ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Financial Management & Investment Policy

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ASSOCIATION OF GRADUATES

Financial Management & Investment Policy (FMIP)

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Section

1

Financial Management Policy

1.1 Board of Directors' Financial Policies

The Board of Directors (BOD) of the Association of Graduates (AOG) of The United States Air Force Academy (USAFA) establishes this document to be the Financial Management and Investment Policy (FMIP) of the Association.

The Board of Directors is responsible for establishing all governance policies to accomplish the AOG mission as stated in the Bylaws. Board policies are listed, for the most part, in the Board's Policy Manual; and include the Ends (the end state the Board wants the organization to achieve) and the Executive Limitations (those actions for which the CEO is proscribed). The CEO of the AOG is then able to choose the best course of actions, not otherwise proscribed, to achieve the Board's Ends.

To the extent of AOG resources, and to the ultimate benefit (stated intent) of the AOG membership, the Board's financial ends policies are:

1. Funds are available to achieve the Board's Ends
2. The AOG is assured financial security in perpetuity
3. Resource growth increases the value of membership (increase services at a reasonable cost)
    a. Donations and business income grow.
    b. AOG expenditures are directed to best achieve the Board's Ends at minimal cost.
    c. Investment income growth is achieved at acceptable risk.
    d. Members are charged for membership and services as appropriate.

This FMIP establishes the responsibilities of the Finance and Investment Committee (Committee), provides guidance to the AOG Chief Executive Officer (CEO) and staff on financial procedures, and provides the basic guidelines for AOG investments, in order to achieve the Board's Ends. While maintaining responsibility, the CEO may delegate the duties contained in this policy to the President/COO.

1.2 Objectives

1) To provide guidelines to maintain the financial viability of the AOG.
2) To protect AOG assets.
3) To provide policy for AOG investments.

1.3 Personal Liability of Directors

As a Colorado nonprofit corporation, the AOG is subject to the provisions of the Colorado version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The UPMIFA sets forth standards of conduct that apply to each member of the AOG Board of Directors (BOD). These standards generally require that each BOD Director (Director) discharge his/her duties, in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner reasonably believed to be in the best interests of the AOG.

Each Director owes fiduciary duties both to the AOG and its members. Any breach of those duties may give rise to personal liability on the part of the individual Director and/or corporate liability on the part of the AOG.

1.4 Conflict of Interest Policy

The nondisclosure of "conflicting interest transactions" may give rise to individual liability on the part of Officers, Directors, and members of the Committee and corporate liability on the part of the AOG. Accordingly, the BOD has adopted the following policy:

Each AOG Officer, Director and Committee member will disclose in writing to the BOD all "conflicting interest transactions." A "conflicting interest transaction" means a contract, transaction or other financial relationship between the AOG and:

1) An Officer, Director or Committee member, or

2) A party related to the Officer, Director or Committee member, or

3) An Officer, Director, or Committee member who is an officer or director or has a financial interest in another entity.

For purposes of this disclosure, a party related to an AOG Officer, Director or volunteer Committee member as a spouse, descendant, ancestor, sibling, the spouse or descendant of a sibling, an estate or trust in which the Officer, Director or Committee member or a party related to the Committee member has a beneficial interest or an entity in which a party related to the Officer, Director or committee member is a director, officer, or has a financial interest. Consistent with this policy, at least annually,

each Officer, Director and Committee member will certify in writing to the BOD that he/she has provided written disclosure of all "conflicting interest transactions," or he/she is not subject to any "conflicting interest transactions." Thereafter, the BOD (or the Governance Committee for the Board) will review each "conflicting interest transaction" so disclosed and, by an affirmative vote of a majority of the disinterested Directors, will determine whether such transaction is appropriate. Should the "conflicting interest transaction" be determined to be appropriate, such determination will be deemed to constitute an authorization, approval or ratification of such transaction.

1.5 The Finance and Investment Committee (Committee)

The Chairman of the Board, with the approval of the BOD, will appoint a Committee to review financial matters, including the budget, financial reports, the FMIP and investments. The Committee will be chaired by a Director with at least two members of the Committee being BOD Directors and represent a majority. The AOG Treasurer will be a member of the Committee and will serve as Chair unless the Treasurer is not also a Director on the BOD. The Committee will meet as determined by its Chairman.

The Chairman of the Committee may invite non-AOG members or non-graduates with expertise in taxes, law, investments or other financial matters to advise the Committee.

The Committee's duties are to:

1) Review the AOG's financial management and investment policy (FMIP), financial condition and investment portfolio and budget, and make recommendations to the BOD for modifications as appropriate.

2) Review quarterly financial reports prior to staff presentation to the BOD.

