

# KENTUCKY HOSPITAL ASSOCIATION

## INVESTMENT POLICY

### I. SCOPE

- A. This Investment Policy applies to all investments of the Kentucky Hospital Association, which includes cash and investment balances.

### II. INVESTMENT OBJECTIVES

The following investment objectives, listed in priority order, will be applied in the management of the Association's funds.

- A. **SAFETY** – The primary objective of the Association investment activities is the protection of Association funds. This Preservation of Principal will be accomplished by setting procedures to control risks and diversify investments among specific security types, maturities and financial institutions.
- B. **LIQUIDITY** – The Association's investment strategy will provide sufficient liquidity to meet the Association's cash flow requirements.
- C. **YIELD** – The Association will strive to maximize the return in a way that is consistent with the objectives presented above.

### III. PRUDENCE AND ETHICAL STANDARDS

- A. The "prudent person" standard shall be used by investment officials in the management of the overall investment portfolio. Personnel included in the Association's investment activities shall not be held personally liable for changes in market value, credit risk or other investment risks inherent in the portfolio, or damages and losses incurred by the Association, while acting in good faith on behalf of the Association utilizing the Prudent Investor Rule. The Association will defend same against third party claims arising from all investment activities carried out in the due course of business.
- B. The "prudent person" standard is herewith understood to mean the following:
  - 1. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom.

### IV. REPORT OF INVESTED ASSOCIATION FUNDS

When requested by the Board, a designated officer and/or the Association's Investment manager shall prepare and submit a written report on all invested funds. Reports shall provide a complete list of all invested funds, name or type of security in which the funds are invested, the amount invested, the maturity date, the current value and the interest yield on each investment.

**VI. AUTHORIZED INSTRUMENTS**

The Association shall utilize the following classes and types of investments when investing and reinvesting Association funds in its control or possession:

- A. **U S. Government Securities;** Negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government. Such securities will include the following:
  - 1. Treasury Bills
  - 2. Treasury Notes
  - 3. Treasury Bonds
  - 4. Treasury Strips
  
- B. **U.S. Federal Agencies;** Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by United States agencies, provided such obligations are backed by the *full faith and credit* of the United States Government. Such securities will include the following:
  - 1. Government National Mortgage Association (GNMA)
  - 2. GNMA – guaranteed mortgage-backed bonds
  - 3. GNMA – guaranteed pass-through obligations
  
- C. **U. S. Federal Instrumentalities;** Bonds, debentures, notes or other evidences of indebtedness (such as Collateralized Mortgage Obligations for 3 and 4 below) issued or guaranteed by United States Government agencies which are *non-full faith and credit* agencies limited to the following:
  - 1. Federal Farm Credit Bank (FFCB)
  - 2. Federal Home Loan Bank or its district banks (FHLB)
  - 3. Federal National Mortgage Association (FNMA)
  - 4. Federal Home Loan Mortgage Corporation (Freddie-Macs) including Federal Home Loan Mortgage Corporation participation certificates.
  
- D. **Certificates of Deposit;** Non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state, in national banks organized under the laws of the United States and doing business and situated in this state, in savings and loan associations which are under state supervision or in federal savings and loan associations located in this state and organized under federal law and federal supervision, provided that any such deposits are secured by a public depository authorized under Kentucky statutes.
  
- E. **Repurchase Agreements** which are comprised of only those securities authorized in Sections A, B and C.
  
- F. **Banker's Acceptances** which are issued by the top 100 banks according to the American Banker's yearly report.
  
- G. **Commercial Paper** which is rated, at the time of purchase, A-1 by Standard and Poor's and P-1 by Moody's.
  
- H. **Corporate Obligations** issued, assumed or guaranteed by any solvent institution created or existing under the laws of the United States, or of Canada, or of any

state, province, district, or territory, which are not in default as to principal or interest and if no obligation of the institution has been in default as to principal or interest during the five (5) years preceding the investment. These obligations must be rated "A" or higher by Standard & Poor's and Moody's.

- I. **Preferred or Common Stock** of any solvent institution organized and existing under the laws of the United States or Canada, or of any state or province thereof.
- J. **Mutual Funds**; Securities of or, other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. SS 80 a-1 et seq., as amended from time to time, provided the portfolio of such investment company or investment trust is limited to only those securities authorized in Sections A through I above. Further provided such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

#### **INVESTMENT MATURITY AND LIQUIDITY**

Investment maturities will be determined based on a review of all cash flow forecasts. The maximum maturity shall never exceed fifteen (15) years from the purchase date to maturity date.

#### **TRANSACTION CONSIDERATIONS**

All security transactions will be executed with qualified institutions through a formal and competitive process requiring the solicitation and evaluation of at least three bids from qualified institutions. The bid which provides the highest rate of return and optimizes the investment objectives of the portfolio will be accepted. When selling a security the offer which generates the highest sales price will be accepted.

Investment managers are responsible for providing written documentation of any transaction requested by the Kentucky Hospital Association, including the name of the qualified institutions solicited, rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for a purchase, an explanation describing the rationale of the selection will be included in the record.

#### **VII. RISK AND DIVERSIFICATION**

Adequate diversity will be necessary to minimize market risk. The Association will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over-weighting the portfolio in specific instruments, individual financial institutions or maturities.

#### **VIII. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

- A. The Association and/or its Investment Manager will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under the Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No

public deposit shall be made except in a qualified public depository as established by state laws.

**B. Requirement for Financial Statements**

Each bank, savings and loan and securities dealer, otherwise qualified under the provisions of this policy, who wishes to do business with the Association shall submit a copy of its latest financial statement, on an annual basis, to the Association and/or Investment Manager, including a Balance Sheet and a Profit and Loss statement.

**C. Notice to Dealers**

The Association shall send a copy of the current edition of its Investment Policy to all institutions which are approved to handle the Association's investments. Receipt of the policy shall be acknowledged in writing within thirty (30) days.

**IX. PERFORMANCE STANDARDS**

Each investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the Association's investment risk constraints and cash flow needs. Investment performance of various classes of securities will be compared, on a time-weighted basis, with that of unmanaged market indices. These indices must be independently verifiable and will be mutually established by the Association and their investment advisor based on each portfolio's security classifications, asset mix, and duration. The total portfolio's performance will be compared with a "composite" market consisting of the unmanaged indices weighted in proportion to the portfolio's actual per cent investments in each of these equivalent security classifications.

**X. THIRD-PARTY CUSTODIAL AGREEMENTS**

An authorized officer of the Association will execute a Third-party Custodial Safekeeping Agreement with a commercial bank's trust department which is separately chartered by the United States Government or the State of Kentucky. All securities purchased and/or collateral obtained by the Association and/or its Investment Manager shall be properly designated as an asset of the Association and held in safekeeping by the trust department and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by an authorized Finance Department staff member. The Third-Party Custodial Safekeeping Agreement shall include letters of authority from the authorized officer and details as to responsibilities of each party, notification of security purchases, sales delivery, repurchase agreements, wire transfers, safekeeping and transactions costs, procedures in case of wire failure or other unforeseen mishaps including liability of each party.

**XI. MASTER REPURCHASE AGREEMENT**

An authorized officer of the Association will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in a Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the Master Repurchase Agreement. Whenever possible the PSA Master Repurchase Agreement will be used.