

1 Addendum #B

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4 Investment Policy Statement  
5 for  
6 American Association of Orthodontists Foundation  
7 May 2004  
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11 I. Purpose

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13 The purpose of this statement is to provide a clear understanding between the American  
14 Association of Orthodontists Foundation (AAOF) and investment managers, donors and  
15 other interested parties concerning the investment policies and objectives of the  
16 Foundation assets.

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18 This statement outlines an overall philosophy that is specific, but flexible enough to  
19 allow for changes in the economy and securities market.  
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21 II. Delineation of Responsibilities

22  
23 All parties are subject to the Prudent Man Rule which states:

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25 Assets shall be invested with the care, skill, prudence and diligence under the  
26 circumstances prevailing from time to time that a prudent man acting in a like capacity  
27 and familiar with such matters would use in the investment of a fund of like character and  
28 aims.  
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30 A. AAOF Board of Directors

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32 The AAOF Board of Directors is charged with the authority in this Policy  
33 Statement to hire and fire investment managers with the advice and upon the  
34 recommendation of the Finance and Investment Committee. The Board is  
35 responsible for all investments made by the Foundation, but as a practical matter,  
36 will delegate day-to-day management of the assets to investment managers and  
37 consultants hired for that purpose.  
38

39 B. Finance and Investment Committee

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41 The Finance and Investment Committee is charged with the direct oversight of the  
42 investment managers, asset allocation of the AAOF funds and oversight of  
43 outside consultants hired to assist the above. As a practical matter, the  
44 Committee may assign day-to-day management to a designated consultant.  
45

46 C. Consultants

1  
2 The Board has designated Richard E. Fister, Jr., and the firm UBS Financial  
3 Services, Inc., to act as consultant to the AAOF Board of Directors regarding the  
4 investment of the AAOF's funds. Their duties are, but not limited to, advice on  
5 asset allocation, screening and day-to-day monitoring of investment managers,  
6 independent reporting of investment results, custodianship of the AAOF assets,  
7 and any other duties the Board or the Committee deems appropriate.  
8

9 III. Objectives

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11 The AAOF seeks to maximize income, growth of income and long-term appreciation of  
12 capital while seeking to minimize principal fluctuations. The assets must be invested  
13 with care and diligence with the overriding prudent man rule as a guide to investment  
14 management. The AAOF will, as a general guideline, make regular scheduled  
15 disbursements, and care should be taken to ensure available funds.  
16

17 A. Equity Fund Objectives

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19 1. Long-Term Objectives

20  
21 The AAOF seeks as a total return (income and growth) over a market  
22 cycle, or at a minimum of three years, a compounded return that should  
23 surpass the Standard & Poor's 500 for any fund designated as a Value  
24 Equity Fund and the Russell 1000 Growth for any fund designated a  
25 Growth Equity Fund. If appropriate, the Finance and Investment  
26 Committee may use, in addition to the Standard & Poor's 500 and Russell  
27 1000 Growth, other recognized Equity Indices that may more closely  
28 parallel the style of the Equity Manager.  
29

30 If another index besides the Standard & Poor's 500 or Russell 1000  
31 Growth is used to judge any Equity Manager, then that manager will be  
32 notified in writing by the Finance and Investment Committee.  
33

34 2. Short-Term Objectives

35  
36 The assets should be managed in such a fashion so as not to exceed the  
37 loss of the Equity Index that is being used as a benchmark. Further, the  
38 assets should be managed so as not to have three consecutive quarterly  
39 losses.  
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1  
2 B. Fixed Income Objectives  
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4 1. Long-Term Objectives  
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6 The AAOF seeks as a total return (income and growth) over a market  
7 cycle, or at a minimum of three years, a compounded return that should  
8 surpass an Index of 50% Lehman Brothers Aggregate and 50% Lehman  
9 Intermediate Government Credit Index. If appropriate, the Finance and  
10 Investment Committee may use, in addition to the Lehman Brothers  
11 Intermediate Corporate/Government Index, other recognized Fixed  
12 Income Indices that may more closely parallel the style of the Fixed  
13 Income Manager.  
14

15 Any change of the Benchmark by the AAOF Board will be communicated  
16 in writing to the Investment Manager.  
17

18 2. Short-Term Objectives  
19

20 The assets should be managed in such a fashion so as not to exceed the  
21 loss of the Fixed Income Index that is being used as a benchmark.  
22 Further, the assets should be managed so as not to have three consecutive  
23 quarterly losses.  
24

25 C. Cash and Equivalents Objectives  
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27 There are not specific benchmark returns for cash. It is expected that Equity and  
28 Fixed Income Managers will be generally fully invested. Cash that is allocated by  
29 the Finance and Investment Committee will be subject to the rules described  
30 herein.  
31

