

COPPERSTONE CONDOMINIUM ASSOCIATION, INC. INVESTMENT POLICY

The following policy was adopted by the Board of Directors of Copperstone Condominium Association, Inc. ("the Association") pursuant to Colorado law at a regular meeting of the Board.

RECITALS:

- A. Colorado Revised Statute ("C.R.S.") 38-33.3-209.5(1)(b)(vi) provides that Colorado Common Interest Communities shall adopt a policy concerning investment of reserve funds.
- B. C.R.S. 38-33.3-303(2)(b) provides that Members elected to the executive Board by the Unit Owners will be liable for wanton or willful actions or omissions.
- C. C.R.S. 7-128-401(2)(b) allows the Members of the Board of Directors ("Board") to rely on information, opinions, or statements if presented by legal counsel, public accountant or other person as to matters the Board reasonably believes are within such persons expert competence in discharging their duties.
- D. The Colorado Courts have applied the Business Judgment Rule in their review of actions taken by Boards of Colorado nonprofit corporations.
- E. Without waiving the statutory duty of care applicable to Members of the Executive Board elected by Unit Owners, other than the Declarant, the Board would like to implement elements of the Business Judgment Rule with respect to the investment of the Association's reserve funds.

PURPOSE:

The investment policy of the Association is designed to fulfill the following objectives:

- Identify the investment objectives, constraints and policies of the Association;
- Provide guidance to the Association's board and to those who offer investment services to the Association, including investment advisors, brokers, banks, consultants, savings institutions and custodians;
- Provide security of invested principal;
- Provide for appreciation of principal;
- Provide a continuing and dependable cash payout within market constraints;
- Provide for planned liquidity for anticipated cash flow purposes;
- Manage market risks;
- Maximize overall total return within established risk constraints; and
- Provide for diversification of the Association assets.

The long term objective of the Association's reserve fund is to preserve the Association's reserve funds to meet the future capital requirements of the community as determined by the Board.

The following investment policy addresses the methods, procedures and practices, which must be exercised to ensure effective and judicious fiscal investment management of the Association's reserve funds. This policy does not set forth: (1) the minimum reserve fund

balance required of the Association; (2) any mandate for any periodic reserve fund study; or (3) the tax consequences of the investment options contained herein.

THEREFORE, IT IS RESOLVED that the association does hereby adopt the following policies and procedures for the investment of the investment of the Association's reserve funds:

A. Standard of Care:

The "prudent person standard" shall be the standard used in all investment functions and shall be applied in the context of individual transactions as well as management of the overall portfolio. Accordingly, all investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercises in the management of their own affairs, not for speculation, but for investment, emphasizing the probable safety of their capital as well as the expected income to be derived.

All investments shall be consistent with the Association's approved investment policy and any unexpected deviations must be reported to the Board in a timely manner.

B. Investment Objectives:

All funds which are held for capital expenditures as a part of the reserve fund shall be deposited and invested by the Association in accordance with Colorado Revised Statutes and resolutions enacted by the Association's Board of Directors in a manner to accomplish the following objectives:

1. **Safety of Funds:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital, with the objective of mitigating credit risk and interest rate risk.

C. Authorized Investments:

Investments made for or by the Association to the following for the reserve funds. No change to the authorized list can be made until the policy is reviewed, amended, and adopted by the Association's board.

Policy ratings and diversification requirements must be met at the time of purchase. Changes in portfolio size or cash flow may alter these percentages during the life of the investment. If authorizations change on investments held or investments lose their minimum rating requirements, they are not required to be immediately liquidated. However, prudent measures including a review will be taken, consistent with the Investment Policy, to manage these investments and decide on final disposition.

The reserve fund is expected to be diversified by asset class. The following list of authorized investments can be used as part of the overall asset allocation. The portfolio is expected to have an effective duration of 3 years or less.

1. Obligations of the U.S. Government, its agencies and instrumentalities including mortgage backed securities. Only Collateralized Mortgage Obligations backed by

pools of mortgages guaranteed by the full faith and credit of the U.S. Government or an agency thereof will be used.

2. Federally insured or collateralized certificates of deposit with banks doing business in Colorado not to exceed twelve months to stated maturity.
3. Negotiable certificates of deposit issued by a bank within a holding company with a commercial paper rating of A1/P1 or equivalent by two nationally recognized credit rating agencies with a maximum maturity of twelve months.
4. SEC-registered money market mutual funds with have as an investment objective the maintenance of a stable net asset value (NAV) of \$1 for each share.

