

# Executive summary



## The Healthcare Fiduciary's Handbook



A crash course on what you need to know to effectively govern the investment program for your non-profit hospital or healthcare system.

As the fiduciary for a non-profit hospital or healthcare system, you live and work with complexity every day. Whether it's...

- The day-to-day running of your organization so you can effectively meet the needs of your community;
- Staying on top of the constantly evolving regulatory environment;
- Or managing multiple asset pools in a volatile market environment, each with unique goals and risk profiles.

There's a lot to manage, priorities to be established, and rarely enough hours in the day to see it all through. With this in mind, we created The Healthcare Fiduciary's Handbook to help simplify the management of your complex investment program. We believe one of the best ways to manage many of today's challenges is to work with an outsourced chief investment officer (OCIO), and the handbook provides practical advice on how to do just that. This executive summary is intended to give you a bird's-eye view of the information and resources laid out in the handbook.

### An overview of the handbook

The handbook comprises three sections:

**Section 1** focuses on what it takes to be an effective fiduciary, which includes having a solid delegation structure and good governance practices.

**Section 2** centers on defining your investment goals and objectives, and discusses the inputs you need to successfully set up your strategic asset allocation (SAA).

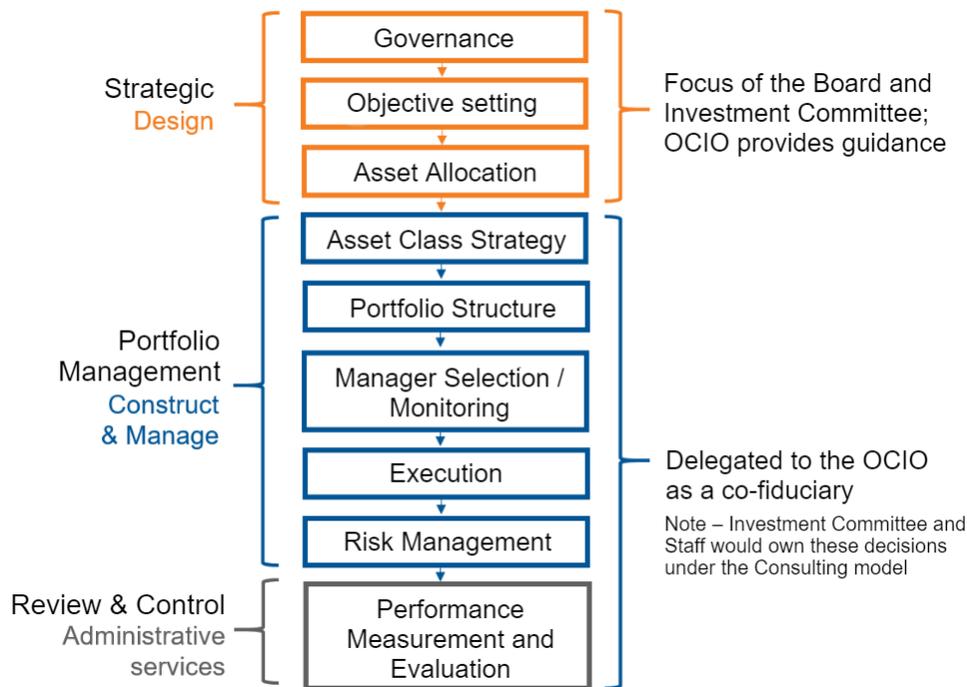
**Section 3** completes the journey with a discussion of what you need to build a dynamic, outcome-oriented portfolio and an enterprise-wide risk management system.

## Section 1: Being an effective fiduciary

The handbook begins with the aspects that you, as a fiduciary, are in control over. Being an effective fiduciary requires you to identify how decisions are made, who is most qualified to make them, and how they are monitored.

### The fiduciary roadmap

Our fiduciary roadmap walks you through the hierarchy of decisions that fiduciaries must make as they run their investment programs. As a fiduciary, you should always retain control of governance and objective setting, and you should have the final say on the strategic asset allocation (SAA) for each investment pool. After that, you should delegate the remaining responsibilities to your OCIO provider and oversee the work they do on your behalf.



Effective delegation is about identifying the person, or entity, who is best equipped, internally or externally, to take on a certain responsibility. The handbook provides a more detailed overview of the delegation structures involved in overseeing your asset pools. It also includes a framework to help you flag any areas of disconnect where you either don't have a clear decision-maker, or there are two entities responsible for making the same decision.

## Section 2: Defining your investment goals and objectives

In this section, we discuss how you may help improve your investment outcomes and ensure that each of your asset pools is aligned with the overall financial goals of your hospital or healthcare system.

