Louisiana State University
Health Sciences Foundation of Shreveport

Investment Policy Statement
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PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist the Board of Directors (the “Board”), the Investment Committee (the “Committee”) and the Staff of the Louisiana State University Health Sciences Foundation of Shreveport (“the Foundation”) in effectively overseeing, monitoring and evaluating the performance of the Foundation’s investment assets. Acting on behalf of the Board of Directors, The Investment Committee is charged with the responsibility of implementing the following investment policies.

The Investment Policy Statement serves the following objectives:

- Incorporating in a written document the principles, expectations, objectives and guidelines for the management and oversight of the Foundation’s investment assets.
- Setting forth an investment structure for managing the Foundation’s assets to include various asset classes, investment management styles, asset allocation and acceptable allocation ranges that, in total, are expected to produce desirable levels of overall diversification and total investment return over the long term.
- Providing an effective framework for communications among the Committee members, the Foundation Staff, the Investment consultant, custodian(s), money managers, and other service providers.
- Establishing criteria to monitor, evaluate, and compare the performance results achieved by money managers on a regular basis.
- Ensuring compliance with all applicable trust, fiduciary, prudence, and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations.

INVESTMENT PORTFOLIO STRUCTURE

The Foundation is responsible for three distinct investment pools, hereafter referred to as the “Endowed Funds”, the “Restricted/Unrestricted Funds (Non-Endowed)” and the “Feist Treasury Account”.

ENDOWED FUNDS

The Endowed Funds portfolio is composed of two sub-funds, hereafter referred to as the “LEQSF” fund and the “General” fund:

“LEQSF” fund – The Louisiana Educational Quality Support Fund (LEQSF) was created by a constitutional amendment and provides for two programs – the Eminent Scholars Program and the Endowed Professorship Program. The Eminent Scholars Program provides permanent endowments in $1 million increments. The Endowed Professorship Program provides similar endowments with $100,000 increments. These endowments are created by private contributions to the university which equal 60% of the endowment and
state match of 40% from the Louisiana Board of Regents as administrators of program funds.

The Louisiana Board of Regents has been charged with developing and implementing certain investment policies that apply to all private contributions and state match LEQSF funds. The investment policies outlined below are provided to clarify and amplify policies that have been established by the Board of Regents. With respect to the LEQSF program, no policy set forth below can supersede a Board of Regents policy.

{For a more complete treatment of the Board of Regents investment policies, readers should refer to the Louisiana Board of Regents Eminent Scholars and Endowed Professorships Program – Statement of Investment Policy and Objectives}.

“General” funds – Permanent endowed funds also exist which are not part of the LEQSF program. The Board of Directors may choose to establish investment policies that differ from those set forth by the Board of Regents for LEQSF funds. However, unless otherwise noted, the Board of Directors has adopted the investment policies set forth by the Board of Regents for the LEQSF funds and applies these policies to the General fund.

LEQSF fund and General fund are combined into a single portfolio to accommodate administrative and investment management efficiency.

Objectives

The objectives of the Endowment Pool are:

1. **To provide spending sufficient to maintain programs and services on an ongoing basis taking into consideration normal cost increases due to inflation as measured by the Consumer Price Index (CPI).** To achieve this objective, it is imperative that the purchasing power of the Endowment's investment funds be maintained. The average annual “real” rate-of-return objective for the Endowment's assets is 5.00% when measured over five-year rolling periods. “Real” rate-of-return refers to the total rate-of-return net of inflation and all fees and expenses.

2. **To maintain a predictable level of spending.** To achieve this objective, the Endowment has adopted a total-return spending policy. The targeted annual spending rate for programs and services is four percent (4%) of the Endowment’s average five-year trailing market value as of the Endowment’s fiscal year end.

3. **To control the costs of administering and managing the Endowment's investment assets.** At least annually, the Investment Committee will evaluate the fee structures of the Endowment's custodian(s), money managers, brokers, investment consultant and other financial services providers.

