

**CHA POOLED INVESTMENT FUND  
INVESTMENT POLICY STATEMENT**

**(NOTE: SAME INFORMATION AS THE  
NJHA INSURANCE FUND  
AND  
NJHA JOINT UNEMPLOYMENT COMPENSATION RESERVE FUND)**

**Approved By the NJHA Investment Committee**

**May 2, 2007**

**Approved By the NJHA Board of Directors**

**May 10, 2007**

## Introduction

This Statement of Investment Policies and Objectives ("the Statement") has been written in order to assist in monitoring and evaluating the investment of the assets of the CHA Pooled Investment Fund (the Fund) which are professionally managed by outside investment managers.

This statement contains:

- introduction (page 2),
- asset mix guidelines (page 3),
- investment return objectives (page 4),
- investment manager objectives & guidelines (pages 4-8),
- investment manager termination, investment expense, and voting rights (page 9),
- investment committee, management, investment consultant and investment manager responsibilities (pages 10-11).

The policy statement is written with the philosophy of protecting principal and generating positive annual accumulation of assets.

The portfolio is intended to be invested using a balanced approach consisting of stocks, bonds, or cash. Specialist managers have been hired to manage the individual asset class segments of the portfolio.

The Fund holds excess operating cash for the following organizations:

<u>Company</u>	<u>Tax Status</u>
New Jersey Hospital Association (NJHA)	Tax Exempt [501(c)(6)]
Health Research & Educational Trust (HRET)	Tax Exempt [501(c)(3)]
Center for Health Affairs Inc. (CHA)	Taxable Corporation

It is intended that excess operating cash will remain within the Fund, however; cash may be required periodically from the Fund for operations.

The Fund is not subject to ERISA.

## Asset Mix Guidelines

The asset mix guidelines were established to reflect an investment risk posture appropriate for the current needs and expected requirements of the Fund. Accordingly, the assets will be allocated among the following asset classes to achieve the stated guidelines:

	<u>Allocation Range</u>	<u>Neutral Position</u>
Cash and Cash Equivalents	0-10%	5%
Bonds and Fixed Income Securities	40-50%	45%
Total Equity Securities	45-55%	50%
Large Cap Core Equity – Value	13.75-18.75%	16.25%
Large Cap Core Equity – Growth	13.75-18.75%	16.25%
International Equity	7.5 –12.5%	10%
Small-Mid Cap Equity	5-10%	7.5%

The neutral position is stated for each asset class and this is the allocation which will be used for performance evaluation purposes. The values will be allowed to vary around the neutral position within the stated allocated ranges. Rebalancing will occur on a quarterly basis.

There will be reviews of the asset allocation at least annually to determine if the mix should be reallocated or if other asset classes should be included.

The CFO / Assistant Treasurer is responsible for allocating the assets among above referenced asset classes within the prescribed allocation ranges.

## **Investment Return Objectives**

The return objectives outlined below provide a means to evaluate the performance of the Fund and each individual investment manager. The Fund's investment performance will be evaluated against the objectives annually. A three-year moving, annualized, time-weighted total rate of return will be the primary measurement calculation. Quarter, one year, five year and inception periods will also be compared.

### **Total Fund Objectives**

- To generate a total return of 7.5% net of management fees and other investment expenses based on an intermediate-term investment horizon of between 5 and 10 years. Active managers are expected to outperform their stated benchmark, net of their management fees.
- The overall return of the fund portfolio, net of management fees, should exceed the benchmark return represented by the fund's target asset allocation.
- The volatility as measured by the standard deviation of quarterly returns and the number of absolute negative periods will be compared to the fund's target asset allocation.
- Management fees and other investment related expenses will also be considered when evaluating total fund returns.

## **Investment Manager Objectives & Guidelines**

The following requirements and guidelines have been established to ensure that assets are managed in a manner consistent with the investment objectives described previously. These guidelines will be reviewed at least annually. Performance and risk benchmarks have been established for each of the asset classes currently being utilized in the portfolio.

### **Large Capitalization Equity - Growth**

This portfolio invests in stocks with growth characteristics, i.e. stocks that are expected to have above-average prospects for long-term growth in earnings and profitability. The fund is primarily invested in large capitalization (over \$ 10 billion market cap) securities. The fund may also invest in mid-cap securities on an opportunistic and limited basis.

