

NEPC'S ANNUAL HEALTHCARE OPERATING FUNDS SURVEY

JULY 2022

NEPC, LLC



PROPRIETARY & CONFIDENTIAL

KEY TAKEAWAYS

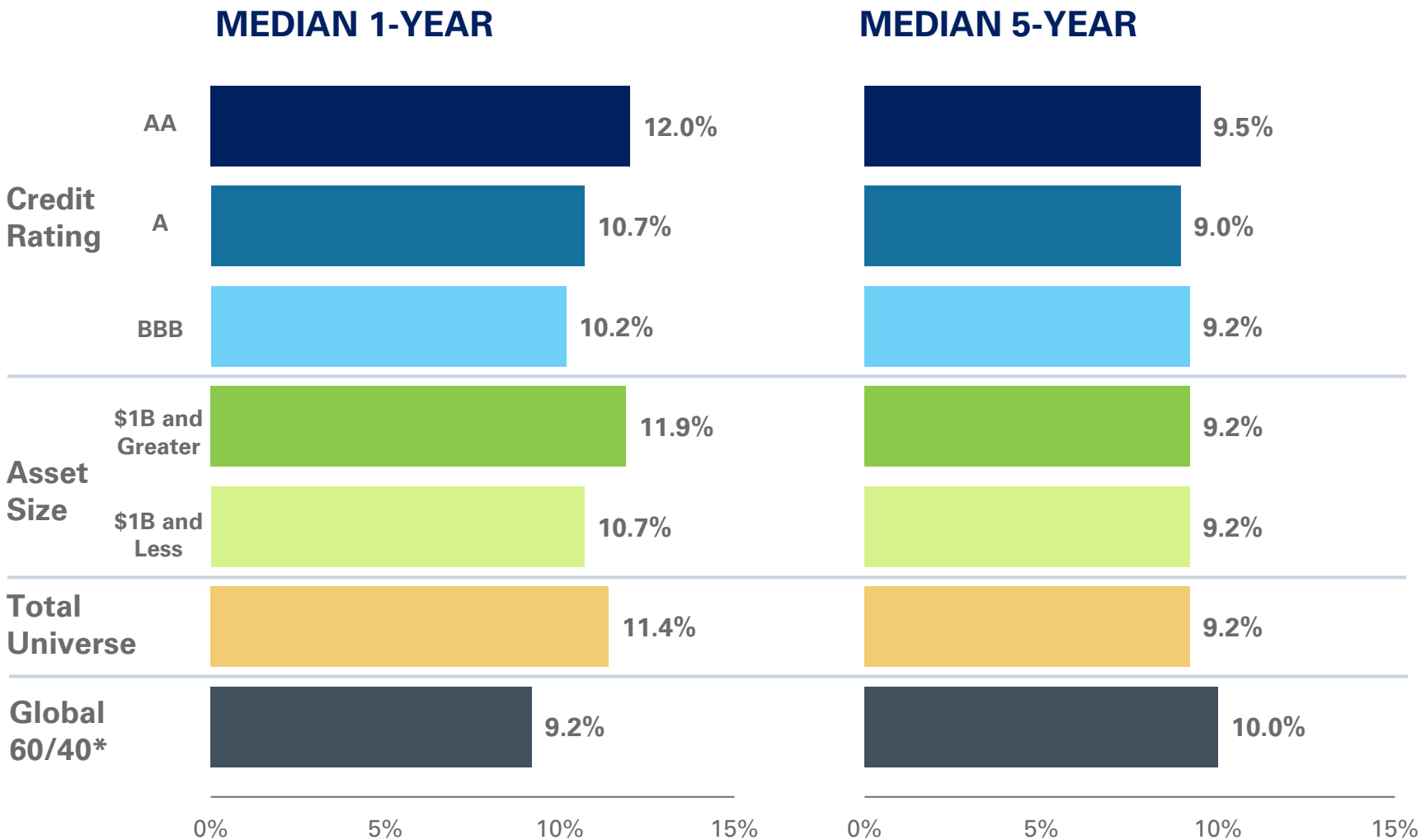
- 1 Healthcare systems enjoyed robust investment returns in 2021 on the back of strong equity markets**
- 2 Healthcare systems continue to struggle with increased operating costs and relatively low operating margins. As a result, cost management remains a significant strategic focus**
- 3 An increasing number of healthcare systems have started discussing the merits of Diversity, Equity and Inclusion (DEI) and are considering formal DEI goals**
- 4 Despite the threat of persistently high inflation, most healthcare systems have not yet considered adding or increasing exposure to inflation hedging asset classes**



