DiMeo Schneider & Associates, Nonprofit Investment Stewards Podcast
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Effective Investment Strategies for Healthcare Systems — With Russ Gronewold

[00:00:00] Welcome to Non-profit Investment Stewards with Bob DiMeo and Devon Francis from DiMeo Schneider and Associates. Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment, foundation or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:28] Now onto the show. Hello, and welcome back to the Non-Profit Investment Stewards podcast. I'm Bob DiMeo as always joined by co-host Devon Francis. Today, we have a new topic and a terrific guest with great perspective on the many types of investment pools that hospitals and healthcare systems oversee. From board designated reserve funds to retirement plans and more, you're about to glean great insights, but first.

[00:00:57] Devon. Good to be with you. How are you doing today? [00:01:00] I'm great, Bob, thank you for asking. I am really excited to hear from our guest today. His name is Russ Gronewold, and actually, that name may be familiar to you because in the episode where we solicited viewer questions, he did submit a question and we read it on the air.

[00:01:17] Russ is the new CEO of Bryan Health in Lincoln, Nebraska. I say new, he's been in the position for about a year and he brings such great perspective to the investment discussion because before becoming CEO, about a year ago, he spent the previous decade serving as the CFO for Bryan Health. In addition to his work leading the system, Russ serves on boards for other nonprofits, he's a CPA and he has many more credentials and accolades.

[00:01:44] So Russ, welcome to the show. Thanks Devon. Thanks, Bob. I appreciate you asking me on, Oh, it's just great to have you here, Russ. And we've known each other for a while. And before we jump into the investment side, it would be really helpful to gain your perspective on being [00:02:00] promoted to CEO of a healthcare system, just as the pandemic was unfolding.

[00:02:05] Yes. We had a change in our leadership here, back in January, a planned retirement. And I became the CEO in January. And of course, the pandemic hit about six weeks later. And of course, the first thing you do is you throw out your hundred-day plan to create a new one. In some ways, actually, there were some things that made it easier.

[00:02:25] We have the same team all in place that it had been here for a number of years, when something like a pandemic hits, you just all kind of go to your corners and you trust each other to do the things that you know each other can do. In many ways, coming together as a team, pandemics or other kind of big events like that caused that to happen pretty naturally.

[00:02:47] In some ways it keeps you from developing the kind of new team structures and rhythms that you would hope to accomplish. I was thinking that there was one gentleman that we were using for some consulting during that time. And I [00:03:00] told him I was a little bit frustrated that I was making too many decisions and that, that really, I wanted a more participatory approach to our management style.

[00:03:10] And he just looked at me and said, you know, when a fire's going on, you don't call a committee meeting to figure out whether to pull the fire alarm. I thought that that was really helpful. But on the other hand, we’re just now a year later beginning to have the kinds of conversations about the kind of culture as a team that we're trying to formulate.

[00:03:29] And so it really is delayed that approach, but all is well, having a really quality teamwork over this past year during the pandemic. I'm sure that's been a big relief for you. So, speaking of committees and gathering committees together, when it pertains to the asset pools that you oversee for Bryan Health, can you describe what the constitution of your committee is?

[00:03:52] And maybe if you have any advice on best practices? We don't, we do not have a separate investment committee. So, we use our [00:04:00] finance committee of our health system to oversee most of our pools. That would include our long-term investment pool, our defined benefit plan. Then we have separately a 401k or our employees retirement plan group that is basically made up of representatives from, from inside the organization and delegated authority by the finance committee.

[00:04:24] We also have some other pools specific to our subsidiaries, and there's a reason for that. Our subsidiary pools of funds are around our independent, or excuse me, not our independent hospitals, but our affiliated hospitals in our rural areas. Each one of them has their own local investment fund that we use to keep money locally.

[00:04:45] And for the purposes of reinvestment in their community and an investment in those particular hospitals or in the other case of the foundation. Many times when we talk about the committee, we're thinking about just our Bryan Health pools of [00:05:00] funds. But really, we also have some funds managed locally for their particular needs.

[00:05:05] Those are much more liquid pools, much more conservative and not a lot of work going into the long-term investment of those, as opposed to the finance committee of the system, which manages the longer, the longer portfolio and the team around that. I suppose, in terms of best practices. The main thing that, that I believe that we've done over the last few years, that's been incredibly helpful, has been this identification of our enterprise risk management strategy, starting with a risk appetite statement that really does talk about the kinds of things we're interested in getting in and the kinds of things we're interested in staying out of, not just from an investment standpoint, but just risk for the organization overall.