### **Growth Equity Fund Objectives**

This style is designed to produce superior total returns, utilizing a discipline centering on growth equities. Quantitative and qualitative disciplines emphasizing a security's earnings growth, supported by fundamental analysis, should identify attractive growth companies with the potential

for above average returns.

- Over rolling three-year periods, the total return of this portfolio segment should exceed the Russell 1000 Growth Index (net of fees).
- Additionally, the portfolio's returns should, at a minimum, exceed the return of the median manager within a universe of similar style managers.

#### **Growth Equity Fund Guidelines**

- Risk, as measured by standard deviation, will be similar to or less than the benchmark Index (Russell 1000 Growth Index).
- Reasonable diversification should be maintained with no more than 6% of equity assets allocated to any one security. Though no absolute limits exist, assets should be reasonably allocated among economic sectors. No more than 20% of the fund should be invested in any one industry.
- Investments in non-dollar (U.S.) denominated securities are prohibited.
- Investment in equity related derivatives for speculative purposes is prohibited.
- Upon notice of any material deviation from the above stated guidelines of the portfolio structure, prospectus or governing document of any mutual fund or commingled trust employed, the committee will have the authority to either accept the changes or terminate the manager relationship.

#### **Large Capitalization Equity - Value**

This portfolio invests in undervalued stocks, or stocks deemed to have attractive valuations compared to the market and/or their historic valuations. The fund is primarily invested in large capitalization (over \$ 10 billion market cap) securities. The fund may also invest in mid-cap securities on an opportunistic and limited basis.

#### **Value Equity Fund Objectives**

This style is designed to produce superior total returns, utilizing a discipline centering on undervalued equities. Quantitative and qualitative disciplines emphasizing a security's intrinsic value, supported by fundamental analysis, should identify attractively-valued issues with the potential for above average returns.

- Over rolling three-year periods, the total return of this portfolio should exceed the Russell 1000 Value Index (net of fees).
- Additionally, the portfolio's returns should, at a minimum, exceed the return of the median manager within a universe of similar style managers.

### **Value Equity Fund Guidelines**

- Risk, as measured by standard deviation, will be similar to or less than the benchmark Index (Russell 1000 Value Index).
- Reasonable diversification should be maintained with no more than 6% of equity assets allocated to any one security. Though no absolute limits exist, assets should be reasonably allocated among economic sectors. No more than 20% of the fund should be invested in any one industry.
- Investments in non-dollar (U.S.) denominated securities are prohibited.
- Investment in equity related derivatives for speculative purposes is prohibited.
- Upon notice of any material deviation from the above stated guidelines of the portfolio structure, prospectus or governing document of any mutual fund or commingled trust employed, the committee will have the authority to either accept the changes or terminate the manager relationship.

### **International Equity**

The investment objective is to achieve long-term capital appreciation by investing in a broadly diversified international portfolio. The fund will invest in well-established companies that have above-average market appreciation potential, based in the countries that comprise the Morgan Stanley Capital International EAFE index. The fund will primarily invest in Europe, Australia, the Far East and Canada. Additionally, up to 20 percent of total assets may be invested in less-developed, non-U.S. markets, including emerging economies in the Far East, Africa, Europe and Central and South America.

### **International Equity Objectives**

Use of this style is designed to produce superior total returns by investing in stocks of non-domestic companies. The intent of this style is to provide the overall portfolio with diversification from U.S. equity market, while providing exposure to the growth of foreign markets.

- Over rolling three-year periods, the total return of this portfolio segment should exceed the Morgan Stanley Capital International EAFE Index (net of fees).
- At a minimum, it is expected that portfolio performance will remain ahead of the median manager within the universe of similar style managers.

### **International Equity Guidelines**

- Risk, as measured by standard deviation, will be similar to or less than the benchmark Index (MSCI EAFE Index).

- The overall portfolio should be of good quality and resemble, somewhat, that of the MSCI EAFE Index. The large majority of the investments should be made in companies with above average capitalization (based on their markets) and be domiciled in countries with well-established economies and market exchanges.
- Reasonable diversification should be maintained with no more than 5% of international equity assets allocated to any one security, nor more than 30% allocated to any one country.
- Use of currency hedging is permitted, but should be limited to strategies which are defensive in nature.
- Upon notice of any material deviation from the above stated guidelines of the portfolio structure, prospectus or governing document of any mutual fund or commingled trust employed, the committee will have the authority to either accept the changes or terminate the manager relationship.

