

Statement of Investment Policy (Adopted January 26, 2007)

Introduction and Purpose

The purpose of this Statement of Investment Policy (IPS) is to assist the Investment Committee (Committee) of the Board of Trustees (Board) of the Lawrence University in effectively supervising, monitoring, and evaluating the investments of the Endowment assets. It is the intention of the Board and the Committee that the Endowment's investments be managed in accordance with this IPS.

This document states in writing the Committee's attitudes, expectations, objectives, and guidelines for the investment of the Endowment's assets, and sets forth the investment structure for managing the Endowment assets. This structure includes a discussion on the various asset classes, investment management styles, and asset allocation that, in aggregate, are expected to generate a long-term rate of return to provide for a sustainable level of distribution to support the organization's operating budget while preserving the real (inflation-adjusted) purchasing power of the Endowment before gifts.

This IPS has been formulated based upon consideration by the Committee of the financial implications of a wide range of policies and defines specific policies for the management of the assets of the Endowment in a manner that the Committee deems most prudent.

Scope of Policy

This IPS applies to all investable assets of the Endowment. The Endowment contains restricted, partially-restricted and unrestricted funds and all are subject to this IPS. Distributions from all endowed funds and investment earnings will be made in accordance with the University's Spending Policy, as amended from time to time.

The Investment Committee has ultimate control over investment decisions for all Endowment funds.

Spending Policy

One of the purposes of the Endowment is to provide a portion of the annual operating budget of the University. The policy goal is 5% of the average of the twelve-quarter moving average value of endowment assets (net of interfund).

Roles and Responsibilities

Investment Committee of the Board of Trustees

The Investment Committee:

- Is responsible for approving, maintaining, and implementing this Statement of Investment Policy.
- Shall review this IPS at least annually and will make changes as it deems appropriate in light of changed circumstances, market environment, etc.

- Establishes guidelines for investment manager searches and has the authority to retain and dismiss investment managers and custodians.
- Will evaluate investment activity, performance and compliance with this IPS on at least a quarterly basis.
- May evaluate, select, and retain an objective and independent investment consultant to advise the Committee on the management of the Endowment assets. This includes, but is not limited to, recommending appropriate strategic policy and implementation structure, conducting manager due-diligence and assisting with manager searches and selection.
- Membership of the committee is determined annually by the Chairman of the Board of Trustees. A majority of the committee shall be composed of members of the Board of Trustees. A Chairman of the Investment Committee is be designated by the Chairman of the Board, who is a member of the Board of Trustees. A vice chair may also be designated and should also be a member of the Board of Trustees.
- Meetings of the Investment Committee shall be conducted at least twice a year, or more frequently as determined by the Chairman of the Committee.

Investment Consultant

The Committee may retain an objective, third-party Consultant to assist it in managing the overall investment process. The Consultant:

- Will be responsible for recommending changes to asset allocation and the IPS.
- Will maintain a direct relationship with the underlying managers used by the Endowment and conduct appropriate due diligence on the managers on an ongoing basis.
- Will present performance reports to the Committee at least quarterly.
- Will perform investment manager searches, as needed, including any associated due diligence and fee negotiations.
- Will interview investment managers and present finalist candidates for consideration by the Committee.
- Will provide the Committee with current research on relevant investment topics.
- Will provide supplemental and ad hoc analysis, as needed.

The Consultant shall be responsible for performing thorough due diligence on all managers brought forward to the Committee for selection. Given the Committee's desire to seek enhancements to the investment program, the Consultant may from time-to-time, as appropriate, recommend a single manager for consideration. In all circumstances the due-diligence should evidence reasonable process that led to the selection of the manager(s) for recommendation. These include, but are not limited to, appropriate evaluation and comparison of manager / strategy within peer universe, appropriateness of manager / strategy for the needs of the endowment, an evaluation of the manager's regulatory record, and a review of ADVs and related documents.

Investment Manager

Any investment manager retained by the Endowment shall manage the underlying assets in accordance with stated guidelines. The investment managers shall:

- Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements, Prospectus, or Trust Agreement.
- Exercise full investment discretion with regard to buying, managing, and selling assets held in the portfolios.
- Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the respective funds.
- Communicate with the Committee all significant changes pertaining to the Fund it manages or the firm itself such as changes in ownership, organizational structure, financial condition, and professional staff.
- Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity would in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of capital.
- Be available to meet, respond to question from consultant.