[00:05:52] In doing that, we move from then a risk appetite into an enterprise risk management process whereby we identify those big [00:06:00] risks and then look to put pools of money aside for that, either within or outside of the overall investment pool. In doing that, I would say our finance committee's become very attuned to looking at new projects in light of that, in that enterprise risk management process to tuning it back or turning it back to Bob and company who we work with on the investment strategy side and saying, what kind of risk do we really want to take on? How much risk can we afford to take on?

[00:06:31] That's been a huge benefit to us over the last several years in coming up with that process and then working that backwards into our investment strategy, as opposed to treating them as two separate strategies. Russ that's terrific. And working with you and the leadership team there. And I see how you harmonize the organizational goals with the portfolio goals.

[00:06:52] And, and again, that just works really well. Perhaps before we dig further into the investment side, it's worth just providing backdrop [00:07:00] on sort of the mindset around growth or strategy. There always seems to be important initiatives occurring at Bryan Health. And perhaps you just want to comment on that.

[00:07:10] As a not-for-profit organization, we talk about our stakeholders as two really in our case, one being the city of Lincoln, where we are a major community hospital for the city, as well as the state of Nebraska, because we serve about 50 some communities across the state. We're looking at, what do we want to do in terms of stability versus growth?

[00:07:34] We're beginning to have better conversations around what do our stakeholders need. And I'll give you an example, as we were looking at replacing our major IT system, we could have taken a system that was less expensive, would have done many of the same things, but we said, we really need to be thinking about what does it mean to be using this for our stakeholders?

[00:07:57] And that resulted in a much higher [00:08:00] expenditure than what we had originally thought it might be. It's paid off because we're able to do that for the long-term. In the end, what we're really trying to look at is who are our key stakeholders? What do they need from us? In some cases, that's growth. And in some cases that stability. Over this last year, it's been a little bit more stability than growth.

[00:08:18] Although there's been some growth at the same time, but we're really trying to always say, what is it again? What does that stakeholder need from us? And in many cases, they're looking to us for growth in health care needs, in solving their healthcare problems. In doing that, that's resulted in, in sort of automatic growth.

[00:08:36] Similarly, from the standpoint of growth, we really don't grow for growth's sake. We want to have not just smart growth. We really grow as people ask us to become partners with them. Just right away in our mission statement, it talks about growing in concert with communities and physicians. We're very independent minded state.

[00:08:58] So we have a [00:09:00] lot of independent practices still. We still have a lot of independent hospitals and partnering with them is really been the key to our growth as opposed to acquisition necessarily. Although we've done a few of those, it's been more on the partnership side where we've growth. And I think that that has where we've grown and that has served us well.

[00:09:18] You already set the stage a bit, but can you describe, in perhaps a bit more detail what the various investment pools that you and the leadership team oversee? Sure. Let me just start again with the subsidiaries at our rural hospitals, one of our goals is to keep money locally as they continue to generate funds for investment purposes.

[00:09:43] Many of their funds are kept in very safe investments at our local level. And they are used for strategic expansions that they might have, maybe it's expanding a clinic or remodeling a hospital, or in some cases, even a replacement hospital. So that has worked pretty well to have [00:10:00] those funds locally and state local.

[00:10:02] That's always something important to the local community. In a similar way in the foundation, the foundation has its own finance committee that manages funds relative to some growth, but also just this idea that we're going to need many of the funds that they're raising in a relatively short time period.

[00:10:21] So the time horizon is often one to three years, for many of the funds that are being generated at those local levels. That's different than most of the work that we do on an invest, long-term investment standpoint. I know it's not the most efficient way to manage funds, but it's worked really well for us from a buy-in at the local level. At the system level, which really is for the purpose of sort of that ballast in the ship to withstand shocks to the system, we manage our longer-term portfolio there.

[00:10:54] And we did not plan on needing those funds in most cases, except when there's a [00:11:00] shock to the system for any particular needs. So, we can have a long-term horizon on those. Typically, seven to 10 years. They could be used for a strategic purpose. They could be used for a major addition to an, to one of our facilities.