### Investment considerations for non-profit hospitals and healthcare systems.

Non-profit healthcare organizations typically have multiple asset pools over which you as a fiduciary may have oversight. The primary pools include:

1. Long-term pool (also called the operational, board designated, or funded depreciation assets)
2. Pension plan
3. Foundation assets
4. Self-insured assets

Successful management of these pools takes a delicate balancing act of many moving parts. Ultimately, as a fiduciary, you want to mitigate the potential impact of a movement in one pool on another pool, and on the rest of the organization. To that end, you need to make sure that your pools' investment objectives reflect the broader financial goals of the organization, your organizational circumstances, and the alignment of your internal stakeholders. In the handbook, we provide a worksheet where you can lay out your organization's financial goals and your asset pools' investment objectives side by side, and note any areas of disconnect.

### Designing your SAA.

In the handbook, we'll walk you through how to design your SAA, as well as illustrate sample SAAs for each asset pool. In addition to your investment beliefs, the critical components of an SAA include:

1. Organizational inputs
2. Capital market inputs

The handbook discusses the impact these inputs will have on the SAA of each asset pool in detail. However, we want to highlight that it isn't enough to think about the asset classes you're including in your SAA; you also need to think about the roles they will play in each of your asset pools. That way, you'll get a better sense of how each asset in your SAA can help you achieve your total portfolio outcomes.

Don't forget to document your decisions and beliefs in your investment policy statement (IPS)! Your IPS is the guiding document for your organization's investment program. It captures your organization's beliefs and expectations and provides strategic guidance on how to align your investment program with your organization's goals. The handbook offers a more detailed outline of the information your IPS should contain.



## Section 3: Overseeing your dynamic, outcome oriented portfolio

In the final section of the handbook, we talk about what it takes to build a dynamic, outcome-oriented portfolio, as well as a robust enterprise risk management system. There are several steps involved.



**1.**

### **You and your OCIO provider need to access the right managers.**

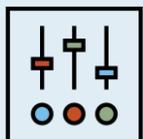
Make sure that your OCIO provider has the right resources and processes available to identify, hire, and manage the best managers for your investment program in every asset class.



**2.**

### **You and your OCIO provider need to incorporate the right strategies into your portfolio.**

Work to ensure that you strike the right balance between implementation approaches, such as active, passive, and positioning strategies.



**3.**

### **In today's market environment, you are going to need to manage your portfolio dynamically.**

Dynamic management is essential to ensuring that you meet your outcome-oriented goals within each of your asset pools, because it allows you to adapt quickly to the changing market environment. As a fiduciary, you have to set trading bands and allocate discretion to your provider. Your provider will also need specific skills and capabilities to be able to manage your portfolio dynamically and effectively, which the handbook discusses further.



**4.**

### **You will need to ensure that you have the right provider.**

Your OCIO provider should do more than just combine the right managers and meet with you once a quarter to talk about performance against your goals. You also need to make sure that your OCIO provider can serve as a co-fiduciary and provide other value-added services to help maintain a successful investment program.



**5.**

### **You will need to build a robust enterprise risk management (ERM) system.**

ERM is the process of identifying organizational risks that may affect your investment program, as well as investment risks that may have an outsized impact on your organization. Not understanding the major risks that may impact the broader organization can be less than optimal and has the potential to give rise to unintended consequences.

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## Some final takeaways

We've quickly covered a lot of ground in this executive summary. So, here's a brief rundown of what we see as the key takeaways:

- **Really understand who is doing what to help you achieve your goals.**

You don't have to do it all, but you do need to steer, give direction, and intervene when shortcomings are recognized. Being an effective fiduciary involves effective delegation. The handbook provides a framework to help you identify and manage complex delegation structures.

- **The investment outcomes of your asset pools must be aligned with your organization's financial goals.**

You have to ensure that your individual asset pools meet their goals—but you also have to manage the impact each pool could have on the financial health of your organization. The best way to meet these dual goals is to align your pools' investment outcomes with your organization's goals—a process that we'll walk you through in greater detail in the handbook.

- **Your process needs to be dynamic.**

Working with an OCIO provider that can dynamically manage your asset allocation strategy to help mitigate risks and capture opportunities will increase the probability that your investment outcomes support your organization's financial goals.

- **Pay close attention to enterprise risk.**

Risk can make or break your ability to meet your organizational goals, but it is an aspect of portfolio management that is often glossed over. The handbook devotes an entire section to enterprise risk management and provides a framework for identifying key risks, implementing your risk management program, and evaluating how it all stacks up.

## Want to learn more?

This executive summary is just a small slice of what the full handbook has to offer.

We encourage you to take advantage of the information and resources available in The Healthcare Fiduciary's Handbook by requesting your copy at [russellinvestments.com/hchandbook](https://russellinvestments.com/hchandbook).

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## About Russell Investments

Russell Investments is an asset manager who has over 35 years of experience working with hospital and healthcare system fiduciaries to help meet their investing needs.

## For more information

Call Russell Investments at **866-739-7979** or visit [russellinvestments.com/healthcare](https://russellinvestments.com/healthcare)

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