HEALTHCARE

OPERATING FUNDS SURVEY

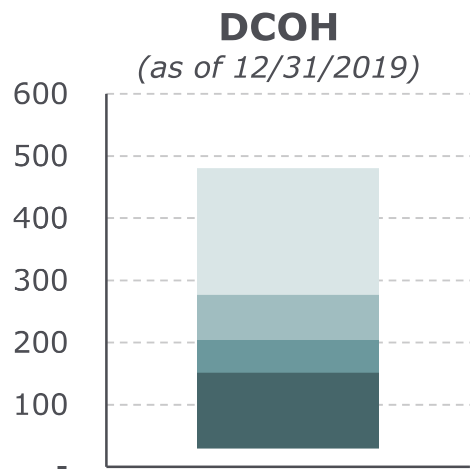
October/November 2020

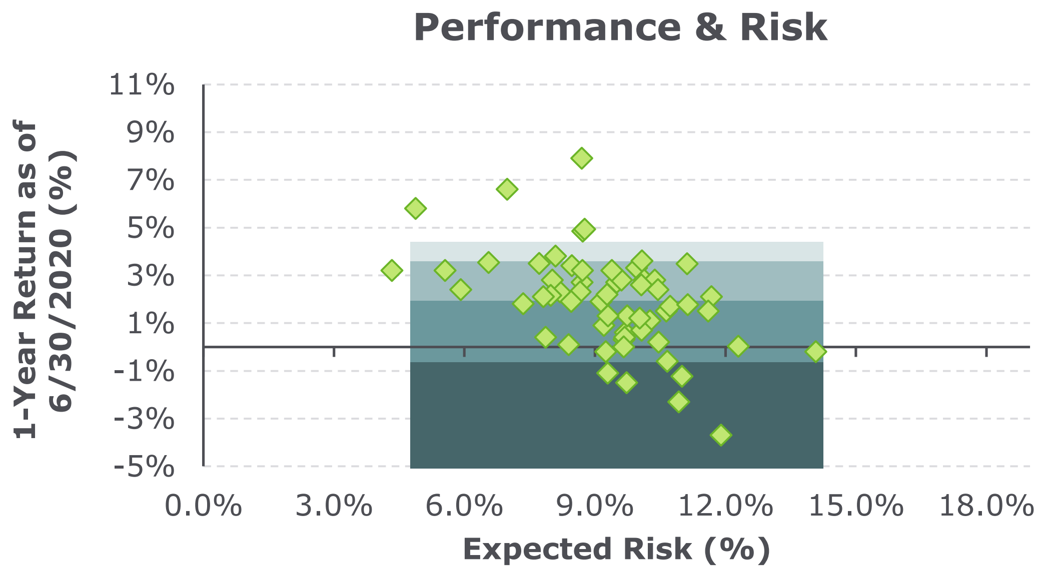
NEPC, LLC

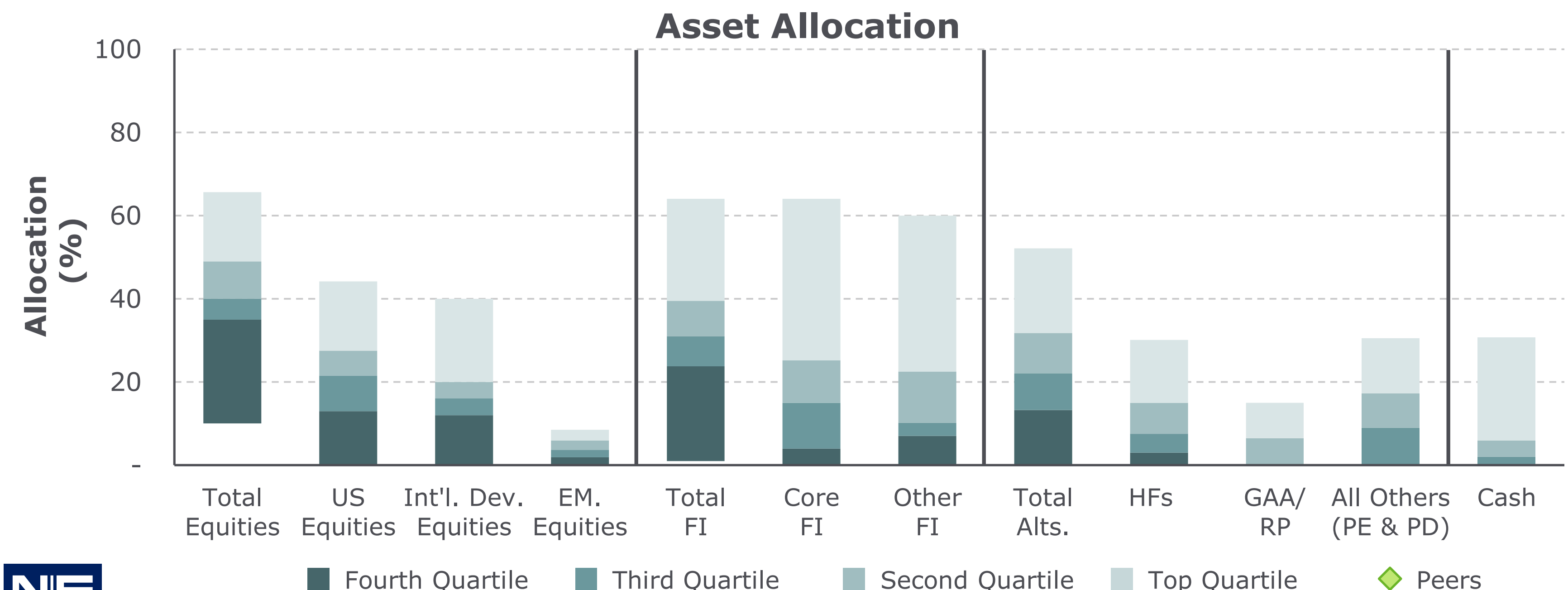
KEY TAKEAWAYS

- Healthcare systems generated significant returns in 2019, but the COVID-19 induced sell-off in capital markets brought extreme volatility
- Higher-rated and larger healthcare systems generally maintain a higher allocation to equities and lower allocation to fixed income
- Following an observed reduction in risk in NEPC's 2019 survey, respondents in 2020 indicated further reduction in investment risk