PERFORMANCE



PERFORMANCE SPOTLIGHT

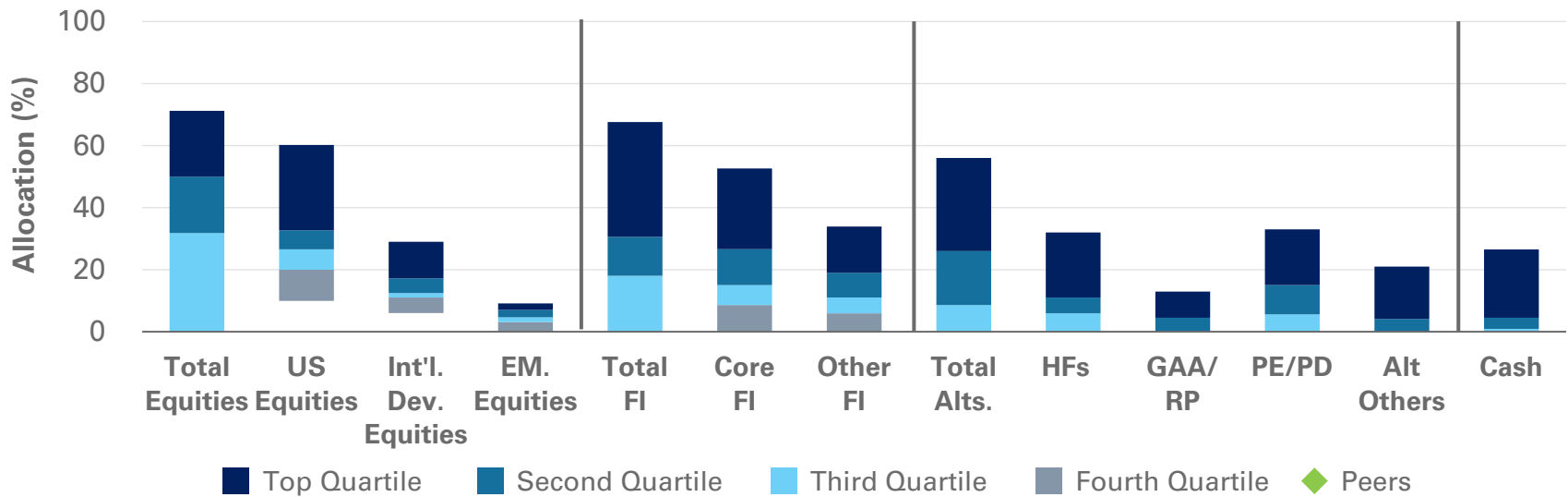
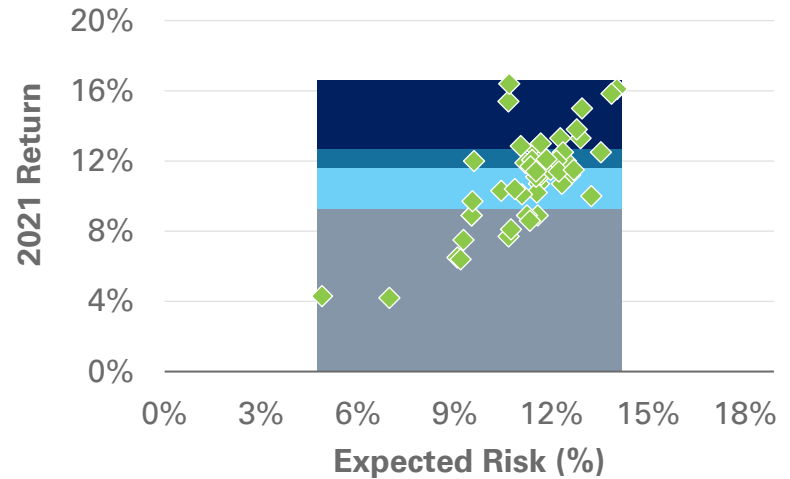
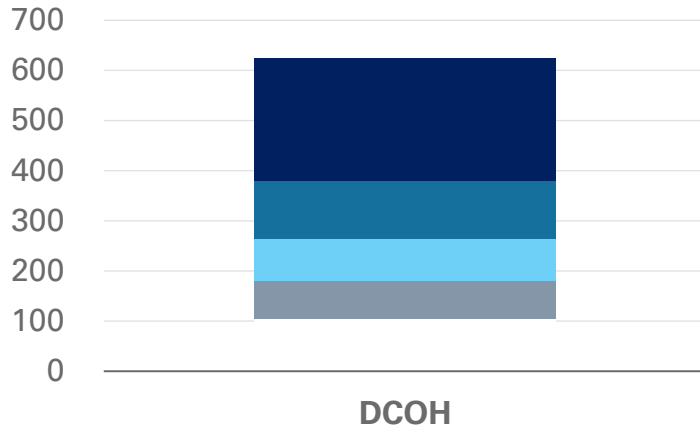


