

LEWIS & CLARK COLLEGE
Amended
Investment Policy Statement
Approved by the Board of Trustees on June 25, 2018

This Statement provides guidance for the investment policy, strategy and management of the Endowment of Lewis & Clark College (the “College”). The purpose of this Statement is to establish a clear understanding between all parties as to the objectives, investment policies, and goals of the investment fund.

The Board of the College has granted investment management authority of the Endowment Fund (the “Fund”) to Cambridge Associates LLC (“Fund Manager”). Cambridge Associates will manage the Fund on a discretionary basis, in accordance with the guidelines listed below.

1. Objectives

The financial objectives of the Fund are (1) to support the current and future operations of the College and (2) to preserve and enhance the real (inflation-adjusted) purchasing power of the Fund over the long term.

To meet the financial objectives, the primary investment objective of the Fund is to achieve an average annual real total return¹ of at least 5% over rolling ten-year periods, net of investment management fees. It is recognized that the 5% real return objective is challenging and may be difficult to attain in every ten-year period, but the Fund will seek to achieve the objective over a series of ten-year periods. It is also recognized that given the static nature of this objective, it is not directly related to market performance; this reinforces the view that success or failure in achieving this objective should be evaluated in the context of the prevailing market environment and over the long term. The secondary objective of the fund is to outperform a Simple Benchmark of 70% global stocks and 30% bonds. The third objective is to outperform the custom Policy Benchmark over rolling five-year periods.

The Fund will be invested in a manner that is expected to maximize the long-term total return with reasonable and acceptable levels of investment risk. Investment risk is defined in two ways: (1) the possibility of investments declining in value, and (2) the expected performance volatility of the investments in the portfolio. The Fund aims to achieve the stated return objectives with a targeted annualized standard deviation similar to a simple blend of 70% global stocks (MSCI All Country World Index, net)/30% Bonds (Barclays Aggregate) portfolio over rolling five- to ten-year periods (or a full equity market cycle). Similar to the return objective, it is recognized that this volatility objective may be difficult to attain in every five-year period, but the Fund will seek to achieve this objective over a series of five-year periods.

2. Fund Composition and Asset Allocation

Roles of Investments

- ◆ The purpose of **Growth Assets** (e.g. public equity, private equity and growth-oriented private debt) is to provide a stream of current income and appreciation of principal that more than offsets inflation. It is recognized that pursuit of this objective could entail the assumption of significant variability in price and returns. Return premiums may exist for investors who accept the illiquid and inefficient

¹ Real total return is the sum of capital appreciation (or loss) and current income achieved in the form of dividends and interest adjusted for inflation as measured by the CPI(U) index.

characteristics of the private equity market. For private investments, the performance objective is to achieve an internal rate of return of 300 bps greater than public market returns over the life of the investment that is commensurate with public equity benchmarks plus a premium for illiquidity and risk.

- ◆ The **Diversifiers** allocation (e.g. hedge funds, liquid alternatives, royalties, specialty finance, leasing, other private debt financing) is intended to provide equity-like returns with low equity correlation and lower levels of risk than Growth Assets. The investments are intended to help moderate the volatility of the Fund in order to provide additional year-to-year stability in Fund values.
- ◆ The purpose of the **Inflation Sensitive** allocation (e.g. public and private investments in hard assets such as real estate, , natural resources equities, and commodities) is to provide potential portfolio protection against the risk of unanticipated severe inflation, thus preserving the real value of the portfolio over the long term.
- ◆ The **Deflation Sensitive** allocation (e.g. bonds and cash) is intended to: (1) provide some asset appreciation in periods of declining interest rates (especially in periods of significant equity price deflation) and (2) provide ready liquidity.

