JOHNSON FINANCIAL GROUP®

2019

Senior Living Study

Johnson Financial Group
100 East Wisconsin Avenue, Suite 2400
Milwaukee, WI 53202

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Introduction

Introduction

We are pleased to present the 11th annual Johnson Financial Group Senior Living Study. We present this study with a sense of responsibility to the Senior Living Industry – a responsibility to provide data that can help organization leadership and boards as they chart a course during this time of continual change.

Thank you to the organizations that participated in the study. Your commitment of time and willingness to share valuable information makes this possible.

Purpose

The study was conducted with the purpose of creating general benchmarks and peer group comparisons to assist organizations in developing investment program best practices and asset allocation strategies in light of overall business operations and strategy.

Data is analyzed in aggregate, by credit rating and by investment portfolio size in four key areas:

- Investment Program Overview
- Investment Program Governance
- Organizational Strategy and Outlook
- Financial Metrics

Methodology

Data presented is as of 12/31/2018. It was collected via an online survey tool. This tool was provided electronically to not-for-profit senior living organizations in an attempt to collect a representative sample of the industry. The data is presented in aggregate to protect the participants' privacy.

Certain data points throughout the study provide average response information, as well as a break out by credit rating and investment portfolio size. The survey was conducted from June 30, 2019, through August 21, 2019.

Segmentation

The study segments the data into the following categories:

- Average for all participants
- Organization credit rating categories of A(+/-), BBB(+/-) and Below Investment Grade (BIG), which includes BB(+/-) and unrated; and
- Investment portfolio size of <$25 million, $25-$50 million, $50-$100 million and $100 million+.

When selecting a suitable asset allocation and establishing an investment program, the data collected in our study can be helpful in determining industry best practices and offering a frame of reference. Our belief is that an investment program should be a reflection of an organization's mission and values, taking into account its specific debt structure, operating environment and strategic plans. Together, this information and these practices can help maximize your investment assets as a strategic business tool.

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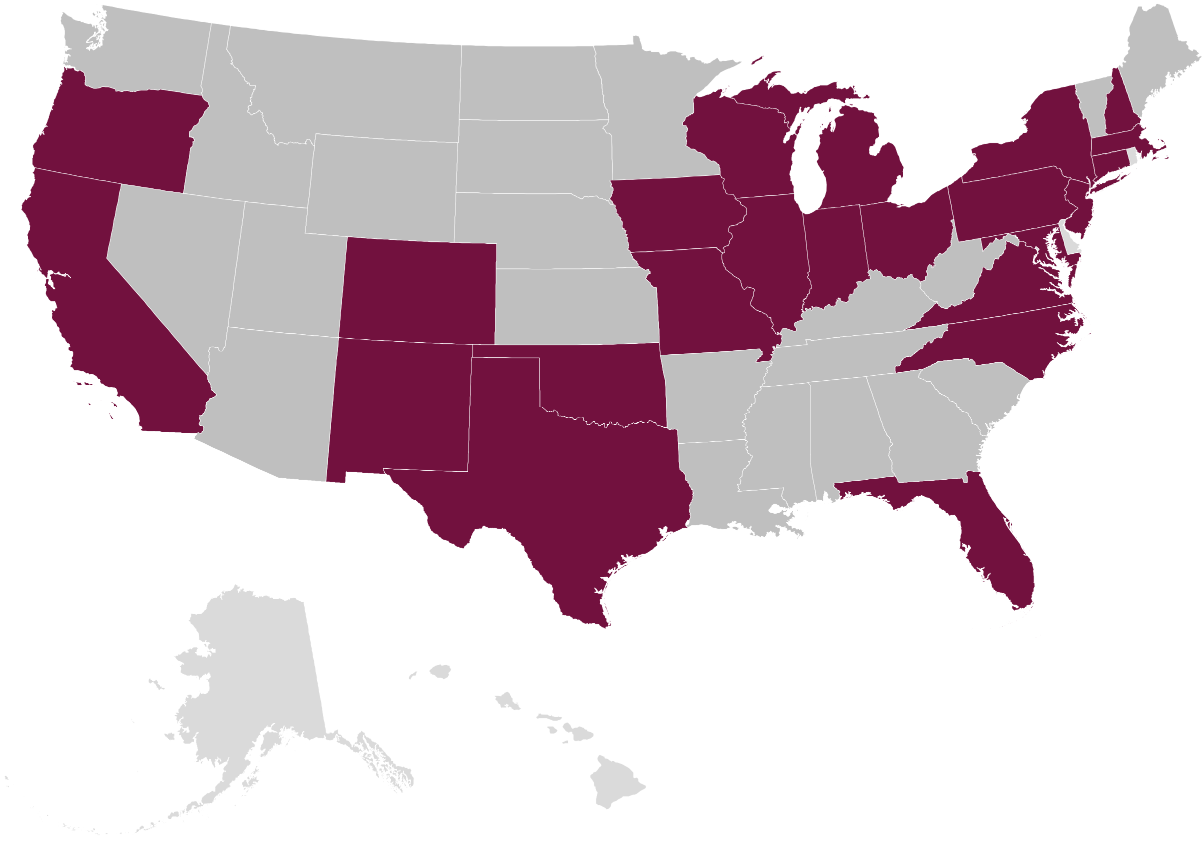
Organizational Overview

Geographic Representation

Sixty-two organizations representing 23 states across the nation, highlighted in red below, are included in the study results.



Is your organization a single site community or multi-site system?

Single Site	Multi-Site – Single State	Multi-Site – Multi-State
51%	34%	14%

What is your average annual revenue?

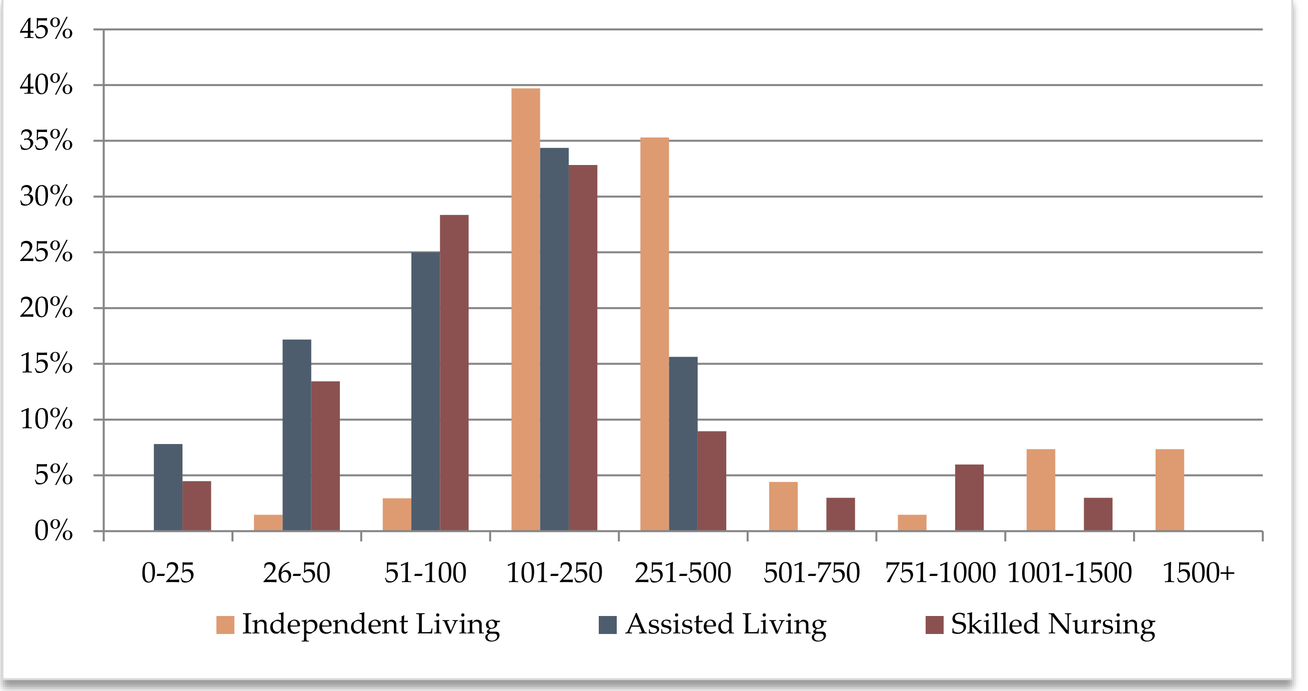
$0-$10M	$10-$25M	$25-$50M	$50-$75M	$75-$100M	$100M+
4%	31%	37%	7%	6%	14%

What type of resident payment plans do you offer?

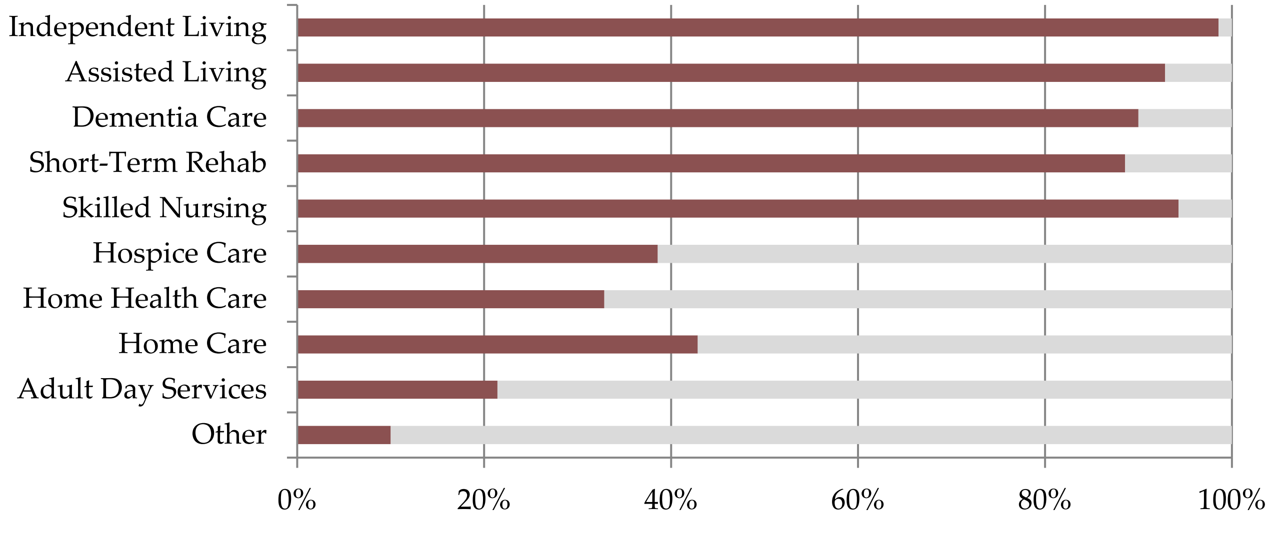
Rental	Entrance Fee	Combination of Both	Other
7%	44%	48%	2%

What is the size of your organization based on the number of units?

