

# LOYOLA UNIVERSITY EMPLOYEES' RETIREMENT PLAN TRUST

## INVESTMENT POLICIES AND OBJECTIVES

### 1. Background

This Statement of Investment Policies and Objectives ("Investment Policy") governs the investment of assets of the Loyola University Employees' Retirement Plan ("LUERP" or "the Plan"), as amended and restated effective January 1, 2008. The Plan was adopted October 1, 1949 and covers eligible employees of the following employers:

- Loyola University of Chicago
- Loyola University Medical Center
- Loyola Academy
- Loyola Press (formerly Loyola University Press)
- Jesuit Retreat League of Chicago
- St. Ignatius College Prep (formerly St. Ignatius High School)
- Jesuit International Missions (formerly Patna Jesuit Mission Society)
- Chicago Province of the Society of Jesus (formerly Provincial Residence)

The Plan is funded through the Loyola University Employees' Retirement Plan Trust (the "Trust" or "Fund"). The Northern Trust Company currently serves as trustee of the Trust. Loyola University is the "Plan Administrator."

The Investment Policy is effective March 7, 2017 and supersedes all prior investment policies of LUERP. Although long-term in nature, the Retirement Allowance Committee (the "Committee") and the University Treasurer's Office may modify this Statement of Investment Policies and Objectives from time to time to reflect economic, market, Plan, or other changes.

This Statement establishes expectations that will be used to measure and evaluate the performance results of the Fund as well as asset class composites and individual managers on an ongoing basis. Individual investment guidelines are developed and presented to each investment manager. This process will establish a mutual understanding of the expectations of the Retirement Allowance Committee and identify the role each manager is expected to play in the overall investment structure.

This Investment Policy will address and document the following topics:

- o Roles and Responsibilities
- o General Policies
- o Investment Goals and Objectives
- o Asset Allocation
- o Investment Structure
- o Investment Performance Measurement and Monitoring

Finally, this Investment Policy is intended to be flexible. The investment goals, objectives and guidelines may be amended from time to time. Suggested changes to this document will be subject to Retirement Allowance Committee approval and will be recommended on an as-needed basis.

## **2. Roles and Responsibilities - Retirement Allowance Committee**

Pursuant to Article 9.1 and 9.4 of the Plan as amended and restated effective January 1, 2008, and in addition to the powers, rights and duties specifically given to the Committee elsewhere in the Plan and the Trust, the Committee has the following powers, rights and duties:

- A. To establish a strategic policy for the investment of the assets of the Plan;
- B. To review this Statement of Investment Policies and Objectives periodically and approve modifications as necessary;
- C. To review all reports provided by the Plan Administrator and the University Treasurer's Office;
- D. To review all expenses charged to the Plan incurred in connection with the administration, interpretation, applications and enforcement of the Plan;
- E. To approve the appointment of the trustee of the Trust; and
- F. To employ advisors to assist in carrying out its duties.

The Retirement Allowance Committee is expected to delegate certain of its responsibilities to others, such as the University Treasurer's Office, and may utilize the services of external advisors, such as actuaries, auditors, consultants and legal counsel, to assist in fulfilling its fiduciary responsibilities. The comments and recommendations of such parties will be considered by the Retirement Allowance Committee in conjunction with other available information for the purpose of making informed and prudent decisions.

## **3. Roles and Responsibilities - University Treasurer's Office**

Pursuant to Article 9.5 of the Plan, as amended and restated effective January 1, 2008, and in addition to the powers, rights and duties specifically given to the University and the University's Treasurer's Office elsewhere in the Plan and the Trust, the University Treasurer's Office shall have the following powers, rights and duties:

- A. To make recommendations to the Committee regarding the strategic policy for the investment of the assets of the Plan;
- B. To review this Statement of Investment Policies and Objectives periodically and recommend changes to the Committee as necessary;
- C. To implement the strategic policy for the investment of the assets of the Plan established by the Committee by investing the assets of the Trust and selecting investment vehicles that comply with such investment strategy;

