GREEN VALLEY RECREATION, INC.

EXHIBIT

Investment Policy Statement (IPS)

Approved Board of Directors
February 23, 2016

Overview

When Green Valley Recreation, Inc. (GVR) has cash in excess of the short-term operating requirements, it has relied on financial advisors to invest these funds in Certificates of Deposit or in Money Market accounts. In 2015 the Board of Directors directed the Fiscal Affairs Committee to select a financial advisor that could assist GVR in earning more revenue on these funds by making investments in other types of financial vehicles. Edward Jones in Green Valley, AZ was selected to perform this task and to assist GVR with writing an Investment Policy Statement (IPS) that includes the guidelines for these investments. The Fiscal Affairs Committee has unanimously approved the IPS hereto attached.

Recommendation

Be it Resolved, that the attached Investment Policy Statement be approved for content, implementation and placement in the Corporate Policy Manual.

<u>Green Valley Recreation Inc.</u>
Investment Policy Statement

1. <u>Introduction</u>

In making investment decisions, the Board of Directors (the "Board"), Investment Committee, GVR's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO") and GVR's financial advisor(s), if any, shall act in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances and in a manner they reasonably believe to be in the best interests of Green Valley Recreation, Inc. (the "GVR). This is the "Prudent Person Rule."

2. <u>Purpose and Scope</u>

The purpose of this Investment Policy Statement (the "IPS") is to provide a framework for ensuring that GVR investments are managed consistently with GVR's short-term and long-term financial objectives. At the same time, this IPS is intended to provide for sufficient investment flexibility to adjust to operational and market changes.

This IPS applies to all investments of GVR's excess operating cash and **Reserve Funds** and supersedes GVR's Corporate Policy Manual concerning investments.

3. <u>Definitions</u>

Defined words used in this IPS are capitalized and written in **Bold** typeface.

See Appendix A for defined words.

4. <u>Management of Investments</u>

GVR's Board has fiduciary responsibility for GVR's investments.

The Board, Investment Committee, GVR's CEO and CFO and financial advisor(s), if any, are bound by (1) this IPS unless changed or amended by Board resolution and (2) all federal and state laws and regulations.

5. <u>Investment Objectives, **Risk Tolerance, Investment Strategy**, **Asset Allocation, Liquidity** and **Rebalancing**</u>

The primary investment principle is to maintain the safety of GVR's invested cash.

The secondary investment principle is to have invested operating cash and **Reserve Funds** available when needed by GVR's operations without incurring unwarranted loss of value or costs. The maturity horizon for each **Fund** shall be determined by the purpose, use and needs of each **Fund.**

GVR's <u>overall</u> **Risk Tolerance** has been assessed with the assistance from Edward Jones, GVR's financial advisor, to be between "low/medium" and should be reassessed periodically.

A specific **Risk Tolerance** to match the purpose and use of operating cash investments and each **Reserve Fund** shall be determined.

Within the constraints of the primary and secondary investment principles and **Risk Tolerance** stated above, a written **Investment Strategy** for operating cash investments and each **Reserve Fund** shall be designed, constructed and implemented to achieve the following.

- Match the purpose and use of operating cash investments and each **Reserve Fund**.

- Provide a relatively predictable and growing stream of annual income and **Capital Appreciation** after inflation, taxes, if any, fees and costs while minimizing the impact of market **Volatility.**

- Investments in any one single security shall not exceed $500,000 of any **Fund's** assets.

- Equity investments shall not exceed 50% of any **Fund's** assets.

An **Investment Strategy** may employ but is NOT required to employ an **Asset Allocation** model.

If an **Investment Strategy** employs an **Asset Allocation** model, each **Asset Allocation** portfolio shall be **Rebalanced** as appropriate but at least annually.

Liquidity of all investments shall be trade-date plus three (3) business days ("T+3").

6. Permitted Investments

Investments listed below are permitted.

