

INVESTMENT POLICY STATEMENT  
AMERICAN ASSOCIATION OF PHARMACEUTICAL SCIENTISTS  
LONG-TERM RESERVE

### A. Mission Statement

The mission of the American Association of Pharmaceutical Scientists (AAPS) is to serve the pharmaceutical sciences, promote the economic vitality of the pharmaceutical sciences and scientists, and represent scientific interests within academia, industry, government and other private and public institutions.

### B. Introduction

AAPS' investment policy statement (IPS) reflects the investment policy, objectives, and constraints of the organization. This statement was originally adopted on January 1, 1998, revised on February 23, 2007, and revised subsequently on April 15, 2012. AAPS' IPS is set forth by the Finance Committee with approval by the Executive Council in order to:

- ◆ Define and assign the responsibilities of all involved parties.
- ◆ Establish a clear understanding for all involved parties of the investment goals and objectives for AAPS' investment portfolio.
- ◆ Offer guidance to the Investment Managers of AAPS' investment portfolio.
- ◆ Establish a basis for evaluating investment results.
- ◆ Manage AAPS' investments in accordance with a fiduciary standard of care.
- ◆ Establish an investment horizon for which the assets will be managed.

The Finance Committee will review AAPS' IPS annually in order to ensure that these guidelines continue to meet the organization's objectives.

### C. Delegation of Authority

The purpose of this statement is to outline a philosophy which will guide the investment management of the assets. The following definitions clarify the responsibilities of the parties involved.

- ◆ "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the assets. **[For more information, please refer to Appendix 1: "Defining Key IPS Terminology"]**
- ◆ The "Executive Council" shall refer to the corporate board of directors. The Executive Council is responsible for the general supervision and management of AAPS' affairs, and will oversee and approve AAPS' investment management policy decisions.
- ◆ The "Finance Committee" shall refer to the governing Finance Committee of AAPS. The AAPS Finance Committee is responsible for directing and monitoring the IPS, Investment Managers, and Investment Management Consultants.

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- ◆ "Investment Manager" shall mean any individual, or group of individuals, acting in a fiduciary capacity, employed to manage the investment of all or part of AAPS' portfolio. Investment Managers will be held responsible and accountable to achieve the objectives herein stated.
- ◆ "Investment Management Consultant" shall mean any individual or organization, acting in a fiduciary capacity, employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, performance measurement, and evaluation.

**D. Investment Objective**

AAPS' primary investment objective is to maximize the Long-Term Reserve Asset's total return net of spending and inflation, while simultaneously minimizing risk. Such growth in principal should be consistent with broad-market index returns.

**E. Investment Constraints and Guidelines**

- ◆ **Liquidity Requirements.** The Finance Committee delegates to the Investment Manager(s) the responsibility to monitor required cash flow on a regular basis and ensure sufficient liquidity. If withdrawals become necessary, the Finance Committee will notify the Investment Manager(s) as far in advance as possible to allow them sufficient time to build up the necessary liquidity. The Investment Manager will be expected to review the cash flow requirements with the Finance Committee and staff at least annually as part of the annual budgeting process.
  - ◆ **Short Term.** None at this time.
  - ◆ **Long Term.** None at this time.
- ◆ **Time Horizon.** For planning purposes, the investment time horizon for AAPS' investment portfolio is in perpetuity or in excess of 20 years. Interim time horizons may be identified and associated with specific goals or strategic initiatives.
- ◆ **Risk Tolerance.** Given the investment goals, constraints, and unique circumstances, and in order to provide a high probability of inflation protection over time, the portfolio can tolerate an above-average level of risk. Risk is defined as the standard deviation of asset-class returns. That involves an above-average allocation to equities. AAPS' investment portfolio will be managed in a manner that seeks to minimize principal fluctuations over the established time horizon and is consistent with stated AAPS investment objectives.
- ◆ **Tax Issues.** AAPS is a tax-exempt entity as described in IRS Code section 501(c)(3), there is no need to consider income taxes in the management of the Long-Term Reserve's Assets.
- ◆ **Unique Circumstances.** Monies received annually in excess of the AAPS' working capital needs (i.e. surplus cash) may be contributed to the AAPS' investment portfolio.