Total Units						
0-100	**101-250**	**251-500**	**501-750**	**751-1000**	**1001-1500**	**1500+**
2%	11%	39%	18%	12%	2%	17%



What types of services are offered by your organization?



Home Health Care was the most added service line over the last 12 months.

What is your total number of employees?

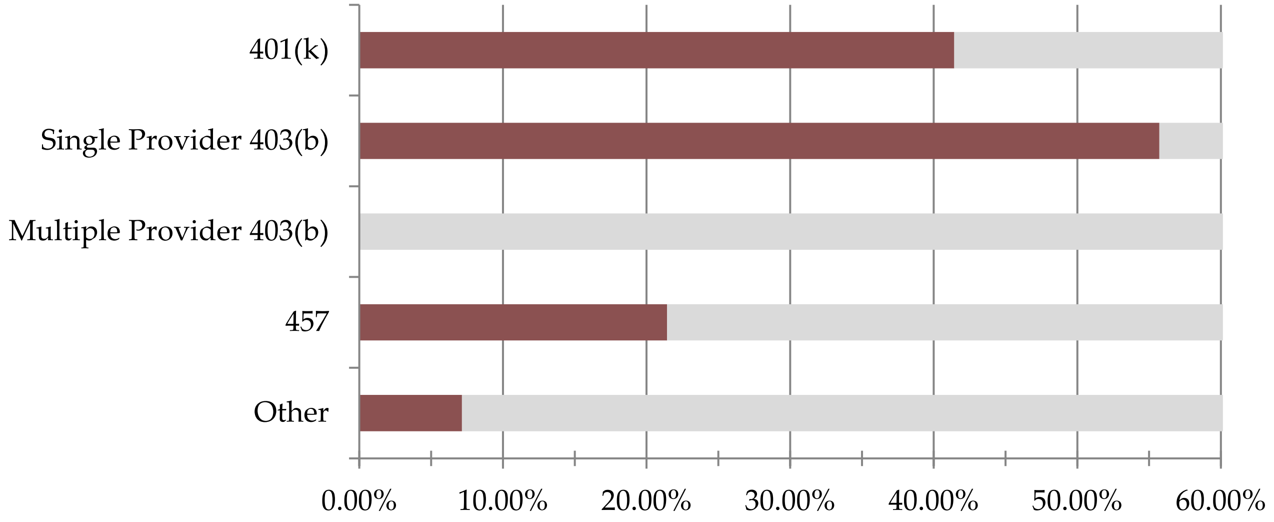
Full-Time Employees

0-100	101-200	201-300	301-400	401-500	501-600	601-700	700+
3%	34%	15%	15%	6%	9%	1%	18%

Part-Time Employees

0-25	26-50	51-75	76-100	101-125	126-150	151-175	176-200	200+
0%	9%	12%	21%	12%	4%	7%	22%	13%

What type of retirement plans do you offer?



Is your organization rated?

BIG*	BBB Rated	A Rated
63%	18%	18%

Is your community accredited by CARF-CCAC?

Yes	No
32%	67%

* *Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

Does your organization have an affiliated foundation?

Yes	No
53%	47%

Among organizations that have a foundation, 95% are registered as a separate 501(c)(3). Just over one third of these foundations, 35%, are part of the organization's overall obligated group.

What is the total size of the organization's investment portfolio as of 12/31/2018?

<$25 million	$25-$50 million	$50-$100 million	$100 million +
44%	30%	11%	14%

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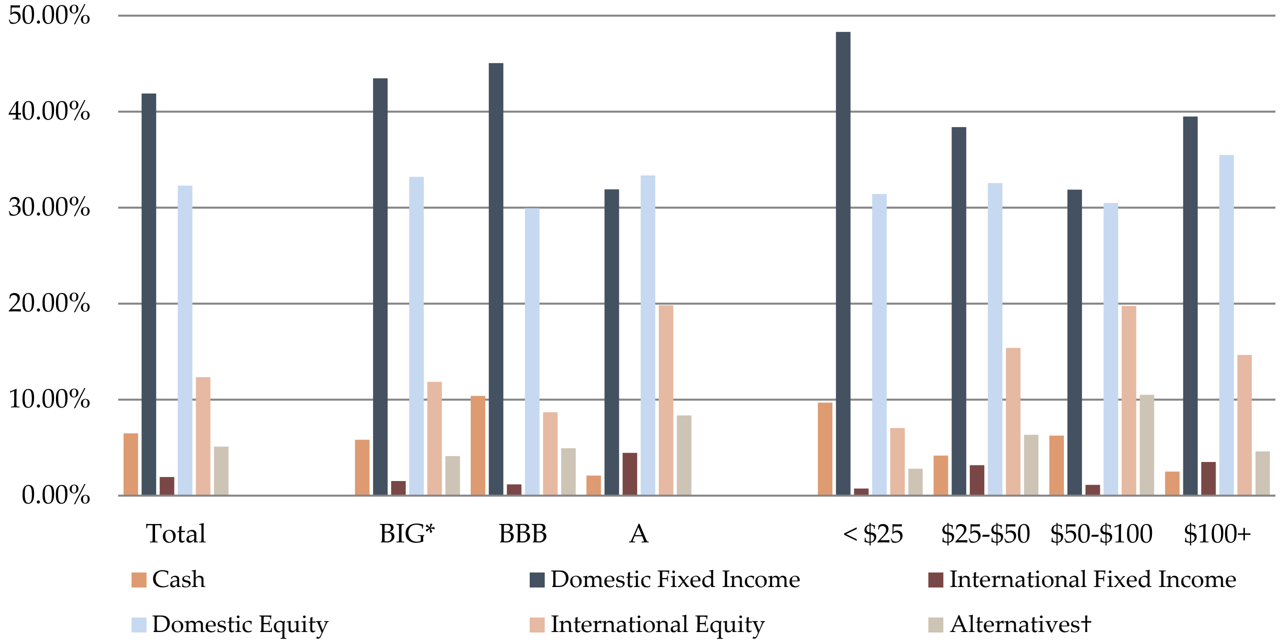
Investment Program Overview

What is the allocation of your investment portfolio as of 12/31/2018?

Coming off exceptional returns in 2017, the market took a step backwards in 2018. Investors saw returns fall between 4%-6% for domestic equities and 14% for international equities over the year. These negative returns led to a decrease in the market value for many organizations' portfolios. Due to the market returns, we had anticipated seeing a sizeable change in the average allocation of participants' portfolios. However, that was not the case. In fact, the average allocation has not changed much since we started our study back in 2009. At that time, the average allocation was 50.32% fixed income and cash, 44.63% equity and 5.11% alternatives.

Compared to last year, the average allocation to fixed income and cash increased by 0.50%, equities decreased by 0.83% and alternatives increased by 0.38%. The largest change in a single asset class was an increase in fixed income and cash from 51.95% last year to 56.61% this year for the BBB segment. Most of the increase came from their equity as their average equity allocation dropped from 41.64% to 38.63%.

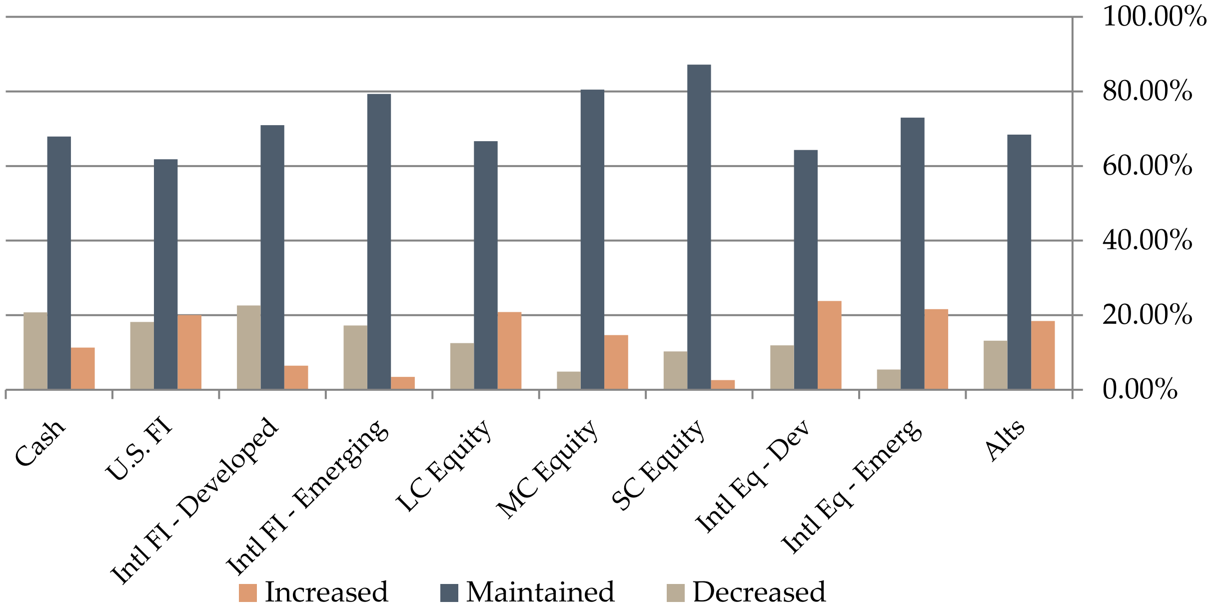


Asset Class		Rating Category			Portfolio Size in Millions			
	TOTAL	BIG*	BBB	A	<$25	$25-$50	$50-$100	$100 +
Cash	6.48%	5.82%	10.39%	2.09%	9.69%	4.17%	6.25%	2.50%
Domestic Fixed Income	41.89%	43.48%	45.06%	31.91%	48.31%	38.39%	31.88%	39.50%
International Fixed Income	1.95%	1.53%	1.17%	4.45%	0.73%	3.17%	1.13%	3.50%
Fixed Income & Cash	**50.32%**	**50.83%**	**56.61%**	**38.45%**	**58.73%**	**45.72%**	**39.25%**	**45.50%**
Domestic Equity	32.29%	33.21%	29.94%	33.36%	31.42%	32.56%	30.50%	35.50%
International Equity	12.34%	11.85%	8.68%	19.82%	7.04%	15.39%	19.75%	14.65%
Equity	**44.63%**	**45.06%**	**38.63%**	**53.18%**	**38.46%**	**47.94%**	**50.25%**	**50.15%**
Alternatives†	**5.11%**	**4.12%**	**4.94%**	**8.36%**	**2.81%**	**6.33%**	**10.50%**	**4.60%**

†Alternatives Asset Class includes: Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.
** Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

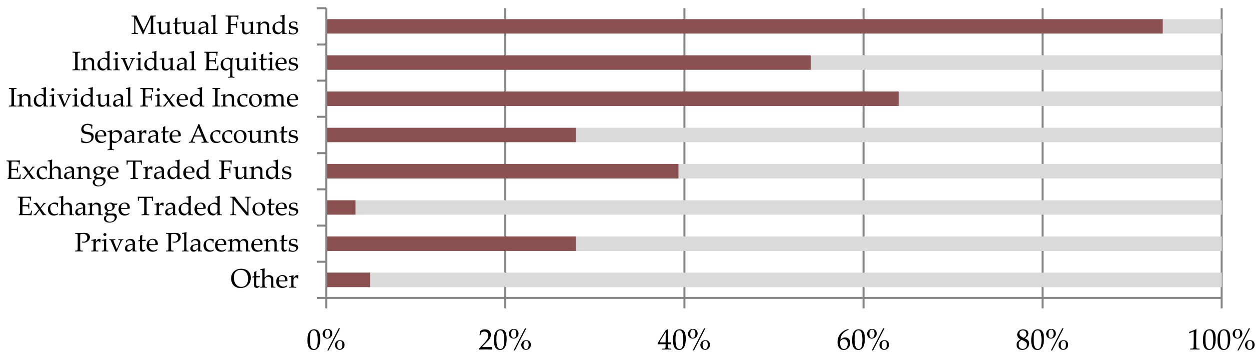
How has your asset allocation changed over the last 12 months?

