THE REACH HEALTHCARE FOUNDATION

Statement of Investment Objectives and Policies

I. Introduction

A. The REACH Healthcare Foundation (the "Foundation") was incorporated in August 2003 as the result of a settlement agreement related to the sale of Health Midwest hospitals in Missouri and Kansas to HCA Corporation. The Foundation's purpose is to improve access to, and the quality of, healthcare for individuals and communities, particularly those who are medically indigent or uninsured.

B. With nearly $100 million in initial assets, the REACH Healthcare Foundation's primary focus is to fund programs and projects that benefit residents of Allen, Johnson and Wyandotte Counties of Kansas, and Cass, Jackson and Lafayette counties and Kansas City, Missouri. The Foundation's intent is to address healthcare needs in areas formerly served by Health Midwest.

C. The Foundation is governed by a Board of Directors, of which, 51% are appointed by five governmental appointing authorities, and 49% are elected by the Board.The investment activities of the Foundation are developed and closely monitored by a Finance & Audit Committee comprised of Foundation Board Members and the President and CEO.

D. This statement is approved by the Board of Directors of the Foundation.

E. The purpose of this statement is to foster a clear understanding of the Fund's investment objectives, policies and guidelines among the Board of Directors, the Committee, the Foundation staff, the investment consultant and the Foundation's investment managers. The Committee will review this investment policy statement periodically to ensure its continued appropriateness, and may recommend changes to the Board of Directors at any time.

F. The Committee shall meet at least quarterly to review the asset allocation and performance of the Fund. At least once each year, the Chair of the Committee and the Foundation's staff will make a report to the Board of Directors summarizing the Fund's asset allocation and performance.

II. Financial and Investment Objectives

A. The long-term *financial objectives* for the Fund are to provide a relatively predictable and stable payout stream (measured on a per unit basis) that increases over time at least as fast as the general rate of inflation, while also preserving, and if possible enhancing, the inflation-adjusted (real) value of the corpus (measured on a per unit basis) in perpetuity.

B. These financial objectives are intended to balance the needs of current and future generations of beneficiaries of the Foundation's endowment Fund. It is recognized that the desire to maintain and to grow the corpus and to produce a stable distribution stream involves tradeoffs that must be balanced in setting the investment objectives and the spending policies.

C. The *primary investment objective* of the Fund is to earn an average annual inflation-adjusted (real) total return of at least 5%, net of all investment-related expenses (e.g. manager fees, custodian expenses, consultant fees), over the long term (rolling 10- and 15-year periods).

D. The *secondary investment objectives* of the Fund are to 1) earn a return that is in line with a composite of market indices reflecting the Fund's asset allocation policies and 2) perform on par with other endowment funds with broadly similar investment objectives and policies. These secondary objectives will be monitored quarterly and evaluated over rolling five-year periods to help assess the Fund's progress in achieving its long-term 5% real return objective. It is not expected that the Fund will achieve these objectives over all five-year periods. To help evaluate the effects of diversification of the Fund relative to a simpler, less diversified "naïve" benchmark, the Foundation shall also monitor the performance of the Fund against a benchmark comprising the Wilshire 5000 Index and the Barclays Capital Government/Credit Index, weighted according to the Fund's overall equity/fixed income allocation. The Fund's investment performance is expected to deviate significantly from this naïve benchmark over relatively short time periods (5 years) but is expected to outperform this benchmark over rolling 10- to 15-year periods.

E. The Committee recognizes that the long-term 5% real return objective may be difficult to achieve in every 10 or 15-year period, but should be attainable over a series of 10 or 15-year periods. The 5% objective implies a high allocation to equity securities and consequent market price volatility. In order to attain a real investment return of 5% or greater, historically funds have had to exceed the objective substantially during some periods (such as the 1990s) in order to compensate for inevitable shortfalls during other periods (such as the 1970s).

III. Spending Policy

A. The Foundation's spending policy is to distribute 5.0% of the fair market value of the Foundation's assets In accordance with Amendment 5 to the Asset Purchase Agreement, the "fair market value of the Foundation's assets" for any given year shall be established as of the end of the third quarter of the immediately preceding fiscal year of the Foundation (the "FMV Quarter"), and shall be determined by calculating the average of the market value of the Foudnation's assets of the FMV Quarter and each of the 11 consecutive quarters preceding it.

B. The Fund's actual spending rate is expected to vary annually around the 5.0% target rate, depending upon program needs and changes in the Fund's average market value. The Foundation will attempt to keep the actual spending rate from the Fund in any one fiscal year below 6.0% of the 3 year average of ending market values of the Fund.

C. The Foundation's spending is subject to certain restrictions as outlined in the Foundation's Articles of Incorporation.

