KIAWAH ISLAND COMMUNITY ASSOCIATION
Investment Philosophy
(v 11-22-23)

The following two statements are intended as contextual commentary to support the overall "Reserve Fund Investment Policy Statement". They are intended to inform and provide context to the overall investment philosophies accepted by KICA in adopting the "Reserve Fund Investment Policy Statement".

Statement of Risk Tolerance:

KICA believes that investment assets should be managed in a manner which reflects the unique purpose for which the portfolio was established. KICA understands that to achieve its investment objectives, the portfolio will experience volatility of returns and fluctuations of market value. KICA supports an investment strategy that balances minimizing losses of capital over the short-term, with providing long-term returns consistent with general "through-the-cycle" economic and market dynamics.

Although KICA seeks to limit the portfolio's volatility, they accept short-term fluctuations in their asset values and the possibility of declines in total market value, while seeking to grow the portfolio over the moderate to long-term. This "on-average and over-time" approach is the basis for KICA's investment approach.

KICA recognizes that prudent investing requires taking reasonable risks to raise the likelihood of achieving a desired investment return. The portfolio will be structured to maintain prudent levels of diversification. The Investment Advisor is to make reasonable efforts to control risk and will regularly evaluate whether the assumed risk is commensurate with the given investment style and objectives as stated in the "Reserve Fund Investment Policy".

The basic tenets under which the portfolio will be managed include the following:

- Investing for the longer-term is critical to investment success because it allows the long-term characteristics of the asset classes to surface. It also mirrors the long-term nature of the future liabilities that the portfolio is designed to support.
- Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the entire portfolio.
- Portfolio risk may be decreased by increasing diversification of the portfolio, and by lowering the correlation of market behavior among the selected asset classes.
- Equities have historically offered the potential for higher long-term investment returns when compared to cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return typically increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results, including periodic declines in value.

KICA recognizes that over the long-term, the risk of owning equities has been, and should continue to be, rewarded with a somewhat greater return than that available from fixed income investments. The role of fixed income investments is to reduce the volatility of the overall portfolio with the potential benefit of providing a predictable income stream.

Given these tenets, the underlying approach to managing the portfolio shall be to optimize the risk-return relationship appropriate to the Portfolio's needs and goals; future liability streams should be considered in this approach. While the portfolio can be diversified globally the investment portfolio will generally reflect a reliance on US investment assets. The assumption of normal risk associated with well-analyzed investments is warranted to achieve results consistent with the needs of the portfolio. However, high risk investments are to be generally avoided, and shall be so diversified as to minimize the risk of large losses.

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Statement of Investment Beliefs:

The following statements codify KICA's most basic investment beliefs:

- General asset allocations:
  - ⇒ Strategic asset allocation, or long-term asset allocation, is unique to each fund, and asset type, and essential for helping meet long-term investment objectives.
  - ⇒ Tactical asset allocation, or short/medium-term shifts away from long-term asset allocation, may be used. Historically, asset classes tend to revert to their long-term, mean valuations, so tactical shifts can often reduce volatility when the risk environment is elevated, and can capitalize on opportunities when markets have deviated away from historical valuation levels.

- Risk, which comes in many forms, is inherent in investing and proper care should be taken by skilled managers to regularly identify, quantify and manage the exposures in the investment portfolio. Uncompensated risks should always be mitigated.

- Actively managed strategies are preferred in less efficient markets when executed via specialist managers with demonstrated skill who can add incremental value in relation to the risk assumed. Passive strategies are preferred as a source of liquidity and in highly efficient markets where consistent and positive excess returns, net of fees, are difficult to achieve.

- Maintaining capitalization and style neutrality in developed equity markets is preferred for achieving consistent at, or above, benchmark returns over the moderate-to-long term.

- Rebalancing is a key tool in managing risk and achieving investment objectives; this should always be considered in relation to the trade-off between the benefits of rebalancing and execution costs.

- Liquidity is a key element of portfolio construction and should be given considerable attention when establishing and maintaining the portfolio structure. While lower volatility and higher returns are generally consistent with less liquid investment strategies, these attributes should be secondary to the primary need for ample liquidity during periods of market stress, or specific investor needs.

- We prohibit the use of derivatives in the investment policy statement. Cash balances act as a drag on long-term investment performance and should always be optimized. "Equitization" of cash balances within specific investment strategies is permissible on a temporary basis.
- We prohibit the use of leverage in the investment portfolio.