

# NEPC'S ANNUAL HEALTHCARE OPERATING FUNDS SURVEY

JUNE 2021

NEPC, LLC



PROPRIETARY & CONFIDENTIAL

# KEY TAKEAWAYS

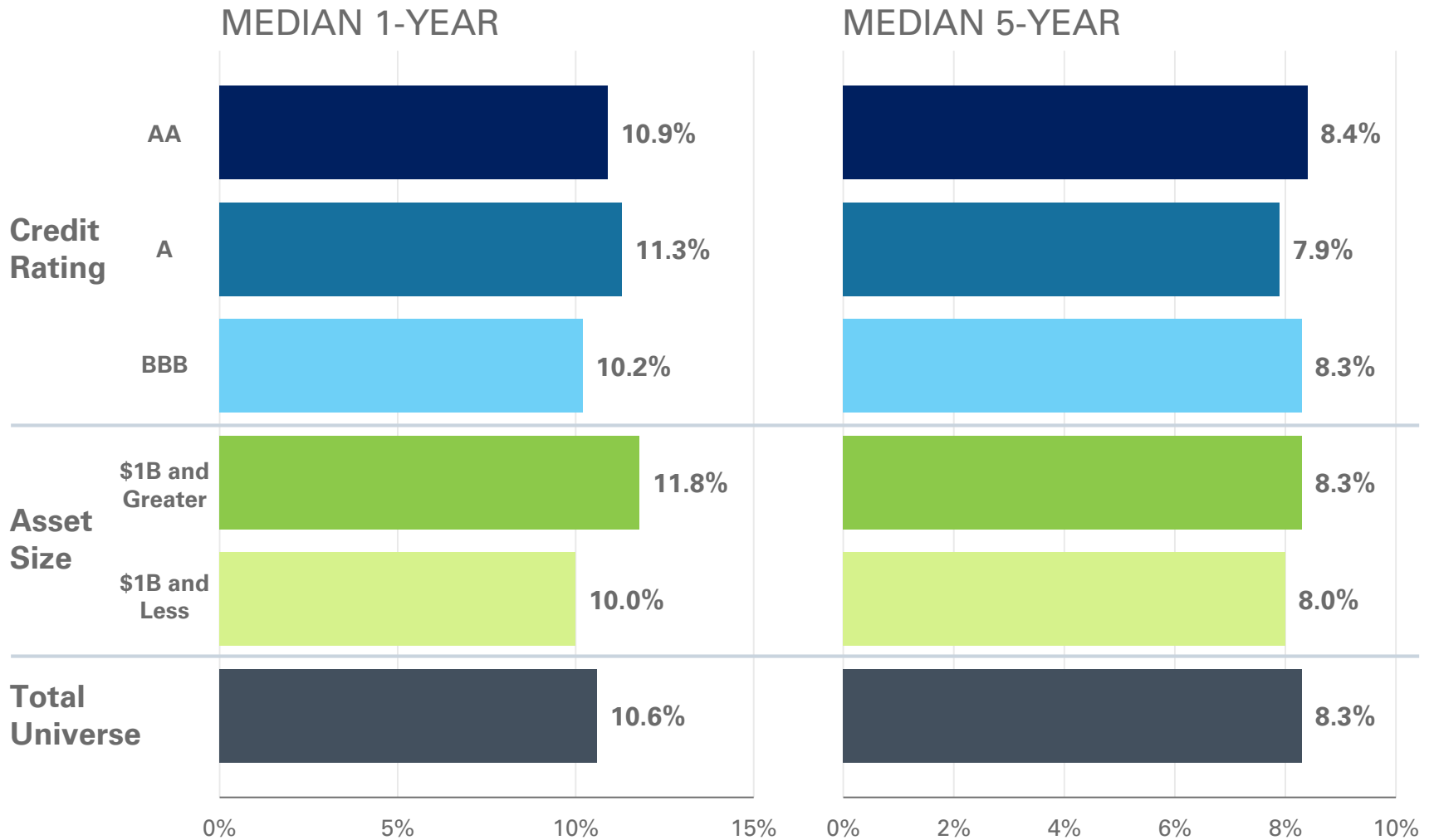
- 1** Despite a volatile 2020, most healthcare organizations generated robust returns during the year
- 2** The change in interest rates remains the greatest threat to healthcare operating portfolios
- 3** Healthcare organizations remain optimistic about their investment portfolios following robust market returns in 2020
- 4** Cost cutting measures enacted during the depths of the pandemic have largely been reversed
- 5** On average, healthcare organizations have 2 full time equivalent (FTE) employees dedicated to investments