Developed International equities was the most increased asset class in 2018 with 24% of the participants seeing an increase. This is not surprising as the international equities performance has trailed U.S. equities over the last few years. Emerging Market International Equities was a close second with 22% of participants indicating an increase. Most organizations appeared to still be concerned with the negative impact that rising interest rates could have on their fixed income allocation as U.S Fixed Income and International Fixed Income were the most decreased asset class.



Which investment vehicles are used in your portfolio?

For the eleventh year in a row, mutual funds are the most widely used investment vehicle for participants, with over 93% of organizations utilizing them in their portfolio. Individual fixed income and equity securities continue to be a close second and third with 64% of participants using individual fixed income securities and 54% using equity securities. The use of exchange traded funds (ETFs) increased from 25% to39%. This increase in usage is not surprising to us as most ETFs deploy passive or index-based strategies which have become widely popular over the last several years.



What percentage of your investment vehicles are passively managed versus actively managed?

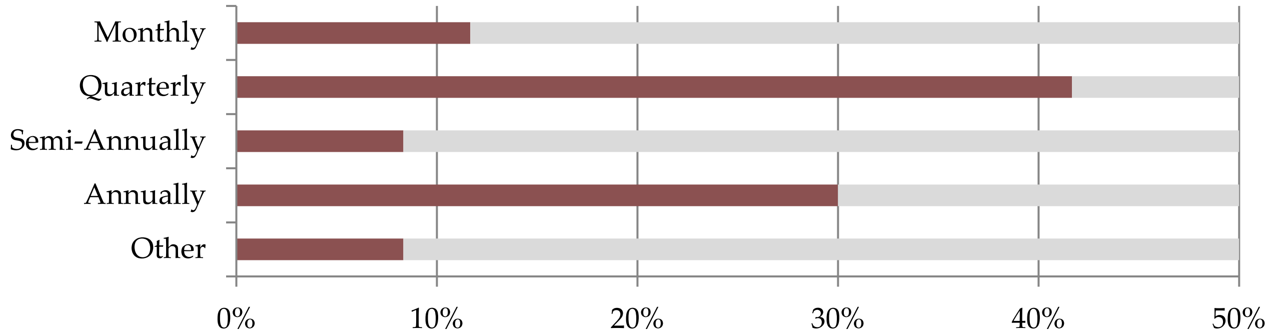
Passive	Active
34%	66%

We are interested in understanding what percentage of senior living providers' portfolios are allocated to active versus passive types of investment vehicles. Over the last several years, passive/index funds have gained popularity primarily due to their low cost structure and their recent outperformance relative to the average actively managed fund. The average portfolio of the participating organizations has roughly 34% allocated to passive vehicles and the remaining 66% invested in actively managed strategies. Last year, 29% was allocated to passive vehicles.

While some see this as an all or none type of decision, we believe there are benefits to using a combination of both types of investment rather than one or the other. As with any type of investment or market segment, passive and active strategies have cycles. There will be periods of time where one will be in favor over the other and at any time, that relationship can switch.

How often is the portfolio rebalanced?

For the fourth year in a row, Quarterly is the most common time period for participants to rebalance their portfolio. While it is encouraging to see that organizations are rebalancing their portfolios, we feel that quarterly rebalancing may be a bit too regular. Not only can regular rebalancing increase portfolio costs due to higher trading fees, it can also lead to increased realized losses should the market be volatile. We believe annual rebalancing is a best practice that can help with long-term portfolio returns as well as help keep portfolio costs low. Cash flows into or out of the portfolio can be opportune times to bring the portfolio back into balance. We recommend instituting a target asset allocation that is accompanied by minimum and maximum ranges within the investment policy statement. This allows for some fluctuation, whether market driven or tactical moves, in the allocation without forcing a rebalance at an inopportune time. Having a well-articulated investment policy statement that defines the frequency of rebalancing helps your portfolio stay on track regardless of the current market or economic environment.



How did your portfolio perform in 2018?

Fell Short of Expectations	Met Expectations	Exceeded Expectations
29%	52%	20%

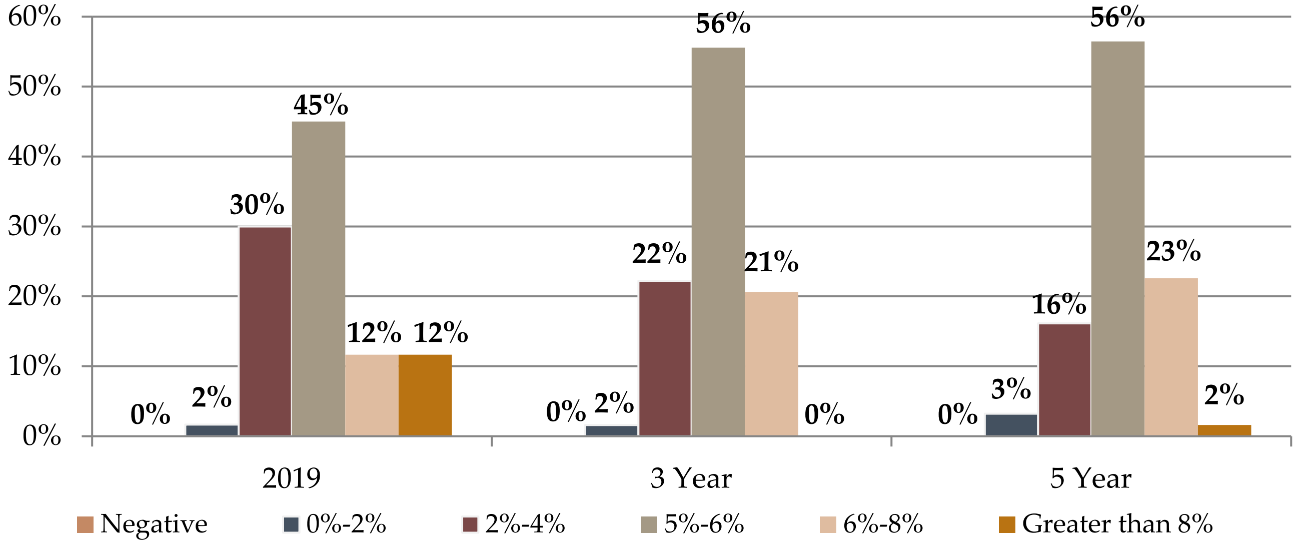
Despite the below average market returns in 2018, portfolio returns met or exceeded 72% of the participants' expectations. This is down slightly from last year where 78% indicated that their returns met or exceeded expectations. 2018 was a tough year for most portfolios regardless of their asset allocation due to all major equity asset classes providing negative returns. Unless you were invested solely in fixed income, your portfolio most likely experienced flat to negative returns.

When assessing the outcome of your portfolio on an annual basis, we recommend placing less emphasis on whether or not the portfolio outperformed the market and more emphasis on whether or not the portfolio achieved its goals and objectives specific to your organization. These goals and objectives generally can include providing liquidity to support operations in time of need, exceeding the organization's cost of capital and or minimum required rate of return and providing long-term growth to support the perpetuity of the organization.

What range of return do you expect your portfolio to achieve in 2019, the next 3 years and the next 5 years?

While the market returns in 2018 left a lot to be desired, we are optimistic that they market can bounce back and provide positive returns over the long term. Coming off of a tough year, participants are confident in the market returns over the next five years. The negative returns in 2018 seem to have not swayed participants confidence regarding the future returns of their investment portfolio. Sixty-nine percent of participants expected annual return of greater than 5% in the next year, 77% over the next three years and 81% over the next 5 years. For a fourth straight year, no participant expected negative returns for any of the time periods.

Using the average allocation for all participants of roughly 50% fixed income, 45% equity and 5% alternatives, we would anticipate future returns to be closer to the 4%-5% range. If your organization is using a return expectation that is higher than this range, we recommend that you revisit your investment policy and target allocation to assess if your portfolio is properly allocated to achieve these returns. Also, be cognizant of the amount of risk that needs to be taken in order to achieve these returns and the impact that it may have on your financial metrics.



Do you work with a third-party investment consultant or advisor?

YES	NO
95%	5%

Since the inception of our study, the percentage of participants working with a third-party investment advisor or consultant has been in excess of 90%. As an investment firm, we may be biased but we view this as a positive thing for our participants. Working with a third-party investment consultant or advisor can create efficiencies, cost savings and free up time of staff members or committee members that would otherwise be spent on tasks such as manager research, performance reporting and trading.

We feel it is important to work with an advisor that understands your business and is able to incorporate aspects of your operating environment, strategic plans and debt structure into the asset allocation of your portfolio. This understanding can help ensure that your investment program will be aligned with and support the objectives of your organization.

Do you pay a fee based on the percentage of assets under advisement or a flat fee for investment services?

Seventy-five percent of participants indicated that they pay a fee based on the percentage of their assets versus a flat fee. This is the lowest average since we first started conducting our study. Historically it has been closer to 85%. Most organizations with smaller portfolios prefer a fee based on the size of their portfolio while most organizations with larger portfolios tend to prefer a flat annual fee. However, with the recent strength of the markets and improving operating environments for senior living providers, investment portfolios have grown which may have led organizations to favor a flat fee. We recommend that, as your portfolio continues to grow, you revisit your pricing structure to ensure program fees are appropriately aligned with your portfolio size and that you are benefiting from price breaks available at higher asset levels.

% of Assets	Flat Fee
75%	25%

Do you feel the all-in cost (advisory, manager and custody fees) of your investment program is reasonable given the services that are provided?

