Tahoe Donner Association – Finance Committee
Investment Portfolio Update for Period ended December 31, 2019

Each quarter the Investments Subcommittee of the Tahoe Donner Association (the "Association", or "TDA") Finance Committee prepares a summary of the Association's investment portfolio. This report is for the period ended December 31, 2019. This report will provide a summary of several investment management metrics including portfolio allocation, credit quality, the investment returns achieved in 2019, maturity distribution, and liquidity. Attached as an appendix to this report are three pages of investment portfolio information excerpted from the TDA December Financial Reporting package.

The purpose of the Association's investment portfolio is to provide funds to support current operations and the Association's longer-term needs for renovation, replacement, improvement and expansion of TDA amenities and physical plant.

The TDA Investment portfolio is managed by TDA's Director of Finance and Accounting, Mike Salmon, operating in accordance with the Association's Investment Policy (TDA Board Resolution 2015-5) and with periodic guidance provided to the TDA Board of Directors by the Investments Subcommittee. The paramount objective of the Investment Policy is to protect all principal funds while attempting to maximize the rate of return on investments.

Summary Portfolio

As of December 31, 2019, the TDA investment portfolio was structured as follows:

Fund	***December 31, 2019***		**%**
Operating Fund	$	6,299,176	22.2%
Replacement Reserve Fund	$	14,445,706	50.8%
Development Fund	$	7,414,920	26.1%
New Equipment Fund	$	259,188	0.9%
Total Capital Funds	$	28,418,990	100.0%

The Capital Funds balances at 12/31/18 were as follows:

Fund	***December 31, 2018***		**%**
Operating Fund	$	5,956,913.00	24.8%
Replacement Reserve Fund	$	11,879,903.00	49.5%
Development Fund	$	5,991,735.00	25.0%
New Equipment Fund	$	178,482.00	0.7%
Total Capital Funds	$	24,007,033.00	100.0%

As compared to 12/31/18, Total Capital Funds at 12/31/19 increased $4.4MM (15%). The increase was due to delays in investment spending as compared to budget. Note, too, that the December 31, 2019 balance of $28.4MM includes $3.7MM of advance Annual Assessment payments properly allocated to fiscal year 2020.

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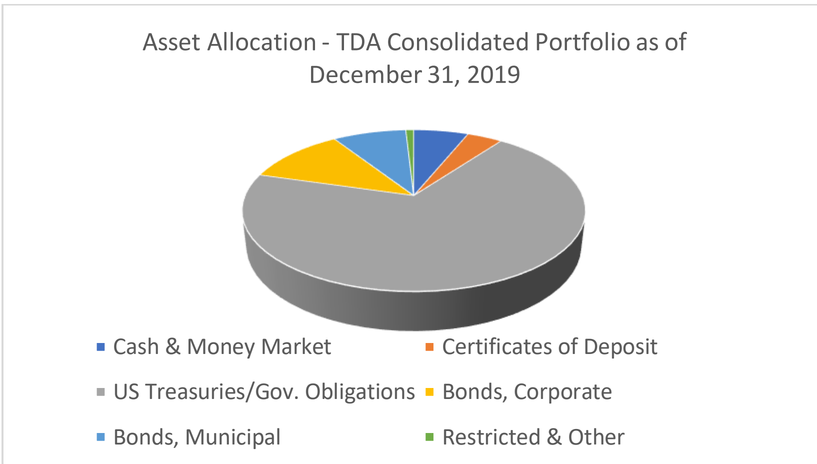
Investment Allocation and Portfolio Quality

TDA's $28.4MM investment portfolio is comprised of a select number of high-quality instruments that provide excellent safety-of-principal characteristics and modest market returns as compared to a portfolio of higher risk securities. At December 31, 2019, the overall Capital Funds portfolio was invested as follows:



At December 31, 2019, US government securities totaled $19.7MM and represented approximately 69.4% of the total portfolio. Corporate bonds represent the next largest segment of the portfolio and totaled $3.2MM, or 11.4% of the consolidated portfolio.