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- ◆ **Permissible Investments.** Suitable investment vehicles for equity and fixed income securities include: individual securities, index funds, and exchange-traded funds for relevant asset classes.
  - ◆ **Fixed-Income.** Investments in fixed-income securities shall consist of publicly traded U.S. Treasuries, agencies of the United States Government, domestic and international corporations, domestic banks, other U.S. financial institutions, and sovereign government issues.
  - ◆ **Equity.** Investments in equity securities shall consist of publicly traded domestic or foreign common stocks, preferred stocks or convertible preferred stocks. Real estate investments shall only be in publicly-traded real estate investment trusts (REITs) and exchange traded funds (ETFs).
- ◆ **Investment Restrictions.** Categories of investment that are prohibited without specific prior approval of the Finance Committee include:
  - ◆ Alternative Investments (hedge funds, private equity, etc.)
  - ◆ Short Sales
  - ◆ Margin Transactions
  - ◆ Private Placements
  - ◆ Leveraged Derivatives (e.g. floaters, inverse floaters, etc.)
  - ◆ Warrants
  - ◆ Structured Products
  - ◆ Options or Futures Contracts
  - ◆ Investments in the Tobacco Industry

[For more information, please refer to Appendix 1: “Defining Key IPS Terminology”]

- ◆ **Risk Management Parameters.** No individual security can exceed 5% of the value of the total combined portfolio, except for U.S. Treasury obligations, securities explicitly backed by the U.S. government, indexed funds, and exchange-traded funds.
  - ◆ **Fixed-Income.** The maximum exposure to fixed-income securities is 35%. All individual debt instruments must have an “AA” rating or higher (or the equivalent). The maximum duration of the fixed-income allocation is 7 years; the maximum duration of an individual debt instrument is 10 years.
  - ◆ **Equity.** The maximum exposure to equities is 75%.

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**F. Strategic Asset Allocation**

The Strategic Asset Allocation below shall serve as the long-term target allocation for AAPS' investments:

Asset Class	Strategic Asset Allocation
<b>Equity</b>	<b>70.0%</b>
Large-Cap US	19.0%
Mid-Cap US	12.0%
Small-Cap US	5.0%
Non-US Developed	11.0%
Non-US Emerging	5.0%
REITs	6.0%
Commodities	5.0%
Alerian MLPs	7.0%
<b>Fixed-Income</b>	<b>30.0%</b>
Investment Grade	10.0%
TIPS	15.0%
High-Yield Corporates	5.0%

[For more information, please refer to Appendix 1: "Defining Key IPS Terminology"]

The asset mix policy established by the Finance Committee represents a long-term view. As such, rapid and significant market movements may cause AAPS' actual asset mix to fall outside the policy range. Any deviation should be of a short-term nature. Deliberate departures from the strategic asset allocation (i.e. tactical asset allocation) must be approved by the Finance Committee.

Non-rapid market movements may also cause AAPS' asset mix to diverge from the established allocation. In these situations, to remain consistent with the asset allocation guidelines established in this IPS, each asset class in which the portfolio invests shall be reviewed on a quarterly basis to determine whether rebalancing is necessary.

**G. Rebalancing and Portfolio Turnover**

The investment portfolio will be rebalanced periodically using the percentage-of-portfolio methodology. When the current asset allocation between stocks, bonds, and cash deviates from the Strategic Asset Allocation by plus or minus 5%, the portfolio will be rebalanced to the Strategic Asset Allocation. Long-term strategic asset allocation will be reviewed annually to ensure investment objectives are met.

