERNATIVE INVESTMENTS	0-15 %
• HEDGE FUNDS	0-7 %
• REAL ESTATE FUNDS	0-2 %
• RAW MATERIALS FUNDS	0-3 %



Basic services and land acquisition fund

PMIR - Sijoitukset omaisuuslajeittain



Investments and cash assets of the funds as of 31 July 2011 (market values)

Rahasto	Sijoitusten arvo	Tuotto vuoden alusta (€)	Tuotto vuoden alusta (%)	Rahastosiirot vuoden aikana
Peruspalvelujen ja maanhankinnan investointirahasto (PMIR)	408 084 544	-5 349 982	-1,3 %	0
Peruspalvelujen kehittämisrahasto (PPKR)	111 803 518	655 948	0,6 %	0
Elinkeinojen ja työllisyyden kehittämisrahasto	27 733 158	162 258	0,5 %	-3 579 734
Investointirahasto	16 670 586	329 823	2,0 %	0
Vahinkorahasto	5 586 681	57 149	1,0 %	0
Maksuvalmiusrahasto - rahamarkkinarahastot	0	0	0,0 %	0
Rahastot yhteensä	569 878 487	-4 144 805	-0,7 %	-3 579 734
Maksuvalmiusrahasto - aikatalletukset	0			
Maksuvalmiusrahasto - yliyöntalletukset	0			
Maksuvalmiusrahasto - tili	0			
Kaikki yhteensä	569 878 487			



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Investments and cash assets of the funds as of 31 July 2011 (market values)

Omaisuuslaji	**)	**)	**)	**)	**)	**)	Yhteensä milj. eur	prosenttia %
	Perusp. ja maanhang. invest. rah.	Perusp. keh. rah.	Vahinko rahasto	Elink. ja t.k. rahasto	Investointi rahasto	Kassavarat		
EMU Valtioiden lainat	94,1	45,1					139,2	24,4 %
Yrityslainat (euro), investment grade	48,4	21,1					69,5	12,2 %
Yrityslainat (euro), high yield	26,9	3,8					30,7	5,4 %
Kehittyvien markkinoiden lainat	9,5						9,5	1,7 %
Korkorahastot (euro)***	53,9	27,4	2,6	17,3	16,7		117,9	20,7 %
Talletukset ja käteinen			2,0	10,4			12,4	2,2 %
Korkosijoitukset yhteensä	232,8	97,4	4,6	27,7	16,7		379,2	66,5 %
Osakkeet, Suomi	21,1	2,5					23,6	4,1 %
Osakkeet, Eurooppa	48,3	1,2					49,5	8,7 %
Osakkeet, Pohj.-Am/glob.	31,8	1,3					33,1	5,8 %
Osakkeet, Maailma (sis. sri/eettiset)	25,9	0,9					26,7	4,7 %
Osakkeet, Japani	8,3						8,3	1,5 %
Osakkeet, kehittyvät markkinat	18,7						18,7	3,3 %
Osakkeet yhteensä	154,0	5,9					159,9	28,1 %
Hedge rahastosijoitukset	11,0	1,6					12,6	2,2 %
Private equity -sijoitukset	7,8						7,8	1,4 %
Kiinteistösisjoitusrahastot	2,4						2,4	0,4 %
Muut *)		7,0	1,0				8,0	1,4 %
Yhteensä, milj. euroa	408,1	111,8	5,6	27,7	16,7		569,9	100,0 %
prosenttia	71,6 %	19,6 %	1,0 %	4,9 %	2,9 %		100,0 %	

*) sijoitukset Kuntarahoitus Oyj:n lainoihin

**) markkina-arvostettu (kassavarojen kohdalla vain korkorahastot markkina-arvostettu)

***) Erä sisältää PMIR:n ja PPKR:n osalta rahamarkkinarahastot ja käteisen



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Index (Basic services and land acquisition fund)

EQUITY:

MSCI **EUROPE** TOTAL RETURN (NET DIVIDENDS)

MSCI **NORTH AMERICA** TOTAL RETURN (NET DIVIDENDS)

OMX **HELSINKI** CAP TR

MSCI **EMERGING** MARKETS FREE TOTAL RETURN (NET DIVIDENDS)

MSCI **WORLD** TOTAL RETURN (NET DIVIDENDS) (**SRI**)

MSCI **JAPAN** TOTAL RETURN (NET DIVIDENDS)

FIXED INCOME:

JPMORGAN **EMU GOVT** BOND INDEX

MERRIL LYNCH EMU CORPORATES **BBB-AA** RATED

MERRIL LYNCH EUROPEAN CURRENCY **HIGH YIELD** CONSTRAIN

MERRIL LYNCH **EMU CORPORATE** BOND

JPM GBI-EM BROAD DIV TRADED INDEX USD HEDGED INTO EUR

JPM EMBI GLOBAL DIVERSIFIED EUR HEDGED (**EM DEBT**)

3KK EURIBOR INDEX

ALTERNATIVE INVESTMENTS:

GPR 250 EUROPE TR (REAL ESTATE)

3 KK EURIBOR+ 2% INDEX (HEDGE FUNDS)



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THE FUTURE ?