

## Reserve and Investment Policy

---

This policy is designed to provide guidelines for maintaining adequate Association reserves, and to define the Association's strategy and guidelines for investment.

### **OBJECTIVE**

Reserves are defined as the accumulated net surpluses of the Association. There are three main objectives for the Reserves, as follows:

1. The primary purpose is to ensure that the Association has adequate funds available in the event of an unanticipated catastrophic event or business situation that threatens the financial viability of the Association.
2. A secondary purpose is to support special projects in the event that a single or multiple strategic initiatives should surface outside of the annual budgeting process. Should a strategic initiative surface during the course of the year, a Board member may make a motion to the full Board of Directors to fund such an initiative. An initiative is defined as a chance for the Association to expend monies toward an action that will benefit the Members.
3. Additional objectives include the preservation of purchasing power and growth of capital over time. The Association expressly acknowledges that achieving these goals involves exposure to risk and requires prudent risk-taking, including but not limited to the risk of potential loss of capital.

### **SPENDING POLICY**

A two-thirds majority vote of the Board of Directors is required in order to access funds from Reserves.

### **INVESTMENT PHILOSOPHY AND RISK TOLERANCE**

The Association has a conservative to moderate risk tolerance. The Association is more concerned with preservation of capital than with maximizing gains. The Association wishes only to tolerate infrequent and very moderate negative returns through any given market cycle.

### **ALLOCATION OF ASSETS**

Over the long term, the asset allocation will be the key determinant of the returns generated and the associated volatility of returns.

## Reserve and Investment Policy

---

In line with the Association’s conservative approach, a significant amount of Reserves – an amount equivalent to not less than 50% of the annual Operating Expense Budget – shall be invested in vehicles that present a very low risk of loss of principal and high level of liquidity such as cash and cash equivalents, short term CD’s, money market funds, etc. (“*Reserve Tranche #1*”), based on the following guidelines:

### Tranche #1

Asset Class	Minimum	Target	Maximum
Cash on hand (savings)	35%	40%	50%
Money Market funds	20%	30%	40%
6-12 Month CD’s	10%	15%	20%
12-18 Month CD’s	10%	15%	20%
18+ Month CD’s	0%	0%	0%
Total	-	100%	-

In the event that the value of Tranche #1 falls below 40% of the then-current-year Operating Expense Budget, the Treasurer shall notify the Board of the variance and the Board may direct limitations on new project funding or special initiative funding through the Reserves. This occurrence would also trigger a process through which the Finance Committee would convene to recommend necessary and sufficient corrective actions to rebuild Tranche #1 to its prescribed minimum value. The recommendation shall be presented to the Board for immediate consideration.

Any available Reserves in excess of the amounts held in Tranche #1 shall be referred to as Tranche #2 and shall be invested in a diversified, risk-adjusted manner based on the following guidelines as set forth by the Board of Directors:

## Reserve and Investment Policy

---

### Tranche #2

Asset Class	Minimum	Target	Maximum
<b>Equities</b> (Mutual Funds, ETFs, Preferred notes)	5%	25%	35%
<b>Fixed Income</b> (Bonds, Treasuries, CD's)	40%	60%	80%
<b>Alternatives</b> (REIT's, MLP's, Infrastructure)	5%	15%	20%
<b>Commodities</b> (Precious metals, Food, Oil, Currency, etc.)	0%	0%	0%
<b>Total</b>	-	100%	-

Reserve Tranche #1 shall be funded before assets can be deployed to Reserve Tranche #2.

### DESIGNATING A PORTFOLIO MANAGER

The Finance Committee will nominate and present to the Board a third party Portfolio Manager to advise on and assist in managing investment vehicles. The Portfolio Manager shall be a qualified individual representing a reputed investment advisory firm. The Board will approve the Portfolio Manager.

### REPORTING REQUIREMENTS

The Portfolio Manager will deliver quarterly reports containing information on the investment performance.

### REBALANCING OF RESERVE PERCENTAGES AND REVIEW OF INVESTMENT OBJECTIVES

Because the amounts to be held in Tranche #1 are percentages of the then-current Operating Expense Budget approved by the board, a rebalancing of the Reserve amounts as a percentage of the Budget is to occur annually after the approval of the Operating Expense Budget, not later than March 31, to ensure that the appropriate percentages are maintained.

The achievement of investment objectives will also be reviewed by the Finance Committee on an annual basis. This review will focus on the feasibility of achieving the objectives and the continued appropriateness of this Reserve and

## Reserve and Investment Policy

---

Investment Policy. It is not expected that the Policy will change frequently; short-term changes in financial markets should generally not require an adjustment to the investment strategy and allocation.

The Finance Committee will formally review the quarterly investment reports and will report their findings to the Board semi-annually. The review will consider the following:

- Whether each investment vehicle has performed satisfactorily when compared with the specific objectives for its portfolio
- Whether the portfolio and each investment vehicle has produced results that compare favorably to their respective indexes
- Whether the investment elections, strategy, and Portfolio Manager have adhered to the relevant policies and objectives
- Whether the Portfolio Manager's overall performance has been satisfactorily

### **INVESTMENT RESTRICTIONS**

The Association may NOT invest in the following:

- Margin purchase or other use of lending or borrowing
- Private placements
- Hedge funds
- Real estate (except for real estate mutual funds or exchange traded funds which are readily marketable)
- Annuities
- Individual stock positions
- Futures contracts
- Commodities
- Leveraged products
- Warrants
- Unregistered or restricted stock.

### **ALTERATIONS, AMENDMENTS AND ADDITIONS TO THIS POLICY**

Any changes, additions or amendments to this policy require a 2/3 majority of the Board.