As of 12/31/2021

* Global 60/40 consists of 60% MSCI ACWI and 40% BB Global Aggregate



TOTAL UNIVERSE COMPARISON



Note: 52 observations
 Expected risk estimated using NEPC 3/31/2022 assumptions



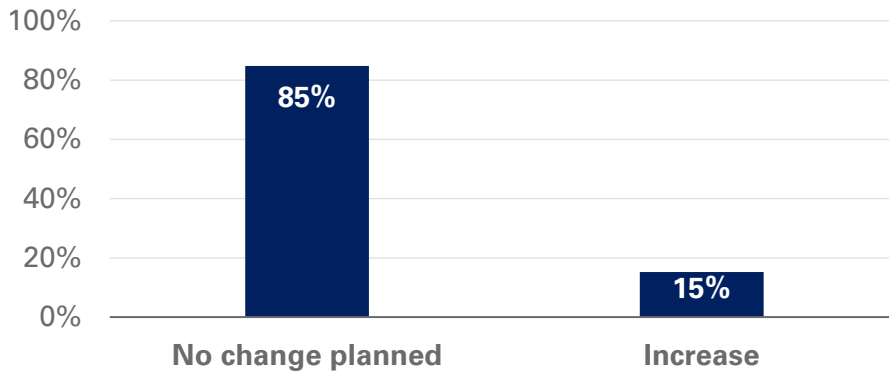


OUTLOOK

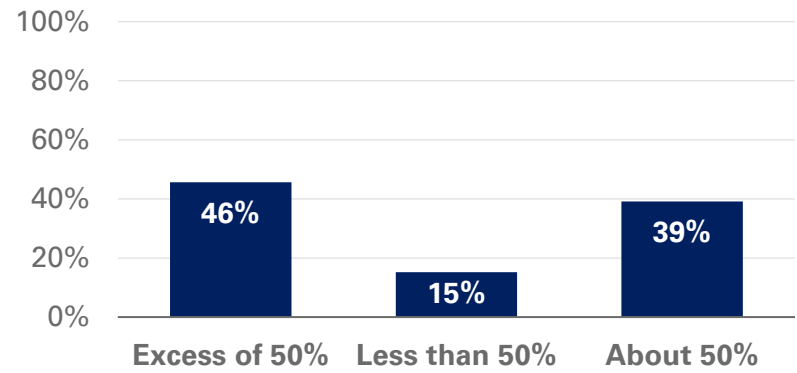


STRATEGIC INVESTMENT TRENDS

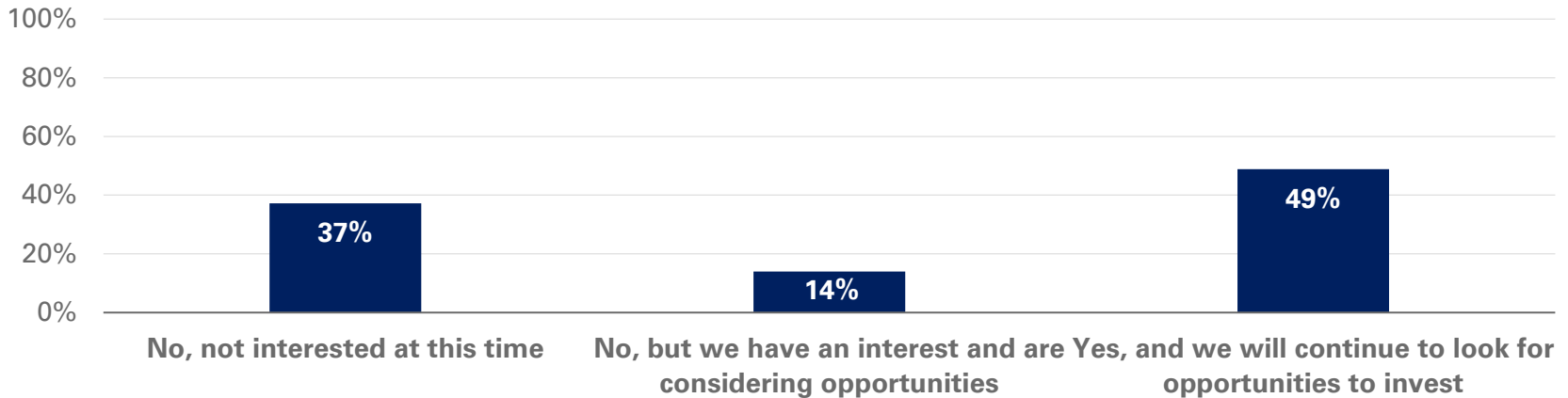
Has the prospect of persistently high inflation caused you to consider changing your allocation to inflation sensitive (i.e., real) asset classes?



What is your current exposure to actively managed investment solutions?

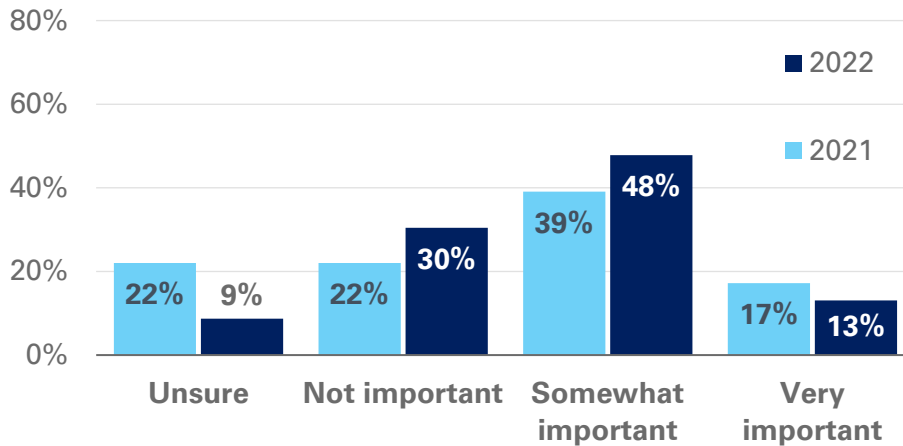


What is your interest in healthcare strategic investing?



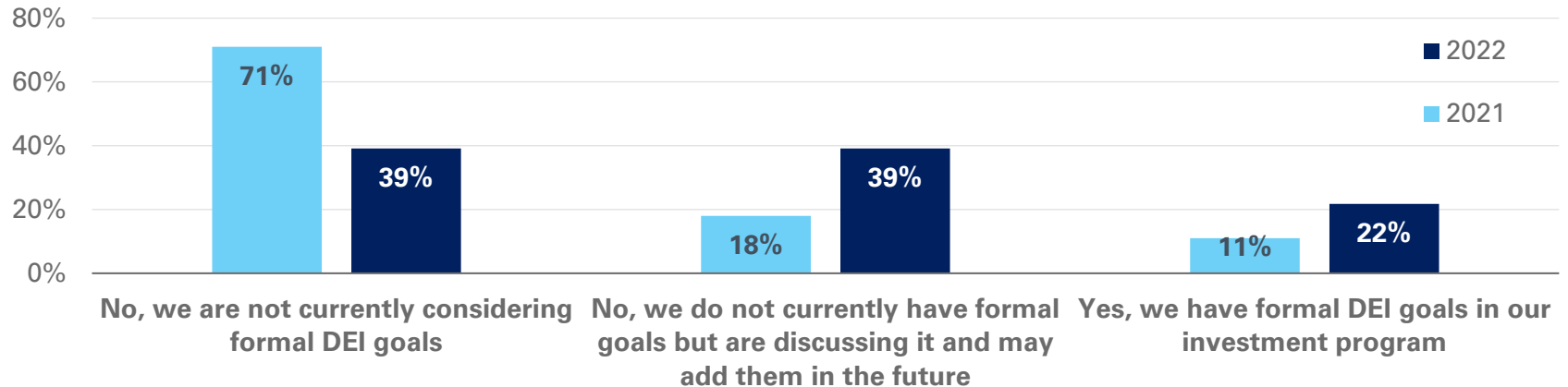
SOCIAL INVESTMENT TRENDS

How important is ESG or impact investing?