Staff Responsibilities

The University Staff's responsibilities include:

- Executing policies, actions and tasks given by and under the authority of the Committee.
- Communicating with and supporting the activities of the Committee, the Investment Consultant, the Managers, and the Custodian.
- Communicating to the Committee any litigation or violations of applicable laws and regulations involving the Investment Consultant or any Manager.
- Recording investment transactions to and reconciling investment statements with the Endowment's financial records, and accurately reporting investment activity on the Endowment's financial statements.
- Working closely with the University's outside auditor in preparation for annual financial statements.
- Working closely with the investment consultant in movement of funds in and out of the audit and Endowment, as well as asset reallocation within the Endowment.

Investment Policy Principles

The Primary Investment Objective (“PIO”) is to provide a real rate of return over inflation sufficient to support, in perpetuity, the mission of the University. It is particularly important to preserve the value of the assets in real terms to enable the Endowment to maintain the purchasing power of its support of the University without eroding the real, long-term value of the corpus of the Endowment.

Achievement of this PIO will be driven by the core principles presented below:

Endowment Distribution: Ongoing distribution policy will be coordinated with the Finance Committee of the Board of Lawrence University. The current policy goal is an annual distribution of not greater than 5% of the twelve-quarter moving average value of endowment assets (net of interfund). A distribution greater than 5% may be necessary from time to time to help balance the University budget. However, the long-term goal is a distribution of 5%. The Committee will inform the Finance Committee and the Board when the annual endowment distribution exceeds our policy.

Time Horizon: The Endowment has an infinite life. Investment strategies will take a long-term perspective. A time horizon of ten years is appropriate.

Risk: The Committee believes that the greatest investment risk the Endowment faces is the probability of not meeting the Endowment’s PIO over the time horizon. Minimizing this probability, and thereby minimizing risk, is a leading objective. Accordingly, the following variables should be considered by the Committee in all aspects of the decision-making process with regard to the Endowment’s investable assets:

- Probability of missing the objective
- Impact of inflation on the Endowment
- Asset/style allocation is the primary determinant of long-term performance

The Committee believes that the PIO can be achieved while assuming acceptable risk levels commensurate with the “market” volatility. “Market” volatility is defined as the trailing three-year standard deviation of investment returns (based on monthly data) of the benchmark indices. The Committee will seek to limit the overall level of risk within its portfolio as it makes specific asset allocation decisions.

Total Return Policy: Investment returns will be generated through capital appreciation, dividend income and interest income. The Committee has adopted a “total return” approach to calculating investment returns and will consider the Endowment’s total return from both income and net realized and unrealized capital gains, net of fees, when assessing performance and presenting spending rate recommendations.

Diversification: The Committee believes that the likelihood of realization of the PIO is enhanced through diversification. The Committee will aim to diversify assets among various asset classes and Managers to maintain acceptable risk levels and enhance long-term investment returns.

Liquidity: The majority of the Endowment's assets are marketable and liquidity can be obtained, as needed. Therefore, the Endowment will not maintain an explicit allocation to cash or cash equivalents.

Fees and Expenses: The Committee will closely monitor fees and expenses associated with its investment activities and will strive to maintain fees at acceptable levels. From time to time, the Committee will compare expenses to appropriate benchmarks of other university endowments.

Asset Allocation

Asset Class	Policy Weight (%)	Range
U.S. Equity	37%	32-42
Non-US Equity	16%	11-21
Global Equity	10%	7-13
Private Equity	10%	0-12
Total Equity	73%	--
Real Estate	12%	8-15
Fixed Income	15%	12-18
Total	100%	--

Normal cash flows will be used to maintain the allocation as close as practical to the long-term target allocations. If normal cash flows are insufficient to maintain the allocation within the permissible ranges as of any calendar quarter-end, balances should be transferred as necessary between the asset types to bring the allocation back within the permissible ranges.

Treatment of Illiquid Policy Allocation and Valuation of Illiquid Investments

A portion of the Endowment's assets is committed to Private Equity and Real Estate. Because of the nature of these investments, the amount and timing of the cash flows cannot be precisely controlled by the Investment Committee. Accordingly, at any particular time, the actual asset allocation to Private Equity and Real Estate may be below the long-term target allocation. In such an event, the shortfall in the target allocation to Private Equity will be deployed in the U.S. Equity asset class and the shortfall to Real Estate will be deployed in the Fixed Income asset class. The composition of the Total Fund benchmark will be adjusted over time to reflect the actual balance in Private Equity and Real Estate.

In an effort to comply with AICPA audit standard of illiquid investments, the Investment Committee, working in conjunction with Staff and its external advisors, will document its understanding of the nature of the Endowment's underlying illiquid investments, the portfolio strategy utilized by its illiquid investment managers, and the methods and significant assumptions used to derive fair value of these investments. The Committee will conduct periodic reviews of portfolio holdings, conduct due diligence meetings with existing investment managers, and review annual audited financial statements of the endowment's illiquid investment managers.