Asset Allocation Guidelines
The time horizon for the Endowment's investment assets is long term, and these funds are considered perpetual. The Endowment's asset class ranges are based on this long-term perspective. The Board of Directors believes that the Endowment's risk exposure, return potential and liquidity posture are in large part a function of asset class mix and has developed the following asset classes for placement of Endowment investment assets:

<table>
<thead>
<tr>
<th>% of Portfolio</th>
<th>% of Equity Target</th>
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<tbody>
<tr>
<td>Minimum(2)</td>
<td>Target(1)</td>
</tr>
<tr>
<td>Domestic Large Cap Equities</td>
<td>30%</td>
</tr>
<tr>
<td>Domestic Small –Mid Cap Equities</td>
<td>15%</td>
</tr>
<tr>
<td>International Equities</td>
<td>0%</td>
</tr>
<tr>
<td>Total Equities</td>
<td>40%</td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td>40%</td>
</tr>
<tr>
<td>Cash &amp; Equivalents</td>
<td>0%</td>
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</tbody>
</table>

(1) **Target Allocation** – These allocations represent the Endowment’s target allocation to each asset class. These target allocations are developed through portfolio optimization techniques that incorporate forward-looking expected-return, risk and correlation assumptions for the allowable asset classes. At a minimum, the Endowment’s asset allocation strategy should be formally reviewed every three years to incorporate dynamic return expectations.

(2) **Minimum and Maximum Limits** – The President of the Foundation and the Chairman of the Investment Committee will together evaluate allocations and their respective targets on a quarterly basis. In the event asset classes exceed their respective limits, any available cash inflows and outflows should first be used for rebalancing purposes. If cash inflows and outflows are insufficient to rebalance a given asset class, he/she shall decide whether to effect transactions for rebalancing purposes.

(3) **Equity Target Allocation** – These allocations represent the Endowment’s target allocation within the equity asset class. These target allocations are developed through portfolio optimization techniques that incorporate forward-looking expected-return, risk and correlation assumptions for the allowable asset classes. At a minimum, the Endowment’s asset allocation strategy should be formally reviewed annually to incorporate dynamic return expectations.

**Spending Policy**(4)

The Louisiana Board of Regents investment policies indicate that endowment spending must be calculated using a total-return spending philosophy. The Board of Regents investment policy provides that participating institutions, such as the Foundation, may spend up to 5% of the market value of endowment assets annually, assuming that the endowment is able to earn at least an average annual real rate-of-return of 5% (above fees and inflation) over a five-year period.
However, the current spending rate in force for the LSU Health Sciences Foundation – Endowed Accounts is 4%. The distribution amount will be calculated by applying 4% to a value that is calculated by taking the average of the past twenty quarters’ endowed account values. If the endowed account has been in place for less than twenty quarters, the actual number of quarters will be used for calculation purposes.

**Fees and Expenses**

Please refer to the Services to the Accounts statement (Appendix A) for detail about fees and expenses. However, please note regarding the LEQSF program, the 2% “new deposit” fee must be assessed prior to application to the Board of Regents for matching funds.

**Shortfall Implications** (4)

In accordance with LEQSF program requirements, if the twenty-quarter rolling average market value of the Endowment assets falls below the inflation-adjusted market value baseline of Endowment assets, the Foundation must use other revenue sources, excluding state general funds and LEQSF revenues, to restore Endowment assets to the market value baseline.

(4) Refer to the Louisiana Board of Regents Eminent Scholars and Endowed Professorships Program – Statement of Investment Policy and Objectives

**Liquidity Guidelines**

The President will prepare anticipated cash requirements annually and communicate these disbursement requirements to the appropriate financial services provider(s) with as much notice as possible.

**RESTRICTED / UNRESTRICTED FUNDS (NON-ENDOWED)**

**Objectives**

The objectives of the Restricted/Unrestricted Funds are:

1. To provide a management vehicle for LSU Health Sciences departmental grant monies.

2. To meet immediate and short-term liquidity needs.

3. To optimize returns while maintaining adequate liquidity to meet requested draws.
Asset Allocation Guidelines

These funds can be called upon at any time, although the probability of a substantial or complete draw down is minimal. The asset class ranges of the Restricted/Unrestricted Funds are based on the desire of the Board of Directors to optimize returns while maintaining adequate liquidity.