D. Prohibited Investments:

1. Any asset backed security that is not an U.S. agency guaranteed collateralized mortgage backed security;
2. May not purchase any MBS securities which are structured as inverse MBS floaters, principal only MBS, or interest only MBS.
3. Auction rate preferred securities;
4. Any taxable or non-taxable governmental and municipal (state and local) securities. No "Build America Bonds" are allowed;
5. Any **corporate** securities issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
6. Any foreign government or corporate bonds either on an individual security basis or as part of any pooled investment vehicle;
7. Any individual U.S. corporate bonds of any quality;
8. Any mutual fund or other pooled investment vehicle, except for the SEC-registered money market mutual funds. Pooled vehicles can include closed-end funds, exchange traded funds and unit investment trusts;
9. Individual equity securities or any pooled investment vehicles that invest in equity securities;
10. Repurchase agreements of any kind;
11. Any insurance products or "structured products" of any kind;
12. No derivatives shall be used. Examples include options, credit default swaps, futures, interest rate swaps, or forward rate agreements;
13. May not purchase 144A or other private placement securities not registered with the SEC;

14. Any public/private REIT securities or any commodity investments.

E. Prohibited Activities:

1. May not engage in any short sale activity;
2. May not employ leverage of any kind in the portfolio;
3. Investment in a single banking institution in excess of FDIC insurance limits.

F. Credit Risk:

The Association will minimize credit risk, the risk of loss due to the failure of the financial institution, by:

1. Limiting investments to the safest types of investments as provided for herein;
2. Pre-qualifying the financial institutions, brokers/dealers, and advisors with which the Association does business; and
3. Subject to the limitations herein, diversifying the investment portfolio so that potential losses on individual investments will be minimized.

G. Interest Rate Risk:

The Association will minimize the risk of the market value of investments in the portfolio due to changes in general interest rates by:

1. Structuring the investment portfolio so that investments mature sufficiently close to cash requirements for ongoing operations, thereby minimizing the potential need to sell investments prior to maturity; and
2. Investing all funds primarily in short- to intermediate-term investments.

H. Liquidity of Funds:

The investment portfolio shall remain sufficiently liquid to meet all planned reserve fund expenditures for the following fiscal year. To ensure that adequate reserve funds are available to pay the Association's reserve expenditures, annual reserve fund investments shall reasonably match the planned reserve fund expenditures for the following fiscal year.

I. Investment Fees/Costs:

Investment costs (fees, commissions, and other transactional costs) should be fair reasonable.

J. Delegation of Authority:

Responsibility for conducting investment transactions for the Association resides with the Treasurer. The President of the Board of Directors will be considered an authorized person to assist the Treasurer in performing investment management, cash management, or treasury functions. Persons authorized to transact investment business for the Association are limited to these two officers. The Treasurer will provide a copy of this investment policy to all of the Association's investment service providers. Association Members will receive a copy of this investment policy from the Treasurer upon request. The Treasurer may engage

the support services of outside professionals, subject to the availability of budgeted funds and approval from the Board of Directors. The Board of Directors shall provide a copy of this policy to the newly elected Treasurer at the assumption of office.

K. Reporting:

On an annual basis, an investment report shall be prepared and submitted by the Treasurer or an outside advisor, who will provide such report to the Board of Directors in a timely manner, listing the reserve fund investments held by the Association and the current market valuation of the investments. The report shall include a summary of investment earnings during the prior fiscal year. The Board shall make available to requesting members a listing on an itemized basis as to amount, type and rate of return, of the instruments, funds and accounts in which Association funds are invested or deposited.

L. Policy Revisions:

The Board of Directors shall review this reserve fund investment policy periodically and may amend the policy as conditions warrant. The Treasurer may recommend amendments to this policy as necessary.

M. Board Responsibilities:

The Association, acting through the Board of Directors, shall exercise business judgment in the investment of funds designated as reserve funds.

1. The Board of Directors shall reasonably investigate the options available for investment of some or all the reserve funds; emphasis will be placed on the preservation of principal.
2. The Board of Directors shall discuss the results of the investigation and the options for investment which meet the Association's goals for safety and income potential.
3. In the event the Board lacks experience in the investment options being considered to evaluate the safety and income potential, the Board may consider the opinions of its legal counsel, its public accountant, or other person the Board Members reasonably believe are within that persons expert competence, provided that other person will not directly benefit from the investment or that person is insured against errors and omissions.
4. Upon the conclusion of the investigation, the discussion, and the opinions of experts (if necessary) the Board of Directors shall vote on how the reserve funds will be invested or reinvested, each Member of the Board should vote in what they believe is the best interest of the Association and a majority vote of the quorum shall control.

Policy adopted this 15 day of November, 2010 by Resolution of the Board of Directors of Copperstone Condominium Association, Inc.

By Toussaint Coonin's
Its President