

LOYOLA UNIVERSITY EMPLOYEES' RETIREMENT PLAN TRUST

INVESTMENT POLICIES AND OBJECTIVES

1. Background

This Statement of Investment Policies and Objectives governs the investment of assets of the Loyola University Employees' Retirement Plan ("LUERP" or "the Plan"), as amended and restated effective as of 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"). The Northern Trust Company currently serves as trustee of the Trust. Loyola University is the "Plan Administrator."

The Investment Policy is effective as of February 14, 2012 and supersedes all prior investment policies of LUERP. Although long-term in nature, the Retirement Allowance Committee (the "Committee") and the Treasurer's Office may modify this Statement of Investment Policies and Objectives from time to time to reflect economic, market, Plan, or other changes.

2. Investment Responsibilities of the 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 (the University Treasurer's Office implements and controls all investments of the Plan and Trust);
- 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.

3. Investment Responsibilities of the 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 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 such 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. 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. Since Plan liabilities are significantly impacted by future inflation, the Committee has established a total return objective of 5% (after fees) in excess of the rate of inflation. The Committee will also monitor the return on Plan assets relative 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.

5. Asset Allocation

Asset allocation is based on prudent diversification principles appropriate to the nature of these investments. The table that follows this section of the document is from the Wilshire asset/liability analysis of February 2012. The target allocation is predicated on an economic funding level of 83% using the liability data from Hewitt and current market interest rate levels to estimate the liability. Wilshire has developed asset mixes based on incremental improvement in the funding level that reduces that volatility of surplus return while maintaining a level of surplus return that is equal to or better than the starting point. More detail on the dynamic policy is provided in the next section.

Dynamic Investment Policy

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

Dynamic Investment Policy Objectives

Consistent with the objectives of the Plan, there is a desire to reduce the volatility of the funded status of the Plan. By reducing the volatility of the funded status of the Plan, the security of meeting the financial obligation to Plan beneficiaries can be increased, while balancing the cost of this higher level of security. The timing and magnitude of the reduction in funded status volatility is highly dependent upon the funded status of the Plan at a given time and the degree to which this volatility can be reduced through Plan investments. As the funded status of the Plan increases, calculated as the ratio of market value of assets to market value of liabilities, the more that funded volatility can be reduced at a reasonable cost.

The means of changing the Plan's exposure to funded status volatility is through asset allocation changes. Certain asset classes, such as long duration corporate bonds, are highly correlated to the discount rates used to measure the Plan liability. Increasing exposure to long duration corporate bonds will reduce the funded status volatility of the Plan. Portfolio investments in long duration corporate bonds are considered 'liability hedging' investments, while allocations to other asset classes are considered 'return seeking' investments or 'diversifying' investments. Allocations to return seeking or diversifying investments are made to balance absolute volatility, to reduce the economic cost of meeting the Plan's obligations, and to assist the Plan in meeting obligations that cannot be perfectly hedged by long duration corporate bonds or other available investments.

There are certain limitations in the degree to which funded status volatility can be reduced using investments that are characterized as liability hedging investments. Some instances that demonstrate these limitations are:

- For certain measures of the liability the discount rate can be based on rates that are averaged over a period of years. An investor cannot effectively hedge an average liability with a portfolio that is measured over a different averaging period, i.e. marked to market.
- Projected payments to beneficiaries are expected to extend well beyond the longest maturity of the corporate bonds that are used to measure the liability.
- For plans with benefit accruals that are based on inflation, a portfolio of nominal corporate bonds cannot effectively hedge the inflation risk of these new accruals.
- A downgrade in the credit quality of a corporate bond that was previously included in the index used to determine the discount rate of the liability cannot be hedged.

Implementation of the Dynamic Investment Policy Process

The investment policy of the Plan is reviewed periodically. This review includes an asset / liability analysis which considers all of the relevant Plan variables and analyzes the impact of changes in asset allocation relative to these variables to determine the optimal asset allocation for the Plan. During the most recent periodic review of asset allocation, various additional scenarios were analyzed to assist in determining a dynamic investment policy for the Plan. That analysis resulted in the following recommended dynamic asset allocation strategy relative to Plan funded status. The dynamic rebalancing policy is composed of rebalancing banks for return-seeking and liability hedging assets at various funded ratio levels.

As the funded status of the Plan changes over time, the mix of assets invested in Liability Hedging Investments relative to Return Seeking Investments will shift as proscribed in the preceding table. By establishing how and when Plan assets will be shifted, the Plan can be reallocated in a timely manner. These allocation shifts between Liability Hedging Investments and Return Seeking Investments can be implemented in a relatively short period of time in the physical securities markets, by reallocating funds within existing manager portfolios, or through the use of derivatives in the form of an overlay on the portfolio.

The allocation of assets within the Liability Hedging Investments and Return Seeking Investments categories will be considered periodically, but at least when shifts are made between these broad categories of investments. The composition of investment strategies within these broad categories will be determined using then current asset class forecasts of returns, risk, and covariance, along with specific Plan liability considerations. For instance, as the allocation to Liability Hedging Investments is increased beyond 50% of total assets, these investments will be increasingly customized by dedicating specific portions of the investment portfolio to specific benefit payments of the Plan. Additionally, as the allocation to Return Seeking Investments decreases below 50% of Plan assets, efforts will be made to reduce exposure to illiquid investments in private markets and real estate funds. Otherwise, changes within the Return Seeking Investments will be made to maintain the pro rata allocations to strategies within the Return Seeking Investments.