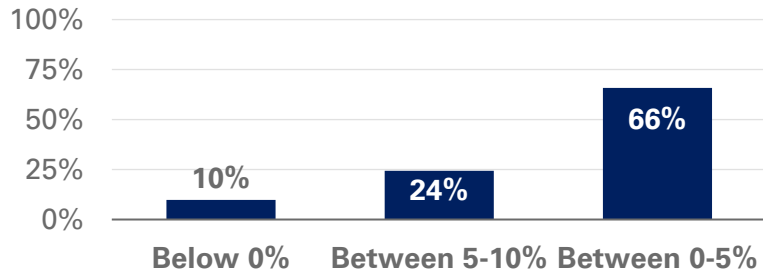
- DEI continued to gather momentum in 2021 with a higher percentage of systems showing interest than previously reported
- The distribution of interest in ESG remained consistent from the prior year's results

Has your organization formalized DEI goals into your investment program?

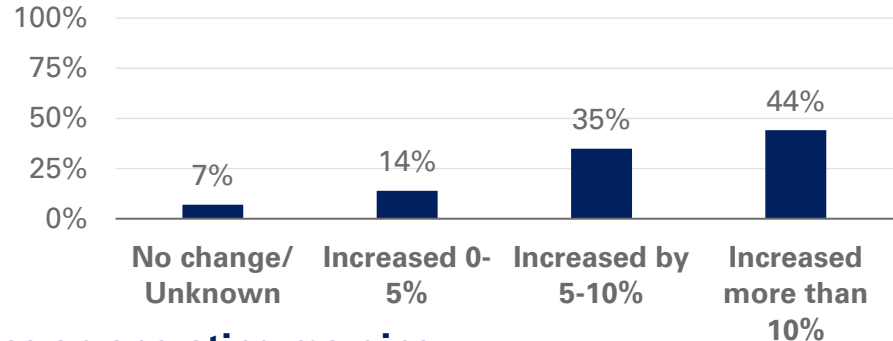


2021 OPERATING TRENDS

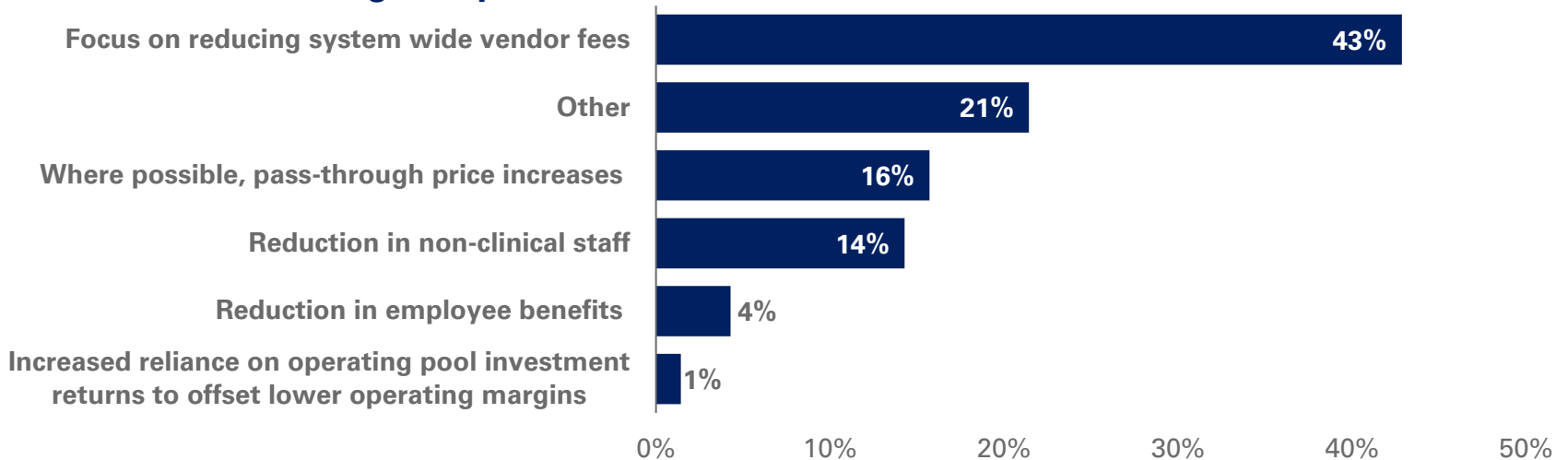
What was your system's 2021 operating margin?



How much have your labor costs changed over the past years?



How has your organization responded to stress on operating margins since the onset of the global pandemic?



