



TITLE: **Statement of Investment Policy, Objectives and Guidelines**

APPROVAL DATE: **April 14, 2006**

REVISED: **February 1, 2008**

The Joint Executive Committee (JEC) is comprised of the executive officers of the New Mexico Hospital Association (NMHA) and its subsidiary Hospital Services Corporation (HSC).

The JEC reviews and adopts a Statement of Investment Policy, Objectives and Guidelines annually with input and consultation from the current Investment Manager.

The current Statement is attached to this policy.

Statement of Investment Policy, Objectives, and Guidelines

New Mexico Hospitals & Health Systems Association (Operating Funds)

UASNM – Schwab: November 9, 2004

Account: 2836-3801

EXECUTIVE SUMMARY

In general, the purpose of this statement is to outline a philosophy and policy that will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

The funds that are the subject of this investment policy statement are held in custody at Schwab in account number 2836-3801 for the New Mexico Hospitals & Health Systems Association (Operating Funds). The initial corpus received into the account was approximately \$1.861 million. Universal Advisory Services New Mexico, Inc. (UASNM), has been named as investment advisor.

The purpose of this account is to serve as a source of discretionary revenue and long-term capital reserves. The investment objective is to earn a higher investment return than inflation.

The investment horizon shall be the time period in which the investment objective is expected to be met. On average, historical asset class return data suggest that this is at least a 5 year timeframe and encompasses a full business cycle.

The investment strategy of the New Mexico Hospitals & Health Systems Association (Operating Funds) is to emphasize the preservation of principal and purchasing power, as well as liquidity and current income. Specifically, the primary objective in the investment management for the account assets shall be *to preserve the corpus of the Investment Funds and generate investment returns in excess of inflation with acceptable levels of volatility.*

New Mexico Hospitals & Health Systems Association (NMH & HSA) understands that in order to achieve its objectives for the New Mexico Hospitals & Health Systems Association (Operating Funds) assets, the account may experience some volatility of returns and fluctuations of market value.

New Mexico Hospitals & Health Systems Association (NMH & HSA) realizes that due to the account's primary objective, the investments shall be constrained by the following parameters:

- Minimum security credit quality: BBB at time of purchase
- Average portfolio maturity: 5 years maximum
- Average life of single maturity not to exceed 10 years
- Maximum agency pass-through security maturity: 30 years
- No more than fifty percent (50%) of securities to be invested in CMO's
- No mortgage backed securities purchased at or above 103 percent of par value
- Equity not to exceed 30% of account portfolio

EXECUTIVE SUMMARY (continued)

Current Holdings \$1.861 million in Fixed (US Treasury, Government Agency, Corporate Bond, and CDs) and Equity (S&P 500 Index)

Expected Return

Benchmark Fixed - Lehman Brothers Intermediate Government / Corporate
Equity – Russell 3000

GENERAL INFORMATION

The New Mexico Hospitals & Health Systems Association (Operating Funds), hereafter referred to as NMH & HSA (Operating), serves as a source of discretionary revenue and long-term capital reserves for use by NMH & HSA.

SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the Investment Policy defined and implemented by New Mexico Hospitals & Health Systems Association, specific to NMH & HSA (Operating).

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of NMH & HSA (Operating).
3. Offer guidance and limitations to the Investment Manager regarding the investment of NMH & HSA (Operating) assets.
4. Establish a basis for evaluating investment results.
5. Ensure that the assets are managed in accordance with the directives and wishes of NMH & HSA (Operating).
6. Establish the relevant investment horizon for which NMH & HSA (Operating) assets will be managed.

In general, the purpose of this statement is to outline a philosophy and policy that will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DELEGATION OF AUTHORITY

The fiduciary responsibilities for managing the Investment Funds rest with the Joint Executive Committee of the New Mexico Hospitals & Health Systems Association. The Joint Executive Committee is responsible for directing and monitoring the investment management of account assets. As part of this responsibility, the Joint Executive Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Manager (UASNM): The investment manager has discretion over assets placed in its care to purchase or sell the specific securities that will be used to meet the investment objectives of NMH & HSA (Operating). The Investment Manager must adhere to specific guidelines addressed in this Investment Policy Statement. The Investment Manager will be

reviewed against appropriate indices to judge investment performance, security selection and diversification using Modern Portfolio Theory concepts.

2. Custodian (Schwab): The custodian will physically, or through agreement with a sub-custodian, maintain possession of all securities owned by New Mexico Hospital & Health Systems Association, collect dividends and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased or sold, as well as movement of assets into and out of the NMH & HSA (Operating) account.

UASNMM will be held responsible for and accountable to the objectives herein stated. While it is not believed that the investment parameters / limitations will hamper UASNMM in its abilities to fulfill its investment manager role, UASNMM needs to submit, in writing, any recommended Investment Policy changes to the Joint Executive Committee.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of Joint Executive Committee

The Joint Executive Committee has ultimate responsibility for all investable funds of the New Mexico Hospitals and Health Systems Association Investment funds, as well as all funds held and administered by the Association as fiduciary.