# PERFORMANCE

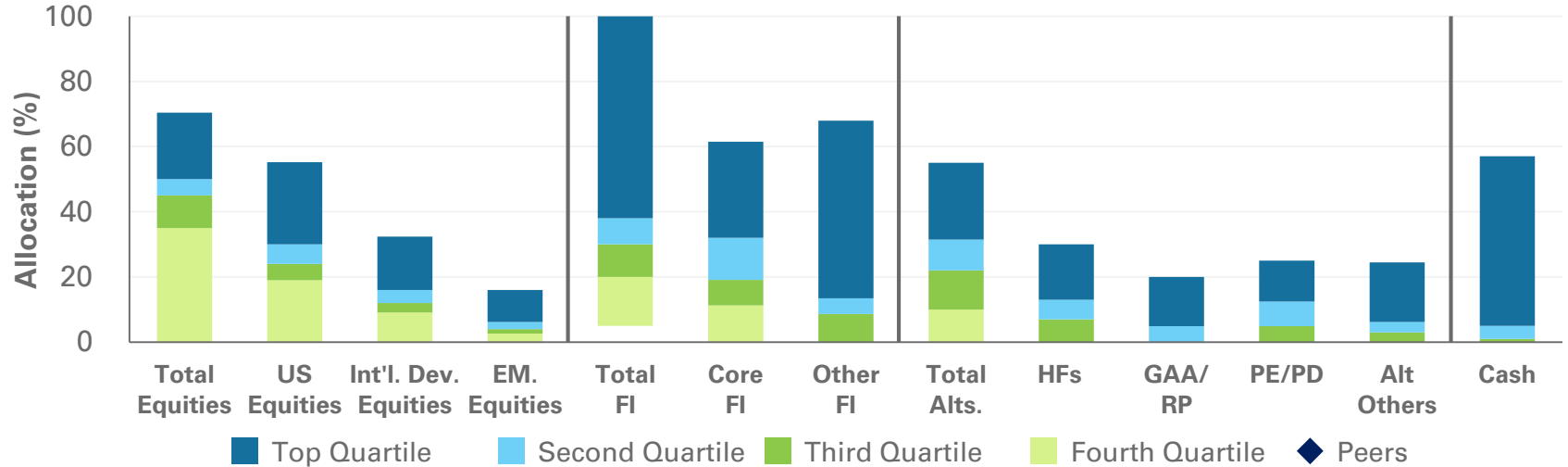
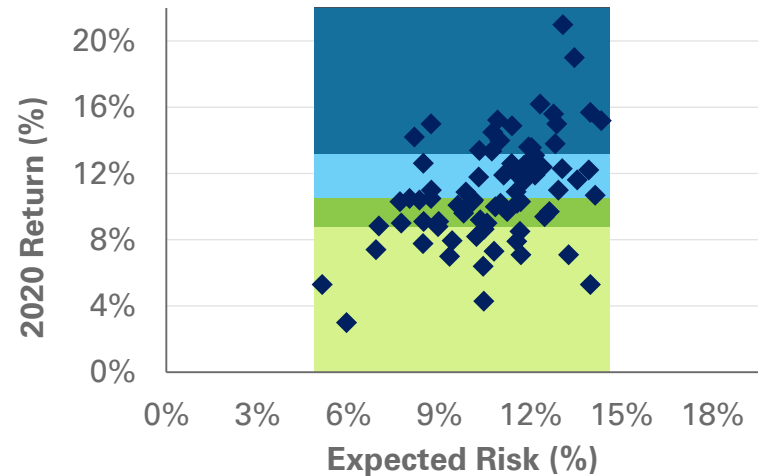
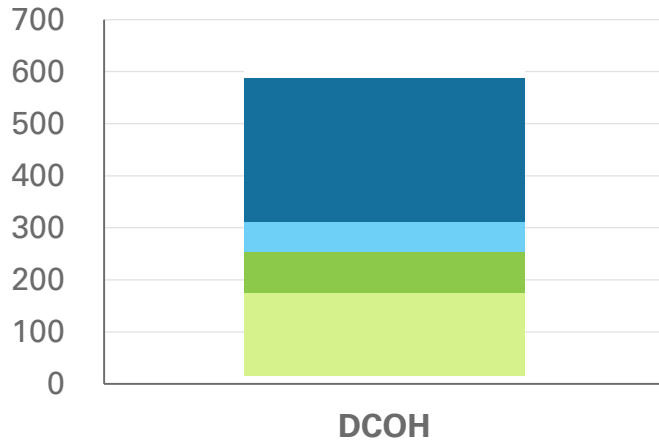


# PERFORMANCE SPOTLIGHT



As of 12/31/2020

# TOTAL UNIVERSE COMPARISON



Note: 81 observations  
 Expected risk estimated using NEPC 3/31/2021 assumptions



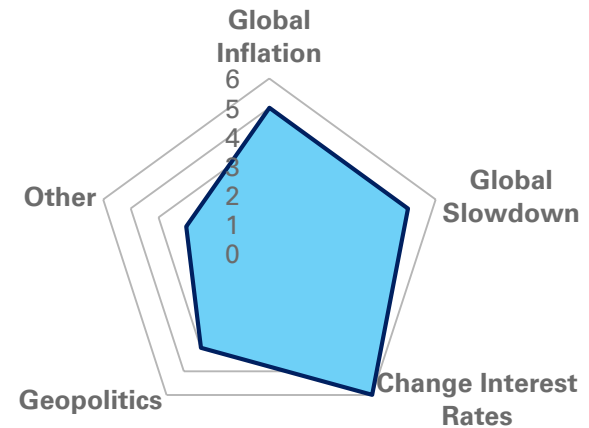
# OUTLOOK



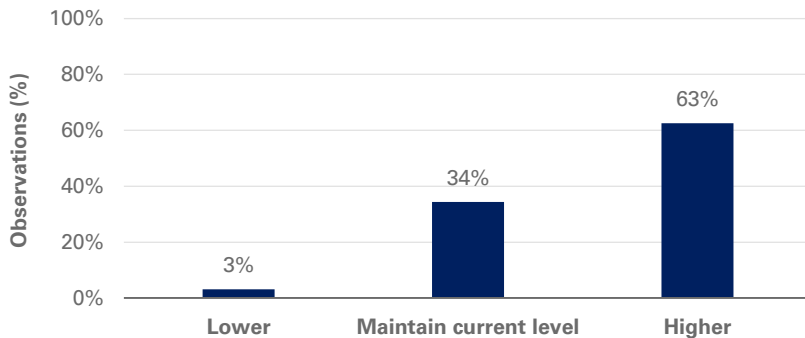
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# INVESTMENT THREATS REMAIN