ADDITIONAL ANALYSIS

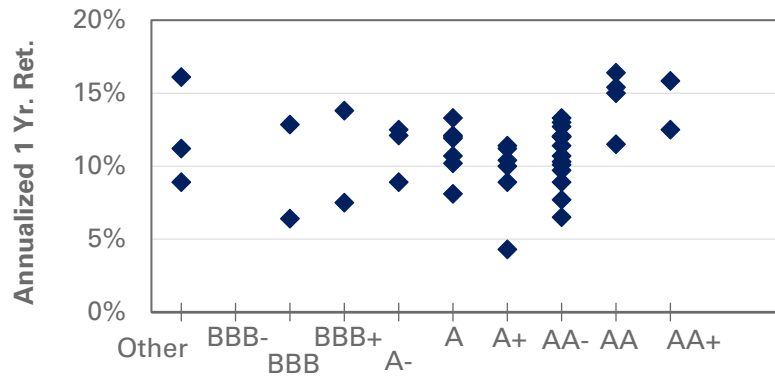


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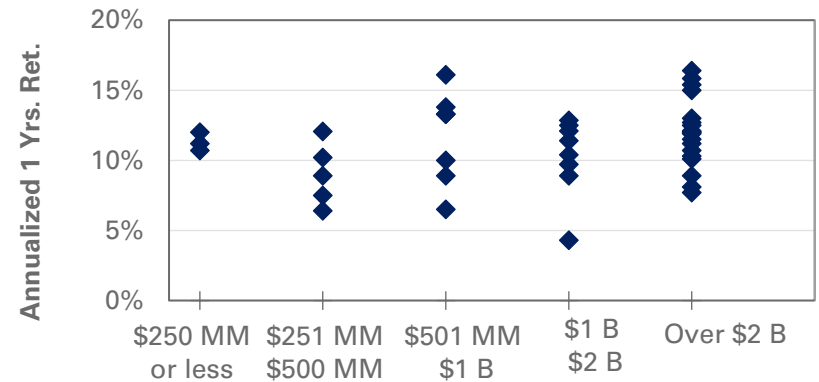
ACTUAL RETURNS RELATIVE TO SYSTEM METRICS

1 YEAR ANNUALIZED RETURNS AS OF 12/31/2021

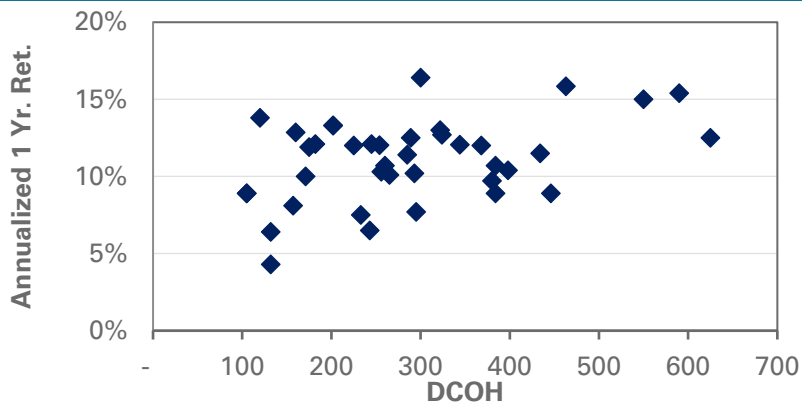
Highly rated systems generated marginally higher returns



Wide dispersion of returns generated across the spectrum of portfolio sizes

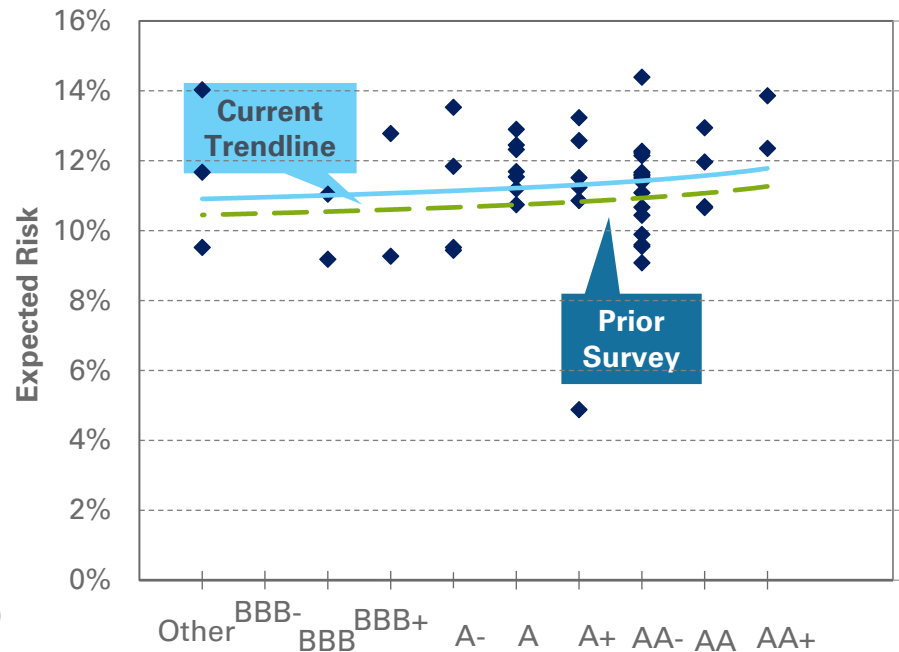
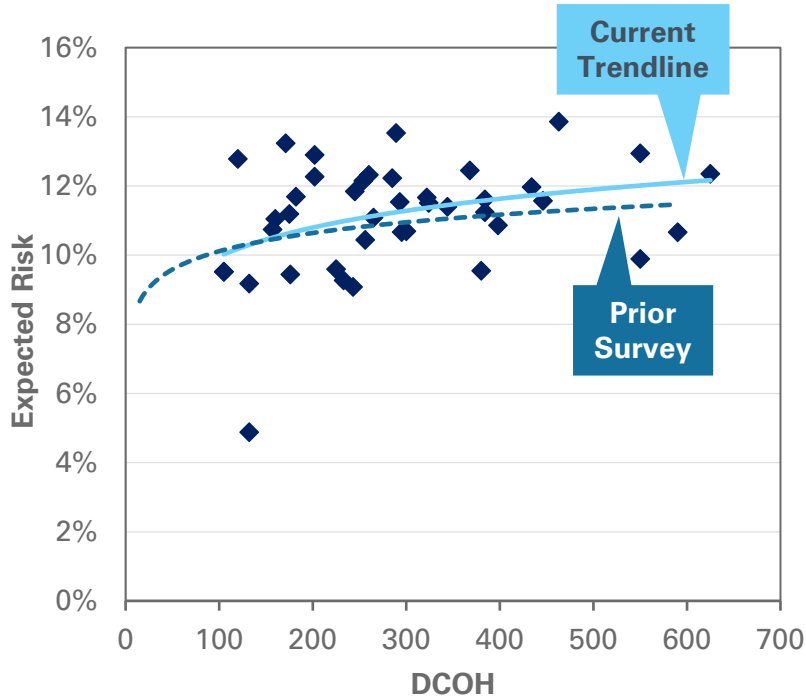