[00:11:16] But generally we try to do all of that out of our generating, our generation of long-term, or excuse me, short-term cashflow on a yearly basis. So, for the most part, we're looking at the long-term portfolio at the system level for long-term purposes, not for liquid purposes in any fashion. We do, however, carry a fair amount of cash outside of that portfolio.

[00:11:38] So we can always have those funds available for those things that we need. The other purpose of that long-term portfolio is really to support our debt rating and any guarantees that we have across the system. Then we also have the portfolio for the defined benefit plan for a, what is now a frozen and no more benefits being accrued, [00:12:00] benefits, defined benefit plan, but we're still managing that out and will be for a number of years. Today, that's at about close to 90%, not quite 90%, funded.

[00:12:10] It's been between 80 and 90% for quite some time. And so, we are always managing that piece out. Since that is a frozen plan, then we also have our 401k plan that we are also then of course, managing the fund offerings and other elements of the plan relative to those needs of our employees here. Russ, taking a peek at the long-term portfolio and drilling down a bit more with the pandemic and perhaps even with some of the organizational initiatives and so on.

[00:12:40] Any shift that the committee mindset experienced or is experiencing with respect to the risk and returns posture of the portfolio? Interestingly, not so many changes as I would have thought we might have been. And it's because of what I think I said earlier, which is.

[00:12:58] It's been [00:13:00] structured for the purpose of a shock. And we really did have a shock this past year. Maybe it ended up better than we originally planned. So, things might've changed had we continued to see the problems that we saw in the first couple of months, but because things stabilized pretty quickly, the portfolio did exactly what it was supposed to do, and it was well-diversified, it was meeting those needs.

[00:13:22] And so we really haven't changed that risk return mindset too far yet. Again, had something else happened, maybe we would have done a little bit more of that, but no, I liked the fact that it did exactly what we planned. And as it pertains to that long-term pool, Russ, are there any special liquidity considerations?

[00:13:40] I know you said that you, you don't use that pool as a source of liquidity. Is the committee willing to invest in illiquid instruments or is there a reluctance to do so? You know, our rating agencies continue to desire a fair amount of liquidity for their purposes, plus just the types of things we've found [00:14:00] ourselves investing in, everything is reasonably liquid.

[00:14:03] We're willing to take on some illiquid investments. So, there are some hedge funds, for example, and MLPs in the past that we have looked into, it's always been a minority part of our portfolio. Private equity is an area where we're still going to have to take a strong look at. We see the benefits of it, but the illiquid nature of it is one of the things that causes us just to pause a little bit before getting too far into that..

[00:14:28] So generally speaking, even though we don't have, we don't have liquidity needs for the portfolio, most of our assets are relatively liquid if we want them to be. And Russ, if you take a look at the portfolio and think about active, I don't even want to say versus passive investing, but active and passive investing.

[00:14:49] Can you comment on the committee's view with respect to that and how it manifests in the portfolio? Boy, over the years, we've taken a hard look at that over a [00:15:00] long period of time. I think that there's a group of folks that are more interested in active and a group of folks that are more interested in passive.

[00:15:07] I don't need to tell you that this has been, I think, a long stretch of time to try to figure out how to look at that when really the markets have been generally just up, one direction. Our take on that is just stay well-diversified and that there are a number of asset classes that lend themselves to passive invest, to passive investing in terms of large cap and so forth.

[00:15:32] And there are others that are likely to be better from an active investment standpoint. So, we, we anticipate that we're always going to have a mix of those. The big key for us is just making sure the allocations are right and not trying to get too cute with anything. So, we, we don't feel like we should be overactive in our trading if you will.

[00:15:53] Instead, let's set some allocation strategies over the long-term and let's make sure that we're just disciplined around those. [00:16:00] And before we shift to the retirement plan discussion, anything else you'd share about the portfolio for someone in your role or, or an investment or finance committee member overseeing a long-term pool for a healthcare system?

[00:16:14] Well, I don't know so much about the actual oversight of the pool, as opposed to just the approach generally, in our case, healthcare operations have moved from 15 years ago, being very stable, to something now that's not very stable and is getting riskier as we take on even more insurance risk.

[00:16:36] For us, one of the key things is to create stability in the pool. And again, as I mentioned before, don't get too cute. When I have seen problems in healthcare investment pools across the nation, in some of our peer institutions, or maybe even colleges that have large endowments, I feel like they're trying to get a little too cute, I guess is the only way I can say it.

