

# **Lebanese American University**

## **INVESTMENT POLICY**

# **Investment Policy for The Lebanese American University**

## **EXECUTIVE SUMMARY**

- The Board of Trustees (*the “Board”*) is ultimately responsible for the stewardship of Financial Assets. In regard to LAU’s investments, normally the Board acts upon the recommendations of the Investment Committee (*the “Committee”*), and the Administration.
- LAU’s Investments consist of two categories:
  - a. Short Term Funds (STF) which are comprised of funds that will be spent within a three year period.
  - b. Long Term Funds (LTF) which are comprised of endowment funds, funds functioning as endowment (Quasi-Endowment) and other funds that are not to be expended for at least three years, (referred to in this Policy as Endowment).
- The Committee is responsible for developing and recommending to the Board: Endowment Asset Allocation, permissible asset classes, and the acceptable level of risk for the Endowment.
- The Committee is further charged with selecting and superintending the specific managers of the Endowment’s assets.
- The Long-Term Objective of the Endowment is to achieve a total return equal to or in excess of the University financial requirements over the Time Horizon. Specifically, the Objective is to earn a total rate of return that will meet or exceed the sum of the Endowment’s spending rate, anticipated inflation, investment management consulting fees, and administrative costs, and any growth factor, which the Committee may, from time to time, recommend to the Board.
- The Committee may engage an external Investment Consultant to assist in the determination of investment strategy, selection of investment managers, and the monitoring of the Endowment’s financial performance.
- Investment Managers are required to demonstrate acceptable performance and volatility of returns. Managers are required to follow guidelines or restrictions that are established between the managers and the Endowment.

## **SCOPE OF POLICY**

This Investment Policy applies to all investable assets of LAU's Investments. STF represent operating funds that are to be expended within a short period time frame of around three years. The Endowment contains restricted and unrestricted true endowments, funds functioning as endowment (quasi-endowment), and other funds that are not to be expended for at least three years (normally plant funds). Restricted true endowments are funds contributed to the Endowment for a specific purpose. Unrestricted true endowments are funds contributed to the Endowment without a specific purpose. Quasi-endowments are funds functioning as endowment at the direction of the Board. Distributions from all endowed funds will be made in accordance with the Endowment's spending policy, as amended from time to time. The Board has ultimate control over investment decisions.

## **SHORT TERM FUNDS (STF)**

STF are University funds that are planned to be spent within a three year time period. Sources of said funds are the university's operating revenues mainly relating to tuition revenue, auxiliary activities, operating gifts and contributions, grants and contract. Management of STF shall follow the following guidelines, process and reporting mechanism.

### **1. Guidelines**

- a. STF shall be invested in short term bank financial products, not exceeding the three year period time frame.
- b. Short term financial products are defined as bank deposits, placements, certificates of deposits, short term banks bond issues and similar short term vehicles.

### **2. Management of STF**

- a. The Investment Committee shall approve new banking relationships based on the recommendation of VPF and approval of the President.
- b. The University's financial administration, represented by the President and the VPF, is responsible for management of STF within the guidelines of the Investment and Financial policies. The President delegates to the VPF the responsibility for managing, monitoring and reporting of the University STF.
- c. STF shall be invested in reputable banks. The Administration shall take all necessary measures to minimize banks' exposure, sovereign and currency risks.

### **3. Review and Reporting**

- a. The VPF shall report regularly (Quarterly), or as the need arises, to the President on the status of University STF with related performance and associated currency and country risks.
- b. On semi- annual basis (during Board sessions), the Investment Committee shall review the Financial Administration report on STF and take relevant action in relation to performance, financial instruments used, currency and country risks, banks exposure and other measures as deemed necessary.

## LONG TERM FUNDS (ENDOWMENT)

### General Investment Philosophy

**Philosophy:** The long term investment strategy of the Endowment of the Lebanese American University (LAU) is to preserve the real value of the endowment and seek long term growth to support the university's operations.

**Objective:** Within the context of above philosophy, the objective of LAU's investment strategy is to provide current income to the university's operations, and growing the real value, after inflation, of the Endowment within an acceptable level of risk.

To achieve the Endowment Objective, the Endowment's assets will be invested to generate appreciation and / or dividend and interest income.

While there cannot be complete assurance that the defined objectives will be realized, it is believed that likelihood of realization is enhanced by diversifying the Endowment.

