

INVESTMENT POLICY STATEMENT

FOR

**BIRZEIT UNIVERSITY'S
ENDOWMENT FUND**

December 2013

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INTRODUCTION

The purpose of this Investment Policy Statement is to guide Birzeit University in effectively managing, investing and monitoring its investments.

The Policy Statement is designed to allow sufficient flexibility in the management and oversight process, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

GLOSSARY OF TERMS AND DEFINITIONS

Term	Definition
“BZU”	Birzeit University.
“Fund” or “Endowment”	Endowment Fund of the BZU.
“BOT”	Board of Trustees of Birzeit University.
“Committee” or “IC”	Investment Committee responsible for managing and supervising the investments of the Fund.
“Investment Manager” or “Manager”	Any individual or institution employed by the IC to manage certain assets for the account of the Endowment Fund.
“Investment Policy” or “Policy Statement”	This Investment Policy Statement as revised from time to time.
“Investment Guidelines”	The Investment Guidelines (in Exhibit (B)) as adopted by the IC in line with this Investment Policy Statement.
“NAV”	Net Asset Value of the Fund.
“Securities”	Those investment securities defined as acceptable in this Investment Policy Statement

INVESTMENT OBJECTIVES

The overriding objective of the Fund is to exist in perpetuity. Its investment objective is to maintain a balance between capital preservation and achieving long-term growth without taking undue risks. Capital preservation shall be the primary objective, with capital appreciation conducted on a risk-adjusted basis to mitigate a permanent loss of principal, in real terms, over the medium term as defined below.

An additional objective is to manage the Fund’s overall risk return profile, in order not to exceed the relevant benchmark for each asset class, over the medium term, while not subjecting the Fund to excessive risks.

The Endowment Fund shall include all monies donated to the University as endowments in perpetuity, as well as all **unrestricted donations**.

Some endowments may be earmarked for particular purposes according to the wishes of the donor. These would be managed in accordance with an “endowment agreement” entered into with the donor.

All other funds put into the general endowment would be managed in accordance with the following policy:

Two phases are distinguished: an **accumulation phase** and a **deployment phase**.

The **accumulation phase** shall endure until such time as the then current value of the Endowment Fund reaches thirty million US dollars (\$30,000,000), at which time the deployment phase is entered.

During the accumulation phase, all returns on investment of the Endowment Fund shall be put back in the Fund.

During the **deployment phase**, returns may be used in support of the operational or developmental expenditure of the University within the framework of specific policies developed by the BOT and incorporated in this general policy once the deployment phase is entered.

The main objective of the management of the Endowment Fund during the accumulation phase is growth, with safety and preservation of capital in real terms being paramount.

During the deployment phase, the general investment objectives are those that are customary for university endowments, viz.,

- Safety and preservation of capital in real terms is the foremost objective.
- Generation of sufficient annual cash flow to meet expenditure objectives.
- Growth of cash flow to meet rising expenditures over the long term.

Exceptionally, the BOT may invest endowed funds in **income-generating, durable fixed assets**, in which case the assets themselves would be owned by the University (i.e., the BOT) and the income may be used for developmental purposes, in support of the operational budget of the University, or to feed the endowment.

The medium term investment horizon of the Fund is defined as three (3) to five (5) years.

INVESTMENT COMMITTEE (IC) RESPONSIBILITIES

In accordance with its Law, the BOT appoints an Investment Committee from among its members and possibly expert volunteers.

The BOT is vested with the authority to adopt and amend the Investment Policy.

The BOT shall delegate to the IC the responsibility for overseeing the investment and management of the Fund. Specifically, the IC is responsible for the following:

- 1- Adhering to the terms of this Policy Statement in carrying out its duties and recommending to the BOT any changes and modifications to the Policy Statement and its appendices;
- 2- Setting the asset allocation targets for the Fund and modifying them from time to time, subject to changes in market conditions. Current allocations are set forth in Exhibit (A);
- 3- Appoint and terminate investment consultants, managers, custodians and other specialists as appropriate. In addition, the IC shall monitor the performance of such appointees, agree their investment mandates, including agreeing with each investment manager his/her appropriate benchmarks and expected rates of return and management fees. The IPS should be attached to any agreement appointing investment manager and considered as part thereof;
- 4- Developing and enacting proper controls and risk management procedures;
- 5- Report to the BOT on the status of the Fund at least twice per year;
- 6- An emergency meeting of the IC shall be called if the Fund suffers a loss of 10.0% (Ten Percent) of its NAV at any one time (*peak to trough*); and
- 7- The IC is authorised by the BOT to adopt and amend the Investment Guidelines (see Exhibit (B)).