Ninety-two percent of participants feel that their all-in cost of their investment program is reasonable. This percentage has slowly declined from 98% since we first asked this question in 2014. Fees have become a hot topic in the investment arena as investors look for ways to reduce overall fees while still maintaining their investment strategy. Many have turned to index funds or exchange traded funds as a way to maintain market exposure but do so at a substantially reduced cost. We recommend that organizations evaluate all of the services that your advisor or consultant is providing when reviewing the fee structure. Consider requesting a portfolio fee review on an annual basis so that you and your board can assess the continued reasonableness. A simple summary could contain fees broken down by those associated with advisory services (asset allocation, manager selection, reporting, etc.), management services (mutual fund or separate account management) and custody (trading, reporting). This type of transparency will allow you to better understand the underlying costs associated with all services pertaining to your investment program.

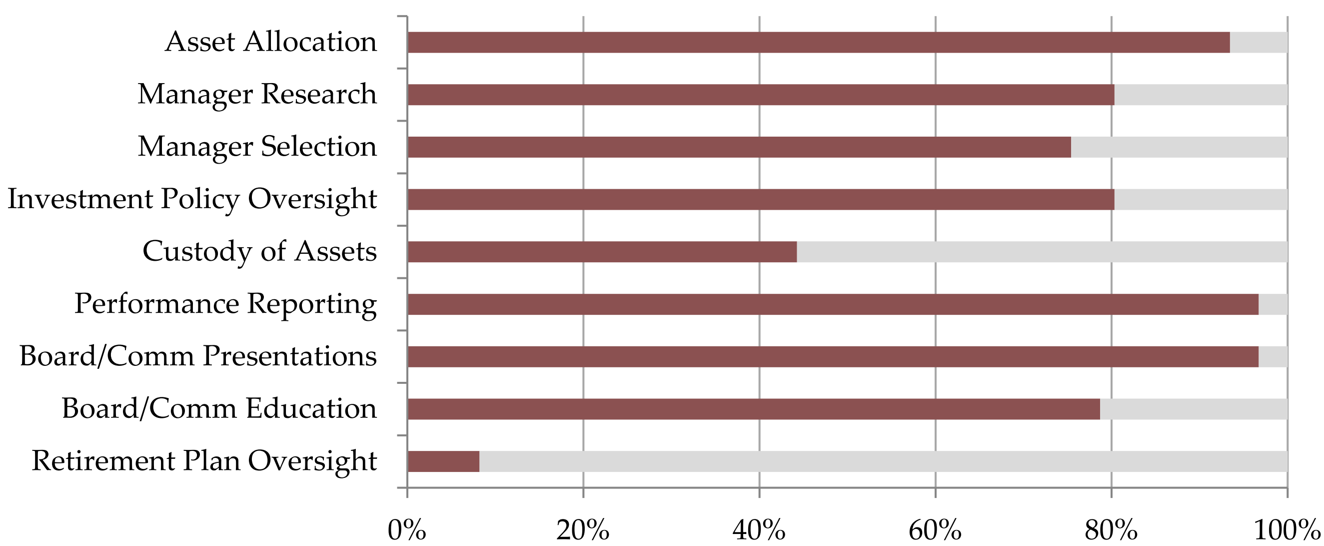
Is your investment consultant or advisor affiliated with an investment banking firm, custodian or money management/mutual fund company?

In-line with the last several years, roughly 56% of the participants that utilize some sort of third-party help with their investment program, utilize an investment consultant or advisor affiliated with another type of financial organization. In our mind, having a separation of duties between the advisor, money managers and custodian provides you with flexibility to make a change to one aspect of the structure without disrupting the entire program. This flexibility can help an organization become more strategic with their assets as they implement their long-term plans or satisfy near-term needs. The separation of responsibilities also makes the fees associated with the services more transparent which can help you understand the full cost of managing the investment program.

YES	NO
56%	44%

What services does your consultant or advisor provide?

For the third year in a row, Performance Reporting, Asset Allocation and Board/Committee Presentations were the three most commonly provided services by consultants and advisors. Since each senior living organization is different, our recommendation is to select an advisor that provides the services that best fit your needs. This could include all of the services listed below or just a select few. For the fifth year in a row, Board/Committee Education came in under 80%. As fiduciaries of the organization, your board and/or committee members should be comfortable making decisions on behalf of the organization. Your consultant or advisor should be able to help you with your fiduciary responsibility by providing ongoing education to all members of the committee or board. Education of various investment and market related topics could help make the overall board or committee stronger. If your advisor or consultant has not provided any form of education, we recommend that you ask what they have to offer. It is never too late to learn!



Does your consultant/advisor use proprietary investment products (products that are managed, owned by or affiliated with your consultant's/advisor's firm)?

YES	NO
32%	68%

Down slightly from last year, 32% of the organizations that work with a consultant or advisor responded that their portfolio includes proprietary products. Since we started asking this question back in 2011, the average has steadily increased from 26% to a high of 37% two years ago. As stated in prior studies, we believe the use of proprietary products can create an inherent conflict of interest given the investment company's and consultant's monetary gain for using their own products. In addition, an advisor may be less willing to remove their own product from a portfolio, essentially firing themselves, when the product may no longer be the best fit. This is especially problematic when a more appropriate option is available but is not used because it does not offer the same financial incentive to the advisor. Now, this is not to say that in some instances, their product may be the best fit given your specific needs. However, to avoid any conflicts of interest we recommend always requiring your advisor to perform a search that includes viable, non-proprietary options and request that all fees be disclosed when presented with a proprietary product.

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Investment Program Governance

Who bears the primary responsibility for oversight of your investment portfolio?

Investment	Finance	Board	Other
41%	59%	25%	2%

**Participants had the ability to select more than one answer if they felt the responsibility was shared. The percentages above reflect this.*

An organization's investment portfolio can play a large role in supporting operations as well as long-term strategic plans which makes portfolio oversight an important responsibility. As with the last several years, the Finance Committee was the most common response when asked about who bears the primary responsibility for oversight of the investment portfolio. However, we have noticed over the last few years, a steady increase in the number of organizations that now have Investment Committees. In many instances the Investment Committee is a subset of the Finance Committee. Should you have an investment committee, we encourage an overlap of members within the Finance Committee or Board and the Investment Committee to help ensure knowledge of the organization's debt structure, operating environment and strategic plans is incorporated into the investment strategy. Many times when dealing with organizations that have just an Investment Committee, we find that the focus of the committee is solely to maximize the returns on the portfolio. Often, the risk that is taken to maximize returns may put the organization in jeopardy of compromising strategic plans or debt covenants.

Does your board/committee function as a Working Committee or an Oversight Committee?

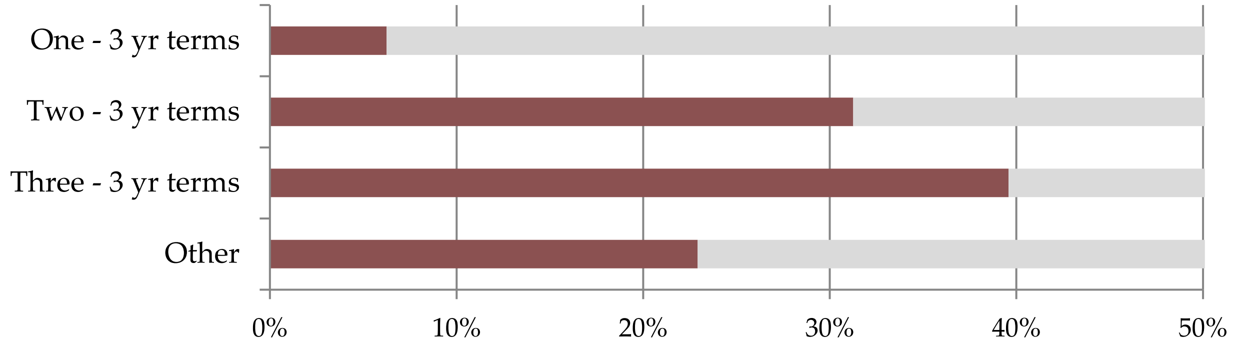
Oversight	Working
84%	16%

Up from 78% last year, 84% of participants indicated that their Board or Committee overseeing the investment portfolio functions in an oversight capacity. An Oversight Committee engages a financial professional to assist with decisions regarding investment policy development, asset allocation and manager selection and ultimately shares in the fiduciary responsibility. Those that function as a Working Committee generally handle most of the oversight internally. They may hire a consultant to provide research and reporting but ultimately, decisions related to investment policy, asset allocation and the selection of managers are made by the Committee or Board. Some organizations have the internal resources or experience among their committee members to function in this capacity but, as you can see from the results, it is more common to hire outside expertise to handle the working functions.

Do you have term limits for your committee and board members?

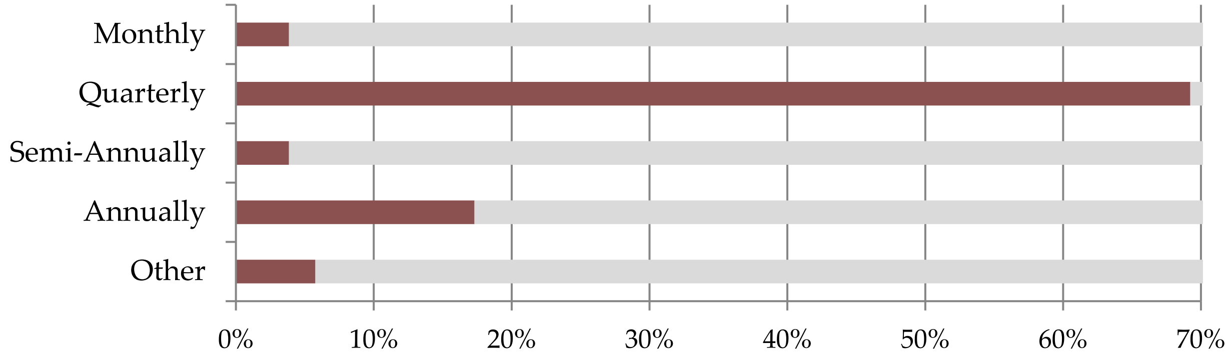
Eighty-six percent of participants indicated that they have term limits for their board and committee members. For those participants, three – 3 year terms was the most common term limit. Two – 3 year terms was a close second. Several of the answers that fell into the "Other" category consisted of responses that were either a total number of years or different time periods, i.e. four year term, 9 years, 8 years, no limits for committee members, etc.

YES	NO
84%	16%



As a fiduciary of the organization, your board/committee is responsible for making sound decisions regarding the investment program. How often does your board/committee receive investment education throughout the year, so they can confidently fulfill their responsibility?

