

Civil Air Patrol

Statement of Investment Policy

1. DESCRIPTION OF FUNDS SUBJECT TO STATEMENT

All CAP funds invested in financial assets other than principal-protected funds (e.g. bank deposits, insured certificates of deposit, etc.) are covered under this policy (the “Funds”). **Going forward, in order to provide oversight of CAP funds, investment funds established at both the National and at the Wing or Unit level shall be invested through CAP’s designated Investment Manager.** Investment Funds may be subject to a minimum amount determined by the CFO and the Investment Manager. Funds not meeting this minimum must be invested in principal-protected instruments through the Wing Banker program until such time that they meet the minimum amount required to establish an investment fund under this policy.

Wings or Units interested in establishing investment funds may contact the CFO to obtain information about the program and approval to begin the process of investing under this policy.

2. PURPOSE OF STATEMENT

The purpose of this Statement of Investment Policy is to:

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

3. 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 under this Statement of Investment Policy. Each party, in their respective capacity, also has duties and responsibilities in many cases which are more fully identified in relevant laws, regulations, agreements or other documents.

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

CAP Board of Governors (the “**Board of Governors**”) is the governing body of CAP with responsibility for establishing the investment policy and monitoring compliance with it.

CAP Board of Governors Audit Committee (the “**Audit Committee**”) acts for the Board in the monitoring of investments and will receive briefings from other relevant parties as it requires on the performance and health of CAP investments.

CAP CEO (the “**CEO**”) is responsible for Executive Management of CAP and reports to the Board of Governors.

CAP CFO (the “**CFO**”) is responsible for the care and custody of the Funds and is responsible for executive management of this policy.

Civil Air Patrol Statement of Investment Policy

CAP Investment Advisory Group (the “**Investment Advisory Group**”) reports to the CFO and is responsible for advising the CFO regarding the management and oversight of the Funds. Members of the Investment Advisory Group will be selected from the membership and/or staff by the CFO as required for providing specialized investment knowledge.

One or more Professional Investment Managers (collectively, the “**Investment Manager**”) are contracted to manage the Funds on behalf of Civil Air Patrol.

One or more Institutional Custodial Firms (collectively, the “**Custodian**”) maintain various separate investment accounts on behalf of Civil Air Patrol under the direction of the Investment Manager.

A. DUTIES AND RESPONSIBILITIES OF THE INVESTMENT ADVISORY GROUP

The CFO, with the assistance of the Investment Advisory Group, shall advise the CEO and the Board of Governors in monitoring the implementation of this Statement of Investment Policy. The Investment Advisory Group shall be responsible for the following:

- 1) Recommending the structure by which the Funds are to be managed subject to this statement;
- 2) Regularly monitoring the performance of the Funds;
- 3) Monitoring, evaluating and recommending, as appropriate, the Investment Manager to be utilized to manage the Funds subject to this statement;
- 4) Reporting and making recommendations with regard to this statement and the Funds to other relevant parties within CAP as needed;
- 5) Recommending appropriate measures to the CFO to ensure adherence to this Statement of Investment Policy, including conducting a review of this statement or other documentation and making recommendations for amendment or modification to ensure they reflect the financial goals and objectives of the Funds;
- 6) Recommending to relevant parties additional advisors or service providers as necessary to fulfill their responsibilities or satisfy other requirements of this statement;
- 7) Any other responsibilities as may be determined by the CFO.

B. DUTIES AND RESPONSIBILITIES OF THE INVESTMENT MANAGER

The Investment Manager, working under the direction of the CFO, 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, the investment management agreement executed between CAP and the Investment Manager, and other written directions provided by the CFO;
- 2) Providing regular reports identifying the asset holdings of the Funds and investment performance consistent with the applicable GIPS standards and in comparison to appropriate benchmarks;

Civil Air Patrol Statement of Investment Policy

- 3) Regularly communicating with the CFO and the Investment Advisory Group 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 CFO or the Investment Advisory Group, providing advice and recommended proposed modifications with regard to this Statement of Investment Policy;
- 5) If designated by agreement with the CFO, vote proxies on behalf of the Funds;
- 6) All other responsibilities as specified in the investment management agreement executed between CAP and the Investment Manager.

C. DUTIES AND RESPONSIBILITIES OF THE CUSTODIAN

The Custodian, working under the direction of the Investment Manager, shall have the responsibility for maintaining possession and safekeeping of the Funds' assets and related transactions. The investment management agreement shall designate which parties shall act as Custodian for the Funds' assets. The Custodian shall be responsible for:

- 1) Physically, or by means of a sub-custodian, maintaining possession of the Funds' assets in separately identified accounts, in the form of securities owned;
- 2) Employing 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 payments, redeeming maturing securities, and processing the receipt and delivery of securities ("settlement") following purchases and sales;
- 4) Performing 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) Providing regular accounting and value for the Funds' assets and related transactions and providing at least quarterly reports including such information to authorized parties;
- 6) Providing appropriate reports, as may be requested, to the CFO, or to the Audit Committee, on a timely basis to support CAP's internal and external accounting and tax reporting requirements.

4. INVESTMENT OBJECTIVES

The Investment Objectives of the National Unrestricted and National Restricted funds will be determined from time to time by the Board of Governors including target allocations and permitted allocation ranges. These will be attached to this Statement of Investment Policy as an Exhibit.

