

How We Provide Investment Advice to Not-For-Profit Healthcare

Not-for-Profit healthcare organizations are facing challenges on all fronts. Not only is the healthcare investing environment volatile but healthcare systems are trying to manage costs while protecting its resources. Highland's investment programs are customized to your needs and objectives, supported by tools, technology and a keen understanding of market conditions. We have teams specifically dedicated to our healthcare clients and have pioneered tools to optimize portfolio construction: CORE Vantage and Peer Vantage.



What is CORE Vantage?

Comprehensive Organizational Risk Evaluation (CORE) Vantage is an internal tool Highland uses to gauge the impact of differing asset allocation scenarios on a healthcare portfolio. This resource is also helpful in determining whether an organization can take on more risk in favor of increased return.



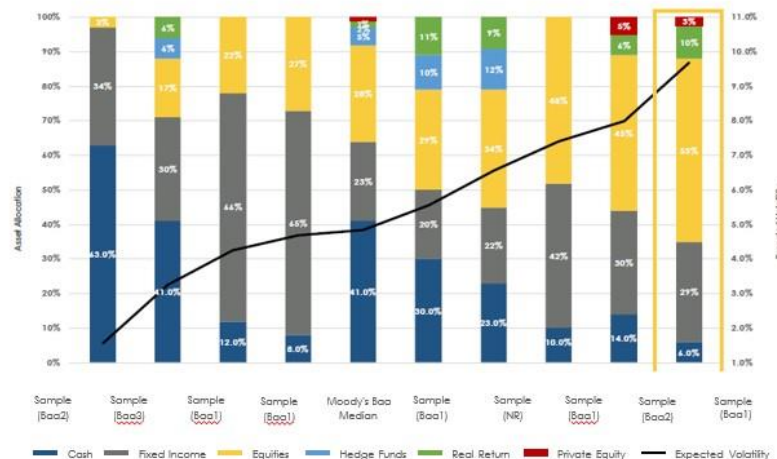
What is Peer Vantage?

Peer Vantage is one piece of Highland's Enterprise Risk Management model. We maintain a database of over 400 healthcare systems. Utilizing this database, we can create customized peer groups for comparison based on credit rating, census data, financials, asset allocation (operation or pension), or funded status. Gaining perspective on peer organizations can provide relevant insights.

Enterprise Risk Analysis

Contributors to Risk	Definition	Current State	Sample Relative to Peers	Comments
Operations	<ul style="list-style-type: none"> Revenue & Growth Expense EBITDA Margin Volatility Future Cash Flow Projections 	<ul style="list-style-type: none"> \$464mm revenues 7.6% EBITDA Margin as of April 30, 2021 	Mid	<ul style="list-style-type: none"> 5 Year EBITDA Margin Volatility-1.8x Slightly higher than peers Operating performance expected to soften in 2022 and 2023 but improve afterwards
Debt & Swaps	<ul style="list-style-type: none"> Fixed vs. Variable Rate Debt Coverage Ratio Swap Exposure Projected Debt Levels 	<ul style="list-style-type: none"> \$241mm LT Debt MADS Coverage = 2.9x 	Low-Mid	<ul style="list-style-type: none"> Debt ratios slightly elevated relative to peers 100% of debt exposure is fixed. No swap exposure Plans to deleverage
Pension Net Liability	<ul style="list-style-type: none"> Plan Funded Status Future Cash Contributions 	<ul style="list-style-type: none"> Defined Benefit Plan 	Low	<ul style="list-style-type: none"> Minimal pension liability (\$6.9mm) Plan is frozen and fully funded
Investments & Liquidity	<ul style="list-style-type: none"> Portfolio Volatility Relative to Peers Contribution to Net Asset Volume Potential Liquidity Needs 	<ul style="list-style-type: none"> 1.59 DCOH Total Volume (Cash & Investments) = 9.7% 	Mid-High	<ul style="list-style-type: none"> Lower liquidity levels in 2022 Portfolio volatility is greater than most peers Investment portfolio responsible for ~70% of Net Asset Volatility Opportunity to dampen investment volatility by establishing short-term liquidity pool
Enterprise Risk			Mid	