ASSET ALLOCATION VS. TOTAL UNIVERSE

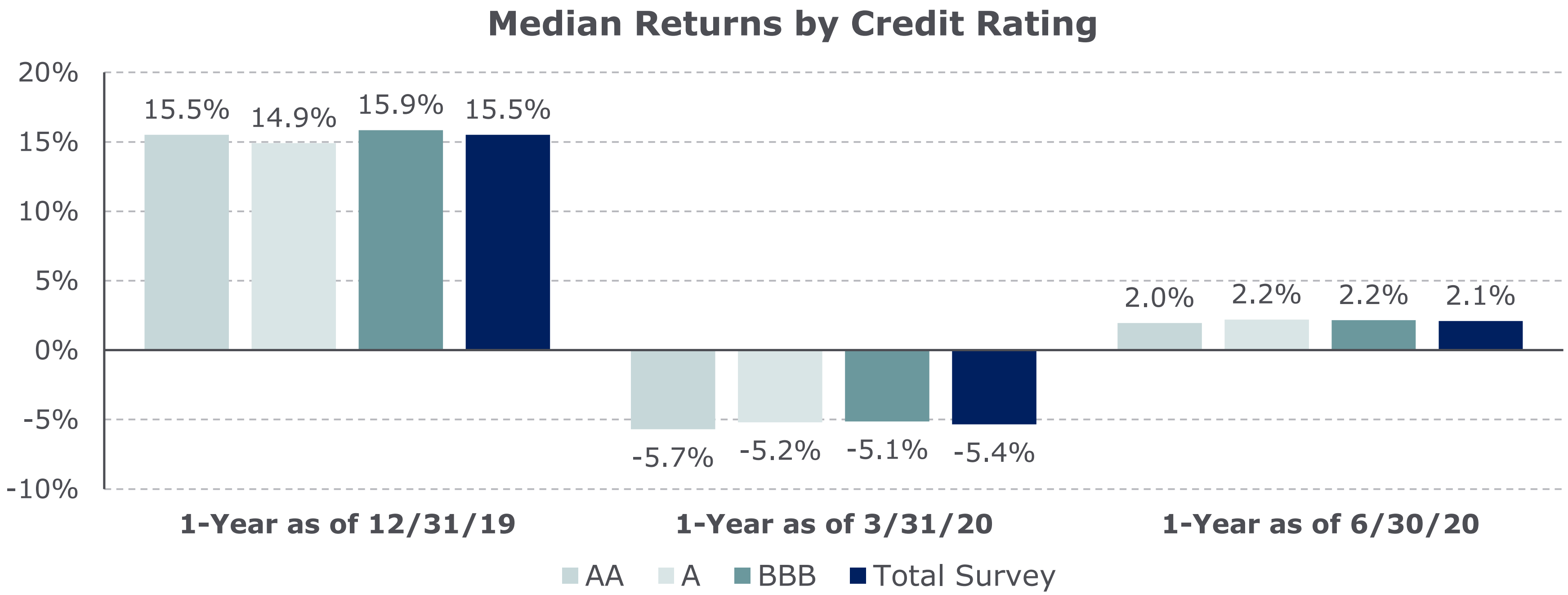






Note: 61 observations
Expected risk estimated using NEPC 9/30/2020 assumptions

PERFORMANCE SPOTLIGHT



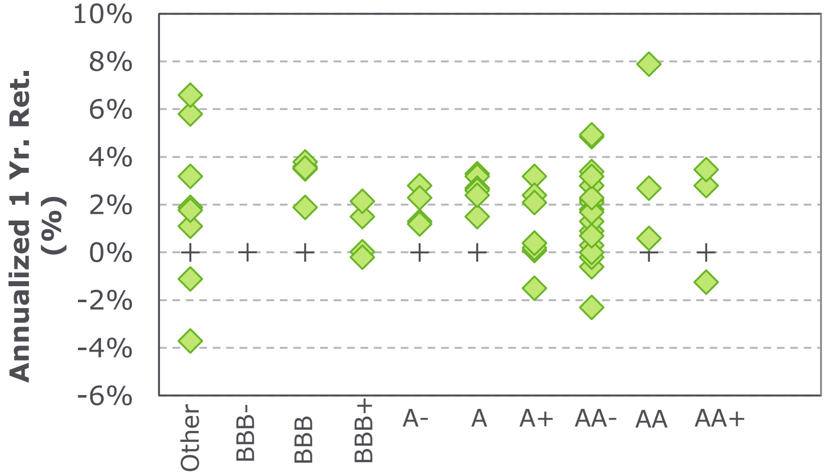
- **Healthcare systems generated significant returns in 2019, but have endured extreme volatility in 2020**
  - Following steep declines in Q1 2020, healthcare systems generally rebounded into positive territory as of 6/30/20 on a trailing 1-year basis

- **Lower-rated systems appear to have protected capital to a greater degree during the market sell-off**
