IPS-April 4, 2006

Investment Policy Statement for Tennessee Hospital Association

I. INTRODUCTION

The fundamental guiding principal of this investment policy is:

> All investments shall be made in accordance with sound investment practices that emphasize prudent decision making. In the management and allocation of this fund, THA seeks first preservation of principal and current income and second; growth of the assets over time. The asset allocation set forth will serve as the guide.

RESPONSIBILITY:

THA management is charged with the responsibility of investing the assets of these funds. Investment of the assets of these funds will be reviewed quarterly with the Investment Committee of the THA Board of Directors. All modifications of policy and guidelines shall be presented in writing to and approved by the Budget and Finance Committee of the THA Board of Directors.

ASSET ALLOCATION:

The Plan is expected to operate within an overall asset allocation strategy defined in the Policies Asset Allocation section. This strategy sets a long term percentage targets for the amount of the Plan's market value that is to be invested in any one asset class. The allocation strategy also defines the allowable ranges within the asset classes, above and below the target allocations. The manager is responsible for advising the Plan on the timing decision and formulating an acceptable time horizon in which to re-balance the investments.

DELEGATION OF AUTHORITY:
Attorneys, accountants, consultants or other investment professionals may be retained to render advice or manage assets in the fund. Investment managers will observe the guidelines and philosophies stated herein and will be required to operate within these guidelines.

A. The primary investment objective shall be the prudent use of asset allocation to achieve the long-term results of preservation of principal and long-term growth.
B. The secondary investment objective shall be to maximize income and investment returns in a manner consistent with other objectives and constraints.
C. The overall character of the portfolio shall be of above average quality and holdings shall be well diversified.

D. The liquidity needs of the company generally will be met through maturities and portfolio structure rather than depend upon the marketability of individual holdings.

II. INVESTMENT GUIDELINES

SPECIFIC INVESTMENT GUIDELINES FOR CASH EQUIVALENT ALLOCATION:

THA will retain cash in the portfolio sufficient to equal the greater of anticipated disbursements for the current and subsequent month or the average disbursements for the current month for the past two years.

Specific Investment Guidelines for Operating Cash Funds shall be held in a true cash equivalent money market fund that experiences "NO" fluctuation of principal. Money Market Mutual Funds whose Investments include Treasuries, Agencies, Repos, CP, CDs, Bank Acceptances, Master Notes, etc. with a maturity under three month are acceptable investment vehicles. .

RESTRICTIONS:

A. Except for U.S. Treasury securities (securities backed by the full faith and credit of the U.S. Government), and money-market mutual funds, no more than 5% of the total assets of the account may be invested in the securities of any single issuer.
B. Investments in Eurodollar securities (dollars held outside of the United States) shall be limited to 15% of the portfolio.

INVESTMENT PERFORMANCE:

A. The investment performance results of the portfolio will be prepared quarterly. The results will be compared against the appropriate market indices.
B. Investment managers will be expected to add value by generating a total return (net of fees and expenses) in excess of the following benchmark:

91-Day Treasury Bill

SPECIFIC INVESTMENT GUIDELINES FOR INVESTMENT RESERVES:

Fixed Income– Consists of all cash and fixed income securities not needed to satisfy liquidity requirement. THA will retain Investment Reserves in short-term, intermediate-term or long-term holdings in accordance with the portfolio investment maturity guidelines.

A. The duration of the portfolio must be +/-10% of the duration of the Lehman Intermediate Gov/Credit Index.
B. Investments shall be limited to the following classes of securities:

1. Obligations of the U.S. Government and government agencies including, but not limited to, U.S. Treasury Notes and Bills, Federal Mortgage Association and the Federal Home Loan Bank Board.
2. Obligations of U.S. corporations.
3. U.S. dollar denominated obligations of multi-national corporations.
4. Institutional money market fund shares.
5. Permissible investment instruments shall include:
   a) Repurchase Agreements (The delivery of underlying securities is required, 102% collateral)
   b) Commercial Paper (taxable and tax exempt)
   c) Certificates of Deposit and Time Deposits.
   d) Eurodollar Commercial Paper
   e) Eurodollar and time deposits of domestic and foreign banks.
   f) U.S. dollar denominate foreign commercial paper
   g) Bankers' Acceptances
   h) Master Notes
   i) Variable Rate Demand Notes
   j) Auction Rate Certificates and Auction Rate Preferred Stock.
   k) Asset Backed Securities
   l) Mortgage Backed Securities
   m) CMO's

C. Any non-U.S. Government obligation must have a long-term debt rating of investment grade or better by at least one recognized rating agency (NSRO) or short-term ratings of A-1, P-1 or A-2,P-2.
D. Municipal Bonds with a Moody's rating of single A or better, and/or a Standard & Poors rating of single A or better. Municipal notes must have a minimum rating of MIGI or VMIG1 by Moody's, and SP-1 by Standard & Poors.
E. Mutual Funds that meet all of the above criteria and restrictions will be acceptable investment vehicles.

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EQUITIES:

- To insulate its assets against the deterioration of purchasing power caused by inflation, and
- To grow the Plan's assets to meet future funding needs.

THA has elected to employ a balanced approach to achieving its long-term investment objectives. THA selected a blended investment approach in order to diversify the entire asset pool while reducing the risk of wide swings in market value from year-to-year, or from incurring large compounded losses.

All investments shall be made in accordance with sound investment practices that emphasize prudent decision making. THA seeks to maintain a moderate level of current income and achieve above average growth in principal over the long term.