- D. To establish rules, policies and procedures with respect to the investment, reinvestment, control, management, safekeeping, and disbursement of the funds held in the Trust in accordance with the provisions of the Plan and the strategic policy for the investment of the assets of the Plan established by the Committee;
- E. To provide the Committee with reports no less than quarterly of year-to-date income, expenses, appreciation, and asset allocation describing the investment of the Plan assets; and
- F. To employ agents, attorneys, accountants, investment managers or other persons and to allocate to them such powers, rights and duties as the University Treasurer's Office may consider necessary or advisable to properly carry out its responsibilities under the Plan and to take all such other actions as are necessary or desirable with respect to the Plan, provided that such allocation or designation and the acceptance thereof by such accountants, attorneys, investment managers or other persons, shall be in writing.

#### **4. Roles and Responsibilities - Investment Managers**

The Retirement Allowance Committee may, from time to time, cause the Fund to retain one or more investment managers. The investment managers, as fiduciaries of the Fund, assume certain responsibilities. Specifically, the investment managers have discretionary authority to invest a specific allocation of the Fund subject to the parameters set forth in the investment guidelines section of each manager's investment management agreement.

The duties of an investment manager are documented in the investment management agreement which is executed upon the appointment of that investment manager as an investment manager of the Fund. These duties generally consist of the following:

- A. Complying with the applicable provisions and standards of ERISA and other applicable laws.
- B. Understanding and accepting the designated role within the Fund's investment structure.
- C. Constructing a portfolio of investments that reflects the execution of a specific investment strategy.
- D. Adhering to the investment management agreement, including its investment guidelines.
- E. Periodically reporting to the Treasurer's Office or the Retirement Allowance Committee regarding the assets under management.

#### **5. Roles and Responsibilities - Investment Consultant**

The Retirement Allowance Committee may, from time to time, cause the Fund to retain an individual or an investment consulting organization (the "Investment Consultant") to assist in the overall strategic investment direction of the Fund. Each such consultant, in recognition of its role as a fiduciary of the Fund, will assume specific duties. These duties shall generally include the following:

- A. Assisting the Retirement Allowance Committee in fulfilling its responsibilities regarding the Fund.
- B. Assisting in the evaluation of the financial condition of the Fund as requested by the Retirement Allowance Committee.
- C. Recommending appropriate investment strategies based on the financial condition of the Fund, including liquidity needs and future funding obligations of the participating employers.
- D. Recommending the asset allocation, investment structure and strategy (including the investment objectives, policy and guidelines) and qualified investment managers to execute investment strategy.
- E. Recommending the individual investment objectives, policy and guidelines for each qualified investment manager.
- F. Monitoring and evaluating the ongoing progress of the Fund toward stated investment goals and objectives.
- G. Recommending appropriate action should an investment strategy or individual investment managers fail to meet expectations.
- H. Recommending strategy changes in response to material changes in either the financial condition of the Fund or the capital market environment.
- I. Any additional duties as may be provided in the written agreement between the Retirement Allowance Committee and the Investment Consultant.

## **6. Roles and Responsibilities – Master Trustee**

The Retirement Allowance Committee will utilize as master trustee the services of a bank or trust company that will be responsible for holding and safekeeping Trust assets; settling purchases and sales of securities; identifying and collecting income which becomes due and payable on assets held; and providing a management information/accounting system.

## **7. Investment Policies and Objectives**

- A. Investment of the assets of the Plan shall be made solely in the interest of the participants and beneficiaries of the Plan and for the exclusive purpose of providing benefits to such participants and their beneficiaries.
- B. The assets of the Plan shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent man acting in like capacity and familiar with such

matters would use in the investment of a fund of like character, with like aims and with due consideration given to the tax-exempt character of the Plan.

