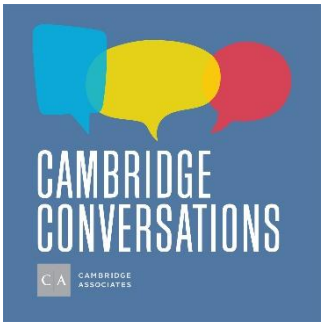

Season One: Episode Seven
The Portfolio Behind the Patient: Investing for Health Systems
Launch Date: September 2, 2026

John Zabrowski*:* With the pressures on healthcare every single day we're trying to focus on how do we make sure that our operating model is sustainable? And, that sustainable growth is really first and foremost something we talk about every day because if you're not sustainable or if you don't have a very solid business model, it becomes increasingly challenging to make sure that you can continue to invest to provide the highest levels of care. And as a healthcare organization, that's paramount to what we do.

[MUSIC]

Willis: The most important investment insights don't always come from charts or reports. They come from a good conversation.

Welcome to Cambridge Conversations, a podcast from Cambridge Associates where we explore the ideas, challenges, and decisions shaping the investment landscape for institutional and private family investors.

I'm Willis Wilson, an Investment Director here at CA and the host of Cambridge Conversations.

In today's episode, I'm joined by John Zabrowski, CFO of VHC Health which is based in Arlington, Virginia, and my colleague Bridget Sproles, who's Partner and Co-Head of our Healthcare Practice.

We talk about how, in healthcare, investment decisions are about a lot more than returns—they help an organization stay flexible, plan ahead, and ultimately deliver great care. We also get into why some teams are moving to the OCIO model and what others can learn from that experience.

So, let's get started.

[MUSIC]

Willis: John, Bridget, welcome to Cambridge Conversations.

John: Thank you so much. It's a pleasure to be here with you, Willis. Looking forward to today's discussion.

Bridget Sproles: Thank you, Willis.

Willis: Oh, I hear, I hear something. I don't know what that is

John: You hear construction. VHC is on the middle of a very large capital expansion, and that is the fruit of all the labor of the work that we've done with Cambridge and Bridget's team

Willis: Oh, this is exciting.

Bridget, can you introduce yourself? Talk a little bit about your role at CA and your partnership with VHC.

Bridget: Absolutely. It is a circuitous route that brought me to Cambridge. But before that I was just exploring the world and pursuing what I was curious about, and I stumbled into going to China when it was just kind of opening up to the outside world, and it was just a fascinating time to be there. Got a master's in Asian studies and then got the bug on the investment side.

So I've been at Cambridge for 25 years. I'm a partner at the firm. I am the OCIO provider for VHC and am the co-head of the healthcare practice, so very active in the healthcare industry.

Willis: John, introduce yourself and tell us about the work that you do.

John: Yeah. My name is John Zabrowski. I'm the chief financial and strategy officer at VHC Health. My role is to provide oversight of strategic planning, financial planning, revenue cycle activities, and I have an opportunity to do that in conjunction with so many talented professionals throughout our health system.

It's truly a pleasure and a joy to support our mission of providing high-quality clinical care, ensuring great patient outcomes and satisfaction, and ultimately continuing to evolve to meet the healthcare needs of our community.

Willis: I love that. And Bridget, how did you find that particular niche?

Bridget: You know, I think my second client at the firm was a healthcare system and, in those days, many clients that came to us wanted the endowment model, a very diversified portfolio. And it was interesting because as time evolved it was very clear that these assets were different than a typical endowment portfolio and so it's

given me that passion to really focus on healthcare institutions and help them deliver the right portfolio that's that's really unique to them.

Willis: Yeah, I love that. It's so funny. A lot of stories here at CA start with those first early clients and that exposure and people finding the area within institutional asset management where they like to add value.

John, I want to bring it to you, I learned you have witnessed open heart surgery. What was that like?

John: That was truly a, a foundational moment, in my career. As I think about the various opportunities that I've had, working as a consultant, working in public accounting, working in corporate banking, what I was always missing out on was the purpose or the why. And, when I had a chance to go witness this open heart surgery at the bequest of a CFO who was a dear mentor of mine and still a great friend, I was just struck by how every single person in that room was focused on the ultimate outcome of that patient.

