LONG TERM PORTFOLIO

STATEMENT OF INVESTMENT POLICY

February 2014
GENERAL INFORMATION

The American Psychological Association is a national membership association representing 150,000 members and affiliates organized to advance psychology as a science and profession.

The Long Term Portfolio represents a reserve for the association (exclusive of building related funds and property) and is not intended to be drawn upon to support the ongoing operations of the Association.

SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire Long Term Portfolio.

These funds are institutional funds for purposes of Uniform Prudent Management of Institutional Funds Act of 2007, D.C. Code §§ 44-1631 through 44-1639, (“UPMIFA”). As APA does not manage endowment funds, compliance with UPMIFA is limited to only those provisions relevant to the prudent management of institutional funds as defined by UPMIFA. Relevant provisions have been incorporated into this Policy.

The funds in the Long Term Portfolio are not endowment funds for purposes of UPMIFA.

The Association’s real estate holding (namely the 10 G Street LLC) can be viewed as the equivalent of a fixed income investment. When viewed as such, the 10 G Street LLC property represents a diversifying asset when evaluating the relative amounts of equity and fixed income holdings within the Long Term Portfolio (see page 8 of this policy).

The Roles and Responsibilities defined under page 3 of this policy pertain to the oversight of the assets held within the Long Term Portfolio. The authority over the real estate LLCs and related investments has been delegated to the CEO, DCEO and CFO per Council of Representatives resolution.

This policy is adopted by the APA Council, pursuant to the recommendations of the APA Finance Committee and APA Board of Directors.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of the Long Term Portfolio.
3. Provide guidance and limitations to all Investment Managers.
4. Establish a basis for evaluating investment results.
5. Establish the relevant investment horizon for which the assets will be managed.
6. Specify permissible investments, restrictions on investments and diversification requirements.
7. Provide ongoing oversight of investments by the Finance Committee.

In general, the purpose of this statement is to outline a philosophy and attitude that will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.
ROLES AND RESPONSIBILITIES

The APA Finance Committee, is elected by the APA Council of Representatives pursuant to APA Bylaws, and is responsible for directing and monitoring the investment management of the Long Term Portfolio. Specifically, Section 210-1.1 of the Association Rules states: "It is the responsibility of the Finance Committee to (a) recommend overall investment strategy, including, but not limited to, amounts to be invested in equities, bonds, short-term holdings and real estate; (b) monitor the performance of the investment managers, if any; (c) research and develop alternative investments; (d) and advise the Treasurer and appropriate staff on investing funds not entrusted to an investment manager."

In meeting its responsibilities under this policy and exercising its duty of care, the Finance Committee may rely on the advice of the APA Investment Subcommittee, but the Finance Committee shall be responsible for exercising its own judgment and making its own decisions. The Investment Subcommittee is a non-voting group composed of four investment community experts appointed by the APA Board of Directors, and the Chair and Vice Chair of the Finance Committee.

In carrying out their responsibilities, the Finance Committee and Investment Subcommittee and their counselors will act in accord with this investment policy and all applicable laws and state and federal regulations that apply to charitable corporations, including but not limited to UPMIFA.

The APA Council of Representatives retains the exclusive right to amend or revise these policies, pursuant to the recommendation of the Finance Committee and the Board of Directors.

The Finance Committee is authorized to seek advice from, and delegate certain responsibilities to, professional experts in various fields. These include, but are not limited to:

1. Investment Consultant. "Investment Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring. The consultant may assist the Investment Subcommittee and Finance Committee in establishing investment objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

2. Investment Manager(s). "Investment Manager" shall mean any individual, or group of individuals, employed to manage the long-term investments of all or part of APA assets. The investment managers have discretion to purchase, sell, or hold the specific securities that will be used to meet the Long Term Portfolio’s investment objectives.

3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Long Term Portfolio, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian will also account for all assets owned, purchased, or sold, and move assets into and out of the Long Term Portfolio accounts at the direction of the Finance Committee.

4. Additional specialists such as attorneys, auditors, actuaries, and others may be consulted by the Finance Committee to assist in meeting its responsibilities and obligations to administer the investments prudently.

In delegating authority and retaining advisors and consultants, the Finance Committee shall act in good faith and exercise care of an ordinary prudent person in like circumstances in 1) selecting an agent, 2) establishing the scope and terms of the delegation and 3) periodically reviewing agents’ actions to monitor performance and compliance with the terms and scope of delegation. The Finance Committee will not invest APA funds with any firm or in any vehicle that may, as a result of the transaction, monetarily benefit a member of the Finance Committee, Investment Subcommittee or APA Staff, pursuant to the Conflict of Interest Policy.