Since each member of the board and committee is a fiduciary of the organization, they are responsible for decisions made by the entire group. Knowledge level or experience in the investment industry can vary from member to member. Consequently, we tend to see the decisions related to the investment portfolio driven by one or two individuals rather than the entire group. Receiving education from your strategic partners is a great way to strengthen the knowledge level of your entire board/committee. Our view is that your investment advisor should provide some sort of education annually, if not more often. Over 73% of participants indicated they receive educational information at least quarterly.



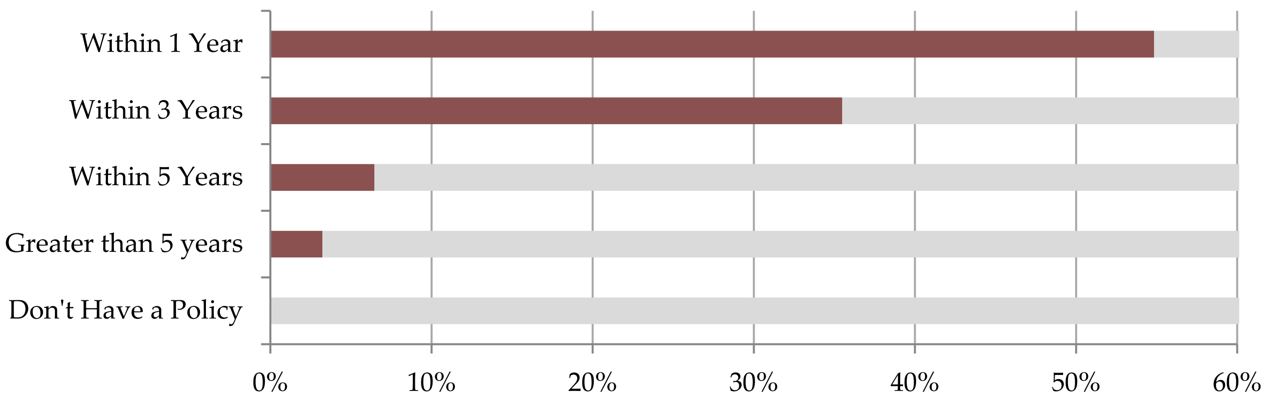
Do you have new member orientation that includes a review of the investment program for board/committee members?

YES	NO
60%	40%

Roughly 60% of participants responded that they have new member orientation that includes a review of the investment program. When all board members have the same understanding of what the investment objectives and goals are, decisions can be made more confidently and efficiently. For those organizations that don't have new member orientation, you could rely on your investment advisor to conduct an annual investment program review which could help bring any new members up to speed.

When was the last time your investment policy statement was updated?

Regular review of your investment policy can help ensure that your investment program continues to align with your short-term needs as well as your long-term strategic plans. Fifty-five percent of participants responded that they have reviewed their investment policy within the last year. We recommend reviewing your policy at least annually to assess whether the current allocation aligns with your goals given your long-term strategic plans, debt structure, operating environment or external changes. In addition to the policy review, consider conducting a formal asset allocation study to reassess risks and expected outcomes. Changes in the interest rate environment, the outlook for returns and even your operating environment may warrant a revision to the portfolio allocation that will drive revisions to the investment policy statement.



Is your current asset allocation in line with the target allocation defined in the investment policy statement?

Ninety-seven percent of participants indicated their allocation was inline with the target allocations defined in their investment policy. Since the inception of our study, this average has remained over 90%. We anticipate there will always be some organizations whose allocations are off target from their policy due to market fluctuations or even internal decisions that were made to temporarily move away from the target. Often times, we see organizations divert from the allocation to temporarily support operations or align with the funding of a strategic initiative.

Does your policy define a required rate of return?

Down from last year, only 27% of the participants that have an investment policy include a required or target rate of return within their policy. We feel that in order to properly assess the amount of risk that can and should be taken in a portfolio, a minimum/required rate of return should be established. Incorporating elements of your debt structure, operating environment and strategic plan in determining a risk profile helps tie your investment strategy and expected outcomes directly to your organization. Taking this approach turns an investment portfolio into a strategic tool by establishing a business-driven purpose for the assets and allowing you to measure results against business factors. Of those organizations that include a target return, comments included:

YES	NO
27%	73%

- Estimate of 6.1% over 5 years
- CPI + (2%, 4%, 5%)
- 5% to 5.5%
- Exceed cost of capital
- Over a full market cycle match or exceed return of a custom benchmark
- Net of fees, equal to the rate of inflation

How do you determine the appropriate minimum rate of return for your portfolio?

Over the last several year, most of the answers that we received to this question revolved around the idea that the portfolio allocation determines the minimum rate of return. From our perspective, it is your organizational goals and objectives that should determine the minimum rate of return. Once a desired rate of return is established, it can then be used to determine the allocation that has the best chance of achieving that return.

Seeing that most not-for-profit organizations rely on tax-exempt debt to finance strategic plans, your cost of capital could be used as a required or minimum rate of return. A portfolio that provides a return equal to or better than your cost of capital will complement growth or help offset any operating deficits. In a similar sense, if your investment assets are in a foundation, you can use your spending policy as a minimum rate of return. Earning more than what the foundation is paying out helps maintain the principal and ultimately grow the foundation balance.

Below are a few of the answers participants provided regarding how they determine a minimum rate of return:

- Cost of Capital
- Inflation along with the expected entrance fee paybacks
- Using published benchmarks
- Defined within the IPS
- Exceed returns of an index
- We adhere to an allocation but not a minimum rate of return
- Debt covenants are the main driver of our current asset allocation
- Determined annually to meet projected benevolent care needs
- Spending target of 4% plus an inflation factor

Does your investment policy and strategy consider financial ratios and debt covenants such as debt service coverage ratio, days cash on hand or cash to debt?

YES	NO
57%	43%

Up from 47% last year, 57% of this year's participants indicated their financial ratios and debt covenants are considered in their investment policy and strategy. This is the first time we have seen this drop below 50% since we started conducting the study which causes us some concern. Similar to using your cost of capital to determine a minimum rate of return, your financial ratios and debt covenants can be used to determine the maximum amount of risk that your portfolio should take. Metrics such as Days Cash on Hand or Debt Service Coverage Ratio are impacted by market volatility and realized losses and, therefore, should be incorporated into the asset allocation process. Quantifying the amount of fluctuation or realized losses a portfolio can sustain before violating a covenant is an important aspect in understanding the amount of risk that can be taken in your portfolio. Comments provided by participants included:

- Reg 140 of NY Department of Financial Services
- Requirements of obligated group are provided to advisor
- Unrealized gains are strategically held and made available to realize should DSCR approach minimum requirement.
- Realized losses are avoided.
- Written into investment policy with periodic discussion/monitoring with investment adviser
- Rebalancing decisions are evaluated for the impact they may have on our ratios
- We manage realized gains and losses (DSCR)
- Because of the impact that realized losses might have on the debt service coverage ratio, trading the results in losses are discussed with the CFO before they occur

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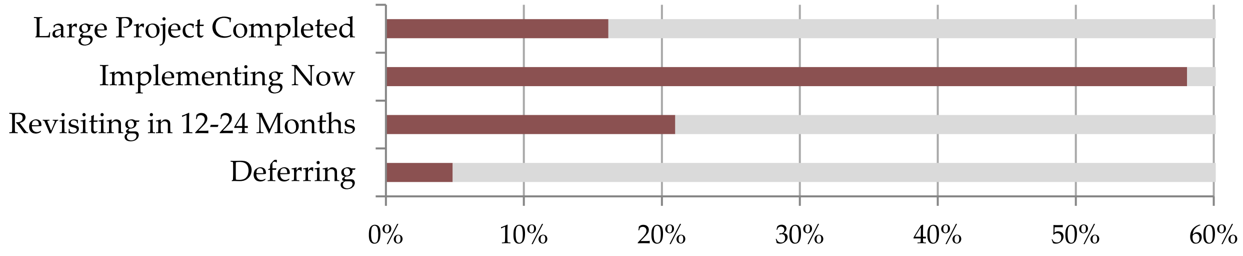
Organizational Strategy and Outlook

Where is your organization in implementation of your strategic plans?

Inline with last year, roughly 74% of participants indicated that they have completed or are currently implementing their strategic plans. While we saw a slight increase in interest rates, they continue to be close to all time lows. In addition, operating environments are continuing to strengthen and organizations are redefining the care they provided to residents by changing how and where they are providing the care. In most instances, strategic plans have included renovating, expanding or repositioning campuses.



Comments from those who are implementing plans now – over half of participants - include:

- Going through a five-year strategic planning process now
- Campus expansion and repositioning project
- Affiliation with a nonprofit single site
- Construction of a new SNF with private rooms
- Currently in the permitting process for new independent living cottages
- Developing a third campus
- Just finished large project and are starting another one
- Repositioning our SNF service and adding memory support services

Do you plan to refinance existing debt or issue new debt in the next 12-24 months?

Refinance	Issue New	Refi. & Issue New	No Change
5%	18%	25%	52%

Down from last year, forty-eight percent of participants plan on refinancing their debt, issuing new debt or a combination of refinancing and issuing new. Refinance and No Change were the two categories that saw a sizeable change from last year. Refinance dropped from 12% to 5% and No Change increased from 42% to 52%. We have anticipated seeing the number of refinancings continue to decrease since many organizations have already locked in low rates. Renovations, repositioning and expansions continue to be the most common uses for the new debt being issued.

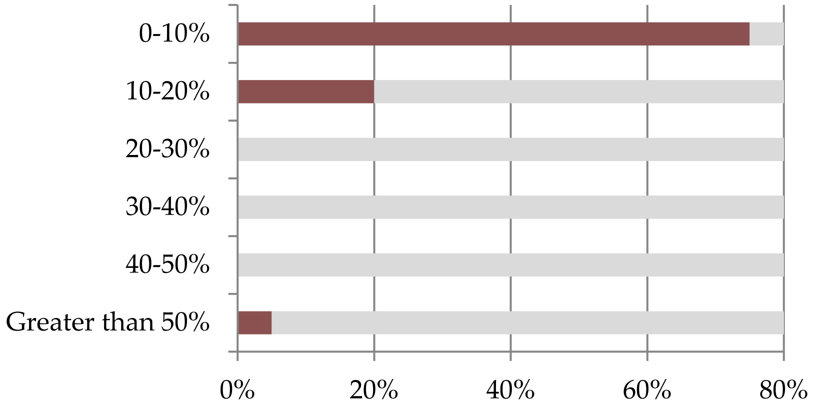
Do you anticipate using assets from your investment portfolio to make a capital contribution to the project?

Fifty-eight percent of the participants that plan on issuing new debt expect to make an equity contribution to help fund the project. This is up from last year's response of 52% which could be the result of increasing portfolio values of the last several years.

58%
Expect to make an equity contribution to a strategic project

What percentage of the project do you anticipate funding from your investment portfolio?

Ninety-five percent of participants that plan to contribute equity, anticipate a contribution of up to 20% of the project costs. Those with stronger cash positions may decide to borrow less and fund a larger portion of the project with their own capital as evident by the 5% of participants that plan on funding greater than 50% of the project costs.



