

**PADRE ISLES PROPERTY OWNERS ASSOCIATION
EMERGENCY REPAIR FUND
INVESTMENT POLICY STATEMENT
POLICY I
REVISED APRIL 22, 2014**

This Investment Policy Statement (IPS) reflects the investment policy, objectives, and guidelines of the Padre Isles Property Owners Association (hereinafter referred to as "Association").

PURPOSE OF INVESTMENT POLICY

This statement of investment policy is set forth by the Board of Directors, or committee appointed by the Board of Directors (hereinafter referred to as "Committee"), in order to:

1. Establish a clear understanding for all involved parties of the IPS and guidelines that govern investment activities.
2. Define and assign the responsibilities of all involved parties.
3. Provide guidance to the Investment Manager(s) regarding the investment of funds.
4. Establish a basis for evaluating investment results.
5. Manage the funds according to the needs of the organization.

No deviation from this policy is allowed without prior written permission from the Committee.

OBJECTIVE

It shall be the objective of the Association to 1) preserve real purchasing power of the assets (net of inflation), and (2) achieve long-term growth defined as a perpetual 10-year time horizon. The investments will be comprised of various assets which, when taken together, are intended to achieve these goals.

RESPONSIBILITY

The Committee will oversee the investments and select an investment advisory firm registered (Registered Investment Advisor – RIA) with the Securities and Exchange Commission (SEC). The Committee shall review the actions and performance of the Advisor on a regular basis to assure that they are achieving expected levels of performance. The Committee shall be responsible for developing the investment policy and guidelines.

The Advisor shall be responsible for following this investment policy and adhering to fiduciary standards as defined under the Uniform Prudent Investor Act ("UPIA") as approved for use in all states at the 1994 annual Conference of Commissioners on Uniform State Law and by the American Bar Association in 1995. The Advisor is expected to promptly inform the organization in writing of any significant matters that would impact investment of the organization's funds including, but not limited to, personnel changes, investment strategy, research capabilities, organizational and business matters, any material regulatory or legal

proceedings, and other qualitative factors that may impact their ability to achieve the desired investment results.

INVESTMENT PHILOSOPHY

Prudent management of the assets requires a carefully conceived investment strategy designed to obtain a total return (income plus capital appreciation) necessary to preserve and enhance the principal of such funds. Investments should be managed in accordance with all applicable laws, rules, and regulations.

Allocation of assets for investment in the account may vary from time-to-time, as determined by the Committee. Over time, an appropriate balance will be sought among fixed income securities, equities, alternative investments and cash or equivalents.

RATE OF RETURN OBJECTIVES

Assuming long term inflation rates of 2 ½ to 3 ½%, the long term rate of return expectation is to exceed inflation as measured by the consumer price index (CPI) by 1 ½% net of all investment costs. The long term return over a ten year time period is expected to be 4% to 6% annualized.

RISK TOLERANCE

Considering the potential need for funds based on the organization's purpose for these funds, the risk tolerance should be moderate. For the purpose of achieving the long-term return objectives of this policy, declines in the value of the portfolio between 8% and 12% in a given year is acceptable, with declines in value as often as two out of seven years. These figures are based on 95% statistical probability, with potential for extreme conditions expected at 5% probability with potential declines in value greater than 8%.

ASSET ALLOCATION

The Advisor will follow modern portfolio theory and leading industry guidelines for investing in a diversified portfolio containing various asset classes. The Advisor is directed to follow prudent fiduciary standards for investing in a manner appropriate with the objectives of the organization.

The following target and range of acceptable allocations should be followed:

<u>Asset Class</u>	<u>Target %</u>	<u>Acceptable Range of %</u>
Cash and equivalents	0%	0% to 5%
Fixed Income Securities	65%	55% to 75%
Equity Investments	35%	25% to 45%

Cash investments are intended, under normal circumstances, to be a temporary investment and not part of a long-term strategy.

The portfolio of fixed income securities should be broadly diversified. No single security should represent more than 4% of cost of the total portfolio assets unless it is guaranteed directly by the U.S. government or a broadly diversified fund. Any individual bond should be investment grade (Standard & Poor's BBB or Moody's Baa or higher) with maturities of 15 years or less.

Equity investments should include an appropriate mix of domestic and foreign large-cap, mid-cap, and small-cap investments diversified across a broad range of sectors and industries.

Equity investments in foreign securities should average no more than 15% of the total portfolio at cost. Alternative asset class securities should be limited to no more than 10% of the total portfolio. No individual security, except diversified funds, shall represent more than 5% at cost of the portfolio.

All assets should be liquid and tradable. The following are specifically prohibited from use in the portfolio: purchasing securities on margin, pledging securities, executing short sales or options.

PERFORMANCE

The performance of the portfolio will be considered within the context of the overall investment policy. Each asset class shall be compared to appropriate benchmarks and the total portfolio should be compared against relevant blended benchmarks or other managers with similar objectives. The portfolio should be measured over three to five year periods. The following blended customized benchmarks are suggested:

Suggested Performance Benchmarks:

3-Month T-Bill index – 5%

Barclays Capital US Aggregate Bond Index – 50%

Standard and Poor's 500 Index – 30%

MSCI EAFE Index – 15%

FEES

At least annually, a report detailing all fees associated with the investments shall be provided. These fees should include but not be limited to investment management, consultant, advisor, brokerage or sales commissions, custodial, internal fund or manager fees.

REPORTING

The Custodian or broker will provide the Committee with a monthly statement within 30 days of the end of each month containing all pertinent transaction details for the preceding month.

Quarterly, the RIA shall provide a summary of all transactions in the previous 90 days. The final report should include a report of investment performance for the entire year.






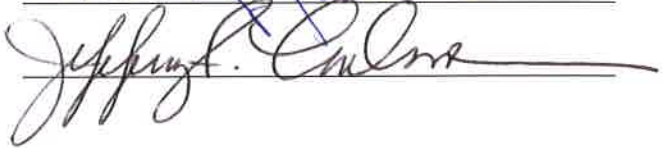
Periodically, the RIA shall provide the Committee detailed information about asset allocation, investment performance, fees, future investment strategies, and any other matters of interest to the Committee.

The RIA shall be reviewed at least semi-annually regarding performance, fees, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

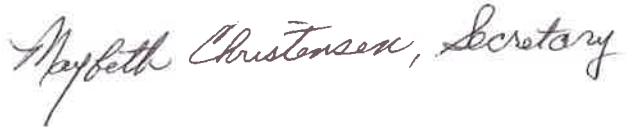
INVESTMENT POLICY REVIEW

To ensure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the Committee plans to review the investment policy at least semi-annually.

The Board of Directors of the Padre Isles Property Owners' Association, whose signatures appear below, adopt this statement of investment policy on April 22, 2014:

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Approved April 22, 2014, by PIPOA Board of ~~(RIA)~~ Directors


Mybeth Christensen, Secretary