



# **INVESTMENT POLICY STATEMENT**

Libyan Investment Authority

First Edition – April 2020

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## **1. INTRODUCTION**

The Investment Policy Statement summarizes the main investment objectives, policies and criteria approved by the Board of Trustees of the Libyan Investment Authority (LIA).

"This statement is supported by a comprehensive set of investment policies and procedures, in addition to other documents that govern the investment operations of the LIA, such as delegation of powers, the Risk Appetite Statement, Risk Management Policies, Reporting Standards, and the Code of Conduct, which are referred to as appropriate."

The Investment Committee of the Board of Directors takes charge of reviewing the Investment Policy Statement at least once a year, and may, if necessary, make suggestions and propose changes to then be presented by the Board of Directors to the Board of Trustees for their approval.

### **1.1. About the Libyan Investment Authority**

The Libyan Investment Authority (LIA) was established in 2006 and reorganized by Law No. (13) of year 2010. The LIA aims to create, preserve, and develop sources of wealth for the benefit of future generations by investing in global markets in accordance with a sustainable vision to achieve stable long-term financial returns within specific risk criteria. To achieve this purpose, the LIA strives towards creating institutional excellence and achieving best international practices in the field of governance and transparency in the development, construction, and management of the LIA.

## **2. INVESTMENT OBJECTIVES AND PHILOSOPHY**

The investment strategy of the LIA is determined according to the objectives for which it was established, through managing wealth for future generations more effectively and mainly



contributing to the sustainable development and diversification of sources of income for the Libyan state. Despite the LIA's long-term investment horizon, yet it avoids entering in high-risk investments that do not correspond to the hopes and expectations of the Libyan people.

## **2.1. Statement Objective**

The objective of the investment statement can be summarized in the desire to achieve competitive trade returns in the long term, by investing internationally in several diverse and geographically distributed fields. Moreover, the LIA may invest part of its funds domestically after obtaining the necessary approvals from the Council of Ministers.

## **2.2. The LIA's Purposes**

The purposes of the LIA are to invest funds allocated for investment abroad on the basis of economic feasibility, directly or indirectly, in various economic fields in a manner that contributes to the development and diversification of national economic resources, in order to achieve the best financial returns in support of the resources of the public treasury, to ensure the future of future generations and to reduce the impact of fluctuations in income and other revenues of the State. The LIA may invest part of its funds domestically after the approval of the Council of Ministers.

To achieve these purposes, the LIA outlined its Investment Strategy as follows:

1. Establishing international investment portfolios to create diversified sources of income afar from the local economy that depends on the oil and gas sector.
2. Maximize the value of its contributions in portfolios, funds, and subsidiaries.
3. Appoint the best external portfolio and fund managers and investment advisors, to advise on the strategic asset allocation plan.



### **2.3. Investment Philosophy**

- Achieving high investment returns commensurate with the level of risk compared to other financial institutions.
- Long-term investment: the LIA may adopt long-term investment strategies to achieve sustainable financial returns, such as establishing externally managed equity portfolios and investing in private companies.
- Decrease in liquidity restrictions: Since there are no restrictions on the financial liquidity of the LIA, therefore it may enter low-liquidity investments provided that it achieves appropriate returns that justify entering such investments.
- Diversification: Over time, the LIA aims to invest the majority of its funds in global markets in various fields, rather than concentrating its investments solely on the oil and gas sector, which is considered the main source of the national economy.

In order to achieve these objectives, the LIA seeks, in the future, to classify its investment operations into three categories as follows:

### **2.4. Long-term investment for the benefit of future generations.**

The LIA aims to protect and grow the savings of the Libyan people for future generations, especially given the instability of oil revenues. To achieve this, the LIA will be supported by a fixed percentage of oil revenues, with restrictions on outflows, and will invest these funds in international markets according to a long-term strategy.

### **2.5. Investing locally to support the national economy.**

The LIA aims to invest locally in the purpose of encouraging social and economic development within Libya and will work to stimulate projects of the private sector in non-oil industries in the aim of partnering with international experts and serving as a gateway for foreign investments in Libya.