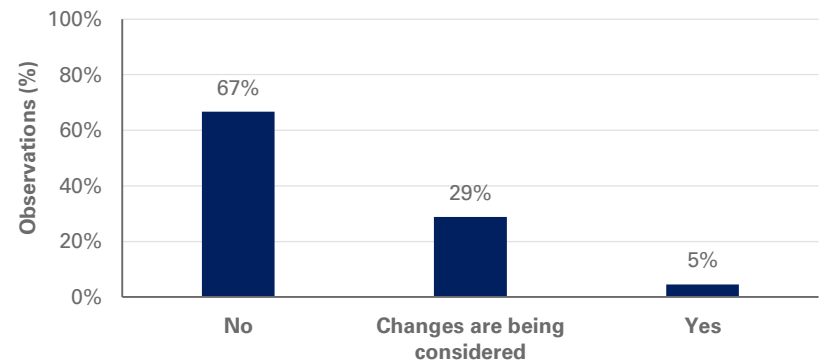
- The change in interest rates is the greatest investment concern among respondents
- Inflation concerns persist, however, healthcare organizations have generally avoided taking action as a result



## Where will Interest Rates go?

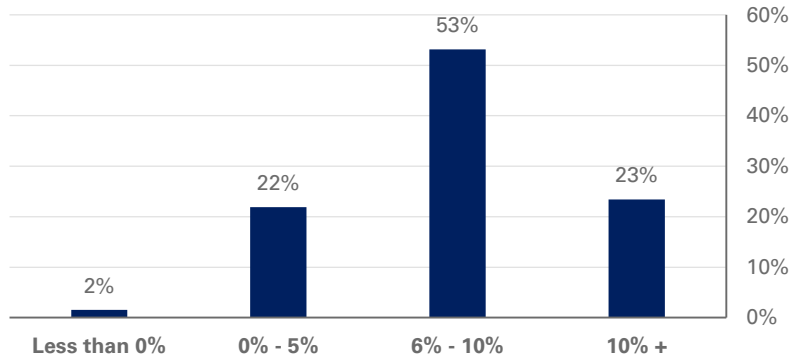


## Has the prospect of Inflation resulted in changes to Investments?



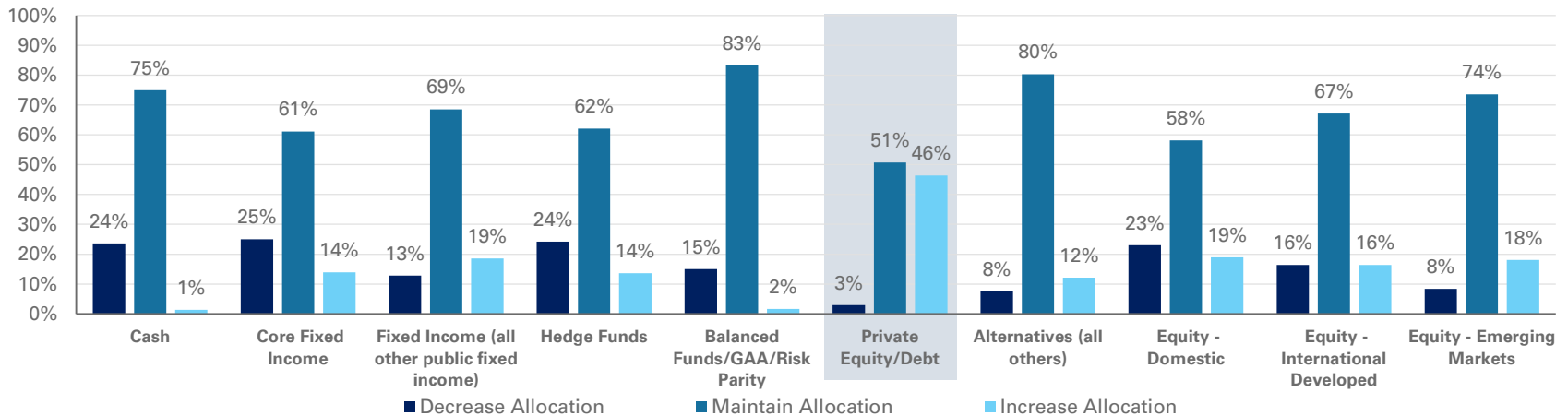
# HEALTHCARE'S OPTIMISTIC OUTLOOK

## How will the S&P 500 perform in 2021?



- **Healthcare organizations are optimistic about equity markets in 2021**
- **Respondents are also bullish on private markets with 46% planning on increasing their exposure**

