

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

INVESTMENT POLICY – REPLACEMENT FUND

The Board of Directors (Board) of the Sun City Shadow Hills Community Association (Association) hereby adopts this Investment Policy (Policy) under action taken at their meeting held on the 21st day of December 2021. The Finance Advisory Committee (FAC) of the Association will review the Policy at least on an annual basis and make written recommendations to the Board of the Association. The Board will review such written recommendations and then vote to approve any changes to, or deviations from, this Policy.

PURPOSE

This Policy is designed to provide written guidelines for individuals authorized and responsible for the management and investment of the Association's Replacement Funds, also known as Reserve funds. Reserve funds invested by the Association represent monies that are necessary in both the near term and the longer term for major repair or replacement of Association common area real and personal property components identified in the annual Reserve Study.

INVESTMENT OBJECTIVES

It is the intent of this Policy to state both general and specific objectives and guidelines and clearly communicate the investment philosophy. It is important that this Policy be sufficiently specific, yet appropriately broad to allow practical implementation to navigate variable market conditions. The primary investment objectives are preservation of capital and income, with a critical secondary objective of growth to help mitigate inflationary erosion of the Association Reserve funds over the long term. It is essential that assets in the Reserve Fund be invested to achieve the following goals as listed in order of priority:

1. Safety - Promote and ensure the preservation of principal and realization of income.
2. Liquidity - Maintain sufficient liquid funds and structure maturities to meet anticipated expenditures as and when due.
3. Yield - Returns are to be appropriate in terms of the safety and liquidity objectives.
4. Growth – Meaningful capital appreciation of managed portfolio assets while balancing risks by prudent asset allocation, diversification, and rebalancing.

It is intended that all fixed income investments will be held to maturity except for CMO's collateralized by GNMA mortgage securities (described below) which historically have been realized in advance of their maturity date. Liquidating other

term investments prior to maturity and generating any gain or loss is only permitted to manage liquidity requirements specified by this Policy.

In the 2021 Reserve Study (and as in prior years), a static investment earnings rate is used for the entire thirty-year forecast period. The Board approved the written recommendation of the FAC Subcommittee and the FAC for the utilization of 2.25 percent investment earnings rate for the thirty-year forecast period in the preparation of the 2021 Reserve Study. For preparation of the 2021 Replacement Fund budget, the Board approved the written recommendation of the FAC to establish a goal for an annual rate of return of 50 basis points or .5 percent based on current market conditions, the current Investment Policy adopted by the Board, and the advice of the Replacement Fund Investment Consultant (described in the Investment Administration and Reporting section of this Policy). As noted on page 1, the goal for longer term and annual rate of return will be reviewed at least annually by the FAC.

PORTFOLIO GUIDELINES AND CONCENTRATION LIMITS

The following are approved types of investments:

1. Interest-bearing bank money market accounts within FDIC-insured limits, including FDIC insured deposit programs with daily liquidity.
2. Money market mutual funds including Prime, U.S. Treasury and/or, Government funds with daily liquidity.
3. Certificates of Deposit in amounts less than or equal to the maximum FDIC-insured limits, including but not limited to, callable, step-up, variable rate, inflation-protected, and market-linked Certificate of Deposit offerings.
4. U.S. Treasury securities, inclusive of TIPS, and obligations of any U.S. Government Agency.
5. U.S. Government Agency mortgage backed securities and collateralized mortgage obligations (CMO's). Outstanding face value of investments in CMO's may not exceed 35% of the total Replacement Fund balance at the time of the purchase of the investment.
6. Municipal bonds insured as to principal and interest and having an underlying rating of A or better issued by at least one reputable rating service (Standard & Poor's, Moody's, Fitch, etc.) or short-term municipal obligations rated MIG-1 or S-1. Market value of municipal bonds may not exceed 25% of the total Replacement Fund balance at the time of the purchase of the investment.
7. Corporate debt obligations, including market-linked notes, provided the issuers holds an investment grade or better long-term credit rating from at least one reputable rating service (Standard & Poor's, Moody's, Fitch, etc.) or short-term commercial paper rated A1 or P1, subject to a 10% maximum concentration limit per issuer at the time of the purchase of the investment.
8. Managed equity and fixed income investment portfolios including Index Funds, Mutual Funds, and Exchange Traded Funds.