All expenses for such experts must be appropriate and reasonable in relation to the assets, the purposes of the Long Term Portfolio, and the skills of the Finance Committee, and will be borne by the Long Term Portfolio as deemed appropriate and necessary.
INVESTMENT MANAGER(S) RESPONSIBILITY AND SELECTION:

Responsibility

Each Investment Manager (of a separately managed portfolio) will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Managers will be held responsible and accountable to achieve the objectives herein stated within their jurisdictions. While it is not believed that these guidelines and objectives will hamper investment managers, each manager may request modifications that it deems appropriate.

Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement. The Finance Committee will not reserve control over such decisions, with the exception of specific limitations described in this statement.

2. Reporting, on a timely basis, monthly or quarterly investment performance results against specific predetermined industry benchmarks, as applicable; meeting (in person or via conference call) with the Finance Committee/Investment Subcommittee upon request to discuss performance.

3. Communicating in a timely manner any major changes to economic outlook, investment strategy, or any other factors that affect implementation of investment process, or the investment objective progress of the Long Term Portfolio’s investment management.

4. Informing the Finance Committee regarding any qualitative change to investment management organization, examples of which include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. Voting* of all proxies with the following exceptions:
   - companies which derive a significant portion of their revenue from the manufacture and sale of tobacco products for human consumption;
   - companies which derive a significant portion of their revenue from the manufacture, sale, or distribution of alcoholic beverages; and,
   - companies which derive a significant portion of their revenue from the manufacture and sale of firearms.

   Proxies falling under the above three exclusionary categories will be voted after consultation with a representative of APA’s Public Interest Directorate.

   * This clause pertains to the separately managed portfolio managers only; excludes the mutual fund managers.

6. In keeping with the Finance Committee’s responsibility under UPMIFA to minimize expenses, we require investment managers to attest that fees charged to APA are no higher than fees charged to any similar client of similar size, and that they are appropriate and reasonable in relation to APA’s assets, purposes and skills.

Selection

The Finance Committee’s selection of Investment Manager(s) shall be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company.

When evaluating investment managers for recommendation to APA, APA’s investment consultant shall apply a rigorous manager selection process with a goal of identifying managers expected to consistently outperform their respective benchmarks (net of fees), without taking unjustifiable risk. Managers are selected for each asset class based on their expected performance, their “fit” within the overall portfolio plan, and the successful completion of
prudent due diligence procedures. Managers shall ensure that all fees are appropriate and reasonable in relation to APA's assets, purposes and skills.

The purpose of the due diligence process is two-fold: (1) identify top investment management organizations across the spectrum of investable asset classes; and, (2) minimize the risk to client assets by reviewing in detail the personnel, investment strategy, track record and operations of the investment managers selected.

RESPONSIBILITY AND SELECTION OF THE INVESTMENT CONSULTANT(S)

The Investment Consultant's role is that of a non-discretionary advisor to the Finance Committee of the Long Term Portfolio. Investment advice concerning the investment management of the Long Term Portfolio will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement.

Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of the investment policy, including recommending any suggested changes to the investment policy.
2. Conducting investment manager searches when requested by the Finance Committee, pursuant to prudent due diligence procedures set forth in this policy.
3. Providing "due diligence", or research, on Investment Manager(s) pursuant to their hiring and ongoing monitoring of performance.
4. Monitoring the performance of the Investment Manager(s) to provide the Finance Committee with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Finance Committee.
6. Provide and/or review quarterly performance measurement reports regarding asset allocation, investment performance, future investment strategies and other matters of interest to the Finance Committee, and assist the Finance Committee in interpreting the results.
7. Review portfolios and recommend actions, as needed, to maintain proper asset allocation and investment strategies for the objectives set forth in this policy.
8. Providing each manager with the Investment Policy Statement and/or a written statement outlining his or her specific goals and constraints as they differ from those objectives of the entire Long Term Portfolio.

In selecting an Investment Consultant, the Finance Committee shall act in good faith and with the care of an ordinary prudent person following prudent due diligence procedures, including consideration of various candidates, costs reasonable to the organization's mission and expertise, and recommendations from investment experts. The Finance Committee shall review the Investment Consultant's performance annually, considering in that evaluation the advice given, long term returns of the portfolio, the performance of recommended managers. The Finance Committee retains the authorization to initiate a review at any time as warranted by circumstances.

