

# 5. Investment Policy

## APPA INVESTMENT POLICY

### I. PURPOSE

This Investment Policy establishes clear investment objectives, guidelines, and governance parameters for the management of APPA's investable assets. The purposes of this policy are to:

- Define the roles and responsibilities of APPA's fiduciaries in investment oversight
- Provide a framework for prudent investment decision-making and oversight
- Promote disciplined, long-term management of APPA's financial resources
- Support APPA's mission and operational sustainability by balancing liquidity needs, capital preservation, and long-term growth
- Ensure compliance with legal and fiduciary obligations governing nonprofit investments
- Establish clear performance evaluation standards and accountability

This policy supports APPA's strategic priorities by ensuring that financial resources are managed prudently to provide both near-term liquidity and long-term financial strength. Sound investment management enables APPA to maintain program stability, respond to opportunities, and build financial resilience.

This policy is designed to guide fiduciaries in the prudent management of APPA's investable assets in accordance with the Prudent Investor Rule and applicable laws governing nonprofit organizations.

### II. SCOPE AND DEFINITIONS

#### Scope

This Investment Policy applies to APPA's investable assets, defined as financial resources available for investment beyond amounts needed for immediate operational cash flow. This includes:

- Operating reserves maintained in accordance with APPA's reserve policies
- Strategic reserves designated for long-term organizational priorities
- Any temporarily restricted funds where donor restrictions permit investment
- Other financial assets designated by the Board for investment

This policy does not apply to:

- Day-to-day operational cash held for immediate expense payment
- Funds held in checking accounts for routine operations
- Permanently restricted endowment funds (if established), which would be governed by separate endowment investment policies

## Definitions

**Investable Assets:** Financial resources available for investment as determined by the Board of Directors in consultation with the Finance Committee and CEO, representing funds beyond immediate operational needs.

**Investment Portfolios:** The three distinct portfolio components (Short-Term, Medium-Term, Long-Term) described in Section V of this policy, structured to reflect different liquidity needs, time horizons, and investment objectives.

**Total Return:** The combination of income (interest, dividends) and capital appreciation (or depreciation) generated by investments over a specified period.

**Rebalancing:** The process of realigning portfolio asset allocations to maintain target risk profiles and policy parameters.

**Spending Policy:** The framework governing distributions from the Long-Term Portfolio to support APPA's operations and strategic initiatives, as described in Section VI.

## III. INVESTMENT PHILOSOPHY

APPA's investable assets are managed to support the organization's mission and ensure long-term financial resiliency. The Association's investment philosophy is based on the following core principles:

### Stewardship and Fiduciary Duty

APPA's Board of Directors and Finance Committee serve as stewards of the Association's financial resources, exercising prudent judgment and acting in the best interests of APPA and its members.

### Capital Preservation and Growth

Investment management balances the dual objectives of preserving capital and generating steady growth to sustain APPA's programs and initiatives over the long term.

### Diversification and Risk Management

A diversified, disciplined investment approach across asset classes, sectors, and geographies enhances risk-adjusted returns while reducing the risk of permanent capital impairment.

### Time Horizon Alignment

Different time horizons for various components of APPA's financial resources require distinct investment strategies. Matching investment approach to time horizon optimizes risk-adjusted returns while maintaining appropriate liquidity.

### Disciplined Decision-Making

Investment decisions are guided by this policy framework rather than short-term market movements. Regular review and rebalancing maintain portfolio discipline and alignment with strategic objectives.

### **Cost Efficiency**

Investment expenses, including management fees, transaction costs, and administrative expenses, are monitored and managed to maximize net returns to APPA.

## **IV. GOVERNANCE AND FIDUCIARY RESPONSIBILITIES**

### **Board of Directors**

The Board of Directors has ultimate fiduciary responsibility for APPA's investable assets and shall:

- Approve this Investment Policy and any substantive amendments
- Receive annual reports on investment performance and portfolio status
- Review and approve overall investment approach and risk parameters
- Ensure appropriate governance structures and fiduciary discipline
- Approve the engagement or termination of investment managers or advisors

### **Finance Committee**

The Finance Committee, as established in the APPA Bylaws and Finance Committee Charter, serves as the primary oversight body for the investment program and shall:

- Review and recommend this Investment Policy to the Board for approval
- Review and recommend substantive amendments to this policy
- Conduct annual comprehensive review of this policy
- Meet quarterly with CEO/COO and investment manager to review portfolio performance, strategy, and risk exposures
- Monitor investment performance against benchmarks and objectives
- Review asset allocation and rebalancing activity
- Evaluate investment manager performance and make recommendations to the Board
- Oversee implementation of the spending policy
- Report to the Board on investment matters at least annually

### **Chief Executive Officer**

The CEO has operational authority for implementing the investment program as approved by the Board and shall:

- Execute investment decisions in accordance with this policy
- Coordinate with investment managers, custodians, and service providers
- Move funds between accounts as needed to implement investment strategy
- Ensure timely and accurate investment reporting to the Finance Committee
- Recommend changes to investment approach when warranted by changed circumstances

- Coordinate the operational execution of spending policy distributions

The CEO may delegate specific investment-related responsibilities to the COO or other designated staff.

### **Investment Manager**

APPA may engage a third-party investment manager to implement the investment program under the oversight of the Finance Committee. When engaged, the investment manager's responsibilities include:

- Strategic asset allocation and portfolio construction within policy parameters
- Selection and monitoring of underlying investments and investment managers
- Periodic rebalancing to maintain target allocations and risk profiles
- Liquidity management to ensure availability of funds as needed
- Performance reporting including returns, risk metrics, and compliance with policy
- Recommendations for policy updates based on market conditions or best practices

The investment manager serves in a fiduciary capacity and must act in the best interests of APPA.

### **Custodian**

A qualified custodian shall hold APPA's investable assets and provide safekeeping, transaction settlement, and account recordkeeping services. The custodian is responsible for accurate recordkeeping and timely reporting but does not have investment discretion.

## **V. INVESTMENT STRUCTURE**

APPA's investable assets shall be structured into three distinct portfolio components, each designed to reflect different liquidity needs, time horizons, and investment objectives. The size of each portfolio is expressed as a percentage of APPA's annual operating budget to provide a clear framework that scales with the organization's growth.

### **A. Short-Term Portfolio**

**Purpose:** Provide ready liquidity to meet near-term operational needs and serve as a reserve for unexpected expenses.

**Target Size:** Approximately 10 percent of APPA's annual operating budget

**Time Horizon:** 0-12 months

**Investment Objective:** Capital preservation and liquidity

**Risk Profile:** Minimal risk; priority is preservation of principal and immediate availability of funds

**Allowable Investments:** - Money market funds invested in U.S. government securities or high-quality commercial paper - Certificates of deposit from FDIC-insured institutions - U.S. Treasury bills - Short-term U.S. government bonds with maturities of one year or less - Other cash equivalents approved by the Finance Committee

**Prohibited Investments:** - Equities or equity funds - Non-investment-grade bonds - Uninsured deposits exceeding FDIC limits - Illiquid investments

## **B. Medium-Term Portfolio**

**Purpose:** Maintain moderate growth and income while preserving sufficient liquidity for unforeseen needs or emergencies beyond the Short-Term Portfolio.

**Target Size:** Approximately 40 percent of APPA's annual operating budget

**Time Horizon:** 1-3 years

**Investment Objective:** Balanced approach emphasizing modest growth with moderate risk

**Risk Profile:** Moderate risk; emphasis on limited drawdown potential and stable compounding

**Allowable Investments:** - All investments permitted in the Short-Term Portfolio - Investment-grade corporate bonds and bond funds - U.S. government and agency securities - Municipal bonds (if tax-advantaged structure is utilized) - Publicly traded domestic equity securities and equity funds - Publicly traded international equity securities and equity funds - Real estate investment trusts (REITs) - Balanced or multi-asset mutual funds and ETFs

**Target Asset Allocation:** - Approximately 60% equities (domestic and international) - Approximately 40% fixed income - Ranges may be adjusted by the Finance Committee within reasonable bounds ( $\pm 10\%$  per asset class)

**Prohibited Investments:** - Non-investment-grade bonds (below BBB-/Baa3) - Illiquid or private investments - Individual securities representing more than 5% of portfolio value - Leveraged or inverse ETFs - Derivatives except for hedging purposes approved by Finance Committee

## **C. Long-Term Portfolio**

**Purpose:** Enhance APPA's long-term financial strength and fund strategic initiatives, scholarships, professional development programs, and region/chapter support.

