

CHAPTER FOUR – Section 04.02Q  
LMOA INVESTMENT POLICY

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**I. PURPOSE**

The purpose of this document is to identify the policy that shall govern the Lake Monticello Owners’ Association (LMOA) investment program.

**II. SCOPE OF THE INVESTMENT POLICY**

This policy applies to specific financial assets of LMOA and shall include, but not be limited to, the funds in the Emergency Reserve Account (ERA), the Short-Term Operating and Reserve Account (STORFA), the Road Reserve Account (RRA) and any other investment or reserve accounts that may be created from time-to-time by the Board of Directors.

**III. AMENDMENTS TO THE POLICY**

This policy has been adopted by the Board of Directors and shall be changed only by the Board of Directors.

**IV. DELEGATION OF AUTHORITY**

The ultimate responsibility for overseeing the investment program resides with the Board of Directors of LMOA. Consistent with this policy, the periodic investment activities and decisions concerning the purchases or sales of Eligible Investments are assigned to and the responsibility of the Investment Committee. The Committee Chairman and the Committee Secretary shall be designated to communicate, jointly or severally, Committee decisions to the representative of the broker/dealer firm.

**V. INVESTMENT COMMITTEE**

The Charter of the Investment Committee shall be as delineated in PM 16.10.

**VI. STANDARD OF PRUDENCE**

The standard of prudence to be applied to the investment of LMOA assets shall be the “Prudent Investor” rule that states:

*“Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”*

The Investment Committee, while acting in accordance with this policy and any other written policy pertaining to the administration and management of LMOA investments and who exercise proper due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control and prevent any adverse developments.

The Investment Committee shall, when and as required, engage the services of reputable NASD licensed professionals, including but not limited to consultants, investment advisors, custodians, and securities broker/dealers. Notification of the selection of such professionals by the Investment Committee shall be forwarded to the Board for review and approval.

## VII. EMERGENCY RESERVE ACCOUNT (ERA)

### A. Source and value of funds

The "Principal" in the ERA are the funds initially invested after being obtained from the sale of the Lake Monticello Service Company (LMSC) in the initial investment amount of \$6,630,063.

The "Value" of the ERA is the current ~~market~~-value of the securities and cash in the Account, less any interest and dividends that have been received but not withdrawn. **The value of the securities in the ERA will be the lesser of (i.) current market value; or (ii.) maturity value, for securities** which will mature and for which there is both the ability and intent to hold until maturity ~~may be valued at maturity value~~.

### B. General Restrictions

The ERA is a restricted fund. While it is an asset of the Association, the Principal funds can not be accessed, distributed, or used in any way without the affirmative vote of the membership.

Investment of funds in the ERA in accordance with the Investment Policy does not constitute use of those funds.

In no event shall other funds of the Association be intermingled with funds in the ERA.

### C. Investment Objectives

The objectives of the investment of funds in the ERA are the preservation of capital and, to the extent possible, maintaining and increasing the Value of the fund by prudent investments so as to preserve and increase the purchasing power of the fund. The management goal for the long term will be to diversify into several sectors of the market. The primary strategy to meet this goal will be to establish over time a diversified portfolio of mutual funds in addition to fixed income securities.

### D. Investment Policy

Investments of the ERA shall be managed for total return, giving careful attention to such factors as business (or credit) risk, market risk, interest-rate risk, price-level risk, fixed income allocation, diversification, type and investment quality of individual securities, the past performance and volatility of the financial markets, and the effects of inflation.

### E. Eligible Investments

Eligible Investments for the ERA include

1. Debt securities issued by the U.S. Government, by Agencies of the U.S. Government, and by corporations. Corporate bonds must be rated Investment Grade by either Standard and Poors or Moody's.

2. Mutual Funds
3. Exchange Traded Funds (ETF)
4. Certificates of Deposit (FDIC insured)
5. Money Market Funds of acceptable banks or brokerage firms

**F. Investment Restrictions**

1. The Investment Committee shall not purchase securities for the ERA other than those specified in section VII E without prior consent of the Board.
2. Purchase of the following securities is expressly prohibited under all circumstances:
  - a. Individual common or preferred stocks
  - b. Private placements
  - c. Asset-backed securities
  - d. Fixed income or interest-rate futures
  - e. Derivatives of any kind
  - f. Contracts of financial futures, individual commodities, or currency exchanges
  - g. Commercial paper
  - h. Stripped principal or interest obligations or securities
3. Debt securities in the investment portfolio will be diversified to limit the exposure to any single issuer. With the exception of the United States Government and Federal Agencies and Certificates of Deposits (FDIC insured) the debt securities of a single issuer shall not exceed 10% of the entire portfolio.

**G. Voting of Proxies**

The Board of Directors delegates to the Treasurer the right to vote all proxies that are solicited in connection with securities owned by the Association.

**H. Withdrawals**

~~At the direction of the Treasurer, i~~Interest and dividends received into the ERA may be withdrawn for use by the Board of Directors in the maintenance, upkeep, general care of the amenities and assets of the corporation and capital needs.