In order to meet the needs and objectives of various Wings and Units investing in the Funds, the CFO may establish sub-Funds (each a "**Unit Fund**"). The CFO, in consultation with the Unit Commander, shall

Civil Air Patrol

Statement of Investment Policy

establish for each Unit Fund a target allocation and permitted allocation range appropriate to the specific investment objectives of the Unit investing, whether current income, long-term growth, or a combination of the two. However, the permitted allocation range must fall within the following Global Permitted Allocation Range. Exceptions must be approved by the Board of Governors.

<u>Asset Class</u>	<u>Global Permitted Allocation Range</u>
Cash	0-20%
Fixed Income	20-60%
Equities	40-80%
Alternatives	0%

The target allocation and permitted allocation range for each Unit Fund must be documented on forms provided by the Investment Manager or Custodian, or otherwise documented by the CFO.

The Investment Manager shall take appropriate timely action to adjust the holdings of Funds to bring asset class holdings within permitted allocation ranges. The CFO shall be notified in a timely manner by the Investment Manager when the current allocation is not within the permitted allocation range.

During periods of transition, consideration should be given to "legacy" positions held by the Funds prior to the implementation of current allocation targets.

5. 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

It is expected that the Funds invested under this policy 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. PERMITTED AND PROHIBITED INVESTMENTS

1) 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.

Civil Air Patrol

Statement of Investment Policy

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 individual securities not held in mutual funds have a credit rating of at least "Investment Grade" as defined by Moody's or 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
- Multi-strategy fixed income mutual funds
- Foreign Corporate and Government Bonds

EQUITIES

- Common Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- International Equities

ALTERNATIVES

- None noted

2) SPECIFICALLY PROHIBITED INVESTMENTS AND TRANSACTIONS

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

Civil Air Patrol

Statement of Investment Policy

PROHIBITED 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, unless held within multi-strategy fixed income mutual funds
- Unregistered stock
- Private Placements
- Limited Partnerships

PROHIBITED TRANSACTIONS

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

6. MONITORING AND REVIEW OF INVESTMENT PERFORMANCE

The Investment Manager shall provide regular reports, not less than on a quarterly basis, for review by the CFO and the Investment Advisory Group. Depending upon the circumstances, the Custodian may also provide regular reports of the holdings in the Funds.

The Investment Advisory Group shall meet periodically as deemed necessary, but not less than semi-annually, to review the holdings of the Funds, each fund's current asset allocation, and the performance of the Funds. It is anticipated that these meetings should include a discussion with the Investment Manager regarding the Funds' performance as well as current investment strategy relative to overall economic and financial market outlook. Periodically, the Investment Advisory Group shall also conduct 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 CFO should communicate with the Investment Manager 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 this Statement of Investment Policy.

The Investment Advisory Group shall promptly submit to the Audit Committee a written summary report of each of its meetings and such follow-up reports as shall be requested by the Audit Committee.

At least once a year the CFO, a member of the Investment Advisory Group and the Investment Manager shall jointly report to the full Board of Governors.

7. SPENDING POLICY

CAP foresees the potential need for withdrawal of up to 5% annually of the value of any Fund to meet ongoing operating requirements. Spending in excess of this rate is presumed to be unsustainable in the long-term. For any Fund designated as perpetual, withdrawals in excess of 5% of the previous year-end

Civil Air Patrol Statement of Investment Policy

value must be approved by the CFO and reported to the Audit Committee. For Funds established at the National level, withdrawals in excess of 10% of the previous year-end value of any Fund must be authorized by the Board of Governors.

8. INVESTMENT MANAGER EVALUATION

In conjunction with the review of investment performance, the Investment Advisory Group shall monitor the performance of the Investment Manager at least annually. In general, it is expected that the evaluation of the Investment Manager 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 Advisory Group shall assess the following when evaluating the performance of the Investment Manager:

- 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 Advisory Group should consider a recommendation of termination of an investment manager at any time. Pursuant to such recommendation particular attention shall be paid 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. Regardless of the performance of the Investment Manager, the Investment Advisory Group should review potential alternatives to the Investment Manager at least once a decade via a Request for Proposals or other method consistent with contracting under CAP policy.

9. INVESTMENT POLICY REVIEW AND MODIFICATION

This statement of investment policy shall be reviewed by the Investment Advisory Group annually with a particular emphasis on asset allocation and investment objectives. Furthermore, the CFO may make recommendations to the Board of Governors through its Audit Committee 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.

Civil Air Patrol

Statement of Investment Policy

Exhibit 1

Investment Objectives for National Funds

The investment strategy for the CAP National Funds should be to emphasize long-term total return given the upper end of moderate risk tolerance.

In consideration of the investment objectives and risk tolerance set forth, the target allocations are as follows:

<u>Asset Class</u>	<u>Allocation Target</u>
Cash	2%
Fixed Income	33%
Equities	65%

The allocation target shall be reviewed annually by the Board of Governors. In consultation with the CFO, the Investment Manager may utilize its discretion to adjust the allocation target up to 5 percentage points in either direction for any asset class. Any adjustment to the allocation target must be reported to the next meeting of the Audit Committee, and any adjustment beyond 5 percentage points of the most recent allocation target set by the Board of Governors must be approved in advance by the Board of Governors prior to adjusting the allocation target.

The Investment Manager shall rebalance the CAP National Funds immediately in the event that the actual allocation of any asset class drifts beyond 10 percentage points above or below its target.

These allocations are established for the total Funds' assets, which may be managed by more than one investment manager.