  - This is consistent with findings that lower-rated systems held less in equities than they reported during our prior survey; conversely, higher-rated systems held more in equities

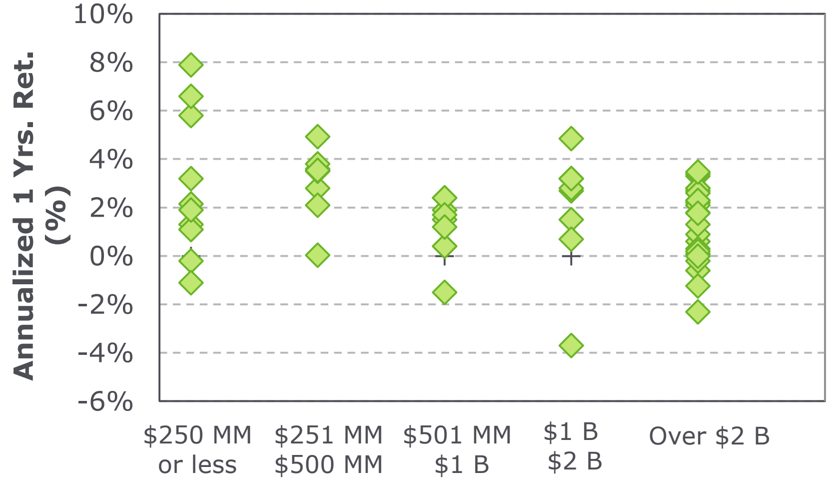
ACTUAL RETURNS RELATIVE TO SYSTEM METRICS

1 year annualized net of fees as of 6/30/2020

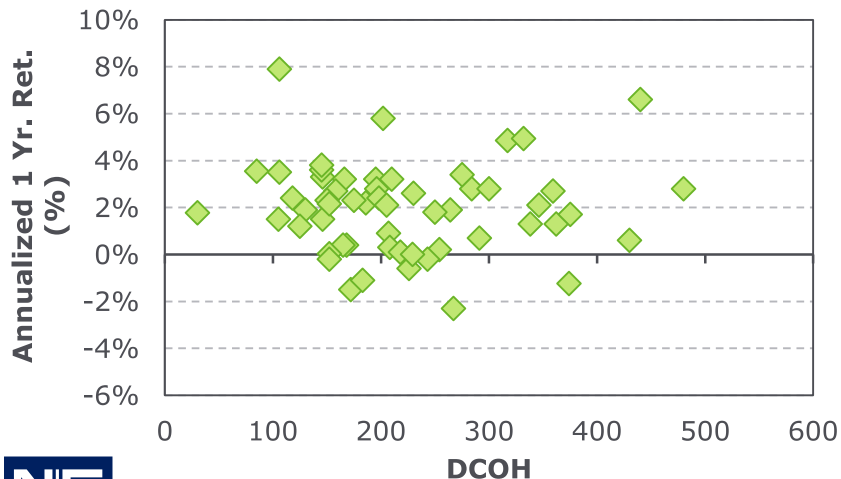
Credit ratings had no material impact on returns



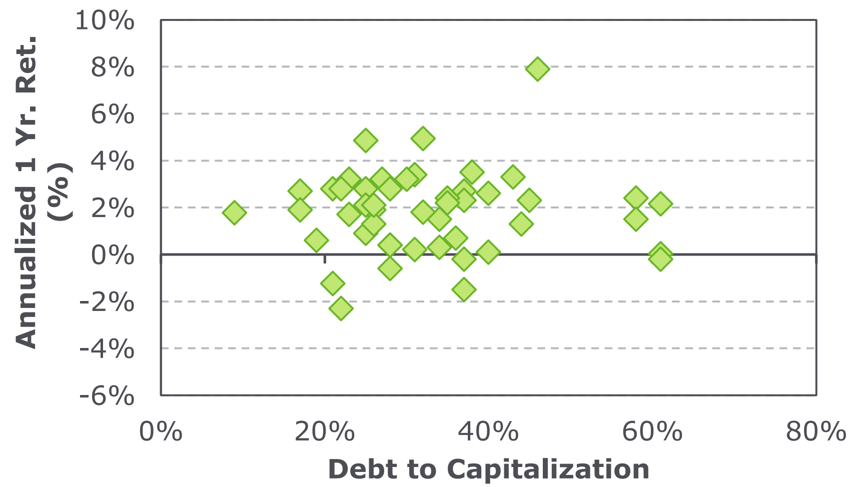
Wide dispersion of returns generated across the spectrum of portfolio sizes