D. Fund distributions will include expenses for grants, capital, operating, and administrative costs of the Foundation's programs. Investment-related expenses (e.g. investment manager and investment consultant fees, custody charges, etc.) will be charged against the Fund's investment return.

It is recognized that the Foundation's investment objective and spending policy need to be in balance in order to have a reasonable chance of achieving the Foundation's long-term financial objective. It is further recognized that given the inherent volatility of capital market returns, there could be extended periods when the realized investment returns would deviate significantly from the spending rate.

IV. Fund Composition and Asset Allocation

A. Diversification of assets will be employed to reduce the risk that adverse results from one security class will have an unduly detrimental effect on the entire portfolio. Diversification is interpreted to include diversification by type, by characteristic, and by number of investments, as well as by the hiring of managers that employ different management styles.

B. For purposes of investment policy, the Fund shall be considered as two parts: the **Equity Fund** and the **Fixed Income Fund**. The Committee will establish long-term policy target allocations and ranges for the Equity and Fixed Income Funds, as well as long-term target allocations and ranges for the primary asset classes within the Equity Fund.

C. The primary purpose of the **Fixed Income Fund** is to provide a hedge against deflation and, secondarily, to help diversify the total Fund while providing a source of current income.

D. The **Fixed Income Fund** should normally represent 18% of Fund assets at market value. Although the actual percentage of fixed income securities will vary due to market fluctuations and manager allocations, levels greater than 28% or below 8% should be closely monitored by the Committee and additional funds should be transferred as needed so the Fund does not exceed those parameters for extended periods.

E. The primary purpose of the **Equity Fund** is to provide long-term capital appreciation in order to facilitate the real growth of the corpus and the generation of a growing spending stream.

F. It is recognized that the equity investments will have greater return variability than the fixed income investments. The Committee will diversify its equity investments across different types of assets with return patterns that are expected to be imperfectly correlated (i.e., the returns of which do not always move in tandem).

G. The **Equity Fund** should normally represent 80% of the total Fund assets at market value. Although the actual percentage of equity securities will vary due to market fluctuations and manager allocations, levels above 90% or below 70% should be closely monitored by the Committee and funds transferred by Staff as needed to bring the overall asset mix within the desired range.

H. Cash equivalents are maintained for short-term operating purposes and at the managers' discretion as equity and bond substitutes and should normally represent 2% of the total Fund assets at market value. Levels above 7% should be closely monitored by the Committee.

I. The long-term asset allocation targets and policy ranges for the Fund are set forth below. A more detailed asset allocation policy with corresponding ranges is appended to this statement as **Exhibit 1.**

J. The Committee may, at its discretion, change the proportions of the Equity Fund, and the Fixed Income Fund and the various sub-asset classes therein, but it is anticipated that such changes will be infrequent and within the ranges set forth in **Exhibit 1.** Specific diversification guidelines for the Equity and Fixed income funds follow.

Long-Term Asset Allocation Policy for the Endowment Fund

	Target	Policy Range
Equity Fund	80%	70-90%
U.S. Equity	*25%*	*20-30%*
Global ex-U.S.Developed Equity	*15%*	*10-20%*
Emerging Markets Equity	*5%*	*3-12%*
Alternative Investments	*35%*	*30-40%*
Fixed Income Fund	18%	8%-28%
Cash Equivalents	2%	0-7%

V. Guidelines for the Equity Fund

A. The Equity Fund will generally be diversified among domestic common stocks, international common stocks, and alternative assets (e.g., venture capital, buyouts, and hedge funds). International common stocks include the common stocks of developed and developing countries. **Exhibit 1** summarizes the policy allocations among these asset classes.

B. The purpose of investing in alternative equities is to enhance diversification and to increase long-term returns. Alternative investments include a wide range of equity or equity-like investments, excluding traditional, long-only common stocks. These include, among others, non-marketable investments (e.g., venture capital, private equity), marketable alternative investments (e.g., absolute return strategies), real assets (e.g., real estate, energy, natural resources) and other investments (e.g. high yield bonds, convertible bonds).

C. The overall investment objective of the Equity Fund is to produce returns which compare favorably to or outperform an appropriate blended market benchmark chosen by the Committee, net of all fees. Individual performance benchmarks will be established for each investment at the time it is made.

D. Passive (or index) managers' performance, net of fees, will be expected to be consistent with their corresponding index benchmarks.

E. Active managers will be measured against both market indexes and peer benchmarks, net of all fees, and will be expected to produce returns which compare favorably to or outperform these benchmarks by varying degrees depending on the asset class and specific investment style employed by the manager.

F. Performance will be monitored quarterly, and common stock managers will be evaluated over rolling three- to five-year periods. It is recognized that active managers may underperform their benchmarks under certain conditions, but should produce returns which compare favorably to or outperform over a complete market cycle. However, the Committee has discretion to evaluate and terminate a manager for any reason at any time. **Exhibit 2** outlines the specific performance benchmarks for the Foundation's current investment managers as well as for the broader asset classes.

