

Section 4 - Investment Policies

2.4.1 Investment Policy

Purpose: This policy is to be used for purposes which the Council Board deems beneficial to the general good and welfare of Anthem. This investment policy statement describes the investment objectives of the ACC, establishes investment principles and creates guidelines for evaluating investment decisions. This document also establishes guidelines for communication between the ACC Board, the Fiscal and Resource Management Committee, ACC Finance Staff, financial advisors and managers assigned to manage assets of the ACC.

1. Statement of Responsibility:

The ACC Board of Directors serve as the fiduciaries on all of the assets listed in this investment policy statement. The ACC Finance Staff, with appropriate assistance from the ACC Fiscal and Resource Management Committee, serves as the money manager on all of the assets listed in this investment policy statement. All ACC Finance Staff and ACC Fiscal and Resource Management Committee considerations and decisions are for the sole benefit of ACC and are in accordance with the “Prudent Investor” rule as follows:

Investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere, i.e., exercising judgment and care, under the circumstances prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aim, not in regard to speculation, but to the permanent disposition of their funds, considering both income and preservation of capital.

The ACC Fiscal and Resource Management Committee will consist solely of members in good standing from the Anthem Community Associations. Their responsibilities include assisting the ACC Finance Staff for the following:

1. Selecting investment managers;
2. Establishing guidelines for investment managers;
3. Monitoring the performance of investment managers; and
4. Reporting, at least annually, to the Board of Directors.

Members of the ACC Fiscal and Resource Management Committee are expected to change periodically. The ACC Board will provide an accurate listing of the Fiscal and Resource Management Committee members upon request.

2. **Communication:** Communication is an integral part of the management process. This section addresses the need for regular and continued communication between the Board of Directors of the ACC, the ACC Finance Staff and the ACC Fiscal and Resource Management Committee and any

investment managers or advisors. It establishes the reporting requirements and the frequency of review meetings.

Advisors Communication with ACC:

- Statements – Monthly Statements showing transactions, cost and market values
- Online Client Viewing - wherein a limited audience is designated to view through specific password access
- Annual meeting
- Review past investment performance, evaluate the current investment outlook, and discuss investment strategy
- Provide information regarding adherence to the investment policy

Communication between the ACC Finance Staff, the Fiscal and Resource Management Committee and Outside Financial Advisors:

- On a timely basis, ACC Fiscal and Resource Management Committee should provide information regarding material changes in the ACC financial situation that may have an effect on investment policy
- The Anthem Community Council Board of Directors shall designate the individual(s) who are authorized to communicate with, and/or transact business with the Investment Advisor(s). Investment decisions should be reviewed and approved by at least the Anthem Community Council Executive Officer, or in their absence, the Community Financial Officer, or in their absence, the Treasurer of the Board. Full copies of monthly and/or quarterly investment portfolio composition shall be made available to the Community Executive Officer; the Treasurer of the Board; and the Fiscal and Resource Management Committee.
- Review and discuss any modifications and changes to the investment objectives, goals, and guidelines
- Any other matters which may bear upon the investment of the assets

3. Due Diligence with Investment Advisors: Prudent due diligence should be performed on any investment advisor who is considered as a business partner to the Anthem Community Council. This should include, at a minimum (a) a careful reading of all customer agreement documents relative to the rights, restrictions of use and security of the funds which will be invested by the Anthem Community Council with the Investment Advisor's organization; (b) a statement from the investment advisor's organization, signed by an authorized party which specifically states that the investment organization cannot, under any circumstances, borrow or deploy customer funds, or pledge customer funds, and that customer funds are kept segregated from the investment organizations' funds; and (c) appropriate

verification of the credentials of the investment advisor(s) who will be managing the funds of the Anthem Community Council.

4. Glossary:

Basis Point 100 Basis Points = 1%

CPI/Consumer Price Index Consumer prices of a fixed basket of goods bought by a typical consumer.

Fiduciary indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person. For example, the relationship between a trustee and the beneficiaries of the trust. Any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets, (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan, or has the authority to do so, or (3) has any discretionary authority or responsibility in the administration of a plan.

