

ADVANCING HEALTHCARE MISSIONS WITH DISCIPLINED SPENDING



Bridget Sproles
Co-Head of
Healthcare Practice

The new tax bill passed by Congress and signed into law in early July will have a financial impact on all healthcare systems and may require funds to be pulled from systems' long-term investment pools (LTIPs). The recent federal Medicaid funding cuts will create financial challenges for healthcare systems, particularly those with high Medicaid exposure. Some systems may be forced to pull from the LTIP to support operations. For those systems that find themselves in that situation, we recommend a methodical approach to spending policy (such as a defined rate of withdrawal that may be based on market value or predictable dollars needed). This piece outlines the expected impacts, key questions for decision makers, and analysis supporting a disciplined spending approach.

There are many variables around when and how the Medicaid cuts will play out. Some of the pain for these new provisions in the bill may take a few years to fully impact healthcare systems income statements, particularly those financially strong systems with more commercial payors and financial flexibility. Some systems' leadership think that the longer time horizon in these provisions will allow them time to negotiate with lawmakers to alter the current plans. Also, states may be called upon to fill in gaps in revenue, so systems located in states with stronger financial positions may weather the storm better. Because these developments are likely to impact each healthcare system differently, decision makers overseeing assets should discuss how they expect to be impacted, what this bill might mean for funds needed from the LTIP.

Questions that systems should be asking to help inform whether any action is needed might include:

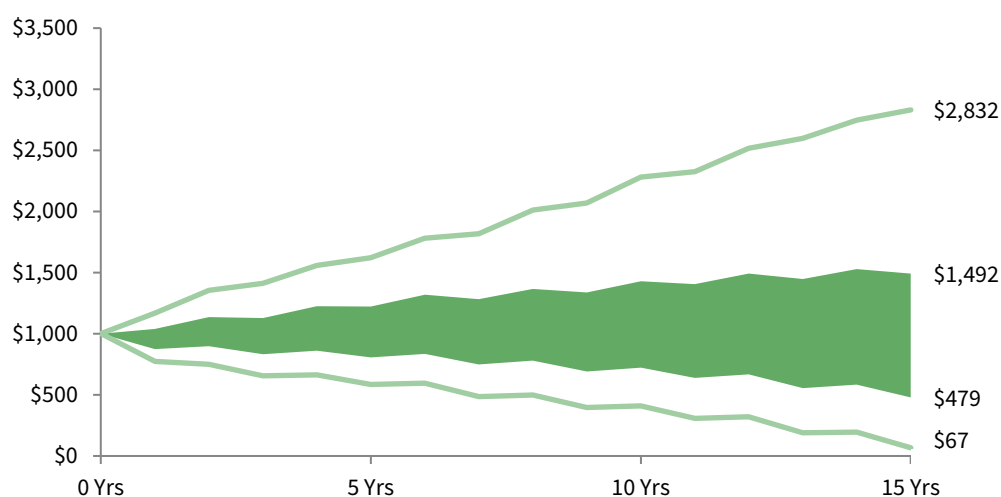
1. How do you envision this bill impacting margins and forward expectations?
2. Do the forward expectations of margins create a need for spending draws from the LTIP? Have liquidity needs within the LTIP changed?
3. Would having a methodical spending policy, rather than ad hoc draws, be a better approach to support operations?

If there is some likelihood that operations might draw from the LTIP, it is prudent to at least consider creating a spending policy, if one is not already in place. This piece reviews the long-term implications of pulling funds at an ad hoc basis versus creating a spend policy.

To test the hypothesis that a spending policy would have benefits to the long-term size of the LTIP versus ad hoc spending, we modeled how a \$1 billion LTIP could perform over 15 years comparing three different scenarios: 1) ad hoc \$100 million to \$200 million outflows every two years, 2) 3% per annum spending, and 3) 6% per annum spending.