The Fund will be managed with allocations to the following asset classes in the ranges outlined below (within the guidelines set forth in Section 5, “Investment Restrictions”):

Role	Asset Class	Allowable Range	Long-Term Target	Benchmark Index
Growth	US Equity	10-20%	14%	Wilshire 5000
	Global Equity	0-12%	7%	MSCI World (net)
	Developed Int’l Equity	7-17%	11%	MSCI EAFE (net)
	Emerging Market Equity	4-13%	8%	MSCI Emerging Markets (net)
	Total Public Equity	38-48%	40%	Weighted blend of above
	Private Growth	10-20%	20%	<i>Mature² funds</i> : Weighted blend of above
	Total Growth	55%-65%	60%	Weighted blend of above
Diversifiers	Marketable Diversifiers	10-18%	10%	0.3 beta-adjusted ACWI (net)
	Private Diversifiers	0-7%	5%	<i>Mature² funds</i> : 0.3 beta-adjusted MSCI ACWI (net)
	Total Diversifiers	10-20%	15%	Weighted blend of above
Inflation Sensitive	Public Real Assets	2-10%	5%	Weighted blend of underlying managers’ benchmarks
	Private Real Assets	2-8%	5%	<i>Mature² funds</i> : Weighted blend of relevant public market equivalent indices for underlying strategies
	Total Real Assets	5-15%	10%	Weighted blend of above
Deflation Sensitive	Fixed Income	10-16%	13%	Bloomberg Barclays Aggregate
	Cash	0-5%	2%	BofA ML 91-day Treasury Bills
			<u>100%</u>	

² For the portion of the portfolio that is allocated to illiquid private investments, each fund will be self-benchmarked for the first 5 years of its life. This is to address the “J-curve” inherent in private investments. After each investment’s fifth year of life, it will be retroactively benchmarked to the relevant public market index to reflect any value that has been added over this timeframe.

Tactical Asset Allocation

Tactical asset allocation decisions will be made from time to time by the Fund Manager within the parameters of this Investment Policy Statement. In addition, the Fund Manager may invest in opportunistic strategies that are generally shorter-term, tactical investments and can be allocated across the portfolio.

Rebalancing

The Fund's actual asset allocation will be monitored by the Fund Manager relative to the above targets and ranges. The Fund Manager will be responsible for rebalancing as appropriate, including having sufficient cash on hand for the regular spending withdrawals defined in the College's Spending Policy. Rebalancing the actual allocation of the Fund to policy targets is useful for maintaining the risk profile adopted by the Committee. Contributions to and withdrawals from the Fund shall be allocated and managed in the discretion of the Fund Manager. In managing contributions to and withdrawals from the Fund, the Fund Manager will seek to adhere to the asset allocation policy and guidelines. In the event that the Fund falls outside of the above ranges, the Fund Manager will communicate this breach to the Investment Committee and have a reasonable period of time to bring the Fund back into compliance with the applicable guidelines.

Private Investments

Given the illiquid, long-term nature of Private Investment funds, the Fund Manager shall preview any planned Private Investment commitments with the Committee pursuant to the following "negative consent" protocol:

- a. The Fund Manager shall send details of and rationale for the planned commitment to the Committee, the CFO and the Assistant Treasurer by email;
- b. The Committee shall have seven calendar days to raise questions, request a conference call to discuss the planned action, or instruct that a decision shall be deferred until the next regularly scheduled Committee meeting;
- c. Absent any questions or concerns raised by the Committee within seven calendar days of the proposal, the Fund Manager is authorized to move forward with the commitment.

3. Monitoring of Objectives and Results

The Fund Manager will monitor each investment in the Fund for consistency in each manager's investment philosophy, return relative to objectives, and investment risk. The Fund Manager will provide monthly reports to the College as are necessary including statements detailing all activity in the accounts. Monthly flash performance reports should be provided to the Investment Committee Chair, the CFO and the Assistant Treasurer. Not less than quarterly, the Fund Manager will provide to the College and the Committee a written summary of overall portfolio performance and review of asset allocation in relation to the investment objectives.

All objectives and policies are in effect until modified by the Committee, which shall review these at least annually.

If at any time the Fund Manager believes that any policy guideline inhibits investment performance, it is the Fund Manager's responsibility to clearly communicate this view to the Committee.

4. Benchmarking

Starting July 1, 2018 the results of the Fund will be compared with the following benchmarks, to be evaluated over varying time horizons:

- ◆ Policy Benchmark – rolling five-year periods
- ◆ Simple Benchmark (Risk Equivalent) – rolling five- to ten-year periods (*full equity market cycle*)
- ◆ Long-Term Financial Objective – rolling ten-year periods

Policy Benchmark

This benchmark represents a blend of the asset class index returns weighted by the Long-Term Policy Targets, both as set forth in Section 2 above.

