

McKinley Mill HOA Investment Policy

Safety:

Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Sovereign Risk

In financial theory, financial obligations of governments are often referred to as "riskless" securities. However, although these obligations constitute the best risk, they have a residual risk due to changing social, economic, or political factors specific to one country or governmental entity and can range from social or economic deterioration through legal and regulatory harassment, to deep recession, political breakup of the country, or other less identifiable events. All such events could reduce the HOA's earnings or capital.

The Board will minimize the risk of loss resulting from sovereign risk by strategically diversifying its portfolio across governmental units and by limiting the extent of these investments.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. Negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposed.

Yield

The investment portfolio shall be managed with the objective of attaining a competitive rate of return given the constraints of the aforementioned safety and liquidity objectives. The Board will periodically establish benchmark yields for various categories of investments commensurate with market yields. To ensure long-term objectives are met, securities shall not be sold prior to maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.
2. Liquidity needs of the portfolio require that the security be sold.

Trades and Exchanges

The Board may sell or exchange securities in the course of daily management of the portfolio. Such trades may be executed to raise cash, to shift maturity, to change

asset mix, to enhance yield, to improve quality and as preemptive moves in anticipation of changes in economic conditions or the quality rating of securities.

Diversification

Without exception, the Board shall limit investments of HOA money to the following types of funds and accounts:

Treasury Securities: No more than 50% of the portfolio will be held in other direct obligations of the US or obligations which are fully insured or guaranteed as to payment of principal and interest by the US or its agencies or instrumentalities or by any state within US.

Certificates of Deposit: The issuer must be a US commercial bank or savings & loan association which is a certified public depository having a combination of federal insurance and properly pledged collateral equal to the amount of the deposit plus interest.

Money Market Funds: Institutional Money Market Funds may be used for liquidity or when there is a clear rate advantage over other available short-term alternatives. The Money Market Fund must invest in treasury or treasury/agency securities only, to avoid exposure to credit risk.

Savings Accounts or Checking Account: The issuer must be a US commercial bank or savings & loan association which is a certified public depository having a combination of federal insurance and properly pledged collateral equal to the amount of the deposit plus interest.

Prudence

All Board and property management company employees in the investment process shall act responsibly as fiduciaries of the HOA members' trust. Such persons shall invest and manage HOA assets as a prudent investor would, by considering the purposes, terms, risks, and goals. In satisfying this standard all such persons shall exercise reasonable care, skill, and caution.

Ethics and Conflicts Of Interest

Board members and property management company employees involved in the investment process shall refrain from personal business activity that could create an appearance of impropriety or could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Board members and property management company employees shall disclose to the Board and residents any financial interests in financial institutions that conduct the HOA investment business and any relationships with entities issuing securities held by the HOA and they shall further disclose any large personal financial/investment positions that could be related to the performance of the HOA portfolio