As seen in Figure 1, if those ad hoc draws every two years occur during periods of poor market returns, the LTIP could be spent down. The lowest line on Figure 1 simulates the lowest 5% probability return profile. The range of returns within 25%–75% probabilities is also very wide if we draw funds out ad hoc.

FIGURE 1 LTIP REAL PERFORMANCE OVER 15 YEARS: AD HOC DRAWS EVERY TWO YEARS

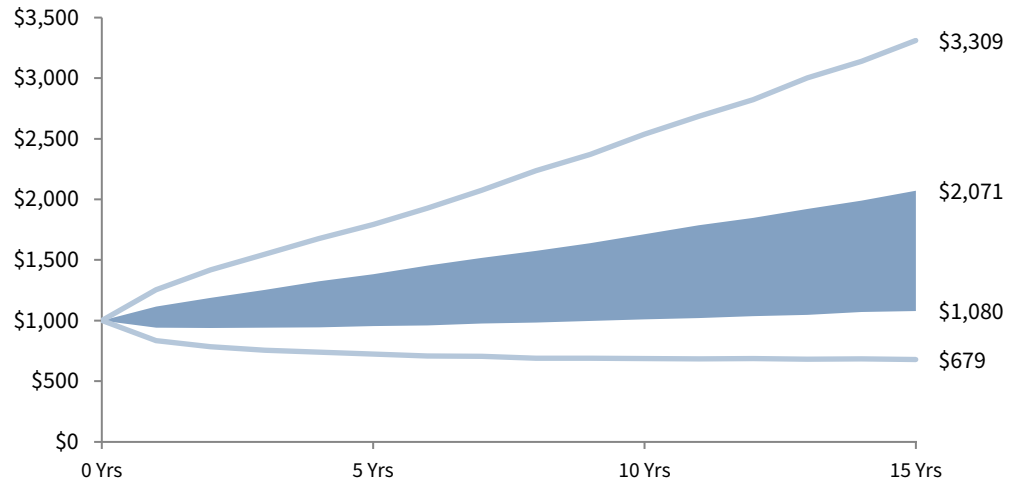


Source: Cambridge Associates LLC.

Notes: For illustrative purposes only. The ad hoc draws every 2 years is \$100M every two years for the first six years, \$150M every two years for the next six years, and \$200M every 2 years for the next three years.

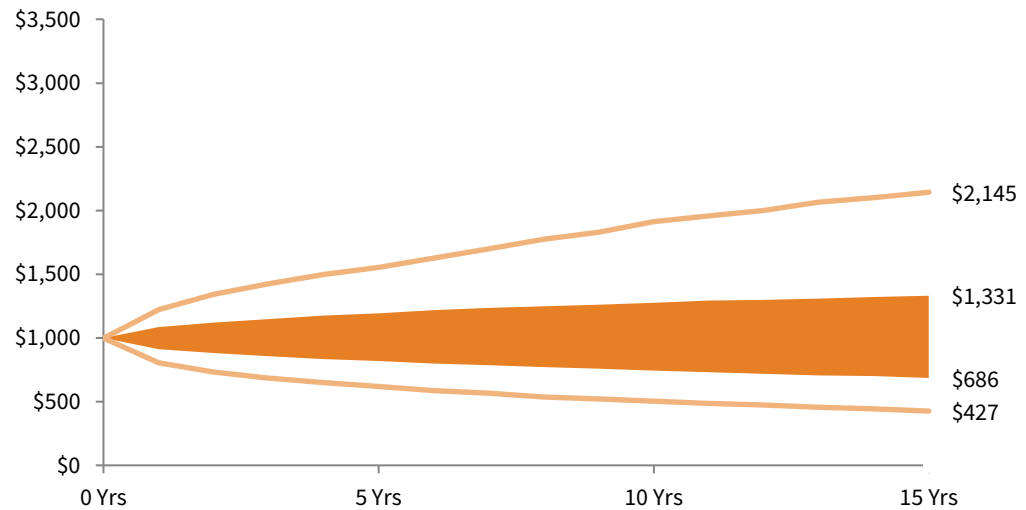
We next simulated long-term market values and dollars available to draw if a \$1 billion LTIP used either a 3% per annum spend policy or 6% spend policy. Clearly the smaller draws of 3% shown in Figure 2 benefit the long-term size of the LTIP, but the 6% spend also allows for sizable long-term funds (Figure 3). Interestingly, the midpoint of cumulative spending at the 6% rate is similar to the ad hoc spending, though it has a less volatile range of final LTIP size and funds spent.