Geometric Return A method of calculating returns which links portfolio results on a quarterly or monthly basis. Suppose a \$100 portfolio returned +25% in the first quarter (ending value is \$125) but lost 20% in the second quarter (ending value is \$100). Over the two quarters the return was 0% - this is the geometric return. However, the Arithmetic Return calculation would simply average the two returns: $(+25\%) (.5) + (-20\%)(.5) = +2.5\%$.

High Grade Investments are investment vehicles which have a minimum rating of: Moody's Rating of A2 or above; or a Standard & Poor's Rating of A or above; or a Fitch Rating of A or above.

Intermediate Bond Fixed income funds of investment grade securities that have a duration of more than 3.5 but less than 6.0 years or an average effective maturity of more than 4.5 but less than 7.0 years.

Modern Portfolio Theory (MPT) Essential to portfolio theory is the relationship between risk and return and the assumption that investors must be compensated for assuming risk. This portfolio approach shifts emphasis from analyzing the characteristics of individual investments to determining the statistical relationships among the individual securities that comprise the overall portfolio.

Risk Free Rate of Return The return on a 90-day Treasury bills. This is used as a proxy for no risk due to its US Government issuance and short-term maturity. The term is really a misnomer since nothing is free of risk. It is utilized since certain economic models require a "risk free" point of departure. See Sharpe Ratio.

Short Bond Fixed income funds of investment grade securities that have duration of more than 1.0 but less than 3.5 years or an average effective maturity of more than 1.0 but less than 4.0 years.

Systematic Risk attributable to common macroeconomic factors and sometimes referred to as market risk. It is the part of a security's total risk that is related to movements in the market portfolio and therefore cannot be diversified away.

Unsystematic Risk A risk pertaining to one element in a large environment or system. The risk of one stock is unsystematic, while the risk of the entire market of which it is an element is systematic. See Systematic Risk.

2.4.2 Enhancement Fund Investment Policy

1. Investment Goals and Objectives:

- a. Preservation of capital and current income are the primary objectives. The asset value of the fund, exclusive of contributions or withdrawals, should grow in the long run and earn, through approved investments, a rate of return at least consistent with the appropriate market index.
- b. To develop, implement and monitor prudent investment management of capital market assets in order to secure, over time, inflation and risk adjusted, acceptable total rates of return for the individual asset classes authorized for investment. The target asset allocation will be a blend of fixed income and cash investments as defined by the Investment Guidelines.

2. Investment Guidelines:

- a. Cash and Cash Equivalents: Acceptable investments are U.S. Treasury Bills, money market funds and FDIC covered certificates of deposit. The certificates of deposit are not to exceed 100% of the current FDIC insured amount per issuer and/ or the guaranteed amount. These investments are to provide income, liquidity for expense payments, and preservation of the portfolio's principal value.
- b. Fixed Income: Acceptable investments are U.S. Government, U.S. Government Agency fixed income securities, or other investment high grade securities. These investments are to preserve the portfolio's principal value and provide income.
- c. Other Highly Liquid Investments with Minimal Risk to Principal: Acceptable investments are high grade municipal fixed income securities, high grade corporate fixed income securities, high grade government agency securities, select mutual funds comprised predominantly of high grade securities, and investment vehicles similar in composition and objective to those named herein. Such investments must have minimal components of non-US entities, agencies or funds, and foreign exchange risk. Investment vehicles should have minimal equities within their composition. These investments are not to exceed 40% of the overall value of the Enhancement Fund investment portfolio. These investments are to preserve the portfolio's principal value and provide income.

3. Performance Review and Evaluation:

- a. To ensure continued compliance with the objectives of this investment policy statement, periodic reviews of the plan's investment options will be conducted on at least a quarterly basis. The results of the review and the evaluative material used in the review process will become part of the records maintained by the plan fiduciaries conducting the review. The documents will include reasons for investment selection and advisor reviews.
- b. Performance results for investment manager(s) will be measured on a quarterly, semiannual, and annual basis.
- c. Total portfolio performance will be measured against a benchmark composed of commonly accepted indices weighted to match the long-term asset allocation policy of the investment plan.
- d. Investment performance of each asset class will be measured against commonly accepted benchmarks both in terms of risk and return to match the long-term asset allocation policy of the investment plan.
- e. Appropriate & Acceptable Benchmarks:

Asset Class	Benchmarks	
	Primary	Secondary
Cash and Short Term Bonds	Treasury Bill	bankrate.com AZ rates
Fixed Income	Treasure Note or Treasury Bond with matching maturity	bankrate.com AZ rates
Other Highly Liquid	TBD	TBD

4. Liquidity of Funds:

- a. The Enhancement Fund is designed to meet short and long-term obligations of the Council. The investment portfolio shall remain sufficiently liquid to meet all reserve requirements that may be reasonably anticipated. To ensure that adequate funds are available to pay the Council's projected financial obligations, investments shall be made that reasonably match the anticipated cash disbursements of the Council.
- b. At times, unexpected expenses may result in early liquidation of an investment. If the liquidation will incur a loss or result in a surrender fee, the investment with the shortest term and/or loss should be selected.

2.4.3 Reserve Fund Investment Policy

1. Investment Goals and Objectives:

a. Preservation of capital and current income are the primary objectives. The asset value of the fund, exclusive of contributions or withdrawals, should grow in the long run and earn, through approved investments, a rate of return at least consistent with the appropriate market index.

b. To develop, implement and monitor prudent investment management of capital market assets in order to secure, over time, inflation and risk adjusted, acceptable total rates of return for the individual asset classes authorized for investment. The target asset allocation will be a blend of fixed income and cash investments as defined by the Investment Guidelines.

2. Investment Guidelines:

a. Cash and Cash Equivalents: Acceptable investments are U.S. Treasury Bills, money market funds and FDIC covered certificates of deposit. The certificates of deposit are not to exceed 100% of the current FDIC insured amount per issuer and/ or the guaranteed amount. These investments are to provide income, liquidity for expense payments, and preservation of the portfolio's principal value.

b. Fixed Income: Acceptable investments are U.S. Government securities; U.S. Government Agency fixed income securities, or other investment high grade securities. These investments are to preserve the portfolio's principal value and provide income.

c. Other Highly Liquid Investments with Minimal Risk to Principal: Acceptable investments are high grade municipal fixed income securities, high grade corporate fixed income securities, high grade government agency securities, select mutual funds comprised predominantly of high grade securities, and investment vehicles similar in composition and objective to those named herein. Such investments must have minimal components of non-US entities, agencies or funds, and foreign exchange risk. Investment vehicles should have minimal equities within their composition. These investments are not to exceed 40% of the overall value of the Reserve Fund investment portfolio. These investments are to preserve the portfolio's principal value and provide income. For Other Highly Liquid Investments, minimal components are defined as comprising less than 5% of the investment. Minimal foreign exchange risk is defined as having no more than a nominal impact.

3. Performance Review and Evaluation:

a. To ensure continued compliance with the objectives of this investment policy statement, periodic reviews of the plan's investment options will be conducted on at least a quarterly basis. The results of the review and the evaluative material used in the review process will become part of the records maintained by the plan fiduciaries conducting the review. The documents will include reasons for investment selection and advisor reviews.

b. Performance results for investment manager(s) will be measured on a quarterly, semiannual, and annual basis.

c. Total portfolio performance will be measured against a benchmark composed of commonly accepted indices weighted to match the long- term asset allocation policy of the investment plan.

d. Investment performance of each asset class will be measured against commonly accepted benchmarks both in terms of risk and return to match the long-term asset allocation policy of the investment plan.

e. Appropriate & Acceptable Benchmarks:

Benchmarks		
Asset Class	Primary	Secondary
Cash and Short Term Bonds	Treasury Bill	bankrate.com AZ rates
Fixed Income	Treasure Note or Treasury Bond with matching maturity	bankrate.com AZ rates
Other Highly Liquid	TBD	TBD

4. Liquidity of Funds:

a. The Reserve Fund is designed to meet short and long-term obligations of the Council. The investment portfolio shall remain sufficiently liquid to meet all reserve requirements that may be reasonably anticipated. To ensure that adequate funds are available to pay the Council's projected financial obligations, investments shall be made that reasonably match the anticipated cash disbursements of the Council.

b. At times, unexpected expenses may result in early liquidation of an investment. If the liquidation will incur a loss or result in a surrender fee, the investment with the shortest term and/or loss should be selected.

