

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

KICA FINANCIAL CONTROLS

Investment Policy Statement

I. Introduction

The purpose of the KICA Reserve Fund Investment Policy Statement is to define the investment policies, guidelines, and objectives of the Fund, and to create a framework for evaluating performance.

Although these policies and objectives are intended to govern investment activity, they are designed to be sufficiently flexible and practical.

This policy governs reserves for capital asset replacement, the Vanderhorst Gate, and the Reserve for Major Repairs and Replacements which are not expected to be spent by the association over the next twelve months.

II. Principles and Rationale

The KICA Reserve Fund has a potentially infinite life. The fund is intended to allow the association to be prepared for significant capital asset replacements or large future expenditures identified in the annual asset reserve study. However, significant drawdowns of the fund are not anticipated in any single year. Therefore, an investment horizon of 10+ years is appropriate.

Viewed in this long term context, it is the fiduciary responsibility of the association to attempt to maintain purchasing power of the fund. This objective should be accomplished with investment strategies sufficient to maintain or slightly exceed the appropriate inflation measures while attempting to minimize risk. Not doing so will result in significant value erosion due to compounded inflation over time and could place an undue burden on the association's membership in the future.



While accepting moderate risk or volatility is essential to maintain fund strength, it would be inappropriate to take additional risk via aggressive asset allocation in order to build a substantially larger fund balance, compensate for investment losses, or address an isolated major replacement expense.

The fund will use a total return based spending policy, funding distributions from net investment income, net realized capital gains, and sale of investments.

The account will maintain liquidity (cash and equivalents) necessary to fund planned drawdowns (budgeted expenditures in excess of budgeted revenues) over the future twelve month period.

III. Objective

The Long-Term Objective of the Fund is to achieve a total return equivalent to or greater than the construction inflation rate (referenced in KICA's reserve study) plus 1%.

IV. Delegation and Responsibilities

The Board of Directors (the "Board") has sole authority for all decisions that shape the investment policy and strategy.

The Finance Committee (the "Committee"), acting in a fiduciary capacity, is accountable to the Board and is responsible for recommending Investment Consultants, recommending Investment Policy guidelines and objectives, and reviewing and evaluating investment results.

The Investment Consultant, acting in a fiduciary capacity, is responsible for assisting the Board in the development of investment policies, guidelines, and objectives; recommending Asset Allocation Policies and Investment Managers (including search, recommendation and selection); preparing and issuing quarterly performance evaluation reports and attending quarterly Finance Committee meetings; and notifying the Committee of any changes to the asset allocation or Investment Managers.



V. Portfolio Investment Policies

PERMISSIBLE INVESTMENTS

Over time, KICA will aim to achieve the Long-Term Objective while maintaining acceptable risk levels. To accomplish this goal, the Fund will diversify its assets among several asset classes. Appendix A provides permissible asset classes and the comparative indexes.

Both Active and Passive Investment Managers can be utilized.

Permitted Fixed Income Investments include Cash, Federally Insured CD's, US Treasury and government agency obligations, taxable municipal bonds, and Investment Grade Bonds with a maturity of 10 years or less.

Permitted Equity Investments include mutual funds and shares of exchange traded funds. No single investment pool or mutual fund (excluding cash, cash equivalents, and federally insured fixed income investments) shall comprise more than 5% of the portfolio assets.

The use of leverage is not permitted.

POLICY ASSET ALLOCATION

The Policy Asset Allocation, as presented in Appendix B, is designed to give balance to the overall structure of KICA's investment program.

Rebalancing: The Investment Consultant may operate within the Acceptable Ranges as outlined in Appendix B and rebalance at their discretion. KICA management is to be notified when rebalancing of the portfolio occurs.

VI. Long-Term Measurement Objectives

KICA Reserve Fund assets should be reviewed annually and should attempt to achieve an annualized return equal to or greater than the rate of return defined in the Long-Term Objective.

Over 3 – 5 year rolling periods, the assets should strive to achieve an annualized return equal to or greater than that of the benchmark deemed appropriate (see Appendix A).

In general, both active managers and index funds will be expected to provide returns appropriate to their benchmarks, net of fees, while utilizing acceptable risk levels, over multiple trailing time frames.



The Investment Consultant shall establish a clearly defined process for reviewing Investment Managers, which should include the manager's returns relative to their benchmark and peer group, style consistency, management team, and cost.

VII. Disclosure

The Finance Committee will recommend to the Board for their review and approval an annual disclosure to the community members of the following: (a) approved changes (if any) to this policy, (b) a summary of the then existing investment portfolio by asset class, consistent with categories detailed in Appendix A of this policy; (c) investment returns, net of investment advisor fees, for the last calendar year and last three (3) years; (d) comparable benchmark investment returns for the investment portfolio, using comparative benchmarks, a summary of Appendix A; and (e) the Association's best estimate of 'construction inflation rate,' as described in 'Section III. Objective of this Policy.'

Note: This Investment Policy Statement is included in the 2018 Financial Controls Manual, but was revised by the board on July 12, 2021.



APPENDIX A

Asset Class	Comparative Benchmark
Fixed Income	
Cash	90 Day T-Bill
Domestic Bank CDs and Bonds	Barclays Aggregate Bond Index Intermediate Govt.
Total Equities	MSCI All Country World Index
Domestic Large Cap Value	Russell 1000 Value Index
Domestic Large Cap Blend	Russell 1000 Index
Domestic Large Cap Growth	Russell 1000 Growth Index
Domestic Mid Cap Value	Russell Mid Cap Value Index
Domestic Mid Cap Growth	Russell Mid Cap Growth Index
Domestic Small Cap Value	Russell 2000 Value Index
Domestic Small Cap Growth	Russell 2000 Growth Index
International Large Cap Value	MSCI Developed EAFE
International Large Cap Growth	MSCI Developed EAFE
International Small Cap Value	MSCI Developed EAFE
Emerging Markets	MSCI Emerging Markets Index

APPENDIX B - ASSET ALLOCATION STRATEGY

Asset Class	KICA Guidelines	Acceptable Range By Class
Cash and Fixed Income		
Cash	5%	
Federally Insured CDs, US Treasury and Government Agency Obligations, Taxable Municipal Bonds, Corporate Bonds (Investment Grade)	65%	
Total Cash and Fixed Income	70%	65-75%
Equities		
Domestic Large Cap Value	4%	
Domestic Large Cap Blend	8%	
Domestic Large Cap Growth	4%	
Domestic Mid Cap Value	1.75%	
Domestic Mid Cap Growth	1.75%	
Domestic Small Cap Value	1.75%	
Domestic Small Cap Growth	1.75%	
International Large Cap Value	2%	
International Large Cap Growth	2%	
International Small Cap Value	1%	
Emerging Markets	2%	
Total Equities	30%	25-35%
Total	100%	