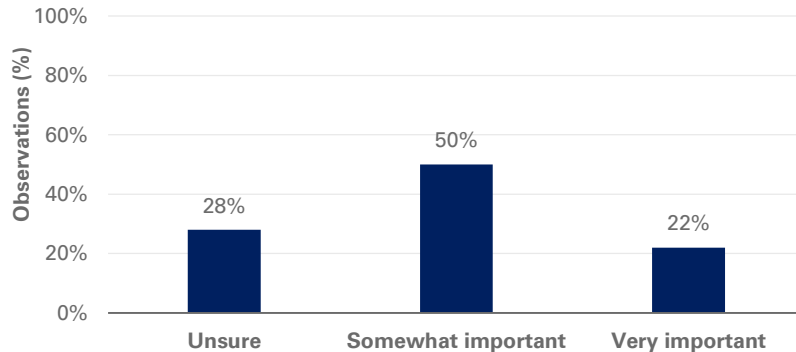
## Asset Allocation Trends



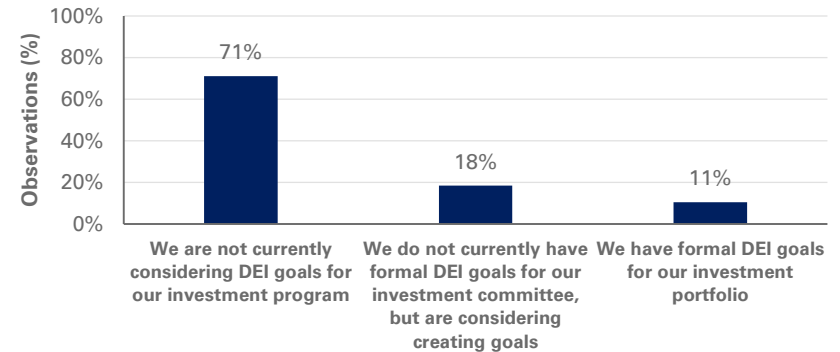


# NEW THEMES EMERGING

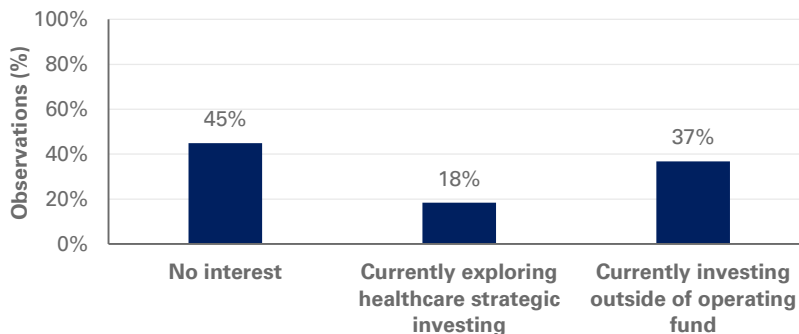
## How important is ESG or impact investing?



## Has your organization formalized DEI goals into your investment program?



## What is your interest in Healthcare Strategic Investing?

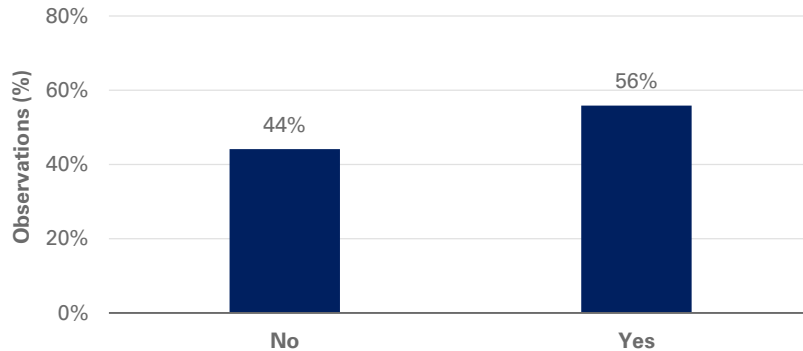


- **ESG, DEI and Healthcare Strategic Investing are garnering more attention from healthcare organizations today**

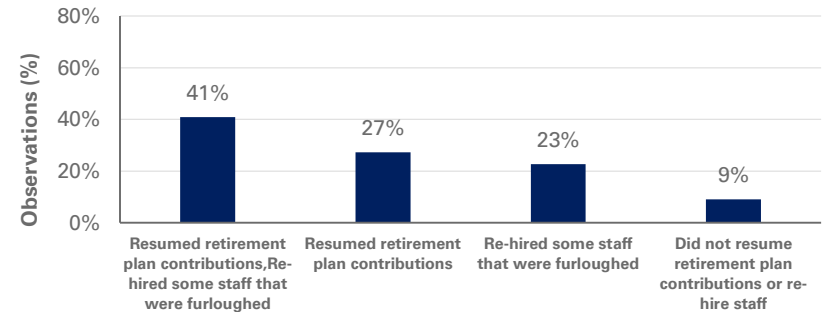


# POST-COVID OPERATING TRENDS

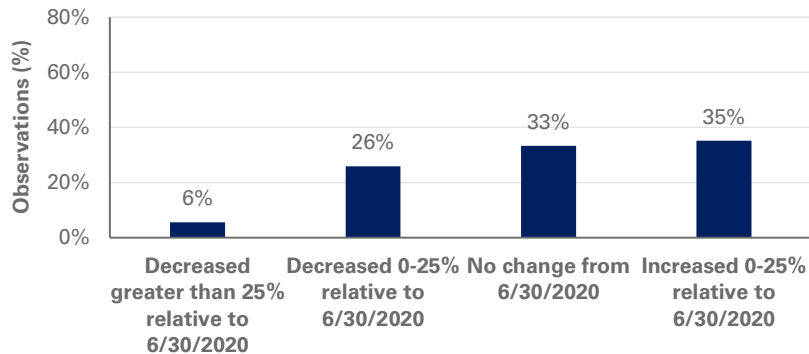
**As a result of the pandemic, did you take cost cutting measures?**



**Were you able to resume retirement plan contributions and/or re-hire staff in 2021?**



**How does your burn rate in 2021 compare to 6/30/2020?**



- **Cost cutting measures taken to combat the effects of the pandemic have largely been reversed**