DCOH had a less-defined influence on returns

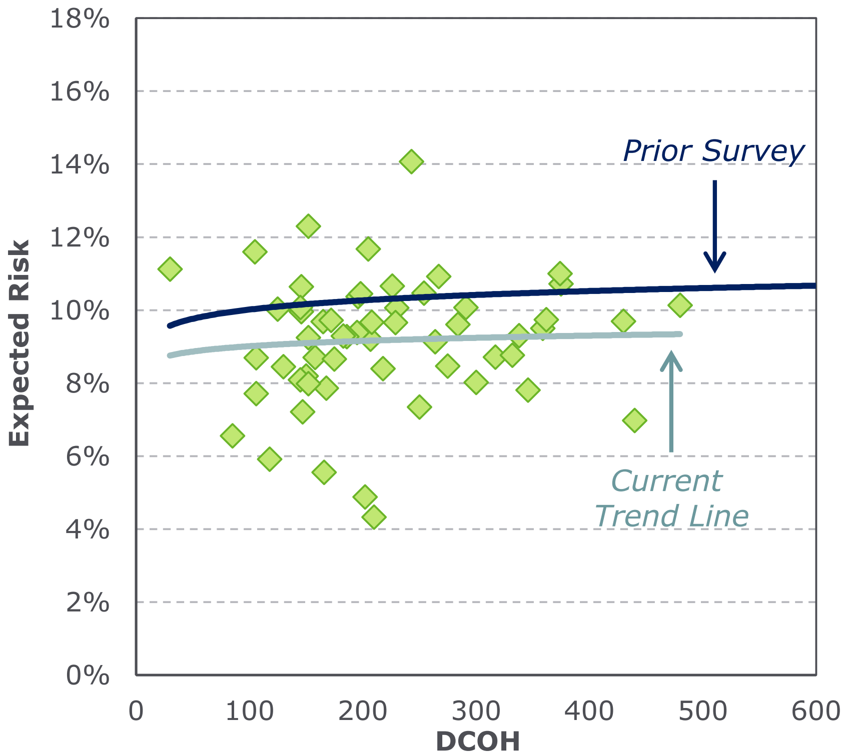


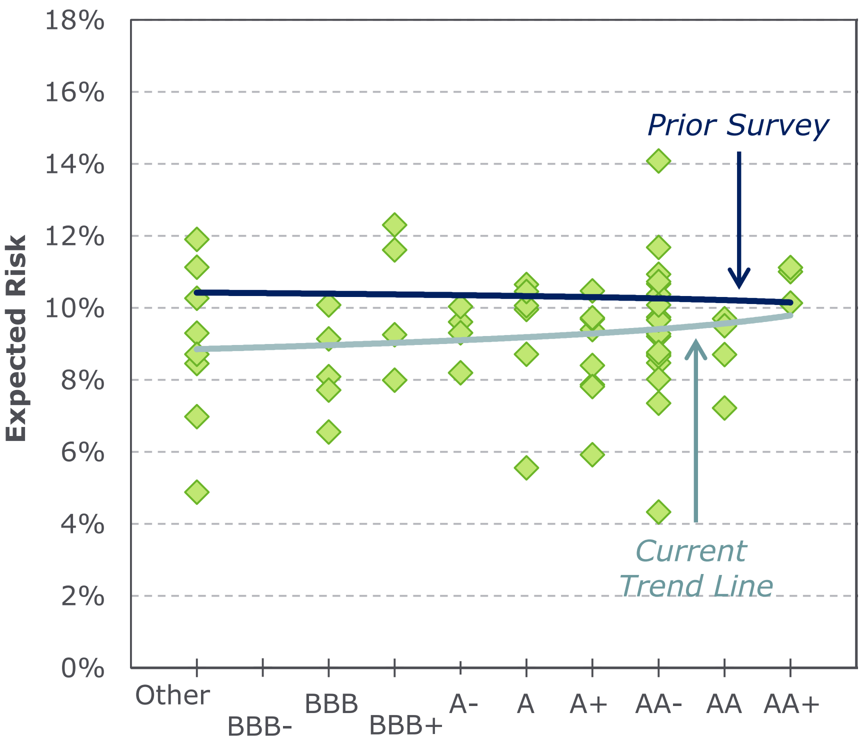
Over the last year, Debt to Cap had no meaningful correlation with returns



