

COVE CREEK CLUB INVESTMENT POLICY
(In accordance with Administrative Resolution No. 2021-01)
Revised October 12, 2023

I. Purpose.

- (a) Reserve funds of the Cove Creek Club, Inc., (“the Club”) are accumulated, managed and disbursed consistent with the Club’s governing documents and long-term financial health.
- (b) The Board of Directors (“the Board”) of the Cove Creek Club (“the Club”) has a fiduciary responsibility to manage reserve funds as good stewards of Club assets. This policy is intended to control the management of reserve funds to the benefit of the Club and to provide consistency and transparency regarding the management of reserve funds.

II. Goals and Objectives.

- (a) Reserve funds shall be invested to achieve the following goals and objectives:
 - (1) mitigate the risk of loss of principal or permanent impairment of capital;
 - (2) protect against potential inflation;
 - (3) ensure that adequate, liquid funds will be available for expected out year reserve needs;
 - (4) minimize investment expenses; and,
 - (5) achieve the best net long-term investment performance consistent with the Club’s risk profile
- (b) For the purposes of this policy, the Operations Reserves, the Maintenance Reserve, and the Capital Improvement Reserve funds called for in the Club’s bylaws shall be treated the same.

III. Strategy.

- (a) Base Liquid Reserve Funds. The Club will have an amount of base reserves on hand for unexpected expenses or revenue shortfalls for the current operating year. This amount will be approximately equal to the projected revenue from Capital Contributions. On an annual basis, the Board will review the reserve budget for the upcoming year to determine if this balance needs to be changed. This amount constitutes the "Base Liquid Funds." Base Liquid Funds shall be invested as follows:

- (1) FDIC-insured savings accounts;
- (2) FDIC-insured money market accounts; or
- (3) Government money market funds.

Any excess over the targeted amount held in the Base Liquid account will be counted toward Short-Term Investments.

- (b) Investable Reserve Funds. Those reserves over and above the Base Liquid Funds will be invested as follows:

- (1) Short-Term Investments. These shall consist of the reserves needed to fund the cumulative annual deficit from the Operating Budget’s and the Long Range Plan’s (dated when that Operating Budget was passed) expected expenses (the amount that will need to be funded from our Reserve Funds) over the next three years. For January through October the “next three years” will consist of the current year plus the following two. Once the next year’s Operating Budget is approved at the Fall Membership Meeting, the next three years will consist of the balance of that year plus the next three years. This

pool of funds shall be invested in assets with minimal volatility to reduce the risk of loss of principal - ideally, short to intermediate-term bonds with an average maturity of three years or less.

(2) Long-Term Investments. These shall consist of available funds in excess of the amount required to meet the Base Liquid Reserves and the Short-Term Investment pools. These funds can be invested in longer duration/higher risk marketable assets (e.g. long-term bonds, common or preferred stocks, real estate securities, etc.). Investments for this pool of funds shall have an average maturity of ten years or less and, when appropriate, investments will be made to “ladder” maturities to mitigate interest rate risk on reinvestment and to fund the future Short-Term Investment pool.

(c) New Funds. Any monies in excess of Base Liquid Reserve Fund requirements (i.e. from interest earnings or reserve contributions from a surplus in the annual budget) will be invested in Short- or Long-Term Reserve Funds, as appropriate.

IV. Investment Committee.

(a). An Investment Committee shall consist of the Treasurer, the Chair of the Budget and Finance Committee, and a member of the community with a formal finance background, if available. The Investment Committee may also include former Board Directors who have served their full term.

(b). The Investment Committee shall provide the Board with advice pertaining to investment options. Such advice shall be consistent with this policy.