[00:16:59] [00:17:00] From our standpoint, we don't consider ourselves to be investment specialists, nor is it the place where we should spend the majority of our time. So, from our standpoint, creating certainty as much as possible, and stability as much as possible, makes the most sense.

[00:17:16] And that, that has really served us well over a long period of time. That's what I encourage most folks in the healthcare space, especially to make sure that they're spending their time and not trying to outsmart everybody else. Simply because they've had a good run of things here or there. I think that's very sound advice.

[00:17:32] As we move to the retirement plans, if we begin with the defined benefit pension plan, you mentioned that you're approaching 90% funded. It's been between 80 and 90% funded. How would you describe the investment objective and how has it perhaps evolved over time as the funded status has improved? When I arrived about 11 years ago now, I forget what the funded status was at the [00:18:00] time, but it was, I believe, high seventies maybe even approaching the low eighties.

[00:18:05] And we were not, we were not gaining a lot on the funded status. And there were a number of reasons for that, even though the fund was, even though the plan was frozen at the time. Over time, I think again, the idea has been, create more certainty. We had been working with Bob and his fellow folks there to try to understand better what liability driven investment, investing looked like.

[00:18:31] Boy, that was a long process to get our minds around that because why wouldn't we just let the market and the interest rate fluctuations help us close these gaps? But at the end of the day, again, you'd have two good years. And then all of a sudden, you'd have one where it fluctuated the wrong way on you.

[00:18:48] That just became problematic. And we said, we've got to create certainty around this. I feel like we've, one of our key drivers for a long time was we thought interest rates were going to go up and help bail us out of this [00:19:00] thing. And it, it didn't, it just, when you didn't think it could go down further, in fact, it did.

[00:19:04] So finally we got to a point where we said we just need to create certainty. And so, we've done that with a liability driven investment strategy. That's a little bit over 70 to, 70 to 75% in LDI assets right now. I think that that again has created just a level of comfort with us. And now we are systematically peeling away the rest of that through some targeted contributions or some other de-risking strategies.

[00:19:33] And even though we only have gotten ourselves to 89 or 90, just short of 90% funded, and it's probably going to take us a while to get the rest of the way. Again, there's just a level of certainty, even though it may or may not be the most efficient approach. That's our approach right now is just to systematically keep up with the changes in, in the liabilities.

[00:19:55] And then maybe puts, put in place a few risk assets, [00:20:00] risk seeking assets that are going to help close a little bit more of the gap. If we move now to the other retirement plan, the defined contribution plans. Now, did you mention and correct me if I'm wrong, but at the beginning, I think that you mentioned that it's a different committee that oversees the defined contribution plans and that's perhaps comprised entirely of folks within the Bryan Health system.

[00:20:21] Am I right in that? Yes, you're, you're correct. It used to be under the purview of the finance committee. And over time we really felt like it needed to be almost an entirely internal committee of employees looking at that. And so, we have transitioned to that. The finance committee still holds some authority over that plan, but for the most part it's done with an employee-based committee that reports back up to the finance committee.

[00:20:47] Okay. And anything that committee is particularly focused on? Well, besides some of the obvious ones like, Oh, let's make sure that our funds aren't too expensive. Let's make sure we have a nice menu of [00:21:00] funds. Really. We're becoming more paternalistic I think over the years, than we started out being essentially, maybe this has to do with me getting older and having kids that are in their twenties and thirties.

[00:21:13] What are we doing to make sure that these folks are focused on having something when they're all done? So, we are focused quite a bit on making sure that we're giving every opportunity for folks to, to really get into, into the market in an appropriate way, getting good education around that and really encouraging almost, but not quite forcing them into contributions.

[00:21:36] So again, at the end of the day, they end up with something really meaningful when they get to retire here. Again, that's, that's a different perspective that I, than I even had probably 10 or 15 years ago, which was more of the, Hey that's up to them. They have to make good decisions. And I will tell you that more and more, I would say across the committee, we feel like we just need to do our part, to [00:22:00] do everything possible, to encourage folks into the market.

[00:22:03] Yeah, I liked the way you described it as paternalistic. It's, you know, there is a, the employer should have a sense of responsibility for making sure that their employees are well-informed and hopefully the plan sponsor does everything they can to make it as easy as possible to contribute to retirement, folks have good outcomes when it comes time for them to retire.