G. The performance objectives for alternative assets strategies are: (1) to earn superior returns, net of fees, which compare favorably to market indices (such as the S&P 500, Russell 3000, or Treasury Bills, as appropriate) over full market cycles or rolling five-year periods; and (2) to improve the diversification of the Equity Fund. The investment and trading approaches of such funds should have explicit strategies in place through which risk is monitored and moderated.

H. Decisions as to security selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to broad manager discretion, subject to the usual standards of fiduciary prudence. However, in no case shall a single security or issuer exceed 10% of the market value of the Equity Fund. In addition, no single major industry shall represent more than 25% of the market value of the Equity Fund. Equity managers may at their discretion hold cash equivalents with the understanding that the performance of their total account will be measured against the appropriate stock indices. The Committee will monitor adherence to these guidelines.

I. Equity Fund managers of separate accounts may not buy securities on margin, borrow money or pledge assets, or buy or sell uncovered options, futures, commodities or currencies, or buy non-marketable securities (including restricted letter stock) unless such managers' respective manager-specific-guidelines shall explicitly provide that such actions are permissible.

VI. Guidelines for the Fixed Income Fund

A. The primary purpose of the Fixed Income Fund is to provide a hedge against deflation, and enhance diversification. A secondary purpose is to provide a source of current income and liquidity to help meet spending requirements.

B. To provide a hedge against extended deflation, the majority of the Fixed Income Fund (approximately 80%) should be invested in a portfolio that maintains a medium to long duration (i.e., at least 3 to 5 years). The Fixed Income Fund should ordinarily maintain a high credit quality (i.e., a weighted average credit rating of "A" or higher by Moody's or Standard & Poor's). An allocation may be made to high-yield (or below investment grade) bonds so long as the weighted average credit rating for the total Fixed Income Fund meets the above credit standards. Issues of state or municipal agencies shall not be purchased, except under unusual circumstances. A portion of the Fixed Income Fund may be allocated to a portfolio invested in non-US dollar-denominated bonds. Money market instruments as well as bonds may be used in the Fixed Income Fund, but equities are excluded. Approximately twenty percent of the Fixed Income Fund may be invested in inflation-linked bonds, which would not be expected to contribute substantially to the Fixed Income Fund's deflation hedging characteristics.

C. In general, the Fixed Income Fund shall be well diversified with respect to economic sector, financial sector, and issuer in order to minimize risk exposure. A maximum of 5% of the fund may be invested in the securities of any single issuer, except issues of the U.S. Government or agencies of the U.S. Government that may be held without limitation.

D. The performance objective of the Fixed Income Fund is to outperform an appropriate blended market benchmark chosen by the Committee, net of fees over rolling three- and five-year periods. Individual active fixed income managers may be expected to produce returns which compare favorably to or outperform other indices, or hybrid indices, which more closely parallel the manager's investment style. Such indices will be determined on a case-by-case basis in consultation with the manager. In addition, active fixed income managers will be expected to compare favorably to or outperform a peer group of managers over rolling three- and five-year

periods. Index fund managers will be expected to match the return of the appropriate index, less fees. The Committee has discretion to evaluate and terminate a manager for any reason at any time. **Exhibit 2** provides specific performance benchmarks for the Foundation's current fixed income managers.

VII. Use of Derivatives

A. The Committee recognizes that investment managers have come to use various derivative instruments and that the prudent use of such instruments can be advantageous for controlling portfolio risk, increasing returns, implementing strategies quickly, and reducing costs. Accordingly, derivatives may be used by the Foundation's investment managers to hedge existing portfolio investments (e.g., to hedge the currency risk of a foreign stock or bond position) or to create unleveraged investment positions as a more efficient and cheaper alternative to investments that would otherwise be made in the cash market. Derivatives may not be used, however, by marketable stock and bond managers to leverage a portfolio or significantly increase its risk above that of an account with similar objectives that is managed without derivatives. Use of derivatives by a manager other than as described in this paragraph is permitted only if the Committee authorizes such use.

B. The Committee requires that its investment managers utilizing derivatives will have in place processes and procedures to control and measure risk.

C. For separate accounts, manager-specific guidelines shall include covenants with respect to use of derivatives and shall require the managers to give written notice to the Committee immediately upon discovering that any of the guidelines have been violated. With guidance and data from the Foundation's investment consultant, the Committee shall periodically review the derivatives policy of each manager of a commingled vehicle to ensure that such policy is within this Investment Policy statement or that it has made an exception in appropriate cases.

D. The Fund may make investments in commingled funds where the investment managers are expected to utilize derivative securities to achieve specific investment objectives (these managers are often referred to as "hedge funds").[1] The investment strategies adopted by these managers could include the use of derivatives to leverage positions or to obtain risk exposures that would not be possible to obtain using cash securities.

