

LOYOLA UNIVERSITY
OF CHICAGO

Investment Policy and Guidelines

2/23/2016

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LOYOLA
UNIVERSITY
CHICAGO

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Preparing people to lead extraordinary lives

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1 **Section 1 - General Terms**

2 **A. Introduction**

- 3 • This statement of investment policy and guidelines for Loyola University of Chicago
4 (the "University") is established by its Investment Policy Committee (the
5 "Committee") under the power and authority delegated to the Committee by the
6 Board of Trustees.
- 7 • This statement governs the management of the investment portfolios of the University
8 and guides the Committee, staff, and any consultants in the management of the
9 University's invested assets.

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11 **B. Conflict of Interest**

- 12 • Consistent with the Board of Trustees' Conflict of Interest Policy, the Committee and
13 other fiduciaries will act in the best interests of the University and the invested funds
14 and not for the benefit of the persons serving on the Committee or other third parties.
- 15 • Any conflict or potential conflict of interest on the part of any trustee or other
16 Committee participant or a member of his or her family shall be disclosed to the
17 Committee Chair at or prior to the time the matter is under consideration by the
18 Committee.
- 19 • The trustee or other Committee participant will disclose the nature and extent of any
20 such conflict or potential conflict as the Committee Chair shall reasonably require.
- 21 • No trustee will vote on any matter under consideration in which such trustee has a
22 conflict of interest, but the presence of such a trustee may be counted in determining
23 whether a quorum is present.
- 24 • The Committee Chair will report any conflicts to the Chair of the Board in accordance
25 with the Board's Conflict of Interest Policy.

C. Division of Responsibilities within the University

1. The Investment Policy Committee:

- Establishes, reviews and updates the investment policy and guidelines for the University's invested assets.
- Oversees implementation of the policy and guidelines and monitors the achievement of investment and performance objectives.
- Reports to the Board on a quarterly basis.
- Delegates to each of the Senior Vice President for Finance and CFO (or such other officer or employee who shall have the responsibility of chief financial officer of the University), the Treasurer, and the Assistant Treasurer of the University the responsibility to implement and execute the investment policy and guidelines through the selection, from time to time, of investment consultants and investment managers and the execution, from time to time, of investment strategies.

2. The Designated University Officers (as named in Section 1.C.1.):

- Implement the investment policy and guidelines and recommend policy and guideline changes or updates to the Committee as necessary.
- Maintain internal controls and procedures for implementation of the policy.
- Retain investment advisors or consultants as needed to assist the University in managing the Investment Pool.
- Establish and maintain such custodial and investment accounts and other agreements as are necessary to properly implement the policy and manage the invested assets.
- Select, hire and terminate investment managers with whom to execute the investment strategy.
- Conduct due diligence on investment managers and monitor managers' performance and organization on an on-going basis.
- Report investment results.
- Report any irregularities or substantive deviations from policy.

D. Responsible and Sustainable Investing Principles

- The University's embodiment of the Jesuit and Catholic traditions of social justice, a commitment to sustainability, the prominence of social responsibility, and the aspiration to contribute to a more just, humane and sustainable world require consideration in its investment policy and practices.
- The University will be a responsible steward of its financial resources and will prudently exercise ethical and social stewardship in its investment policy and practices, consistent with its mission and strategic priorities and abiding by the fiduciary and investment standards applicable to institutional funds.

Investment Policy and Guidelines

- 1 • Consistent with achieving the applicable investment objectives set forth herein, the
2 University's investment policy will be implemented within a framework predicated
3 on incorporating environmental, social and governance factors as core components of
4 decision-making and risk management, impact and solutions-based investments,
5 engagement, proxy voting, and evaluation of the economic merits of current and
6 potential investments taking into account governance practices, environmental or
7 social impact, and regulatory and reputational risks.

1 **Section 2 – Investment Pool**

2 **A. Composition of Assets**

- 3 • Endowment funds (also referred to as “true endowments”), which are institutional
4 funds that are not wholly expendable on a current basis because of a donor restriction
5 in the gift instrument governing the endowment fund.
- 6 • Quasi-endowments or board-designated endowments, which are established by the
7 University using gift or other funds whose use may be restricted, or unrestricted funds
8 that the University elects to treat like an endowment.
- 9 • Institutional reserves, representing other non-endowed funds set aside from time to
10 time by the University.
- 11 • True endowments and quasi-endowments may be referred to in aggregate as
12 “endowments.”