- C. Investment of Plan assets shall be so diversified as to minimize the risk of large losses, unless under particular circumstances it is clearly prudent not to diversify.
- D. Consideration shall be given to: a) the protection of Plan assets so that such assets shall be preserved for providing benefits to the Plan's participants and their beneficiaries, and b) such long-term growth in the Plan's assets (either in the form of income and/or capital appreciation) as may fairly balance the need for reasonable return against investment risk. In this regard, short-term fluctuations in the market value of Plan assets shall be considered secondary to long-term investment results.
- E. The objectives of the Plan over a full market cycle shall be to achieve an asset growth rate through capital appreciation and current income approximately equal to or in excess of the growth in the liabilities of the Plan. The Committee will also monitor the return on Plan assets relative to the change in the value of the estimate of the liability, as well as to an appropriate peer universe of pension funds.
- F. The Committee and University Treasurer's Office intend for this investment policy to fully conform to all applicable laws and regulations. Any part of the policy that does not meet legal requirements at any time will be null and void and have no force. The voiding of any portion of this policy will have no effect upon other parts of the policy.
- G. In arriving at the following asset allocation policy, the following factors were evaluated:
  - i. Actuarial methods and assumptions and benefit policies for the Plan.
  - ii. The prospective liability structure of the Plan.
  - iii. Historical and prospective risk and return characteristics associated with various asset classes and investment management styles.
  - iv. The probability of achieving or failing to achieve certain levels of funded status and contributions.
  - v. The participating employers' financial condition and long-term goals for the Plan, including management's philosophy and attitudes toward investment return and risk.

## 8. Asset Allocation

Asset allocation refers to the strategic deployment of assets among the major classes of investments such as equity, fixed income, real estate, and cash equivalents. The Committee has responsibility for the asset allocation decision, which reflects the return objectives and liquidity needs of the Plan, as well as the Committee's and the Plan's tolerance for variability (risk) in asset returns and future funding obligations. Asset allocation is based on prudent diversification principles appropriate to the nature of these investments. Based on a periodic asset-liability analysis conducted by the Investment Consultant with the assistance of the Plan's Actuary, the Retirement Allowance Committee has adopted a dynamic investment policy to manage the assets of the Plan in response to changes in its economic condition.

The Committee recognizes long-term asset allocation policy to be a key mechanism for accomplishing the investment objectives set forth above, and that a long time horizon is appropriate, given the long-term nature of the Plan’s liabilities. In developing strategic asset allocation guidelines for the Plan, an emphasis is placed on “liability-hedging” assets (assets invested to behave similarly to the Plan’s liabilities) and “return-seeking” assets (assets invested to seek to generate returns above the growth rate of the Plan’s liabilities). Individual asset classes, and the benefits of diversification among multiple asset classes, inform the strategic asset allocation and are expressed in the portfolio construction process. Consideration is also given to the proper long-term level of risk for the Plan, particularly with respect to the long-term nature of the Plan’s liabilities and the funded status of the Plan.

The establishment of a long-term policy has taken into consideration the impact of shorter-term risks on both the Plan’s investments and the potential volatility of minimum required contributions and other Plan characteristics. The Committee has identified and approved appropriate asset classes for the Plan’s investments, has adopted strategic allocation targets, and has designated allowable ranges around these targets. Given the investment objectives of the Fund and the Committee’s risk tolerance, the Committee has adopted the following strategic asset allocation for situations where the funded status of the plan is 80 percent or lower.

#### Strategic Asset Allocation

Asset Class	Current	Target	Rebalancing Range
<b>Return-Seeking Assets</b>	<b>62.5%</b>	<b>70%</b>	<b>60-75%</b>
Global Public Equity	26%	35%	22.5-40%
Private Markets*	1.5%	0%	0-5%
Diversifying Strategies / Alternative Beta	5%	15%	0-20%
Alternative Credit*	20%	10%	7.5-22.5%
Real Assets	10%	10%	7.5-12.5%
<b>Liability-Hedging Assets</b>	<b>37.5%</b>	<b>30%</b>	<b>26.5-40%</b>
Long Duration Fixed Income	37.5%	30%	26.5-40%
<b>US Cash and Equivalents</b>	<b>0%</b>	<b>0%</b>	<b>0-5%</b>

\*Allocations to private investments may be illiquid, limiting the ability to rebalance to targets or manage within allowable ranges. Target allocations to public market investments with similar risk exposures may be increased or decreased to accommodate deviations between actual and target exposures to private market investments.