DCOH had a less defined influence on returns



EXPECTED RISK VS. DCOH AND QUALITY

Portfolio risk exposure appears to have increased over the prior year

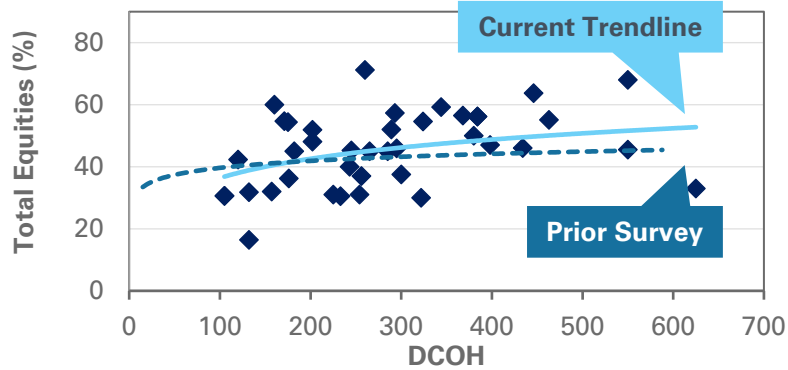


- Following consecutive years observing a reduction in investment risk, healthcare portfolios are reflecting an increased risk posture in 2022
- More highly rated systems reflect a higher risk profile

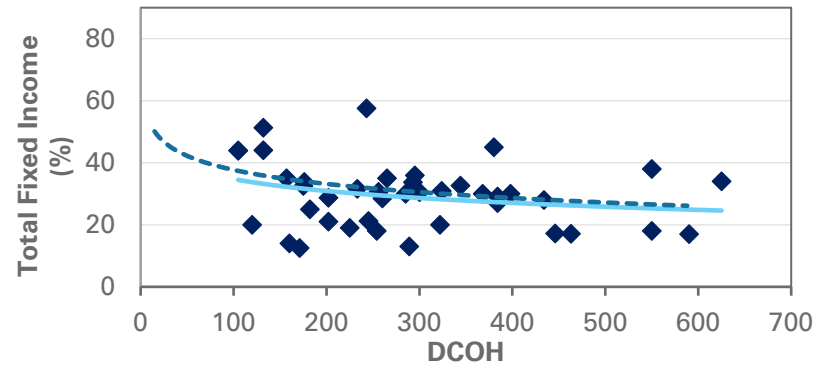


ASSET ALLOCATION VS. DCOH

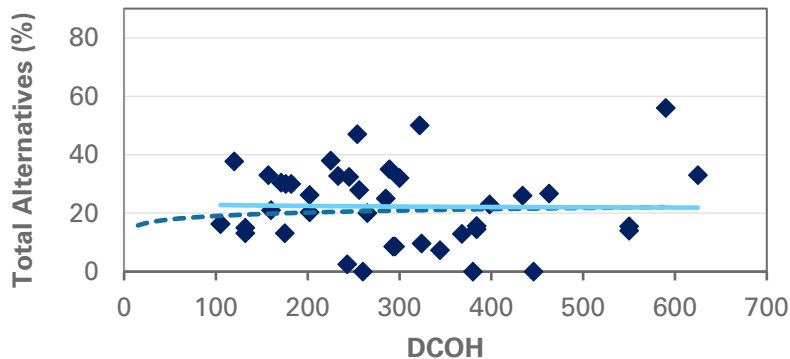
EQUITIES: Average exposure increased YoY



FIXED INCOME: Utilization was lower YoY



ALTERNATIVES: Slight increase observed YoY



- Equity exposure generally increased at the expense of fixed income
- Fixed income utilization remained prominent, however, core bond exposure decreased while non-core bonds increased

