

**STONEBRIDGE RANCH COMMUNITY ASSOCIATION, INC.**  
**POLICY**  
**LONG TERM INVESTMENT POLICY**

**Revision 5**

**09/22/2022**

## **I. PURPOSE**

The purpose of this Investment Policy is to define investment objectives and specific investment policies for the investment of long-term repair and replacement assets belonging to Stonebridge Ranch Community Association, Inc. (the "Association").

## **II. INVESTMENT OBJECTIVES**

The investment objective is to achieve real growth of 2.5%, annualized over rolling 5-year periods. This 2.5% return objective is net of all expenses, exclusive of capital additions and withdrawals, and in excess of the rate of inflation as measured by the Consumer Price Index, CPI.

To meet this objective, the Board of Directors will organize and maintain an investment program that will attempt to maximize the return on the Association's investments, consistent with a moderate level of risk. Moderate level of risk is defined as an emphasis placed on modest capital growth. Certain other assets are included to generate income and reduce overall volatility. Utilizing a 50% equity and 50% fixed income target with allowable band for tactical tilts on either side of the 50/50 portfolio. Additionally, investments shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive adverse impact invested assets.

## **III. ASSET MIX**

Asset mix is the primary determinant of the Association's Portfolio performance. Asset mix may be changed from time to time based on the economic and security market outlook, as well as income requirements. The overall risk level of the assets, in terms of potential for price fluctuation, should be moderate. The primary means for achieving a moderate risk profile are:

- A balanced diversification between fixed income and equity investments.
- Careful control of the risk level within each asset class, through avoidance of over- concentration and by not taking extreme positions against the market averages.
- A degree of emphasis on stable growth, rather than capital gains.

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In establishing asset mix, recognition of the role of various classes of investments will be considered. These include:

- The principal purpose of fixed income investments is to provide a dependable and predictable source of income and stability of principal.
- Equity investments principal purpose is to provide capital appreciation of investments.
- Cash equivalent short-term investments principal purpose is short-term liquidity and to fund longer term investments.

To pursue the foregoing return objectives at moderate risk level, the asset allocation shall be within the assigned ranges through the use of mutual funds or Exchange Traded Funds (ETFs).

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>
Indexed Equities	30%	65%
Fixed Income Securities	30%	
Cash Equivalents	0%	

#### **IV. INVESTMENT RESTRICTIONS**

Association long term repair and replacement assets must be invested at all times in strict compliance with the Second Amended and Restated Master Declaration of Covenants, Conditions and Restrictions, and Sixth Amended and Restated Bylaws of Stonebridge Ranch Community Association, Inc. and applicable law. All investment decisions shall be made in accordance with this Investment Policy Statement and in accordance with sound business judgment (the "Prudent Person Rule" (Uniform Prudent Investor Act)).

Investment restrictions include the following and shall be strictly adhered to unless waived by the Board of Directors:

- All investments must be US dollar denominated.
- Commercial paper must be rated in the two highest quality classes by Moody's Investor's Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

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- Negotiable certificates of deposit shall be limited in principal amount to FDIC insurance limits. CD programs, such as CDARS, which spread liability up to FDIC limits within a single bank holding company, are permissible.
- Money market mutual funds must have a rating by Standard & Poor's Corporation of AAA MG for funds holding at least 85% US government securities and AAA M or AAA F for all others, and additionally the underlying investments must be eligible under this policy. The Finance Committee may utilize money market funds that are not rated and are part of large, well-known brokerage firms.
- Investment in structured notes is prohibited. For purposes of this policy, a structured note (a derivative security) means a fixed-income instrument where the coupon, redemption value, or bond life can be dependent upon the projected movement within any combination of underlying indices, currencies, mortgage prepayment spreads, and foreign exchange rates. These bonds are complicated to evaluate since they may incorporate a series of call options and/or interest rate formula changes. Risks include a limited secondary market, leverage, and systematic risk.
- Fixed Income (Corporate or Government bonds), mutual funds, ETFs, and preferred stocks must be rated an average of Baa3 or BBB- by Moody's Investor's Service, Inc., or Standard & Poor's Corporation, respectively at time of purchase. Whether held separately or as part of a mutual fund, ETF, or bonds rated below Baa3 and BBB- shall not constitute over 25% of total bond holdings.
- Not more than 5% of the voting securities of any corporation may be owned.
- No securities may be purchased on margin or leverage.
- No transactions in short sale will be made.
- Transactions in financial future and options other than sales of covered stock options are prohibited.
- Individual Securities, which are traded only in foreign markets, shall not be included in the Portfolio.
- No individual derivative instruments should be entered into without specific approval of the Board of Directors (including but not limited to interest rate swaps, foreign currency hedges, or other complex financial instruments).

