

# TEXAS HOSPITAL ASSOCIATION FOUNDATION

## INVESTMENT POLICY

### PURPOSE

The purpose of this policy is to establish the goals, objectives and types of investment vehicles which are appropriate for the Foundation's funds, and to establish a clear understanding between the Texas Hospital Association Foundation (Foundation) and its authorized investment manager(s) regarding the investment of its funds.

The goal of this policy is to ensure that the funds of the Foundation are invested to achieve the highest possible rate of return using safe and prudent investment practices and commensurate with the asset allocation dictated by this policy. This policy identifies the appropriate methods to ensure the Foundation can meet its cash requirements through prudent investment strategies and cash flow control. Under no circumstances may an investment be financed or a margin account be established.

### INVESTMENT OBJECTIVES

The primary objective is to earn a positive return every year with emphasis on safety of principal and maximization of income. The secondary objective is to appreciate the total value of the Foundation Portfolio over time.

To meet these objectives, the staff will organize and maintain an investment program for the Portfolio that will attempt to maximize the return on the Foundation's investments, consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the Fund shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the Association.

### ASSET MIX

Asset mix is the primary determinant of the Foundation's Portfolio performance. Asset mix may be changed from time to time based on the economic and security market outlook as well as income requirements. The overall risk level of the assets, in terms of potential for price fluctuation, should not be extreme. The primary means for achieving such a risk profile are:

- a balanced diversification between equity and fixed income investments;
- careful control of the risk level within each asset class, through avoidance of over-concentration and by not taking extreme positions against the market averages;
- a degree of emphasis on stable growth, rather than capital gains.

The return objective of the Fund should be primarily long-term in nature and focused upon maintaining asset growth above the rate of inflation. In the shorter term, attention to preservation of nominal capital value is also required.

In establishing asset mix, recognition of the role of various classes of investments will be considered. These include:

- The principle purpose of fixed income investments is to provide a dependable and predictable source of income.
- Equity investments provide both current income and growth of income, but their principal purpose is to provide appreciation of the Portfolio.
- Cash equivalent-short term investments provide current income, but their principal purpose is to store purchasing power to fund longer term investments.

To pursue the foregoing return objectives at an acceptable risk level, the asset allocation shall be within the following assigned ranges:

**Percentage of Fund at Market Values**

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Range</u></b>	
		<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
Equities	25%	0%	25%
Fixed Income Securities	35%	25%	35%
Cash Equivalents	40%	40%	40%

**INVESTMENT GUIDELINES**

All investment decisions shall be made in accordance with the “Prudent Person Rule”.

Investment restrictions include the following and shall be strictly adhered to unless waived by the Board of Trustees:

- All investments must be U.S. dollar denominated.
- Commercial paper must be rated in the two highest quality classes by Moody’s Investor’s Service, Inc. (P1 or P2) or Standard & Poor’s Corporation (A1 or A2).
- Negotiable certificates of deposit shall be limited in principal amount to FDIC insurance ceilings (currently \$100,000). C.D. programs which spread liability up to FDIC limits within a single bank holding company are permissible.
- Money market mutual funds must have a rating by Standard & Poor’s Corporation of AAA MG for funds holding at least 85% U.S. government securities and AA M or AA F

for all others and, additionally, the underlying investments must be eligible under this policy.

- The maximum maturity of any security shall not exceed ten (10) years and the average maturity of the fixed income portfolio shall not exceed five (5) years.
- Investment in structured notes is prohibited. For purposes of this policy a structured note (a derivative security) means a fixed-income instrument where the coupon, redemption value, or bond life can be dependent upon the projected movement within any combination of underlying indices, currencies, mortgage prepayment speeds, and foreign rates. These bonds are complicated to evaluate since they may incorporate a series of call options and/or interest rate formula changes. Risks include a limited secondary market, leverage and systematic risk.
- Eligible investments include U.S. Government Obligations, which are debt instruments issued by the U.S. Government, such as Treasury Bills, Notes, and Bonds, as well as Savings Bonds. These investments are backed by the full faith and credit of the United States Government.
- Eligible investments include the obligations Government Sponsored Enterprises (GSE) and Federally Related Institutions (FRI).
- Bonds must be rated investment grade by Moody's Investor's Service, Inc., or Standard & Poor's Corporation respectively at time of purchase. Bonds rated below A3 and A- shall not constitute over 10% of total bond holdings. At no time shall the allocation to corporate bonds exceed 20% of the total portfolio.
- No securities may be purchased on margin or leverage.
- No transactions in short sale will be made.
- Transactions in financial futures and options other than sales of covered stock options are prohibited.
- No more than 25% of the portfolio shall be invested in any one industry at cost.
- No more than 5% of the portfolio shall be invested in the securities (including debt and equities) of one corporation.
- Securities which are traded only in foreign markets shall not be included in the portfolio.
- No unlisted stocks shall be included in the portfolio. Only securities listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ shall be included in the portfolio.