And when I scrubbed in, I was literally standing at the head where patient care was happening. I was able to see everybody do their craft and their diligence from perfusion to setting up all the instruments to making sure the surgery went well and the anesthesia and the bypass machine.

And at the end of it, the physician who performed the procedure, his name was Dr. Wagmeister, he invited me to come around and look inside. And what I was able to see inside was the patient's completely repaired heart valve. And I'd never seen anything like that in my life beforehand. But I will say what it did for me is it really gave me innate motivation to try to find solutions to help make sure healthcare is accessible, to come up with creative solutions to finance that so that more people can have a great outcome and have an improved life outcome.

It's what drives me. It's what gets me to wake up and, and think, it's why I'm always really just super engaged in the work that I do.

Willis: Wow John, I love that. What does a day in the life at VHC actually look like for you?

John: That's a great question. really what I do is I spend a large portion of my time looking at strategic growth opportunities, trying to really understand and discern the best modes or manners in which VHC can grow, either in new capabilities or new sites of care, to provide those services to our region and the populations that seek them.

We also do a lot of work to think about partnering with stakeholders, so learning a lot from physicians about how does a practice work, what could be utilized to benefit a practice.

A recent example of that was embedding behavioral healthcare in our primary care practices. In addition to that, we really think about care delivery. How do we optimize the way we deliver care so that the patients have a great outcome or great experience?

With the pressures on healthcare, every single day we're trying to focus on how do we make sure that our operating model is sustainable? And, you know, that sustainable growth is, is really first and foremost something we talk about every day because if, if you're not sustainable or if you don't have a very solid business model, it becomes increasingly challenging to make sure that you can continue to invest to provide the highest levels of care. And as a healthcare organization, that's paramount to what we do.

Willis: Hundred percent, and this is part of what you collaborate with, Bridget on. What does that collaboration look like in terms of the economic resource side of the institution in supporting the mission?

John: Yeah, we talk about that all the time. She's really a key partner, a right-hand person, to help understand what it is we can do in regards to our investment policy, our perspectives, to make sure that we can support the organization's need to grow for healthcare.

She helps us understand if we're going to invest in growth, how much, you know, durability do we have in a portfolio to sustain that type of an investment?

She helps us understand, if we're going through a challenging economic time, how long can we sustain that impact before it may become problematic. When we look at our long-term financial planning, she helps take our five-year strategic financial plan, our capital plan, and she adds like the fourth dimension of real important news, and that's what happens when the markets move a little bit differently than you may suspect, and how durable is that five-year plan really, so we can come up with any contingency plans we may need to.

She's done a great job bringing that, liquidity scenario, testing our cash forecast, making sure that from a cap investment perspective, we're being thoughtful, but then also just a really great partner with our finance committee and board members to explain what is the investment position of VHC, the philosophy, helping us adapt our investment policy statement to make sure it's modern and it really aligns with what our overall objectives are.

Willis: Bridget, I wanna bring it over to you. What is it about healthcare investing that makes it distinct from other forms of institutional asset allocation?

Bridget: Well, the assets reside within the healthcare system, which is an operational entity that every month has unique cash flows. And on top of that, they have a regulatory body and a payer base that is very dynamic. And so, there's always some component of their cash inflows and outflows that are adjusting, and

the question is that short-term or is that long-term? And does that mean that the structure of their portfolio should be different?

You know, when I started working with healthcare systems 25 years ago, they were fairly static in what they were doing and how they were delivering care and the cash flows that were being generated, and it's evolved to be a much more dynamic world.

I mean, John is really on the cutting edge of being thoughtful about where do you expand, how do you grow, but not excessively. All healthcare systems today are very aware that they're in a competitive environment, but also an environment where, the demand for their services continues to grow and the potential technology and ways to serve the patient base is evolving.

There's just so many different angles at which you can analyze and think about what's happening operationally and make sure we're matching the investment portfolio to that.

Willis: You know, it's interesting. At the end of the day, this whole thing is really all about servicing the patients and the community and healthcare outcomes. How do you translate VHC's broader mission and capital needs and the risk profile into an investment strategy that actually supports the organization?