The IC shall ensure that appointed managers are responsible for the following:

- 1- Briefing the IC on a regular basis;
- 2- Preparing monthly written statements;
- 3- Adhering to the investment strategy and/or investment style for which the manager was selected; and
- 4- Reporting to the IC immediately of any violation to this Policy Statement, as well as changes in the Manager's firm such as changes in ownership, key personnel and/or changes to the Manager's strategy and investment style.

The IC shall ensure that appointed investment consultants or managers are responsible for the following:

- 1- Preparing securities' custody statements reconciliation and performance analysis as well as recommending benchmarks for each manager to be approved by the IC;
- 2- Making asset allocation and rebalancing recommendations;
- 3- Performing due diligence in the selection and recommendation of managers and monitoring each manager for adherence to this Policy Statement and to his/her investment strategy; and
- 4- Assisting the IC and the Administration of the BZU in the preparation of reports.

RISK MANAGEMENT

The Fund shall be managed in a manner that seeks to mitigate all risks. Particular attention should be paid to:

- 1- Credit risk;
- 2- Currency risk, when investing in non-US Dollar securities;
- 3- Interest rate risk;
- 4- Risk of Concentration in the securities of a specific issuer or a specific market segment or geography or managers of similar strategies and investment styles;
- 5- Custody risk of assets.

STANDARD OF CARE

In exercising its responsibilities, the IC shall act in good faith and with a high degree of diligence, care and skill which prudent persons shall exercise in similar circumstances.

In making its decisions, the IC shall consider the following factors:

- 1- The importance of diversification in determining its asset allocations;
- 2- Risk management to prevent excessive losses over time;
- 3- Avoidance of excessive volatility;
- 4- Asset allocation and rebalancing the Fund as and when it sees appropriate;
- 5- Paying attention to the tax consequences of their actions; and

CONFLICTS OF INTEREST

Members of the IC have a special responsibility to be on their own guard and to avoid at all times conflict of interest situations. If such situations do arise, the Chairman of the BOT shall be notified.

OPERATIONS

Delivery & Payment: All trades of marketable securities should be executed by *delivery vs. payment* to ensure that securities are deposited with an eligible financial institution prior to release of any funds.

Safekeeping: Securities should be held by independent eligible third party custodians selected by the BZU as evidenced by safekeeping receipts issued in the BZU's name.

Internal Controls: The Chair of the BOT is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of

the BZU are protected and safeguarded from loss, theft or misuse. Details of the internal control system shall be documented in an investment procedure manual (the “**Investment Manual**”) that shall be reviewed and updated periodically. The Investment Manual and its modifications shall be approved by the IC, which shall also seek the opinion of the BZU’s auditors and other experts, as it deems appropriate.

EXHIBIT (A): CURRENT ASSET ALLOCATION RANGES

The Fund’s current asset allocation targets should be within the following parameters for the entire Fund, while understanding that the targets shall be revised from time to time at the discretion of the IC to adapt to changes in the market, economic and investment conditions.

ASSET CLASS	Range
Deposits & Money Market Instruments	0-100%
<i>(Including investment grade securities with maximum three (3) years maturity)</i>	
Public Equities (Long Publicly Listed Securities including Funds)	0-50%
- <i>Global Equities</i>	<i>0-50%</i>
- <i>MENA Equities</i>	<i>0-20%*</i>
Alternative third party Investments	0-70%
- <i>Equity Long/Short Funds</i>	
- <i>Macro / Multi-Strategy Funds</i>	
- <i>Emerging Markets Strategy Funds</i>	
- <i>Credit Funds</i>	
- <i>Private Equities</i>	
- <i>Real Estate</i>	
- <i>Commodities</i>	
Direct Fixed Income Securities	10-25%
- <i>MENA Bonds</i>	
- <i>International Bonds</i>	
- <i>Non-Investment Grade Fixed Income Securities</i>	

*0-20% of the 50% range of the main category.

