

**STATEMENT OF INVESTMENT POLICY, OBJECTIVES, AND GUIDELINES**  
**AMERICAN ASSOCIATION OF PHARMACEUTICAL SCIENTISTS**  
**RESERVE ASSETS**

**A. GENERAL INFORMATION**

The American Association of Pharmaceutical Scientists (AAPS), Reserve Assets Fund, Adoption Date: January 1, 1998. Revised: February 23, 2007.

**B. SCOPE OF THIS INVESTMENT POLICY**

This statement reflects the investment policy, objectives, and constraints of the Plan.

**C. PURPOSE OF THIS INVESTMENT POLICY STATEMENT**

In general, the purpose of this statement is to outline a philosophy and attitude, which will guide the Investment management of the Plan toward the desired results. It is set forth by the Executive Council of AAPS in order to:

1. Define and assign responsibilities for management of the Plan.
2. Establish the investment goals and objectives of the Plan.
3. Provide guidance and limitations to all Investment Managers regarding the Plan.

**D. AUTHORITY OF THE FINANCE COMMITTEE**

The AAPS Finance Committee is responsible for directing and monitoring the Plan subject to the review and approval of the Executive Council. The Finance Committee is authorized to retain experts in various fields.

These may include, but are not limited to:

1. Investment Management Consultants. Consultants may assist the Finance Committee in establishing investment policy, objectives, and guidelines; selecting Investment Managers; reviewing continuing qualifications of investment; measuring evaluating and reporting investment performance; and other tasks as deemed appropriate by the Finance Committee.
2. Investment Managers. Investment Managers shall have discretion to purchase, sell, or hold the specific securities to meet the Plan's investment objectives consistent with the Plan policies.
3. Custodian. The custodian will maintain possession of securities owned by the Plan; collect dividend and interest payments; redeem maturing securities; and effect receipt and delivery following purchases and sales. The custodian shall regularly account for all assets owned, purchased, or sold, as well as movement of assets into and out of the Plan accounts.

4. Attorneys, auditors and other may be retained by the Finance Committee to assist in meeting its responsibilities.

The Finance Committee shall not control Plan investment decisions, except as to specific limitations set forth in this statement. Investment Managers will be held responsible and accountable to achieve the objectives herein stated.

#### **E. RESPONSIBILITY OF THE FINANCE COMMITTEE**

The Finance Committee shall:

1. Project AAPS financial needs, and periodically communicate such needs to the Investment Management Consultants.
2. Determine the Plan's risk tolerance and investment horizon, and communicate these to the Investment Management Consultants.
3. Establish investment objectives, policies, and guidelines, which will guide investment of the Plan's assets.
4. Recommend Investment Management Consultants to the Executive Council.
5. Monitor and Evaluate Plan performance and performance of the Investment Managers to assure adherence to policy guidelines quarterly.

#### **F. RESPONSIBILITY OF INVESTMENT CONSULTANTS**

Investment Management Consultants shall serve as investment advisors to the Finance Committee to make management and operation of the Plan consistent with its investment objectives, policies, and guidelines. Specific responsibilities of an Investment Management Consultant shall include:

1. Assisting in the development and periodic review of investment policy
2. Conducting Investment Manager searches when requested by the Finance Committee,
3. Providing "due diligence", or research on Investment Managers
4. Monitoring and reporting on the performance of Investment Managers to enable the Finance Committee to determine progress of investment objectives.
5. Communicating matters of policy, fund research, and fund performance to the Finance Committee.

#### **G. RESPONSIBILITY OF INVESTMENT MANAGERS**

Each Investment Manager shall have full discretion to make all investment decisions for Plan assets under its jurisdiction, within the Plan's investment objectives, policies, and guidelines. Specific responsibilities of the Investment Managers include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within Plan guidelines.

2. Voting proxies on behalf of the Plan

3. Informing Investment Manager Consultants regarding any qualitative change to management organization; such as, changes in portfolio management personnel, ownership structure, investment philosophy, etc.

4. Informing Investment Management Consultants of any major changes to economic outlook, investment strategy, or any other factors, which have the potential to impact implementation of the investment process, or the Plan's investment objectives.

## **H. GENERAL INVESTMENT PRINCIPLES**

1. Investments shall be made solely for the benefit of the Plan.

2. Plan assets shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matter, would use in the investment of a fund of like character and with like objectives.

3. Investment of Plan assets shall be diversified so as to minimize the risk of significant losses.

4. Multiple Investment Managers of varying Investment Management strategies may be retained to attain Plan objectives.

5. Cash is to be invested at all times in short term cash equivalents providing safety, liquidity and reasonable return.

## **I. INVESTMENT MANAGEMENT POLICY**

1. Preservation of Capital -Investment Managers shall make reasonable efforts to preserve capital, overall, even though losses may occur in individual securities.

2. Risk Aversion -Although reasonable risk is necessary to produce long-term investment results meeting the Plan's objectives, Investment Managers are to make reasonable efforts to control risk. They will be evaluated regularly to ensure that risk assumed is commensurate with the Investment Managers investment style and objectives.

3. Adherence to Investment Discipline -Investment Managers are expected to adhere to the Investment Management strategies for which they were retained and will be evaluated regularly for adherence to investment discipline.