The Board of Directors has identified the following asset classes for placement of the Restricted/Unrestricted Funds assets:

<table>
<thead>
<tr>
<th>% of Portfolio</th>
<th>Minimum(^{(2)})</th>
<th>Target(^{(1)})</th>
<th>Maximum(^{(2)})</th>
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<tr>
<td>Domestic Fixed Income</td>
<td>85%</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>Cash &amp; Equivalents</td>
<td>0%</td>
<td>10%</td>
<td>15%</td>
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\(^{(1)}\)Target Allocation – These allocations represent the Foundation’s target allocation to each asset class. These target allocations are developed through portfolio optimization techniques that incorporate forward-looking expected-return, risk and correlation assumptions for the allowable asset classes. At a minimum, the Foundation’s asset allocation strategy should be formally reviewed every three years to incorporate dynamic return expectations.

\(^{(2)}\)Minimum and Maximum Returns – The President of the Foundation and the Chairman of the Investment Committee will together evaluate allocations and their respective targets on a quarterly basis. In the event asset classes exceed their respective limits, any available cash inflows or outflows should first be used for rebalancing purposes. If cash inflows and outflows are insufficient to rebalance a given asset class, he/she shall decide whether to effect transactions for rebalancing purposes.

Spending Policy

These funds can be drawn upon at any time. Please refer to the Revenue and Expenditure Policies of the Louisiana State University Health Sciences Foundation of Shreveport for a more complete treatment of this topic.

Fees and Expenses

Please refer to the Services to the Accounts statement (Appendix A) for detail about fees and expenses.

Liquidity Guidelines
The President will prepare anticipated cash requirements annually and communicate these disbursement requirements to the appropriate financial services provider(s) with as much notice as possible.

PORTFOLIO AND SECURITIES GUIDELINES

{Portfolio and security guidelines apply to Endowment funds and Restricted/Unrestricted (Non-Endowed) funds.}

The Board of Directors realizes that the desired rate-of-return and the risk associated with the pursuit of these returns should be considered primarily at the portfolio level. While money managers, securities and investment strategies may be evaluated in isolation, it is the contribution of each of these factors to the overall portfolio that is critical to the achievement of the Foundation’s investment objectives. Accordingly, the following guidelines apply at the portfolio level unless otherwise stated.

These guidelines are not meant to be overly restrictive. Rather, these guidelines are meant to highlight specific areas that warrant ongoing monitoring and evaluation.

Domestic Equities

The total allocation to domestic equities should be diversified with respect to economic sectors, industry groups and market capitalization. Specific attention should be given to each of these factors where there is substantial deviation from the weightings of a broad-based equity benchmark. In addition, security concentrations should be monitored to ensure that company-specific risk is kept to a tolerable level.

Domestic Fixed-Income

The total allocation to domestic fixed-income securities should have a weighted average Standard & Poors credit rating of A or better. In addition, the portfolio should be diversified across sectors (U.S. Government, corporate, mortgage-backed) and issuers, with special attention given to the weightings of corporate issuers to minimize company-specific risk. Particular attention should be given to these factors when there is a substantial deviation from the weightings and/or characteristics of a common fixed-income benchmark. Consideration should also be given to the overall duration of the portfolio with respect to that of the index to ensure no unintended bets are placed at the portfolio level.

International Securities

The total allocation to international equity securities should be broadly diversified among regions, countries, sectors, currencies and securities. The total allocation to emerging markets should be less than 20% of the international allocation. Specific attention should
be given with respect to each of these factors in the case where there is substantial deviation from the weightings of a broad-based international equity benchmark. In addition, security concentrations should be monitored to ensure that company-specific risk is kept to a tolerable level.

**Real Estate Investment Trusts and/or Direct Real Estate**

The Board of Regents prohibits the use of real estate.

**Alternative Asset Strategies**

The Board of Regents prohibits the use of “alternative” asset strategies.