14 **B. Fiduciary and Investment Standards**

- 15 • The management and investment of University funds invested in the Investment Pool
16 is governed by the Illinois Uniform Prudent Management of Institutional Funds Act
17 (“UPMIFA”), subject to certain exceptions, and unless there are specific instructions
18 in a gift instrument that take precedence over UPMIFA.
- 19 • The fiduciary standard of UPMIFA requires that trustees, officers and other fiduciaries
20 responsible for managing and investing funds use the care and skill of a reasonably
21 prudent investor.

23 **C. Investment Objectives**

- 24 • Preserve and enhance the real (i.e., inflation-adjusted) purchasing power of
25 institutional funds and provide for a stable level of spending from endowments.
- 26 • Earn a real total rate of return (net of investment management fees) at least equal to
27 the maximum endowment spending rate authorized by the Board of Trustees over
28 rolling five-year periods.

30 **D. Spending Policy for Endowment Funds**

- 31 • Endowment spending policy is set by the Board and may change from time to time.
- 32 • Absent Board approval, annual budgeted spending from each eligible endowment
33 fund for a given fiscal year will not exceed 5% of an endowment’s net asset value at
34 the measurement date.
- 35 • The method of implementation of the spending policy is delegated to designated
36 University officers to determine how to achieve the financial and investment
37 objectives for endowments.

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E. Implementation and Risk Management Guidelines

Liquidity

- The following liquidity classification thresholds will govern all investment allocations notwithstanding the asset allocation targets and ranges below.

Liquidity Classification	% of Portfolio Market Value
Available within zero to sixty (0-60) days	Minimum of 50%
Available within one (1) year	Minimum of 60%
Available beyond one (1) year	Maximum of 40%
Available beyond three (3) years	Maximum of 25%

- In the event that the one (1) year liquidity classification threshold is breached due to market conditions, no additional investments in funds that restrict capital for more than one (1) year will be made, until the portfolio returns to compliance, and only to the extent that the portfolio is in compliance after funding an investment.
- In the event that the three (3) year liquidity classification threshold is breached due to market conditions, no new investments in or commitments to funds that restrict capital for more than three (3) years will be made, until the portfolio returns to compliance, and only to the extent that the portfolio is in compliance after funding an investment.
- Unfunded commitments will be no more than 20% of the portfolio market value.
- Unfunded commitments will not be increased if the unfunded commitment threshold is breached due to market conditions, until the portfolio returns to compliance, and only to the extent that the portfolio is in compliance after a new commitment.
- In the event that a liquidity classification threshold is breached due to market conditions, the Treasurer will evaluate whether it is possible to bring the portfolio into compliance (liquidity, future cash flows and market conditions will be considered).

1 **Asset Allocation**

	% of Portfolio Market Value		
Asset Class Guidelines	Target	Min	Max
Global Equity	50%	40%	60%
Private Capital	12.5%	5%	20%
Real Assets	10%	5%	15%
Credit	12.5%	5%	17.5%
Fixed Income	15%	10%	20%
Cash	0%	0%	10%
TOTAL	100%		
	% of Portfolio Market Value		
Hedge Fund Guidelines	Target	Min	Max
Hedging strategies	--	0%	30%
Hedged equity	--	0%	23%
Multi-strategy absolute return	--	0%	23%
Global macro	--	0%	8%

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- 3 • In the above table, Credit captures fixed income instruments and strategies that have
- 4 more credit risk and may be less liquid than the high quality fixed income securities
- 5 and strategies in the Fixed Income segment that is intended to provide diversification
- 6 protection that credit strategies cannot fully provide.
- 7 • Asset allocation targets are at all times subject to the previously enumerated liquidity
- 8 guidelines.
- 9 • Hedge funds employed to implement this policy will be categorized for asset
- 10 allocation purposes by their dominant strategy at the time of investment (e.g. a hedged
- 11 equity strategy will be categorized as part of the Global Equity class; a multi-strategy
- 12 fund may be categorized in one or more classes depending on the instruments within
- 13 the fund).
- 14 • The Treasurer will review any asset class that falls outside its permissible range and
- 15 evaluate the need to rebalance (liquidity, anticipated cash flows and market
- 16 conditions will be considered in decisions to rebalance).

Concentration

- An investment in an individual hedge fund will not exceed 5% of the portfolio market value at the time of investment.
- An allocation to any individual manager will not exceed 10% of the portfolio market value at the time of investment.
- A passively managed investment (e.g. an index fund or ETF) is not subject to the 10% maximum allocation in the previous statement.
- A hedge fund investment will not exceed 5% of its manager's assets under management at the time of investment.
- The Treasurer will review any investment that is in excess of any concentration guideline and evaluate the need to reduce the size of the investment (liquidity, anticipated cash flows and market conditions will be considered).

