

Investment Team Expectations

This guideline documents the expectations of the Board with respect to the group known as the “Investment Team” (the Team). Membership of this team is made by Board appointment.

Previous investment plans and procedures are being amended and restated through this guideline.

The Team organizationally aligns within the Association with a “solid line” connection to the Board through the Board-elected Treasurer. In addition, it also has a “dotted line” organizational connection with the Financial Operations Committee (FOC) so as to keep all financial advice “on the same page.”

Investment Team Purpose

The Team is being tasked to recommend financial management actions for Board approval and implementation. In addition, the Team shall promote such guidelines for Board approval for managing, investing, and safeguarding of the specific funds under its direction.

Preservation of capital is the foremost Team objective and full use/non-use of insured investment vehicles (FDIC, SIPC) shall be clearly communicated.

Fund disbursement considerations shall align with project schedules that typically are generated by the Maintenance Committee and approved by the Board.

Funds shall be invested only after specific (investment by investment) approval of the Treasurer.

Reporting specifics from the Team to the Board and FOC are per the direction of the Treasurer.

Specifics:

Funds to be Administered

The specific funds being considered are those commonly called “reserve funds.”

In more specifically, the reserve funds are comprised of three independent funds: the Community fund, the Duplex Housing fund, and the Stand-Alone Housing fund.

At present, the investment approach of each of the funds is identical and the fund balances are separated by HG’s accounting function (not this Team). These individual funds, from the Team’s perspective, are considered a singular fund.

Risk Management Considerations

Historically, fund investment vehicles have been very conservative in nature – utilization of Certificates of Deposit (CDs) and money market funds (MMs) – and maximum holdings in specific vehicles have been limited to amounts fully insured through either the Federal Deposit Insurance Corporation (FDIC) for regulated banks for savings, checking, CDs and MMs; or the Securities Investor Protection Corporation (SIPC) for broker-dealers securities. Each organization currently protects up to \$250,000.

Deviation from the current risk management arrangement requires prior approval by the Board.

Funds Availability

Reserve funds are maintained so that Board-approved projects may be performed when scheduled. This project schedule is generally based on the inputted data as reflected in the “reserves study” typically redone each five years. In this study are tables of larger projects and anticipated implementation timing for the upcoming 30-year period. This study gives the starting point for how much reserves money is needed in what time frame. Note however, that “reality” also affects this data: projects might very well have reduced or extended “when done” targets and scheduled project costs may vary from the “plan.”

The Maintenance Committee chair is the best source of bridging the plan versus reality divide.

Investment Purchase Advice (Laddering)

When recommending specific investments for purchase, return of principal timing considerations are needed because of the spending plan considerations stated above. This has been delivered by having investment vehicles “laddering” their maturity dates. And, when large projects are expected to be accomplished, funds for those projects will likely have already been moved to a money market holding location so cancellation fees are avoided.

Investment Team Alignment with the Board Treasurer

There is a reinvestment timing “pinch point” that must be managed: (1) highest return investment vehicles are quickly bought up – typically not available on the open market for any period of time, but (2) the full Board is required to approve fiscal actions – the purchase of specific vehicles.

To address this timing issue, the Board, at its 5/13/24 open meeting, approved the Treasurer being able to “speak for the Board” with respect to CD investment purchases.

To maintain the Board’s fiscal control, however, the Treasurer shall, prior to the time the money comes available for reinvestment, communicate to the Board the Treasurer/Investment Team recommendation for reinvestment and obtain Board concurrence for the future investment.

The Investment Team shall communicate preliminary (anticipated) investment purchase plans per the timing as requested by the Treasurer so that the pre-approvals may be made by the full Board.

Communications with Information Providers

Upon approval by the Treasurer, the Investment Team is authorized to enter into communications with Treasurer-allowed financial information sources for determination of potential investment vehicles.

Purchases, at present, are limited to those made through support personnel at the First Service Residential Houston office.

Future Considerations

With the reality of higher inflationary times, the very conservative current investment approach might require homeowners to make higher and higher contributions into the three reserve funds so as to meet the objective of our reserves being “fully funded.”

Recognizing this future dues increase reality, it is anticipated that the Board will interface with potential investment service providers to discuss opportunities for adequate risk management control but not the very conservative approach currently being maintained.

This Board-Investment Team relationship shall remain in effect until

- Either the Board or the Team makes known in writing to the other that the arrangement shall be terminated at some effective date, or
- With any change of the Board’s Treasurer

The Board may modify this guideline at will.

This guideline was ratified by majority Board vote on 2/10/25.

Arden Isham
Board Secretary