Simple Benchmark (Risk Equivalent)

70% MSCI All Country World Index/30% Barclays Aggregate Bond Index

Long-Term Financial Objective

This static benchmark reflects the College's long-term performance objective of total portfolio returns exceeding the sum of its spending policy and inflation, as defined in the body of this Investment Policy Statement. Given that this benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated over five-to-ten year periods.

5. Investment Restrictions

Liquidity

- ◆ No new private investment commitments will be made while private investment unfunded commitments are greater than 25% of Total Managed Assets.

Fund Concentration

- ◆ No single illiquid investment (i.e., with exit frequency of one year or longer) will be larger than 5% of the Fund at the time of the investment or commitment.
- ◆ No single actively managed investment will be larger than 10% of the Fund, with the exception of Adage and Silchester, which shall be limited to no more than 15% of the Fund.
- ◆ No single passively managed investment will be larger than 20% of the Fund.

Firm Concentration

- ◆ Exposure to one external active investment management firm will be limited to 15% of the Fund.
- ◆ In circumstances where an external firm manages assets for the Fund on a solely passive basis, exposure to that firm will be limited to 25% of the Fund.

It is recognized that significant changes in investment market values could cause the portfolio to be positioned outside of these liquidity and concentration parameters. If this occurs, the Fund Manager will communicate this breach to the Investment Committee and will take action to reposition the portfolio consistent with these parameters as soon as practicable.

Passive Management

- ◆ At least 9% of the total Fund shall be held in passively managed strategies. This passive allocation can be implemented in any combination of Public Equities, Public Real Assets, Fixed Income and Cash.

Derivatives

- ◆ It is understood that certain investment managers in the Fund, particularly those categorized as hedge funds, may use derivatives and leverage as part of their investment strategies. Managers using

derivatives and/or leverage shall have in place systems to analyze and monitor liquidity and counter party credit risk in order to minimize the risks associated with the use of derivatives.

- ◆ The Fund Manager may use derivatives in the Fund to hedge investment risks or to replicate investment positions in a more efficient manner or at a lower cost than would otherwise be possible in the cash markets, but should inform the Committee whenever the Fund Manager is changing derivatives with the Fund. Selling of uncovered options is prohibited.

6. Conflict of Interest Policy

- a. Those who serve on the College Committee are charged with the responsibility for recommendations and decisions which in their judgment best serve the long-range interests and objectives of the College.
- b. From time to time, in the ordinary course, the Committee may consider matters in which members of the Committee, or persons affiliated with them, have a direct or indirect financial interest. In order to resolve any questions of conflict of interest, whether real or apparent, the Committee shall adopt the following procedures:
 - i. Members of the Committee shall disclose to the Committee any relevant facts that might give rise to a conflict of interest with respect to any matter to be considered by the Committee.
 - ii. Members so affected shall abstain from the Committee's discussion of any such transaction, unless the Committee specifically requests information from such members. Such abstention shall be recorded in the minutes of the meeting.
 - iii. The affected members, if requested to do so by any other member of the Committee, shall withdraw from the meeting during the Committee consideration of the relevant matter.

7. Environmental, Social & Governance ("ESG") Guidelines

- a. Academic research supports the practice of incorporating environmental, social, and governance factors with other conventional financial analytical tools when evaluating investment opportunities, with the objective of improving long-term, risk-adjusted returns. ESG factors may help identify both i) potential opportunities and ii) potential risks that conventional tools miss. Incorporating ESG factors into the management of the Fund is consistent with the Fund's stated investment and financial objectives. As such, the Committee and the Fund Manager will consider material ESG factors when making decisions on asset allocation and investment manager selection.
- b. Incorporating an ESG perspective can help the Committee, Fund Manager and investment managers identify emerging, inefficient markets where early entrants have the opportunity to capture additional return premium. This might include secular shifts in economic and regulatory environments that will have significant and lasting impact on asset valuations. For example, the ratification of the Paris Agreement on climate change has the potential to create a global regulatory and political tailwind for investment strategies focused on solutions to the challenges of climate change.