## **2.6. Short-term investment to support stability.**

The LIA aims to provide protection against the risks of oil revenue fluctuations by making short-term investments, via investing in high-liquidity and low-risk money markets in order to diversify the country's sources of income.

## **2.7. The LIA's Temporary Status**

### **2.7.1. Oil, Gas & Energy**

The LIA has investments in the oil and gas industry, through its portfolio of investments and its activities. Additionally, the LIA contributes to the development of the Libyan oil sector, by partnering with international oil and gas companies under production-sharing agreements.

At the same time, the Libyan Investment Authority seeks to diversify its investments away from the oil and gas sector by investing internationally in a wide range of asset classes, geographic regions, and sectors. This is done to mitigate the negative impact risk complications associated with this sector.

### **2.7.2. The Entrusted Manager and the Custodian Bank**

"The LIA operates under an effective mechanism that enables it to manage its international assets and investments under the freeze, with the aim of developing and safeguarding these investments, as well as enhancing the confidence of the international community in the LIA's capabilities and governance."

A global entrusted manager oversees financial assets in accordance with the best practices of counterpart sovereign funds. The entrusted manager works on developing an asset allocation plan, portfolio investment style and a set of related policies.

A global custodian (Custodian bank) takes charge of the process of depositing funds and assets and ensuring that these funds are not being used outside the scope of this mechanism. Additionally, the custodian bank will provide a range of services, including preparing comprehensive reports, providing investment systems, and supervising risk management operations.



### **3. INFLOWS AND OUTFLOWS**

#### **3.1. Inflows**

The Libyan Investment Authority may obtain cash or other in-kind assets such as land, real estate, or equity holdings as additional funding from the government. However, such inflows are not guaranteed nor are they regular, and such allocation is at the discretion of the government. Furthermore, the Board of Directors has the right to accept or reject non-cash transfers based on their compatibility with economic feasibility and the investment objectives of the LIA.

#### **3.2. Outflows**

According to Law No. (13) of year 2010 AD concerning the organization of the Libyan Investment Authority, outflows consist of the net return from the funds allocated for investment, without compromising the assets of the LIA at any time and within the limits of the amount approved in the annual budget of the State. Otherwise, withdrawals from these funds are not permitted.

### **4. PERFORMANCE, MEASUREMENT AND REPORTING**

#### **4.1. Performance rates and measurement indicators**

Long-term performance rates of asset classes are determined individually, while the effectiveness performance of the investment strategies of the LIA is assessed via measurement indicators either in a holistic manner, or for specific asset classes. The LIA will use a variety of indicators to measure the performance of its investments.

#### **4.2. Performance measurement**

The LIA's assets are regularly and accurately measured according to fair value methodologies, in line with international standards for investment performance measurement. Publicly traded





assets are assessed based on market price using the closing price from the relevant primary exchange. Closed-end funds and separate-accounts that are managed by external third parties are assessed using the market value provided by the asset manager and are settled against the declared value to the custodian back. However, non-liquid assets held directly by the LIA are assessed annually for the least, by the Investment Department using internationally approved valuation models.

### **4.3. Reporting**

The Libyan Investment Authority is committed to providing accurate and comprehensive reports in a timely manner regarding its performance and activities, while applying international standards for measuring investment performance to ensure fair disclosure. This is critical for the LIA to evaluate its own performance and inform stakeholders of its activities. This can be achieved via periodic updates on the LIA's website or via official legal reporting documents.

## **5. RISK MANAGEMENT**

### **5.1. Risk measurement.**

The Libyan Investment Authority shall identify and manage the main risks related to the nature, size, and complexity of its activities for each of the following categories:

- Credit risk.
- Market risk.
- Liquidity risk.
- Operational risks.
- Reputational risk.
- Business risks and strategic risks.



- Subsidiaries risks.
- Technology and information security risks.
- Outsourcing risks.

These risk categories, as well as other risk subcategories, are defined in the risk appetite statement.

Accepted risk management practices and tools, which include value-at-risk (VAR) methodologies, loss databases, key risk indicators, and self-assessments to monitor and manage risks. The aforementioned standards are used to measure and manage risk exposure rate.

The Audit, Risk and Compliance Committee will identify and monitor the efficiency and effectiveness of the risk management framework, policies, and practices within the LIA.