3) Review the annual budget prior to staff presentation to the BOD with emphasis on:

   (a) How the budget aligns with the Ends as outlined in BOD Governance Policies, and

   (b) How the budget supports specific friend-raising activities, for example, chapter growth and graduate outreach activities.

4) Establish the AOG's Investment Policy in coordination with its Investment Subcommittee.

5) Appoint a liaison to the Audit Committee.

The Committee will have an Investment Subcommittee to assist in investment

oversight. The Subcommittee will be composed of at least one member of the Committee and other individuals the Committee may deem necessary to a maximum of five members. The Subcommittee will develop and document manager selection criteria and select money managers for the AOG's investments within the constraints of this FMIP. The Subcommittee will recommend changes to investment guidelines to the Committee for approval. The Subcommittee will monitor investment and manager performance and report quarterly to the Committee.

The CEO has responsibility for day-to-day financial investment policy administration, with the Chief Financial Officer (CFO) acting as the agent for daily transactions.

The CFO will be the primary administrative contact with money managers, banks, brokerage houses and other financial institutions. The CFO will comply with the approved investment policies of the Committee and Subcommittee.

The CFO will be an ex-officio, non-voting member of both the Committee and the Subcommittee.

In financial matters of the AOG, the CEO, President/COO, and CFO operate with the approval and authority of the BOD as set out in the AOG Bylaws, Policy Governance Manual, and the FMIP.

1.6 Budget

Prior to the end of each fiscal year, the CEO will prepare an annual operating budget for the next fiscal year and present it to the Finance and Investment Committee for review prior to presentation to the BOD for approval. The annual budget will not plan the expenditure in any fiscal year of more funds than are conservatively projected to be received in that fiscal year (balanced budget) without the approval of the Board of Directors. The annual budget will:

a.) Contain a reasonable and creditable projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.

b.) Include a distribution from the Long Blue Line (LBL) Endowment when prudent.

1.7 Accounting and Auditing

The AOG will follow generally accepted accounting principles for nonprofit organizations in maintaining its financial records and preparing financial statements.

An independent firm of certified public accountants will audit the finances of the AOG annually. The draft annual audit will be presented to the Audit Committee for review NLT 120 days after the close of the fiscal year. The final audit will be presented to

the BOD NLT the second Board meeting after the close of the fiscal year.

The Chairman of the Board will nominate, for BOD approval, an Audit Committee to oversee the annual audit. The Audit Committee will consist of no less than three and no more than six members. At least two members of the Committee should be BOD Directors, including the Chairman of the Committee, who will be a BOD Director nominated by the Chairman and approved by the BOD.

The Chairman of the Committee may invite non-AOG individuals with specialized expertise to advise the Committee.

The Audit Committee's duties are to:

1) Recommend criteria for selecting an independent firm of certified public accountants to the BOD.

2) Annually select an audit firm IAW BOD-approved selection criteria.

3) Meet at least annually with the auditors to review the audit report.

4) Present audit findings to the BOD.

Prior to the presentation of the audit to the BOD, representatives of the Audit Committee may meet with the auditors without AOG staff to provide the members of the Committee and the auditors the opportunity to speak openly. The Chairman of the Audit Committee will appoint the members who will attend the meeting with the auditors.

1.8 Financial Reporting

Quarterly, the CEO shall report to the BOD the financial status of the AOG with regard to the budget. The quarterly financial report shall be provided to the Finance and Investment Committee prior to BOD presentation. The goal of the financial report is to allow the BOD to make informed decisions. The CEO, through the CFO, is responsible to present financial reports to the BOD that clearly show the financial condition of the AOG in accordance with generally accepted accounting principles. Financial reports should include AOG's statement of financial position and activities, operational cash flow, funds held in Short Term Accounts, investment status and capital purchases. Additional reports on Restricted or Board designated funds may be requested through the Finance & Investment Committee.

Summaries of the Annual Audit and financial report will be provided to the AOG membership as soon as possible after acceptance by the Audit Committee and the BOD. The Form 990 will be posted to the AOG website after review by the BOD.

1.9 Annual and Life Membership Dues

The BOD should periodically review dues to determine whether changes in annual or Life Membership dues should be considered. Changes to membership dues, if any, should be reviewed in conjunction with annual budget preparation.

1.10 Life Membership Fund (LMF)

The Life Membership Fund contains the accounts used to invest, monitor and control fees received as a result of the AOG's agreement to provide lifetime services to members who have chosen this membership option.

