

# Hospital system re-evaluates asset allocation strategy



Applying an enterprise risk management approach to modernizing asset allocation and investment policy

## Organization

A premier not-for-profit hospital system with multi-billion dollars in investible assets. The organization operates multiple hospitals and affiliated entities and has historically maintained a conservative balance-sheet posture, with a significant share of assets held in short-term and intermediate fixed income.

The client was concerned that their historical approach to asset allocation may not serve them as well in the future. After a thorough analysis to confirm the system's future financial plans, the CFO developed a clear vision: align the balance sheet and investment program with the system's long-term strategic plan and capital needs while preserving its strong credit profile and ample liquidity.

## Challenge

Initial discovery discussions with the new CFO and Investment Committee identified several interrelated issues:

- **Legacy balance sheet structure and risk posture.** Relative to similarly rated health systems, the client maintained a lower allocation to growth assets and a larger allocation to cash and short-duration fixed income, limiting the portfolio's contribution to long-term capital formation.
- **Fragmented pool structure.** Investment pools and policies had evolved over time and no longer cleanly reflected distinct time horizons or risk budgets, making it difficult to link investment strategy to operating and capital-planning needs.
- **Outdated investment policy.** The Investment Policy Statement (IPS) did not fully reflect current best practices around governance, risk budgeting, and delegation of authority, nor did it integrate clearly with the system's long-range financial plan.

**Legacy balance sheet structure, fragmented pools and an outdated IPS left the system under-invested in growth assets and misaligned with its long-term plan.**



- **Need for integrated analysis.** The CFO wanted an enterprise-level view of how potential debt issuance, changes in asset allocation, and different capital spending paths would interact—particularly their impact on key liquidity and leverage metrics monitored by rating agencies.

## Solution

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### 1. Enterprise risk analysis and peer benchmarking

We began by benchmarking the system's asset mix and risk posture against a broad peer universe of not-for-profit health systems. The analysis highlighted that, despite strong liquidity and credit metrics, the client maintained a materially lower allocation to growth assets than peers (roughly low-40s vs. about 60% for comparable systems).

Using our capital markets assumptions and the client's own projections, we built enterprise models that combined investment returns, debt structure, and capital spending plans into a set of scenario analyses. These showed how various asset-allocation and debt choices would affect days cash on hand, leverage, and coverage ratios under both base and stress scenarios.

### 2. Pool simplification and horizon-based design

To align investment strategy with cash-flow needs, we recommended restructuring the investment program into a clearer, time horizon-based pool structure:

- A Working Capital Pool focused on near-term liquidity and operating flexibility.
- An Intermediate Pool aligned to known capital and debt service needs over an intermediate horizon.
- A Long-Term Pool designed to maximize risk-adjusted returns for surplus assets not needed for near-term obligations.

This simplification made it easier for the CFO and Committee to see how much of the balance sheet could prudently be invested for growth and how much needed to remain in lower volatility assets to protect liquidity.

### 3. Strategic asset allocation and capital-structure alignment

Within the revamped pool framework, we proposed new target allocations that:

- Increased the overall allocation to growth assets (equities and diversifying strategies) while keeping liquidity metrics comfortably within the client's internal and rating-agency thresholds.

**Enterprise-wide modelling linked asset allocation, debt strategy and capital spending, showing how different paths would affect liquidity, leverage and key rating-agency metrics.**

- Reduced the reliance on short-term cash and ultra-short fixed income in the overall mix of balance sheet assets, moving those assets into higher-returning strategies appropriate for the pool's long horizon.
- Coordinated asset-allocation changes with a planned debt restructuring and new-money issuance, so that debt proceeds could be invested into the Long-Term Pool on a phased basis, rather than building cash balances that would dilute returns.

Our modeling showed that, once fully implemented, the new structure would raise the expected return of the investible asset base by roughly 1 percentage point per year. While not guaranteed, on a ~\$10 billion balance sheet, the modeling equates to potentially over \$100 million in additional expected annual return to support capital projects and strategic initiatives, while still preserving strong liquidity and credit metrics.

#### 4. Investment Policy Statement rewrite and governance enhancements

To make these changes durable, we led a comprehensive rewrite of the client's IPS. The updated policy:

- Clarifies the purpose and time horizon for each pool, along with target allocations and ranges.
- Defines risk-management parameters around liquidity, leverage, and tracking error.
- Formalizes roles and responsibilities across the Board, Investment Committee, management, Russell Investments, and external managers.
- Establishes a structured framework for reviewing asset-allocation policy, monitoring performance, and updating the IPS as conditions change.

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## Results

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The approved policy and allocation changes are expected to improve the long-term contribution of investment income, helping the system fund its capital plan and mission-driven initiatives while maintaining a conservative liquidity buffer.

Clear linkage between strategy, capital, and investments. The CFO and Committee now have an enterprise-wide playbook that connects debt strategy, pool structure, and asset allocation into a single, coherent framework.

Modern governance and transparency. A refreshed IPS and structured review process have strengthened fiduciary oversight and created a repeatable mechanism for revisiting risk posture as the organization's strategy and capital needs evolve.

**The new pool structure and IPS are expected to add roughly 1% in annual return on a ~\$10 billion asset base, while maintaining strong liquidity and credit metrics.**



# Where to next?



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