## MONITORING

The performance of the Fund and the manager with regards to this policy statement will be monitored by staff on a quarterly basis, by:

- reviewing the assets and net cash flow of the fund;
- discussing the current economic outlook and investment plans;
- reviewing the current asset mix, compliance with this policy statement, and authorize any redirection of cash flow, transfers of assets, or sales/purchases necessary to ensure such compliance within 12 months;
- receiving and considering statistics on the investment performance;
- reviewing significant revisions to the expected long-term trade-off between risk and reward on key asset classes, dependent upon basic economic/political/social factors; and

Investment performance shall be measured primarily by comparing investment results, over a moving annualized three and five-year time period to:

- The Standard & Poor's 500 Composite Index and the Lipper Large Cap Value Fund Index as benchmarks for the Equity Component;
- The Lehman Brothers Intermediate Bond Index as a benchmark for the Fixed Income Component; and,
- 90-Day U.S. Treasury Bill and the Consumer Price Index for the Cash Equivalent Component.

**TEXAS HOSPITAL ASSOCIATION**  
**RESERVE FUND POLICY**  
(Adopted September 14, 1991)

**PURPOSE**

The THA Board of Trustees establishes Association reserve funds for the following purposes:

- To provide protection against expected or unexpected reductions in revenue or additional expense spending resulting in cash requirements beyond available operating funds.
- To provide funds for large capital expenditures that are unable to be funded by annual depreciation expense.
- To provide funds for potential investment in new business ventures.
- To provide funds to bridge financial needs during catastrophes, acts of God, etc.
- To serve as source from which operating funds could be borrowed on a short-term basis.
- To ensure continuous financial support of litigation the Association has entered into under the Association's Litigation Policy on behalf of its membership in an amount of up to \$250,000 annually. The Reserve Fund is to be utilized only after the funds provided in the annual budget approved by the THA Board of Trustees for that specific litigation and for general litigation contingencies have been exhausted.

**FUNDING GOAL**

The Association will have as a continuing reserves goal an amount equal to three to six months average operating expenses based on the most recent annual budget approved by the THA Board of Trustees. As a part of the Association's annual budget process, the Board of Trustees will specify the appropriate number of months to be utilized to determine the Reserve Fund goal.

**FUNDING METHOD**

Annual contributions shall be determined as a part of the Association's annual budget procedure. Upon the THA Treasurer's recommendation, the THA Board of Trustees may transfer additional surplus operating monies to the Reserve Fund.

Interest earned on all Reserve Fund monies shall be retained in the Reserve Fund.

## WITHDRAWAL OF FUNDS

### Short-term borrowing

Should the Association require short-term borrowing to meet operating requirements, designated members of THA's executive staff may authorize utilization of up to three months average operating funds, as determined by the annual budget approved by the THA Board of Trustees, from the Reserve Fund. Such short-term borrowing requires the unanimous approval of the President/Chief Executive Officer, the Executive Vice President/Chief Operating Officer, and the Senior Vice President/Chief Financial Officer. Any such short-term borrowing must address the source of repayment of the Reserve Fund. The Fund should be reimbursed for the principal amount borrowed plus interest at the current prime rate. The THA Board of Trustees shall be notified of any such short-term borrowing, the reason the transfer was required, the projected maximum amount required, and the anticipated repayment schedule at its next board meeting.

### Other

Other withdrawals shall be approved by the THA Board of Trustees, or if necessary its Executive Committee, prior to the transfer of any funds. Whenever monies from the Fund are utilized, the THA Board of Trustees shall determine how the Fund will be replenished (i.e. assessment, dues increases, repayment from operating funds over a specified period, voluntary contributions, etc.)