Life membership dues are added to the Life Membership Fund when they are received (or upon Class graduation, in the case of Life Membership at Graduation (LMAG)) and are initially considered deferred revenue that is used to provide membership services to life members over their lifetimes. Transfers from the Life Membership Fund to the unrestricted operating funds of the AOG are charged to the Life Membership Fund, amortized on a prospective basis using the straight-line method over the actuarially determined life of the life members (currently determined to be 55 years after graduation of the Class), and are recognized as AOG income. Associate/ Affiliate members are considered to have an actuarially determined remaining life of 55 years from the year for which dues were paid. Corporate life membership fees are added to the Life Membership Fund and are not amortized.

Any transfers to or from the Life Membership Fund to the AOG's operation in excess of the amounts determined above require the approval of the BOD.

1.11 Operating Funds and Short-Term Accounts

The AOG has needs for short-term cash for operating funds, endowment commitments, and to accomplish contract provisions of some fund agreements. These funds may be invested in a Short-Term Account and include but are not limited to:

1) Assets the AOG anticipates using within the next 24 months, or

2) Assets the AOG believes should be exposed to limited market volatility, or

3) Assets which may need to be available as cash on short notice and therefore invested to be readily available.

The CFO shall attempt to limit cash on hand to the usual amount needed to conduct regular operations. While growth in these assets is desired, preservation of capital is the primary objective. The target allocation for Short-Term Funds shall be 15% plus or minus 5% of the total invested assets held by the AOG. Funds held in the Short-Term Account shall be accounted for and reported as per the normal financial reporting procedures in the FMIP.

1. 12 Unrestricted Funds (Designated and Un-Designated)

Unrestricted NET ASSETS (as shown in the annual Statement of Financial Position) are separated as Invested in property and equipment, Board Designated, and Available for operations.

Unrestricted – Available for Operations

The AOG may annually allocate any unrestricted-undesignated net assets as shown in the NET ASSETS of the annual audit (Financial Statements) as Unrestricted Available for operations to the LBL Endowment, AOG Reserve, or other Board-approved purpose. The CEO and/or the F&I Committee may make a recommendation to the Board for approval of the amount and use of any unrestricted-undesignated net assets.

Unrestricted – Board Designated

Unrestricted – designated funds are for net assets designated by the Board of Directors for specific purposes. These funds will be reviewed by the CEO and Finance and Investment Committee as needed, but at least annually. The review will evaluate the current need, use and sufficiency of the Board-Designated Net Assets. Recommendations for changes (if any) to current Board Designated Funds will be made to the Board along with any recommendations of any additional use of Unrestricted-Undesignated funds. The Board will approve any additions to, modification of, or elimination of Board Designated Funds.

The AOG RESERVE (an unrestricted-designated fund) sets aside funds to be used by the AOG to address expenditures which exceed revenues during the fiscal year. The minimum amount to be set aside in the Reserve will be no more than 25% of budgeted operating expenses (not including depreciation). The AOG RESERVE will be tracked and follow the investment policies for the Short-Term Account, with earnings or losses accruing to the AOG RESERVE.

The CEO is authorized to use up to half of the AOG Reserve in any fiscal year without prior Board approval and will inform the Board of any use of the AOG Reserve not later than the next Board meeting. If during any fiscal year funds from the AOG Reserve are used (which causes the remaining AOG RESERVE to drop below the minimum amount) or the AOG RESERVE falls below the designated minimum amount) the CEO will plan to replenish the RESERVE back to at least the Board directed minimum amount as soon as fiscally prudent.

1. 13 Restricted Funds

Restricted funds are of many types (see Appendix 1) but have the common characteristic wherein the use is subject to restrictions placed by a donor. The AOG will manage and steward donor Restricted Funds IAW the fund agreements. Annually upon completion of the AOG Audit, the AOG CEO/COO/CFO will:

1) Present a thorough review of all Restricted Funds to the Board of Directors highlighting each Restricted Fund's distribution or lack thereof.

- Any funds without distribution will be explained with the reason for no distribution and with recommended Board action, if warranted.

2) Report, in writing, to all contributors or organizations the status of their respective Restricted Fund.

- Donors with no or partial contact information will be reported to the Board of Directors.

3) All Class Treasurers and/or Presidents will be notified annually of their agency and class gift fund balances as of the end of the AOG fiscal year.

When requested by the donor (or appropriate authority), and in coordination with the AOG, distributions which are in excess or no longer needed for the original purpose, may be redirected to other appropriate purposes.

The Long Blue Line (LBL) Endowment is the premier BOD Permanently Restricted Fund. The Board's objective is for the AOG to build the LBL Endowment from individual and organizational donations, bequests, BOD directed funding and earnings from the invested funds. The Board's designated purpose for the fund is that the AOG will use the LBL Endowment's annual distributions to augment AOG unrestricted funds used for operations and support to graduates, cadets and the Academy.