Highland Peer Vantage Analysis





Highland's Methodology Behind CORE Vantage and PEER Vantage

The Highland Process

Through Highland's Enterprise Risk Management Review (Core Vantage) process, Highland assesses the financial profile of the organization alongside peer medians, while incorporating the credit ratings process into our analysis. We then look to recommend any changes to the current allocation and stress test the scenarios to see what impact the changes will have on the organization's balance sheet and financial ratios. Additionally, we can incorporate long-range financial forecasts to determine if there are potential liquidity needs within the portfolio or changes to capital structure that we should be aware of prior to making any asset allocation recommendations. Highland also has the ability to integrate defined benefit/pension plan portfolios into our model to help quantify funded status volatility and its impact to the balance alongside the operating portfolio.

Informed Decision Making

We believe our approach to portfolio construction is unique. Not only do we understand the importance of integrating balance sheet and operations to generate a total return to meet the system's mission, but we also know that this is an ongoing process, and we must integrate industry changes to achieve an understanding of true enterprise risk. Highland's consultants work with our dedicated hospital analytics team to carefully craft a portfolio that meets the individual needs and objectives of each client. The result is a solution that aids in strategic planning and provides our clients with a deeper perspective on asset allocation and risk.

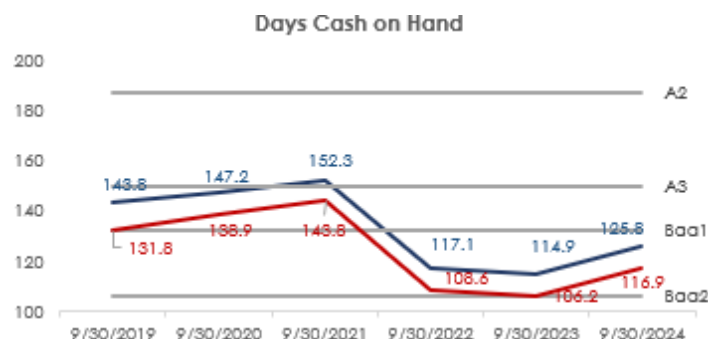
Asset Allocation Analysis

Asset Class	Current Policy Allocation (Including Cash)	Moody's Baa Median	Sample Portfolio
Cash	6.0%	41.0%	5.0%
Short-Term Fixed Income	0.0%	0.0%	15.0%
Core Fixed Income	29.0%	23.0%	15.0%
Global Equities	53.0%	28.0%	40.0%
Hedge Funds	0.0%	5.0%	10.0%
Real Return Assets	9.5%	1.0%	5.0%
Private Real Estate	0.0%	1.0%	5.0%
Private Equity	2.5%	1.0%	5.0%
Expected Return	6.2%	4.2%	5.8%
Expected Risk	9.7%	4.8%	7.7%
2 Std. Dev Best Case	25.6%	13.8%	21.2%
2 Std. Dev Worst Case	-13.2%	-5.4%	-9.6%
DCOH Worst Case	138 (-21)	150 (-9)	144 (-15)

Moody's Rating Analysis

	Moody's Sub-Factor Weight	Current Level	Current Rating Category Style	Level Required for Scorecard Increase	Level Required for Scorecard Decrease
Operating Revenue (\$000)	25%	\$463,965	Baa	\$500,000	\$250,000
Three-year Operating Revenue CAGR (%)	10%	6.1%	A	8.0%	3.5%
Operating Cash Flow Margin (%)	10%	7.8%	Baa	8.0%	5.0%
Gross Revenue of Combined Medicare and Medicaid (%)	10%	60.8%	Baa	59.0%	67.0%
Cash on Hand (Days)	10%	231.1	A	250.0	150.0
Unrestricted Cash & Investments to Total Debt (%)	10%	113.4%	A	180.0%	100.0%
Total Debt to Cash Flow (x)	10%	4.8	Baa	4.0	5.52
Implied Moody's Rating			Baa1		

Forward Looking Projections





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