VIII. Conflict of Interest Policy

A. Those who serve on the Committee are charged with the responsibility for recommendations and decisions which, in their judgment, best serve the long-range interests and objectives of the Foundation.

B. From time to time, in the ordinary course of business, the Committee may consider matters in which members of the Committee, or persons affiliated with them, have a direct or indirect financial interest. In order to resolve any questions of conflict of interest, whether real or apparent, the Committee shall adhere to and abide by the most current Conflicts of Interest Policy and disclosure requirements adopted by the Foundation's Board of Directors.

---

[1] Commingled funds include institutional commingled vehicles, mutual funds and limited partnerships and other similar investment vehicles.

IX. Guidelines for Transactions

A. Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best realized net price.

X. Fund Oversight

A. All objectives and policies are in effect until modifications are recommended by the Committee and approved by the Board. The Committee will review the objectives and policies at least annually for their continued appropriateness.

B. The Fund will be monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and investment risk. Risk will be evaluated as a function of asset concentration, exposure to extreme economic conditions, and performance volatility. The Committee will review asset allocation versus targets and investment performance on a quarterly basis. Managers' results will be monitored quarterly, and evaluated over rolling three- and five-year periods. The Committee will regularly review managers to confirm that the factors underlying the performance expectations remain in place. It is anticipated that shifting assets among managers will occur infrequently.

C. Under the guidance of the Committee chair, staff shall allocate regular cash flows to investment managers according to the current targets, incorporating any over- or under-weightings previously approved by the Committee (e.g., assets awaiting investment in venture capital or private equity funds will typically be invested in other equity asset classes). As a general rule, and with the input of the Committee's chair, staff will use new cash and withdrawals to rebalance the total Fund in the direction of the most recent equity/fixed income targets. The Committee shall consider, at least once each year, whether the amounts invested with managers should be rebalanced toward the policy allocation targets, recognizing that certain asset classes or managers may have limited liquidity (e.g., venture capital, private equity, marketable alternative assets) or higher transaction costs that will affect the Fund's ability to be rebalanced.

D. It is expected that the Committee will provide each separate account manager with a set of mutually agreed upon guidelines. Subject to such guidelines and the usual standards of fiduciary prudence, the managers will then have complete discretion over the funds. The Committee will evaluate the manager's total return without regard to whether that return was in the form of income or capital appreciation. In the case of investments made in commingled funds, the Committee will summarize the investment strategy and performance objectives for each commingled fund in which the Fund is invested.

E. If at any time any manager of a separate account believes that any policy guideline inhibits his or her investment performance, it is his or her responsibility to communicate this view to the Committee.

F. Investment managers of separate accounts will report the following information to the Committee quarterly: total return (on time-weighted basis, before fees) in the aggregate, and disaggregated for the equity and fixed income portions, net of all commissions, and purchases and sales for the quarter. Regular communication concerning investment strategy and outlook is expected. Additionally, managers are required to inform the Committee promptly of any change in firm ownership or fundamental investment philosophy, any significant change in organizational structure or professional personnel, any change in portfolio manager(s) for the account, or any change in the status of the manager's registration with any governing body such as the S.E.C.

G. The Committee acknowledges that, if it elects to invest in a commingled fund, the policies established for the commingled fund will govern and may not comply fully with policies established for the endowment Fund. The Committee will periodically review the policies of any commingled fund investment in order to determine if they remain appropriate for the endowment Fund.

H. At its sole discretion, the Committee may terminate any manager at any time if it determines, for whatever reason, that the manager is no longer appropriate for the Fund.

I. The Committee will periodically review the related services provided to the Foundation, including custody services, performance evaluation, and consulting.

Exhibit 1

THE REACH HEALTHCARE FOUNDATION

LONG TERM ASSET ALLOCATION POLICY TARGETS AND RANGES

Asset Class	Target	Range
Equity	**45%**	**35% - 55%**
U.S. Equity	**25%**	**20%-30%**
Global ex U.S. Developed Equity	**15%**	**10%-20%**
Emerging Markets Equity	**5%**	**3%-12%**
Alternative Investments	**35%**	**30%-40%**
Private Equity/Venture Capital	**15%**	**8%-22%**
Marketable Alternative Assets (e.g., Absolute Return/Hedge Funds)	**14%**	**9%-19%**
Real Assets (e.g., Real Estate, Energy, Commodities)	**6%**	**0%-11%**
Opportunistic (e.g., High-Yield Bonds, Emerging Markets Debt)	**0%**	**0%-10%**
TOTAL EQUITY FUND	**80%**	**70%-90%**
FIXED INCOME FUND	**18%**	**8%-28%**
CASH	**2%**	**0 - 7%**
TOTAL ASSETS	**100%**	**100%**