EXPECTED RISK VS. DCOH AND QUALITY

Portfolio risk exposure appears to have declined over the prior year



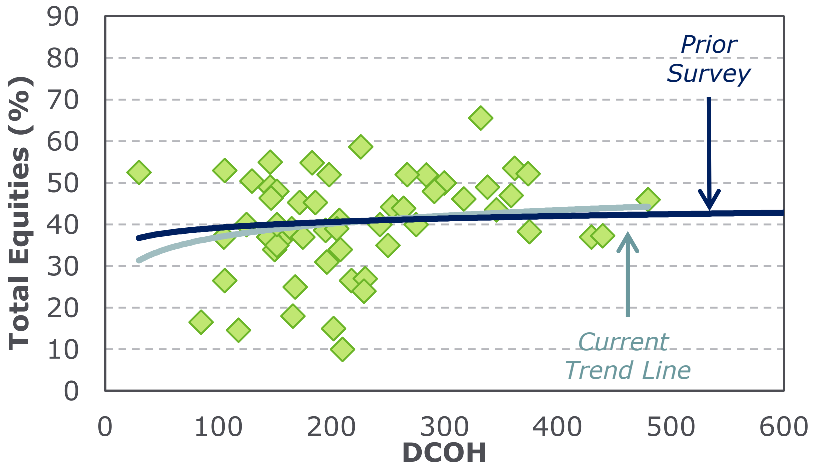


After observing a reduced risk profile last year, portfolio risk was again reduced following the significant market decline in Q1 2020.

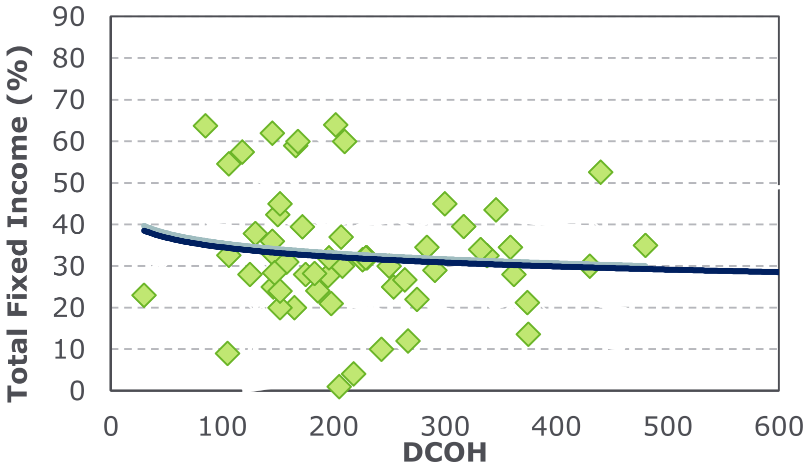
More highly-rated systems reflect a marginally higher investment risk profile.

ASSET ALLOCATION VS. DCOH

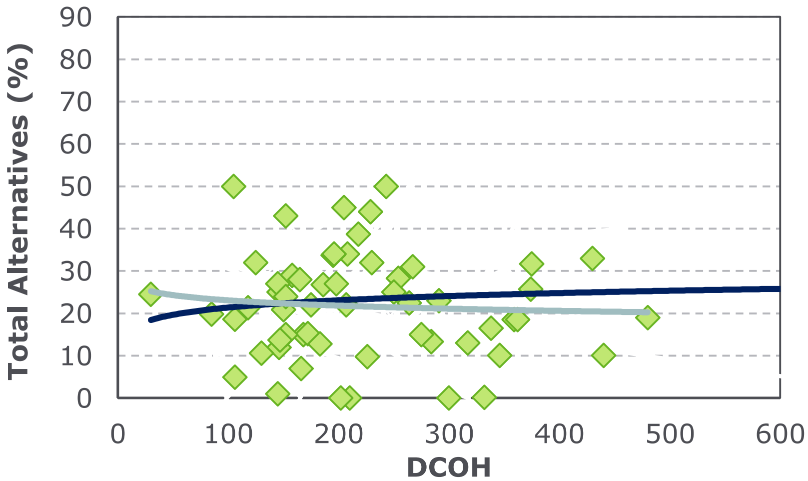
EQUITIES:
Exposure reduced at lower end of DCOH