**Target Size:** Between 50 and 150 percent of APPA's annual operating budget

**Time Horizon:** 5 years or longer

**Investment Objective:** Long-term growth to build organizational capacity and support strategic initiatives

**Risk Profile:** Growth-oriented; accepting measured volatility in pursuit of higher long-term returns

**Allowable Investments:** - All investments permitted in Short-Term and Medium-Term Portfolios - Private capital strategies including: - Private equity funds - Venture capital funds - Private credit funds - Private real estate funds - Private real asset funds (infrastructure, natural resources, etc.) - Alternative investments including hedge funds and absolute return strategies - International developed and emerging market equities - Commodities and commodity-linked securities (limited allocation)

**Target Asset Allocation:** - Approximately 70-80% growth assets (equities, private capital, alternatives) - Approximately 20-30% income and diversifying assets (fixed income, real assets) - Asset allocation ranges determined by investment manager within risk parameters approved by Finance Committee - Private investments limited to 30% of Long-Term Portfolio value

**Investment Restrictions:** - No single investment manager or fund shall exceed 20% of Long-Term Portfolio value - Private investments must have defined liquidity provisions or redemption schedules - Leverage permitted only within managed funds and subject to manager due diligence - Derivatives permitted for hedging and portfolio management purposes

### **Portfolio Size Thresholds**

The three-portfolio structure described above shall be implemented when APPA's total investable assets reach a threshold determined by the Board in consultation with the Finance Committee. Until such threshold is reached, a simplified investment approach may be utilized, with assets allocated between: - Liquid reserves (cash, money market, short-term bonds) - Balanced growth portfolio (diversified stocks and bonds)

### **Rebalancing**

Portfolios shall be reviewed quarterly for rebalancing needs. Rebalancing shall occur when: - Asset class allocations drift more than 10 percentage points from target allocations - Market conditions create significant overweighting or underweighting - Cash flow needs require portfolio adjustments - The investment manager recommends rebalancing based on market conditions

Rebalancing decisions consider tax implications, transaction costs, and market conditions.

## **VI. SPENDING POLICY**

To promote long-term sustainability, distributions from the Long-Term Portfolio will follow a disciplined spending policy that seeks to provide predictable annual support for APPA's Board-approved strategic initiatives.

### **Annual Spending Rate**

Annual spending from the Long-Term Portfolio shall be between 2 and 4.5 percent of the 12-quarter (three-year) moving average market value of the Long-Term Portfolio, calculated at the end of each fiscal year.

## **Spending Cap**

Annual spending shall be subject to a **6 percent cap** of the 12-quarter moving average market value to prevent excessive distributions that could impair long-term portfolio sustainability.

## **Use of Spending Distributions**

Distributions from the Long-Term Portfolio may be used to support, for example: - APPA's annual operating budget - Strategic initiatives aligned with Board-approved priorities - Scholarships and member support programs - Professional development initiatives - Emergency reserves or contingency funding

## **Excess Portfolio Amounts**

When the Long-Term Portfolio exceeds 150 percent of APPA's annual operating budget, amounts above this threshold may be designated for spending that supports Board-approved strategic initiatives.

## **Spending Policy Suspension or Modification**

The Board may temporarily suspend or modify the spending policy in extraordinary circumstances, including: - Severe and prolonged market downturns threatening organizational viability - Exceptional organizational opportunities requiring immediate capital deployment - Emergency situations requiring access to reserves beyond normal operations - Changes in organizational structure or mission requiring policy recalibration

Any suspension or modification requires Board approval and should be accompanied by a plan to return to the standard spending policy.

## **Annual Review**

The spending policy shall be reviewed annually by the Finance Committee as part of the annual budget development process to ensure alignment with APPA's mission and financial position.

## **VII. RISK MANAGEMENT AND INVESTMENT CONSTRAINTS**

### **Diversification**

APPA's investment portfolios shall be diversified across asset classes, sectors, and geographies to reduce the risk of permanent capital impairment and enhance risk-adjusted returns. Specific diversification parameters and concentration limits shall be established in consultation with the investment manager.

### **Liquidity Requirements**

At all times, APPA shall maintain sufficient liquidity to meet operational needs and fund annual spending distributions without forced liquidations.

