

**LMOA Investment Committee**  
**Annual Report to the Board of Directors**  
**May 27, 2010**

The Investment Committee is an operating committee of LMOA charged with managing the investments of the Association. It operates under a charter that can be found in PM 16.10 and the Investment Guidelines in PM 4.02Q. The Committee consists of three regular members, myself as Chair, Doug Frazier and Andy Anderson plus two ex-officio non-voting members, General Manager John Korhonen and Director of Business Management Kym Sampsell. The Committee meets at least once every quarter. Currently, the Committee manages four accounts, Emergency Reserve Account – Principal (ERA-P), Emergency Reserve Account – Dividends and Interest (ERA – D & I), Road Reserve Account (RRA) and Short Term Operating and Reserve Funds Account (STORFA).

First let me give you a brief status report on the four accounts as of the close of business on Tuesday, May 25. The first chart shows the values of the four accounts as of that date. There is both good news and not-so-good news. The good news is that the earnings in the form of dividends and interest are coming in better than we had projected a few months back. In fact, I expect that as of the end of May, they may actually be ahead of last year. The reason for this is that some of the equity holdings are paying excellent dividends which make up for the decline in interest from the fixed income holdings. The Value of the ERA which is the sum of ERA – P and ERA – D&I is more than \$600,000 above the Original Principal derived from the sale of the LMOA Service Company in 1999.

The not-so-good news is that the volatile equities market of the past month has reduced the value of our equities holdings from what it was at the end of April. This has impacted both ERA – P and RRA. Nevertheless we have done very well with a series of index funds purchased early in 2009. We still have unrealized gains in all of these but they are not what they were just a month ago.

The second chart shows the distribution of the assets in the ERA – P. More than half of the account, 51.6%, is in fixed income securities, bonds, bond funds and certificates of deposit. Equities in the form of

Mutual funds and exchange traded funds, ETF's, account for 42.3% and cash 6.1%.

The current investment environment is very difficult. We are reluctant to make any long term fixed income investments because of the unusually low interest rates now available. As interest rates rise which they surely will, the value of fixed income assets will drop accordingly. Most of the bonds and CD's that we hold will mature over the next few years and we can't predict what will be available to replace them. This could result in with a decline in earnings along with a significant increase in our cash position in the next year or two.

I am planning ask the committee to review our portfolio over the next couple of weeks to see what if any reallocations are in order.

Our Charter requires that we review our operations annually and recommend any changes that we feel are needed. Regarding the charter itself, it needs to be brought up to date especially terminology which is not consistent with other sections of the Policy Manual. We will make recommendations to the Board on this later this year.

As for changes in the Investment Policy, PM 4.02Q, we do not recommend any at this time except to note that we will need specific guidelines for a Lake Reserve Account once it is established by the Board.

The performance of our Investment Advisor/Broker, Mike Hyder of Morgan Stanley Smith Barney has been excellent. He has provided us with good and timely advice, has met with us regularly both here at the Lake and at his office, has sent us relevant publications all the while charging reasonable commissions. For example, we do not pay any sales or redemption fees for any mutual funds and there is no fee for his services. We strongly recommend that we continue to retain Morgan Stanley Smith Barney and Mike Hyder as our Investment advisor.

Charles Johnson  
Chair, LMOA Investment Committee

**Summary of the LMOA investment accounts  
as of the close of business May 25, 2010:**

<b>ERA – P</b>	<b>\$6,989,300</b>
<b>ERA – D&amp;I</b>	<b>\$269,677</b>
<b><u>ERA Total</u></b>	<b>\$7,258,977</b>
<b><u>RRA</u></b>	<b>\$152,320</b>
<b><u>STORFA</u></b>	<b>\$675,419</b>

**LMOA ERA-P Investments May 25, 2010**

**Income Securities**

<b>Bonds and Bond Funds</b>	<b>\$2,644,103</b>	<b>37.8%</b>
<b>CD's</b>	<b>\$962,912</b>	<b>13.8%</b>
<b>Subtotal</b>	<b>\$3,607,015</b>	<b>51.6%</b>

**Equities**

<b>ETF's</b>	<b>\$2,186,100</b>	<b>31.3%</b>
<b>Mutual Funds</b>	<b>\$772,750</b>	<b>11.1%</b>
<b>Subtotal</b>	<b>\$2,958,850</b>	<b>42.3%</b>

**Cash, MMF's, etc.**

<b>\$423,435</b>	<b>6.1%</b>
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**Total**

<b>\$6,989,300</b>	<b>100.0%</b>
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