FIGURE 2 LTIP REAL PERFORMANCE OVER 15 YEARS: 3% SPENDING



Source: Cambridge Associates LLC.

FIGURE 3 LTIP REAL PERFORMANCE OVER 15 YEARS: 6% SPENDING



Expected Real Cumulative Spending Overtime (US\$MM)

	Year 3	Year 9	Year 15
3% Spending	91	303	557
Range	(85-97)	(261-344)	(454-661)
6% Spending	177	535	898
Range	(166-188)	(463-607)	(738-1058)
Ad Hoc 2 Year Draws	193	523	905

Source: Cambridge Associates LLC.

Notes: Spending is modeled using projected future returns based on the rounded average all CA Medical Institution asset allocation as of 3/31/2025. All CA Medical Institutions consists of 31 healthcare long-term investment portfolios and excludes pensions. The asset allocation for the spending modeling is 45% Global Equity, 16% PE/VC, 5% Real Assets, 18% Diversifiers, and 16% Bonds and Cash.

A disciplined LTIP spending policy—as opposed to ad hoc capital draws—better enables investment staff to plan and execute a long-term investment approach that more effectively supports the mission of a healthcare institution.

Copyright © 2025 by Cambridge Associates. All rights reserved.

This document, including but not limited to text, graphics, images, and logos, is the property of Cambridge Associates and is protected under applicable copyright, trademark, and intellectual property laws. You may not copy, modify, or further distribute copies of this document without written permission from Cambridge Associates ("CA"). You may not remove, alter, or obscure any copyright, trademark, or other proprietary notices contained within this document. This document is confidential and not for further distribution, unless and except to the extent such use or distribution is in accordance with an agreement with CA or otherwise authorized in writing by CA. The information and material published in this report is nontransferable. Therefore, recipients may not disclose any information or material derived from this report to third parties or use information or material from this report without prior written authorization unless such use is in accordance with an agreement with Cambridge Associates ("CA"). Nothing contained in this document should be construed as the provision of tax, accounting, or legal advice. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS. ALL FINANCIAL INVESTMENTS INVOLVE RISK. DEPENDING ON THE TYPE OF INVESTMENT, LOSSES CAN BE UNLIMITED. Broad-based securities indexes are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index.

This performance report represents CA's estimates of investment performance, portfolio positioning and manager information including but not limited to fees, liquidity, attribution and strategy and are prepared using information available at the time of production. Historical results can and likely will adjust over time as updated information is received and processed. Estimated, preliminary, and/or proxy information may be displayed and can change with finalized information, and CA disclaims any obligation to update previously provided performance reports when such changes occur. This report is not intended as a Book of Record nor is it intended for valuation, reconciliation, accounting, auditing, or staff compensation purposes, and CA assumes no responsibility if the report is used in any of these ways.

The primary data source for information is the investment manager and/or fund administrator, therefore data may not match custodial or other client records due to differences in data sourcing, methodology, valuation practices, etc. Estimated values may include prior quarter end data adjusted by a proxy benchmark or by subsequent cash flows. In some instances, data may be sourced directly from a client and/or prior advisors or service providers. CA makes no representations that data reported by unaffiliated parties is accurate, and the information contained herein is not reconciled with manager, custodian, and/or client records. The nature of performance measurement is such that it is a best estimate of performance. As such, performance is displayed to a one decimal place level of precision, accommodating up to nine basis points (0.09%) of imprecision in reported returns. There are multiple methodologies available for use in the calculation of portfolio performance, and each may yield different results. Differences in both data inputs and calculation methodologies can lead to different calculation results.