[00:22:26] Absolutely. I mean, we don't have, we don't have unions here. We don't have, again, a, a defined benefit plans any longer, even more is on us to make sure that they get started early and get every advantage of starting early. Russ, you have provided so many outstanding insights here. I'll ask one more contribution from you.

[00:22:47] And that is, you've been in the CFO role, you're now in the CEO role, you're used to dealing with a whole variety of finance committee members and other committee members, but you're dealing with a number of folks who actually [00:23:00] have significant influence and votes and such over the way that the Bryan Health system invest their portfolios.

[00:23:07] What advice can you offer up for an investment or finance committee member in terms of, boy, this is the kind of contribution that's really helpful to the administration and really, really the sort of thing that you're seeking and why you asked folks to participate and volunteer their time and their effort?

[00:23:26] That's a great question, Bob. I'm so pleased and impressed with the group of folks that we have on our finance committee. These are folks, some of which have deep knowledge of the investment side, but there are many others that are just good business minds. A couple of them that wouldn't even say that they're great business minds, even though I might, I would tell you that what I tell the folks who maybe don't consider them technically as strong as some of the others is just ask the question.

[00:23:54] They ask such good questions and I'm always surprised how to, how insightful a [00:24:00] person who listens to all of the technical side of this takes it all in and asks a question that they're thinking, that may be just me trying to educate myself, so often that becomes a question that, that the whole conversation turns on, one that just should have been obvious or maybe summarizes a whole conversation.

[00:24:20] So, I always feel like the folks who maybe feel they aren't quite as in tune as others, those are the ones that, boy, if they just listen well and ask a really good question, they're going to have a tremendous impact because they're speaking maybe for somebody else on the committee, or maybe just providing good old common sense to a conversation that might've gotten lost in some of the other aspects of the technical side of investing.

[00:24:46] So before we wrap up, we'd like to hear a little bit about you on a personal note. If we move to Russ Gronewold, the person, can you share some of the things that you enjoy doing outside? I'm sure you don't have a lot of time, a lot of free [00:25:00] time, given your role, but when you do get an hour or two to yourself, what do you enjoy doing outside of your professional work and your volunteer activities?

[00:25:09] Well, I, I always, like, I think, like everybody says they don't get to golf enough. I love a good game of golf. I don't get to golf enough, but that's always, that's always fun. And my wife and I actually have started golfing together again, because I'm becoming more comfortable with just golfing nine holes than I used to be.

[00:25:27] And then, I love to, I love to get out on the bike. I have not been a runner now for a number of years. I think at some point your body says that's not as good as it used to be for you. So, I've really enjoyed getting onto the bike and getting out into nature a little bit and doing that. As always, a good book, maybe a binge-watch of something with my wife are a couple of other things I like to do.

[00:25:51] That sounds good. Maybe you and your wife can get out to play nine holes with Bob and his wife. I know that's an activity that they share. That would be fun. [00:26:00] Okay. So, as we wrap up, we really do appreciate all of the great insights that you've shared with us. It's been very meaningful and we're so appreciative of you having, having come and spent your time with us.

[00:26:12] If listeners want to learn more about, or if they want to support Bryan Health, how can they go about doing that? Sure. Bryanhealth.com B R Y A N health.com is our main website. You might be, we're looking to support Bryan, or maybe you're really interested in just some of the current things going on with COVID or other things.

[00:26:34] We have, we have some really good resources on that. I would encourage people to go to that website. Russ, this has been absolutely wonderful. And you and I have known each other for some time now, and I'm just so grateful that you would take the time, invest the time to help others gain a perspective on really what it takes to oversee these sorts of pools and do so effectively.

[00:26:53] So thank you, really appreciate it. Thank you for, to Bob and your team for supporting us. We've learned a [00:27:00] lot from, from you along the way. And, it was my pleasure to spend a few minutes with you today. Well, thank you. And thanks so much to our listeners.

[00:27:09] Like many of you, Devon and I serve on nonprofit boards and we know how challenging it can be to oversee investments in this environment. That's why we created a guide called six tips to managing endowment and foundation investments. You can download the 20-page piece using the link from the show notes or on Dimeoschneider.com.

[00:27:28] So to all you good stewards. Thanks for investing time to help your nonprofits prosper. We'll connect with you soon on the next episode. Thank you for listening to the Nonprofit Investment Stewards podcast. Click the subscribe button below to be notified of new episodes and visit dimeoschneider.com for more information.