95%
Expect to contribute up to 20% of project costs

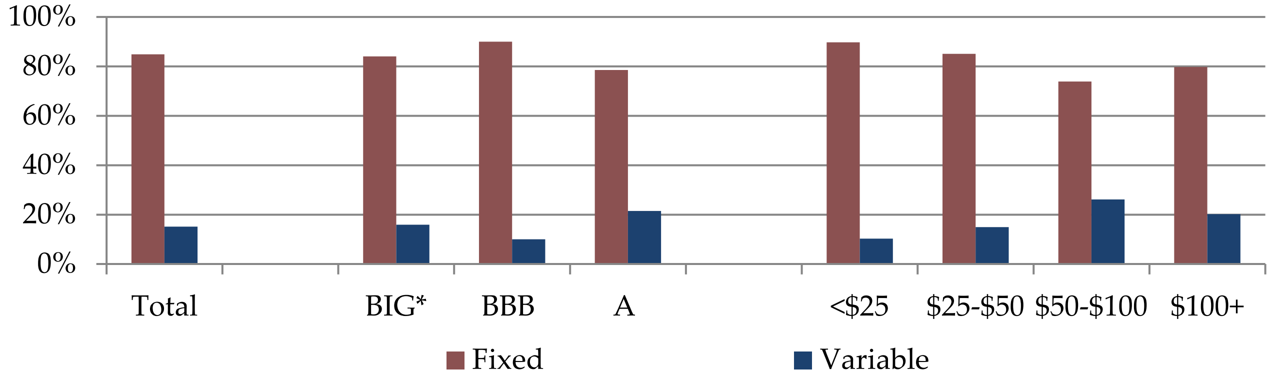
Have you repositioned your investment portfolio or other balance sheet components to account for the anticipated reduction in your investment assets?

Thirty-seven percent of participants planning to make an equity contribution have repositioned their investment portfolio to account for the reduction in investment assets. This is up substantially from 29% last year. Given the market rally that we have experienced over the last several years and the high valuations of most asset classes, we recommend transitioning assets designated for the contribution into a strategy designed to protect principal rather than maximize returns. For those who have not repositioned their portfolios, there is no time like the present. Having a plan in place to migrate assets to safer investments helps reduce the possibility of being forced to sell at an inopportune time.

37%
Have repositioned their investment portfolio

What percentage of your total outstanding debt is fixed rate or variable rate?

Moving just slightly from last year, participants reported an average debt structure consisting of 85% fixed rate debt and 15% variable rate debt. While this split has stayed relatively constant over the last three years, fixed rate debt has remained the most favored type of debt. The <$25 million and BBB segments had the highest percentage of fixed rate debt at 90% and the $50-$100 million segment had the lowest at 74%. It appears that organizations have replaced most of their variable rate debt and locked in their fixed rate debt while rates were still close to historic lows.



Type of Debt

		Rating Category			Portfolio Size in Millions			
	TOTAL	BIG*	BBB	A	<$25	$25-$50	$50-$100	$100 +
Fixed	85%	84%	90%	79%	90%	85%	74%	80%
Variable	15%	16%	10%	21%	10%	15%	26%	20%

** Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

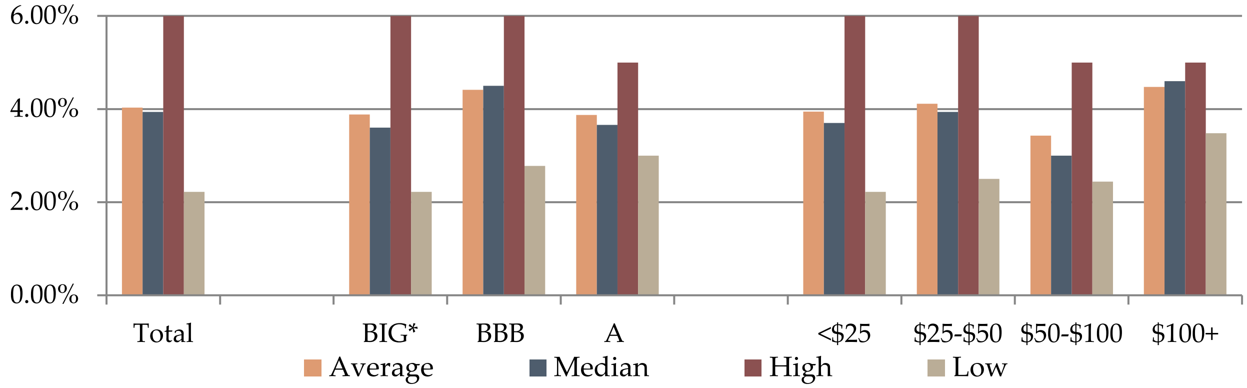
Do you currently have interest rate swaps on any of your debt?

YES	NO
38%	62%

Among the organizations that have outstanding debt, 38% utilize some form of interest rate swap. The percentage of organizations with a swap increased substantially from the 28% in 2018. We would expect to see a decrease going forward as organizations continue to refinance variable rate and at the same time, terminate their swap agreement. However, due to the low interest rate environment, termination may be too costly for some organizations. Those organizations that have terminated their swap have done so while restructuring their entire debt and ultimately realize savings in their overall annual debt service.

What is the average cost of capital (%) for your outstanding debt?

The average cost of capital for this year's participants came in at 4.03% which is down slightly from last year's average of 4.04%. This is the lowest average since we started the study back in 2009. Increased appetite for tax-exempt debt from investors and small banks has helped keep borrowing costs at record lows. The <$25 million segment benefited the most as they saw their average cost of capital decrease from 4.12% last year to 3.94% this year. The A Rated and $100 million+ categories were the only segments that experienced an increase in the average. It is interesting that the $50-$100 million segment has the highest allocation to fixed rate debt yet they have the lowest average cost of capital out of all of the segments.



	Rating Category				Portfolio Size in Millions			
	TOTAL	BIG*	BBB	A	<$25	$25-$50	$50-$100	$100 +
Average	4.03%	3.88%	4.41%	3.87%	3.94%	4.12%	3.43%	4.48%
Median	3.94%	3.60%	4.50%	3.66%	3.70%	3.94%	3.00%	4.60%
High	6.00%	6.00%	6.00%	5.00%	6.00%	6.00%	5.00%	5.00%
Low	2.22%	2.22%	2.78%	3.00%	2.22%	2.50%	2.44%	3.48%

Green numbers represent a positive change versus the 2018 study results while red numbers represent a negative change.

Have any of your debt covenants been compromised over the past 12 months as a result of slowing operations or a stressed investment portfolio?

Inline with last year, only 3% of participants have violated a debt covenant over the last 12 months. Over the last few years, we have averaged below 5% of participants indicating they compromised a covenant. As operating environments have improved and the investment markets have continued to provide positive returns, most organizations have been able to strengthen their metrics.

YES	NO
3%	97%

Debt service coverage has been the metric that is most commonly tripped. Even though the markets have helped this metric over the last few years, we highly recommend that every organization understand and calculate the amount of realized losses that can be realized before they would be in jeopardy of tripping this covenant. If this amount is not calculated by their advisor, we recommend that it is shared with them at least annually. This way they will not rebalance the portfolio and unknowingly trip covenants.

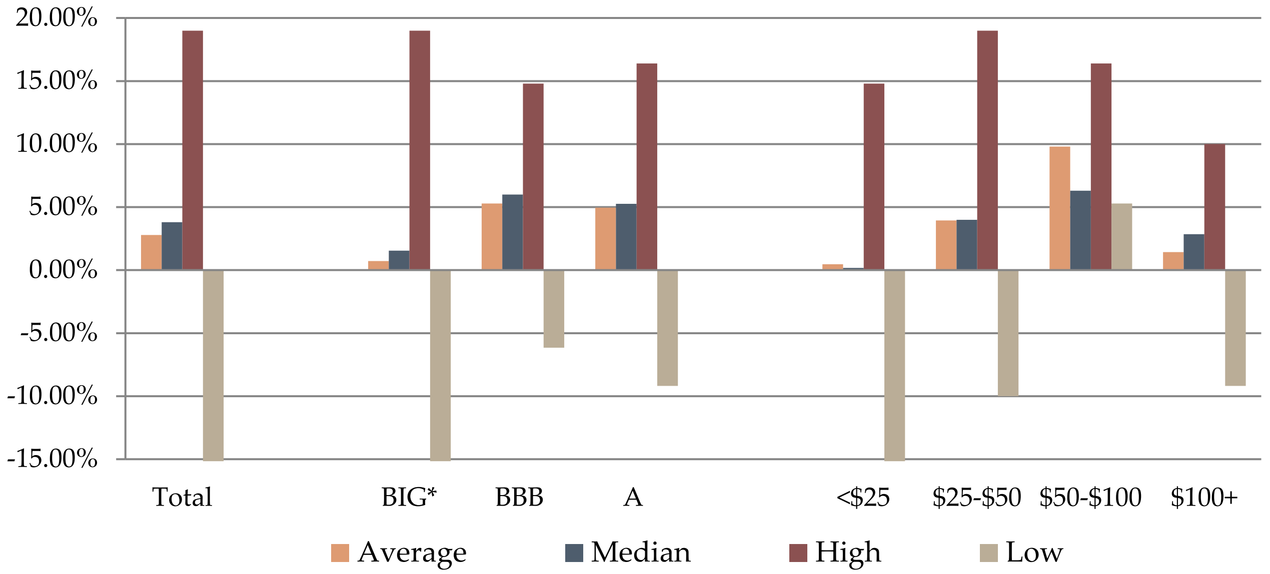
* *Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

6

Financial Metrics

Operating Margin

This year's average Operating Margin saw a slight increase from last year, increasing from 2.52% to 2.79%. This year was a mixed bag with four segments seeing increases and three seeing decreases. The BIG segment experienced the largest decline, falling from 3.68% to 0.72%. Independent living occupancy rates have remained strong, but some communities have had a difficult time maintaining their skilled nursing census. In addition, the labor market within healthcare has tightened resulting in higher staffing costs in certain geographical markets. Therefore, organizations continue to evaluate their mix of service lines in order to maximize revenue streams given the changes in healthcare and reduced reimbursement rates.