Illiquid assets, regardless of their categorization, shall be presented separately. But their aggregate should not exceed 20% of the portfolio.

Notes:

- 1- At least 10% of the total endowment portfolio at all times shall be available to turn into cash within thirty days. This could be met from any category of assets.
- 2- At least 25% of third party alternative assets manager investments could be liquidated quarterly at the beginning of each quarter.
- 3- Direct Public Equity and Fixed Income portfolios could be managed by either an outside manager or by the Endowment Manager. In either case the allocation and oversight shall be done by the subcommittee on behalf of the full IVC.
- 4- On exceptional basis, up to 5% of the portfolio is allowed to be invested in assets outside the guidelines provided that no one single investment exceeds 1% of portfolio and that the IC is duly notified. Of this 5%, the maximum non investment grade debt securities the endowment may invest in would not exceed 10% of the fixed income allocation or 2.5% of the total endowment. Notwithstanding that limit, no one single non-investment grade issuer position shall exceed 0.80% of the total endowment Net Asset Value at the time the position is taken.
- 5- The investment manager is allowed to bridge finance between trades with a limit of 10% of the overall portfolio size. For this purpose, the trade date is considered the base and not the value date of the transaction.

EXHIBIT (B): INVESTMENT GUIDELINES

Detailed guidelines for each asset class are as follows:

Deposits:

Deposits can be made with local and international Banks of good standing and for a time period not exceeding twelve (12) months.

Equity Managers:

With regard to the total equity portfolio portion of the Fund, there may be no letter or unregistered stocks, no short-selling, no use of margin purchases or commodities other than commodity stocks or funds. All Securities must be traded on stock exchanges to insure liquidity and derivatives may not be used to create leverage. Derivatives can be used to hedge non-dollar denominated investments when desirable but currency speculation is a violation of this Policy Statement.

- *In-House Portfolio:* The IC can manage an in-house portfolio of equities not to exceed 25.0% of the total exposure to the 'Equities' asset class.

Fixed Income Securities Managers:

Managers may not purchase directly any bonds that have a credit rating below 'Investment Grade', except for high-yield managers. Derivatives may not be used for leverage. Maximum allowed average maturity of the 'Fixed Income' portfolio should not to exceed seven (7) years.

- *In-House Portfolio:* The IC can manage an in-house portfolio of fixed income securities not to exceed 25.0% of the total exposure to the 'Fixed Income Securities' asset class.

Alternative Investments Managers:

Alternative investments can be made via funds, partnerships or other similar long/short vehicles in local and international markets. Investments in funds that have more than three (3) years lock-up are not allowed, except when investing in 'Private Equity' and 'Real Estate' funds where longer lock-up periods are normal. Alternative investments are made with the intention of raising the Fund's return and/or lowering total volatility.

Manager's Track Record:

In selecting managers for any of the asset classes above, the IC should select managers that have a verifiable track record, a clear investment strategy and are subject to due diligence.

EXPOSURE LIMITS

- 1- Single Security: No one security (*debt or equity*) should exceed 5.0% of the NAV of the Fund; and

- 2- Single Manager: No single fund manager should manage more than 20.0% of the NAV of the Fund.

MEDIUM-TERM INVESTMENT OBJECTIVES

For the medium term period starting **January 1, 2014**, and through the earlier of: **(a)** the IC changing the target; or **(b) December 31, 2018**, the target overall net rate of return of the Fund is set as the total return of ***five (5) year US Treasuries plus 350 basis points per annum.***

The target risk tolerance for the period should not exceed 60.0% of the 'MSCI World Stock Index' rolling 12-months' volatility, as measured by the standard deviation of the prior twelve (12) months monthly return. Such targets shall be set and reviewed by the IC from time to time. The IC shall designate a sub-committee to adhere to and oversee the implementation of the above within the sub-committee's discretion.

REPORTING

The Chair of the IC shall prepare an investment report for presentation to the IC at least quarterly, including a management summary that provides an analysis of the status of the current Fund.

***Approved on April 15, 2015 and became effective on the same date.**