John: Yeah, we really focus on a transparent and systematic aligned five-year planning process.

In this process, we think about strategic initiatives. So this could be growth or a new capability, a new service line. It could be infrastructure needs, making sure the plant and equipment are up to snuff and they're at the right level of care to make sure patients have a good experience and, and it's reliable.

One of the key areas that we think it's done a good job of forecasting is helping us understand, is there gonna be some stress? There could be inflationary pressures that hit, healthcare is one of the most unique businesses as a provider. You literally contract your reimbursement rates for a year, typically three years in advance, and your inputs change much more drastically. And so having the ability to continue to polish, dust off, and fine-tune a five-year plan. It's a good rigorous process, but then once you know what those outputs are and you know where you're at and you've been able to close the gap, then what we do is we actually bounce that back in yet again and we look at the investment sensitivities and we try to figure out, is there something in there that we're missing?

But what's really nice about it is from a balance sheet perspective or a liquidity perspective, we haven't been surprised in a negative way since we started that process, and we have been able to do a pretty good job of keeping track of the resources.

Willis: That made me immediately think about risk and some of the difficulties that come along with long-term planning and making sure things align for the institution, which I imagine is just a challenge that some of us can't even fathom.

How do you define like the risk profile for the health system when the portfolio needs are really not just to support long-term returns, but also real operating and capital demands?

John: We've really focused on it, and I think partnering with Bridget and her team has been exceptional. And so, our view and our overall philosophy is that VHC, it's going to exist perpetually. It doesn't have an end date. And so, part of our mission and vision is to have that somewhat infinite investment horizon in what it is we're looking to accomplish.

However, when we think about how we accomplish that, there's a lot of thought around volatility of the portfolio and making sure the credit profile is fairly consistent and stable. And so, in partnering with Bridget, and her team as far as allocations go, as much as we want to maximize and get as much premium over the market as we possibly can through our investment policy positioning, there's two things that we've really done a good job on focusing.

I think one of them has been really just looking a lot at diversifiers and alternatives to put some stability in the portfolio, but kinda outyield our, our fixed income, that we used to utilize. And then the second piece is, thinking about what does a short-term investment pool look like, and what do you think your needs are.

Bridget and I talk every month. If there's a reinvestment opportunity or something else of that nature, we try to make sure that we're coordinating, and we're very much aligned so that the short-term investment pool is where it needs to be. The long-term investment pool is invested to optimize our long-term returns, which is absolutely in line with what our goals are. And then at the end of the day, we just try to make sure that we're consistently coordinating with whatever those outflow needs may or may not be.

Willis: And Bridget, as the OCIO, you have the pleasure to work with John so closely and work on a lot of these things and put them into practice. Anything you would add?

Bridget: Well, you know, in healthcare, I often have seen over the years every institution has its own culture, that we also wanna get the risk right given how much risk they're comfortable with and how much conservative steady Eddie approach they want. In general, most institutions will say, "I'm not trying to, you know, shoot for the moon.

I don't need the highest, uh, venture fund," or, you know, they really want a nice, smooth rate of return that's gonna help days cash on hand move, which will also help the rating agencies, but not have a lot of volatility. So, we're maximizing how much

we can get out of the portfolio without experiencing a lot of the whipsaw that can come from the equity markets.

Willis: John, why did you decide to go with the OCIO model specifically, rather than building the capabilities internally or using someone like an advisor?

John: Great question. We purposely went through an RFP process, and we had a traditional investment consultant advisory, set up prior to that. One of the key issues that we thought about as a discernment process was really, what is it that we're trying to accomplish? What are our core capabilities? What is it that we're really great at? And what do we want tomorrow to look like with our next partner?

And if you think about OCIO, it really allows for more agility in investment, so for example, if my finance committee meets monthly, that's great. That's 12 times that somebody can present an idea from an investment perspective to get an approval to invest in. However, there's a whole lot more other days where that's not happening. No action can be taken. There can be no direction of funds without that approval.