As part of the reporting process, errors can and do occur. For the purpose of CA reports, an error represents any component of the performance report that is missing or inaccurate, including, but not limited to, composite returns and market values, manager returns and market values, benchmark returns, risk and other statistical measures, holdings and exposures. Errors can be a result of incorrect aspects of data, calculations, setup, software or may be a result of an omission, incorrect value, incorrect systematic computation, incorrect report production, and other similar reasons. For classification as an error, the item in question must be objectively incorrect according to the standard policies, procedures, and methodologies utilized by CA. Differences due to changes in methodology over time, the difference between preliminary and final data and other related changes do not constitute errors, but rather normal course of business for the reporting process. Though CA makes reasonable efforts to discover inaccuracies in the input data used in the performance report, CA cannot guarantee the accuracy and are ultimately not liable for inaccurate information provided by external sources. Clients should compare the values shown on our performance reports with the statements sent directly from their custodians, administrators or investment managers.

In the event that an error is discovered, CA will correct the error and maintain the most accurate information possible. In the event of a material error, CA will disclose the error to the report recipient along with an updated version of the report from the most recent period.

CA's performance report is intended to be offered as a standardized product. CA may be instructed by the client to customize aspects of the report outside of CA's standard policies and procedures. Deviating from CA's standard operating policies and procedures can compromise the quality of the report and increase the risk of error. Customization requests cannot be accommodated in all cases if it is deemed that necessary systems and controls are not in place to minimize errors or reduce the validity of the report. Customizations, including but not limited to, data sourcing, data input, calculation methodologies and report display are acknowledged by the recipient as potentially compromising to the quality of the deliverable and the recipient assumes the risk for any ensuing quality breaches as a result of these customizations.

Cambridge Associates is a global group of companies that provide investment management, investment advisory, research, and performance reporting services. For the purposes of this document "us", "the Firm", "our", "we", "CA", "Cambridge Associates", and similar terms refer collectively to the following list of companies. Similarly, unless otherwise stated the figures provided are the combined total for the following list of companies: Cambridge Associates, LLC (a registered investment adviser with the US Securities and Exchange Commission, a Commodity Trading Adviser registered with the US Commodity Futures Trading Commission and National Futures Association, and a Massachusetts limited liability company with offices in Arlington, VA; Boston, MA; Dallas, TX; New York, NY; and San Francisco, CA), Cambridge Associates Limited (a registered limited company in England and Wales, No. 06135829, that is authorized and regulated by the UK Financial Conduct Authority in the conduct of Investment Business, reference number: 474331); Cambridge Associates GmbH (authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ('BaFin'), Identification Number: 155510), Cambridge Associates Asia Pte Ltd (a Singapore corporation, registration No. 200101063G, which holds a Capital Market Services License to conduct Fund Management for Accredited and/or Institutional Investors only by the Monetary Authority of Singapore), Cambridge Associates Limited, LLC (a Massachusetts limited liability company with a branch office in Sydney, Australia, a registered investment adviser with the US Securities and Exchange Commission and registered in several Canadian provinces ARBN 109 366 654), Cambridge Associates Investment Consultancy (Beijing) Ltd (a wholly owned subsidiary of Cambridge Associates, LLC which is registered with the Beijing Administration for Industry and Commerce, registration No. 110000450174972), Cambridge Associates (Hong Kong) Private Limited (a Hong Kong Private Limited Company licensed by the Securities and Futures Commission of Hong Kong to conduct the regulated activity of advising on securities to professional investors), Cambridge Associates AG (a Swiss Limited Company, registration number CHE-115.905.353, that is authorized and Regulated by the Swiss Financial Market Supervisory Authority (FINMA), and Cambridge Associates (DIFC) Limited (incorporated as a Private Company and regulated by the Dubai Financial Services Authority, License Number: FO11237).