### General Investment Considerations and Constraints:

- **Risk:** The Committee will seek to limit the overall level of risk commensurate with the chosen Policy Asset Allocation.
- **Liquidity:** At times, cash may be required to satisfy the needs of the University. The Endowment should have sufficient liquid assets to meet such foreseeable requirements.
- **Time Horizon:** The Endowment has an infinite life. An investment Time Horizon of twenty years is appropriate.
- **Taxes:** The Endowment is tax-exempt.

### Return Need

The long-term net compound return need shall be established as the goal rate of return for the Endowment over the Time Horizon. The Return Goal shall consist of a spending rate, an assumed rate of inflation, investment management fees, and any desired real portfolio growth. These items and their function in the overall return need are established below:

#### Components of Return Need

Spending Rate	4.0%
Inflation Rate	2.5%
Investment Management Fees	1.0%
Real Portfolio Growth	1.0%
<b>Long-Term Return Need (Gross)</b>	<b>8.5%</b>
<b>Long-Term Return Need (Net of Fees)</b>	<b>7.5%</b>

## **Relationship between Board and the Committee on Endowment Management**

The Board is responsible for the overall stewardship of the Endowment. The Board has delegated to the Committee the responsibility to oversee the Endowment's investment activities and to recommend appropriate actions to the Board.

The Committee has the responsibility to ensure that the assets of the Endowment are managed in a manner that is consistent with the policies and objectives of the Endowment. In so doing, the Committee will comply with all applicable laws.

The Committee members are required to discharge their duties solely in the interest of LAU and for the exclusive purpose of meeting the financial needs of the University. The Committee is authorized to recommend to the Board to engage the services of Investment Managers for the purpose of meeting the investment objectives and guidelines of the Endowment.

The Committee's responsibilities include:

1. Developing and recommending to the Board investment objectives that are consistent with the financial needs of the University, and the asset allocation mix consistent with meeting those objectives;
2. Recommending the selection and termination of investment managers;
3. Reviewing and evaluating investment results in the context of predetermined performance standards, and implementing corrective action as needed; and
4. Recommending Spending Rate guidelines to the Board.

### **Consultant**

The Committee may elect to engage an independent investment-consulting firm to assist the Committee in carrying out its duties. The Consultant is expected to be proactive in recommending changes in investment strategy, asset allocation, and investment managers if the situation warrants change. The Consultant's responsibilities are as follows:

1. Assisting in the development of investment policies, objectives, and guidelines;
2. Preparing asset allocation analyses as necessary and recommending asset allocation strategies with respect to the Endowment's objectives;
3. Recommending Investment Managers (including search, selection and termination);
4. Preparing and presenting performance evaluation reports in accordance with Association of Investment Management and Research promulgated standards;
5. Attending Committee meetings to present evaluation reports when requested;

6. Reviewing contracts and fees for both current and proposed Investment Managers and Custodians;
7. Providing research on specific issues and opportunities, and assisting the Committee in special tasks;
8. Assisting in the rebalancing;
9. Communicating investment policies and objectives to the Investment Managers, and monitoring their adherence to such policies and reporting all violations;
10. Notifying the Committee of any significant changes in personnel or ownership of the consulting firm;
11. Notifying the Committee of any significant changes in portfolio managers, personnel or ownership of any investment management firm hired by the Endowment;
12. Notifying the Committee of any litigation or violation of securities regulations in which any Investment Manager is involved; and
13. Overall, being proactive with the Administration of the University and the Committee in the management of the Endowment.

### **Investment Managers**

Investment Managers are expected to pursue their own investment strategies within the guidelines created for the manager in accordance with the Endowment's asset allocation strategy and manager selection criteria. Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Endowment.

The Investment Managers' responsibilities are as follows:

1. Investing assets under their management in accordance with agreed upon guidelines and restrictions;
2. Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions;
3. Providing written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a monthly basis in addition to other information as requested by the Committee or Consultant;
4. Voting proxies for the assets under management (companies held within the portfolio) in the best interest of the Endowment; and

5. Annually providing to the Endowment either a copy of the investment advisor's form ADV Part II (SEC required disclosure document), a copy of the investment company's annual report, and/or a copy of the fund's updated prospectus (SEC requirement at the end of the fiscal year).