Specific responsibilities of the Joint Executive Committee include the following:

- a. Review and approve and Investment Policy for the Investment Funds that addresses asset allocation, acceptable risk levels, and total return objectives.
- b. Review and approve investment guidelines relating to eligible investments, diversification and concentration restrictions, and performance objectives.
- c. Select external investment consultants, professional investment managers, bank custodians and other experts, as needed.
- d. Make direct investments where the selection of an external, professional investment manager is not appropriate, for example: mutual funds, bank certificate of deposit.
- e. Monitor the adherence to the Investment Policy and evaluate the investment performance based on achieving primary investment goals.
- f. Evaluate the performance of the various accounts and make changes, if needed.

The Joint Executive Committee shall discharge its duties solely in the interest of NMH & HSA (Operating) and its beneficiaries, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent investor, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Joint Executive Committee will interact directly with UASNMM and have the authority to effect decisions that would pertain to day-to-day administration of the account.

Responsibility of the Investment Manager

Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager include:

1. Assisting in the development and periodic review of investment policy.
2. Serving with the authority of discretionary investment manager, which allows for decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
3. Reporting, on a timely basis, quarterly investment performance results.
4. Communicating any major changes to economic outlook, investment strategy, or any other factors, which may significantly affect implementation of the investment process, or impede progress of NMH & HSA's investment objectives.
5. Informing the Joint Executive Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of NMH & HSA / NMH & HSA (Operating) and its beneficiaries and for the exclusive purpose of providing benefits accrued thereunder.
2. The NMH & HSA (Operating) account shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent investor, acting in like capacity and familiar with such matters would use in the investment of a plan of like character and with like aims.
3. Investment of the NMH & HSA (Operating) account shall be as diversified as practicable and of sufficient credit quality to minimize the risk of principle losses.
4. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital – UASNM should make reasonable effort to preserve capital, understanding that changes in market value may occur to individual securities.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, NMH & HSA recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the objectives of NMH & HSA (Operating). However,

UASNM is to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

3. Adherence to Investment Discipline – UASNM is expected to adhere to the investment management styles for which it was hired. UASNM will be evaluated regularly for adherence to investment discipline.

INVESTMENT OBJECTIVES

The investment strategy of the New Mexico Hospitals & Health Systems Association (Operating Funds) is to emphasize the preservation of principal and purchasing power, as well as liquidity and current income. Specifically, the primary objective in the investment management of the assets shall be to *preserve the corpus of the Investment Funds and generate investment returns in excess of inflation with acceptable levels of volatility.*

SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal of the aggregate NMH & HSA (Operating) assets to meet or exceed:

Cash - To equal the return of 90 day T-Bills

Fixed Income - To equal the return of the **Lehman Brothers Intermediate Government / Corporate**

Equity – To equal the return of the **Russell 3000**

The investment goals above are the objectives of the aggregate NMH & HSA (Operating) assets, and are not meant to be imposed on each security. In addition to these return objectives, the NMH & HSA (Operating) portfolio will display an overall level of risk that is consistent with the risk associated with the Benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

VOLATILITY OF RETURNS

The Joint Executive Committee understands that in order to achieve its objectives for the assets, NMH & HSA (Operating) will experience volatility of returns and fluctuations of market value.

Fixed

Returns for the Lehman Brothers Intermediate Government / Corporate index have been as follows:

Year-To-Date (Annualized): 2.60%*

1 Year: 2.66%*

2003: 4.30%*

3 Year Average: 5.56%*

5 Year Average: 7.13%*

The Standard Deviation for the Lehman Brothers Intermediate Government / Corporate index is as follows:

1 Year: 3.58%*

3 Year: 4.09%*

5 Year: 3.55%*

Equity

Returns for the Russell 3000 have been as follows:

Year-To-Date (Annualized): 1.63%*

1 Year: 14.26%*

2003: 31.04%*

3 Year Average: 5.30%*

5 Year Average: (0.10)%*

The Standard Deviation for the Russell 3000 index is as follows:

1 Year: 8.87%*

3 Year: 15.57%*

5 Year: 17.14%*

The Joint Executive Committee, then, supports an investment strategy that minimizes the probability of losses greater than stated above. There is, of course, no guarantee, though, that the account will not sustain losses greater than those stated herein.

** This historical information represents past performance and should not be considered indicative of future results. Principal value and investment return will fluctuate.*

LIQUIDITY

To the extent possible, in order to minimize the possibility of a loss occasioned by the forced sale of a security to meet a required payment, the Joint Executive Committee will on a timely basis provide the investment manager with an estimate of expected net cash flow. This will allow sufficient time to build up necessary liquid reserves.

