

Civil Air Patrol
Statement of Investment Policy



1. DESCRIPTION OF ORGANIZATION

Civil Air Patrol (“CAP”) is a charitable, not-for-profit 501(c)(3) corporation that is a volunteer civilian auxiliary of the U.S. Air Force. CAP is comprised of 52 wings (one for each state, along with Puerto Rico and the District of Columbia) organized in eight geographic regions, made up about 1,600 units and over 58,000 members nationwide. Their three primary missions are Aerospace Education, Cadet Programs and Emergency Services. In serving these missions, CAP operates a large fleet of single engine aircraft and support vehicles. Its members are supported by a corporate staff of approximately 100 located at the CAP National Headquarters at Maxwell Air Force Base, Alabama.

2. DESCRIPTION OF FUND(S) SUBJECT TO STATEMENT

CAP currently has two (2) funds (collectively “Funds”) that are subject to this statement; an unrestricted investment fund (the “Primary Fund”) and a separate donor restricted fund (the “Restricted Fund”). The Restricted Fund assets are designated for the support of CAP cadet programs and educational activities. Each of the specified funds is separately maintained and managed in identifiable accounts.

3. PURPOSE OF STATEMENT

The purpose of this statement of investment policy for the CAP Funds is as follows:

- 1) Provide background information relevant to the development of this statement;
- 2) Identify the duties and responsibilities of all respective parties;
- 3) Define the investment objectives, guidelines and constraints relevant to the management of the Funds;
- 4) Establish a basis for the monitoring and evaluation of the investment performance;
- 5) Describe the circumstances under which this statement shall be reviewed and modified as necessary.

4. RELEVANT LAWS AND REGULATIONS

The CAP, the Investment Manager(s) and other relevant parties are subject to certain laws, regulations and professional standards with regard to the roles they serve and in performing their respective duties. It is the responsibility of each party to comply with all relevant laws, regulations and professional standards in performing their specified duties.

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5. DUTIES AND RESPONSIBILITIES OF RELEVANT PARTIES

The duties and responsibilities identified in this section are intended to provide a general description to enable the parties to understand their respective roles in affecting this Statement of Investment Policy. Each party, in their respective capacity, has duties and responsibilities that in many cases are more fully identified in relevant laws, regulations, agreement or other authorization.

The following are the relevant parties within CAP with regard to the Funds:

CAP Board of Governors (the “Board of Governors”) responsible for oversight, advice & consent of CAP.

CAP National Executive Committee (the “NEC”), responsible for ratification and creation of rules and regulations that set the policies and standards for CAP day-to-day operations.

CAP National Executive Committee Finance Committee (the “NEC Finance Committee”), responsible for financial activities of CAP.

CAP Investment Committee (the “Investment Committee”), a subcommittee of the NEC Finance Committee, responsible for oversight of CAP’s Funds.

Subject to its authority, the Investment Committee may furthermore designate new parties and define their duties and responsibilities as deemed necessary to carry out the requirements of this statement.

A. DUTIES AND RESPONSIBILITIES OF THE INVESTMENT COMMITTEE

The Investment Committee, under the direction of the National Finance Officer and the NEC, as authorized, shall monitor the implementation of this Statement of Investment Policy. The Investment Committee shall be responsible for the following:

- 1) Determining the structure by which the Funds are to be managed subject to this statement and regularly evaluate the performance of the Funds;
- 2) Monitoring, evaluating and recommending, as appropriate, the Investment Manager(s) to be utilized to manage the Funds subject to this statement;
- 3) Report and make recommendations with regard to this statement and the Funds to other responsible parties within CAP as needed.
- 4) Taking appropriate measures to ensure adherence to this Statement of Investment Policy, including conducting a review of this statement and making recommendations for amendment or modification to the appropriate entity to ensure it reflects the financial goals and objectives of the organization.
- 5) Subject to required approvals, recommend other advisors or service providers as necessary to fulfill its responsibilities or satisfy other requirements of this statement.
- 6) Any other responsibilities as may be determined by the NEC or the NEC Finance Committee.