## **5.2. Risk Appetite.**

The "Risk Appetite" statement outlines the LIA's capacity to accept risks as determined by its Board of Directors. It also provides details on how all risk categories are defined, assessed, and monitored in line with the LIA's business strategy, plans, and expectations. The statement represents a part of the LIA's risk management process and is prepared in accordance with the LIA's general risk management framework. The statement includes the following:

- Defining each risk category and identifying the LIA's levels of exposure to each.
- The Board of Directors prepares a plan to accept each category of risk individually.
- The rationale prepared by the LIA's Board to determine the appropriate extent to which each risk category is accepted.



- The methodology (proactive, consequential, quantitative, and qualitative) used by the LIA to determine, measure, manage, monitor and report on each risk category, as opposed to the Risk Appetite statement.
- The approach adopted by the LIA's Board of Directors in the event that risk indicators approach or exceed risk limits.
- Qualitative data used to determine the LIA's risk behavior and culture.

The "Risk Appetite" statement expresses the extent to which the LIA is willing to accept a variety of risks it faces, using both quantitative and qualitative measures. The risk appetite may change as the activities of the LIA's evolve. Therefore, the LIA's Board of Directors review the risk appetite statement annually.

### **5.3. Exposure to risks and their limits**

The risk management periodically monitors the level of risk exposure and compliance with risk limits, using relevant metrics and indicators. The level of exposure and risk limits are defined in the "Risk Appetite" statement and other relevant policies.

The level of risk exposure is reported regularly to the Chief Executive Officer, as well as the Audit, Risk and Compliance Committee of the Board of Directors. If the exposure level exceeds the approved limits of the assets or portfolios, this entails measures to reduce the level of exposure (rebalancing). In the event that the LIA wishes to allow certain investments to accept a higher risk level than the approved limits, this must be done after obtaining the necessary approvals from the Board of Directors.



#### **5.4. Diversification**

The LIA seeks to take various measures to manage the risks associated with its investments, the most important of which is to ensure the diversity of its investment portfolios, in order to limit its exposure to various risk factors whenever possible.

#### **5.5. Financial Derivatives**

The LIA is prohibited from investing directly in financial derivative instruments, unless they are used for the approved risk management and hedging purposes, to avoid exceeding the risk limits as outlined in the approved Investment Policy. External managers are allowed to invest in these instruments provided that there are meticulous follow-up procedures. The extent to which the LIA can directly deal with these tools will be reviewed later after taking the necessary measures to build the internal capabilities of its technical elements and ensure their readiness.

#### **5.6. Financial Leverage**

Leverage may not be used in the LIA's directly managed investments. However, with regard to investments managed by others, this is allowed for specific categories of investment assets as approved in the "Investment Policy".

#### **5.7. Short selling and securities lending**

During this stage, the LIA is not allowed to conduct short sales operations. However, the extent to which the LIA can conduct these operations will be reviewed later after taking the necessary measures to build the internal capabilities of its technical elements and ensure their readiness.

External managers are allowed to carry out securities lending activities to enhance financial return or reduce expenses, provided that this is done within the appropriate risk limits and in accordance with the conditions stipulated in the Securities Lending Policy referred to in the Investment Policy.



## **6. INVESTMENT AND VOTING RIGHTS**

### **6.1. Investment Principles**

The Libyan Investment Authority intends to adhere to the principles of responsible management in all its investment activities, by adopting best practices in corporate governance and taking into account the environmental and social impacts that may result from its investment decisions, in line with internationally recognized standards, such as the Santiago Principles, the United Nations Global Compact, the OECD Principles of Corporate Governance and the Guidelines for Multinational Companies.

The LIA deals with all its investments responsibly and exercises its full rights as an owner through communication with the boards of directors of the investee companies, as well as attending and voting at general assemblies. Furthermore, the LIA supports purposeful behavior in issues related to the environment and society.

Moreover, the LIA conducts a process of studying and evaluating its investments from all technical aspects and applies ethical restrictions as appropriate. The LIA is prohibited from investing in assets or companies that generate revenues from gambling, tobacco, alcohol, pork products, adult entertainment, or any other activities that violate the ethical standards set out in Libyan laws and legislations. Additional restrictions apply to each asset class as outlined in the Investment Policy.