In recognition of the disparity between the “Current” allocation and the “Target” allocation, the rebalancing ranges are broader than would be typical to accommodate an orderly transition of investments to the target allocation. Policy will be to invest assets in accordance within the maximum and minimum ranges for each asset class. The asset allocation ranges established by this policy represent a long-term perspective and assume normal market liquidity. As such, rapid, unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the stated ranges. These divergences should be of a short-term nature. The University Treasurer’s Office will be responsible for rebalancing Plan assets when they fall outside of the acceptable ranges for a sustainable period ensuring that divergences are generally brief.

### **Dynamic Investment Policy**

A dynamic investment policy lays out pre-determined benchmarks for changes to the investment policy of the Plan. Specifically, it puts forth changes in asset allocation policy that will be effected once certain funded status conditions are met.

The Committee's goal is to attempt to increasingly match investment returns to liability returns as the funded status of the Plan improves. This will be primarily accomplished through the allocation to liability-hedging assets within the Plan. The increase to liability-hedging assets is expected to reduce the funded status volatility of the Plan. The Committee recognizes that a certain level of asset/liability volatility, or surplus risk, will exist even when there are relatively large allocations to liability-hedging investments in the Plan, and is willing to accept some measure of surplus risk where judged appropriate to seek improvements to funded status after consideration of Plan costs and expenses.

Based on the objectives above and the Asset Liability Modelling ("ALM") Study presented by the Investment Consultant on March 7, 2017, the Committee has adopted the following dynamic asset allocation "glidepath," with reference to the identified funded status triggers:

#### **Target Portfolio Parameters**

Target:	Initial	1	2	3	4	5	6	7	8
Funded Ratio (PBO Basis)	<80%	80%	85%	90%	95%	100%	105%	110%	115%
Return-Seeking Assets*	70%	66%	62%	58%	54%	50%	46%	42%	38%
Liability-Hedging Assets	30%	34%	38%	42%	46%	50%	54%	58%	62%
Range	+/- 3.5%	+/- 3.5%	+/- 4.0%	+/- 4.0%	+/- 5.0%	+/- 5.0%	+/- 5.5%	+/- 6.0%	+/- 6.0%
Interest Rate Hedge Ratio **	At least 30%	At least 35%	At least 40%	At least 45%	At least 50%	At least 55%	At least 60%	At least 65%	At least 70%

\* May include public and private equity, alternative credit, alternative betas, hedge funds, and real assets.

\*\* Measure of the effectiveness with which liability-hedging assets track changes in the liability due to parallel shifts in the Treasury curve.

The funded ratio will be monitored on an ongoing basis and will be based on the fair market value of assets and the estimated PBO funding target liability. Once the funded ratio meets or achieves the stated threshold in an adjacent Target level on any date of measurement, the Plan portfolio asset allocations (i.e. the balance between return-seeking assets and liability-hedging assets) shall be managed against the new target portfolio allocation and rebalanced as needed.

The asset allocation glidepath will be managed as a "one-way" de-risking strategy. Once a de-risking threshold has been achieved, the new allocation targets will be adopted. Should the funded ratio of the Plan subsequently fall below a threshold, those targets will remain in place and the Plan will not be re-risked to previous targets.

### **Portfolio Structure**

Investment strategies within the Plan are categorized as either "return-seeking" or "liability-hedging" investments. Liability-hedging investments are an important risk management tool within the Plan. These investments are utilized to manage the level of volatility between the Plan's assets

and liabilities according to the target asset allocation. These investments will primarily be comprised of high-quality fixed income securities which, in aggregate, will provide the Plan with the desired interest rate hedge ratio and have a relatively high correlation to the Plan's liability, as measured on a PBO basis.

Return-seeking investments seek to provide the Plan with investment returns in excess of the growth of the liability over time. These strategies include all investments not deemed to provide liability hedging characteristics to the Plan, and will be less correlated to them. The return-seeking allocation may include public and private investments in equity, below-investment-grade credit, real assets, and other diversifying investments deemed suitable to these objectives.

