

Tahoe Donner Association Treasurer's Quarterly Report for the period ended June 30, 2020

This paper is a brief update on the status of the Tahoe Donner Association ("TDA") investment portfolio as of June 30, 2020.

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 continues to be comprised of extremely liquid, high-quality investments. The average return on the portfolio has declined year year-to-date given the general decline in interest rates from March of this year as a result of the COVID-19 pandemic. The average term to maturity of the overall portfolio has declined year-to-date as proceeds from maturing investments have been transferred to shorter-term, money market investments. Investment yields available in the market have not been attractive enough to induce us to extend maturities beyond three to six months. We will seek to lengthen the average term to maturity of our portfolio once yields begin to rise which is expected to occur post-pandemic.

Portfolio Structure

As of June 30, 2020, the TDA portfolio was structured into several funds as follows:

<i>Fund</i>	<i>June 30, 2020</i>	<i>%</i>
Operating Fund	\$ 8,140,710	23.7%
Replacement Reserve Fund	\$ 17,421,767	50.8%
Development Fund	\$ 8,477,923	24.7%
New Equipment Fund	\$ 259,525	0.8%
<i>Total Capital Funds</i>	\$ 34,299,925	100.0%

By comparison, the TDA portfolio as at December 31, 2019 was structured as follows:

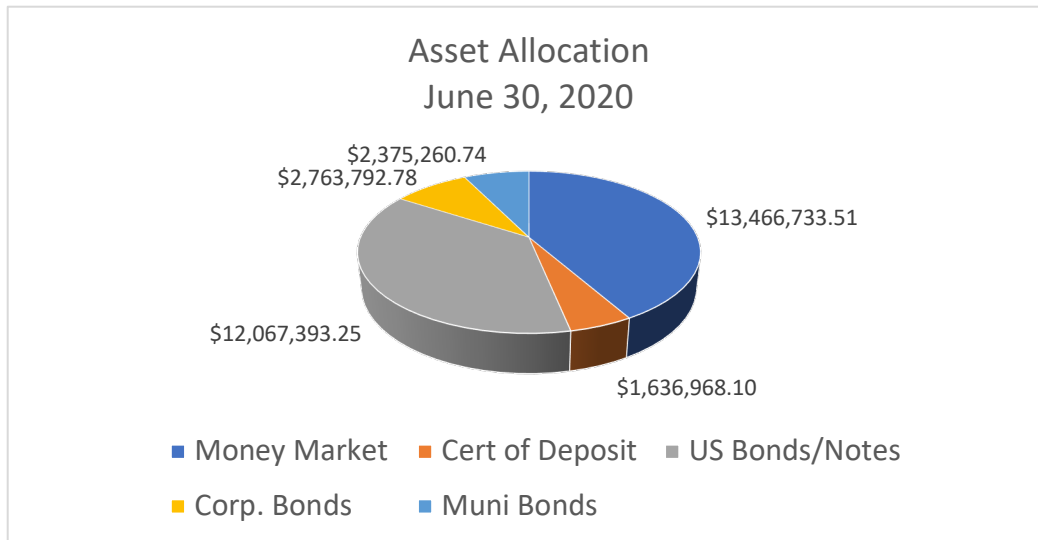
<i>Fund</i>	<i>December 31, 2019</i>	<i>%</i>
Operating Fund	\$ 6,299,177	22.2%
Replacement Reserve Fund	\$ 14,341,230	50.6%
Development Fund	\$ 7,414,919	26.2%
New Equipment Fund	\$ 259,188	0.9%
<i>Total Capital Funds</i>	\$ 28,314,514	100.0%

A slightly lower volume of investment expenditures on capital projects thus far in 2020 and remaining cash from the 2020 annual assessment contributed to a higher aggregate capital funds balance in mid 2020 as compared to year-end 2019. Expected investment expenditures for the golf course renovation, snow making at the Nordic Center and the renovation of the Nature Trail are ramping up and will consume most of this excess cash. For comparison purposes, the consolidated investment portfolio as at June 30, 2019 totaled \$30.6 million.

Asset Allocation

The portfolio continues to be invested in highly liquid instruments. Overall portfolio credit quality is skewed heavily to very high-quality investments as shown in the pie chart on the following page.

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The biggest change in asset allocation since December 31, 2019 has been a decline in the portion of the portfolio invested in US government securities (37.3% at 6/30/20 vs. 69.4% at 12/31/19). In the first half of 2020, and especially after the resignation of the former Director of Finance, proceeds from maturing US debt obligations have been invested in bank and brokerage firm cash and money market accounts increasing the allocation to 41.7% from 10.2 % at 12/31/19.

