FONDATION
BOTNAR

2022

Investment Beliefs and Principles

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Purpose

The purpose of this document is to describe the investment beliefs and principles to which Fondation Botnar, as an organisation, adheres to in the management of the foundation's endowment assets. Its purpose is to serve as a framework for the operation of the foundation's investment function whereby the beliefs and principles underscore the importance Fondation Botnar attributes to best institutional practice in asset management.

General Principles

Fondation Botnar manages its assets according to best institutional practice:

- **Fiduciary duty**: We manage the foundation's assets in the sole interest of its beneficiaries.
- **Prudent person rule**: We manage the foundation's assets with prudence, discretion and intelligence as if it were our own affair, considering return as well as risk.
- **Responsible investing**: We invest responsibly and consider environmental, social and governance (ESG) criteria.
- **Know-how**: We base our investment decisions on solid theoretical and empirical knowledge.
- **Investment efficiency**: We seek to obtain an expected return commensurate with the risk taken.
- **Diversification**: We diversify the overall portfolio to reduce risk.
- **Cost**: We invest cost-consciously.
- **Simplicity**: We favour simplicity over complexity, i.e. more complexity will only be considered if it is compensated by a reasonable increase in return or decrease in risk.

Investment horizon

Consumption of the endowment is targeted over a period of at least 50 years.

Strategic asset allocation

The strategic asset allocation, the long-term split of the assets of Fondation Botnar across different asset classes, is the key determinant of our expected return and risk. It is based on an asset liability modelling (ALM) study and approved by the Foundation Board.

An upper and a lower bandwidth are established for each asset class or group of asset classes. The bandwidths define the maximum deviation from the strategic asset allocation. If a bandwidth is exceeded the portfolio is rebalanced.

The strategic asset allocation is reviewed regularly.

Risk

The portfolio's expected risk is determined by the targeted investment returns and investment horizon, as well as the risk tolerance of the Foundation Board.

We aim to capture different risk premia and seek to minimise unrewarded risk. In our view, currency risk is not rewarded by a risk premium.

Our currency allocation is based on an asset-only view (instead of an asset-liability view) since the currency composition of our liabilities (grants and operating expenses) fluctuates over time and is inherently difficult to forecast over long time horizons. All nominal assets (i.e., bonds) are hedged back into Swiss Francs to improve their and the portfolio's return/risk characteristics.

Benchmarks

For traditional asset classes, we carefully select a benchmark with the appropriate risk / return profile for each asset class within our strategic asset allocation. The benchmarks are widely accepted, transparent market indices, independently calculated and published by reputable providers.

The benchmarks define the eligible investment universe for each asset class and are used to assess the performance of investment managers.

For alternative asset classes, we also prefer well-known benchmarks, if available.

Investment style

Very few (skilled) active managers can consistently outperform their benchmark on a risk-adjusted basis and after all costs. Generally, therefore, our asset managers follow an indexing strategy (except for alternative asset classes).

Responsible investing

We seek to harmonise investments with the goals of Fondation Botnar while sustaining long-term financial return. Therefore, we invest responsibly and consider ESG (environmental, social and governance) criteria. We believe:

- Responsible investing contributes to the enhancement of long-term risk-adjusted returns.
- Responsible investing creates long-term positive value for society and the environment.

Responsible investing strategies pursued by Fondation Botnar include the following:

- ESG integration in indexing strategies through ESG benchmarks/universes
- Exclusion of issuers involved in severe controversies related to child labour
- Active ownership (voting & engagement)
- Impact investing mandates in Emerging and Frontier Markets; Private Equity, Private Debt

Responsible investing, which seeks to harmonise the investments with the goals of Fondation Botnar, is compatible with the targeted market rate investment returns and the risk tolerance of the Foundation Board. Fondation Botnar's purpose is best served with investments expected to earn risk-adjusted market rate returns.

Such investments must, however be considered separately from purpose-related investments, which are part of Fondation Botnar's programmatic activities (i.e., Venture Philanthropy), furthering Fondation Botnar's goal to improve the health and wellbeing of young people living in cities around the world. Purpose-related "venture capital" investments are not part of the strategic asset allocation.

Third-party provider selection

We carefully select and monitor third-party providers on the basis of a clearly structured process, ensuring they have the necessary experience and skills in order to successfully perform assigned duties. Third-party providers must have a proven track record, appropriate resources, and governance structures.

Risk management, monitoring and reporting

We identify, measure, monitor and manage risks, and monitor the portfolio's compliance with applicable rules and regulations regularly and in a disciplined way. Relevant reporting is provided in a timely manner and with high quality.

Governance

Adequate checks and balances are provided by a division of labour between the Foundation Board, its Investment Commission and Management Office.