## **J. INVESTMENT OBJECTIVES**

Plan investment strategy is to maximize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management of Plan assets shall be to achieve a balanced return of current income and growth of principal through securities investments. "Securities" shall refer to the marketable investment securities, which are defined as acceptable in this statement.

## **K. CAPITAL MARKET EXPECTATIONS**

The specific investment horizon assumptions and goals below are based on the following expectations of return from the capital markets. "Investment Horizon" shall be the time period throughout which the investment objectives, as set forth in the statement, are expected to be met. The investment horizon for this plan is 10 years.

<u>Asset Class</u>	<u>Expected Return</u>
Small Cap Stocks	10.7%
Large Stocks (S&P 500)	9.7%
International Stocks	9.7%
Intermediate Government Bonds	5.1%
90 Day T -Bills	3.7%

Inflation as measured by the Consumer Price Index (CPI), is expected to rise at an annual rate of 2.5%

## **L. SPECIFIC INVESTMENT GOALS**

It is the Plan's goal to meet or exceed

1. An absolute rate of return of 9% annualized,
2. The return of a balanced market index consistent with the asset allocation of AAPS. A goal of +.50% per year over the blended index is established as a minimum expectation.

The investment goals above are not meant to be imposed on each investment account (if more than one account is used). The goal of each Investment Manager shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Finance Committee. The performance goal for each equity advisor is +.75% over their respective index. The performance goal for each fixed income advisor is +.25% over their benchmark.
2. Maintain an overall level of risk in the securities portfolio consistent with a reasonable standard. Risk will be measured by the standard deviation of quarterly returns.
3. Not to suffer any loss exceeding the one year worst case loss from the approved Sample Asset Allocation Analysis.  
See appendix A.

## **M. LIQUIDITY**

The Finance Committee will periodically provide Investment Management Consultants with an estimate of expected net cash flow requirements.

## **N. MARKETABILITY OF ASSETS**

Plan assets shall be invested in liquid securities, defined as securities that can be transacted quickly and efficiently with minimal impact on market price. Investment Managers will execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the counter market.

## **O. INVESTMENT GUIDELINES**

Allowable Assets

1. Cash Equivalents
  - a. Treasury Bills
  - b. Money Market Funds
  - c. Commercial Paper
  - d. Certificates of Deposit
  
2. Fixed Income Securities
  - a. U.S. Government and Agency Securities
  - b. Corporate Notes and Bonds
  - c. Mortgage Backed Bonds
  - d. Preferred Stock
  
3. Equity Securities
  - a. Common Stocks
  - b. Convertible Notes and Bonds
  - c. Convertible Preferred Stocks
  - d. American Depository Receipts (ADRs) of Non-U.S. Companies

## **P. PROHIBITED SECURITIES**

Prohibited securities include the following

1. Commodities and Futures Contracts
2. Private Placements
3. Options
4. Tobacco Stocks
5. Limited Partnerships
6. Real Estate Property

## **Q. PROHIBITED TRANSACTIONS**

Prohibited transactions include the following

1. Short Selling
2. Margin Transactions
3. Direct Foreign Currency Speculation
4. Derivatives

## **R. ASSET ALLOCATION GUIDELINES**

Investment of Plan assets shall be in accordance with the following asset allocation guidelines:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target Allocation</u>
Large Cap U.S.Equities	35%	65%	45%
Mid/Smallcap U.S.Equities	0%	20%	15%
International Equities	0%	20%	10%
Fixed Income	25%	55%	28%
Cash	0%	15%	2%

The total maximum amount allocated to equities is 70%.

The Finance Committee may retain Investment Managers whose investment strategies require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Plan, such strategies must fit within the overall asset allocation guidelines established in this statement. The securities of anyone company should not exceed 4% of total Plan assets, and the total allocation to one bond issue should not exceed 10% of total Plan assets, unless a US Government or Agency issue.

## **S. GUIDELINES FOR FIXED INCOME INVESTMENTS AND CASH**

1. Plan assets may be invested only in investment grade bonds rated A or better
2. Plan assets may be invested only in commercial paper rated A 1 or better.
3. Fixed income maturity restrictions are as follows:
  - a. Maximum maturity for any single security is 15 years.
  - b. Minimum maturity for any single security is 1 month.
  - c. Weighted average portfolio maturity may not exceed 10 years

## **T. SELECTION OF INVESTMENT MANAGERS**

Selection of Investment Managers shall be based on prudent "due diligence" procedures. An Investment Manager must be a registered investment advisor under the Investment Advisers Act of 1940.

## **U. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION**

Investment Managers shall be reviewed periodically regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may affect their ability to achieve Plan Investment objectives. Investment Management Consultants shall generate performance reports at least quarterly. The Finance Committee intends to evaluate securities portfolios over a minimum three-year period, but reserves the right to terminate an Investment Manager for any reason, at any time. If an investment advisor underperforms their respective benchmark for two consecutive years, the investment consultant should provide a comprehensive review of the manager and their style along with a specific recommendation to the Finance Committee regarding their retention.

## **V. INVESTMENT POLICY REVIEW**

The Finance Committee intends to review this Statement annually.

This Statement has been reviewed and approved by:

---

AAPS Treasurer

---

AAPS President

Approval Date: February 23, 2007