FIXED INCOME:
Utilization relatively unchanged YoY



ALTERNATIVES:
Change in allocation varied YoY

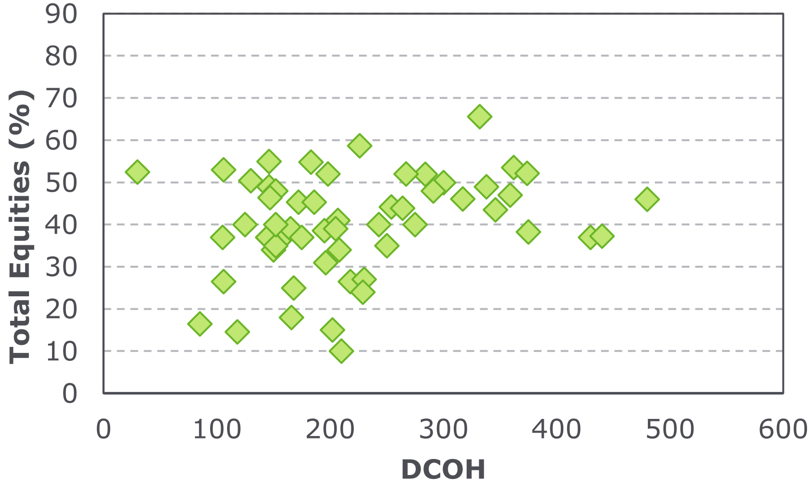


Equity exposure appears to increase along with DCOH, while Alternatives exposure slightly decreases

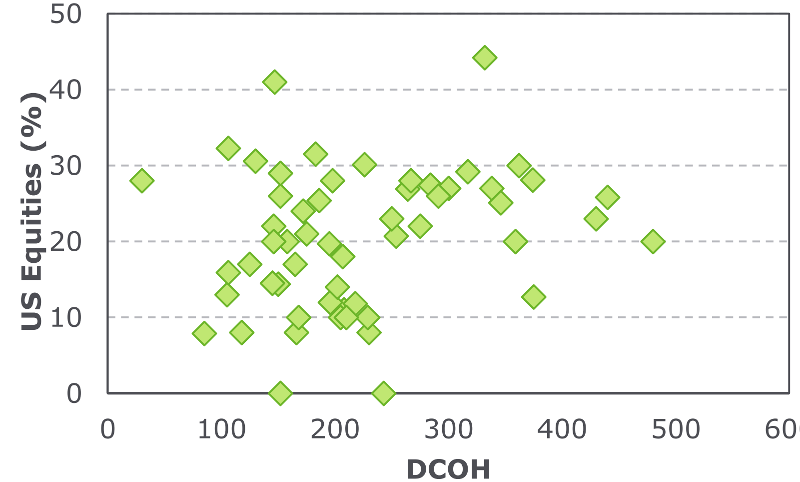
APPENDIX

EQUITIES

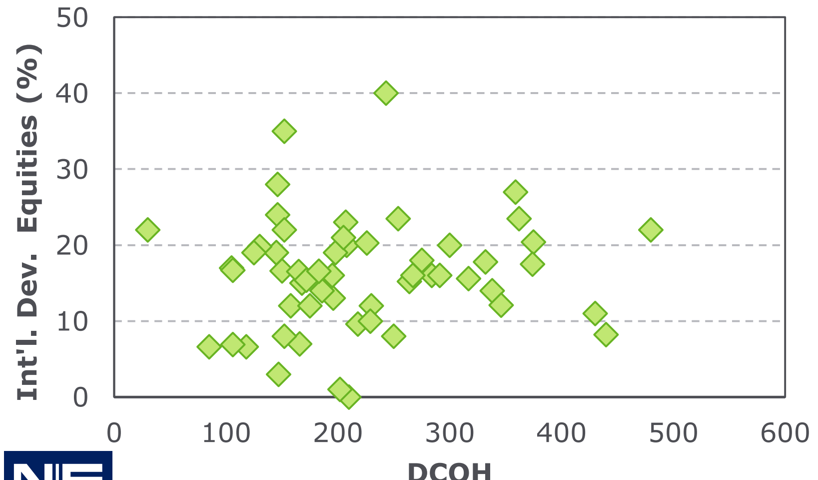
Respondents with high DCOH generally hold sizable equity exposure



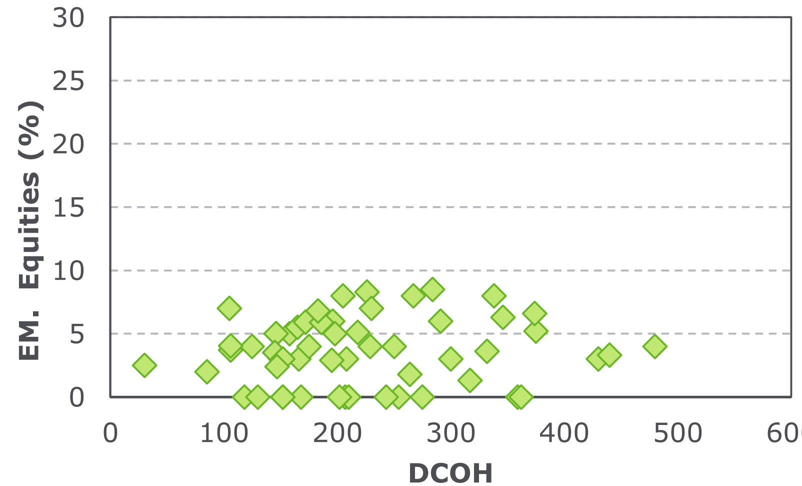
General consensus appears to be no more than 35% allocation to US Equities