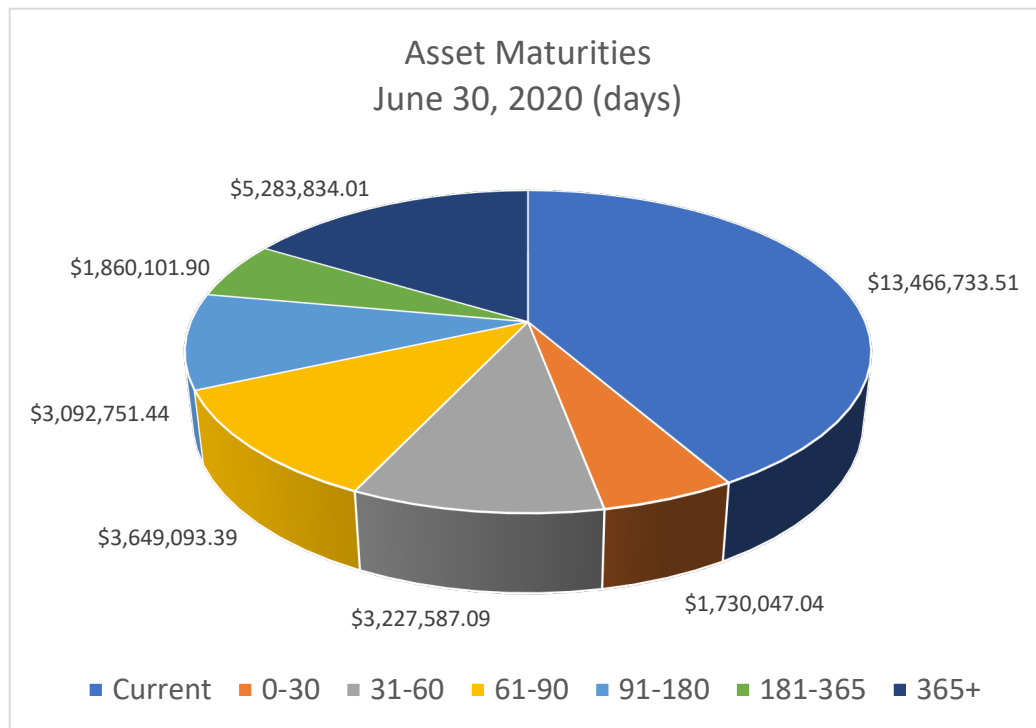
Clearly, the portfolio has become far more liquid given the transition out of US government securities to cash and money market investments at a slight increase in risk (banks vs. the US government). Given the uncertainty about the impact on Tahoe Donner's financial position in the early days of the COVID-19 pandemic the shift to more liquid assets made sense. Now, with better visibility about the pandemic's impact on the Association's finances, we do have an opportunity to move funds back to the US government sector to improve the overall risk profile and achieved investment returns.

Please note that given the shift to shorter-dated bank and brokerage firm investments in the first half of 2020, portions of the portfolio as at June 30, 2020 were not in compliance with the Tahoe Donner Investment Policy, specifically, the requirement to have funds at banks and brokerage firms effectively covered by available FDIC and or SIPC insurance coverage. The Tahoe Donner management team began the process of shifting funds from bank and brokerage firm money market instruments to US Treasury obligations to resolve the problem. Effective as of August 20, 2020, we are back in compliance with the Investment Policy.

Maturity Profile

With the shift from short and medium-term US government investments (Treasury Bills and Notes) to bank and brokerage firm money market funds, the average life of our investment portfolio has declined sharply. The chart on the following page presents the maturity profile of the consolidated Tahoe Donner Association portfolio:

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Approximately 68% of the overall portfolio has a term to maturity less than 90 days as compared to approximately 24% at 12/31/20. This is too short for the effective use of Tahoe Donner's capital funds that support our long-term focused Replacement Reserve Fund and Development Fund investment objectives. This situation presents an opportunity to improve investment returns by thoughtfully extending maturities so long as we are compensated for doing so with better market yields.

Investment Returns

Overall fixed income market returns were depressed in the first half of 2020. The pandemic induced "flight to quality" effect drove the three-month US Treasury Bill yield from 1.23% at February 28, 2020 to 0.10% as of August 18, 2020. For the six-month period ended June 30, 2020, the overall average return on the TDA investment portfolio was 1.64% as compared to 1.91% for the full year 2019. We expect that TDA's investment returns for the second half of 2020 will be lower than last year due to current market dynamics and the transition within the portfolio to a shorter dated profile.

Issues for Further Discussion & Action

Over the next few months the Investments Working Group of the Finance Committee - in its role of providing guidance and counsel to the TDA Director of Finance, the General Manager, and the Board as they may request - will focus on the following items:

- Evaluate opportunities to lengthen the portfolio's weighted average maturity (assuming market conditions permit);
- Collaborate with TDA management to develop a refined longer-term Development Fund expenditure forecast to help guide appropriate investment of Development Fund assets, and
- Complete the in-process update to the Association's Investment Policy to increase investment options and potential returns.