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SUBJECT: INVESTMENT POLICY

I. PURPOSE

This investment policy has been adopted by the Board of Directors of APPA to provide vision, leadership and broad guidelines for the strategic investment of funds held by the association while allowing APPA Staff to successfully implement day-to-day management decisions.

This policy serves as a framework to achieve the investment objectives; safety, liquidity, and optimum return at a level of risk acceptable for the current financial environment. APPA policies use a standard glossary of terms related to investments. The Glossary of Terms is kept of file at APPA headquarters and available on the APPA website. For the purpose of managing investment, the funds will be divided into three categories: 1) the Operating Fund, 2) the Short-Term Fund, and 3) the Long-Term Fund.

The process for determining the dollar amount in each category, the investment vehicles to be utilized and reporting requirements are set forth in this document.

II. ACTION PERSONNEL

Board of Directors, Executive Committee, Executive Vice President, Chief Financial Officer

III. GENERAL INVESTMENT GUIDELINES

A. OPERATING FUND

The purpose of the Operating Fund is to provide sufficient cash flow to meet the anticipated annual financial obligations of APPA in a timely manner.

Investment Objectives: The investment objectives of the Operating Fund are:

1. Anticipate amount of annual operating funds necessary for the annual enterprise.
2. Preservation of capital - provide sufficient assets to meet operating requirements that fluctuate in cycles of need.
3. Liquidity - maintain operating funds in appropriate accounts that allow for immediate use
4. To optimize the investment return within the constraints of (1), (2) and (3) above

Allowable Investments: The Operating Fund may be invested using appropriate vehicles/instruments* as follows:

1. Only FDIC insured Certificates of Deposit not to exceed $250,000 per institution. In dealing with a banking institution, all funds should be FDIC insured and within the FDIC limit amounts.
    a. Money Market Funds
    b. Interest bearing checking accounts in federally insured banks and savings and loans not to exceed federally insured amounts
    c. Direct obligations of the U.S. Government, its agencies and instrumentalities
    d. Agency discount notes through Money Market Funds
    e. Repurchase agreements through Money Market Funds
    f. Commercial paper rated A-1/P-1 through Money Market Funds
    g. Corporate Notes rated investment grade or better through money market mutual funds

2. Credit Unions – guaranteed secured loans
3. Refinance or capitalization of any major assets e.g. buildings, loans etc

**(Financial institutions be insured and within federal limits)*

Prohibited Investments: The Operating Fund will NOT be invested in equities or stock funds of any types; hedge funds, derivatives, or subprime mortgages or other high risk investments vehicles; options trading or margin transactions.

Maturity: The maturities on investments for the Operating Fund shall be limited to one year or less. The Chief Financial Officer shall be responsible for determining appropriate maturity dates.

Reporting: The Chief Financial Officer shall report to the Executive Vice President and Executive Committee on the status of investments as part of the routine monthly budget summary that includes an investment line item.

B. SHORT-TERM FUND

The purpose of the Short-Term Fund is to meet the expenses occurring as the result of unanticipated activities, improve the return on funds held for expenditure over the next one to five years, and to manage investment risk.

Investment Objectives: The investment objectives of the Short-Term Fund are:

1. Preservation of capital
2. Optimize the investment return – maximize yield by following three key principles of asset allocation/diversification/market timing.
3. Liquidity- provide flexibility for intermediate access to funds
4. Low expense ratio for money management (APPAs fee is tracked and compared to performance).

Allowable Investments: The Short-Term Fund may be invested using appropriate vehicles/instruments as follows:

1. Any investment allowed for the Operating Fund
2. Mutual funds investing in mortgage backed securities where the mortgages are 100% government backed (yet exclusive of any subprime mortgages).
3. Fixed income mutual funds (bonds, treasuries, or notes backed by the full faith and credit of the United States Government)
4. Mutual funds investing in securities that meet the investment objectives of the Short-Term Fund
5. Certificate of Deposit (only FDIC) that are laddered for maturity.

Prohibited Investments: The Short-Term Fund will NOT be invested in equities or stock funds of any type; hedge funds, derivatives, subprime mortgages; options trading or margin transactions.

Maturity: The Short-Term Fund shall invest in securities appropriate for a one to five year investment horizon.

Reporting: The Executive Vice President and Chief Financial Officer shall provide a report on a quarterly basis presented to the Executive Committee and Board of Directors as part of a standing agenda item. The reports will include a schedule of investments, interest income year-to-date and current yield.

C. LONG-TERM FUND

The purpose of the APPA Long-Term Fund, over a five to ten year horizon, is to provide financial stability, to ensure the real growth of capital to meet future needs of APPA, to enhance the purchasing power of funds held for future expenditure, to provide a rainy day fund to cover significant unanticipated events and losses, and to provide for major repair, renovation, renewal, or replacement of the headquarters building and/or it's systems and infrastructure.

The Board's stated goal for the Long Term Fund is 5 – 10% of APPA's assets, exclusive of the Operating Fund.

In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed 5% of each manager's fund. In addition, each fund manager is required to diversify the fund among various industries to minimize undue risks and maximize earnings.