Int'l Dev Equity usage appears meaningful, but generally no more than 25%

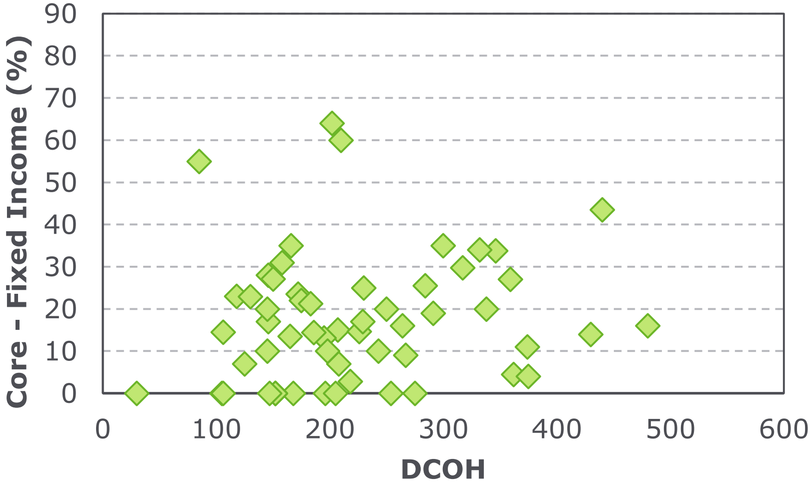


EME usage remains stable

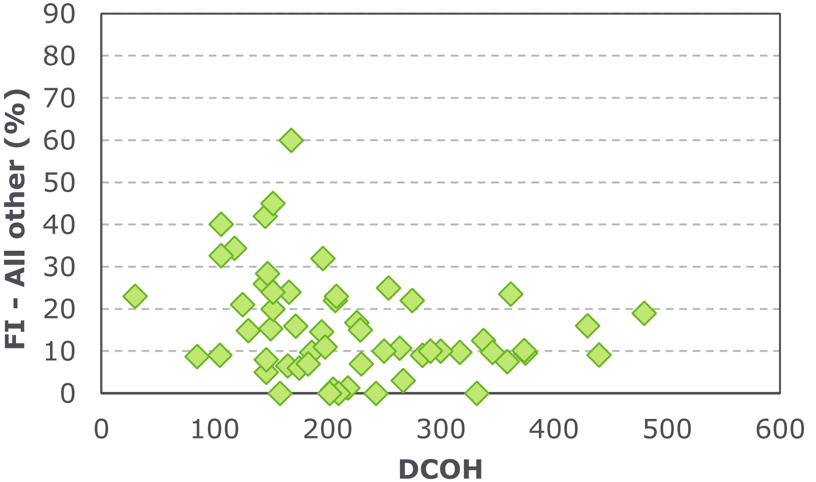


FIXED INCOME

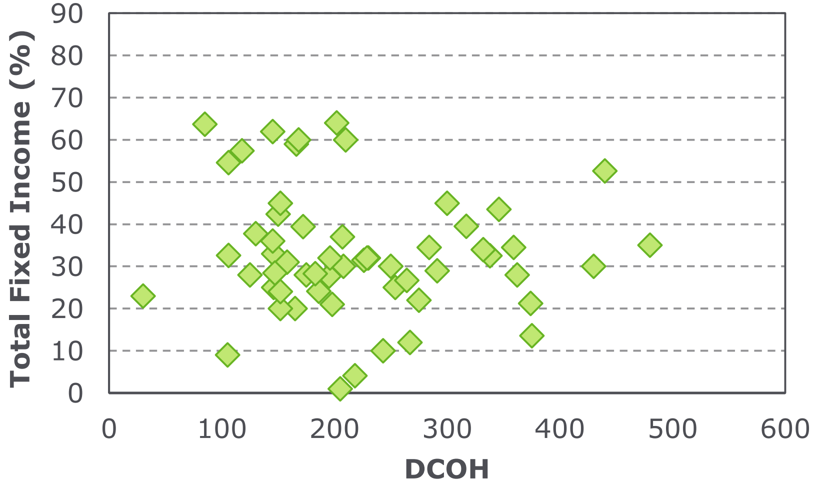
Core Fixed Income remains a building block in most portfolios