INVESTMENT GUIDELINES -ALLOWABLE ASSETS

Cash Equivalents

Treasury Bills

Money Market Instruments

FDIC - insured Certificates of Deposit

Fixed Income Securities

U.S. Treasury and Agency Securities

Corporate Securities

- Minimum security credit quality: BBB at time of purchase
- Average portfolio maturity: 5 years maximum
- Average life of single maturity not to exceed 10 years
- Maximum agency pass-through security maturity: 30 years
- No more than fifty percent (50%) of securities to be invested in CMO's
- No mortgage backed securities purchased at or above 103 percent of par value

Equities

Equities not to exceed 30% of account portfolio

Prohibited Assets

No direct investment will be made in securities of corporations whose operations are inconsistent with the values of the New Mexico Hospitals and Health Systems Association, as determined by the Joint Executive Committee. Tobacco and tobacco-related products fall into this category.

Prohibited Transactions

- Uncovered short sales
- Purchases and sales of put or call options except for hedging transactions
- Purchases on margin (borrowing against the securities in the account)
- Derivative investments used for speculation
- Purchases of securities in private placements

Asset Allocation Guidelines

Investment management of the NMWCG (Public) assets shall be in accordance with the following asset allocation guidelines:

Aggregate Asset Allocation Guidelines (at market value)

Asset Class	Minimum	Maximum	Preferred
Equities	0%	30%	25%
Fixed Income	20%	100%	75%
Cash Equivalents	0%	80%	5%

Diversification for Investment Manager

The Joint Executive Committee does not believe it is necessary or desirable that securities held in NMH & HSA (Operating) represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification:

- The securities of any one government agency shall not exceed 35% of the total account portfolio.
- The securities of any one company shall not exceed 5% of the total account portfolio.
- Individual treasury securities may not represent 30% of the total account portfolio.

Guidelines for Fixed Income Investments and Cash Equivalents

Credit Quality

- Minimum Security Credit Quality: BBB at time of purchase.

Fixed Income Maturity restrictions

- Average portfolio maturity: 5 years maximum
- Average life of single maturity not to exceed 10 years
- Maximum agency pass-through security maturity: 30 years
- Cash balances must be invested in FDIC insured CD's or Money Market instruments.

Guidelines for Equities

Any selected Equity Funds shall be pooled investment vehicles, such as a publicly traded open or closed-end mutual fund, providing daily asset valuations. Such investments may focus on any size domestic or non-U.S. stock.

The equity assets shall be benchmarked against the Russell 3000 Index. No single issue shall comprise more than 7% of the portfolio's total market value.

The following criteria will be used for the selection and retention of any pooled common stock investment vehicles:

1. The fund will have an investment track record of no less than three years.
2. The fund's average annualized returns net of fund level expenses, over a three year time period or more, will be no less than 20% below the average returns for equivalent pooled investment vehicles sharing the same investment objective.
3. The fund will incur investment risk no more than 20% above that incurred by publicly traded funds with the same investment objective, as measured by the fund's standard deviation.

The Advisor will review the performance of each Common Stock Fund on an annual basis. Each fund's total returns will be compared against the average returns for equivalent pooled investment vehicles sharing the same investment objectives for the previous one-, three-, and five-year periods.

In the event any selected fund underperforms the applicable averages for a period of three years, the selected fund will be placed on probation for the subsequent twelve months. If over the subsequent year the funds' average return for the applicable three-year period remains below that earned by the average equivalent pooled investment vehicle sharing the same investment objective, the Advisor will make a determination as to whether the fund continues to be a prudent and appropriate investment.

The relative risk of the selected investment vehicle will also be reviewed on an annual basis, as measured by the fund's standard deviation, over the most recent one-, three-, and five-year periods. The fund's relative risk is to be calculated by independent fund evaluation services such as Lipper Analytical Services, Inc. or Morningstar, Inc.

In the event the level of risk assumed by the fund exceeds that incurred by the average for equivalent pooled investment vehicles sharing the same investment objectives by more than 20% over the previous three year period, the Advisor will make a determination as to whether the fund continues to be a prudent and appropriate investment.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Manager shall be compiled at least quarterly and communicated to the Investment Committee for review. The investment performance of the portfolio will be measured against commonly accepted performance benchmarks using AIMR standards. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Joint Executive Committee intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason including the following:

Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.

Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.

Significant qualitative changes to the investment management organization.

COMPARATIVE INDICES

Asset Class / Style of Manager

Comparative Index

Equities:

Small, Mid, Large Growth / Value

Russell 3000

Fixed Income:

Money Markets

Treasury Bills

US Treasury / Agency Notes

Best rate at custodian

90-Day Treasury Bills

Lehman Brothers Intermediate Government
/ Corporate

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status, and investment return expectations as established in this statement of investment policy, the Joint Executive Committee plans to review investment policy at least annually.

The Joint Executive Committee adopts this statement of investment policy on ____/____/____
(date):

Name

Title

DRAFT