

**Indigo Run Community Owners Association, Inc. (IRCOA)**

**Investment Fund Policy Statement (“Fund or Funds”)**

**October 2017**

**I. Introduction**

The purpose of this document is to establish guidelines for the Fund’s Investment Portfolio, to outline the roles and responsibilities of the involved parties, and to incorporate standards to monitor the progress of the Fund’s Investment Portfolio.

**II. Finance Committee, Treasurer, and General Manager Roles**

This Investment Policy Statement sets forth the investment objectives, and investment guidelines that govern the activities of the Finance Committee or anyone else whom the Finance Committee has delegated the responsibility of investment management for the IRCOA Fund’s portfolio assets.

Policies contained in this statement are intended to provide guidelines for ensuring that the Fund investments are managed consistent with the short-term and long-term financial goals of the IRCOA as recommended by the Finance Committee and approved by the Board of Directors. These policies are also intended to provide for investment flexibility in the face of changing capital market conditions and the financial circumstances of the IRCOA.

The Finance Committee will review the Investment Policy Statement at least annually. Any changes to the Investment Policy Statement must be approved by a majority of the Finance Committee before being presented to the Board of Directors for final approval. Written confirmation of any changes will be provided to all Finance Committee members and involved parties within a reasonable amount of time.

The Finance Committee is to provide a Fund Investment Report to the IRCOA Board of Directors (at least quarterly) and to IRCOA members/owners (annually), stating the beginning balance, disclosure of expenses paid, a summary of cash inflows by revenue source (earnings, assessments, transfer fees, etc.) and the ending balance.

The IRCOA Board of Directors designates the Treasurer as the person responsible for oversight of Operating Fund and Reserve Fund management.

The Treasurer will work directly with the IRCOA General Manager, the IRCOA Finance Committee, and any selected investment advisor to determine and recommend investments or investment products suitable for purchase and/or to assist in proposing a change in investment policy to the Board of Directors for its consideration.

The IRCOA Treasurer, General Manager, and Finance Committee will have management responsibilities for the Operating Fund and Reserve Fund accounts. The General Manager, with Finance Committee review, prepares periodic cash flow projections. These projections will include both revenue and expenses, and are to be prepared and maintained as follows:

- A. A January-December rolling cash flow projection for current year Operating Funds.
- B. A current-year plus 4-year (i.e. 5–year) rolling cash flow projection for Reserve Funds, updated annually to coincide with the Annual IRCOA meeting.

The General Manager will be responsible for the accuracy of all dividends paid and interest earned for both the Operating and Reserve Funds.

### **III. Reserve Funding Levels**

Reserve Funds are managed by the Finance Committee and the General Manager, consistent with the objectives and constraints stated above. Such funds are required for capital projects, projected capital replacement projects scheduled over the next five years, possible community enhancements, and a “safety net” set aside for unforeseen emergencies to include the response to and repairs after a hurricane. The IRCOA Reserve Account will maintain the following funding levels: reserves sufficient to pay the capital repairs and replacement expenditures as projected in the current Reserve Study, specifically a minimum \$1,000,000 reserve to pay future capital expenditures and for casualty recovery expenses not covered by insurance.

### **IV. Investment Objective and Spending Policy**

- A. The Indigo Run Community Owners Association (IRCOA) shall be viewed as two different Funds with different investment objectives.
  - 1. The **Operating Fund** are funds needed for current operations and will be held in one or a combination of accounts including FDIC insured

checking, short-term CD's, or money market accounts with maturities that meet the liquidity needs demonstrated by the cash flow and/or budget projections. A minimum of one twelfth of the annual operating budget will be maintained in the operating account for working capital.

2. The **Reserve Funds** are to be invested with the objective of preserving the long-term, real (net of inflation) purchasing power of assets while providing a relatively predictable and growing stream of annual earnings, while simultaneously having the added objective of minimalizing market risk and market volatility exposure. For the purpose of making distributions, the Reserve Fund shall make use of a total-return based spending policy, meaning that it will fund future distributions from net investment income, net realized capital gains, and proceeds from the sale of investments when appropriate.

Periodic cash flow, either into or out of the Reserve Fund can be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy.

## V. Reserve Fund Investment Policy

### Asset Allocation:

1. The Finance Committee recognizes that the strategic allocation of the IRCOA assets across broadly defined financial assets with varying degrees of risk, return, and correlation will be the most significant determinant of long-term investment returns and IRCOA Reserve Fund's asset stability.
2. The Finance Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Finance Committee would like to retain flexibility to make periodic changes to the IRCOA Fund's asset allocation, it expects to do so only in the event of material changes to the Reserve Fund, to the assumptions underlying Fund spending policies, and/or to the capital markets or asset classes in which the IRCOA invests.
3. The Reserve Fund's assets will be managed in a diversified portfolio of Fixed Income investments. These investments can include Treasury or Agency Bonds and Notes; TIPS (Treasury

Inflation Protected Securities and Investment Grade Corporate Bonds. All investments will have a minimum quality rating equivalent to or greater than a Standard & Poor's rating of BBB+ at time of purchase. No investment to have a maturity of greater than 10 years with 7 years or less being deemed preferential. Should an individual bond investment be downgraded to below a BBB+ rating then the Finance Committee shall, in its sole discretion, evaluate and recommend to the Board of Directors whether to sell or continue to hold the investment. Further, that should a particular investment(s) be downgraded to below an investment grade rating (for clarity, a Standard & Poor's rating of below BBB-) then the Finance Committee shall advise the BOD and the General Manager to sell such investment(s) with immediate effect.

Diversification Policy:

Diversification across and within various Fixed Income asset classes is the primary means by which the Finance Committee expects the Portfolio to avoid undue risk of large losses over longer time periods. To protect the Reserve Fund against unfavorable outcomes the Finance Committee will take all reasonable precautions to avoid industry sector investment concentrations.

For greater clarity, with the exception of fixed income investments explicitly guaranteed by the U.S. Government, no single industry sector investment shall represent more than 20% of total Reserve Fund assets.

Prohibited Transactions:

1. Short Sales
2. Selling or Buying on margin.
3. Investments forbidden by all applicable governing bodies.
4. Foreign bonds or securities
5. The use of leverage.

Approved by the Finance Committee on October 10, 2017