THA has decided to use the following equity asset classes to implement the investment strategy:

1. Domestic, Mid-Large Capitalization Common Stocks,
2. Domestic, Small Capitalization Common Stocks,
3. International Stocks,

EQUITY OBJECTIVES AND GUIDELINES:

The investment objective of the equity portfolio is to seek long term capital appreciation. The manager is expected to produce a reasonable and meaningful rate of return above the broad U.S. equity market over a full market cycle(typically three to five years), while controlling risk.

The large-cap equity portions of the Plan's assets are actively and passively managed portfolios of common stocks utilizing mutual funds. Since this component of the portfolio invests entirely in the equity markets, the two primary types of risks, or uncertainties, facing investment outcomes divide the equity guidelines. The Plan understands the concept of portfolio risk and its relationship with return potential. To insure a well-diversified investment program, the Plan requires that the equity portfolio adhere to the following specific guidelines and constraints.

Market, or systematic, risk is simply the risk associated with investing in the equity markets. Stocks tend to move up and down together with the market, as a whole, regardless of how well market factors have been averaged against each other. Therefore, market risk is inherent to all investors in the stock market, and cannot be eliminated by diversification.

Residual risk is the component of equity investment risk, which is uncorrelated with the market as a whole. Residual risk is divided into three sub-components, all of which can be diversified to an acceptable level.

A. Market timing is the process of altering market risk exposure based on short-term forecasts in order to earn superior returns. This strategy increases the systematic risk of the portfolio through time. In order to best control the portfolio's sensitivity to market timing risk, the manager will not:

   - sell securities short or purchase futures contracts,

- borrow to purchase securities on margin or otherwise attempt to leverage investments, or
- purchase puts, calls, or other options.

B. Sectoral risk is the risk of over or under manipulating exposures to common factors, such as industry groups. It is a combination of both market timing and stock selection risks. Since several sectors, or industries, can be emphasized at any given time, diversification is possible.

- The manager will control sector risk by holding no more than 2.0 times the weight of any one benchmark sector. For example, if the Standard & Poor's 500 Index is comprised of 10% health care stocks, the manager will not exceed a 20% allocation to the health care sector.

C. Stock selection risk is a risk faced when using a portfolio allocation strategy based on selecting mispriced stocks. This relates to the process of identifying over and under valued stocks in the market. The manager has the ability to adjust the allocation to individual securities in the portfolio to maximize specific return. In order to minimize stock selection risks, the manager will adhere to the following:

- The market value of any one-company holding shall not exceed 5% of the total equity market value.
- Foreign common stocks that fulfill the investment process are eligible investments only in the form of sponsored American Depository Receipts (i.e., ADRs), mutual funds or other commingled funds. Equities of foreign domiciled companies that are traded in the US may also be purchased so long as the securities are registered with the Securities Exchange Commission (SEC) and traded on a recognized national exchange or over-the-counter market.
- Securities that are convertible into common stock are permissible as long as the individual convertible securities are rated B or better at the time of purchase by a nationally recognized rating agency (i.e. Moody's or Standard & Poor's).
- The manager will not purchase securities of any issuer related to it or its parent company.

III. ASSET ALLOCATION

After evaluating the long-term historical capital market performance, the THA has determined that the target mixture of asset classes listed below will produce the desired performance at acceptable risk levels over time.

THA recognizes that a rigid asset allocation would be both impractical and, to some extent, undesirable under certain market conditions. Therefore, the allocation of assets may vary from time to time within the following ranges, without being considered an exception to this investment policy.

Asset Class:	Minimum	Maximum
Total Equity	20%	30%
- Domestic, Mid-Large Cap Equity	15%	22.5%
- Domestic, Small Cap Equity	2%	3%
- International Equity	3%	4.5%
Fixed Income	75%	85%
Cash Equivalents	5%	10%

THA wishes to allow the manager the opportunity to invest the assets without undue interference from THA. It is not the general intention of this policy to allow short-term judgments to introduce significant unplanned risk. THA recognizes that adherence to this policy will occasionally appear to be either too risky or too conservative for current market conditions.

IV. PERFORMANCE STANDARDS

THA recognizes that investment managers must use the broad capital markets as their basic tools for investing. THA expects the manager to add value to the broad markets' returns. However, THA also recognizes that different management styles exceed and lag the broad market indices in a cyclical fashion. Therefore, THA will monitor investment performance on a quarterly basis but will evaluate their contribution toward meeting the investment objectives over a full market cycle, generally considered to be five years or greater.

V. TOTAL FUND BENCHMARKS

In order to achieve the investment objective of preserving the purchasing power caused by inflation, a secondary performance target of the Total Fund is to exceed a benchmark of Consumer Price Index (CPI) + 2% over a five-year time period or a full market cycle.

In order to achieve the aggregate Total Fund performance targets listed above, THA must also monitor the individual asset classes independent of the whole. Therefore, the manager must adhere to the following performance targets:

EQUITY BENCHMARKS:

THA requires that the mid-large cap equity portfolio produce a level of return higher than the S&P 500 Index over a full market cycle.

The small cap equity fund is expected to surpass the R2000 over a full market cycle.

The International equity fund is expected to surpass the MSCI EAFE GDP Index over a full market cycle.

FIXED INCOME BENCHMARKS:

The specific performance objective for the fixed income portfolio is to exceed the return of the Lehman Intermediate Gov/Credit Index over a five-year time period or a full market cycle.

The investment performance results of the portfolio will be prepared quarterly. The results will be compared against the appropriate market indices.

6 Jan 06

Signature – THA **Date:**

6/12/06

Signature – TRUSCO **Date:**