GENERAL INVESTMENT POLICIES

1. Investment of the Long Term Portfolio shall be so diversified as to minimize the likelihood of significant losses, unless the Finance Committee reasonably determines that, because of special circumstances, the purposes of the Long Term Portfolio are better served without diversification.
2. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.
3. Preservation of Capital - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
4. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the
Finance Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Long Term Portfolio’s objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

5. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Long Term Portfolio is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objectives of the investment management for the Long Term Portfolio over the investment horizon of 10 years are to achieve returns that exceed inflation by 5% per year.

SPECIFIC INVESTMENT GOALS

The portion of the Long Term Portfolio that is held in fixed income has a shorter-term time horizon and these assets have the goal of providing capital preservation and still meeting liquidity covenants.

The investment objectives above are the objectives of the aggregate Long Term Portfolio, and are not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Finance Committee that most closely corresponds to the style of investment management.

2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Further specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy.

The management and investment of these funds shall comply with UPMIFA’s standards of conduct, including:

a. Duty of loyalty – operating in the best interest of the organization
b. Duty of care – good faith and with care of ordinarily prudent person in like circumstances; reasonable effort to verify facts
c. Duty to minimize costs, i.e. to incur only costs that are appropriate and reasonable in relation to the organization’s assets, purposes, and available skills
d. Prudent investor standards including consideration of:
   i. General economic conditions
   ii. Possible effect of inflation or deflation
   iii. Expected tax consequences (if applicable)
   iv. Role of each investment within overall investment portfolio
   v. Expected total return from income and appreciation
   vi. Other resources of APA
   vii. Needs of APA and the Long Term Portfolio to make distributions and preserve capital
   viii. An asset’s special relationship or value, if any, to APA
e. Subject to the limitations of this statement and applicable law, permission to invest in any kind of property or investment
f. Requirement to diversity investments, unless due to special circumstances, purposes of the Long Term Portfolio are better served without diversification
g. Requirement to dispose of unsuitable assets received as gifts (if applicable)
VOLATILITY OF RETURNS

The goal of the Long Term Portfolio is to produce a portfolio return that exceeds inflation by 5% per year with an acceptable level of risk. The Finance Committee understands that although expected to achieve portfolio objectives over the long term, the current Long Term Portfolio asset allocation has a high probability of depreciating in any single year. Given that the overall portfolio has a long-term horizon, a prudent amount of short-term risk is acceptable to the Finance Committee.

The portion of the Long Term Portfolio that is held in fixed income has a shorter-term time horizon and these assets have the goal of providing capital preservation and liquidity.

APA’s philosophy is to over-weight value equity relative to growth equity in order to attempt to reduce portfolio volatility.

INVESTMENT GUIDELINES

Allowable Assets

1. Cash Equivalents
   • Treasury Bills
   • Money Market Funds
   • Commercial Paper
   • Banker’s Acceptances
   • Repurchase Agreements
   • Certificates of Deposit

2. Fixed Income Securities*
   • U.S. Government and Agency Securities
   • Corporate Notes and Bonds
   • Mortgage Backed Bonds
   • Preferred Stock
   • Fixed income Securities of Foreign Governments and Corporations
   • Collateralized Mortgage Obligations (CMOs)
   • Core Fixed Income
   • Non-core Fixed Income

3. Equity Securities
   • Common Stocks
   • Convertible Notes and Bonds
   • Convertible Preferred Stocks
   • American Depository Receipts (ADRs) of Non-U.S. Companies
   • Stocks of Non-U.S. Companies (Ordinary Shares)

4. Real Estate
   • Real Estate Investment Trusts (REITs)

5. Mutual Funds
   • Mutual Funds that invest in securities as allowed in this statement

6. Commodities*
   • Commodities
   • Real Assets

* Derivatives are generally used in these exposures as a substitute for cash purchases of fixed income and commodities. They are not used to leverage the portfolio.

Generally Prohibited Assets and Prohibited Transactions

Prohibited investments may change from time to time based on consultation with the Finance Committee.
Prohibited investments include, but are not limited to the following:

1. Private Placements  
2. Options  
3. Limited Partnerships  
4. Venture-Capital Investments

Prohibited transactions include, but are not limited to the following:

1. Short Selling  
2. Margin Transactions

**Asset Allocation Philosophy and Guidelines**

**Philosophy**

APA’s current policy to not draw from the long-term portfolio to support operations allows the APA long-term portfolio to withstand normal market volatility. Further, APA recognizes that tactical asset allocation* adjustments involve an element of market timing that can be difficult to judge and can cause meaningful deviation from targeted returns. As a result, APA has adopted a strategic asset allocation** philosophy.

* Tactical asset allocation is defined as establishing long-term asset allocation guidelines, and then using frequent allocation adjustments to take advantage of expected short-term or intermediate-term moves in the market or changes in economic conditions.