During the course of 2019, the portfolio mix become more liquid with a higher exposure to easily accessible funds or to markets, like the US Treasury market, with deeper secondary trading should TDA need to access the funds on short notice. For example, at 12/31/19 the percentage of the total portfolio represented by the sum of (i) US Government securities, (ii) certificates of deposit from high quality banks, and (iii) bank cash and money market accounts totaled 79.6% as compared to 74.1% at 12/31/18. As a result, the overall allocation to corporate and municipal bonds declined to 19.7% at 12/31/19 from 24.4% at 12/31/18.

The municipal bond portfolio is in "run-off" mode, with no new municipal bond purchases to be made. TDA's low effective tax rate makes tax exempt income less attractive. We recently asked our investment advisor to offer guidance about the merits of liquidating the muni portfolio to invest in higher yielding instruments. Based upon the sharp decline in US fixed income yields, this strategy probably doesn't offer much improvement in investment returns.

With respect to credit quality, 100% of TDA's non-bank instrument portfolio is rated "A" or higher with the US government debt portion rated Aaa/AA+, respectively, by Moody's and Standard & Poor's. The degree of portfolio concentration to US government securities is similar to that of highly rated California county governments. In virtually all cases, any bank account exposure in the investment portfolio is below the FDIC insurance limit of $250,000 per depositor per bank. Based upon the currently elevated level of risk and uncertainty in the global credit markets the shift to a higher quality stance is justified.

Maturity Profile

The weighted average maturity of the consolidated TDA investment portfolio as at December 31, 2019 was 10.1 months. The weighted average maturity of the individual funds as of 12/31/19 ranged from 14.2 months for the Replacement Reserve Fund to 6.8 months for the Operating Fund. The average maturity of the combined portfolios declined through the year as a result of active portfolio management to achieve better returns given a static risk appetite. For much of 2019, shorter duration US Treasuries (T-Bills) provided better returns than two through five-year Treasury Notes (a so-called yield curve inversion). When the yield curve was not inverted in 2019, the incremental yield pick-up offered by longer-dated US Treasuries didn't compensate TDA for tying up our funds for long periods of time especially when most market forecasts called for higher rates in the short to intermediate term.

At some point TDA will need to lengthen our maturity profile, assuming a positively sloped yield curve, to achieve better returns. Importantly, embedded in the Replacement Reserve adequacy program is an expected annual investment return of 2%. To the extent that we don't achieve the 2% annual return target, we'll need to transfer more capital from the Annual Assessment to maintain our percentage funding position. We can underperform relative to the 2% target for short periods of time, so it is not an immediate concern.

Importantly, we have not looked to lengthen maturities in the Development Fund. We are working with the TDA Board, the Director of Capital Projects, Jon Mitchell, and the General Plan Committee so as to have greater clarity of when we'll need to have capital available from the Development Fund for proposed but not yet approved projects. A principal objective of this joint effort is to develop a 10-year projection of likely funding needs. Currently our forecast goes out only 5 years.

Investment Returns

For the full year 2019, total investment income increased sharply, 51%, to $558,322 as a result of more active management and less so due to higher investment balances. The average return on the overall portfolio was 1.9% vs 1.5% in 2018. Based upon the recent disruption in the bond markets, we will be hard pressed to achieve this level of performance in 2020. Kudos to Mike Salmon for a strong 2019 performance in what was a difficult market.

Issues for Further Discussion and Review

Over the next few months the Investments Subcommittee will focus on the following items:

- Completing the in-process update to the Association's Investment Policy;
- Evaluate opportunities to lengthen the weighted average maturity assuming market conditions permit;
- Continue to collaborate with the full Finance Committee, the GPC and the Director of Capital Projects on a longer-term Development Fund investment forecast; and
- Provide appropriate investment guidance to the TDA Board and Mike Salmon as the credit market disruption caused by the Covid-19 pandemic continues to unfold.