1.14 Agency Funds

The AOG holds and invests monies for certain graduate classes of the Academy for those classes' activities at future dates and for other organizations. These funds are classified as agency deposits. Class Agency Funds provide the classes with a means of collecting and disbursing funds for class activities, e.g. class reunions. Since each class needs access to its Class Agency Funds prior to and during class reunions, AOG policy is to allow classes to move their funds into Short Term Accounts during reunion planning and execution to offer immediate liquidity, with minimal market exposure and back into the Investment Portfolio for the time between reunions as determined by a Memorandum of Understanding (MOU) between the AOG and the class. Redemption of Agency Funds held by the AOG for other organizations will be in accordance with the MOU/Agreement for that organization. If there are other organization funds for which the MOU/Agreement does not state a policy on redemption, the AOG will liquidate the funds from the investment portfolio proportionately in as timely a manner as possible, recognizing that a portion of the funds may be held in illiquid instruments with restricted redemptions.

1.15 Preservation of Endowment Fund Capital

Colorado's Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations. In accordance with the UPMIFA, the AOG will manage and invest its funds to:

1. Give primary consideration to donor intent as expressed in a gift instrument.

2. Act in good faith, with the care an ordinarily prudent person would exercise.

3. Incur only reasonable costs in investing and managing charitable funds.

4. Make a reasonable effort to verify relevant facts.

5. Make decisions about each asset in the context of the portfolio of investments, as part of an overall investment strategy (the AOG may pool two or more institutional funds for purposes of management and investment),

6. Diversify investments unless due to special circumstances, the purposes of the fund are better served without diversification,

7. Dispose of unsuitable assets.

8. In general, develop an investment strategy appropriate for the fund and the AOG.

The AOG will use the following guidelines and rules of construction for the appropriation, expenditure and accumulation of endowment funds:

1. Subject to the intent of a donor expressed in the gift instrument (and acting in good faith, with the care an ordinarily prudent person would exercise), the AOG may appropriate for expenditure or accumulate as much of an endowment fund as the AOG determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until they are appropriated for expenditure by the AOG. In making a determination to appropriate or accumulate, the AOG shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider the:
    a. Duration and preservation of the endowment fund;
    b. Purposes of the endowment fund;
    c. General economic conditions;
    d. Possible effect of inflation or deflation;
    e. Expected total return from income and the appreciation of investments;
    f. Other resources of the AOG; and
    g. The AOG investment policy.
2. The appropriation for expenditure in any year of an amount greater than 7% of the fair market value of an endowment fund creates a rebuttable presumption of imprudence.

3. The fair market value of an endowment fund is calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure is made. The maximum appropriation for expenditure for a given fiscal year is based on the fair market values calculated quarterly up to and including the Jan.-Mar. quarter prior to the fiscal year. For an endowment fund in existence for fewer than three years, the fair market value of the endowment fund must be calculated for the period the endowment fund has been in existence.

The appropriation for expenditure was established at 3.5% by BOD action in 2003 and reconfirmed by the BOD in May of 2009. The AOG Board approved an increase in the appropriation for expenditure to not more than 4.5% of the fair market value of each endowment in November of 2018. If an endowment fund has not made a distribution in the past three years, the AOG BOD will allow a distribution equal to the number of years of missed distributions totaling no more three years without board approval

1.16 Bequests and other deferred gifts

Receipt by the AOG of unrestricted funds from bequests and other deferred gifts, such as funds received from a will or trust or a life insurance policy, where the specified intended use of those funds has not been documented by the donor, trust, estate or insurance policy, will be used to help meet the AOG's long-term goal of providing the organization with resources to carry out its mission of providing services and support to the Academy and graduate community. To that end, the Board of Directors will decide the appropriate split to appropriate funds, at the time of the receipt, taking into account the then-current needs of the organization and the recommendations of the CEO and the Finance & Investment Committee, while giving preference to the Long Blue Line Endowment, a true endowment, and the Long Blue Line Fund, an unrestricted-undesignated fund established to support current operational needs of the organization.

Receipt of all other bequests and other deferred gifts, where the intended use of such funds is documented, may result in the creation of a new donor-restricted fund, quasi-endowment or true endowment, or the addition of those funds to an existing fund.

1. 17 Tax-Exempt Status

The AOG is a nonprofit Colorado Corporation organized under Section 501(c) (3) of the Internal Revenue Code. This form of organization restricts the types and amounts of revenue which the AOG can generate without risking tax-exempt status.