### **6.2. Environmental, Social and Governance (ESG) criteria**

The Libyan Investment Authority intends to consider environmental, social, and governance factors in all of its investment activities. This includes investment selection processes, due diligence, oversight of external managers, and exercising voting rights. The LIA also aims to apply these criteria across all its investment activities and subsidiaries.



### **6.3. Voting rights**

The LIA will work to deploy its funds in line with its principles and objectives. As a shareholder, the LIA is capable of fulfilling its obligations through the exercise of voting rights, in accordance with the shareholders' rights policy outlined in the approved Investment Policy.

### **6.4. Conflict of Interest and Code of Conduct**

The LIA adheres to strict ethical principles and standards. It has clear policies regarding conflicts of interest. All members of the LIA's Board of Directors, management, employees, and candidates for the boards of directors of the LIA-owned companies must be familiar with and the LIA's Code of Conduct, and other relevant policies. These requirements are outlined in the LIA's Code of Professional Conduct and Ethics.

The Investment Committee of the Board of Directors is responsible for making investment governance decisions.

## **7. INVESTMENT GOVERNANCE**

### **7.1 The Investment Committee of the Board of Directors**

The Investment Committee consists of members of the Board of Directors and includes external members. The terms of reference of this committee are to review and make recommendations on the following matters:

- The LIA's investment structure and asset classes.
- Strategic asset allocation plan and investment policy.
- Tactical asset allocation.
- Key investment decisions (within the framework of the powers granted).
- Externally managed investment policy.



The Investment Committee of the Board of Directors of the LIA meets at least once a month and may be called for extraordinary meetings as appropriate (Full details can be found in the Investment Committee Charter).

## **8. EXTERNAL PARTIES**

All external service providers are selected in accordance with the procedures set out in the External Service Selection Policy outlined in the Investment Policy.

### **8.1. External Managers**

The LIA employs a number of external investment managers to manage its assets and investments, according to a clear strategic plan, until it builds internal capacity and forms specialized teams in investment areas. Recommendations on the selection of external managers will be provided by the investment team and then will be submitted to the Investment Committee, which will in turn provide advice and recommendations to the Board of Directors.

All external managers are thoroughly reviewed before being entrusted with the task of managing funds on behalf of the LIA, and their capabilities, records and legal status are reviewed on an ongoing basis. The LIA may need to seek advice from investment consultants to conduct diligence studies and evaluate external managers.

### **8.2. Custodians**

The LIA can appoint custodians to safeguard its cash assets and securities. The custodians conduct transactions based on instructions issued by the LIA's legal representatives or external managers in the event that they obtain the necessary authorizations from the LIA.

Furthermore, custodians are required to provide periodic reports to the LIA on its assets. "More information can be found in the Custodian Services Policy outlined in the Investment Policy."



### **8.3. Trusted Manager**

The LIA will seek to appoint a global trusted manager to manage its diversified portfolios, who will select the best external investment managers, monitor their performance, and make recommendations on actions to be taken by the LIA.

### **8.4. External Auditor**

The LIA appoints international external auditors to conduct financial audits of its financial statements, based on recommendations made by the Audit, Risk and Compliance Committee.

## **9. ATTACHMENTS**

### **A: Definitions**

The following definitions herein apply, unless the context requires otherwise,

- "The LIA": The Libyan Investment Authority.
- "Board of Directors": the Board of Directors of the Libyan Investment Authority.
- "Compliance": The Compliance Department of the Libyan Investment Authority.
- "Subsidiaries" or "subsidiaries of the Libyan Investment Authority" include the Long-term Investment Portfolio, the Libya Africa Investment Portfolio, the Libyan Arab Foreign Investment Company, the Libyan Internal Investment Fund and the Oil Investment Company Oil Invest.
- "Custodians": the bank in which the owner places his securities, which the bank in turn registers and holds on his behalf.





- "Trusted Manager": Appointed as the Investment Manager (representing the institution) to manage total investment assets on an integrated basis by providing a range of advisory and investment services.