32 IV. Asset Allocation  
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34 The Finance and Investment Committee will make the overall allocation of Equities,  
35 Fixed Income and Cash investment. Specifically the Committee is restricted to:  
36

	<u>Minimum</u>	<u>Maximum</u>
Cash	0%	25%
U.S. Fixed Income	20	100
U.S. Equity	40	65
Alternative Investments	0	10

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46 The Finance & Investment Committee, in concert with the Investment Consultant, will

1 review on a quarterly basis the relative portfolio amounts of the three investment funds  
2 and make transfers as necessary to rebalance these funds no less often than semi-  
3 annually.

4  
5 The investment managers will have discretion, within the guidelines and prohibitions  
6 below to make individual security and industry decisions within their own discipline.  
7 The prudent man rule will apply to both individual securities and industry/sector  
8 weightings.

9  
10 The Finance and Investment Committee is charged with having 7% of the value of the  
11 endowment fund available for distribution at the spring meeting of the Board of  
12 Directors.

13  
14 A. Equity Securities

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16 Equity securities must have a minimum market capitalization of \$5 billion and  
17 must be traded on the New York, American Stock Exchanges or the United States  
18 domestic over-the-counter markets. The investment manager should invest only  
19 in corporations traded on the American Domestic Markets.

20 No more than 10% of the equity portion of investments in any investment fund  
21 may be in ADR's. The Board does not permit any other type of investment in  
22 foreign stocks.

23  
24 B. Fixed Income Securities

25  
26 Fixed income securities may be either U.S. Government and its Agencies,  
27 municipal debt, corporate debt and preferred securities as well as convertible  
28 issues issued only in U.S. dollars

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30 In addition, a maximum of 50% of the portfolio may be in Mortgage Backed  
31 Securities that either implicitly or explicitly have the backing of the U.S.  
32 Government.

33  
34 Asset Backed Securities may be a maximum of 20-25% of the portfolio, but must  
35 constitute Senior Debt with a minimum "A" rating.

36  
37 Investments may be made in Yankee bonds from major corporations between 5%-  
38 10% rated "A" or higher ( i.e. Hanson, Unilever, Daimler Benz) of the portfolio.

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40 The maturities and duration are left to the discretion of the manager in accordance  
41 with the Objectives in Section III.

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2 C. Alternative Investments  
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4 Alternative Investments are defined as non-traditional investments that are  
5 specifically not long only common stocks and bonds. The areas of investment  
6 include:

7 Hedge funds  
8 Real Estate Investment Funds  
9 Venture Capital  
10 Private Equity  
11 Limited Partnerships  
12

13 Investments of this nature will be in pooled funds through investment managers,  
14 rather than direct investments to further spread risk. The investment managers  
15 may use leverage, as appropriate in the day-to-day management of the fund.  
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18 D. Cash and Equivalents  
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20 Cash and Cash Equivalents may be invested directly in the money markets in  
21 Commercial Paper, Bankers Acceptance, Bank CD's and Corporate Notes with a  
22 minimum rating of A-1 by Standard & Poor's or P-1 by Moody's Investment  
23 Services. Maturities may not exceed 90 days.  
24

25 In place of, or in addition, Cash may be invested in money market mutual funds  
26 which have the same general investment restrictions. All investments must be in  
27 U.S. dollars.  
28

29 E. Prohibitions  
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31 The Investment managers will be audited as to investment style and appropriate  
32 investments within their given style and any other investment parameters  
33 described within this Policy Statement. Any variation from the style and  
34 parameters is prohibited. No manager may invest more than 6% of their assets  
35 under control into any one common stock or bond, unless it is a direct obligation  
36 of the U.S. Government.  
37

38 Additional prohibited investments:

39 Letter Stock  
40 Commodities  
41 Leverage—with the exception of Alternative Investments  
42 Collateralized Mortgages that are Interest & Principal  
43 Strips, Inverse Floaters, Z-Bonds and Accrual bonds  
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1 Investments not specifically addressed by this statement are forbidden without the  
2 AAOF's written consent.

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4 V. Communications

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6 Meetings between the AAOF and the investment manager will be held on an annual basis  
7 at a location selected by the AAOF. The performance of investments will be evaluated  
8 quarterly. Investment reviews will be sent quarterly to designated Foundation Board  
9 members and the manager must be available for phone consultation on an as needed  
10 basis.

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12 VI. Amendments

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14 Amendments to this policy statement are allowed, as needed, by a majority vote of the  
15 Finance and Investment Committee, and any such amendment will be forwarded in  
16 writing to the investment manager.  
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