The CEO has the responsibility to ensure that the combined activities of the AOG do not threaten the tax-exempt status. The CEO may consult with tax attorneys, accountants and other professional advisors when questions arise on this issue. The CEO will seek the guidance of the BOD if any AOG activity appears to adversely affect tax-exempt status.

1. 18 Review and Modification

The Committee is responsible for developing the AOG's investment policies and for monitoring compliance with the investment policies in this FMIP. At least biannually, the Committee shall review this policy document to ensure that the policies contained herein are appropriate. Changes shall be presented to the Governance Committee for Bylaws compliance and then to the BOD for approval.

Section

2

Investment Policy

2.1 Intent of the Board of Directors (BOD)

The BOD has established this Investment Policy to guide the AOG Finance and Investment Committee (Committee) in effectively monitoring and evaluating the investment of the AOG's investments.

2.2 Observations

To articulate an effective Investment Policy, the AOG must understand the relationship between its investment funds and operating activities. The funds are central to the current operations of the AOG and the Agency Accounts' owners. Long-term, invested funds enhance the operational stability of the AOG.

The Committee recognizes the long-term nature of the AOG's operations and has established an investment policy to invest the AOG's growing capital that incorporates the complexities associated with managing:

1) Day-to-day operations;
2) Funds contributed to specific projects and programs;
3) Class Gifts;
4) Endowments;
5) Quasi-endowments;
6) Class Agency Funds (primarily related to reunion activities); and,
7) Investments on behalf of other entities (other Agency funds).

2.3 Objectives

1) To protect the assets of the AOG.

2) To provide revenue to the AOG.

3) For endowments and quasi-endowments, to outperform inflation by at least the amount spent to maintain purchasing power in perpetuity. Accordingly, total return is emphasized.

4) To achieve a total return that is equal to or better than a benchmark return for a portfolio with similar risk characteristics.

2.4 Guidelines and Investment Policy

Time Horizon: The funds maintained by the AOG have the following horizons and spending policies:

Fund	Horizon
Endowments	Indefinite
Quasi-endowments	As if Indefinite
Life Membership Fund	Very long term; linked to actuarial expectancies of life members— (see section 1.10)
Project and Program Restricted and Agency funds	Intermediate to Long-Term; varies by fund
Short-Term Accounts	Of relatively short duration to be available on short notice. — (see section 1.11)

Fund	Spending Policy
Endowments and Quasi-endowments	As authorized by the Board. The current appropriation for expenditure is 4.5% of the fair market value.
Life Membership	In accordance with section 1.10 of the FMIP
Restricted and Agency Accounts	Based on donor restrictions or Agency agreements
Short Term Account	In accordance with section 1.11 of the FMIP

Risk Tolerance: The Committee broadly characterizes risk as failure to meet the FMIP objectives. The Committee has directed the Investment Subcommittee to accept moderate risk in choosing investment managers consistent with return objectives, spending policy, prudent diversification and risk tolerance. For given risk levels, the Committee seeks the highest return.

Performance Expectations: The Committee expects benchmark-beating returns as measured over 3-5-year horizons at risk levels comparable to the evaluation benchmark.

There are no specific tracking error constraints. The Committee seeks the lowest fees commensurate with performance.

Asset Allocation Policy, Constraints and Rebalancing: The asset classes considered for the funds reflect the Committee's overall investment philosophy, risk characteristics and oversight capabilities. The following are the Asset Classes for which managers are needed:

Asset Class	Rationale for Holding
US Equity—	Diversification; enhanced inflation-adjusted returns
Commodities	Diversification; inflation hedge
International Equity	Diversification; enhanced inflation-adjusted returns
Emerging Markets Equity	Diversification; enhanced inflation-adjusted returns
REITs/Real Estate	Diversification; enhanced inflation-adjusted returns; inflation hedge
Fixed Income	Diversification; deflation hedge; current income
Alternative Investments	Diversification; enhanced inflation-adjusted returns
MLPs	Diversification; enhanced inflation-adjusted returns

Endowment and Combined Agency/Restricted asset allocation guidelines: These guidelines are to be applied to the Core Investment Portfolio/Long-Term portfolio (the total investment portfolio less the AOG Reserve and the Short-Term Account.