Performance Evaluation and Goals

Over reasonable measurement periods and net of investment management fees, the rate of return earned by the Endowment is to match or exceed:

Asset Class	Benchmark	Weight
U.S. Equity	Wilshire 5000 Index	37% + Unallocated Private Equity
Non-U.S. Equity	MSCI All Country World Ex-U.S. Index	16%
Global Equity	MSCI All Country World Index	10%
Private Equity	Venture Economics Performance Benchmark	Actual (Target 10%)
Total Equity	--	73%
Real Estate	NCREIF Property Index	12%
Fixed Income	Lehman Brothers Aggregate Bond Index	15% + Unallocated Real Estate
Total Fund	Blended benchmark of appropriate indexes weighted to the target policy	100%

In addition to the blended benchmarks, the total return of the Endowment's assets will match or exceed NACUBO peer averages and any University peer groups as selected by the University.

Aggregate asset class performance will be evaluated on a net-of-fees using the individual benchmarks noted above.

Asset Classes

The Committee realizes that over the long run, total returns to equities will be higher than returns to fixed income securities, but may be subject to substantial volatility over shorter periods.

U.S. Public Equity

The purpose of the U.S. public equity allocation is to provide capital appreciation that exceeds inflation. It is recognized that pursuit of this objective could entail the assumption of greater market variability and risk. This segment of the portfolio should provide broad market exposure to the U.S. stock market as represented by the DJ Wilshire 5000 Index.

Non-U.S. Public Equity

The purpose of the non-U.S. public equity allocation is to provide capital appreciation that exceeds inflation. This segment provides access to major equity markets outside of the U.S. and consequently plays a significant role in diversifying the Endowment's portfolio. This allocation should provide broad market exposure to the international stock market, including both developed and emerging markets, as represented by the MSCI ACW ex US Index.

Global Public Equity

The purpose of the global public equity allocation is to provide capital appreciation that exceeds inflation. This segment provides access to major equity markets across the world and consequently plays a role in diversifying the Endowment's portfolio. The global public equity approach allows skillful managers to select best-in-class stocks from across the world, regardless of location. This eliminates any form of deadweight diversification that results from fixed-weight U.S. and non-U.S. equity portfolios. This allocation will be managed on an active basis and benchmarked to the MSCI All-Country World Index.

Private Equity

The purpose of private equity investments is to enhance returns beyond what is available from the public markets. Investments will be diversified across leveraged buy-outs, venture capital (seed stage, early stage, and later stage) and special situation investments (mezzanine financing, distressed debt, and secondary funds). The Committee recognizes the illiquid nature of this asset class and the importance of adequate vintage year diversification. Therefore, the Private Equity Program will be built slowly over several years. Private equity performance should be benchmarked against a peer universe (Venture Economics, for example) of like funds invested across similar vintage years.

Real Estate

The purpose of real estate is to act primarily as an inflation hedge and provide a superior return potential relative to fixed income while maintaining lower correlations with the equity markets. Public and private, core and opportunistic, open-end and closed real estate investment products are candidates for this asset class. The index by which this asset class should be measured is the NCREIF Real Estate Index (net-of-fees).

Fixed Income

This asset class shall consist of diversified fixed income securities. The primary purpose of this segment of the portfolio is to provide a hedge against deflation and prolonged economic contraction, reduce overall volatility of returns, and contribute to overall portfolio returns. This asset class may include international fixed income securities including developed and emerging market securities. In addition, this asset class may include inflation linked as well as high yield securities. The index by which this asset class should be measured is the Lehman Brothers Aggregate Index.

Absolute Return

The purpose of absolute return strategies is to provide for a stable annual return at a low-level of risk and a low correlation with the traditional asset classes. A broad range of strategies including, but not limited to, market-neutral strategies, convertible bond arbitrage, global tactical asset allocation, etc. are candidates for this asset class. The use of derivatives and leverage will be allowed within this asset class. Absolute return strategies would be applied across all asset classes. The index by which this asset class should be measured is an index comprising the Consumer Price Index plus 5 percentage points. Absolute return strategies may be deployed within the following asset classes: U.S. Public Equity, Non-U.S. Public Equity, Global Public Equity, and Fixed Income.

Criteria for Selection and Termination of Investment Managers

Pre-Selection

Criteria will be established for each manager search undertaken by the Endowment, and will be tailored to the specific needs of such a search. At a basic level, each manager hired by the Endowment should exhibit *skill*. Skill is hard to define within a quantitative framework, but from a qualitative standpoint includes, among other things, uniqueness in the strategy or the ability of the manager, their process or philosophy, and their ability to analyze and process information. The Committee and the Consultant should identify the skill factor associated with a manager being considered for addition to the Endowment program, and should have conviction that the specific skill attributes will provide the manager with the ability to outperform their benchmarks over the long-term.