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- Publicly registered mutual funds or ETF's may contain foreign investments and/or derivative instruments as long as they are acceptable with the asset allocation and approved in advance by the Finance Committee and/or Board of Directors.

## **V. FUND MANAGEMENT**

The Finance Committee will make initial Investment Fund recommendations to the Board of Directors. The Board may make changes from time to time as they deem in the best interest of the Association.

The Finance Committee will seek advice from financial advisors and recommend investment managers to the Board as necessary to maximize the expertise available.

Subject always to this policy statement, the Board of Directors grants full discretion of investments to the Finance Committee, within the above stated asset mix ranges and investment restrictions related to the selection of securities and the timing of transactions, so long as no transaction would jeopardize the non-profit status of the organization. The Investment Advisor will notify the Finance Committee Chairperson, the Board Treasurer, and the Property Management Company Controller of the transactions that are made within the aforementioned parameters.

If the Finance Committee decides to change the Association's asset mix during any given fiscal quarter by more than 20% (e.g. from a 50% equity allocation to a 30% equity allocation), or if the transaction would create a realized loss greater than \$25,000, the Finance Committee must give advance notice to the Board of Directors which details the basis for the Finance Committee's decision. Any transaction that exceeds these parameters requires prior Board of Director approval before the execution of the transaction.

### **MONITORING**

The performance of the investment portfolio with regards to this policy statement will be monitored quarterly by the Finance Committee and annually by the Board of Directors, by:

- Reviewing the assets and net cash flow of the portfolio.
- Discussing the current economic outlook and investment plans.
- Reviewing the current asset mix, compliance with this policy statement; and authorizing any redirection of cash flow, transfers and assets, or sales/purchases necessary to ensure such compliance within 12 months.

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- Receiving and considering statistics on the investment performance.
- Reviewing significant revisions to the expected long-term trade-off between risk and reward on key asset classes, dependent upon basic economic/political/social factors.
- Reviewing shortcomings of the policy that emerge in its practical operation.

**VI. REVISION LOG**

REVISION	DATE	CHANGES
		Original
1	03/23/2017	Revised to current document
2	08/24/2017	Replace Finance Committee with Investment Committee
3	01/25/2018	IV. Investment Restrictions: Fixed Income: Removed A3 for Baa3 and A for BBB and changed percentage from 20 to 25.
4	08/23/2018	Update reference document versions and minor grammar corrections. Change investment ratings to average for the instrument vs individual holding within the instrument
4	08/22/2019	Board of Directors reviewed and made no changes.
4	08/20/2020	Reviewed by Board and Recommended to replace Investment Committee with Finance Committee.
4	01/28/2021	Reviewed by Board and Recommended to update Index Equities to 30-65%.
5	09/22/2022	Replaced Investment Committee with Finance Committee. Updated Index Equities to 30-65%. Reset new investment return objective statement. Added ETF's as acceptable investments. Reward risk level set to moderate.

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IT IS FURTHER RESOLVED that this Policy for Long Term Investment (Rev. 5, September 2022), replaces and supersedes in all respects all prior versions of this document as of the date of recording, and is effective upon adoption hereof, to remain in force and effect until revoked, modified or amended.

This is to certify that the foregoing policy was adopted by the Stonebridge Ranch Community Association, Inc., Board of Directors at a meeting held on September 22, 2022, and has not been modified, rescinded or revoked.

Date: 10-4-22

Signature: 