B. DUTIES AND RESPONSIBILITIES OF THE INVESTMENT MANAGER(S)

The Investment Manager(s), working under the direction of the Investment Committee, shall have the discretion to invest the assets of the Funds that are specifically designated for their management, subject to the terms of this Statement of Investment Policy. The Investment Manager shall be responsible for the following:

- 1) Discretionary investment management of the identified assets, including decisions to buy, sell or hold individual securities or investments, subject to the terms of this Statement, other written directions provided by the Investment Committee and the investment management agreement executed between CAP and the respective investment manager;
- 2) Providing regular reports identifying holdings of Funds assets, investment performance consistent with the applicable GIPS standards and in comparison to appropriate benchmarks;
- 3) Regularly communicating with the Investment Committee major changes in the manager's investment and economic outlook, investment or portfolio management strategy or other elements that may affect the ability to achieve the investment objectives;
- 4) Upon request by the Investment Committee, providing advice and recommend proposed modifications with regard to this Statement of Investment Policy;
- 5) If designated by agreement or other Investment Committee direction, vote proxies on behalf of the Funds;
- 6) All other responsibilities as specified in the investment management agreement executed between CAP and the respective investment manager.

C. DUTIES AND RESPONSIBILITIES OF THE CUSTODIAN(S)

The Custodian(s) (must be financial institution(s), not individuals), working under the direction of the Investment Committee, shall have the responsibility for maintaining possession and safekeeping of the Funds assets and related transactions. The Investment Committee shall designate which parties shall act as Custodian(s) for the Funds assets.

- 1) Physically, or by means of a sub-custodian, maintain possession of the Funds assets in separately identified accounts, in the form of securities owned;
- 2) Employ procedures designed to provide for the safety and security of the Funds assets, including such procedures intended to prevent the misappropriation or unauthorized transfer of Funds assets;
- 3) Manage transactions involving the investment management of the Funds assets, including but not limited to collecting dividend and interest

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- payments, redeeming maturing securities, and process the receipt and delivery of securities (“settlement”) following purchases and sales;
- 4) Perform other transactions involving the receipt and disbursement of Funds assets, including but not limited to contributions, withdrawals, fees and expenses, subject to appropriate authorization;
 - 5) Provide regular accounting and value for the Funds assets and related transactions and provide at least quarterly reports including such information to authorized parties.
 - 6) Provide appropriate reports, as maybe requested, to CAP on a timely basis to support CAP’s internal and external accounting and tax reporting requirements

6. INVESTMENT OBJECTIVES

In order to meet the designated purposes of the Funds, the investment strategy for the CAP Funds should be to emphasize long-term total return given moderate to low risk tolerance. The returns may be comprised of capital appreciation, current return and dividend and interest income.

Overall, the Funds should target a total investment rate of return of inflation plus no less than three percent (3.0%) per annum over the investment time horizon and employing moderate to low risk. In addition to this target return objective, the following additional objectives shall be taken into consideration with regard to the investment strategy for the Funds:

Preservation of Purchasing Power – Achieve a return in excess of inflation plus required spending over the investment time horizon to preserve the purchasing power of the Funds assets.

Satisfy Liquidity Needs – Assets should be invested in a manner to ensure defined short-term liquidity requirements can be met.

Long-Term Growth of Capital – To the extent the other objectives can be achieved, the investment of the fund assets should emphasize long-term growth of capital with reasonable levels of risk and prudent levels of risk. It is recognized that volatility of the value of Funds assets invested towards this objective may be experienced over periods within the investment time horizon in order to allow for the achievement of this objective.

7. INVESTMENT CONSTRAINTS

In addition to the restrictions specified in other sections of this statement, the CAP Funds are subject to the following general constraints as specified below:

A. TIME HORIZON

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It is expected that the Funds shall be longer term (at least three years) in nature.

B. TAXES

CAP is a not-for-profit 501(c)(3) tax-exempt organization, and therefore not subject to taxes on its investment income or gains.

