Investment Policy Statement

Libyan Investment Authority

Document Owner: The Chairman of the Board

Name: ________ ________ Signed:_______________ Date: __/__/____

Document Approved by: The Board of Trustees

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1. Introduction

The Investment Policy Statement ("IPS") summarises the main investment objectives, policies and standards approved by the Board of Directors ("BoD") of the Libyan Investment Authority ("LIA").

The IPS is supported by a comprehensive set of investment policies and investment processes, as well as other documents that govern the operations of LIA. These include delegated authorities, the risk appetite statement, risk management policies, reporting standards and the code of conduct. These are referenced where appropriate.

The IPS is reviewed at least annually by LIA's Board Investment Committee ("BIC"). The Committee has the authority to recommend changes to the IPS outside of the annual review cycle for review by the BoD who submit the recommendations to Board of Trustees ("BoT") for approval, as required.

1.1. Background of the LIA

The Libyan Investment Authority is entrusted to protect and grow the wealth of the Libyan people for future generations. LIA was established on August 28, 2006 by Decree 208 of the General People's Committee of Libya (which has now been replaced by the Government Cabinet of Libya following the Libyan Political Agreement of December 2016). The LIA was reorganised and regulated by Law 13 in 2010.

The LIA aims to create, preserve and grow sources of wealth for the benefit of future generations of Libya, with a vision to achieve long-term stable financial returns within defined risk criteria. This is a critical role for the future of Libya, and it demands that LIA strives towards creating institutional excellence and achieving international best practices in governance and transparency in building and managing the assets entrusted to the LIA.

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2. Investment objectives and philosophy

LIA is organised with a clear purpose that will guide the LIA's governance, strategy and investment approach: to more efficiently manage wealth for future generations and effectively contribute to sustainable development and diversification of sources of income. LIA has a long-term investment horizon. However, as a public trust, it may not take risks inconsistent with protecting an endowment belonging to the citizens of Libya.

2.1. Mission statement

LIA's mission statement can be summarised as an intention to achieve attractive commercial returns over the long-term by investing internationally across a diverse set of industries and geographies. Upon approval from the Government Cabinet, the LIA may also invest parts of its portfolio domestically.

2.2. Investment objectives

LIA has three primary objectives for managing its assets overall:

1. Create a diversified source of wealth for Libya's future generations by investing internationally with a sustainable, long-term view;
2. Stimulate Libya's economy through major, transformational private sector projects; and
3. Provide stability against volatile oil revenues and government budget shortfalls.

To achieve this, LIA has three strategic objectives, which are to:

1. Build an international portfolio to provide a source of income diversified from the domestic Libyan economy and especially the Oil, Gas and Energy sector;
2. Maximise shareholder value of LIA's domestic equity holdings; and
3. Appoint best-in-class asset managers to manage external mandates and investment consultants to advise on asset allocation.

2.3. Investment philosophy

The objectives discussed in Section 2.2 determine its investment philosophy:

- **Higher risk-return expectations:** with limited fixed liabilities e.g. commitments to fund the Libyan government, LIA can ride out volatility in the short and medium term and therefore has a higher risk tolerance matched with higher return expectations than many other institutional investors.
- **Long-term investing:** the LIA may use investment strategies that create long-term sustainable value to match its long investment horizon (for example externally managed public equity portfolios, private equity, etc.).

- **Low liquidity constraint:** given the low liquidity requirement, the LIA may invest in illiquid investments, provided an appropriate illiquidity premium is earned.
- **Diversification:** over time, the major part of the LIA's assets will be invested in international assets that diversify away from the Libyan economy including the Oil, Gas & Energy sectors.

To meet the objectives and investment philosophy, the assets of the LIA will ultimately be split into three sub-funds:

- Future Generations Fund
- Libyan Local Investment & Development Fund
- Budget Stabilisation Fund

Each of the respective sub-funds are discussed below.

2.4. Future Generations Fund

The Future Generations Fund ("FGF") aims to be a permanent fund to protect and grow the savings of the Libyan people for future generations, particularly given the impermanence of oil revenues. The inflows into the FGF will be a fixed percentage of the Libyan government's oil revenues, and outflows will be highly restricted.