V. Investment Practices.

(a) Prudent Investment. The Investment Committee shall:

(1) invest and manage reserve assets as a prudent investor would, considering the purposes, terms, distribution requirements, and other circumstances;

(2) exercise reasonable care, skill, and caution regarding the anticipated effect on the reserve assets as a whole under the facts and circumstances prevailing at the time of any investment action;

(3) invest and manage not in isolation but in the context of the reserve assets as a whole and as part of an overall investment strategy that incorporates risk and return objectives;

(4) diversify investments as appropriate and when sufficient funds are available;

(5) review reserve assets regularly and make and implement decisions concerning the retention or disposition of investments;

(6) pursue an investment strategy that considers both the reasonable production of income and safety of capital

(7) act with prudence in deciding whether and how to delegate authority and in the selection and supervision of investment advisors, if utilized; and

(8) incur only costs that are reasonable in amount and appropriate to the investment.

(b) Investment Considerations. The Investment Committee shall consider:

(1) general economic conditions;

(2) the possible effect of inflation;

(3) the expected tax consequences of investment decisions or strategies;

(4) the role each investment or course of action plays within the investment of the portfolio of reserve assets as a whole in regards to mitigating potential risks;

- (5) the potential total return of the investment including both income yield and appreciation of capital; and
- (6) the reasonableness of any costs associated with the investment;
- (c) The following are approved investment vehicles and allocation ranges. Investments can be owned on an individual basis or as exposure to an approved asset class through a fund structure (mutual funds, Exchange Traded Funds (ETFs), or Closed End Funds (CEFs)) unless otherwise noted:

Short-Term Investments

| Asset/Account Type | Allocation Range |
|--|-------------------------|
| FDIC or SIPC-insured savings or money market accounts; and Government money market funds; | Up to 100% |
| Certificates of deposit in FDIC-insured financial institutions with no more than \$250,000 in any such institution, unless additional private deposit insurance is provided by the bank; | Up to 100% |
| US Government bonds including Treasury bills, notes, or bonds, and agency mortgage securities; and | Up to 100% |
| Non-US Government Investment Grade rated bonds (e.g. corporate, etc.). | Up to 75% |

Long-Term Investments

| Asset/Account Type | Allocation Range |
|--|-------------------------|
| FDIC or SIPC-insured savings or money market accounts; and Government money market funds; | Up to 100% |
| Certificates of deposit in FDIC-insured financial institutions with no more than \$250,000 in any such institution, unless additional private deposit insurance is provided by the bank; | Up to 100% |
| US Government bonds including Treasury bills, notes, or bonds, and agency mortgage securities; and | Up to 100% |
| Non-US Government Investment Grade rated bonds (e.g. corporate, etc.). | Up to 75% |
| The following asset classes cannot exceed 50% in total of the Long-Term Investment pool | |

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|---|-----------|
| Preferred stock; | Up to 15% |
| Common stock - exposure through a fund structure only; | Up to 30% |
| Real Estate securities (REITs) - exposure through a fund structure only; and | Up to 15% |
| Commodities & Collectibles - exposure through a fund structure only used primarily as an inflation hedge on a non-leveraged basis. (e.g. a gold ETF). | Up to 15% |

(d) As part of the annual review process, the Investment Committee and the Board will review the approved ranges of each asset class to determine if they are still appropriate.

VI. Professional Investment Advisors.

(a) If the services of a registered investment advisor are sought to manage reserve funds, the following procedures shall be followed:

(1) The Board of Directors shall:

- (A) interview, or have the Investment Committee interview, at least two qualified candidates;
- (B) hire or replace an investment advisor based on factors including but not limited to investment principles and processes, timeliness in reporting, quality of service, investment experience, a comparison of advisory fees and related costs, and investment performance;
- (C) require the investment advisor to obtain Board approval of investment transactions in excess of the FDIC limit or beyond the approved ranges of an asset class; and
- (D) if not provided by the custodian, require the investment advisor to provide monthly statements to the Board detailing the prior month transactions, income for the current month and year to date, and a schedule of investments at cost, fair market, and current yield.

VII. Review & Control.

- (a) All investments will be purchased in the name of the Club.
- (b) The signatures of the President and Treasurer are required for withdrawals or transfers of reserve funds.
- (c) The Board will review regular financial statements and make adjustments as needed to ensure the requirements in this policy are being met.
- (d) The Audit Committee shall review the financial statements at least annually.
- (e) The Investment Committee will present the results of the prior year annually and an overview of the current year plan, at the Spring Membership Meeting.