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**H. Performance Measurement and Evaluation**

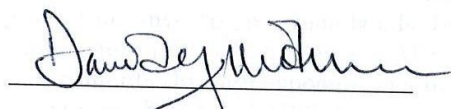
Investment performance will be reviewed quarterly on a net-of-fee basis for the latest quarter, year-to-date, one-year, three-year, and five-year rolling periods, and since inception using the modified Dietz methodology (i.e., time-weighted returns with geometric linking). Investment returns will be evaluated using the following performance benchmarks:

<u>Asset Class</u>	<u>Benchmark</u>
Fixed-Income Securities	Barclays Capital Aggregate Index
Large-Cap U.S.	S&P 500 Index
Mid-Cap U.S.	S&P 400 Mid-Cap Index
Small-Cap U.S.	S&P 600 Small-Cap Index
Non-U.S. Equity	Dow Jones Global ex US Index
Real Estate	Dow Jones REIT Index
Commodities	S&P GSCI Index

Additionally, the Investment Manager(s) should provide the Finance Committee with a Customized Benchmark using the above benchmarks weighted according to AAPS' Strategic Asset Allocation. This Customized Benchmark should incorporate the target asset class weights in conjunction with the returns of the above benchmarks in order to give the Finance Committee a clear understanding of performance.

**I. Acceptance and Adoption**

The Finance Committee and the Executive Council have reviewed, approved and adopted this Investment Policy for AAPS' investment portfolio. The Finance Committee reserves the right to make any changes to this Investment Policy as deemed necessary. All such changes will be made in writing and The Investment Management Consultant(s) and the designated Investment Manager(s) will be duly informed.



President of the Executive Council  
On behalf of the Executive Council

05/22/2012

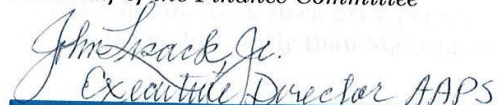
Date



Treasurer  
On behalf of the Finance Committee

05/22/2012

Date



5/22/2012

## Appendix 1: Defining Key IPS Terminology

**Alerian Master Limited Partnerships (MLPs):** A publicly traded partnership engaged in the transportation, storage, and processing of natural resources and minerals. AAPS' portfolio exposure to this asset class would be achieved through an index.

**Alternative Investments:** An investment that is not in stocks, bonds, or cash. Alternative investments include, but are not limited to, hedge funds, private equity, and private placements. These investments are less regulated and have less liquidity than standard investments. Alternative Investments are prohibited by AAPS' IPS.

**Commodities:** A basic good used in an economy that is interchangeable with other commodities of the same type. Commodities can be traded on exchange through futures contracts, ETFs, and indices. As an individual asset class, commodities have low correlation to other asset classes and therefore, can hedge the risk of a portfolio. Commodities are an asset class listed in AAPS' Strategic Asset Allocation.

**Exchange Traded Fund (ETF):** A security that tracks a basket of assets similar to an index fund, but trades like a stock on an exchange. Unlike index funds, investors can short ETFs as well as purchase them on margin. These securities have expense ratios far lower than the average mutual fund. AAPS' portfolio managers will utilize ETFs in order to gain a broad range of asset class exposure.

**Fiduciary:** A fiduciary is held to a Fiduciary Standard of Care, the highest standard of care under the law. A fiduciary is required to act in the best interest and for the sole benefit of the organization at all times. Additionally, a fiduciary must provide full and fair disclosure of material facts and conflicts of interest. All individuals responsible for monitoring and/or managing AAPS' investment portfolio are fiduciaries and must satisfy their duty of loyalty, prudence, and care.

**Futures Contracts (Options):** A contract that obligates a buyer to purchase an asset (or a seller to sell an asset) at a predetermined date and price. Futures are generally speculative in nature, but can also be used to hedge risk. Futures Contracts are prohibited by AAPS' IPS.