The FGF will invest internationally in a range of assets and will take a long-term view with respect to the fund's performance.

2.5. Libyan Local Investment & Development Fund

The Libyan Local Investment & Development Fund ("LLIDF") aims to carry out domestic investment to encourage socio-economic development within Libya. The fund will stimulate private-sector projects in non-oil industries, with the aim of partnering with foreign experts and acting as a gateway to foreign investment into Libya.

2.6. Budget Stabilisation Fund

The Budget Stabilisation Fund ("BSF") aims to provide protection against oil revenue volatility for the wealth of Libya. This fund will be replenished when there is a surplus of oil revenues and will be available for central government to draw from at times when there are shortfalls. The BSF will contain cash and fixed income, with tranches of different liquidities.

2.7. LIA's interim state

2.7.1. Oil, Gas and Energy

The LIA currently has a dedicated Oil, Gas and Energy portfolio that seeks to stimulate the private-sector development of the Libyan oil industry. It aims to do this through partnering with international oil & gas companies under Production Sharing Agreements ("PSA").

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At the same time, the LIA acknowledges its longer-term objective to diversify its investments away from the Oil, Gas and Energy sector by investing internationally in a broad range of asset classes, geographies and sectors to limit the impact of doubling-down on exposure to the Oil, Gas & Energy Sector.

2.7.2. Use of a Fiduciary Manager

To protect the assets of the LIA during the Libyan Revolution of 2011, the Libyan People requested the imposition of sanctions by the International Community. United Nations Security Council ("UNSC") Resolution 1970 of 2011 which aims to protect LIA's internationally held assets. The LIA continues to comply with Resolution 1970 of 2011.

Given the restrictions of the sanctions, LIA will, subject to support from the United Nations ("UN") and international community, work against an interim setup to effectively manage its international portfolio of assets. This interim approach will focus on protecting and maintaining the value of LIA's international holdings, whilst building the confidence of the international community in LIA's capabilities and governance.

The LIA will evaluate the use of an international Fiduciary Manager who will be granted delegated oversight and management of LIA's international cash holdings in line with international best Sovereign Wealth Fund ("SWF") practices. The Fiduciary Manager will set the overall strategic asset allocation, portfolio structure and policy suite in the interim state for the assets allocated to this pilot facility.

An international Custodian will ensure custody of all LIA assets within the pilot ensuring no assets leave the facility. The Custodian will also provide a suite of services that will support the LIA including: comprehensive reporting, hosting of an investment systems environment and third-party risk management oversight.

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3. LIA's Funds inflows and outflows

3.1. Inflows

The government may at its discretion provide cash or other in-kind assets such as land, real estate or equity holdings as additional funding for LIA.

Such inflows are not guaranteed and not necessarily regular. Cash allocations are at the full discretion of the government.

For non-cash transfers, the Board has the right to accept or reject any such inflows based on their fit with LIA's investment objectives, especially commercial viability.

3.2. Outflows

As per Law 13, no withdrawals may be made from LIA's funds except within the limits of the net annual proceeds on investments. In such a case, withdrawal must be made by resolution issued by the Government Cabinet.

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4. Performance targets, measurement and reporting

4.1. Performance targets and benchmarks

Performance targets are set on a long-term basis for the individual asset classes.

Benchmarks are a tool against which we measure the effectiveness of our investment strategy, both holistically and for specific funds or asset classes. LIA will use a variety of benchmarks to evaluate the performance of its investments over time.

4.2. Performance measurement

LIA's assets are measured regularly and accurately using well-defined fair value methodologies in line with Global Investment Performance Standards ("GIPS").

Publicly listed assets are valued on a mark-to-market basis using the closing price from the relevant primary exchange.

Closed-ended funds and separate accounts managed by external third parties are valued using the market values provided by the asset manager and reconciled against values reported to LIA's custodian.

Illiquid assets directly held by LIA are valued at least annually by LIA's Investment Department using in-house valuation models where possible or external valuations if available.