The other piece about it too, if you really think about it from a healthcare perspective, governance is probably the next question once you decide you're gonna go OCIO. Well, if you have a very strongly written investment policy statement, and you have good governance in regards to the investment component of your finance committee, as long as those recommendations are within what you've already agreed to there's really not so much of an urgent need to have a meeting where you say you approve every single decision because what you're really asking through the OCIO is could you execute this investment strategy on behalf of the organization, and then monthly you check in and say, "How is it going?"

That is really the efficiency that we wanted to obtain. As long as everybody around the table understands where we're going, that's where we need to be.

If you asked about build or buy, building this type of capability is incredibly difficult.given the size of our balance sheet The idea of building it really wasn't gonna really work with the resources we had.

And I think the other issue is that the OCIO partner, they've got a lot more experience than when you build your internal team. Your internal team knows everything about that portfolio, but I can talk to Bridget or her colleagues, and it's amazing how much I get to learn about five different health systems, and here's their view, and this is how they're dealing with it.

even if it's outside of the investment portfolio, Bridget and I have had several conversations even recently, "Hey, have you heard about this trend?" "Oh yeah, this client's actually been talking about that." And, you know, you get more information. I think you get more breadth, you get maybe a better view of the industry.

Willis: I love that point around like learning from peer institutions, via Bridget and her team. Bridget, that makes me want to bring it to you. And I'm really curious, like what makes the OCIO model particularly effective for healthcare organizations?

Bridget: John hit it spot on. It really is leveraging these internal teams that are undertaking both sometimes finance and investment decisions, are thinly staffed with massive amounts of different demands pulling them that are important to the operation. If they don't have 100% of their day focused on the investment portfolio, I'm concerned they might be getting suboptimal returns.

So the ability on OCIO we look at the portfolio twice a week, rebalance between managers, between asset classes as necessary, and make available the cash, especially for OCIO, the ability to move quickly on a good manager without going through a committee structure has been really beneficial to my clients that have chosen that route. I think it gives the internal team time to put their resources and their bandwidth into making sure operations are as strong as they can be.

Willis: On the asset management side you both work on pretty innovative solutions. What does that innovation in finance, investing, portfolio construction look like and how did that shape the portfolio and ultimately the broader organization? Bridget, I'll start with you.

Bridget: One of the biggest areas that I've brought into conversations with healthcare systems is they want to have a fairly muted volatility. They don't want to have a lot of exposure to the equity markets that are going to go through different gyrations. So they've typically held in a large portion of fixed income.

And of course, especially when we were sitting with no interest in the fixed income markets five, six years ago, the conundrum of what do we do about this? We just take that there's no interest on our 30 or 40% of the portfolio. We think it's much better used by getting low volatile hedge funds or private diversifiers, private, credit strategies that can give them a smoother return profile and a much higher return than they can get from the fixed income market.

So that's an area that I'm always pushing my team. We have specialists that do help us on the diversifiers, but what's especially gonna be a nice strategy that helps healthcare systems might not be appropriate for other endowment foundation clients. And so we're always looking for those opportunities, investments, that can give us a return profile that's high probability of, let's say, a 8 to 10% rate of return.

That's a really nice solution for healthcare systems.

John: Yeah, the other big thing that I think was really beneficial was just having time to step back. Bridget alluded to the fact that healthcare finance tends to be very operational. And what was nice about partnering with Bridget was we were able to kinda look at our capital philosophy and think about what is our capital positioning and how does it work?

Bridget's been instrumental in helping either just have a one-off conversation in regards to what do you think to, presenting the materials holistically so I could present my view, she could present her industry view and the committees can have a good feel for it. But modernizing our capital philosophy has been actually incredibly important to VHC. It's allowed us to go to the markets. It's allowed us to fund significant expansion of our capacity and our plants and our sites of care. And I think doing that is a challenge to do when an organization has been set in a certain policy. But doing it the way we're able to do it together with our collaboration and our respective teams, I think it went very, very well.

Willis: I love that. And Bridget, I'm sure you bring a lot of things with you from your breadth of experiences across healthcare organizations. That made me think about what are some of the signs that a healthcare organization's investment structure may no longer fit the complexity or pace of the institution it's meant to support?