### **Small-Mid Capitalization Equity – Core**

The investment objective is to achieve long-term capital appreciation primarily through the common stock of small capitalization (below \$2 billion market cap) and mid capitalization (\$2 - \$10 billion market cap) companies as this market sector is defined at the time of investment. These companies are perceived to have growth potential and are priced at reasonable levels.

### **Small-Mid Cap Core Equity Fund Objectives**

This style is designed to produce superior total returns, utilizing a discipline centered on identifying good businesses with capable management at compelling valuations.

- Over rolling three-year periods, the total return of this portfolio segment should exceed the Russell 2500 Index (net of fees).
- Additionally, the portfolio's returns should, at a minimum, exceed the return of the median manager within a universe of similar style managers.

### **Small-Mid Cap Core Equity Fund Guidelines**

- Risk, as measured by standard deviation, will be similar to or less than the benchmark Index (Russell 2500 Index).
- The total portfolio is constrained regarding market capitalization to the small and mid cap universe, at time of purchase.
- Investments in non-dollar (U.S.) denominated securities are prohibited.

- Reasonable diversification should be maintained with no more than 6% of equity assets allocated to any one security. Though no absolute limits exist, assets should be reasonably allocated among economic sectors. No more than 20% of the fund should be invested in any one industry.
- Investment in equity related derivatives for speculative purposes is prohibited.
- Upon notice of any material deviation from the above stated guidelines of the portfolio structure, prospectus or governing document of any mutual fund or commingled trust employed, the committee will have the authority to either accept the changes or terminate the manager relationship.

### **Fixed Income**

To portfolio invests in a well-diversified portfolio of fixed income securities that will achieve an above average return from both income and price appreciation. The portfolio will invest only in investment grade securities utilizing an intermediate term duration target.

### **Fixed Income Fund Objectives**

This style is designed to produce superior total returns, utilizing an actively managed discipline centered on identifying undervalued fixed income investments.

- Over rolling three-year periods, the total return of this portfolio should exceed (net of fees) its comparative benchmark, the Lehman Brothers Aggregate Index.
- At a minimum, over three-year rolling periods, it is expected that portfolio performance remain ahead of the median manager within the universe of similar style managers.

### **Fixed Income Guidelines**

The investment manager will make all decisions concerning duration, maturity structure, sector and individual securities within the constraints of the following investment guidelines:

- The duration of the portfolio is intended to be intermediate term in nature and should remain within 25% of the benchmark index's duration (Lehman Brothers Aggregate Index).
- Risk, as measured by standard deviation, will be similar to or less than the benchmark Index (Lehman Brothers Aggregate Index).
- Securities other than those issued by the U.S. government, including agencies, are limited to 5% of the Fund assets per issuer.
- All securities should be rated "investment grade", with the minimum rating of "BBB" by S&P or Moody's.
- Non-US Dollar denominated fixed income securities may not exceed 20% of the market value of the fixed income portfolio.
- Cash and cash equivalents should be held in money market funds or securities rated "A-1" by S&P.



- Futures, options or other derivatives are permitted only for hedging purposes.
- Upon notice of any material deviation from the above stated guidelines of the portfolio structure, prospectus or governing document of any mutual fund or commingled trust employed, the committee will have the authority to either accept the changes or terminate the manager relationship.

### **Investment Restrictions**

Direct ownership of the following investments is not permissible at present.

- Securities of companies with significant revenues from tobacco products
- Direct real estate or mortgage holdings
- Private placements
- Margin trading
- Commodities
- Futures and options for speculative purposes

\* Separately managed equity or fixed income accounts are prohibited from investing in companies whose primary business is in the manufacture and distribution of tobacco products. This restriction does not apply to mutual funds or commingled trusts where no control may be exercised over individual positions.

## **Other Issues**

### **Investment Manager Termination**

All investment manager termination decisions are made by the Investment Committee, which reserves the right to terminate a manager at any time, with or without cause. The Investment Committee will consider termination of an investment manager if a manager fails to comply with the constraints of this policy, significantly alters its investment process or business structure, or fails to achieve the policy's performance objectives. Failure to meet the performance objectives will result in an examination (generally but not necessarily after reaching the three year time horizon) as to why the objectives were not met. At this point, the Investment Committee has the option to notify the manager that they are being placed under formal review. During the examination, the Investment Committee will research the cause of the under-performance and determine if immediate termination is warranted or whether additional time will be provided to the manager. Typically, the additional time will be 180 days.