	Minimum	Strategic Target	Maximum
US Equities	10%	30.0%	50.0%
Commodities	0.0%	0.0%	10.0%
International Equities	10.0%	30.0%	50.0%
Emerging Markets Equities	0.0%	5.0%	10.0%
REITs/Real Estate	0.0%	5.0%	15.0%
US Fixed Income	5.0%	10.0%	20.0%
Alternatives	0.0%	15.0%	20.0%
MLPs	0.0%	5.0%	10.0%
Other/Cash Equivalents	0	0.0%	10.0%

Liquidity Constraint: The overall portfolio (total account including cash) should have no more than 30% in illiquid assets. Illiquid is defined as the inability to sell the assets within a reasonable time frame. Because of the intermediate to the long-term orientation of the investment pool, assets that have quarterly liquidity are considered liquid; investments with longer lockups are considered illiquid. Upon putting a redemption request for illiquid partnerships, funds expected within the quarter are considered liquid. AOG staff will keep the Investment Subcommittee informed about liquidity needs from the portfolio. (It is understood that, from time to time, liquid assets can temporarily become illiquid, as with mortgages in 2008. In this condition, the 30% limit does not apply to the assumption that the illiquid condition will pass within a reasonable time frame.)

Rebalancing: Tactical asset allocation (or any market timing) is not part of the AOG's investment philosophy. The Short-Term Account will have a target allocation of 15%, plus or minus 5% of the Total Investment Portfolio based upon projections from the AOG/CFO. From time to time an asset class allocation for the Core Investment Portfolio (the total investment portfolio less the short-term account) will deviate from its long-term strategic target. If this happens by a significant amount, normally 5% or greater, the intent is to evaluate the reasons for the variance and if appropriate to move it back toward its long-term strategic target. The strategic targets will be reviewed and, if necessary, adjusted at least annually by the Committee acting upon recommendations from the Investment Subcommittee. To rebalance to the strategic target before the estimated added value more than pays for the transaction costs is inefficient. To the extent possible, cash inflows and outflows will be used to adjust the asset mix because they incur only one-way transaction costs. In general, the desirability of rebalancing will be evaluated in light of upcoming cash needs of the AOG and transaction costs. When cash flows are insufficient for rebalancing, the AOG will initiate transactions between asset classes to bring allocations approximately half-way back toward its strategic target, in this case, 5.0%.

2.5 Security Guidelines and Evaluation Benchmarks

The evaluation benchmark for Core Investment Portfolio (the total investment portfolio less the Short-Term Account) will be a weighted combination of the appropriate asset class by the Strategic Target allocations (i.e. 30% Domestic Equities, 30% International Equities, 5% Emerging Market, 5% REITs/Real Estate, 10% Domestic Fixed Income, 5% MLPs, and 15% Alternatives). The Short-Term Account will be measured against the average of three-month Treasury bills.

Domestic Equities: For large-capitalization value stocks, the evaluation benchmark is the Russell 1000 Value index; for large-capitalization growth stocks, the evaluation benchmark is the Russell 1000 Growth index. When evaluating the combined domestic equity allocation, the primary evaluation benchmark is the Russell 1000 with secondary reference to the S&P 500.

Domestic Fixed Income: Credit quality for all domestic fixed-income investments will be investment grade or better. Average portfolio duration will be less than 5.5 years. The maximum maturity for any single security is 40 years and the manager have full discretion to utilize the entire spectrum of maturities subject to the duration target identified. The evaluation benchmark is the Barclays Capital Aggregate Index. The goal is to outperform by 0.5% per annum over market cycles after all costs.

International Equities: For developed market international equities, the evaluation benchmark is the unhedged MSCI EAFE index

Emerging Markets Equities: For emerging market international equities, the evaluation benchmark is the unhedged MSCI EMF index.

REITs/Real Estate: The evaluation benchmark is the FTSE EPRA/NAREIT

Global Real Estate index.

Alternative Investments: The evaluation benchmark is the HFRI Fund of Funds Index or appropriate index reflecting the alternative investment.

Commodities: The evaluation benchmark is the Dow Jones AIG Commodity Index.

MLPs: The evaluation benchmark is the Alerian Index.

Cash and Equivalents: The evaluation benchmark is the three-month Treasury bill.

Peer-group Evaluation Standards: In addition to the evaluation benchmarks noted for each asset class, managers are expected to outperform the appropriate manager universe over market cycles.

Asset Class	**Manager Universe**
Large-Cap US Value	Value Universe
Large-Cap US Growth	Growth Universe
Overall Domestic Equity	Equity Universe
Developed International	International Equity Universe
Emerging Markets	Emerging Markets Equity Universe
MLPs	Alerian Index
Commodities	Commodities Manager Universe
REITs	Real Estate Category
U.S. Fixed Income	Intermediate Fixed Income Manager Universe
Alternatives	HFRI Fund of Funds

Diversification: To assure a prudent degree of diversification and avoid excessive risk, actively managed investment accounts will be diversified into multiple asset classes and managers in a prudent manner.