- c. An ESG perspective can also supplement traditional portfolio risk management, and highlight potential additional risks in asset allocation or manager selection. For example, within the Deflation Sensitive allocation, the Fund will have exposure to corporate and municipal issuers whose credit quality are impacted by changes in environmental factors (e.g., climate-related weather disasters on municipalities), social factors (e.g., sustainability of supply chain for corporations) and governance factors (e.g., concentrated ownership/voting rights misaligning incentives between issuers and creditors).
- d. ESG factors are a component of a thorough investment process, and should not be used as exclusionary screens to eliminate specific companies or sectors from consideration. That said, the Fund Manager will monitor the Fund's exposure levels to ESG factors across the portfolio, and will engage with managers or divest from strategies where objective ESG analysis implies a negative outcome for the College. Exposure to ESG factors will be monitored and considered at an individual manager, asset class, and total portfolio basis.
- e. In addition to proactively utilizing an ESG perspective when making decisions for the portfolio, the Fund Manager will also proactively encourage its managers to integrate ESG factors in their analytical processes.
- f. The College acknowledges that the relevancy of ESG factors will vary by industry and should be applied appropriately to help assess risk and return.
- g. To monitor exposure to relevant ESG factors, the Fund Manager will work with a specialist third party provider to periodically aggregate exposure across the Fund. It is expected that the ESG factors most critical to effective management of the portfolio will evolve over time.
- h. In order to facilitate the inclusion of ESG factors in management of the Fund, the Fund Manager shall consider in all new investment manager searches at least one option for a best-in-class manager with ESG integrated into its investment strategy.
- i. The Fund Manager will consider the proxy voting practices of any separate account managers being considered for the Fund and, to the extent any manager's proxy voting policy may be customized, will consult with the College's Sustainability Council regarding any such proxy voting policy relating to ESG and/or sustainability topics.

8. Divestment from Fossil Fuel Investments

- a. The Fund shall not directly own any securities publicly issued by companies in the fossil fuel industry, specifically the largest owners of coal, oil and natural gas reserves³ ("fossil fuel companies").
- b. Starting immediately, the Fund will make no investments in any new fund which has exposure to fossil fuel companies.
- c. Before December 31, 2022, the Fund will eliminate exposure to fossil fuel companies held indirectly through public commingled strategies. In addition, the College will exit all private

³ For the purposes of the initial implementation of the above policy, the College defines fossil fuel company securities as those issued by significant owners of coal, oil and natural gas reserves. Specifically, the Fund Manager will use data provided by MSCI, defining fossil fuel companies as those with evidence of owning fossil fuel reserves regardless of their industries, including companies that own less than 50% of a reserves field. Fossil reserves are defined as proved and probable reserves for coal and proved reserves for oil and natural gas. Using this approach, 190+ companies in the MSCI ACWI, representing approximately 9% of market cap, would be subject to divestment (as of November 2017). Notwithstanding the above, the Committee will consider granting a waiver for the Fund to hold certain securities issued by companies with fossil fuel reserves ownership, provided the securities are in support of non-fossil fuel activity (e.g., green bonds).

limited partnership investments holding fossil fuel companies as they mature, which will take more than five years.

- d. Consistent with the ESG Guidelines, the College will actively engage with existing investment managers to encourage them to adopt fossil fuel free investment options.
- e. The College will provide an annual update to the broader campus community on holdings of fossil fuel securities in the endowment portfolio.
- f. The Fund Manager will ensure in conjunction with each Investment Manager implemented through a commingled vehicle that no securities publicly issued by fossil fuel companies are held. Should the College own an investment that no longer meets the divestment requirements, and the investment manager is not willing to sell the security or make other suitable arrangements, the investment will be evaluated by the Fund Manager and a recommendation for whether or not to remain invested will be discussed with the College.

9. **Legacy Assets & Excluded Assets**

The College has retained investment decision-making authority with respect to a portion of the Endowment invested in the following Legacy Assets and Excluded Assets, which will not be included the Fund Manager's discretionary mandate.

“Legacy Assets” are the following investments:

- ◆ Private Equity, Venture Capital, Private Debt, Private Real Estate, and Private Diversifier Investments that the Client has already made or to which the Client has already committed as of June 1, 2018
- ◆ Morrison Street Capital Debt Opportunities (*The Manager shall not have any obligation to monitor or perform due diligence on Morrison Street Debt Opportunities Fund.*)

“Excluded Assets” are the following investments:

- ◆ Steele-Reese Foundation
- ◆ Interest rate swaps related to the College's previous debt financing