2.4.4 Operating Investment Fund Investment Policy

1. Investment Goals and Objectives:

a. Preservation of capital and current income are the primary objectives. The asset value of the fund, exclusive of contributions or withdrawals, should grow in the long run and earn, through approved investments, a rate of return at least consistent with the appropriate market index.

b. To develop, implement and monitor prudent investment management of capital market assets in order to secure, over time, inflation and risk adjusted, acceptable total rates of return for the individual asset classes authorized for investment. The target asset allocation will be a blend of fixed income and cash investments as defined by the Investment Guidelines.

2. Investment Guidelines:

a. Cash and Cash Equivalents: Acceptable investments are U.S. Treasury Bills, money market funds and FDIC covered certificates of deposit. The certificates of deposit are not to exceed 100% of the current FDIC insured amount per issuer and/ or the guaranteed amount. These investments are to provide income, liquidity for expense payments, and preservation of the portfolio's principal value.

b. Fixed Income: Acceptable investments are U.S. Government; U.S. Government Agency fixed income securities, or other investment high grade securities. These investments are to preserve the portfolio's principal value and provide income.

c. Other Highly Liquid Investments with Minimal Risk to Principal: Acceptable investments are high grade municipal fixed income securities, high grade corporate fixed income securities, high grade government agency securities, select mutual funds comprised predominantly of high grade securities, and investment vehicles similar in composition and objective to those named herein. Such investments must have minimal components of non-US entities, agencies or funds, and foreign exchange risk. Investment vehicles should have minimal equities within their composition. These investments are not to exceed 40% of the overall value of the Operating Investment Fund investment portfolio. These investments are to preserve the portfolio's principal value and provide income.

3. Performance Review and Evaluation:

a. To ensure continued compliance with the objectives of this investment policy statement, periodic reviews of the plan's investment options will be conducted on at least a quarterly basis. The results of the review and the evaluative material used in the review process will become part of the records maintained by the plan fiduciaries conducting the review. The documents will include reasons for investment selection and advisor reviews.

b. Performance results for investment manager(s) will be measured on a quarterly, semiannual, and annual basis.

c. Total portfolio performance will be measured against a benchmark composed of commonly accepted indices weighted to match the long-term asset allocation policy of the investment plan.

d. Investment performance of each asset class will be measured against commonly accepted benchmarks both in terms of risk and return to match the long-term asset allocation policy of the investment plan.

e. Appropriate & Acceptable Benchmarks:

Benchmarks		
Asset Class	Primary	Secondary

Cash and Short Term Bonds	Treasury Bill	bankrate.com AZ rates
Fixed Income	Treasure Note or Treasury Bond with matching maturity	bankrate.com AZ rates
Other Highly Liquid	TBD	TBD

4. Liquidity of Funds:

a. The Operating Investment Fund is designed to meet short term obligations of the Council. The investment portfolio shall remain sufficiently liquid to meet all requirements that may be reasonably anticipated. To ensure that adequate funds are available to pay the Council's projected financial obligations, investments shall be made that reasonably match the anticipated cash disbursements of the Council.

b. At times, unexpected expenses may result in early liquidation of an investment. If the liquidation will incur a loss or result in a surrender fee, the investment with the shortest term and/or loss should be selected.

2.4.5 Transfer of Funds Between Accounts

1. The Board delegates authority to the CEO and CFO to initiate, as and if appropriate, recurring transfers of excess cash contained with the Operating Fund to the Reserve Fund based upon a consistent review and application of an analytical model which determines potential excess cash availability above a targeted coverage ratio review and which, in the opinion of CFO, is in excess of future anticipated needs.

2. The Targeted Coverage Ratio is a multiple of required cash to be retained in the Operating Fund to cover normal and anticipated expenditures of the Council. This is initially set at 2x monthly cash outflows. Normal and anticipated expenditures are calculated as a rolling weighted average of the expenditures made by the Council over the preceding six (6) months.

3. The CFO, in consultation with the Fiscal and Resource Management (FaRM) Committee will employ a business model which is based upon a monthly review of current and future Balance Sheet and Cash Flow projections and which analyzes available cash against the Target Coverage Ratio. Cash determined to be in excess of the Targeted Coverage Ratio will then be considered available to be transferred to the Council Reserve Fund. The CFO will notify the CEO and the Board of ongoing transfers made and Reserve Funding levels.