The Investment Subcommittee shall be comprised, to the extent practical, of the best volunteers available to the AOG (in the judgment of the Committee) who have the requisite knowledge and experience to more successfully manage the assets of the AOG.

Permissible Investments: The funds may be invested in publicly traded common stocks or REITs, mutual funds (including exchange-traded funds), convertible bonds and fixed-income securities, whether interest-bearing or discount instruments, including money market instruments, subject to any restrictions specified in this FMIP. Investment in mutual funds, hedge funds, limited partnerships or other commingled investment vehicles (including in-house funds) is permitted, although it is understood that assets invested in such commingled vehicles will be managed in accordance with the investment policies, procedures and guidelines set forth in the prospectus or other relevant documents for such commingled vehicle, notwithstanding anything to the contrary set forth in this FMIP.

2.6 Money Manager Selection, Duties and Responsibilities

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The Committee has chosen a multiple-manager approach to achieve investment goals. The Investment Subcommittee is responsible for prudently developing manager selection criteria, screening investment manager candidates (banks, investment management firms, insurance companies and mutual funds), and money manager selection. The Subcommittee will document manager selection criteria and selection for the AOG's investments within the constraints of the FMIP. The Committee will note all manager selections and report to the BOD. The BOD has ultimate authority and oversight over investment activity as outlined in this BOD-approved FMIP. Each investment manager must adhere to the objectives and policies detailed in this FMIP. Subject to this FMIP, the investment managers are to have full discretionary security selection authority over the assets assigned.

2.7 Control Procedures

The investment funds will be invested consistent with generally accepted standards of fiduciary responsibility. The safeguards that would guide a prudent expert will be observed. All transactions undertaken for the funds will be for the sole benefit of the AOG.

Brokerage Policy: Brokerage arrangements will be executed in the best interests of the AOG. We expect that AOG funds transactions to be affected at the best price and execution.

Custodial Policy: Custodial arrangements will be established to assure the security of and ensure the best interests of the AOG.

Performance Monitoring: The BOD and the Committee expect regular written reports showing fund performance comparisons to the specified evaluation benchmarks. Performance will be monitored against the appropriate benchmarks, consider risk and measured after fees are applied (i.e. net of fees). Turnover will not be an evaluation factor if performance results meet objectives, net of fees.

Investment Expenses: The Committee seeks fair investment management fees commensurate with performance. In making allowances for performance-justified higher expenses, the Committee and the Investment Subcommittee will balance the certainty of fees with the unpredictability of value-added performance. The Investment Subcommittee will evaluate fee arrangements as part of its manager evaluation.

Administrative Fees: The AOG charges endowments and agency accounts with an administrative fee to cover management and accounting costs associated with those funds. The Committee, with the approval of the BOD, sets these administration fees and ensures they are reasonable (The current approved rate is currently 0.75%). The AOG pools assets to generate efficient administration and investment flexibility; funds with separate spending restrictions are maintained with their invested assets included in the pooled fund.

Clarifications: In the event of any confusion, users of this FMIP should obtain clarification from the Committee.

Section

3

Appendices

Types of Funds **3.1**

Change Log **3.2**

Appendix 1: Types of Funds

Unrestricted Fund: A fund with no external restrictions on its use, i.e. a fund that may be used by the AOG for any purpose within the context of its not-for-profit status that is approved by the Board through the budget. The AOG maintains unrestricted designated and undesignated operating funds.

A. Unrestricted – undesignated net assets are used in the current operations of the AOG and equity in property and equipment. Unrestricted revenues are available to meet any AOG expenditures.

B. Unrestricted – designated net assets are funds designated by the Board of Directors for specific purposes. These funds are not subject to donor restrictions and may be expended at the Board's discretion.

Life Membership Fund: Fund designated to hold life membership dues to provide benefits to Life Members during their lifetimes. (See section 1.10.)

Restricted Fund: A fund for which the use is subject to restrictions placed by a donor. Temporarily restricted funds, endowment funds and quasi-endowment funds are examples.

Temporarily Restricted Fund: A fund for which the use is subject to donor restrictions. These contributions are accounted for separately and include contributions for specific projects or programs, class gifts, quasi-endowments and unspent accumulated earnings on true endowments. Unpaid pledges to unrestricted funds are time restricted under GAAP.

True Endowment: A fund for which a donor has provided that the principal is to be maintained inviolate in perpetuity, and only the income from the investments of the fund may be expended.

Term Endowment: A fund that has all the characteristics of an endowment fund, except that at some future date or at the occurrence of a specified event it will no longer be required to be maintained as an endowment fund.