Non-core allocations are utilized to a lesser degree as DCOH increases

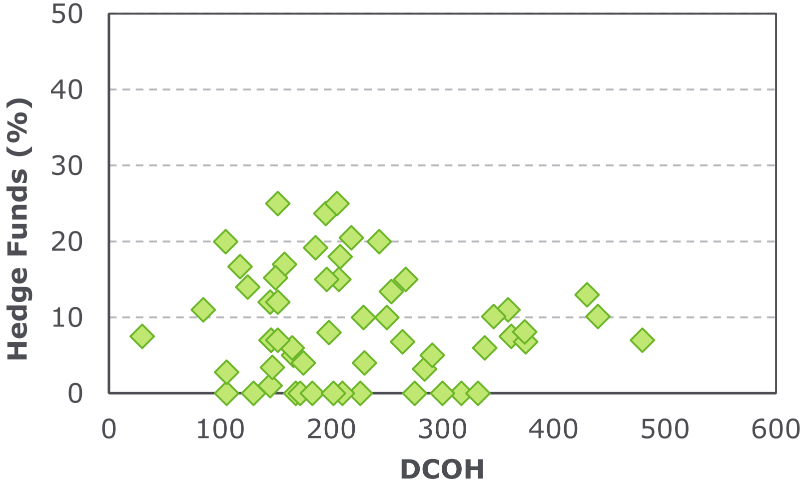


Total Fixed Income exposure is utilized more heavily as DCOH decreases

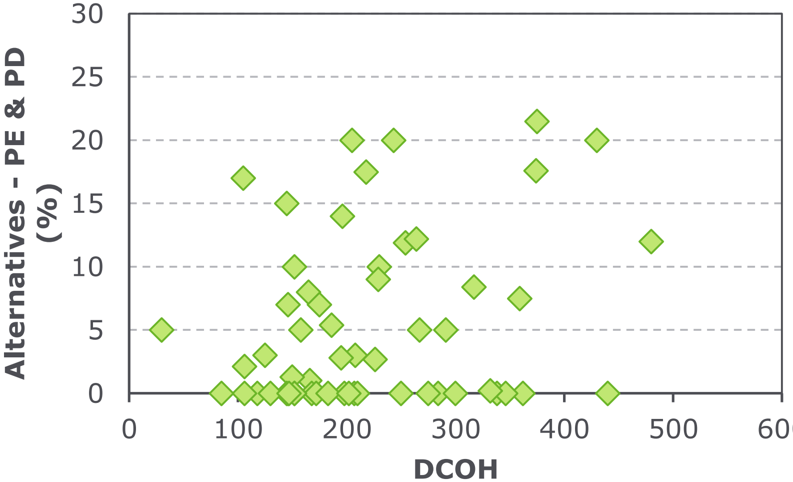


ALTERNATIVE INVESTMENTS

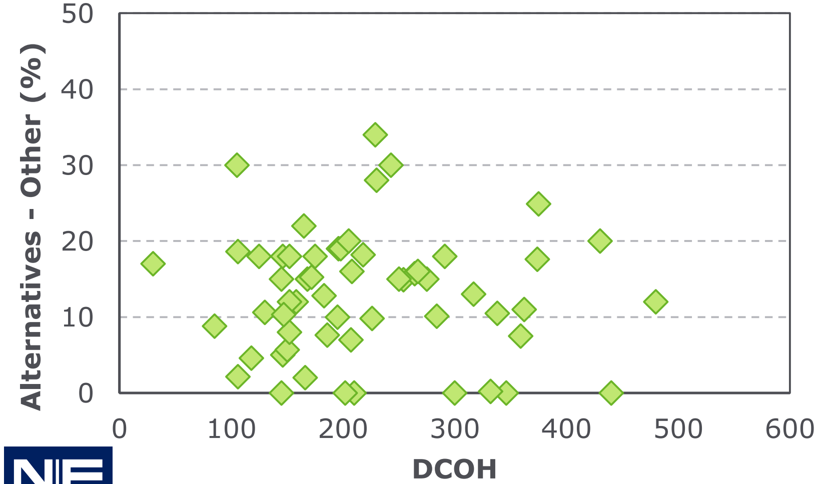
Hedge Fund exposure is diverse



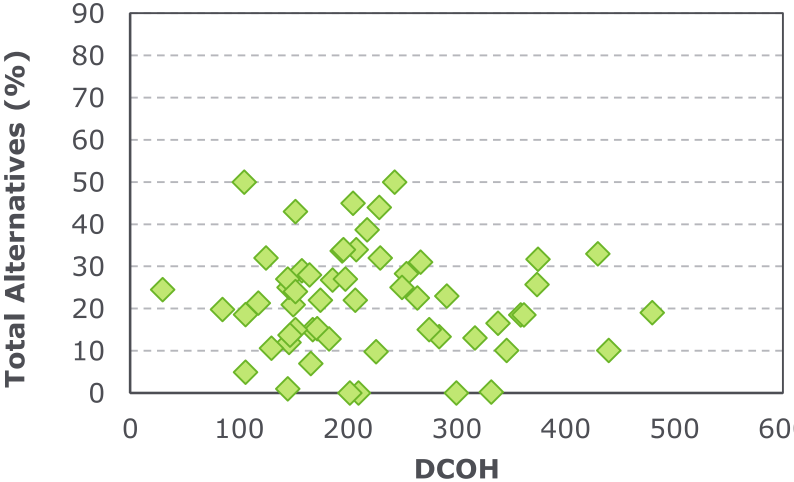
Private Markets exposure generally expands as DCOH increases



Allocation to Other Alternatives varies



Majority of observations below 40%



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 October and November 2020**
- **61 healthcare organizations 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: 202
  - Median Debt to Capitalization ratio of respondents: 31%

DISCLAIMER

- **Past performance is no guarantee of future results.**

- **Information on this analysis was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.**

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