## **Rebalancing**

Portfolios shall be reviewed regularly for rebalancing needs to maintain target allocations and risk profiles, considering tax implications, transaction costs, and market conditions.

## **Prudent Investor Rule Compliance**

All investments shall be made in accordance with the Prudent Investor Rule and applicable laws governing nonprofit organizations. Fiduciaries shall: - Exercise reasonable care, skill, and caution - Consider the purposes, terms, distribution requirements, and other circumstances of APPA - Diversify investments unless prudence indicates otherwise - Act with impartiality considering different beneficiary interests - Incur only costs that are reasonable in relation to the assets and purposes

## **VIII. PERFORMANCE EVALUATION**

Investment performance shall be evaluated based on total return relative to appropriate benchmarks over suitable time horizons for each portfolio.

### **Benchmarks and Performance Objectives**

The Finance Committee shall establish appropriate benchmarks and performance objectives for each portfolio in consultation with the investment manager, considering time horizon, risk profile, and investment objectives.

### **Reporting and Review**

The investment manager shall provide quarterly performance reports to the Finance Committee, including portfolio returns, benchmark comparisons, asset allocation, and market commentary. The Finance Committee shall review investment performance regularly and present an annual summary to the Board.

## **IX. POLICY ADMINISTRATION**

### **Authority**

The Board of Directors establishes and maintains this Investment Policy. The Finance Committee reviews and recommends amendments to this policy, and provides ongoing oversight of the investment program.

The CEO has authority to implement this policy in day-to-day investment operations and may consult with the Finance Committee or Board when guidance is needed on interpretation or application of policy provisions.

### **Relationship to Other Policies**

This Investment Policy operates in conjunction with other APPA policies and governance documents:

- **APPA Bylaws (Article IX, Section 3):** Establishes Board authority to approve investment policy and Finance Committee oversight responsibilities
- **Finance Committee Charter:** Defines Finance Committee’s investment oversight duties, meeting requirements, and reporting obligations
- **Financial Policies:** Provides framework for overall financial management, budgeting, and reserves within which investment policy operates
- **Gift Acceptance Policy:** Governs acceptance of gifts that may be added to investable assets

## Amendments

**Minor and Administrative Changes:** The CEO, in consultation with the Finance Committee Chair, may make minor or administrative changes to this policy (such as updating benchmark ETF symbols, clarifying language, or correcting technical errors) without Board approval, provided such changes do not materially alter investment objectives, asset allocation parameters, spending policy, or risk constraints.

**Substantive Changes:** Substantive changes to investment objectives, asset allocation structure, spending policy, risk parameters, or fiduciary responsibilities require Finance Committee recommendation and Board approval.

All amendments shall be documented and communicated to the Board in a timely manner.

## Policy Review

This Investment Policy shall be reviewed annually by the Finance Committee to ensure alignment with:

- APPA’s strategic priorities and financial position
- Current best practices in nonprofit investment management
- Changing market conditions and investment opportunities
- Legal and regulatory requirements
- Lessons learned from portfolio performance and operations

The Finance Committee shall conduct a comprehensive review of this policy at least every three years, considering: - Fundamental changes in APPA’s financial position or strategic direction - Significant market regime changes or economic conditions - Evolution of investment products and strategies - Peer organization investment approaches - Member of investment manager or consultant recommendations

The Finance Committee shall present the results of comprehensive reviews to the Board with recommendations for continuation or modification of the policy.

## Interim Reviews

An interim review of this policy should be triggered by: - Material changes in APPA's financial position or operating budget - Significant changes in spending needs or reserve requirements - Changes in organizational structure or mission - Prolonged market stress or exceptional investment performance - Changes in tax status or regulatory environment - Engagement of new investment manager or advisor

### **Documentation**

The Finance Committee shall maintain documentation of: - Annual policy review discussions and recommendations - All amendments to this policy with rationale - Investment manager selection and evaluation processes - Performance reports and quarterly reviews - Compliance with policy requirements

All investment policy documentation shall be retained in accordance with APPA's document retention policy.

### **Effective Date**

This Investment Policy was adopted by the APPA Board of Directors on January 12, 2026 upon recommendation of the Finance Committee and supersedes all previous investment policies and guidelines.

### **Questions**

Questions regarding this policy should be directed to:

- Chair, Finance Committee
- Chief Executive Officer

### **END OF POLICY**