C. LIQUIDITY/ORGANIZATION SPENDING POLICY

CAP foresees the potential need of up to 5% annually of the value of each respective fund to meet ongoing operating requirements. In addition, CAP needs to maintain a level of liquidity to meet unplanned expenditures or compensate for shortfalls in expected revenues or other sources of cash.

8. ASSET ALLOCATION GUIDELINES

In consideration of the investment objectives and risk tolerance set forth in this statement relative to the risk/return characteristics of various asset classes, the following permitted allocation ranges and target allocations are as follows:

<u>Asset Class</u>	<u>Permitted Allocation Range</u>	<u>Target Allocation</u>
Cash	5-20%	10%
Fixed Income	35-60%	40%
Equities	35-65%	50%
Alternatives	0%	0%

These allocations are established for the total Funds assets, which may be managed by more than one investment manager. Emphasis should be placed on allocating Funds assets against target allocation levels, and making necessary adjustments to achieved desired allocation. Consideration should be given to “legacy” positions held by the Funds prior to the implementation of current allocation targets and prudent measures to be utilized to redeploy assets efficiently to bring the overall allocations in line with target allocations.

A. REBALANCING OF FUND ASSETS WITHIN PERMITTED ALLOCATION RANGES

The Investment Manager(s) shall adjust the portion of the Funds within each asset class under their management as they deem appropriate while striving to meet the Investment Objectives as set forth in paragraph 6 herein and subject to additional criteria as may be established by the Investment Committee to meet overall asset allocation targets. Adjustments in the allocations shall be



communicated to the Investment Committee in a timely manner consistent with other reporting and communication guidelines described elsewhere in this statement.

B. REBALANCING OF FUND ASSETS OUTSIDE OF PERMITTED ALLOCATION RANGES

The Investment Committee or designee shall be notified in a timely manner by the Investment Manager(s) when the portion of Funds assets held in a specific asset class is not within the permitted allocation range. In consultation with the Investment Committee, the Investment Manager(s) shall take appropriate timely action to adjust the holdings of Funds assets to bring asset class holdings within permitted allocation ranges, with consideration to the expected realized value on the holdings to be liquidated to achieve the desired rebalancing.

9. PERMITTED AND PROHIBITED INVESTMENTS

A. PERMITTED INVESTMENTS

Investments may be held in individual securities or in the form of funds (such as mutual funds or Exchange Traded Funds) provided the latter possess acceptable marketability and liquidity characteristics. With regard to individual securities within or across asset classes, appropriate diversification should be employed for risk management purposes.

The following constitutes a list of the general types of investments permitted to be held within each respective asset class.

CASH

- Treasury securities
- Money Market funds
- Commercial Paper
- Bank deposits (FDIC insured)
- Other instruments fully FDIC insured
- Other instruments backed by the full faith and credit of the U.S. Government

FIXED INCOME

- U.S. Government and Agency securities
- Corporate Notes and Bonds (with the limitation that acquired securities have a credit rating of at least "Investment Grade" as defined by Moody's and Standard & Poor's credit rating agencies at the time of purchase)
- Municipal Notes or Bonds (used to achieve total return objectives with specific consideration of the organization's tax status)
- Commercial Paper

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- Foreign Corporate and Government Bonds

EQUITIES

- Common Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- American Depositary Receipts (ADRs) of Non-U.S. Companies

ALTERNATIVES

- None noted

B. SPECIFICALLY PROHIBITED INVESTMENTS AND TRANSACTIONS

The following types of investments or transactions are specifically prohibited to be employed in the management of the Funds:

Investments

- **Derivative instruments, with the exception of listed securities such as options or futures**
- **Collateralized Debt Obligations (CDOs), Collateralized Mortgage Obligations (CMOs) or similar instruments**
- **Unregistered stock**
- **Private Placements**
- **Limited Partnerships**

Transactions

- **Any transactions in which the funding requires leveraged borrowing**
- **Short sales or margin sales**

The Investment Manager(s) shall notify the Investment Committee or designee promptly upon determining that any assets of the Funds are held in a prohibited investment or via a prohibited transaction. The Investment Committee, in consultation with the Investment Manager(s), shall direct the timely and cost-effective disposition of the deemed-prohibited transactions, with consideration to the impact on the realized value of an investment due to the timing of the liquidation.