**Cash & Cash Equivalents**

Investments in cash and cash equivalents shall consist of high quality securities with high liquidity and current maturities of one year or less. Any idle cash not invested by the investment managers shall be invested daily through an automatic interest-bearing sweep vehicle managed by the custodian(s).

**MONEY MANAGER GUIDELINES**

**Selection of Money Managers**

Money managers must meet the following minimum criteria:

1. Provide historical performance information calculated on an industry-accepted basis.
2. Provide detailed information on the history of the firm, key personnel and fees.
3. Clearly articulate the investment strategy to be followed and be able to document that the strategy has been adhered to consistently over time.
4. Selected firms shall have no outstanding legal judgments or recent past judgments that reflect negatively upon the firm.

**Monitoring of Money Managers**

The Investment Committee is aware that the ongoing review and analysis of money managers is just as important as the due diligence implemented during the manager selection process.

On a consistent basis and not less than two times a year, the Investment Committee will meet to discuss each manager’s performance relative to managers of like investment style or strategy (peer review), relative to appropriate indices and/or other benchmarks, and
relative to the manager’s overall contribution to the Foundation’s portfolios. It is the Investment Committee’s responsibility to take corrective action by replacing a manager at any time the committee deems it appropriate.

In addition to absolute and relative performance, managers will be evaluated with respect to:

- Changes in the firm’s ownership or the structure of the firm.
- Significant changes in professional staff.
- Significant account losses.
- Significant growth of new business.
- Any deviation from the manager’s professed management style or investment strategy.

**FEIST TREASURY ACCOUNT**

**Objective**

The objective of the Feist Treasury Account is to support cancer research.

**Asset Allocation Guidelines**

The Feist Treasury fund is to be invested in obligations of the US Treasury and its agencies using a “laddered” maturity structure. Specifically, 20% of the balance should be invested in each maturity ranging from one year to five years. This strategy should be perpetuated as securities mature.

**Spending Policy**

Refer to the Revenue and Expenditure Policies of the Louisiana State University Health Sciences Foundation of Shreveport for a more complete treatment of this topic.

**Fees and Expenses**

The Foundation does not currently impose a management fee on this account. On an annual basis, this account will receive all interest income earned on the account during the year up to an amount equivalent to two percent (2%) of the account’s value. Return amounts in excess of this amount will remain with the Foundation.

Only actual income that is paid or accrued as a result of coupon interest payments from the securities held in this portfolio will be considered in any rate of return calculations. This calculation will be based on the accounts twelve month average balance for the current fiscal year.
INVESTMENT POLICY REVIEW

It is not expected that the Foundation’s Investment Policy Statement will change frequently. In particular, short-term changes in the financial markets should not result in adjustments to these policies. Investment Policies shall be reviewed at least annually, however, to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives.

Revised November 2002
Revised July 2003
Revised January 2004
Appendix A

LSU HEALTH SCIENCES FOUNDATION
SERVICES TO THE ACCOUNTS

The Foundation provides stewardship, accounting and investment services for donors’ gifts, specifically:

1. Acts as a tax-exempt repository for gifts and grants.

2. Invests funds to earn a maximum return within an acceptable level of risk that will bear the expense of a professional investment advisor and financial manager to manage the investments.

3. Maintains a fully operational office and bear the costs of printing, mailing, independent auditing and the expense of on-going solicitation of endowment and restricted/unrestricted funds.

4. Deposits the funds, performs accounting and accounts payable functions and renders a semi-annual statement.

5. Prepares and files the mandatory reports with the State agencies including the Board of Regents and the Legislative Auditor.

Fees and Interest Distribution:

• Non-endowed accounts that maintain a 12 month average balance of $350,000 and above shall receive an amount of interest income equal to the investment earned of up to 2% of the accounts value.

• A 2% fee will be charged on all newly deposited funds for both Endowed and Non-endowed accounts.

• A fee of 1.25% will be assessed on the 12 month average balance for each Endowed fund balance.

• If an account has a 12 month average balance of less than $2,000, a $25 service fee will be assessed.

Revised 01/2004