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SEI CASE STUDY

A Not-for-Profit Healthcare System in the Midwest Maintains Strategic Focus through a Discretionary, Enterprise Risk Management Approach

Organization

A Midwest not-for-profit healthcare system with over 30 owned or affiliated hospitals and approximately $2.7 billion in annual operating revenues. The system has greater than $1.6 billion in investable assets across various portfolios, including cash and short-term operating reserves; board designated assets; foundation assets; self-insurance reserves and defined benefit pension plan assets.

Challenge

The healthcare system faced increasing organizational complexity as a result of recent hospital acquisitions and operating pressures related to the COVID-19 pandemic and an evolving operating environment. In planning for continued growth, the system needed to better understand the impact its various investment portfolios would have on the system's key financial metrics and operational performance.

Solution

SEI provided a fully-customized investment outsourcing solution for the client's broad set of investment portfolios. It was important to take a holistic view across their different asset pools in order to better manage risks, grow assets and add value.

A Focus on Strategic Initiatives

Important Information: *This case study describes the attributes of a specific client that SEI has determined is comparable based on objective criteria, including organizational goals, asset size and industry sector. Any discussion of specific asset allocations is intended to help clients understand SEI's customized investment approach, and should not be regarded as a recommendation. Information concerning SEI's recommendations over the last year is available upon request.*

As a result of the uncertainty created by the COVID-19 pandemic, the system was looking to measure the impact of various portfolio changes on its future health. With SEI having discretion over manager hiring, firing and monitoring, the client's management team and board members could continue to focus additional time and energy on operational strategy development and execution, rather than shift focus to managing the investments. The client was also able to take advantage of its access to an industry leading multi-manager investment program that provides cost-effective access to investment managers and asset classes, increased diversification and daily liquidity.

Taking an Enterprise Risk Management Perspective

SEI's outsourced fiduciary management solution is enterprise-focused and works as an extension of a healthcare system's team. Using this framework as foundation, SEI performed a holistic analysis of the investment program in light of the changing and unpredictable circumstances. For all portfolio recommendations, SEI considered a variety of factors, including:

- Unrestricted liquidity requirements to provide operating and working capital, including the range of cash needs over the next 6+ months
- Sources of funding shortfalls – cash, lines of credit, portfolio sales
- Interest rate sensitivity, waivers, covenant relief, review of all contractual obligations
- Monetizing assets to fund potential for creating realized losses impacting covenants
- Historical and projected operational performance of the health system
- Liquidation / selling strategy trying to balance (1) cash needs (2) accounting impact on covenants and (3) positioning the portfolio for a presumed rebound
- The unique circumstances and objectives of the system's various pension plans and their associated risks

SEI's Asset Allocation Study

SEI conducted an asset allocation study for the client to show projected outcomes for their total unrestricted cash and investments and the potential impact of the asset allocation on the system's key financial metrics. The main objectives of the study were: 1) to determine if the current asset allocation of the client's total unrestricted cash and investment portfolio was appropriate when considering the goals, objectives and unique financial circumstances of the health system within the current market environment; 2) to evaluate whether the asset allocation was still designed to generate returns at levels sufficient to support balance sheet growth and organizational objectives; and 3) determine whether the asset allocation exposed the system to unacceptable levels of risk.

Data incorporated into the analysis included:

- Organizational data such as historical financial statements, debt and swap structures and credit rating reports
- Goals and constraints including future financial targets, sensitivities, credit rating thresholds and debt covenants
- Multi-year financial projections and multiple operating margin scenarios
- Capital market assumptions (CMAs) using current economic and capital market data, forward-looking CMA and asset class constraints and simulated portfolio performance

The asset allocation study revealed that under the current market conditions, increasing risk in the portfolio would be rewarded less than it has been historically. As a result, the Board decided to de-risk the Board designated and foundation pools. This decision was driven largely by the need to find an efficient balance between risk and return, and to choose a strategy that would continue to provide the best trade-off between risk and return in various market scenarios. The adjustments to the portfolio indicated that the adjusted aggregate risk profile of the portfolios is in line with the client's risk appetite, the projected growth in the global investment portfolio is expected to maintain key financial metrics, and expected returns on the investment portfolio are projected to be sufficient to support strategic requirements. Assuming median or expected investment returns, the dollar investment return on the global portfolio would be sufficient to grow the balance sheet over the forecasted period.

Relying on an Enterprise Risk Management framework, the system has the flexibility to work with SEI to evaluate changes to the portfolio in real time under various market scenarios. This analysis serves as a major input to the decision-making process, allowing the Board to operate in a nimble and efficient manner, particularly in the face of continued uncertainty.

Conclusion

The dynamics of many healthcare organizations during the COVID-19 pandemic – such as depressed revenues, increased expenses, market volatility and the uncertainty of how and when the pandemic will end – require a comprehensive, proactive and ongoing review of broader enterprise risks and an understanding of the impact that the investment portfolios may have on overall financial and operational performance. SEI takes a holistic, Enterprise Risk Management view of healthcare investment portfolios, enabling healthcare systems to be better prepared for future events and make more educated decisions regarding risks taken in pursuit of value.

Important Information

SEI at a Glance

SEI's Institutional Group delivers integrated retirement, healthcare and nonprofit solutions to clients in eight countries. Our solutions are designed to help clients meet financial objectives, reduce business risk and fulfill their due diligence requirements through implemented strategies for the management of defined benefit plans, defined contribution plans, endowments, foundations and board designated funds.

For more information please visit **seic.com/institutional** or contact us at **866-SEI-2441** or **institutions@seic.com**.