4.3. Reporting

LIA is committed to providing comprehensive, timely and accurate reporting of its performance and its activities, applying GIPS standard to ensure fair disclosure. This is critical both for LIA to assess its own performance, and to inform its stakeholders of its activities. This can be done through timely updates to the LIA website, or through the formal statutory reporting documents.

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5. Risk management

5.1. Risk measurement

LIA must identify and manage the major sources of risk in each of the following categories where they are relevant to the nature, scale and complexity of LIA's activities:

- Credit & Counterparty risk
- Market risk
- Liquidity risk
- Operational risk
- Reputational risk
- Business / Strategic risk
- Subsidiary risk
- IT & Information Security risk
- Outsourcing risk

These and further sub-categories of risk are defined in the Risk Appetite Statement ("RAS").

Accepted risk management practices and tools including Value-at-Risk ("VaR") methodologies, loss databases, Key Risk Indicators and Risk Control Self-Assessments are used to measure and manage risk exposures in the sub-funds.

The Board Audit, Risk & Compliance Committee ("ARCC") defines and monitors the adequacy and effectiveness of LIA's risk management framework, policies and practices on an annual basis.

5.2. Risk appetite

The RAS articulates the risk appetite of LIA, as determined by the Board of Directors. It also details how all risk categories are defined, assessed and monitored in line with the business strategy, plan and forecast for LIA.

The RAS forms part of the risk management process for LIA and is developed in accordance with the LIA Risk Management Framework. The RAS includes:

- The definition of each risk category and how the fund is exposed to each risk category;
- The appetite that LIA Board of Directors has for each of these risk categories in delivering the business plan;
- The rationales developed by LIA Board to determine the appropriate risk appetite for each risk category;

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- The approach used (both leading, lagging, quantitative and qualitative) by the fund to identify, measure, manage, monitor and report on actual exposures LIA has to each risk category, in comparison to the initial risk appetites determined by LIA Board;
- The approach taken by LIA Board in the event that measurements indicate a risk limit is about to be breached or have been breached; and
- The qualitative statements used to define the risk behaviour and risk culture of LIA.

The RAS expresses LIA's appetite for the range of risks faced in both quantitative and qualitative measures. The risk appetite may change as LIA's activities evolve; the RAS is reviewed annually by the Board so that iterations can be formally approved.

5.3. Risk exposures and limits

The fund's risk exposures and their compliance with risk limits are monitored on a regular basis by the Risk Department, using relevant risk metrics. These risk exposures and limits are defined in the Risk Appetite Statement and various risk management policies. Risk exposures are regularly communicated to senior management, as well as the Audit, Risk & Compliance Committee of the Board. If risk exposures exceed the limits set for individual assets or for the fund, rebalancing is required. Individual investments that exceed Board-established risk limits must be approved by the Board.

5.4. Diversification

LIA seeks to diversify its exposures whenever possible, in order to limit the impact of individual risk factors and risk events on the fund's performance.

5.5. Derivatives

Direct investments in derivative instruments are prohibited at the asset class level unless for approved risk management purposes to avoid or remedy limit breaches as detailed in the Investment Policy. The use of derivatives by external managers is carefully monitored. Restrictions on the use of derivatives may be re-evaluated over time as LIA builds out sufficient direct investment capabilities in-house.

5.6. Leverage

Leverage is not permitted at the overall fund. The use of leverage is permitted for specific direct investments and by external managers, as detailed in the Investment Policy.

5.7. Short-selling and securities lending

At this stage of LIA's evolution, short-selling is not permitted, either directly or through external managers. The use of securities lending by LIA or external managers is permitted, in order to enhance returns or reduce expenses. Securities lending must be within appropriate counterparty risk limits, as well as the conditions laid out in the Securities Lending Policy detailed in the Investment Policy.

6. Responsible investing & voting

6.1. Principles of investing

LIA intends to abide by the principles of responsible investment management in all its investments. These principles reflect best practice in corporate governance and the environmental and social implications of investment decisions, in line with internationally recognized standards such as the Santiago Principles, the UN Global Compact, the OECD's Principles of Corporate Governance and the OECD's Guidelines for Multinational Enterprises.