- U.S. Treasury Bills, Notes and Bonds.
- Securities of Federal Agencies that carry the direct or implied guarantee of the U.S. Government including Federal Home Loan Bank, Federal Farm Credit Bank, Federal National Mortgage Association, Student Loan Marketing Association, World Bank and Tennessee Valley Authority.
- Bank Certificates of Deposits and Banker's Acceptances including Eurodollar and Yankee issues. Investments will be limited to institutions with a Moody's and Standard and Poor's short term ratings of A1/P1 or better and long term ratings of Aa1 or AA.
- U.S. and foreign corporate bonds and notes denominated in US Dollars rated **Investment Grade i**ncluding short, medium and long term notes rated of A or better.
- Municipal notes and floating rate notes rated SP-1/MIG-2 or better and bonds rated A or better.
- Commercial Paper denominated in US Dollars with two of the following ratings: Moody's A1 or better, Standard & Poor's P1 or better, Duff & Phelps D1 or better, or Fitch F1 or better.
- Repurchase Agreements with major banks and dealers recognized as "Primary Dealers" by the Federal Reserve Bank of New York. Collateral for repurchase agreements must be U.S. government securities and have a market value of at least 102% of the value of the repurchase agreement.
- Short-term preferred stock issued with a rate reset mechanism and a maximum term of 180 days. Investments will be limited to issuers with Moody's and Standard and Poor's ratings of A3/A- or better.
- US corporate common stock rated **Investment Grade** by two or more of the following: Moody's, Standard and Poor's or Fitch
- US corporate preferred stock paying dividends rated **Investment Grade** by two or more of the following Moody's, Standard and Poor's or Fitch
- **American Depository Receipts (ADR)** of foreign corporation

Investments in mutual funds, Exchange Traded Funds (“EFT”) and index funds are permitted provided 85% or more of their investments are in permitted investments shown above and such funds do not use **Leverage.**

Overnight investment in money market funds at GVR’s bank and broker/dealer, if any, are permitted.

Investments listed below are NOT permitted.

- Derivatives other than foreign exchange contracts and swaps and interest rate swaps
- Futures contracts and any commodities contracts
- Collateral Debit Obligations (CDO)
- **Junk** R**ated** stocks and bonds
- Any investment below **Investment Grade**
- Private notes
- Illiquid or thinly traded securities
- Hedge funds
- Options

7. Review and Monitoring

GVR’s Board is responsible for GVR’s investment policies, activities and performance.

The Chief Executive Officer (CEO) shall have oversight of and the Chief Financial Officer (CFO) is responsible for (1) monitoring the activities of GVR’s financial advisor(s) and (2) day-to-day investment activity and decisions.

The Investment Committee’s duties and responsibilities are listed below.

- Select, hire and terminate professional outside investment advisor(s) with notice to the CEO
- Revise GVR’s Investment Policy Statement subject to Board approval
- Monitor, measure and report on investment advisor’s or advisors’ performance(s)
- Ensure GVR management implements and complies with GVR’s Investment Policy Statement
- Meet at least once each calendar quarter to perform its assigned duties and report to the Board

8. Acknowledgments

We, the Board of Directors, recognize the importance of adhering to this Investment Policy Statement and agree to fulfill its objectives to the best of our ability.

On behalf of the Board of Directors

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Joseph Gunton, President of the Board of Director of Green Valley Recreation Inc.

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Date

APPENDIX A – Definition of Terms

Investopedia.com is the primary source of definitions. Some definitions have been paraphrased or they are a composite from several sources.

American Depository Receipt (ADR) is a negotiable certificate issued by a U.S. bank representing a specific number of shares (or one share) in a foreign stock that is traded on a U.S. exchange. ADRs are denominated in U.S. Dollars, with the underlying security held by a U.S. financial institution overseas. This is an excellent way to buy an investment in a foreign-based company while realizing any dividend and capital gains in U.S. Dollars. However, ADRs do NOT eliminate currency, economic and country risks attributable the foreign-based company. There are other ADR risks too. Consult your financial advisor(s).