# ADDITIONAL ANALYSIS

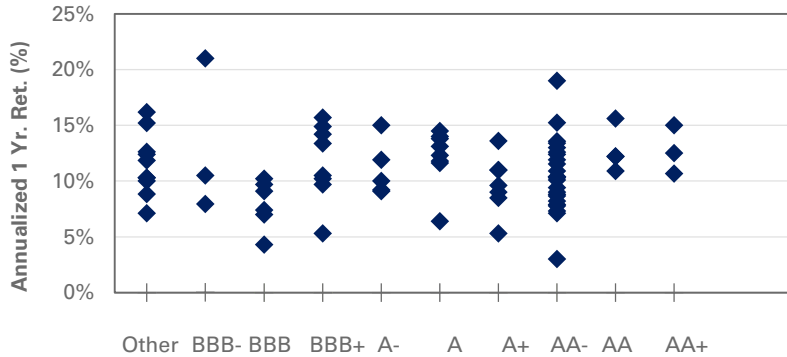


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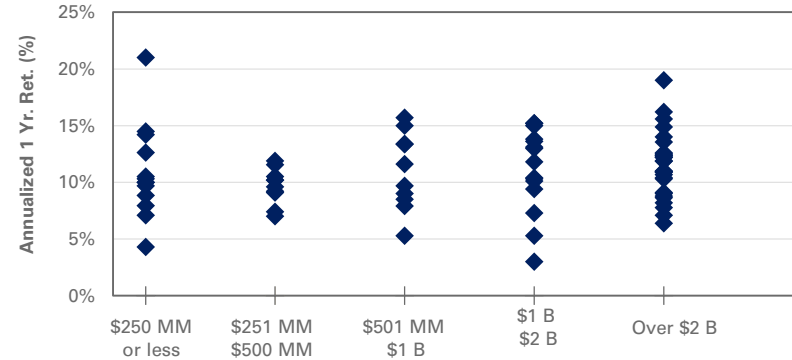
# ACTUAL RETURNS RELATIVE TO SYSTEM METRICS

1 YEAR ANNUALIZED RETURNS AS OF 12/31/2020

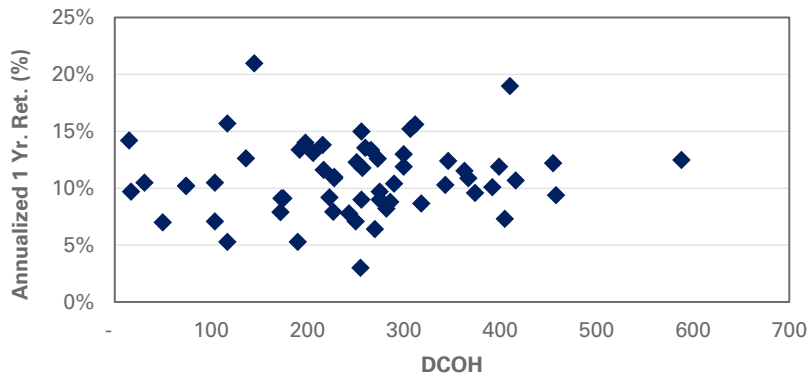
Highly rated systems generated marginally higher returns



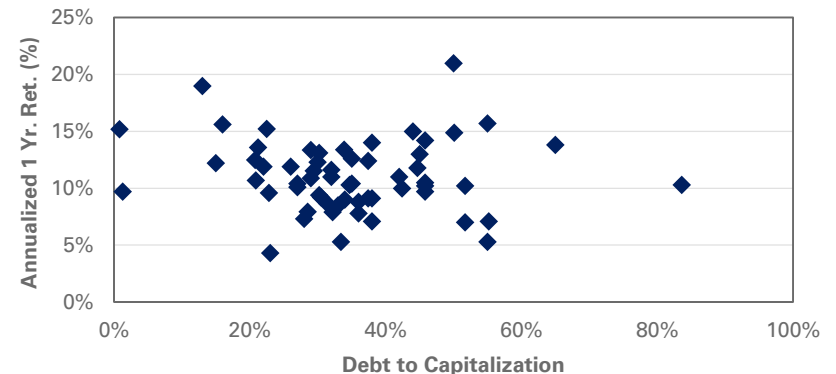
Wide dispersion of returns generated across the spectrum of portfolio sizes



DCOH had a less defined influence on returns

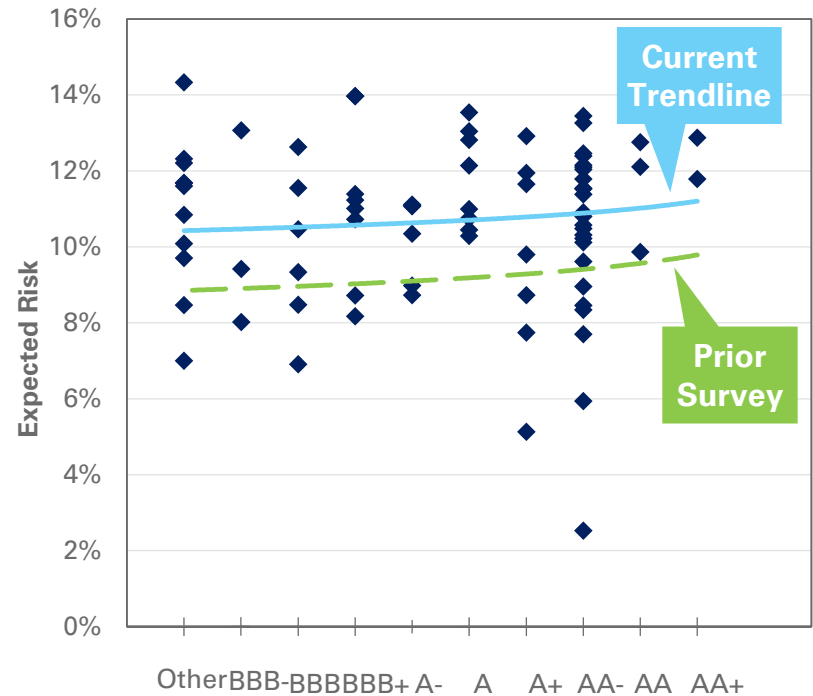
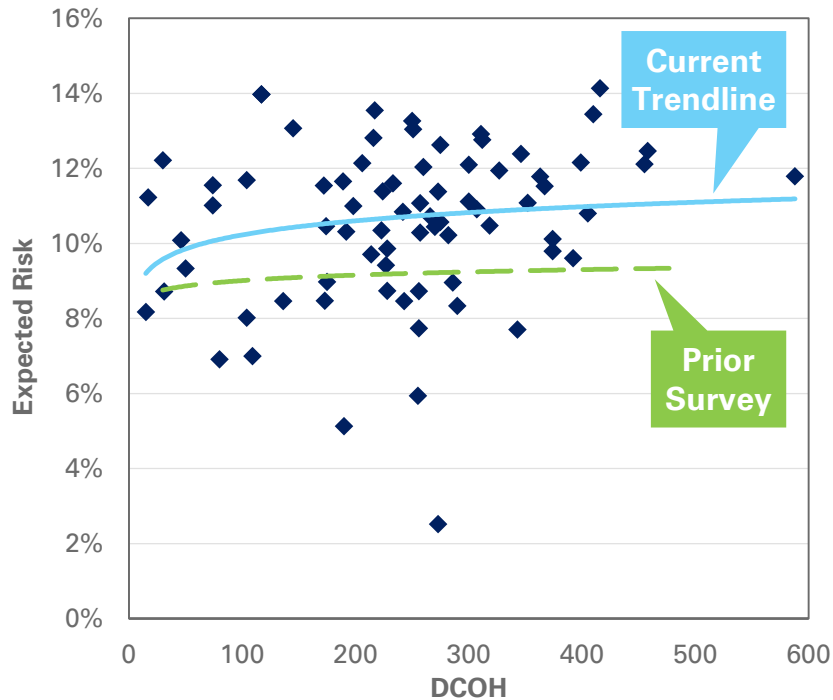