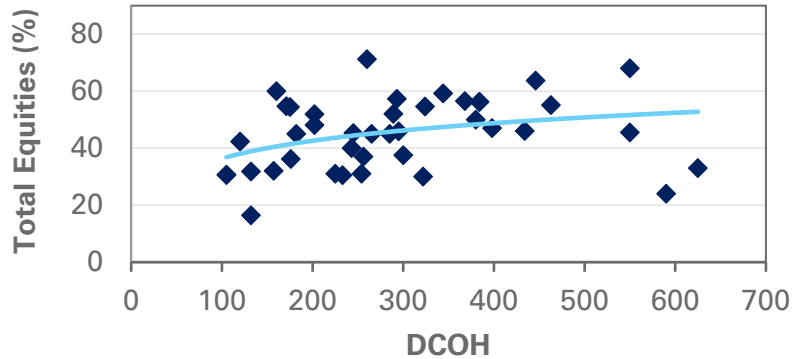


APPENDIX

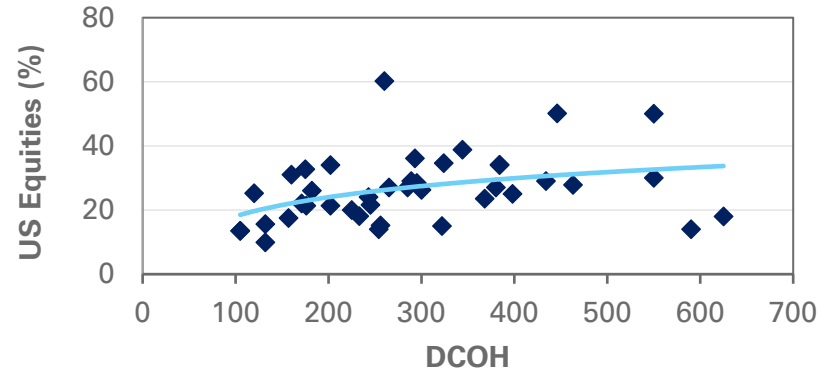


EQUITIES

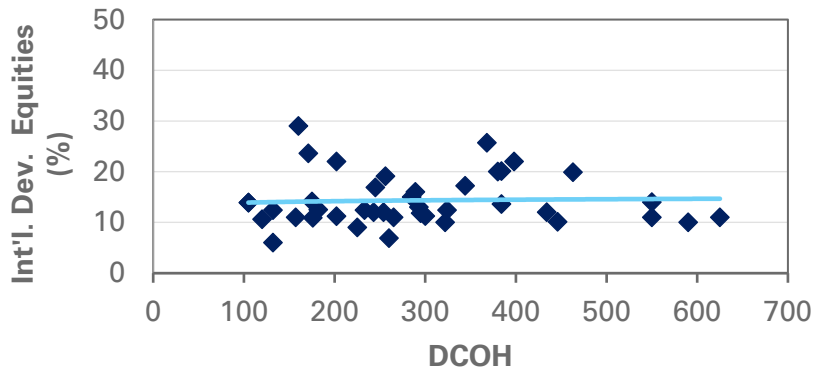
Respondents with high DCOH generally hold sizeable equity exposure



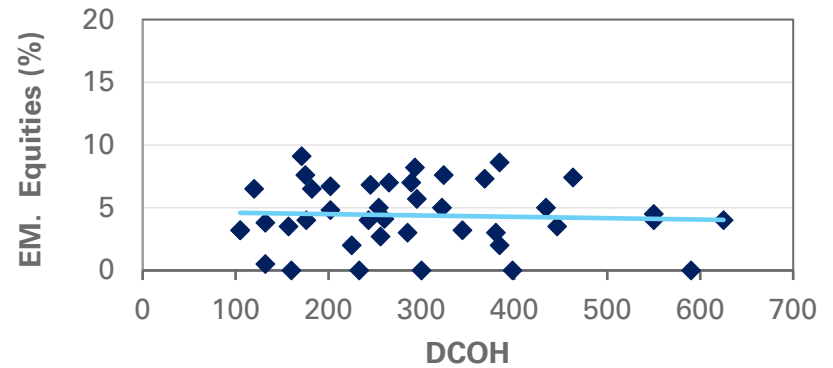
US Equity exposure is material and has increased relative to prior year



Int'l Dev Equity usage appears meaningful, but generally less than 25%

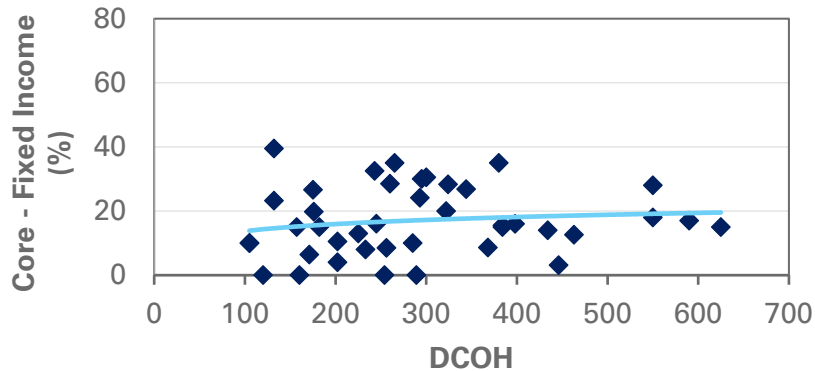


EME usage remains stable

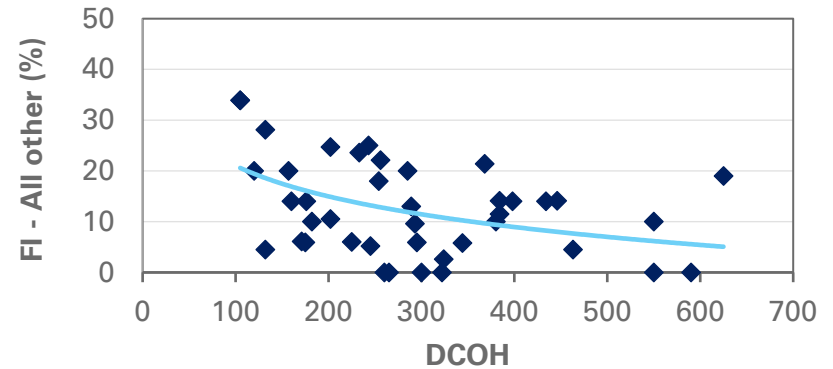


FIXED INCOME

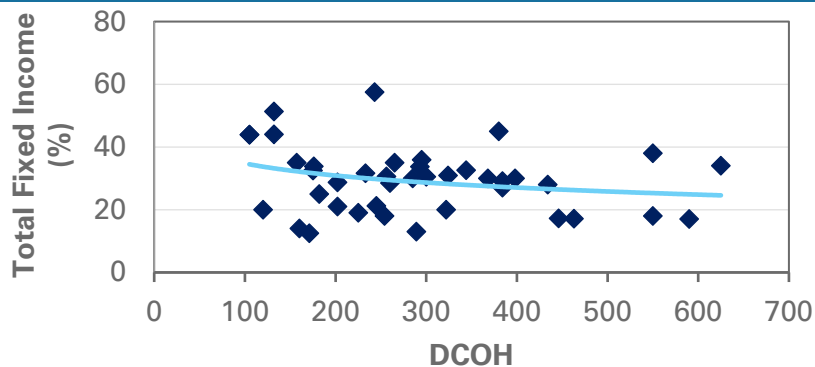
Core Fixed Income remains a building block in most portfolios



