

# Investment Policy

Why do we have one?

# Purpose and Authority

- **PURPOSE**
  - To establish guidelines to ensure the effective and judicious management of cash and investments of the Association's funds.
- **AUTHORITY**
  - **Davis-Stirling Common Interest Development Act**
    - Chapter 7, Article 2, Section 5515(e)
  - **Restated Bylaws of Tahoe Donner Association**
    - ARTICLE VII, Section 1
    - ARTICLE IX, Section IX, Section 1(p)
    - ARTICLE XII, Section 4
- **Simply, prudent financial management**

Reference: Board Resolution 2015-5, Investment Policy

# Investing Reserves

- Reserves are the “lifeblood” of every Association.
- Without a healthy and continual cash flow, the overall well being of an Association may be compromised.
- Boards have a fiduciary responsibility to all owners to make sure reserve funds are invested properly.
- Under “prudent person” rules, they have a legal responsibility to make sure reserve funds are not invested in instruments that any reasonable person would consider risky or unsafe.
- They must also ensure that the funds are available when needed.

Reference: Chapter3: Investment Strategies For Reserve Funds, Reserve Funds: How & Why Community Associations Invest Assets, A Guide for Association Practitioners, Community Associations Institute.

# Investment Policy Factors

- What is Association's general financial policy?
  - Protect, maintain, and enhance the overall assets of the community.
- What are the Association's financial goals and objectives?
  - Raise assessments no more than necessary to meet operating expenses, fund reserves, avoid special assessments, and minimize borrowing,
- What are the Association's investment priorities?
  - Safety, liquidity, and yield – in that order.
- What are the Association's procedures for reviewing and controlling funds?
  - Financial Advisor (for investments)
  - Board Treasurer- Monthly
  - Finance Committee- Quarterly Review
  - Annual Audit
  - Multiple signatures for all transactions (operational)

Reference: Chapter3: Investment Strategies For Reserve Funds, Reserve Funds: How & Why Community Associations Invest Assets, A Guide for Association Practitioners, Community Associations Institute

# Guidelines for Investing Reserves

- Board are guided by their bylaws as to how to invest their funds, includes:
  - If the Association needs to use reserve funds within six months, it should invest in a money market fund.
  - If the Association needs money within six months to one year, it should invest in a six-month CD or six-month treasury bill.
  - If the Association need the funds after one year, it should utilize a laddered portfolio of CDs or treasury notes based on the future liquidity needs of the Association.
  - Association benefit from prudent investing that focuses on reason and foresight-not on high rates of return.
- Boards have a fiduciary duty to protect, maintain, and enhance association assets, not speculate with funds.
- Any variance from this safe and secure approach may constitute a breach of fiduciary duty.

Reference: Guidelines for Investing Reserves, Chapter 12, The Board Member Tool Kit, Center for Community Association Volunteers (CCAV), Community Associations Institute (CAI)

# Investment Strategies

- Laddering Concept
  - Achieves the following goals:
    - Potentially higher total rate of return
    - Maintain liquidity while short-term holdings mature
    - Flexibility to reassign short-term to long-term if interest rates rise
- The Barbell Concept
  - Blends rates between short-term and long-term instruments, void in middle-terms
  - Potential for market risk if funds must be liquidated to soon

Reference: Chapter3: Investment Strategies For Reserve Funds, Reserve Funds: How & Why Community Associations Invest Assets, A Guide for Association Practitioners, Community Associations Institute

# Tax Considerations

- Impact TDA
  - Interest Income
- Not applicable to TDA
  - Capital Gains
  - Rental Income

Reference: Guidelines for Investing Reserves, Chapter 12, The Board Member Tool Kit, Center for Community Association Volunteers (CCAV), Community Associations Institute (CAI)

# Suitable Investments for Reserves

- Certificates of Deposit – FDIC insured
- Money market deposit accounts – savings and checking
- Money market mutual funds
- U.S. treasuries, bills, notes and bonds, and U.S. treasury derivatives such as “STRIPS” (zero-coupon treasuries)

Reference: Chapter3: Investment Strategies For Reserve Funds, Reserve Funds: How & Why Community Associations Invest Assets, A Guide for Association Practitioners, Community Associations Institute



# Unsuitable Investments for Reserves

- Associations should avoid investments that:
  - Require constant monitoring
  - Have a high degree of risk
  - Are considered extremely volatile
- Examples:
  - Individual Stocks
  - Options, Futures, Commodities and their derivatives
  - Annuities
  - Real Estate Trusts
  - Managed Accounts
  - Stock Mutual Funds

Reference: Chapter3: Investment Strategies For Reserve Funds, Reserve Funds: How & Why Community Associations Invest Assets, A Guide for Association Practitioners, Community Associations Institute

# Investment Decision Pitfalls

Unsuitable investment decisions may occur when:

- Based upon one's personal tolerance for risk related to past experiences with individuals, family, or corporate finances.
- Based on input from others whose personal experience in financial arenas are not applicable to common interest developments.
- Based upon wanting to reinvent or tinker with reserve investment policy or procedures.
- ERGO, based upon the potential of annual changes in board composition and the need for continuity, we have a Board approved Resolution 2015-5, Investment Policy.

Reference: Chapter3: Investment Strategies For Reserve Funds, Reserve Funds: How & Why Community Associations Invest Assets, A Guide for Association Practitioners, Community Associations Institute

What Now?

# Current TD Investment Resolution

- Includes the points just covered
  - Authority
  - Purpose
  - Investment Objective
  - Authorized Investment Instruments and Limitations
    - Approval levels
  - Responsibilities
    - Annual forecasts included in budget annually by DFA, Board Approval
    - Monthly review by Board Treasurer and DFA
    - Quarterly review by Finance Committee and DFA
    - Services of professional financial advisor

# Actions

- Newly implemented 5501 Committee
- Finance Committee Quarterly Investment Reviews (IAW Resolution 2015-5)
- Board Recommended Investment Subcommittee???. (Why, What, Who, When???)

# Discussion