Investment Objectives: The investment objectives should be pursued as a long-term goal designed to maximize the returns without exposure to undue risk. It is understood the fluctuating rates of return are characteristic of the securities markets. The investment goals are the objective of the aggregate fund and not meant to be imposed on each investment account if more than one account is used. APPA is willing to accept a reasonable degree of fluctuation in near-term market value with a possibility of not more than two years of negative absolute returns in exchange for the potential of higher returns over the longer term. The greatest concern should be long-term appreciation of the assets and consistency of total portfolio returns.

The following objectives over a five to ten year time period are established.

1. A minimum 5% real return (net of expenses) over inflation as defined by the Bureau of Labor Statistics, Department of Labor, U. S. government.

2. Meet or exceed the market index over the minimum established by #1 above.

The performance of the equity portfolio will be measured against the performance of the annual Standard & Poor's 500 (S & P 500) index.

Asset Allocation Guidelines

Aggregate fund asset allocation guidelines are:

Asset Class	Minimum	Maximum	Preferred
Equities	50%	75%	63%
Fixed Income	20%	45%	29%
Cash & Equivalents*	5%	10%	8%

APPA's Investment Advisor/Money Manager(s) shall follow the asset allocation guidelines; however, the Executive Vice President may employ, with approval of the Executive Committee, investment managers whose investment disciplines require different asset allocation from the established allocation guidelines if such changes are considered in the best interest of APPA over time.

Allowable Investments: The Long-Term Fund may be invested as follows:

1. **Equities:** The objective of the stock portfolio is to perform consistent with or above the S & P 500 Index (net of expenses) over an annual basis.

   a. Large capitalization stocks ($500 million market capitalization)
   b. Growth or Value stocks
   c. Large, Medium and small capitalization mutual funds stocks
   d. Stocks of foreign corporations
   e. Stocks of real estate investment trusts
   f. Mutual funds investing in instruments meeting the investment objectives.
   g. Exchange Traded Funds (ETF)

2. **Fixed Income:** Investments in fixed income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings and maturity premiums. Allowable investments include:

   a. Any investments allowed in the Operating and Short-Term Funds
   b. High yield corporate bonds
   c. Foreign corporate bonds
   d. The weighted average maturity of the portfolio must be 10 years or less
   e. Mutual funds meeting the investment objectives.
   f. Certificates of Deposits – laddered for maturity
   g. Savings bonds

Prohibited Investments: The following investments are prohibited:

a. Private placements
b. Letter stock
c. Foreign government bonds (unless within the course of purchasing mutual fund vehicles)
d. Options trading, no exceptions
e. Commodity or futures trading, except in mutual funds where the trading objective is to preserve principal
f. Short selling
g. Margin transactions
h. Gold, oil, other minerals or foreign currency (euro/sterling etc)
i. Hedge funds, derivatives, subprime mortgages.

Reporting: The Executive Vice President and Chief Financial Officer shall provide a report on a semi-annual basis presented to the Executive Committee and Board of Directors as part of a standing agenda item. The reports will include a summary of investments, portfolio performance, interest income year-to-date and current yield.

IV. RESPONSIBILITIES (operational and fiduciary)

The Executive Vice President is responsible for the management, implementation and operational administration of this policy. The Chief Financial Officer carries out the operations of the investment plans with the oversight and guidance of the Executive Vice President. The Executive Vice President is authorized to act for the Board of Directors for day-to-day actions to open and close accounts in financial institutions.

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Fiduciary responsibility for APPA's overall financial health and its investment policy shall reside with the Board of Directors. The Executive Committee will evaluate all investments against the established policy and make recommendations on policy modifications to the Board of Directors.

V. PROCEDURES

The following procedures will be used to ensure consistent administration of this policy.

- The Executive Vice President, in consultation with the Chief Financial Officer, will recommend to the Executive Committee the dollar amount to be placed in the Short-Term Fund and the Long-Term Fund. Upon recommendation of the Executive Committee, the Board of Directors will approve the dollar amount to be placed in the Short-Term and Long-Term Funds as part of the annual budgeting process and policy review.
- Financial institutions (banks and investment companies) used by the association will be checked through the Bauer Financial rating system (or similar such system). Financial institutions with unacceptable ratings will not be used.
- The association may retain an investment advisor. It is recognized that broker commissions are a reasonable and normal operating expense of investment activities. Routine performance briefings/meetings shall take place between the investment advisor, the Executive Vice President, and the Chief Financial Officer. The Executive Vice President and Chief Financial Officer shall recommend the use of one (or more) Investment Advisors/Money Managers. The Executive Committee on behalf of the Board of Directors will approve the selection of Investment Advisors/Money Managers.
- If a discount Brokerage House method is used to purchase investments directly then these instruments can be directly monitored (real time) by APPA staff.
- The Executive Vice President and Chief Financial Officer in consultation with an Investment Advisor/Money Manager, have broad responsibility to shift the commitment of funds among investment vehicles allowed for the fund category taking into consideration the key principles of asset allocation, diversification, and market timing.
- This investment policy shall be reviewed annually by the Executive Vice President and Chief Financial Officer, who will recommend any necessary revisions, adjustments, or changes to the Executive Committee and Board of Directors as part of the annual budgeting process.
- The Board of Directors shall approve any changes to the Investment Policy.