Bridget: I mean, the biggest one is their five-year plan. What are the objectives that they're trying to undertake, and will there be demands on this portfolio that need to be incorporated? Particularly this idea of if they don't already have a short-term pool, if they know that there's gonna be known demands of the assets in the 12 to 24, 36 months, let's set those aside because that was what we learned with my first healthcare system that it was in New Orleans, and Katrina hit.

Half of their reserves had to go out the door for operations. Now, that wasn't a planned operational need, but it made it very clear that there probably should be a reserve portfolio separate from the long-term pool if they don't already have one to fund those short-term needs and make sure that those assets are preserved because you can get a period where you both are pulling out of the portfolio and the markets are coming down. So we wanna preserve and make sure we've set aside assets that are needed short term.

Willis: John, I know that there was a time where there became a very clear need for a short-term liquidity pool. Can you describe what prompted that and how that pool has changed the decision-making or flexibility for VHC?

John: Yeah, COVID hit and managed care rates are locked in for three years, and all of a sudden inflation I think at its peak was, twenty-one percent inflation year over year which that was not my managed care rate increase that I was locked into.

And so, really amazing to work at an organization like VHC. Our view is that our most important resources are people. And I'm so proud. I remember when COVID hit and all the electives were quiet and, all of a sudden, the inflation is hitting and the board remained a hundred percent committed that our people are our number one resource. We did not furlough; we did not lay off. We kept people employed. And that was a challenge on the model. And the question that was asked was, how long can we do this? And if you think about going through that process, all of a sudden, your revenue base is a lot different than your expense base.

You know it'll come back, you just don't know how. And the inflation subsequent to that was a little bit heavy. And so, you know, Bridget's been a really good partner in helping us figure out, when we need to cover an operational need, how do we do that? What's the best way to do it? Um, we've modernized our capital structure, which has been great.

I think we've, we've done a good job on the IPS updates. But for me, I think what's been really amazing is having the short-term, investment pool. And I don't need to worry about what, what day is like in the market. Was the portfolio up or was it down? And what's been really good is we've methodically thought through, what do you think you might need in the next six to twelve months?

Is this about right? And having the ability to know that I've got money that's protected should I need it for operational needs or for capital expansion needs once the bond funds have been, you know, utilized that's really fantastic because I know it's gonna work well.

Willis: Bridget, I'm gonna bring it to you. We're gonna make that whole example very real. How do you think about structuring liquidity so that it supports the near-term priorities without undermining that long-term investment objective?

Bridget: Illiquidity is absolutely one of the risks that we have to simulate outside of just the kinds of market gyrations that might go on. And you know, I have conviction that when you're able to find great managers you can get a liquidity premium, so the long-term benefits, where we can take some illiquidity, and again, we do it in almost every asset class, look for what are the best profile and can we take illiquidity or not.

It goes back again to what is the plan? There's some systems who are doing quite well. Their margins are pretty strong, so they expect a net inflow into their long-term pool. So, we talk to the committee and make sure everybody's on board and then feel comfortable adding illiquidity as necessary and when there's opportunity.

Um, other systems that know they're in an expansion mode, they're in a growth mode, and there'll probably be net outflows from the portfolio. So we don't want to get over our skis on illiquidity there.

Willis: Something I wanna talk about, and we actually touched on this throughout our questions earlier, was around what does this partnership and a partnership-driven approach broadly make possible that goes beyond just investment management and returns as they're traditionally thought of?

John: After our finance committee, the most recent one, we sat down, we spoke for a while, and Bridget, she might ask a question or two about like, "Hey, how's that going?" And then I'll do the same. And I think we just bring shared experiences and knowledge from different backgrounds. I learn a tremendous amount every time I have a chance to talk to her about what she's seen in other markets and places. The other piece too is the educational piece in this partnership. I can't voice that enough.

I've been on investment committees for a long time. I've had this in my scope. And having a partner that, that really goes through, and takes the macro component and then makes it applicable to what it is you're actually trying to fund from an ops perspective or a strategic capital perspective, I think it's been really, really well received by a lot of folks.

Bridget: We think of ourselves as really embedded, like we're just down the hall from John, and I am just about a mile and a half from John and pass VHC every day on the way to work. So, they're my local –

Willis: I was gonna say that's your local hospital. It's right down the street. You are the patient-centered community. Yeah

Bridget: It is, it's where my primary care -- had my first baby there. It's a wonderful institution, and so I am wholehearted supporter of making sure we do the right thing for them.