LIA adopts an active ownership approach to its investments, through mechanisms such as shareholder engagement with corporate boards, proxy voting or divestment. The fund encourages responsible behaviour and high standards of corporate performance on environmental and social issues.

LIA is not required to limit investments to Sharia-compliant assets. However, it will evaluate investments from all relevant perspectives and apply ethical restrictions as appropriate. The fund is restricted from investing in assets or companies that derive their revenues from gambling, tobacco, pork products, adult entertainment and alcohol.

Further restrictions on investments for each asset sub-fund can be found in the Investment Policy.

6.2. Environmental, Social and Governance (ESG) factors

LIA intends to include ESG considerations in all its investment activities. This includes investment selection, due diligence, external manager monitoring and exercising our voting rights. LIA also aims to demonstrate good ESG standards across its organisation.

6.3. Voting rights

LIA is an engaged shareholder and will ensure that the capital provided by LIA is being used in a manner consistent with the fund's principles and objectives. LIA's voting activity is governed by the Shareholder Rights Policy in the Investment Policy.

6.4. Conflict of interest and code of ethics

LIA adheres to a strict code of ethics and has clear policies on conflict of interest. All LIA Board members, management, staff and nominees to boards of LIA-owned companies are required to be familiar with and adhere to the LIA Code of Conduct and other relevant policies. Full details can be found in the LIA Code of Conduct.

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7. Investment governance

Governance of investment decisions is provided by the Board Investment Committee ("BIC").

7.1. Board Investment Committee ("BIC")

The BIC is composed of Members of the Board of Directors and includes external members. The mandate of the Board Investment Committee includes reviewing and advising the Board of Directors on:

- Fund and asset class structure;
- Strategic Asset Allocation and Investment Policy;
- Significant Tactical Asset Allocation decisions;
- Major investment decisions (within Delegated Authorities); and
- Policy for externally managed investments.

Full details, including meeting frequency, can be found in the BIC Charter.

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8. External stakeholders

All external service providers are selected in accordance with the External Service Provider Selection Policy in the Investment Policy.

8.1. External managers

External managers are used for relevant asset class strategies, especially while internal capabilities within LIA are established and developed. The relevant investment team within LIA is tasked with forming recommendations on managers to the BIC, which advises the BoD accordingly[1]. LIA will aim to select best-in-class external managers across the relevant sub-funds.

All external managers are thoroughly reviewed before receiving an allocation and reviewed on an ongoing basis, with regards to their capabilities, track record and legal status. The LIA may seek the support of an Investment Consultant in the selection and due diligence of external managers.

8.2. Custodians

LIA can appoint one or more custodians to maintain its assets (cash and securities). The custodian executes transactions as requested by the authorised LIA representatives, or external funds if authorised by LIA.

Custodians are required to provide LIA with regular reporting on its assets. More information can be found in the Custody Services Policy in the Investment Policy.

8.3. Fiduciary Manager

As detailed in Section 2.7, the LIA will seek the support of an International Fiduciary Manager in the interim state. The Fiduciary Manager will be delegated the responsibilities of managing LIA international funds across a diversified set of best-in-breed External Managers.

8.4. External auditor

With the recommendations of the ARCC, and the guidance of the BoD, the BoT will select an independent external auditor to review the audited financial statements of the LIA.

[1] In the interim state noted in Section 2.7, recommendations on manager selection for LIA's international assets will be delegated to an International Fiduciary Manager.

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9. Appendices

Appendix A: Definitions

In this document, the following definitions apply unless the context clearly requires otherwise:

- "LIA" or "the LIA" refer to the Libyan Investment Authority.
- "Board" refers to the LIA's Board of Directors.
- "Compliance" refers to LIA's Compliance department.
- "Subsidiary" or "LIA's subsidiaries" include LTP, LAP, LAFICO, LLIDF and Oilinvest.
- "BSF" refers to the Budget Stabilisation Fund.
- "FGF" refers to the Future Generations Fund.
- "LLIDF" refers to the Libyan Local Investment and Development Fund.

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