### **Investment Management Expenses**

The costs of managing the Fund's assets should be competitive within the marketplace of similar investment portfolios. All fees, be they management related or custody related, should be negotiated and monitored to insure that the Fund is not over paying for services. A formal review of the portfolio's fee arrangements shall be completed on a periodic basis. Transaction fees, brokerage commissions, and security mark-ups should be within the norms for institutional accounts similar

trading volume. Though the allocation of trades will be left up to the Fund's manager(s), it should be understood that best execution, at the lowest reasonable cost, is expected.

### **Voting Rights**

Investment managers have been delegated the full discretion to exercise all voting rights, including but not limited to, voting proxies. When applicable, the manager should provide an annual report of voting.

## **Investment Manager, Management, Investment Committee and Investment Consultant Responsibilities**

### **Investment Committee Responsibilities**

The duties and responsibilities of the Investment Committee include:

- Setting investment return objectives, philosophy and policy,
- setting asset allocation,
- appointing/discharging investment managers.

### **Management Responsibilities**

The duties and responsibilities of Management include:

- monitoring the various investment accounts on a daily basis,
- preparing investment committee meeting agenda, reports, minutes, etc...,
- advising the investment committee of matters affecting investments,
- implementing investment committee directives,
- allocating assets among investment managers and rebalancing the portfolio,
- appointing/discharging investment consultants, custodian banks and other vendors as required,
- advising the committee of recommendations for changes in policy, asset allocation and investment managers based upon input from the investment consultant or other resource,
- advising committee of any material changes in a manager's style or investment objectives of any commingled trust or mutual fund utilized in the portfolio.

### **Investment Consultant Responsibilities**

The duties and responsibilities of the Investment Consultant include:

- maintaining independence from investment managers,
- preparing investment manager and investment account performance reviews on a quarterly basis,
- monitoring investment managers and advising management of recommendations for changes in investment managers based upon performance or other developments,
- advising management of recommendations for changes in policy and asset allocation,
- conducting searches for investment managers and coordinating investment manager interviews,
- preparing alternative asset allocation scenarios, investment expense comparisons and other

- analyses as required,
- advising committee of any material changes in a manager's style or investment objectives of any commingled trust or mutual fund utilized in the portfolio.

### **Investment Manager Responsibilities**

The duties and responsibilities of the Investment Manager include:

- adhering to the investment guidelines and objectives contained in the Investment Policy Statement,
- exercising discretion over investments in accordance with the guidelines and objectives,
- communicating with management on a regular basis,
- notifying management, in writing, in the event the Investment Manager believes the Investment Policy Statement's guidelines and objectives are adversely affecting performance or are unattainable (deviations from the guidelines set forth herein are not permitted until such written notification has been submitted by the Investment Manager and management has responded to the Investment Manager in writing that said deviation(s) will be permitted),
- notifying management of any issue that may affect the investment of the assets (e.g., changes in ownership, professional staff, investment philosophy and/or process),
- advising committee of any material changes in a manager's style or investment objectives of any commingled trust or mutual fund utilized in the portfolio.

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**NEW JERSEY HOSPITAL ASSOCIATION  
SALARY DEFERRAL PLAN**

**INVESTMENT POLICY STATEMENT**

**July 31, 2002**

**Revised 9/13/02**

**Revised 11/17/06**

## **Introduction**

This investment policy statement has been written in order to assist NJHA (the Plan sponsor) in the selection of, monitoring and evaluation of investment options made available under the NJHA Salary Deferral Plan (the Plan).

The Plan, is a defined contribution pension plan as defined under section 3(34) of ERISA. Participants in the Plan have control over the allocation of their individual Plan accounts among available investment options while the Plan sponsor is responsible for selection of investment options made available to participants. This policy statement is written with the philosophy of providing participants with a broad array of investment alternatives so that they may invest their Plan accounts according to their individual retirement goals, return requirements and risk tolerance.