Operating Margin (%)

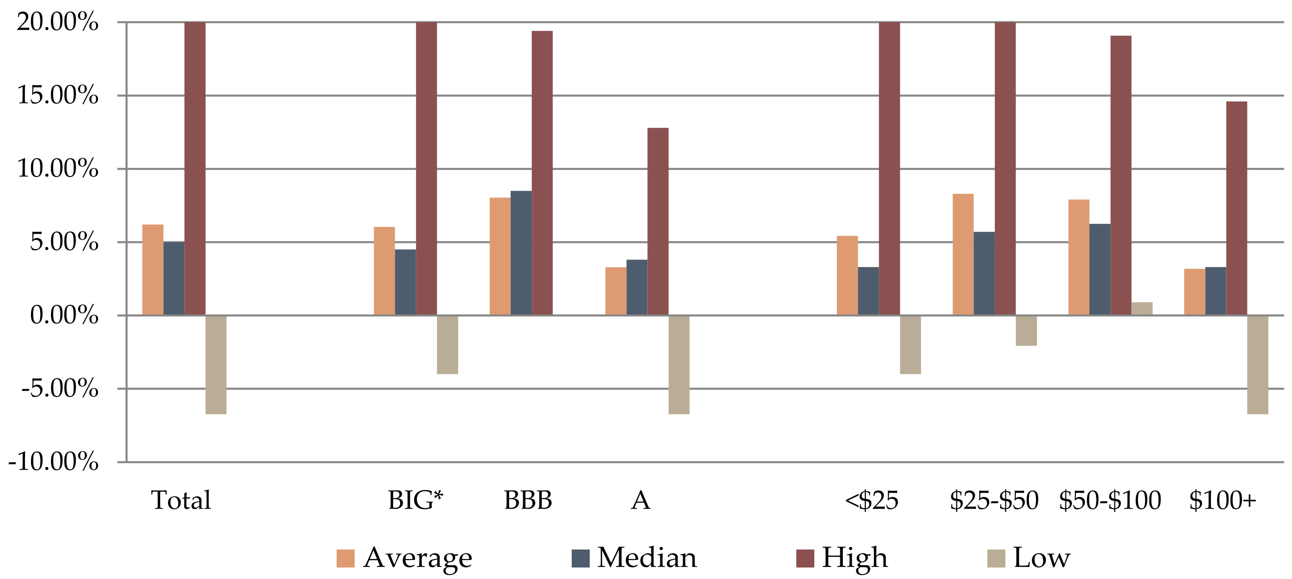
	Rating Category				Portfolio Size in Millions			
	TOTAL	BIG*	BBB	A	<$25	$25-$50	$50-$100	$100 +
Average	2.79%	0.72%	5.28%	4.95%	0.46%	3.94%	9.80%	1.44%
Median	3.80%	1.55%	6.00%	5.26%	0.18%	4.00%	6.30%	2.85%
High	19.00%	19.00%	14.80%	16.40%	14.80%	19.00%	16.40%	10.00%
Low	-22.00%	-22.00%	-6.15%	-9.18%	-22.00%	-10.00%	5.29%	-9.18%

Green numbers represent a positive change versus the 2018 study results while red numbers represent a negative change in responses.

** Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

Net Operating Margin

Unlike Operating Margin, average Net Operating Margin experienced a decrease from last year, falling from 6.63% to 6.21%. While organizations have benefited from stable independent occupancy rates, increasing labor costs and lower reimbursement rates have impacted operating income. The BBB Rated segment saw the largest year-over-year decrease, moving from 9.32% down to 8.04%. Organizations with large investment portfolios tend to generate a sizeable amount of investment income. Since investment income is excluded from Net Operating Margin, this may have a greater negative impact on organizations with larger investment portfolios.



Net Operating Margin (%)

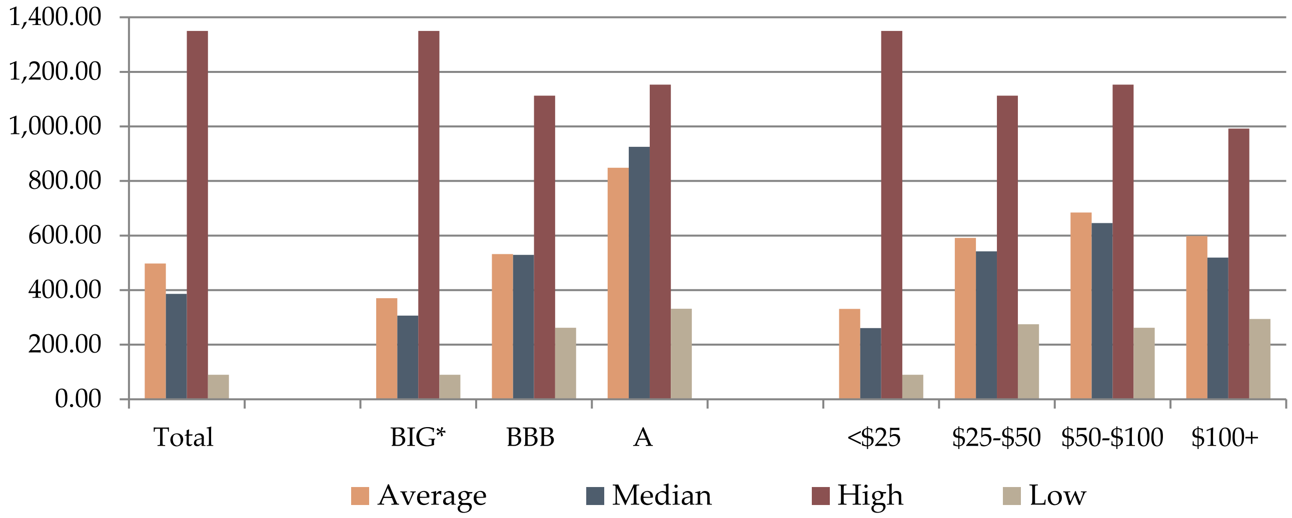
	Rating Category				Portfolio Size in Millions			
	TOTAL	**BIG***	**BBB**	**A**	**<$25**	**$25-$50**	**$50-$100**	**$100 +**
Average	6.21%	6.05%	8.04%	3.29%	5.43%	8.30%	7.91%	3.18%
Median	5.00%	4.50%	8.50%	3.80%	3.30%	5.70%	6.25%	3.30%
High	27.00%	27.00%	19.41%	12.80%	27.00%	21.00%	19.08%	14.60%
Low	-6.74%	-4.00%	0.00%	-6.74%	-4.00%	-2.00%	0.90%	-6.74%

Green numbers represent a positive change versus the 2018 study results while red numbers represent a negative change in responses.

** Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

Days Cash on Hand

Average Days Cash on Hand decreased from 521.17 last year to 497.51 this year. Negative investment return may have been the driving factor in the overall decrease. However, favorable interest rates have also allowed communities to continue borrowing at historic low rates rather than use cash from their balance sheet when implementing strategic plans. So this may have helped to offset the decrease based on the market returns. We anticipate the average DCOH will remain stable going forward as long as occupancy rates stay steady and operations continue to maneuver through the ever-changing healthcare landscape. A large variable to this could be investment returns. We have experienced one of the longest bull markets in history. Going forward, our view is that investment returns may not be as robust as they have been in previous years. Given the dimmer outlook, organizations may start to rely on cash rather than borrow to fund strategic plans.



Days Cash on Hand (days)

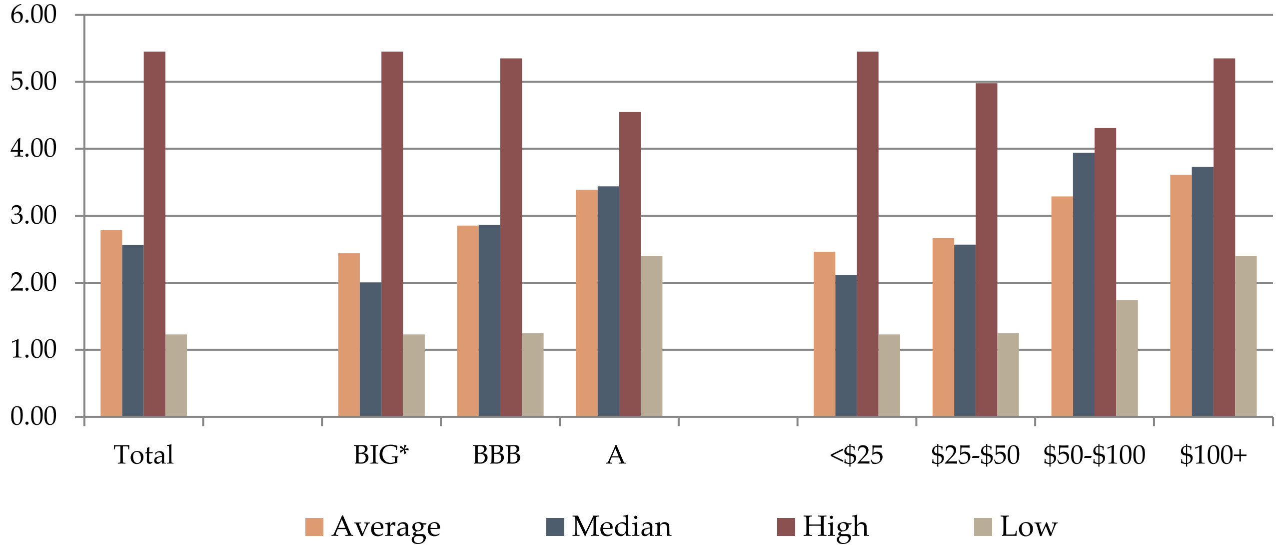
	Rating Category				Portfolio Size in Millions			
	TOTAL	**BIG***	**BBB**	**A**	**<$25**	**$25-$50**	**$50-$100**	**$100 +**
Average	497.51	370.67	531.88	848.40	331.17	591.36	684.38	598.50
Median	386.50	306.50	529.50	925.00	261.00	542.00	646.00	519.00
High	1,350.00	1,350.00	1,113.00	1,153.00	1,350.00	1,113.00	1,153.00	992.00
Low	89.65	89.65	262.00	332.00	89.65	275.00	262.00	294.00

Green numbers represent a positive change versus the 2018 study results while red numbers represent a negative change in responses.

** Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

Debt Service Coverage Ratio

Resuming the downward trend, the average Debt Service Coverage Ratio decreased from 2.83x to 2.79x. Stable operating income may have been offset by a reduced amount of investment income due to the negative investment returns experienced during the year. Despite the reduction of investment income, low interest rates have helped keep this metric relatively stable over the last several years. Although organizations may have taken on more debt to fund strategic plans, the strengthening operating and market conditions have helped them generate higher levels of income that can be used to support their debt. Although five segments experienced decreases from last year, all segments have really strong averages, in excess of 2.4x.