The Investment Committee may from time to time as deemed necessary and appropriate include additional investments or transactions to this prohibited list. Any investment or transaction subsequently deemed prohibited by the Investment Committee should be liquidated by the Investment Manager or designee under the direction of the Investment Committee in a timely and

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cost effective manner, with consideration to the impact on the realized value of an investment due to the timing of the liquidation.

10. MONITORING AND REVIEW OF INVESTMENT PERFORMANCE

The Investment Manager(s) shall provide regular reports, not less than on a quarterly basis, to the Investment Committee or its designee for review. Depending upon the circumstances, the Custodian(s) may also provide regular reports of the holdings in the Funds. The Investment Committee should be provided with these reports or prepared summaries to monitor the Funds at least quarterly.

The Investment Committee shall meet periodically as deemed necessary, but not less than semi-annually, to review the holdings of the Funds, current asset allocation and the performance of the Funds. It is anticipated that these meetings should include a discussion with the Investment Manager(s) regarding the Funds performance as well as current investment strategy relative to overall economic and financial market outlook. In addition to the investment returns for the Funds, the performance review should incorporate an assessment of (1) the holdings of the Funds relative to anticipated portfolio characteristics in consideration of investment objectives, asset allocation targets and other guidelines; (2) the risk management employed in managing the Funds, including expected liquidity; (3) the consistency applied in management of the Funds; and performance relative appropriate benchmarks.

In addition, the Investment Committee or its designee should communicate with the Investment Manager(s) as frequently as deemed necessary to remain informed on the status of the performance of the Funds in conjunction with the investment objectives and other elements of the Statement of Investment Policy.

The Investment Committee shall report to the NEC Finance Committee at least fifteen days prior to every National Board or NEC meeting regarding the holdings and performance of the Funds. Further, the quarterly meetings of the Investment Committee shall be reported to the Board of Governors Audit Committee.

11. INVESTMENT MANAGER(S) EVALUATION

In conjunction with the review of the investment performance, the Investment Committee shall monitor the performance of the Investment Manager(s) at least quarterly. In general, it is expected that the evaluation of the Investment Manager(s) shall take into consideration the investment time horizon of the Funds, the investment style of the manager, and the variability that occurs in the financial markets over a market cycle.

The Investment Committee shall assess the following when evaluating the performance of the Investment Manager(s):

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- 1) Investment performance relative to anticipated performance, with consideration with the investment process or style, comparable benchmarks, overall market conditions and the underlying risk parameters.
- 2) Adherence to the elements of the Statement of Investment Policy, including investment objectives, guidelines, asset allocation targets, permitted investments reporting or communication requirements.
- 3) Significant changes in the investment manager's organization, including loss of key personnel, changes in resources, investment strategy or business strategy.

Notwithstanding the foregoing, the Investment Committee should consider a recommendation of termination of an investment manager at any time. Pursuant to such recommendation particular attention shall be addressed to areas wherein a manager knowingly and persistently deviates from the guidelines in this statement, specifically regarding permitted investments and asset allocation, exhibits disregard for appropriate risk management, fails to adhere to reporting or communication requirements and/or consistently underperforms.

The Investment Committee shall report to the NEC Finance Committee as requested or when deemed appropriate regarding the Investment Manager evaluation and make recommendations as required.

12. INVESTMENT POLICY REVIEW AND MODIFICATION

This statement of investment policy shall be reviewed by the Investment Committee annually with a particular emphasis on asset allocation and investment objectives. Furthermore, the Investment Committee may make recommendations to amend this statement of investment policy at any time deemed necessary or appropriate. Such review will take into consideration the continued relevance of the investment objectives and guidelines, changes in the expectations for the Funds, the financial condition of the CAP and its programs, changes in applicable laws or regulations, and financial market developments with respect to conditions and expectations of the U.S. economy as a whole.