**High-Yield Corporate Fixed-Income:** A corporate bond with a credit rating lower than "BBB" or "Baa". These bonds carry an increased risk of default; however, they pay a higher yield than investment grade bonds. Individual high-yield bonds are not permitted in AAPS' investment portfolio; however, AAPS can reap the potential yield benefits of such instruments through exposure to a high-yield bond index. High-Yield Fixed-Income is an asset class listed in AAPS' Strategic Asset Allocation.

**Investment Grade Fixed-Income:** Investment grade bonds have credit ratings of "BBB" or "Baa" or higher. These securities carry a low risk of default, but also, generally pay lower yields. Investment Grade Fixed-Income is an asset class listed in AAPS' Strategic Asset Allocation.

**Large-Cap US Equity:** Securities distributed by companies with a market capitalization (shares outstanding x stock price per share) value of \$10 billion or greater. Large-Cap equities trend differently than Mid-Cap and Small-Cap equities, and therefore, it is

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important to view them as a distinct asset class. Large-Cap US Equity is an asset class listed in AAPS' Strategic Asset Allocation.

**Leveraged Derivatives:** A type of derivative that is highly leveraged and therefore, experiences increased sensitivity to the movement of the underlying security or asset class. Such securities are prohibited by AAPS' IPS.

**Margin Transactions:** The purchase of securities using borrowed money. Buying with borrowed money increases risk because both gains and losses are amplified. Margin Transactions are prohibited by AAPS' IPS.

**Mid- Cap US Equity:** Securities distributed by companies with a market capitalization (shares outstanding x stock price per share) value between \$2 and \$10 billion. Mid-Cap equities trend differently than Large-Cap and Small-Cap equities, and therefore, it is important to view them as a distinct asset class. Mid-Cap US Equity is an asset class listed in AAPS' Strategic Asset Allocation.

**Non- US Developed Equity:** Investments in companies based in developed countries other than the United States. These developed countries include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Non-US Developed Equity is an asset class listed in AAPS' Strategic Asset Allocation.

**Non- US Emerging Market Equity:** Investments in companies based in countries with emerging economies. These emerging countries include: China, South Korea, Brazil, Taiwan, South Africa, Russia, India, Mexico, Malaysia, and Indonesia. Non-US Emerging Equity is an asset class listed in AAPS' Strategic Asset Allocation.

**Private Placements:** A security sold to a small number of select investors in order to raise capital. These securities are not available on the open market and do not have to be registered with the SEC. Private Placements are prohibited by AAPS' IPS.

**Real Estate Investment Trust (REIT):** A security that invests in real estate through properties or mortgages. REITs trade on major exchanges and typically offer investors high yields as well as a highly liquid method of gaining real-estate exposure. AAPS' IPS lists REITs as a permissible investment.

**Short Sales:** A market transaction in which an investor sells borrowed securities in anticipation of a price decline. Short-Sales carry unique risks and therefore, are prohibited by AAPS' IPS.

**Small-Cap US Equity:** Securities distributed by companies with a market capitalization (shares outstanding x stock price per share) value under \$2 billion. Small-Cap equities trend differently than Large-Cap and Mid-Cap equities, and therefore, it is important to view them as a distinct asset class. Small-Cap US Equity is an asset class listed in AAPS' Strategic Asset Allocation.

**Structured Products:** An investment product, or "solution", customized to meet a particular investor's risk tolerance. Such investments are created using exposure to risky investments

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and often include the use of various derivatives. Structured Products are prohibited by AAPS' IPS.

**Treasury Inflation Protected Securities (TIPS):** A treasury security that is adjusted for inflation in order to preserve the purchasing value of the investment. TIPS are backed by the U.S. government and are measured by the Consumer Price Index. TIPS are an asset class listed in AAPS' Strategic Asset Allocation.

**Warrants:** A type of derivative that gives the investor the right to purchase securities from the issuer at a specific price within a certain time frame. Warrants are often included as part of a new issue in order to entice investors. Warrants are prohibited by AAPS' IPS.