

INDIANA HOSPITAL&HEALTH ASSOCIATION  
INVESTMENT POLICY

The following investment policy applies to all investment funds of the Indiana Hospital&Health Association.

**OBJECTIVES**

The objective of this policy is to provide flexibility and guidance in the investment decisions by the Board approved portfolio manager(s).

The objective of the portfolio is to earn a safe and fair rate of return, with the primary emphasis on safety of principal.

**ASSET ALLOCATION**

A balanced fund approach must be maintained by the portfolio manager(s). The Association's investments shall be allocated between cash equivalents, fixed income securities, equity securities, and mutual funds that invest in fixed-income securities and equity securities, at the discretion of the portfolio manager(s), but subject to certain limitations.

Cash and cash equivalents

- Allowable investments
  - Cash and cash equivalents shall consist of obligations of the U.S. Government, U.S. Agencies, and corporate issues, of Investment Grade Quality as outlined by Standard & Poor's, or Moody's, maturing in one year or less; and the two highest grades of commercial paper or money market funds that hold these investments. Additionally, bank money market or certificates of deposit may be used.
- Limitations
  - Of the total funds available for investment, a minimum of one month's budgeted operating cash requirements is to be maintained as cash equivalents.
- Investment performance
  - Over any three-year period, the return on the cash equivalent portion of the portfolio should exceed the 90-day Treasury Bill rate.

Fixed income securities

- Allowable investments
  - The fixed income portion of the portfolio will be limited to U.S. Government and Federal Agency obligations, mutual funds that invest in fixed-income securities and corporate bonds rated A or better at the time of purchase.
- Limitations
  - No more than five percent of the total funds available for investment shall be invested in any one individual corporate fixed income security. U.S. Government and Federal Agency obligations, and mutual funds that invest in fixed-income securities, shall not be limited to this five percent restriction.
  - The fixed income portfolio will be diversified as to type and maturity.

#### Fixed income securities (continued)

- Investment performance
  - Over any three-year period, the return on the fixed income portion of the portfolio should exceed the Lehman Intermediate Government/Corporate Bond Index.

#### Equity securities

- Allowable investments
  - The portfolio may hold common stocks, preferred stocks, and securities convertible into such stocks publicly traded on the U.S. exchanges. Equity investments will be limited to the common stock of investment-grade high-quality companies that have sound fundamentals and have favorable prospects for growth. Among the investment factors that can be taken into consideration when selecting equity securities are capitalization, dividend payment and a company's proven track record.
- Limitations
  - No more than 75% of the investment portfolio or 75% of the audited fund balance from the immediately preceding fiscal year, whichever is less, may be invested in equity securities. No less than 50% of the investment portfolio or 50% of the audited fund balance, whichever is less, shall be invested in equity securities.
  - Equity investments in any one industry classification shall not exceed 25% of the audited fund balance.
  - Small and Mid-Cap Equities may be utilized for further diversification up to 20% of the audited fund balance. Holdings of mutual funds classified as Small and Mid-Cap funds are subject to this limitation.
  - Foreign issues may be used within the above guidelines to further increase portfolio diversification up to a total of 10% of the audited fund balance. Holdings of mutual funds classified as International or Emerging Markets are subject to this limitation.
- Investment Performance
  - Over any three-year period, the return on the equity portion of the portfolio should exceed the S&P 500 index.

#### **SOCIAL STANDARDS**

The portfolio will not knowingly buy or hold stocks of companies that engage in:

- Liquor, tobacco, firearm, or gambling businesses; and/or
- Produce primary abortifacients.

The manager(s) will be responsible for determining which stocks meet the fund's social standards.

At times, the portfolio may hold investments that do not meet the portfolio's social standards, because either the investments ceased meeting the social standards after they were purchased for the portfolio or the investments were bought without realizing that they did not meet the social standards. The manager(s) will seek to sell these investments in an orderly manner to minimize any adverse effect on the value of the portfolio. Ordinarily, the manager(s) will sell the

investments within 90 days of determining that the investments do not meet the social standards. However, the manager(s) will sell the stocks within a longer period if they believe that it would avoid a significant loss to the overall value of the portfolio.

**PROHIBITED INVESTMENTS**

- o Investments not meeting Social Standards
- o Margin purchases
- o Commodities
- o Private placements or other restricted securities
- o Foreign issues, unless traded on the U.S. Exchanges. Mutual fund investing in foreign issues is permitted.

**INVESTMENT MANAGEMENT**

The portfolio shall be managed to appropriately balance the safety, income and growth considerations as outlined under the Objective section of this policy while avoiding the noted prohibited investments. The allocation ranges allow the manager(s) the flexibility to adjust to market conditions or short-term needs as they arise from time to time. Diversification is to be maintained in both equity and fixed income investments in order to minimize the risk of large losses in individual investments. Investments shall be selected which meet the foregoing criteria such that maturities and rates of return accommodate the cash flow and income needs of the Association.

**OVERSIGHT**

The Board of Directors shall review written reports from the portfolio manager and, as they see fit, review the policy, its goals and objectives. The Board shall meet with the manager(s) at least once a year to review these reports as well as the performance of the manager(s).