### **Endowment Custodian**

The Endowment Custodian's responsibilities are as follows:

1. Providing timely reports detailing investment holdings and Endowment transactions monthly to the Administration and Consultant.
2. Providing an annual summary report to the Administration and the Consultant within 30 days following each fiscal year end. The report will include the following:
  - a. Statement of all property on hand;
  - b. Statement of all property received representing contributions to the Endowment;
  - c. Statement of all sales, redemptions, and principal payments;
  - d. Statement of all spending from the Endowment;
  - e. Statement of all expenses paid;
  - f. Statement of all purchases; and
  - g. Statement of all income.
3. Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of cash, etc.
4. Preparing additional Endowment reports as requested by the Board, Committee, or Consultant, or Administration.

### **Administration**

The responsibilities of LAU's Financial Administration (Administration), represented by the President and the VPF, include the following:

1. Recommend to the Committee, in coordination with the Consultant, courses of action for managing the Endowment.
2. Implement the Committee's recommendations as approved by the Board.

3. Monitor, in coordination with the consultant, the performance of LAU's Endowment.
4. Pinpoint and bring to the attention of the Committee areas of concern.
5. Sign and execute all contractual agreements with all parties involved (Consultant, Custodian, Investment Managers, etc...)
6. Implement, in coordination with the consultant, the spending and rebalancing policies as stipulated in this policy.
7. Coordinate the Endowment's management between all involved parties.
8. Manage the LAU Investment Office which reports to the Vice President for Finance and works alongside the Investment Consultant in all aspects of the LAU Endowment. The Investment Office will review all recommendations by the Investment Consultant and confirm in writing the proposed actions. In addition, the Investment Office can propose recommendations outside those proposed by the Consultant; however, these actions would need to be confirmed by the Investment Consultant.

The responsibilities of LAU's Investment Office include the following:

- Recommend to the Committee, in coordination with the Consultant, courses of action for managing the Endowment.
- Implement the Committee's recommendations as approved by the Board.
- Monitor, in coordination with the consultant, the performance of LAU's Endowment.
- Confirm and report, in writing, any recommendations proposed by the Investment Consultant.
- Execute due diligence on all investment managers within the LAU Endowment.
- Research and propose changes to the Endowment (asset allocation, investment managers, etc.) in coordination with the Consultant.
- Recommend hiring of investment managers that are not on the investment consultant's approved list of managers; however, the investment and the sizing thereof would be reviewed and agreed to by the investment consultant. The review of these managers will follow the same due diligence and monitoring process applied to all managers with the exception that the investment consultant will not assume fiduciary responsibility for these hires.



## **Spending Rate**

### *Sources of Spending*

The Committee recognizes both the short-term need of the University for annual support from the Endowment and the long-term need for maintenance and growth of the Endowment's purchasing power. As a result, dividend and interest income may, at the direction of the Administration, be transferred to the University and used for operating purposes to the extent such payments do not exceed the annual spending amount determined by the "Spending Formula".

### *Spending Rate*

The Spending Rate from the Endowment will be reviewed at least annually in light of evolving trends with respect to investment performance and the needs of the University, and will be adjusted as appropriate.

Unless otherwise directed by the donor for a specific endowed gift, the annual spending rate shall not exceed 4% of the trailing 3-year market value of the Endowment, as determined each August 31st.

### *Total Return*

The Board has adopted a "total return" approach to calculating investment returns. In recognition of these facts, the Committee will consider the Endowment's total return from both income and net realized and unrealized capital gains when recommending the Spending Rate Policy. When distributions are made, they will be withdrawn from the Endowment regardless of the portion of the total return that is from capital gains or from income.

## **Asset Allocation**

It is the responsibility of the Committee to identify the Asset Allocation that offers the highest probability of achieving the Endowment's investment objectives. The Committee, with guidance and recommendations from their Consultant, shall review the asset mix on an ongoing basis and recommend revisions as necessary.

The Asset Allocation shall be determined based on a comprehensive asset allocation study completed by the Consultant and reviewed from time to time by the Committee. The Asset Allocation of the Endowment, as presented in **Appendix A**, is designed to give balance to the overall structure of the Endowment's investment program over the Time Horizon. However, many factors over time may necessitate an asset allocation review and possible rebalancing. These factors include an ongoing assessment by the Consultant and the Committee of the comparative intermediate or long-term outlook for all available types of asset classes and styles.