I don't know if I even told you that, John, this story, but VHC is also very generous in the community and for many years has had a summer camp for kids to get them fired up about going into the healthcare industry. And all of my kids went through it and loved it. And one of my kids is gonna be in the healthcare industry.

She's starting college in the fall. And, I think that was a little part of the bug that got her started at a young age, and VHC was great at early on before we even knew about the staffing constraints that, that everybody is worried about for the next decade ahead, educating and getting the community excited about healthcare.

Willis: Love that! Okay, I wanna bring it and make it real tangible. Let's talk about the outcomes, the numbers, the impact on the patients and the community. I'm sure there are tons, but what are some ones that really stand out?

John: The growth that we've been able to sustain, you know, we have doubled our lives under care. We're north of three hundred and, and thirty thousand people that we care for on a routine basis.

In the last couple of years, we've set up more than ten new different specialty practices.

If you think about our obstetrics growth, we've expanded our women's health services, and created a really wonderful, unique, one of its kind women's healthcare centers, we're actually in the process of expanding, to a second campus where we plan to build two hospitals. One of those hospitals is gonna be a behavioral health hospital, and the other is gonna be inpatient rehab. There's a tremendous need for those services, and I think we all know that behavioral wellness is such an important aspect of the healthcare delivery system, and it's certainly underserved.

Willis: Wow, I love that. My mother is a behavioral health professional, I don't think gets even enough attention, but all are super important. I keep coming back to the people side of the business just because healthcare affects so many folks. When you think about the work that you do, John, what fires you up the most, and makes you excited to get out of the bed and do this work every day?

John: I really think about, you know, exactly what you said. If as a finance organization, my division through supply chain or managed care contracting or strategy or setting up the right investment organization, if we do that really, well the output is better care, right?

And that's really what I love about healthcare. We're not here to pay distributions to shareholders. We're not publicly traded. We're not privately owned. We are an asset of the community. And what I find interesting within that concept is there's always the tension, right?

You're a not-for-profit, why do you need to make a profit? And, and I think people don't understand that not-for-profit doesn't mean there isn't profit.

Not-for-profit means that you're responsibly reinvested into the ongoing operations to continue to fulfill the mission.

Willis: That's right, I love that. What part of the work do each of you find the most fulfilling?

Bridget: I've been, working with endowments and foundations 25 years, so clearly, I enjoy it, and it's, a combination of being able to every day open the news and know that there's a component of what's happening in the world that affects my clients' portfolios, and I've gotta be on top of it and think about, do I need to change something in their portfolio due to what's happening in the world? And then of course, as I said, the layers of complexity in the healthcare industry make it fascinating and, important to stay on top of various angles of the trends in the industry.

But importantly, at Cambridge culture has been, you know, working with amazing clients that are trying to do good and make the world a better place, and so going into the hospitals or going to a foundation or a college and seeing that the numbers that are on the page and performance that are being generated is having an impact. Even if it's a modest impact, it's somehow making a difference and making things better.

Willis: John, I'll bring it over to you.

John: You know, for me it circles back to the story that you asked about in regards to watching the open heart surgery. I just feel incredibly fortunate every day I get to wake up, and I get to work with a group that is motivated, talented, accomplished,

and just able to bring my contribution to help deliver these services to the community.

It's amazingly rewarding when you get to see a new center for care opened, or even better, when you have someone walk up to you and say, "Hey, I was at VHC, this happened, I had a wonderful experience. It truly made a difference in my life." Knowing that the time that you spent in whatever work team, whatever meeting, late at night trying to think through how to make it happen, it did have that outcome, and it really benefited somebody's life in a positive way.

Willis: John, Bridget, thank you both for joining me on Cambridge Conversations.

Bridget: Thank you, Willis.

John: Thank you so much.

Willis: If you want to learn more, please visit us at cambridgeassociates.com/cambridgeconversations or check out the show notes.

If you like what you're hearing, leave us a review and share the show with your friends and colleagues.

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Thank you so much for listening and being a part of the conversation.

Until next time.