Over the last year, Debt to Cap had no meaningful correlation with returns



# EXPECTED RISK VS. DCOH AND QUALITY

Portfolio risk exposure appears to have increased over the prior year



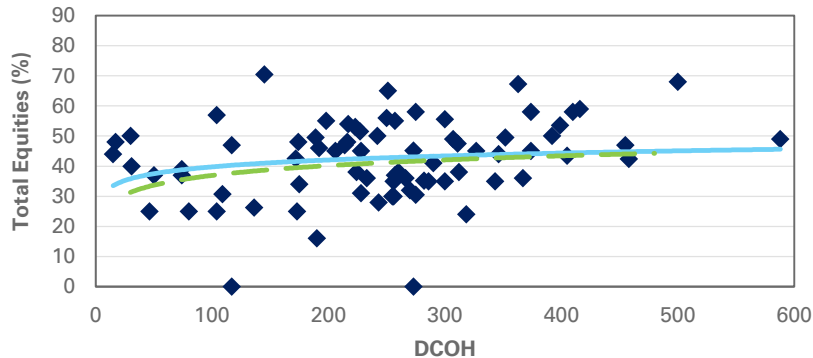
- Following consecutive years observing a reduction in investment risk, healthcare portfolios are reflecting an increased risk posture in 2021
- More highly rated systems reflect a higher risk profile



# ASSET ALLOCATION VS. DCOH

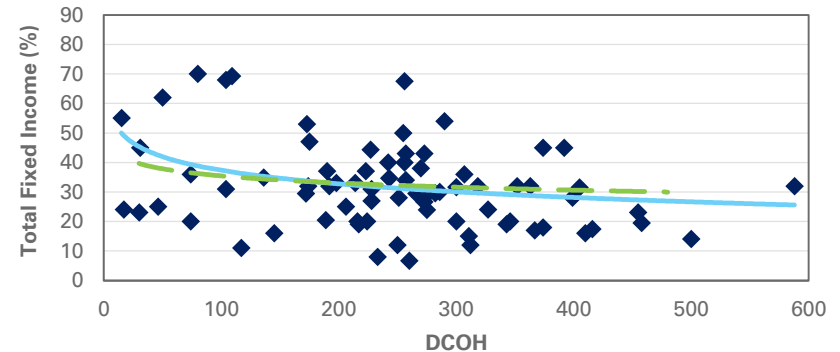
## EQUITIES:

Average exposure increased YoY



## FIXED INCOME:

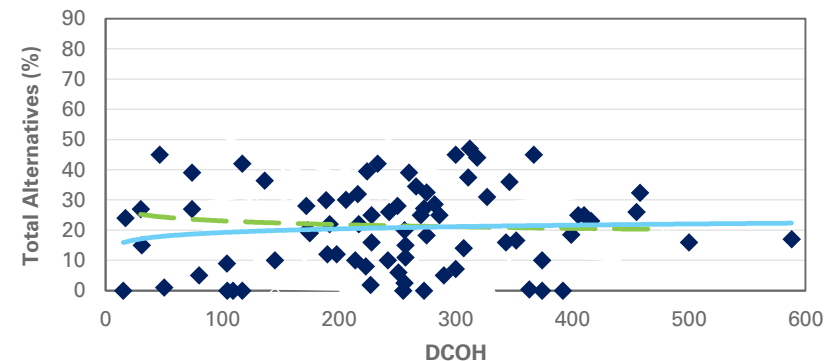
Utilization was consistent YoY



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

## ALTERNATIVES:

Slight decrease observed YoY



Prior Survey

Current Trendline



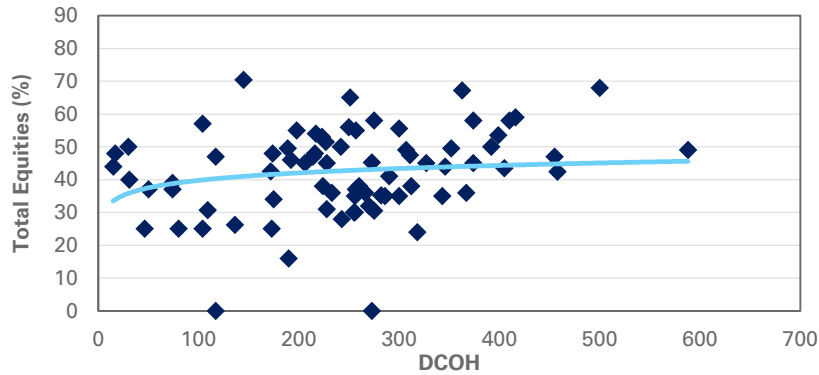


# APPENDIX

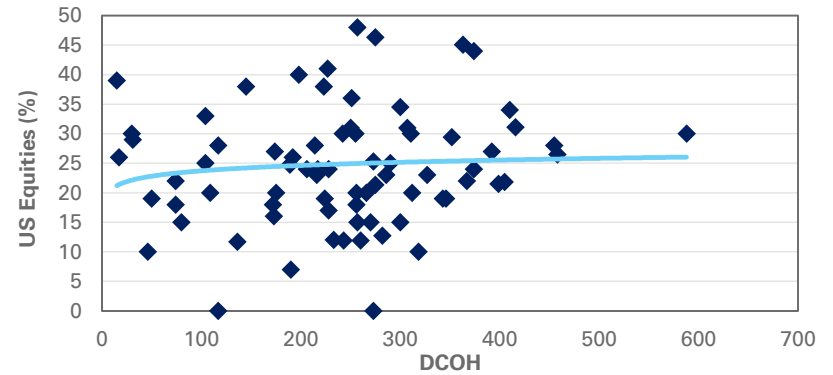


# EQUITIES

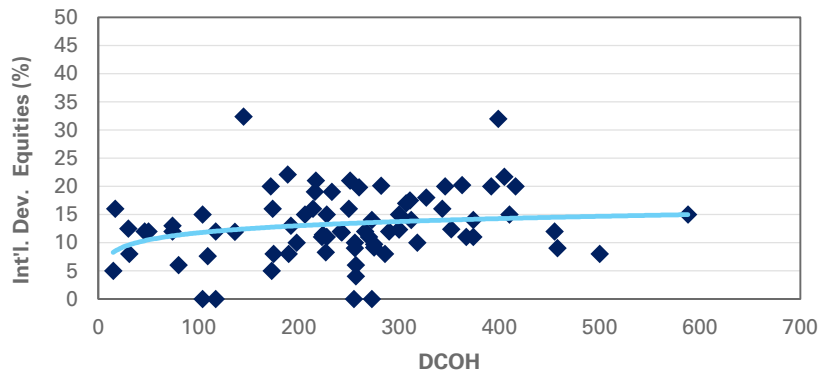
Respondents with high DCOH generally hold sizeable equity exposure



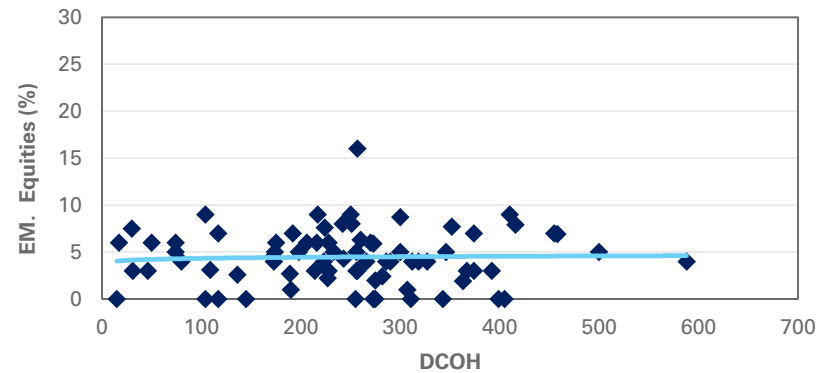
US Equity exposure is material and has increased relative to prior year



