

California Association of Hospitals and Health Systems
INVESTMENT POLICY

The CAHHS Executive Management Committee, and the chief financial officer (CFO) specifically, are responsible for investing the excess funds of the association and its divisions and subsidiaries. This policy is designed to guide management as to appropriate investments.

This policy is directed toward funds that may be needed for operations; and, therefore, does not contemplate investments in non-liquid investments such as real estate. CAHHS is invested in two real estate ventures and does not currently contemplate further real estate parcel investments until one of the two existing investments has been liquidated. Any further investment in real estate must be approved by the CAHHS Board in advance. The preservation of principal is a very high priority; therefore, investments that carry a distinct and likely risk of principal loss (*e.g., equities, either individually or as a stock fund, and bond funds*) are inappropriate to meet the association's goals. Management is expected to invest in a manner that is consistent with the CAHHS vision of an optimally healthy society.

Appropriate investments are as follows:

Short Term:

Commercial paper, banker's acceptances, certificates of deposits, money market funds and interest bearing accounts at brokerage or investment concerns or financial institutions.

Short-term obligations shall be rated investment grade by Standard & Poor's, Moody's or Fitch. Certificates of Deposit shall be in financial institutions that meet all the capital requirements of the Federal Deposit Insurance Corporation (FDIC). Amounts greater than the FDIC's insured amount (currently \$100,000) may be invested at banks that meet the FDIC's capital requirements as long as management monitors the financial stability of the institutions. Money Market funds provided by financially stable investment, brokerage or other financial institutions are acceptable as long as they do not provide risk to principal.

Medium Term:

Debt obligations of governmental and quasi-governmental entities, and corporate entities.

Medium-term obligations shall be rated investment grade by Standard & Poor's, Moody's, or Fitch. Unrated bonds or below-investment-grade bonds or notes are not appropriate. Medium-term means terms from one through five years to maturity. The further a bond is from maturity, the greater its market interest rate risk; therefore, unless the intent is to hold the bond to maturity, generally speaking, shorter term bonds are preferable. From time to time the Unemployment Insurance Division (UID) of CAHHS may need to invest funds at a maturity greater than five years. In those cases, the executive director of the Unemployment Insurance Program (UIP) will consult with senior management of CAHHS to determine the best solution. In no event will UIP bond maturities exceed ten years.

Diversification of medium-term fixed income instruments:

Bond purchases shall be spread among industries and entities. No more than 40 percent of bonds shall be in the same industry, and no more than 25 percent may be in the same entity.

The CFO of CAHHS has primary responsibility for investing and monitoring association funds. The executive director of UIP shares responsibility for the reserve fund investments of UIP. The CFO will report to the Executive Management Committee of CAHHS at appropriate intervals on the status of investment funds.

The CFO of CAHHS has the authority to open, close and change accounts; invest; divest; and generally handle all funds of the association and its divisions, subsidiaries and partnerships.