The Plan is intended to constitute a plan described in section 404c of ERISA and Title 29 of the Code of Federal Regulations section 2550.404c-1, and fiduciaries of the Plan will be relieved of liability for any loss which are the direct and necessary result of investment instructions given by such participant (or beneficiary).

## **Eligible Investment Options**

Investment options offered under the Plan consist principally of mutual funds. A self-directed brokerage account is also permissible.

## **Asset Mix Guidelines**

The asset mix guidelines have been established to reflect a risk/return posture appropriate for the needs of the participant population. It is assumed that the retirement age is 65. The number of investment options offered within each major asset class is as follows:

<u>Asset Class</u>	<u>Investment Options</u>
Money Market or Stable Value Funds	1 mutual fund
Bond or Fixed Income Funds	1 to 3 mutual funds
Stock or Equity Funds	5 to 10 mutual funds
Balanced Funds	1 to 3 mutual funds
Target Retirement Funds	6 to 12 mutual funds
Real Return Funds	1 to 3 mutual funds
Unspecified	1 self-directed brokerage account

The asset mix shall be reviewed at least annually to determine if it is appropriate for the participant population's demographics.

Individual participants are responsible for allocating individual Plan account assets among the investment options offered in the above referenced asset classes depending upon their individual retirement goals, return requirements, and risk tolerance.

## **Investment Objectives and Performance Review**

The investment objectives for each asset class are outlined below. Since participants determine asset allocation, there are no overall plan return objectives.

### **Money Market or Stable Value Funds**

Objective: Seeks to earn a high level of current income while maintaining a stable \$1.00 share price. Safety of principal invested is paramount. It is intended to serve as the least volatile investment category offered in the Plan and offers the lowest expected long term investment return.

### **Bond or Fixed Income Funds**

Objective: Seeks to earn high current income with relatively low level of volatility from changes in interest rates or from credit quality. It is intended to provide a greater long-term return than the money market or stable value fund with a higher degree of volatility.

### **Equity or Stock Funds**

Objective: Seeks to provide a total return principally through long-term capital appreciation. This class of assets is intended to provide the greatest long-term returns and the greatest short-term volatility. Equity funds may invest in US stocks as well as foreign stocks. Domestic equity funds may contain growth stocks, value stocks or a blend of the two. In addition domestic equity funds may invest in any combination of large cap, mid cap, or small cap stocks.

### **Balanced Funds**

Objective: Seeks a high total return (through both long-term capital appreciation and income) with reduced risk over the long term. This option is intended to offer a diversified investment alternative including components of each major asset class identified above (stable value, fixed income and equity funds).

### **Target Retirement Funds**

Objective: Seeks high total return until its target retirement date. Thereafter the fund's objective will be to seek high current income and, as a secondary objective, capital appreciation. Each fund invests in a combination of equity, fixed income, and short-term funds, using an asset allocation strategy that grows increasingly conservative over time.

### **Real Return Funds**

Objective: Seeks maximum real return (total return less inflation), investing for both current income and capital appreciation, consistent with reasonable investment risk. Real return funds may invest in a multiple asset classes (such as inflation-protected fixed income, equities, real estate, or commodities) to generate a real rate of return.

### **Participant Self - Directed Brokerage Account**

Objective: To allow participants a means of investing in individual stocks or bonds or in mutual funds or other investment options which are not specifically offered in the Plan.

### **Performance Review**

The performance of mutual funds offered shall be reviewed at least annually. The total return and volatility of each fund shall be compared to an average of a broad universe of funds with similar investment objectives, asset allocation and market capitalization. Performance over quarterly, year-to-date, 1-year, 3-year, 5-year and 10-year periods will be reviewed. Fees and expenses will also be considered in evaluating mutual fund performance.

### **Communications**

In order for participants to effectively exercise control over their account assets, they must be provided with sufficient investment information. Such information will include, but not be limited to, the minimum disclosure standards set forth in 29 CFR Section 2550.404c-1.

### **Investment Committee**

An Investment Committee will be formed to monitor and evaluate the investment options offered in the Plan in accordance with this investment policy statement. The following individuals are ex-officio members of the committee:

David P. Lavins, Chief Financial Officer  
Belinda Cooper, Vice President of Human Resources

Other current employees of the Plan sponsor who have fiduciary responsibility are eligible to participate as members of the Investment Committee.