## **Portfolio Rebalancing**

The Committee may rebalance the Endowment to achieve the Asset Allocation at any time. However, the Endowment shall be rebalanced in the event any individual marketable asset class differs from policy ranges (minimum or maximum) by more than 10% of the target weight, but with a minimum deviation threshold of 1% of the total portfolio value. The Endowment should also be rebalanced in the event any manager exceeds the Manager Maximum Policy Target (as shown in Appendix B) by 25% when allowable. Some managers will be restricted due to lock-ups or illiquidity.

Rebalancing shall be executed in a disciplined manner at the end of each month whenever the ranges of the asset classes exceed the limits specified above. The Consultant along with the Investment Office will inform the Investment Committee on any rebalancing steps executed.

Automatic rebalancing toward the targets if the asset or sub-asset class weights touch the lower or upper bands shall be executed in coordination with the Investment Consultant; however, LAU staff and the Investment Consultant could propose intra range rebalancing as actual weights approach the range bands. Such an action will not be taken without consent of the Investment Committee either via email or conference call.

## **Procedure for Revising the Statement of Investment Policy**

The Investment Committee will review this Policy periodically and recommend any needed amendments to the Board.

## Appendix A

### Actual Asset Allocation

	<i>Minimum Weight</i>	<i>Target Policy Weight</i>	<i>Maximum Weight</i>
<b>Growth Assets</b>			
US, International Equities	40.50%	45.00%	49.50%
Private Equity and Special Situations	11.25%	12.50%	13.75%
Opportunistic Growth	1.50%	2.50%	3.50%
Growth Fixed Income	9.00%	10.00%	11.00%
<b>Total Growth Assets</b>	<b>63.00%</b>	<b>70.00%</b>	<b>77.00%</b>
<b>Risk Reduction Assets</b>			
Hedge Funds	11.25%	12.50%	13.75%
Opportunistic Cash	-----	2.50%	-----
<b>Total Risk Reduction Assets</b>	<b>13.50%</b>	<b>15.00%</b>	<b>16.50%</b>
<b>Inflation Protection Assets</b>			
Liquid Real Assets	1.50%	2.50%	3.50%
Private Real Assets	11.25%	12.50%	13.75%
<b>Total Inflation Protection Assets</b>	<b>13.50%</b>	<b>15.00%</b>	<b>16.50%</b>

**Notes:**

- *Uncalled Private Equity may be invested in liquid growth assets.*
- *Uncalled Real Asset Partnerships may be invested in liquid real assets.*
- *Rebalancing of illiquid assets is limited, and that the minimums and maximums listed above are for informational purposes only.*
- *Minimum and Maximum columns represent 10% of the target weight, with a minimum of 1%.*

## APPENDIX B

Asset Class	Manager Maximum Policy Target
<b>Growth Assets</b>	
US and International Stocks	
Individual Managers	6%
Index Funds	10%
Private Equity / Special Situations	
Commitments to Individual Direct Funds	2%
Total NAV and Commitments to One Direct Manager	4%
Total NAV and Commitments to Fund of Funds	5%
<b>Risk Reduction Assets</b>	
US / Global Fixed Income	
Individual Managers	6%
Index Funds	10%
Hedge Funds	
Direct Managers	2%
Fund of Funds	7.5%
<b>Inflation Protection Assets</b>	
Inflation Protected Fixed	
Individual Managers	6%
Index Funds	10%
Real Assets - Liquid	
Individual Managers	6%
Index Funds	10%
Real Assets - Partnerships	
Commitments to Individual Direct Funds	2%
Total NAV and Commitments to One Direct Manager	4%
Total NAV and Commitments to Fund of Funds	5%
Open-end REITS	5%

## Policy Upgrade Matrix

The table below shows the historical changes of the asset allocation:

	<b>Mar 2007</b>	<b>Sept 2014</b>	<b>Mar 2015</b>	<b>Sept 2015</b>	<b>Mar 2016</b>	<b>Dec 2016</b>
Growth Assets	50.0%	60.0%	65.0%	67.5%	67.5%	70.0%
Risk Reduction	30.0%	25.0%	20.0%	17.5%	17.5%	15.0%
Inflation Protection	20.0%	15.0%	15.0%	15.0%	15.0%	15.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>