Quasi-Endowment: A fund for which the donor has provided that the fund should be managed as an endowment, but for which there is no legal requirement that principal remains inviolate. These funds allow the AOG Board to use its discretion to use principal to support the donor's wishes in the event that annual or accumulated income is insufficient for that purpose.

Agency Funds: Funds which do not belong to the AOG which are held and invested by the AOG on behalf of an outside party. The AOG holds Agency funds for Classes and for a small number of other organizations related to USAFA.

Appendix 2: **Change Log**

DATE	***SECTION***	***Description of Change***
12/7/2012	1.5	Replace the last three sentences of the first paragraph with "The Committee will be chaired…as determined by its Chairman."
2/1/2013	1.10	Deleted entire third paragraph.
2/1/2013	1.11	Changed second paragraph "Based on this investment…"
2/1/2013	1.11	Remove paragraph portion "Class Agency Funds provide…the AOG and the class"
2/1/2013	1.11	Replaced last paragraph with new wording "The AOG Reserve…on a monthly basis."
2/1/2013	1.12	Added new Section 1.12 – Agency Funds. Renumbered subsequent sections. Added paragraph reading "The AOG holds and invests…with restricted redemptions."
2/1/2013	App. 1	Modify "Agency Funds" paragraph to read "Agency Funds: Funds which…related to USAFA."
5/2/2014	1.14	Added new section 1.14 – Bequests and other deferred gifts.
5/2/2014	1.15	Changed "annually" to "biannually"
5/2/2014	1.16	Changed 1.15 to 1.16 Renumbered subsequent sections.
12/5/2014	1.1	Changed (insert/add new section 1.1)
12/5/2014	1.7	Changed subject section of 1.7
12/5/2014	1.8	Changed subject section of 1.8
2/6/2015	1.6	Paragraph re-written
2/6/2015	1.11	Paragraph re-written
2/6/2015	1.12	Unrestricted Funds (Designated and Un-Designated) paragraph inserted
2/6/2015	1.13	Restricted Funds paragraph inserted
2/6/2015	2.4-2.7	Changes to investment policy
02/03/2017	1.11	Add and define Short-Term Account
02/03/2017	1.12	Eliminate income accruing to AOG Reserve and time of presentation to the Board
02/03/2017	1.13	Addition of Stewardship guidelines and reporting
02/03/2017	2.4, 2.5	Changes to Investment Policies and evaluation benchmarks
12/01/2017	1.11	Paragraph re-written. Added "Unrestricted – Board Designated" paragraph
12/01/2017	1.12	Unrestricted Funds (Designated and Un-Designated) paragraph inserted
12/01/2017	1.8	Added "Additional reports on Restricted or Board designated funds may be requested through the Finance & Investment Committee"

02/2/2018	2.4	Under Endowment and Combined Agency/Restricted asset allocation, added "Long Term Portfolio and AOG Reserve and the
5/4/2018	1.12	Under Unrestricted – Available for Operations, added that the CEO and/or the F& I Committee "may" make….
5/4/2018	1.12	Paragraph re-written under Unrestricted – Board designated funds.
11/08/2018	1.15	Changed to Read: "The appropriation for expenditure was established at 3.5% by BOD action in 2003 and reconfirmed by the BOD in May of 2009. The AOG Board approved an increase in the appropriation for expenditure to not more than 4.5% of the fair market value of each endowment in November of 2018."
05/10/2019	1.5	Replaced financial management and investment "plan" with financial management and investment "policy."
10/16/2020	Table of Contents	Administrative: Short Term to Short-Term
10/16/2020	1.1	2nd para - Change to Read: President/CEO to CEO
10/16/2020	1.1	4th para – Removed "President and". Added: While maintaining responsibility, the CEO may delegate the duties contained in this policy to the President/COO.
10/16/2020	1.5	4th para – Changed "his" to "the". 7th para – add President/COO
10/16/2020	1.11	1.11, 3) – change "so as to" to read "to"
10/16/2020	1.12	Unrestricted – Board Designated Changed to Read: The AOG RESERVE (an unrestricted-designated fund) sets aside funds to be used by the AOG to address expenditures which exceed revenues during the fiscal year. The minimum amount to be set aside in the Reserve will be no more than 25% of budgeted operating expenses (not including depreciation). The AOG RESERVE will be tracked and follow the investment policies for the Short-Term Account, with earnings or losses accruing to the AOG RESERVE.
10/16/2020	1.13	1st para – Added "COO"
10/16/2020	1.15	Last para – Added: . If an endowment fund has not made a distribution in the past three years, the AOG BOD will allow a distribution equal to the number of years of missed distributions totaling no more three years without board approval.
10/16/2020	2.7	Administrative Fees – Added (The current approved rate is current 0.75%)