

**RESOLUTION OF THE
SILVER SAGE VILLAGE COMMUNITY ASSOCIATION
ADOPTING POLICY AND PROCEDURE FOR
THE INVESTMENT OF RESERVE FUNDS
Adopted June 22, 2009 and
Amended January 17, 2017**

SUBJECT: Adoption of a policy and procedure for investment of reserve funds of the Association.

PURPOSES: To adopt a policy and procedure for the investment of reserve funds.

AUTHORITY: The Declaration, Articles of Incorporation and Bylaws of the Association and Colorado law.

EFFECTIVE DATE: _____

RESOLUTION: The Board of Directors, on behalf of the Association, hereby adopts the following:

1. Scope. In order to properly maintain areas in the Community that are the responsibility of the Association, to comply with state statutes, to manage reserve funds, and to protect the market value of Owners' homes and livability in the Community, the Steering Team determines that it is necessary to have policies and procedures for the investment of reserve funds.
2. Purpose of the Reserve Fund. The purpose of the Reserve Fund shall be to responsibly fund and finance the projected repair and replacement of those portions of the Community that the Association is responsible for and for such other funding as the Steering Team may determine. The portions of the Community that the Association is responsible for typically have limited but reasonably predictable useful lives.
3. Investment of Reserves. The Steering Team of the Association shall invest funds held in the Reserve Funds accounts to generate revenue that will accrue to the Reserve Funds accounts balance pursuant to the following goals, criteria and policies in priority order:

- (a) Safety of Principal. Promote and ensure the preservation of the Reserve Fund's principal.
- (b) Liquidity and Accessibility. Structure maturities to ensure availability of assets for projected or unexpected expenditures.
- (c) Minimal Costs. Investments costs (redemption fees, commissions, and other transactional costs) should be minimized.
- (d) Diversify. Mitigate the effects of interest rate volatility upon reserve assets.
- (e) Return. Funds should be invested to seek the highest level of return.

4. Limitation on Investments. This section replaced by the Silver Sage Village Investment Policy and Strategy, adopted January 17, 2017 and attached below.

5. Investment Strategy. This section replaced by the Silver Sage Village Investment Policy and Strategy, adopted January 17, 2017 and attached below.

6. Independent Professional Investment Assistance. The Steering Team of the Association may hire a qualified investment counselor to assist in formulating a specific investment strategy.

7. Review and Control. The Steering Team shall review Reserve Fund investments periodically to ensure that the funds are receiving competitive yields and shall make prudent adjustments as needed.

8. Reserve Study. In order to determine funding of the Reserve Fund, the Steering Team may determine, with the assistance and advice of professionals, the life expectancy of those portions of the Community to be maintained by the Association and the anticipated costs of maintaining, replacing and improving those identified areas (hereinafter referred to as a "Reserve Study").

9. Review of Reserve Study. The Steering Team shall cause the Reserve Study, if any, and reserve funding to be reviewed and updated periodically, at least once every three years, to adjust and make changes in costs, inflation and interest yield on invested funds, plus modification, addition or deletion of components.

10. Standard of Care. The officers and members of the Steering Team shall make investment decisions in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the Treasurer or other officer reasonably believes to be in the best interests of the Association in accordance with the Colorado Revised Nonprofit Corporation Act.

11. Definitions. Unless otherwise defined in this Resolution, initially capitalized or terms defined in the Declaration shall have the same meaning herein.

12. Supplement to Law. The provisions of this Resolution shall be in addition to and in supplement of the terms and provisions of the Declaration and the law of the State of Colorado governing the Association .

13. Deviations. The Steering Team may deviate from the procedures set forth in this Resolution if in its sole discretion such deviation is reasonable under the circumstances.

14. Amendment. This policy may be amended from time to time by the Steering Team.

**CHAIRPERSON'S
CERTIFICATION:**

The undersigned, being the Chairperson of the Silver Sage Village Community Association, a Colorado nonprofit corporation, certifies that the foregoing Resolution was adopted by the Steering Team of the Association, at a duly called and held meeting of the Association on June 22, 2009 and in witness thereof, the undersigned has subscribed his/her name.

**SILVER SAGE VILLAGE COMMUNITY
ASSOCIATION,**
a Colorado nonprofit corporation

Arthur Okner

By: _____
Chairperson

Silver Sage Village HOA Investment Policy and Strategy Adopted January 17, 2017

The following Investment Policy and Strategy is written in accord with the “Proposal for Investment” adopted by the SSV Community October 24, 2016, and the Colorado Prudent Investor Rule, and will supersede the Resolution dated June 22, 2009, “Adopting Policy and Procedure for the Investment of Reserve Funds” sections 4 and 5.

SSV HOA Investment Policy

Policy 1: Silver Sage Village Community Association (hereafter SSV HOA) delegates authority for investment of funds to the Finance and Legal team (F&L team) of the SSV HOA. The F&L team shall make periodic reports to the Board and community of the funds available in the Reserves and of investment results.

Policy 2: The primary investment objective of the SSV HOA shall be to earn sufficient return to avoid the need to raise HOA dues by an amount greater than the rate of inflation. Throughout this document, we will use 3% as a stand-in for the expected inflation rate. Our primary investment objective will be to have a total rate of return after fees and taxes of 3% on our Reserves Fund, in a manner with the lowest risk and volatility consistent with achieving this rate of return. For other funds invested aside from the Reserve Fund, F&L will determine on a case by case basis whether to invest them in the same manner as the Reserve Fund, or to invest them in a manner consistent with other objectives as determined in consultation with the community.