~~The Board of Directors may authorize additional withdrawals from the ERA provided the Value of the ERA following said withdrawal will be greater than the Principal.~~

Any withdrawal ~~other than interest or dividends~~ after which the Value of the ERA will be less than the Principal will require approval of the members.

**VIII. SHORT-TERM OPERATING and RESTRICTED FUNDS ACCOUNT (STORFA)**

**A. Description**

The Short-Term Operating and Restricted Funds Account contains the operating funds of LMOA that are not required for immediate cash outlay. The amount of such funds available for investment under this policy shall be determined by the Treasurer, with recommendations from the General Manager, and may be expected to fluctuate. Specifically excluded from this fund is any of the Principal received by LMOA from the sale of LMSC except as authorized by the membership.

**B. Investment Objective**

The objective of the STORFA is to ensure the safety of the monies in the Account while maintaining sufficient liquidity to meet cash management requirements of LMOA. Investment return will be determined by prevailing interest rates and, in particular, by safety as the principal objective.

In keeping with these fiduciary responsibilities, all investment decisions made by the Investment Committee shall adhere to the following objectives:

1. **Safety:** The single most important objective of the **STORFA** investment program is the safety of monies of the Account.
2. **Maintenance of Liquidity:** The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the Association.
3. **Maximize Return:** The portfolio shall be managed in such a fashion as to attain a market-average rate of return throughout budgetary and economic cycles, within the context and parameters set forth in 1 and 2 above.

**C. Investment Policy**

Investments of the STORFA shall be managed to ensure the safety of the monies in the Account, giving careful attention to liquidity, asset quality, asset concentration, and risk. Investments shall be in Money Market funds, certificates of deposit, or fixed income instruments not exceeding five years to maturity.

**1. Eligible Investments**

Eligible Investments include for the STORFA include:

- a. U.S. Treasury issues
- b. U.S. Government Agencies issues
- c. Repurchase Agreements with primary government dealers that are backed by U.S. Government and Agency collateral and where physical possession of collateral is taken
- d. Certificates of Deposit and Time Deposits (FDIC insured)
- e. Corporate Notes and Debentures of corporations that are rated as investment grade by Standard and Poors or Moody's
- f. Money Market Funds of acceptable banks or brokerage firms

**D. Withdrawals**

The General Manager may authorize withdrawals from the STORFA subject to any restrictions imposed by the Board of Directors.

**IX. ROAD RESERVE ACCOUNT (RRA)****A. Description**

The Road Reserve Account is for the purpose of accumulating funds for major repairs and rebuilding of the roads within the Lake Monticello community. The Account is funded from a portion of the Roads Allocation from the LMOA dues plus other funds that may be allocated from time to time by the Board of Directors.

**B. Investment Objective for the RRA**

Investments of the RRA shall be managed for total return, giving careful attention to such factors as business (or credit) risk, market risk, interest-rate risk, price-level risk, fixed income allocation, diversification, type and investment quality of individual securities, the past performance and volatility of the financial markets, and the effects of inflation. Timing of the investments including maturity schedules shall take into consideration the forecast schedule for major road projects.

**C. Eligible Investments**

Eligible Investments include for the RRA include:

1. Debt securities issued by the U.S. Government, by Agencies of the U.S. Government, and by corporations. Corporate bonds must be rated Investment Grade by either Standard and Poors or Moody's.
2. Mutual Funds
3. Exchange Traded Funds (ETF)
4. Certificates of Deposit (FDIC insured)
5. Money Market Funds of acceptable banks or brokerage firms

**D. General Restrictions**

1. The Investment Committee shall not purchase securities for the RRA other than those specified in section VII C without prior consent of the Board.
2. The following securities are expressly prohibited under all circumstances:
  - a. Individual common or preferred stocks
  - b. Private placements
  - c. Asset-backed securities
  - d. Fixed income or interest-rate futures
  - e. Derivatives of any kind
  - f. Contracts of financial futures, commodities, or currency exchanges
  - g. Commercial paper
  - h. Stripped principal or interest obligations or securities
3. Debt securities in the investment portfolio will be diversified to limit the exposure to any single issuer. With the exception of the United States Government and Federal Agencies and Certificates of Deposits (FDIC insured) the securities of a single issuer shall not exceed 10% of the entire portfolio.

**E. Withdrawals**

Withdrawals from the RRA must be authorized by the Board of Directors.

**X. ADMINISTRATIVE PROVISIONS****A. Brokers and Dealers**

To be considered, broker/dealers must meet the following criteria:

1. Firm must be registered as a dealer under the Securities Exchange Act of 1934.

2. Firm must be a member of the National Association of Securities Dealers.
3. The Investment Committee of LMOA must approve the firm.
4. Firm and assigned Investment Representative must have been engaged in the securities business for at least the last five consecutive years.

All brokers/dealers conducting investment business, initiating transactions, or executing transactions initiated by the Investment Committee on behalf of LMOA, having read this policy, shall sign a form acknowledging their receipt and comprehension of this Investment Policy.