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



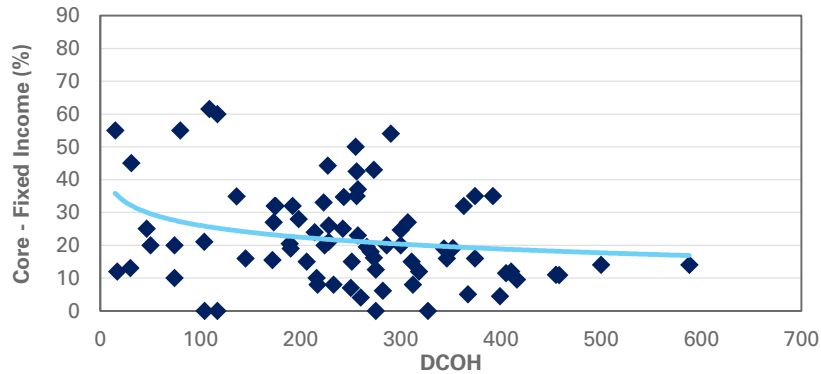
EME usage remains stable



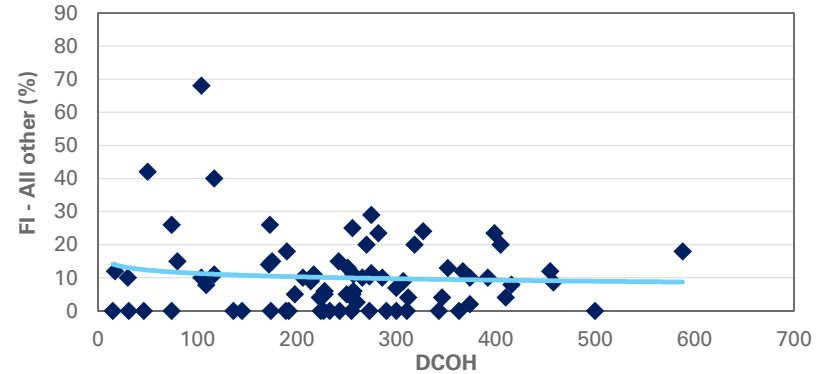


# FIXED INCOME

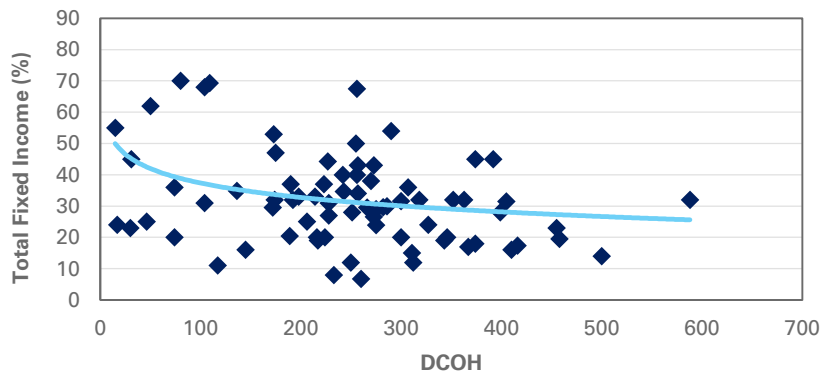
**Core Fixed Income remains a building block in most portfolios**



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

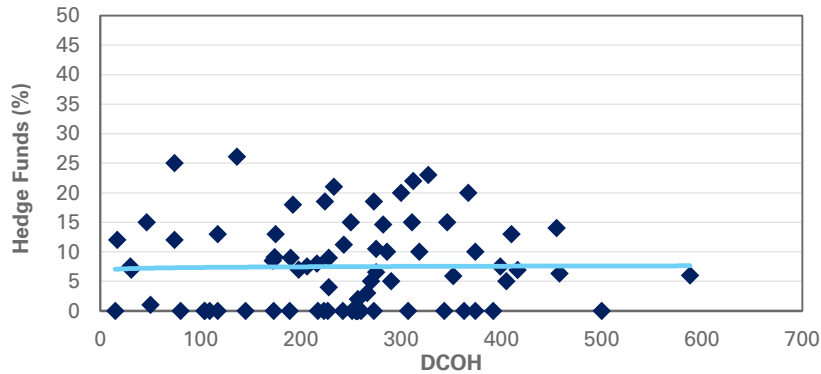


**Total Fixed Income exposure declines as DCOH increases**

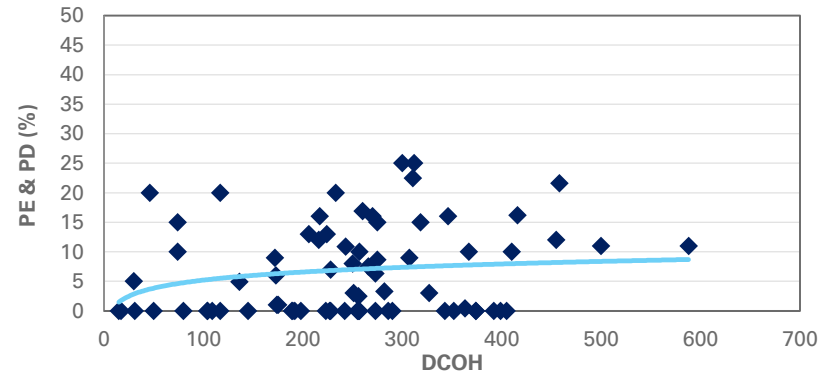


# ALTERNATIVE INVESTMENTS

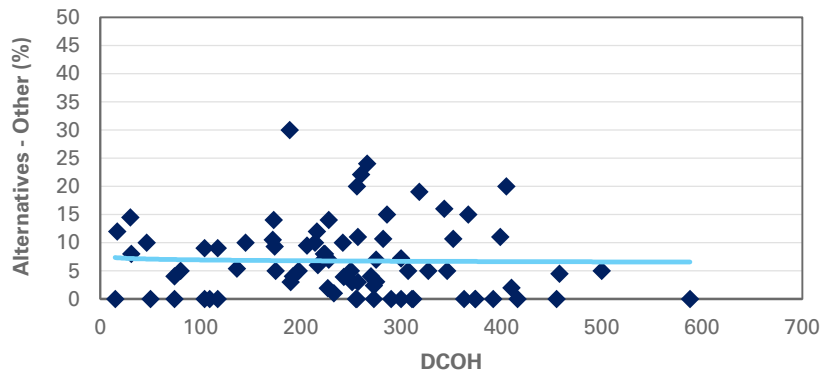
Hedge Fund utilization has declined, but exposure is diverse



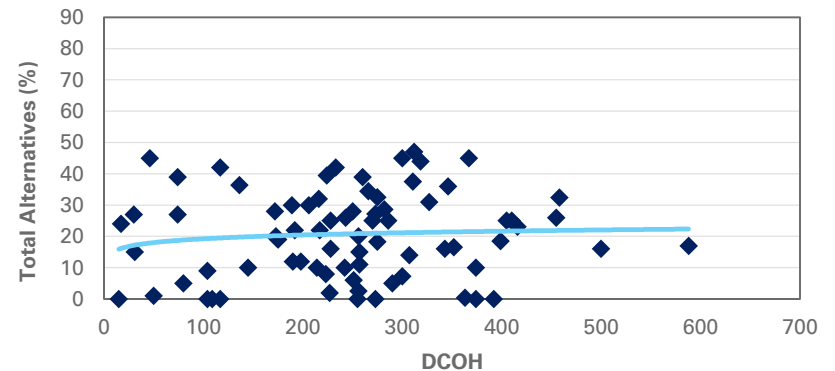
Private Markets exposure is evident across the spectrum of DCOH



Allocation to other Alternatives varies



All observations below 50%



# 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 April and May 2021**
- **81 healthcare funds, representing 75 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: 253
  - Median Debt to Capitalization ratio of respondents: 33%

# 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.