Manager and Strategy Selection

- Investment manager and strategy selection decisions are made by the University's Treasurer, informed by internal and external resources and information gathered from sources he or she considers reliable.
- A manager and/or an investment fund must:
 - have the requisite experience and skills to manage the strategy under consideration,
 - have a sufficient complement of personnel with the necessary knowledge, experience and training,
 - adhere to the manager's stated investment style or strategy,
 - have a valuation policy based on GAAP fair value standards or other generally accepted valuation standard,
 - be managed with an appropriate match between invested assets and liabilities and commensurate liquidity terms,
 - be registered and in good standing with appropriate regulatory agencies,
 - be audited annually by a recognizable, reputable accounting firm,
 - have invested assets appropriately segregated and held by an independent custodian,
 - have independent, third party providers clear trades and provide client statements to the extent it is appropriate to separate these functions between a manager and a service provider,
 - undergo a legal review of applicable documents when deemed necessary by the Treasurer,
 - provide a current Form ADV Part II (as filed with the SEC) and explain adequately any irregularities.

1 **F. Measuring Investment Performance**

- 2 • Long-term performance will be evaluated based on comparison of portfolio return
3 with the rate of spending and inflation.
4 • A secondary measure of one or more market-weighted benchmarks may be used to
5 evaluate the asset allocation and individual managers and strategies selected for the
6 portfolio.
7 • Performance will be reported to the Committee at least on a quarterly basis.

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9 **G. Other Administrative Matters**

- 10 • Shareholder rights will be exercised solely in the best interests of the University, in
11 furtherance of the objectives enumerated above.
12 • Although the University is exempt from federal tax under Section 501(c)(3) of the
13 Internal Revenue Code, certain investment funds or strategies may generate tax
14 liabilities (e.g. unrelated business income tax) payable by the University and will be
15 evaluated by qualified professionals selected by management to assess the potential
16 tax liability, performance impact and any filing requirements.

1 **Section 3 – Charitable Assets**

2 **A. Introduction**

- 3 • The University is trustee of charitable remainder unitrusts (CRUTs), charitable lead
4 unitrusts (CLUTs), charitable remainder annuity trusts (CRATs), and net income
5 charitable remainder unitrusts (net income CRUTs, with or without a make-up
6 provision) which together may be referred to as charitable trusts.
- 7 • The University is a party to charitable gift annuity (CGAs) agreements which are
8 contractual agreements between the University and a donor.
- 9 • Due to legal, tax and/or administrative considerations, charitable trusts and gift
10 annuities are invested separately from the University’s institutional funds.
- 11 • At the discretion of the University, certain services for charitable assets may be
12 delegated to a third party provider.

14 **B. Fiduciary and Investment Standards**

- 15 • Charitable trusts for which the University serves as trustee are governed by the Illinois
16 Trust and Trustees Act, the Illinois Principal and Income Act, the trust instrument and
17 common law applicable to trusts.
- 18 • Among other things, the University’s duty is to invest and manage trust assets as a
19 “Prudent Investor” would, considering the purposes, terms, distribution
20 requirements, and other circumstances of the trust and requiring the exercise of
21 reasonable care, skill, and caution based on the facts and circumstances prevailing at
22 the time of the decision, and in the context of the trust portfolio as a whole.
- 23 • Charitable gift annuities created by an Illinois resident are subject to the UPMIFA
24 standards; a charitable gift annuity created by a resident of a state other than Illinois
25 is subject to the laws of that state.

27 **C. Investment Objective**

- 28 • A charitable trust will be invested individually taking into account the specific terms
29 and circumstances of a trust and in a manner that is consistent with the trustee’s duty
30 of impartiality to all beneficiaries.
- 31 • As trustee, the University must consider both the reasonable production of income
32 and the preservation of capital available at maturity of the trust, unless the trust
33 instrument provides otherwise.
- 34 • Charitable gift annuities may be pooled for investment purposes and invested to meet
35 the contractual obligation to pay annuitants and preserve capital available at maturity.

D. Asset Allocation and Implementation Guidelines

- Charitable trusts and gift annuities will generally be invested in conformity with a model asset allocation selected from the categories listed below.
- The figures below represent the general allocation between equity and fixed income, respectively.