As the funded status of the Plan improves and the allocation between liability-hedging and return-seeking investments changes, the composition of investments within these broad categories will also change in consideration of many factors. As the liability-hedging allocation increases, efforts will be made to minimize, to the extent possible, investment performance differences between liability-hedging investments and the Plan's measured liability. As the return-seeking allocation decreases, target allocations to investments within the category may be changed, or eliminated, in order to improve the efficiency of the allocation.

## **9. Portfolio Rebalancing**

The portfolio shall be rebalanced as often as is necessary to manage and control variances between actual and policy targets. At the discretion of the University Treasurer's Office, rebalancing the portfolio may be managed through the use of derivatives instruments and/or cash flows and purchases and sales.

Allocations to non-traditional strategies that cannot be replicated using futures or rebalanced using cash flow will have variances between actual and policy targets. The net difference may be allocated on a pro rata basis to the marketable segments of the portfolio.

## **10. Structural Considerations for Selected Asset Classes**

### **A. Equity Investments**

- i. The purpose of marketable equity investments (defined as all classes of stock including common, preferred and convertible) is to provide a total return that will simultaneously provide for the growth of principal and current income, while at the same time preserving the purchasing power of the Plan assets. It is recognized that this entails the assumption of equity market volatility and risk.
- ii. The objective is to outperform after fees a relevant market benchmark. Performance will be monitored on a regular basis and evaluated over running five-year periods.
- iii. Decisions as to individual security selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are delegated to the investment manager, subject to strict adherence to the



provisions of ERISA. It is the duty of the University Treasurer's Office to ensure that the total equity portfolio is adequately diversified.

- iv. The structure of both the U.S. and non-U.S. equity segments shall consist of a manager or managers representing the entire equity opportunity set. Periodic rebalancing among managers is required.

#### B. Private Capital Investments

- i. The purpose of private investment strategies is to capture a liquidity premium that will provide a higher return than that available from more liquid marketable investments. The long term total return objective for private market investments is 300 basis points above the Russell 3000 over a five-to-ten-year investment period.
- ii. Private capital may include investments in buyout, venture capital, and energy/natural resource strategies. Due to the nature of many private capital investments, it may have been necessary to make multi-year commitments to investment funds where the dollars committed exceeded the target allocation for private capital. Private capital investments are illiquid in nature and may require capital to be committed for periods in excess of ten years.
- iii. The target allocation to private capital investments will gradually be lowered to zero in tandem with the liquidation of current holdings.

#### C. Liability-Hedging Investments

- i. The purpose of the portfolio's liability-hedging investments is to hedge partially the changes in the Plan's discounted liability value, reduce the volatility of the funded status, reduce the volatility of the portfolio, provide a deflation hedge, and produce current income.
- ii. The liability-hedging investments will be structured to target a specific interest rate and/or credit hedge ratio in accordance with the asset allocation policy through the use of cash securities and/or derivative instruments.
- iii. Fixed income investments may include inflation protected securities issued by the U.S. government (TIPS) or other entities.
- iv. The objective for fixed income portfolios is to match or outperform after fees selected fixed income indexes depending on the mix of active and passive strategies.

#### D. Real Assets

- i. The purpose of real assets investments is to provide a total return that includes appreciation and current income, to reduce the overall volatility of the portfolio, and to provide an inflation hedge.
- ii. The objective for real assets investments is to match or outperform after fees selected real assets indexes. Performance will be monitored on a regular basis and evaluated over a market cycle.

iii. Investments will be in publicly traded securities and private real assets.

E. Credit Strategies

- i. The purpose of investments in credit strategies is to provide a total return that includes current income and appreciation, to diversify the portfolio, and to generate higher rates of return than can be earned from investment-grade holdings.
- ii. Credit strategies may include below-investment-grade bonds, loans, and other public and private securities. Issuers of these securities may include domestic and foreign borrowers in developed and emerging markets. In exchange for higher potential returns, these strategies may have higher potential default rates and price volatility than other fixed income investments.
- iii. The objective for credit investments is to match or outperform after fees a representative market index over a market cycle.