Asset Class means a group of securities that exhibit similar characteristics. The three (3) main asset classes are stocks, fixed income securities (bills, notes, bonds & other debt) and cash and cash equivalents. Some investment professional would include real estate and commodities and, possibly, other types of investments. Whatever the asset lineup, each one is expected to reflect different risk and return characteristics and will perform differently.

Asset Allocation is an **Investment Strategy** aimed to balance risk and reward by apportioning a portfolio's assets according to an investor's goals, **Risk Tolerance** and investment time horizon. There is no simple formula that can find the right asset allocation for every investor. However, the consensus among most financial professionals is asset allocation is one of the most important decisions an investor can make. In other words, an investor's selection of individual securities is secondary to the way investments are allocated among the various securities.

Capital Appreciation is a rise of an asset price based on a rise in market price.

Credit Rating is a grade composed of a letter or letters and numbers given to a particular security by a **Nationally Recognized Statistical Rating Organization** (a credit agency) than ranks investment according to its ability to meet its obligations.

Diversification is a process of allocating capital in a way that reduces exposure to any one particular asset or risk.

Fund or Fund's and Funds or Funds' means operating cash investments and each **Reserve Fund.**

Investment Grade is a **Credit Rating** that indicates the issuer of a debt security has relatively low probably of default. In the case of stocks, investment grade indicates the financial soundness of the issuer. The investment industry has well established credit rating standards for investment grade.

Investment Strategy is an investor's plan of attack to guide its investment decisions based on its goals, **Risk Tolerance** and future needs for invested money. The components of most investment strategies include **Asset Allocation**, buy and sell guidelines and **Risk Tolerance**. Investment strategies can differ greatly from a rapid growth strategy to a **Capital Appreciation** strategy. The most important part of an investment strategy is that it aligns with the investor's goal and it is followed closely by the investor and his financial advisor.

Junk or Junk Rated means a security rated below **Investment Grade**. The specific letters and numbers vary by credit rating company; however, they are commonly defined in the investment industry.

Leverage is the use of various financial instruments or borrowed capital such as margin to increase a potential return of an investment.

Liquidity means how quickly and easily an investment can be converted into cash.

Nationally Recognized Statistical Rating Organization (NRSRO) is a term used by the U.S. Federal government in several regulatory areas to define a credit rating company like Standard & Poor's, Moody's, Fitch and others.

Rebalancing is the process of realigning the weightings of a portfolio's assets to match its **Asset Allocation** model's weightings. Over time, the price of investments rise and fall unevenly thus changing the weighting of a portfolio's assets. For example: If an **Asset Allocation** model is 40% stocks, 50% fixed income and 10% cash and the current portfolio assets are distributed 45% stocks, 35% fixed income and 20% cash, rebalancing buys and sells investments to align the current portfolio's asset weightings with the **Asset Allocation** model. If a different **Asset Allocation** model is applied to a portfolio, rebalancing adjusts the portfolio's assets to the new **Asset Allocation** model's weightings.

Reserve Fund and Reserve Funds means a reserve fund as defined in GVR's Corporate Policy Manual, Section V-Fiscal/Accounting, Subsection 2 – Reserve Policy – adopted 11/18/2014, subparagraph B – Maintenance Of GVR Financial Reserve System Updated 8/25/15.

Risk Tolerance is an investor's willingness to risk a potential loss for a potential gain. For example: How comfortable is an investor taking a potential 10% loss for a potential gain of 20%? The investor's risk tolerance is tested at various levels of loss v. gain to assess the investor's overall tolerance for risk and reward.

Volatility is the dispersion of a security's price from its mean price over time. A high deviation from a security's mean indicates high volatility. A low deviation indicates low volatility. Commonly, higher the volatility means higher the risk.