

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

Reserve Fund Investment Policy Statement

(Draft as of 11-30-23)



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Introduction

The KICA Reserve Fund (“Reserve Fund”) was established and is managed to allow the association to be prepared to meet significant capital asset replacements or large future expenditures identified in the annual asset reserve study. The KICA Reserve Fund has a potentially infinite life. Viewed in this long-term context, it is the fiduciary responsibility of the association to endeavor, at minimum, to maintain the purchasing power of the fund. This objective should be accomplished with investment strategies sufficient to meet or exceed the appropriate inflation measures while attempting to appropriately manage risk.

The Reserve Fund will seek to use a total return-based spending policy, funding distributions from net investment income, net realized capital gains, and the 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.

This policy governs reserves for: the Vanderhorst Gate and the Reserve for Major Repairs and Replacements which includes Reserve Fund capital asset replacement.

Purpose

The purpose of the KICA Investment Policy Statement is to define the investment policies, guidelines, and objectives of the Reserve Fund, and to create a framework for evaluating performance. These policies and objectives are intended to govern investment activity and are designed to be sufficiently flexible and practical.

Objective

The Long-Term Objective of the Reserve Fund is to achieve a total return equivalent to or greater than the inflation rate referenced in KICA’s annual reserve study.

Delegation of Responsibilities

The KICA 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 Advisors and Investment Policy guidelines and objectives and reviewing and evaluating Investment Advisor and portfolio performance.

The Investment Advisor, acting in a fiduciary capacity, is responsible for assisting the Board and Committee in the development of investment policies, guidelines, and objectives; recommending Asset Allocation Policies and selecting Investment Managers; preparing and issuing quarterly performance evaluation reports and attending Committee meetings at the request of the Board or Committee; and notifying the Committee of any significant changes to the asset allocation or Investment Managers. The Investment Advisor will be a discretionary advisor to the Board and Committee. The Investment Advisor is



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responsible for managing the assets as directed by the Board, Committee, and Investment Policy Statement guidelines.

The Investment Advisor may operate within the acceptable ranges outlined in the “Reserve Fund Policies” section and rebalance at their discretion, in concert with the KICA Director of Finance. KICA’s Director of Finance will receive confirmations of any transactions that occur. Additionally, the Investment Advisor will notify the Committee if there is any breach of the investment portfolio policies below, and will have 30 days to remedy this breach, unless approved in writing by the Committee.

Reserve Fund Policies

The Reserve Fund will aim to achieve its return objective while maintaining acceptable risk levels. To accomplish this goal, the Reserve Fund will diversify its holdings within the below asset classes, with benchmarks, target weight, and acceptable asset allocation range as follows:

Asset Class	Benchmark	KICA Target	Acceptable Range
Cash	90 Day Treasury Bill	0%	0-5%
Domestic Equity	Russell 3000	30%	20-40%
International Equity	MSCI ACWI ex-US	10%	5-15%
Fixed Income	Bloomberg US Aggregate Bond Index	60%	50-70%

Permitted investments include:

- Both active and passive investment managers
- Fixed income investments include cash, money market instruments, FDIC CD’s, mutual funds, ETFs, separately managed accounts, and all bonds that are a current part of the Bloomberg U.S. Aggregate Bond Index. Including 144a instruments.
- Equity investments include mutual funds, ETFs, separately managed accounts, and individual stocks.

Limitations include:

- Single issuer/equity positions selected by the Investment Advisor cannot have a market value more than 25bps (0.25%) of the overall Reserve Fund, must be part of the S&P 500 and the total allocation to individual equities cannot be more than 5% of the Reserve Fund AUM.
- No single investment pool or mutual fund (excluding cash/cash equivalents) shall comprise more than 10% of the portfolio assets.
- Mid- and Small-Cap strategy exposure is limited to 10% of the Reserve Fund AUM.



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- Emerging Market strategy exposure is limited to 5% of Reserve Fund AUM.

Prohibited investments include:

- Derivatives
- High yield issues at time of purchase
- Over-the-counter traded equities
- Private market assets including private equity (PE), venture capital, and private real estate property
- Commodities
- Foreign exchange
- No borrowing or leverage is permitted

Measurement Objectives

KICA Reserve Fund assets should be reviewed at minimum annually, and should seek to achieve an annualized return equal to or greater than the rate of return defined in the Objective.

Over a 5-year rolling period the assets should strive to achieve an annualized return equal to or greater than that of the benchmark deemed appropriate.

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 time frames.

The Investment Advisor shall establish and maintain 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 expense.