The Treasurer's Office will have the discretion to implement changes based on the best professional judgment and taking into account the general market environment including the liquidity available to implement change. Changing the asset mix to increase or decrease risk in the portfolio will be subject to market liquidity.

The allocation becomes more conservative as funded status improves

	Current Policy Portfolio	Optimization Constraints	83% Funded Ratio - Starting Point	90% Funded Ratio	95% Funded Ratio	100% Funded Ratio	105% Funded Ratio	110% Funded Ratio	115% Funded Ratio	120% Funded Ratio - Ending Point
Marketable Equity	36.0%	0 - 100%	25.6%	24.1%	21.1%	19.1%	15.9%	12.4%	8.5%	5.9%
Private Equity	<u>5.0%</u>	0 - 5%	<u>5.0%</u>	<u>4.3%</u>	<u>3.6%</u>	<u>2.9%</u>	<u>2.1%</u>	<u>1.4%</u>	<u>0.7%</u>	<u>0.0%</u>
Total Equity	41.0%		30.6%	28.3%	24.7%	22.0%	18.1%	13.9%	9.2%	5.9%
Long Duration Fixed Income	34.0%	0 - 100%	34.4%	36.7%	42.7%	50.6%	57.4%	64.8%	73.1%	81.7%
High Yield Fixed Income	10.0%	0 - 20%	20.0%	20.0%	17.9%	14.5%	11.8%	8.9%	5.7%	3.6%
TIPS	<u>5.0%</u>	0 - 10%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Total Fixed Income	49.0%		54.4%	56.7%	60.6%	65.1%	69.2%	73.7%	78.8%	85.2%
MLPs	3.0%	0 - 10%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	7.2%
U.S. REITs	5.0%	0 - 10%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commodities	<u>2.0%</u>	0 - 5%	<u>5.0%</u>	<u>5.0%</u>	<u>4.7%</u>	<u>2.9%</u>	<u>2.7%</u>	<u>2.4%</u>	<u>2.0%</u>	<u>1.6%</u>
Total Real Assets	10.0%		15.0%	15.0%	14.7%	12.9%	12.7%	12.4%	12.0%	8.8%
Total Allocation	100.0%		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expected (Median) Return (%)	6.52		6.71	6.60	6.38	6.18	5.93	5.67	5.37	4.99
Standard Deviation of Return (%)	9.09		8.64	8.40	7.99	7.72	7.39	7.12	6.94	6.83
+ /(-) in Expected Return (bps)			19	8	(14)	(34)	(59)	(85)	(115)	(153)
+ /(-) in Standard Deviation of Return (bps)			(45)	(69)	(110)	(137)	(170)	(197)	(215)	(226)
Expected (Median) Surplus Return (%)	0.86		1.06	1.72	1.79	1.85	1.84	1.78	1.67	1.46
Standard Deviation of Surplus Return (%)	8.38		7.78	6.95	6.13	5.30	4.48	3.65	2.83	2.00
+ /(-) in Expected Return (bps)			20	86	93	99	98	92	81	60
+ /(-) in Standard Deviation of Return (bps)			(60)	(143)	(225)	(308)	(390)	(473)	(555)	(638)
Contribution to Asset Return (%)										
Cash Yield	3.42		3.99	4.05	4.10	4.16	4.20	4.25	4.31	4.29
Cash Yield (% of Return)	52.50		59.47	61.39	64.27	67.28	70.84	75.05	80.29	86.01
Capital Appreciation (% of Return)	47.50		40.53	38.61	35.73	32.72	29.16	24.95	19.71	13.99
Contribution to Asset Volatility:										
Equity	69.8		52.2	48.7	42.9	37.6	30.0	21.4	12.3	6.4
Fixed Income	23.1		34.6	37.6	42.7	48.4	55.7	64.1	73.6	84.8
Real Assets	7.1		13.2	13.7	14.4	13.9	14.3	14.5	14.1	8.9

The sum of MLPs, US REITs and Commodities is constrained to not be greater than 20%
Private Equity is constrained to linearly decrease to 0% along the path.

6. 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 Treasurer, rebalancing the portfolio may be managed through the use of derivatives instruments and/or cash flows and purchases and sales. The Treasurer will rebalance allocations to the extent possible on a cash basis no less than annually.

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.

7. 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 the 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 manager, subject to strict adherence to the provisions of ERISA. It is the duty of the 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 5 to 10 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. Fixed Income Investments

- i. The purpose of the portfolio's nominal fixed income 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 nominal fixed income investments will be structured with a duration similar to the duration of the liabilities using 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. Below investment grade investments, issued by domestic and foreign borrowers, are allowable as part of the policy portfolio to earn higher yields and rates of return than is expected from investment grade fixed income securities.
- v. The objective for the fixed income portfolio is to match or outperform after fees the selected fixed income indexes depending on the mix of active and passive strategies.

D. Real Estate

- i. The purpose of real estate 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 estate is to outperform after fees the rate of inflation (as measured by an index such as the Consumer Price Index) plus 5%. Performance will be monitored on a regular basis and evaluated over running five-year periods.
- iii. Investments will be in publicly traded real estate securities and private real estate.

8. 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 Treasurer.
- B. The Treasurer 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 Treasurer 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 available in the cash market, primarily with respect to adjusting the attributes of the 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 Treasurer, 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).

9. Proxy Voting

Managers are specifically designated the responsibility for voting of 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 Treasurer will periodically review these policies and the manager's voting record. The manager shall provide to the Treasurer 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.

10. 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 February 14, 2012