

## **Introduction**

The Investment Committee for the American Academy of Periodontology Foundation (AAPF) hereby establishes the following Statement of Investment Policy (Policy) to facilitate a clear understanding of the investment policy, guidelines, and objectives among the AAPF's Board of Directors, its Investment Committee, the investment consultant, and the investment managers for the AAPF's funds. This Policy will also provide a basis against which the performance of those fund(s) can be monitored and measured on an ongoing basis. It is the intention of this Policy to be sufficiently specific to be meaningful, yet flexible enough to be practical. This Policy is designed to comply with all fiduciary, prudence, and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, and federal political entities that may impact the Foundation's assets.

## **Mission and Purpose**

The mission of the American Academy of Periodontology Foundation is to improve the periodontal and general health of the public through increasing public and professional knowledge of periodontal diseases and their therapies, stimulating basic and clinical research to generate new knowledge, and enhancing educational programs at all levels to create opportunities in periodontal education and practice. All funds deposited in the Foundation are intended to support the Foundation's philanthropic mission.

## **Investment Objectives**

The AAPF's funds shall be invested to provide for total return. The overall rate of return objective of the portfolio shall be a reasonable "real" rate that is consistent with the risk levels established by the Investment Committee in the investment policy section below. The desired annualized rate of return over a full market cycle (3-5 years) is that which equals or exceeds the assumed spending rate plus the rate of inflation. In line with these parameters, the Investment Committee has established a long-term target return objective, which may be changed from time to time, but is currently 8% on an annualized basis. An additional return objective of the AAPF, again measured over a full market cycle (3-5 years), shall be to outperform (net of all costs) the customized benchmark index detailed in the investment policy section, while maintaining a lower level of risk (volatility of returns).

## **Time Horizon**

The investment time horizon for the Foundation is long and indefinite.

## **Spending Policy**

Spending policy will be at the discretion of the Board of the AAPF as determined by the governing documents for the various restricted funds that make up the portfolio and applicable federal and state laws.

## **Investment Policy**

### **Investment Guidelines & Restrictions**

The AAPF funds shall be invested in a diversified portfolio consisting primarily of liquid common stocks trading on major U.S. and established foreign stock exchanges, real estate investment trusts (REITs), U.S. government and/or agency obligations, foreign and corporate bonds, certificates of deposit, and cash equivalents. Equities shall be allocated globally and across both the growth and value styles. The foreign bond allocation shall maintain a minimum "AA" rating, and domestic bonds (excluding the dedicated high yield bond allocation) a minimum "A" rating by either Moody's or Standard & Poors rating agencies. The dedicated high yield bond allocation shall not exceed 10% of the total investment portfolio at any time. Prohibited investments include private equity, private placements, commodities, unregistered or restricted stock, direct investment in derivatives (including but not limited to options and futures contracts), margin trading, short selling, tangible real estate, tax-free municipal bonds, and limited partnerships. Options and futures trading and short selling may be used by investment managers only as a means of hedging risk in a diversified portfolio.

### **Strategic Asset Allocation**

The target asset allocation for the investment portfolio is determined by the Investment Committee to facilitate the achievement of the AAPF's long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes is the single most important determinant of the investment performance over the long-term, the AAPF's assets shall be divided into ten major asset classes as follows. The Investment Committee, at any time and at its discretion, may direct that funds allocated to an investment class be reduced to zero:

<b>Asset Class</b>	<b>Minimum %</b>	<b>Target %</b>	<b>Maximum %</b>
Large-Cap US Equities	14%	20%	26%
Small/Mid-Cap US Equities	11%	16%	21%
International Equities (Developed Markets)	12%	18%	24%
International Equities (Emerging Markets)	4%	6%	8%
Real Estate Investment Trusts (REITS)	7%	11%	15%
High Yield Fixed Income (Speculative Grade)	2%	6%	10%
International Fixed Income	3%	7%	11%
Broad Domestic Fixed Income (Investment Grade)	2%	6%	10%
Inflation Protected Fixed Income (TIPS)	3%	8%	13%
Short-Term Fixed Income & Cash Equivalents	0%	2%	4%

Note that the minimum and maximum percentage bands are general guidelines only and that the Portfolio Engineer™ will dictate actual rebalancing points. The general guidelines suggested by the AAPF Board is that equities should be targeted to be 72% of the portfolio ranging from 54%-90% and the fixed income portion should be targeted to be 28% of the portfolio ranging from 10%-46%.