LIQUIDITY AND ASSET ALLOCATION

Reserve funds shall be maintained in allowable investments with liquid funds available for scheduled Replacement Fund cash expenditures. Based upon the parameters of the most recent Reserve Study cashflow projections, incorporating the most recent Reserve Study cash expenditure budget, a portion of available Replacement Fund assets shall be maintained in liquid accounts. Additionally, Replacement Fund assessment income and investments maturing each year shall be sufficient to cover at least 110% of planned Replacement Fund expenditures and should be scheduled to ensure availability of funds when needed.

The target allocation of the Replacement Fund investments would fall within the following allowable ranges:

- 5% to 100% Cash
- 0% to 95% Fixed income
- 0% to 35% CMO's
- 0% to 25% Municipal bonds
- 0% to 35% Equity investments

The Association's Replacement Fund fixed income portfolio will be structured on a laddered basis with investments that mature in successive periods. No security will be purchased with an effective maturity of greater than ten (10) years (based upon weighted average life). Average maturity of the fixed income portfolio will be five (5) years or less.

The Association's Replacement Fund equity investment portfolio will use the long-term strategic asset allocation guidelines recommended by the Investment Advisor to be the most appropriate given changing market conditions. The Board will approve the asset allocation guidelines recommended by the Investment Advisor. The maximum actual amount to be invested within the allowable equity investment range will be determined by the Association's longer-term balance not required to meet Replacement Fund cash expenditure needs in the next five (5) years, as reflected by the forecasted annual ending balances in the most recent Reserve Study (2021 at this time), adjusted on an annual basis with the approval of the Board.

The Board approved the one-page letter dated July 19, 2019 (a copy of which is attached) for the short-term investment of excess liquidity in the Replacement Fund which is hereby incorporated by reference into this Policy.

INVESTMENT ADMINISTRATION AND REPORTING

The Board will select and approve a Financial Advisor (non-discretionary brokerage) and/or Investment Advisor (discretionary asset management) to assist with and implement investment actions under this Policy.

The Association has engaged the services of Comerica Securities, Inc. to act as Investment Advisor and Managing Agent (Investment Consultant). The Managing Agent, subject to applicable law, is authorized to open and maintain Replacement Fund investment accounts with financial institutions required to implement action subject to this Policy and has the authority to approve non-discretionary investment recommendations which are consistent with the provisions of this Policy.

The Investment Consultant shall meet with the FAC and the Board at least annually. The Investment Consultant will propose to FAC and the Board the maximum amount of the Replacement Fund allocated to the growth strategy each year. The written investment recommendations from the Investment Consultant on the fixed income strategy and the written recommendation from the FAC shall be furnished to the Board for their review and approval. The Investment Consultant shall be responsible for carrying out investment decisions under the parameters of this Policy approved by the Board. The Board may authorize the President and Treasurer of the Board to open and maintain accounts in the name of the Association with financial institutions as required to carry out the investment decisions approved by the Board. The Board may authorize the General Manager and the Controller of the Association to open and maintain accounts in the name of the Association with financial institutions as required to carry out the investment decisions approved by the Board. The Investment Consultant shall prepare and furnish written investment portfolio reports on at least a quarterly basis to the Board, the FAC, and the General Manager and Controller of the Association. Such reports shall include, but not be limited to, summary by investment type in dollar amount and concentration percentage, weighted average yield (interest rate) and scheduled maturity dates. In addition, the Board shall have ready access to all records pertaining to all investments made for the Association. The Investment Consultant shall prepare and furnish monthly account statements to the Controller of the Association. The Controller will then furnish such statements to the Board, the FAC, and the General Manager of the Association. Such statements shall include, but not be limited to, the detail of each investment including adjusted cost basis, acquisition date, maturity date, market value, unrealized gain or loss, accrued interest, estimated annual income, and estimated yield (interest rate). The Controller of the Association shall review and approve the reconciliation of the account statements to the amounts reported in the general ledgers for the Replacement Fund monthly. The FAC shall review the account statements and the reconciliations prepared by the Controller monthly. The Board shall review and approve the reconciliations reviewed and approved by the Controller for the Association monthly.

(Signatures on next page)

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

By: Kim Fuller

Name: Kim Fuller

Its: President

Date: 12-29-20

By: Fera Mostow

Name: Fera Mostow

Its: vice president

Date: 12-30-20