Loyola's Model Asset Allocation	Model 1	Model 2	Model 3
Equity/Fixed	75%/25%	50%/50%	25%/75%

- The Treasurer will establish an investment strategy for each account after an evaluation of the factors relevant to the decision.
- The Treasurer will conduct a periodic review of each account to monitor the suitability of each investment strategy.
- The Treasurer will implement the model asset allocations and diversify the allocation strategy within the targets for equity and fixed income.
- Charitable assets will be invested primarily in stocks and bonds and diversified to the extent possible consistent with annual payout levels.
- The asset allocation for any individual charitable trust or pool of gift annuities will be determined based on consideration of the distribution requirement, the desired balance between growth and income, any other terms and factors that the Treasurer may deem pertinent to the decision.
- Due to tax considerations with charitable trusts, investment strategies for charitable assets will generally be implemented without the use of less liquid or illiquid investment funds.
- At no time will any charitable trust or the gift annuity pool be invested in funds from which capital is not accessible within 90 days.

Section 4 - Operating Funds

A. Fiduciary and Investment Standards

- Operating funds are program-related assets and held by the University primarily to accomplish its charitable purposes (an exception to the UPMIFA rules applicable to other University funds).
- The “Prudent Investor” standard will be applied to the management of operating funds.

B. Investment Objective

The University invests its operating funds in cash equivalents and fixed income securities to meet the following objectives.

- Safety of principal and liquidity are the foremost priorities.
- Current yield is a secondary priority.
- Total return is a tertiary priority.

C. Implementation Guidelines

- The investment of operating funds will be implemented by using daily balances, overnight investments, money market funds, money market savings accounts, separately managed accounts, including accounts directed internally, and commingled funds.

Aggregate Portfolio Guidelines (including daily balances, overnight investments, money market funds, money market savings accounts, separate accounts and commingled funds)

Portfolio duration	Not to exceed 1.50 years
Portfolio average credit quality	AA or higher
Fixed income fund average credit quality	BBB/Baa3 or higher

Investment Policy and Guidelines

1 General Separate Account Guidelines

Maximum maturity (Issue)	Not to exceed five (5) years and one (1) month
Average portfolio duration	Not to exceed 2.0 years
Liquidity	Trade date + 3 days
Average portfolio quality	No less than A
Opportunity set	Treasury securities and agency debentures Obligations of domestic and foreign corporations Asset-backed securities (ABS) Residential mortgage-backed securities (RMBS) Collateralized mortgage obligations (CMO) Commercial mortgage-backed securities (CMBS) Taxable municipal securities Money market instruments Commercial paper Bankers acceptances Time deposits Repurchase agreements
Prohibitions	Leverage Short-selling Convertibles and common stocks Mortgage-backed interest-only securities (IO) Mortgage-backed principal-only securities (PO) Inverse floaters Collateralized debt obligations (CDO) Collateralized loan obligations (CLO) Securities denominated in a currency other than the U.S. dollar

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- The Treasurer will establish guidelines for a separate account that are commensurate with the skill and expertise of the manager.

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6 Commingled Fund Guidelines

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- Commingled fund investments will be limited to money market funds and no-load funds that are registered under the Investment Company Act of 1940.
 - Money market funds must comply with Rule 2a-7 under the Investment Company Act of 1940.
 - Funds whose guidelines are substantially similar to the above requirements will be eligible.

1 **Manager and Strategy Selection**

- 2 • Implementation decisions are made by the University's Treasurer and informed by
3 internal and external resources and information gathering from sources he or she
4 considers reliable.
- 5 • A manager and/or an investment fund must:
 - 6 ○ have the requisite experience and skills to manage the strategy under
7 consideration,
 - 8 ○ have a sufficient complement of personnel with the necessary knowledge,
9 experience and training,
 - 10 ○ have the resources and expertise necessary to analyze the credit-worthiness of
11 eligible securities,
 - 12 ○ adhere to the manager's stated investment style or strategy,
 - 13 ○ have a valuation policy based on GAAP fair value standards or other generally
14 accepted valuation standard,
 - 15 ○ be registered and in good standing with the appropriate regulatory agencies,
 - 16 ○ be audited annually by a recognizable, reputable accounting firm,
 - 17 ○ have invested assets appropriately segregated and held at an independent
18 custodian,
 - 19 ○ have independent, third party providers clear trades and provide client
20 statements to the extent it is appropriate to separate these functions between a
21 manager and a service provider,
 - 22 ○ undergo a legal review of applicable documents when deemed necessary by the
23 Treasurer,
 - 24 ○ provide a current Form ADV Part II (as filed with the SEC) and explain
25 adequately any irregularities.