### **Performance Benchmark**

Net-of-all-cost performance (return and risk) for the AAPF portfolio shall be evaluated relative to a customized policy benchmark consisting of the following indexes and weights:

- 20% Standard & Poors 500 Index
- 16% Russell 2000 Index
- 18% MSCI EAFE Index
- 6% MSCI Emerging Markets Free Index
- 11% Dow Jones Wilshire Real Estate Securities Index
- 6% Citigroup High-Yield Market Index
- 7% Citigroup Non-US Dollar Bond Index
- 6% Lehman Aggregate Bond Index

8% Citigroup Inflation-Linked Securities Index

2% Citigroup Treasury Bill – 3 month

### **Cash Flows & Rebalancing**

The investment consultant shall, at the direction of the Investment Committee, allocate net cash flows (contributions) to investment managers. As a general rule, new cash will first be used to rebalance the total fund in accordance with the strategic target asset allocation policy. In the event that the investment consultant indicates that the risk and return profile of the Foundation portfolio becomes materially different from the stated targets, the entire portfolio will be evaluated and may be rebalanced to long-term asset allocation targets. Rebalancing will be evaluated continually, and the investment consultant will advise the Investment Committee at least annually regarding the need and efficacy of rebalancing. The purpose of rebalancing is to maintain the risk and return relationship implied by the stated long-term asset allocation targets. This process may result in withdrawing assets from investment managers who have performed well in the latest periods or adding assets to managers who have lagged in the most recent periods. This policy may necessitate the purchase and or sale of securities, which may create transaction costs to the account and the recognition of capital gains or losses.

### **Hiring & Terminating of Investment Managers & Consultant**

Based upon the advice of the investment consultant, the Investment Committee maintains ultimate responsibility for hiring and terminating investment managers. Investment managers may be terminated at any time at the discretion of the Investment Committee. Events which may trigger such termination include but are not limited to:

- Performance issues (return, risk, and peer-group rankings)
- Illegal or unethical behavior on the part of the manager or firm.
- Failure to follow the guidelines established in this investment policy statement.
- Change of key management personnel.
- Style drift.
- Insufficiency of manager's infrastructure to keep pace with asset growth.
- Any other event which might prevent the manager from effectively carrying out their investment duties.

Separately, the AAPF Board maintains ultimate responsibility for hiring and terminating the investment consultant based upon the advice of the Investment Committee.

### **Performance Monitoring/ Responsibilities of the Investment Consultant**

All guidelines and objectives shall be in force until modified in writing. The investment consultant will provide [quarterly performance measurement PDF](#) and evaluation reporting for each investment manager and/or fund as well as a synopsis for all Foundation assets for each member of the AAPF Board. Performance will be evaluated relative to stated policy objectives, appropriate benchmarks, and a universe of investment returns appropriate to the investment manager or fund evaluated. Performance will be evaluated over different time periods including the latest quarter, as well as latest one-, three- and five-year periods where applicable. In addition to performance, the investment consultant will provide reporting and evaluation regarding the level of risk associated with the managers' performance as well as the managers' consistency and adherence to the specific style which they were hired to implement. The investment consultant will also report to the Investment Committee with the data available on the compliance of a manager or fund to the guidelines of these policies.

Mutual funds or commingled funds may be utilized in any category of investment management. When one is selected, however, it is expected that the funds(s) will, in general, comply with the guidelines set forth herein. No fund may be used without approval of the Investment Committee.