Non-core allocations are utilized less consistently and generally below 30% of assets

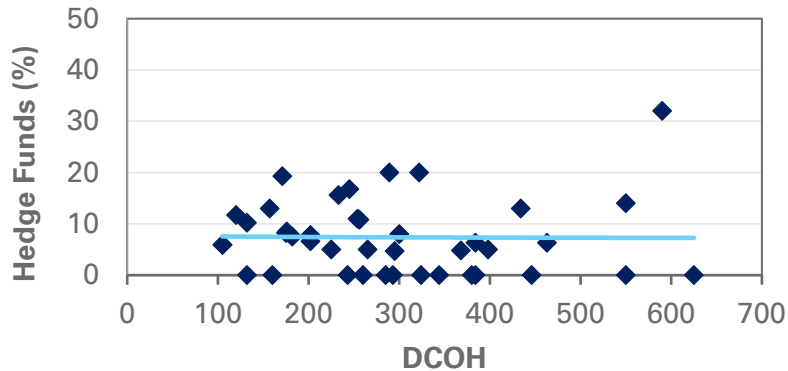


Total Fixed Income exposure declines as DCOH increases

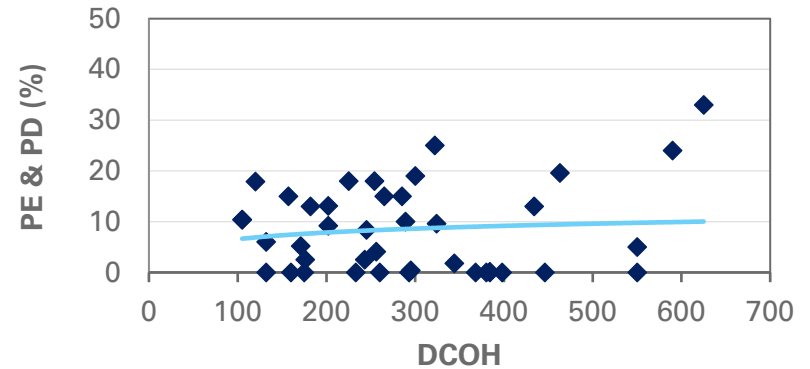


ALTERNATIVE INVESTMENTS

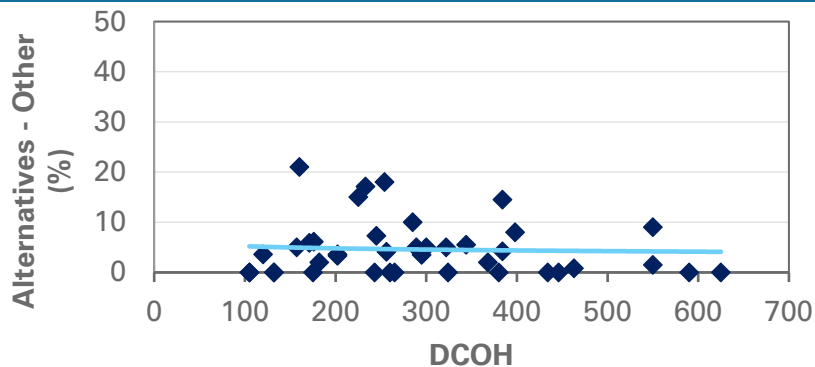
Hedge Fund utilization has declined, but exposure is diverse



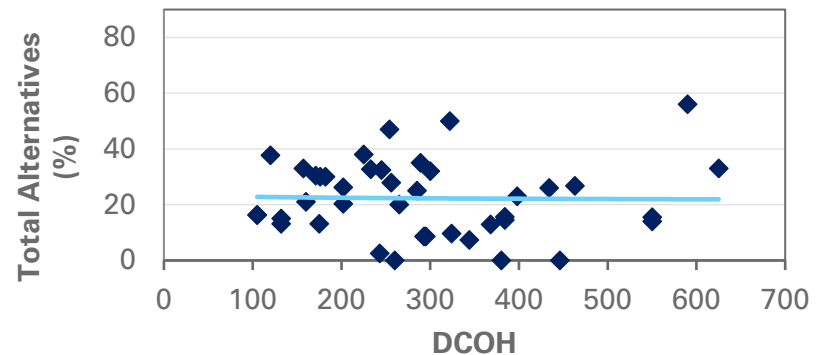
Private Markets exposure is evident across the spectrum of DCOH



Allocation to other Alternatives varies



All observations below 60%



ABOUT THE SURVEY

- **NEPC's annual Healthcare Operating Funds Survey examines how healthcare operating pools are invested**
- **NEPC's Healthcare Practice Group conducted the online survey during May and June 2022**
- **52 healthcare funds participated in this years' survey**
 - Respondents were primarily chief financial officers, treasurers and investment-related staff of healthcare organizations
 - Investment Pool Assets Under Management (AUM) ranged from under \$250 million to over \$2 billion
 - Median Days Cash on Hand (DCOH) of respondents: 265

NEPC DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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The opinions presented herein represent the good faith views of NEPC as of the publication date and are subject to change at any time.

This presentation contains summary information regarding the investment management approaches described herein but is not a complete description of the investment objectives, portfolio management and research that supports these approaches. This analysis does not constitute a recommendation to implement any of the aforementioned approaches.