F. Diversifying Strategies

- i. The purpose of investments in diversifying strategies is to provide exposure to a variety of investments that behave notably differently than traditional equity and fixed income investments.
- ii. Diversifying strategies may include hedged, long-only, or short exposures to markets or components of markets through the use of physical securities, cash, and/or derivatives. Some examples of diversifying strategies include: commodities, momentum, currency, merger arbitrage, reinsurance, volatility, value, and skill.
- iii. The objective for the diversifying strategies allocation is to achieve a return of three to five percent above cash rates, with low correlation to equities and fixed income investments, over rolling one-to-three-year periods.

## 11. Implementation Guidelines

- A. On behalf of the Plan and Trust, the University will utilize the services of external investment managers (“manager(s)”) to assist in the management of the Trust portfolio. The responsibilities and types of investment services shall be specified in written agreements. The managers will invest the Trust assets in accordance with this policy, and will generally have full discretionary authority subject to their own policies and procedures, and guidelines determined by the University Treasurer’s Office.
- B. The University Treasurer’s Office will use prudent judgment in the selection and retention of investment strategies and managers using qualitative and quantitative factors in the decision-making process.
  - i. Qualitative Factors

- (a) Investment philosophy and process
- (b) Stability of the firm's ownership
- (c) Professional background of the key investment professionals
- (d) Resources of the firm
- (e) Alignment of economic interests between the manager and the University
- (f) Compensation arrangements for key professionals
- (g) Ability to attract and retain talent

ii. Quantitative Factors

- (a) Performance compared to industry peers
- (b) Demonstrated skill versus the benchmark
- (c) Style consistency
- (d) Fee structure

C. Investment guidelines for each manager of a separate account will be established by the University Treasurer's Office and agreed to by the manager.

D. Each manager must satisfy the Trust's requirements for appointment of a manager. Except for managers of certain pooled funds, each manager must sign an investment management agreement agreed to by the University.

E. Derivatives

- i. The Trust may employ all types of derivative instruments to implement investment strategies, including but not limited to financial futures, forwards, swaps, option contracts, and options on futures.
- ii. Stock, bond and index futures, options and options on futures, and swaps may be utilized to manage the overall asset allocation and gain or hedge market exposure in a cost-efficient manner.
- iii. Derivatives may be utilized in the fixed income portfolio to achieve Plan objectives more efficiently than is possible in the cash market, primarily with respect to adjusting the attributes of fixed income assets to hedge the change in the liability of the Plan.
- iv. Derivatives may not be used in an overlay program to create leveraged positions beyond the aggregate value of the Trust assets.
- v. Any overlay strategy employed to hedge the risk of the total portfolio must receive the approval of the Committee prior to implementation.
- vi. At the discretion of the University Treasurer's Office, a manager may be given the flexibility to use derivative instruments. Such instruments will not be used to create portfolio leverage or for speculative purposes.
- vii. The Trust will invest in commingled fund investments that provide the manager maximum flexibility to use an array of securities including derivative-based strategies (including but not limited to futures and options).

## **12. Proxy Voting**

Managers are specifically designated the responsibility to vote proxies. They are expected to do so in such a manner as will best benefit the Plan beneficiaries and maximize the economic value of the investment. Managers will be expected to act in full accord with all applicable laws and regulations.

SEC-registered managers are expected to have proxy voting policies consistent with SEC rules and the University Treasurer's Office will periodically review these policies and the manager's voting record. The manager shall provide to the University Treasurer's Office on an annual basis a report of proxies voted. On behalf of the Plan and Trust, the University reserves the right to take back responsibility for proxy voting.

## **13. Transactions**

Brokerage commissions are assets of the Plan and Trust. As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. Notwithstanding the above, to the extent permitted under DOL and SEC guidance, commissions may be recaptured and designated for payment of services in connection with the management of the Plan assets or remitted to the Trust portfolio.

Approved by the Retirement Allowance Committee March 7, 2017