** Strategic asset allocation is defined as the establishment of long-term asset allocation guidelines with allocation adjustments being made only periodically to bring the investment portfolio back to the target asset allocation percentages.

Given the strategic asset allocation philosophy, the APA considers asset allocation/portfolio change recommendations based on the following categories/frequency:

- emergent actions – require immediate attention by the IC/FC; and,
- strategic decisions – require consideration by the IC/FC annually.

**Guidelines**

1. Aggregate Long Term Portfolio Allocation Guidelines (at market).

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Securities/Mutual Funds</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>US Large Cap Equities</td>
<td>10%</td>
<td>50%</td>
</tr>
<tr>
<td>US Small/Mid Cap Equities</td>
<td>5%</td>
<td>25%</td>
</tr>
<tr>
<td>Developed International Equities</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>Emerging Markets Equities</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Fixed Income Securities</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>0%</td>
<td>35%</td>
</tr>
<tr>
<td>Non-Core Fixed Income</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Commodities</td>
<td>0%</td>
<td>15%</td>
</tr>
</tbody>
</table>

1 APA’s target allocation for international equities need not be achieved through the use of international equity specialists, but may instead be achieved by allowing the purchase of international equity holdings by APA’s domestic equity managers at their discretion (not to exceed the maximum allocation of 45%).
Under the current asset allocation model, and the current investment policy, APA places mid cap stocks under the large cap asset category since mid-cap stocks are considered part of the large cap stock universe.

2. The Association’s real estate holding (namely the 10 G Street LLC) can be viewed as the equivalent of a fixed income investment. When viewed as such, the 10 G Street LLC property represents a diversifying asset when evaluating the relative amounts of equity and fixed income holdings within the Long Term Portfolio.

3. The Finance Committee may employ investment managers whose investment disciplines require investment outside the specific asset allocation for which they were initially retained. However, taken as a component of the aggregate Long Term Portfolio, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers in addition to receiving these policies will receive written direction from the Finance Committee through the Investment Consultant regarding specific objectives and guidelines.

4. The Finance Committee will periodically review these guidelines to determine if the Long Term Portfolio is in compliance. When guidelines are exceeded for an extended period of time, the Finance Committee will work with the Investment Consultant to rebalance the portfolio in accordance with the Long Term Portfolio’s investment policy.

**Diversification for Investment Managers**

The Finance Committee does not believe it is necessary or desirable that securities held in the Long Term Portfolio represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, generally the securities of any one company should not exceed 8% (based on cost) and no more than 20%* of each manager’s portfolio should be invested in any one industry (not sector).

* The Finance Committee may grant an exemption to this 20% industry limitation whereby Investment Managers will be allowed to operate under a 20% sub-industry limitation, with periodic review to ensure that implementation of any such exemption remains within reasonable limits over time.

**Guidelines for Fixed Income Investments**

The Fixed Income portfolio should invest primarily in high quality issues (Moody’s rating of A or better or its equivalent). The average quality of the portfolio shall be no less than A. No more than 10% of the Core Fixed Income portfolio may be invested in below-BBB (or equivalent) fixed income securities at cost.

**Guidelines for Cash Equivalents**

1. The Long Term Portfolio may be invested only in commercial paper rated A1 (or equivalent) or better at the time of purchase. The manager should use their discretion in selling a bond whose rating has been downgraded below A1.

2. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor’s, and/or Moody’s.

The Finance Committee is authorized to waive or modify any of the restrictions in these guidelines in appropriate circumstances. Any such waiver or modification will be made only after a thorough review of the manager(s) and investment strategy involved. Documentation supporting all waivers and modifications will be maintained as part of the permanent records of the Finance Committee. All waivers and modifications will be reported to the Board of Directors at the meeting immediately following the granting of the waiver or modification.

**INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION**

Written performance reports generated by the Investment Consultant shall be compiled at least quarterly and forwarded to APA staff and Finance Committee for review. The Investment Consultant shall meet with the APA staff as needed and the Finance Committee quarterly (at least twice each year such meetings shall be in person; others may be by conference call). The investment performance of the total portfolio, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent
to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The APA staff and the Finance Committee intend to evaluate the portfolio(s) over at least a five-year period, but reserve the right to terminate a manager for any reason including the following:

1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, cost, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

**INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Finance Committee plans to review investment policy at least annually.

Proposed by FC December 2012
Approved by Board of Directors January 2013

*Note: The policy will be presented to the Council in August 2013 for approval. It was inadvertently omitted from the February 2013 Council agenda. (This policy document already reflects the changes Council will be asked to approve.)*