Products selected shall have a reasonable fee level within their peer universe. Past performance should be evaluated with the right perspective. Past performance should be analyzed relative to the risk undertaken and should be geared at evaluating the manager's potential to add value on a risk-adjusted basis, net of all fees. Further in evaluating past performance, it should be ensured that the same team that generated a certain track record remains with the organization. Investment management should be a focus of the organization and should be evidenced by the allocation of resources towards the area. The organizational structure should ensure that the manager's interests are aligned closely with investors. The firm and its people should be reputable and firms with outstanding litigation should be subject to more thorough due-diligence if being considered.

In general, the minimum due diligence process for an investment manager's selection shall include, but not be limited to:

- **Regulatory oversight:** Each investment manager should be a regulated bank, an insurance company, a mutual fund organization, or a registered investment advisor. The manager's ADV filings should be reviewed to ensure that no regulatory actions or lawsuits are outstanding.
- **Minimum track record:** The product's inception date should be at least 3 years; a shorter track record may be used when the investment professionals of a new organization have a well established and recognized track record at a previous organization.
- **Assets under management:** The product should have at least \$100 million under management.
- **Performance relative to assumed risk:** The product's risk-adjusted performance should be evaluated against the peer group's median manager's risk-adjusted performance.
- **Holdings consistent with style:** The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities.
- **Stability of the organization:** There should be no perceived organizational problems – same portfolio management team should be in place for at least two years.
- **Performance relative to peer groups:** The product's performance should be evaluated against the peer group's median manager return for 1-, 3- and 5- year cumulative periods; past performance should not, however, be the basis for selecting investment managers.

Regulated investment options will be selected over unregulated options when comparable risk and return characteristics are considered. Further, investment products that are covered by readily available data sources will be selected over similar alternatives for which limited coverage is available.

Post-Selection

The Committee will monitor the performance of each Manager quarterly, while retaining a long-term focus. Each Manager will be assigned to a specific Committee member who will report to the Committee at least annually.

The focus of the ongoing evaluation shall include:

- Assets under management (track substantial changes in total assets).
- Performance relative to assumed risk.
- Holdings consistent with style.
- Stability of the organization and personnel assigned to Endowment funds.
- Performance relative to peer group(s).

Terminations

The Committee retains the discretion to terminate an investment manager for any reason. Grounds for investment manager termination may include, but are not limited to:

- Failure to comply with stated guidelines.
- Significant deviation from the manager's stated investment philosophy and/or process.
- Loss of key personnel.
- Evidence of illegal or unethical behavior by the investment management firm.
- Loss of confidence by the Committee and / or Consultant in the investment manager.
- Failure to achieve performance objectives specified in the manager's guidelines over reasonable measurement periods.
- A change in the Endowment's asset allocation program that necessitates a shift of assets to a different investment style.

The presence of any one of these factors will be carefully reviewed by the Committee, but will not necessarily result in an automatic termination.

Other Matters

Security Lending

Investment Managers of the Custodian, pursuant only to an authorization of the Committee and a contract with the Endowment, may engage in securities lending, or the "loan" of the Endowment's securities in return for interest, to broker dealers as a means of enhancing income.

Active vs. Passive Management

The Committee shall continue to review the relative advantages of passive versus active investment management in the context of reduced management expenses, stable performance and constant, complete exposure to the particular asset class with regard to the excess return provided by the individual manager.

Related Party Transaction

The Endowment will not loan funds or securities to related parties, defined as an Officer, Director, Committee member, employee, or donor, either current or prospective.

Procedure for Revising the Statement of Investment Policy

This IPS will be reviewed at least annually by the Committee. The Committee will review material changes to the Board of Trustees.

Conflicts of Interest

All persons responsible for investment decisions or who are involved in the management of the Endowment or who are consulting to, or providing any advice whatsoever to the Committee, shall disclose in writing at the beginning of any discussion or consideration by the Committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Committee may require such persons to remove themselves from the decision-making process.

Any members of the Committee responsible for investment decisions or who are involved in the management of the Endowment shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to or be perceived to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Committee. The intent of this provision is to manage conflicts of interest, and the appearance thereof, between the Committee membership and the Endowment. Failure to disclose any material benefit shall be grounds for immediate removal from the Committee. This provision shall not preclude the payment of ordinary fees and expenses to the Endowment's Custodian(s), Investment Managers, or Advisor in the course of their services on behalf of the Endowment.

Any conflicts of interest shall be subject to oversight and approval of the Board of Trustees.