Policy 3: SSV HOA primary investment instruments will be cash, certificates of deposit, government, municipal or corporate bonds and notes, exchange-traded funds (ETFs), and mutual funds. We will not purchase individual stocks or bonds not issued by the United States Government, nor make use of margin or options.

Policy 4: Risks are to be mitigated by investment in a wide range of assets, including both domestic and foreign, and by using market basket investments (ETFs and Mutual Funds). Based on this, the inclusion of some non-investment-grade bonds or foreign bonds in a portfolio will be acceptable if offset by a sufficient amount of higher-grade bonds. No margin is to be used, and no short-selling.

Policy 5: Very low-risk investments, such as certificates of deposit, can be concentrated, so long as they are insured by the FDIC or other insurers. However, all non-insured assets, such as ETFs and Mutual Funds, including bond funds, must be diversified in accordance with the principles of Modern Portfolio Theory.

Policy 6: Rather than making investment decisions themselves, the F&L team shall hire a qualified investment advisor to make specific investments on behalf of SSV HOA. Any investment advisor hired by the SSV HOA must operate as a Fiduciary. The investment advisor shall also agree to make only investments in keeping with these policies and strategies. The strategies should be reviewed by the F&L Team with the investment advisor and potentially modified based on the investment advisor's wisdom and experience. Notwithstanding this policy, SSV HOA can itself directly purchase very low-risk investments, such as certificates of deposit, or money-market funds, so long as insured by the FDIC, as a way of lowering investment advisor fees.

Policy 7: Investment strategies shall take taxes into account, and aim at results net of taxes and fees.

Policy 8: Sufficient liquid assets should be maintained to cover all anticipated and a prudent amount of unanticipated expenses of SSV HOA. Our reserve study indicates that the first time that cash will need to be raised by selling investments will be in 2027, when it is anticipated that we will need \$158,910. Reserve contributions that year will be approximately \$62,988. Therefore, we should anticipate a ten-year timeframe for our investments.

Cash and low-risk investments (like CDs) should be managed in such a way that no liquidation or sales of invested at-risk assets should be required prior to 2027.

SSV HOA Investment Strategies

The following strategies are designed to minimize volatility and risk for the level of return we are seeking. Studies have shown that the average investor's rate of return is below the market rate of return. Following a written strategy is important to avoid making emotion-based decisions which are typically counter-productive.

Strategy 1: **Money in the portfolio should remain 100% invested.** Research has shown that even professional market timers are unable to beat a buy-and-hold strategy. This approach also minimizes transaction costs and taxes.

Strategy 2: **The Portfolio should not choose specific stocks or market sectors.** Research has shown that even professional stock-pickers do not, on average, outperform a broad market basket of stocks (ETF) at the same risk level. This also means we should not invest in actively selected mutual funds. Such funds have higher fees and incur more taxes without performing better than the market-basket type funds.

Strategy 3: **Investing should not be emotion-driven.** The classic advice for how to make money in the market is "buy low, sell high." Unfortunately, our emotions make us want to sell when prices drop, and to buy when prices have

gone up. Therefore, being doggedly consistent in following our strategy even (in fact, especially!) when it is underperforming other approaches, is essential in achieving our long-term goals.

Strategy 4: **Think long-term.** We are investing with a rolling ten-year window. Stocks tend to swing up and down in value year by year. However, the longer the time frame considered, the lower the average volatility over the entire period. Therefore, making a decision and sticking to it is essential to achieving our goals. This is obviously closely related to Strategy 3.

Strategy 5: **Utilize Passive Portfolio Management.** This follows from the strategies above. Active management consists in choosing stocks and asset classes that are expected to outperform and buying those while selling stocks and asset classes that are expected to underperform. Research shows that the passive investment strategy actually outperforms active investment.

Strategy 6: **Keep fees and commissions low.** The SSV Community has approved hiring a professional to manage our portfolio for us. However, we should pay no more than 1% annually in fees and commissions, as this represents a significant percentage of our expected rate of return.

Strategy 7: **Use a broad spectrum of investment asset classes.** Modern Portfolio Theory is based on finding asset classes with as little positive correlation as possible. We will use a broad spectrum of asset classes. Example asset classes include: cash, U.S. Large Company, U.S. Large Value, U.S. Small Company, U.S. Small Cap Value, Global REIT, International Value, International Small Cap, International Small Cap Value, Emerging Market, Emerging Market Value, Emerging Market Small Cap, One-Year Fixed Income, and Five-Year Global Fixed Income.

Strategy 8: **Have a slight tilt towards small cap and value assets.** These asset classes have outperformed others over long periods of time.

Strategy 9: **Choose percentages of investment categories based on Modern Portfolio Theory.** This step probably requires professional help.

Strategy 10: **Review and rebalance our portfolio annually.** Balancing more frequently leads to additional transaction costs and taxes. Balancing less frequently can lead to a no-longer optimal asset allocation.

Strategy 11: **Take our cash into account.** When we invest with an investment advisor, we will be better off to keep any cash, money-market funds, or CDs under our own management. This will lower the commissions we pay. We need to ensure that our investment advisor considers those funds as part of our total portfolio in constructing the optimal risk/reward structure.

Strategy 12: **Stay the Course:** Once we have made our choices and our investment decisions, trust the process. Future F&L teams are strongly encouraged to allow our ten-year investment strategy to play itself out, for better or for worse. We know there will be ups and downs—that's no reason to second-guess ourselves. In 2027, it would be a good time to review the investment strategy and to determine whether to stay with it or to make a different choice.