Debt Service Coverage Ratio (x)

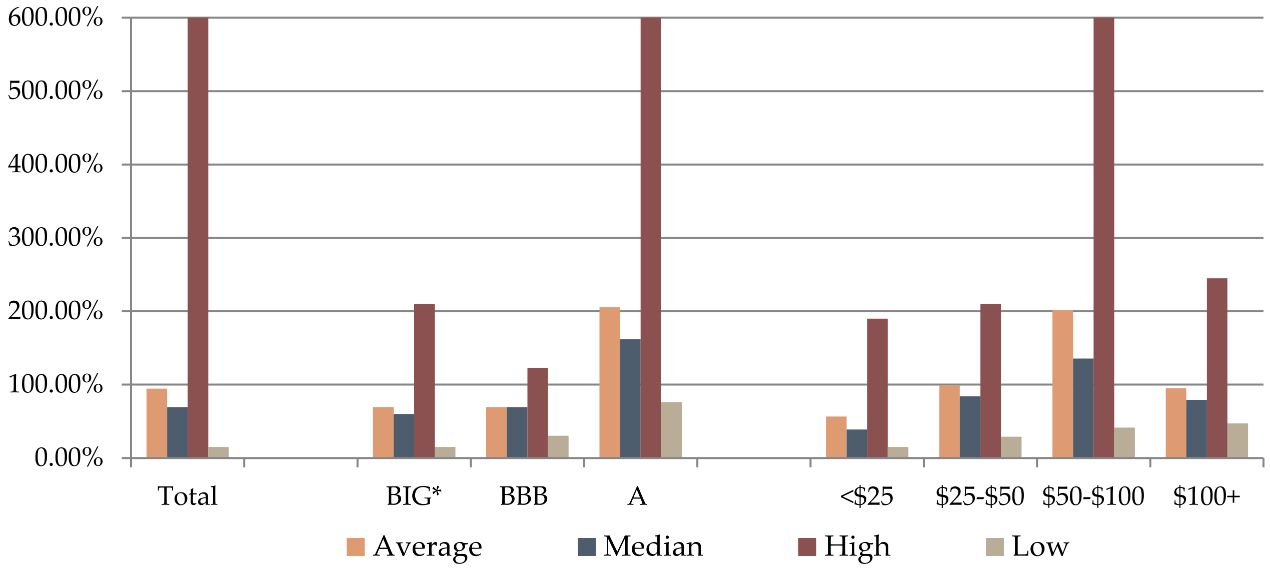
	Rating Category				Portfolio Size in Millions			
	TOTAL	BIG*	BBB	A	<$25	$25-$50	$50-$100	$100 +
Average	2.79	2.44	2.85	3.39	2.47	2.67	3.29	3.61
Median	2.57	2.00	2.87	3.44	2.12	2.57	3.94	3.73
High	5.45	5.45	5.35	4.55	5.45	4.98	4.31	5.35
Low	1.23	1.23	1.30	2.40	1.23	1.23	1.74	2.40

Green numbers represent a positive change versus the 2018 study results while red numbers represent a negative change in responses.

** Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

Cash to Debt

The average Cash to Debt for all participants increased slightly over last year moving from 92.94% to 94.46%. The BIG and $100+ segments were the only two segments that experienced a decrease across all calculations. Most of the other segments were relatively inline with last year's averages. We had anticipated seeing this metric fall due to a decrease in investment portfolio values and as organizations continue to borrow new money to fund strategic plans. While some organizations have used cash to fund smaller expenses, the increase in investment portfolio values helped five of the segments experience an increase in their cash to debt over last year's calculation.



Cash to Debt (%)

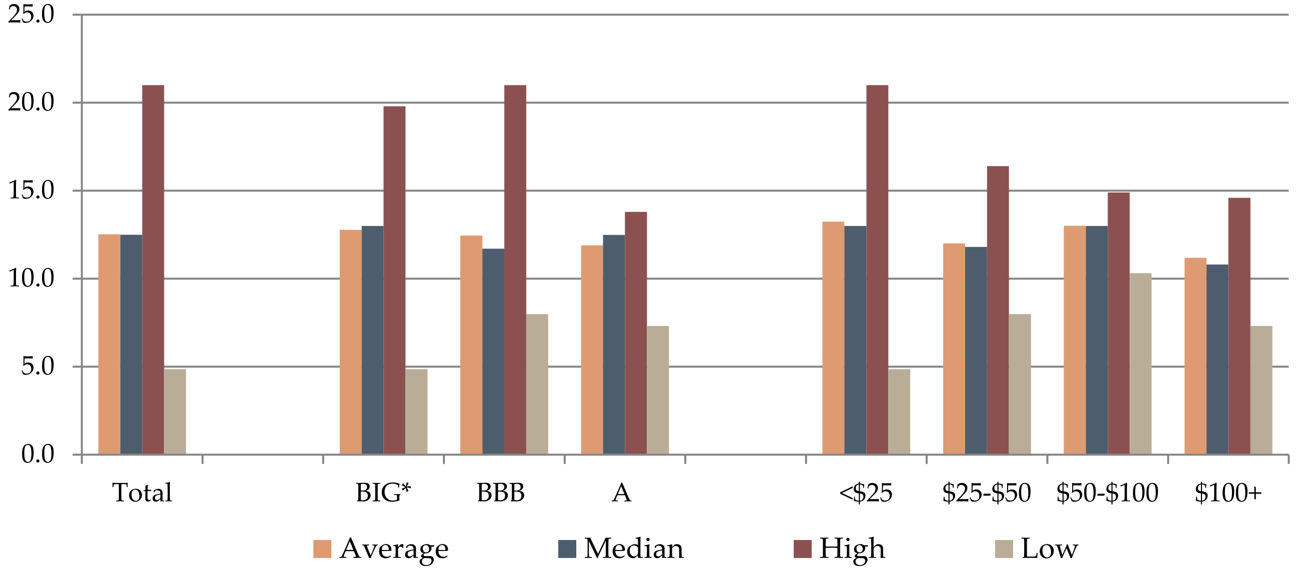
		Rating Category			Portfolio Size in Millions			
	TOTAL	BIG*	BBB	A	<$25	$25-$50	$50-$100	$100 +
Average	94.46%	69.55%	69.42%	205.39%	56.49%	99.00%	201.70%	95.14%
Median	69.40%	60.00%	69.40%	162.00%	37.70%	84.00%	135.50%	79.25%
High	618.00%	210.00%	122.90%	618.00%	190.00%	210.00%	618.00%	245.00%
Low	15.00%	15.00%	30.36%	76.20%	15.00%	29.00%	41.50%	47.10%

Green numbers represent a positive change versus the 2018 study results while red numbers represent a negative change in responses.

** Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

Average Age of Facility

The Average Age of Facility increased slightly from last year's response, moving from 12.24 to 12.52. With nearly 74% of this year's participants having either recently completed a large project or currently in the midst of completing a project, the continued spending to maintain and improve campuses should help this metric stay relatively constant going forward. The A rated peer group saw the largest decrease moving from 12.20 to 11.89 while the BBB rated peer group saw the largest increase moving from 11.42 to 12.45. As organizations continue to put money towards updating their community, they are in better position to meet the needs of their existing residents and also become more attractive to potential residents.



Average Age of Facility (years)

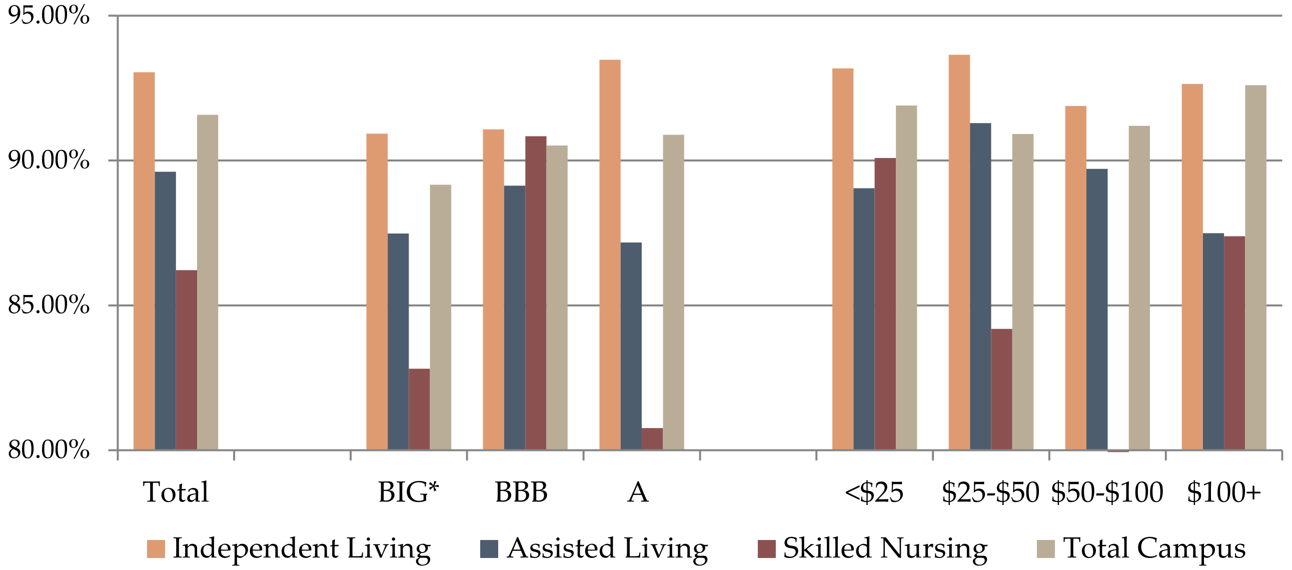
	Rating Category				Portfolio Size in Millions			
	TOTAL	BIG*	BBB	A	<$25	$25-$50	$50-$100	$100 +
Average	12.52	12.50	12.45	11.89	13.24	12.01	13.00	11.19
Median	12.50	13.00	11.70	12.49	13.00	11.80	13.00	10.80
High	21.00	19.80	21.00	13.80	21.00	16.40	14.90	14.60
Low	4.86	4.86	7.99	7.31	4.86	7.99	10.31	7.31

Green numbers represent a positive change versus the 2018 study results while red numbers represent a negative change in responses.

* *Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

Occupancy

As the housing market continues to strengthen across the country, occupancy rates have started to stabilize for most communities within their independent and assisted living. While the average independent living occupancy for this year's respondents dropped from 93.28% last year to 93.05% this year, it is encouraging that all segments were above 90%. Skilled nursing continues to be a challenge for communities as all segments reported averages below 90%. As organizations continue to explore new service lines, renovate and reposition their campuses, and employ creative marketing campaigns, we hope to see this metric continue to increase and return to preferred levels over the coming years.



Occupancy (%)

		Rating Category			Portfolio Size in Millions			
	TOTAL	BIG*	BBB	A	<$25	$25-$50	$50-$100	$100 +
IL	93.05%	90.93%	91.08%	93.48%	93.18%	93.65%	91.88%	92.64%
AL	89.61%	87.48%	89.13%	87.17%	89.04%	91.29%	89.71%	87.49%
SNF	86.22%	82.81%	90.84%	80.76%	90.09%	84.19%	78.57%	87.39%
Campus	91.58%	89.16%	90.52%	90.89%	91.90%	90.92%	91.20%	92.60%

Green numbers represent a positive change versus the 2018 study results while red numbers represent a negative change in responses.

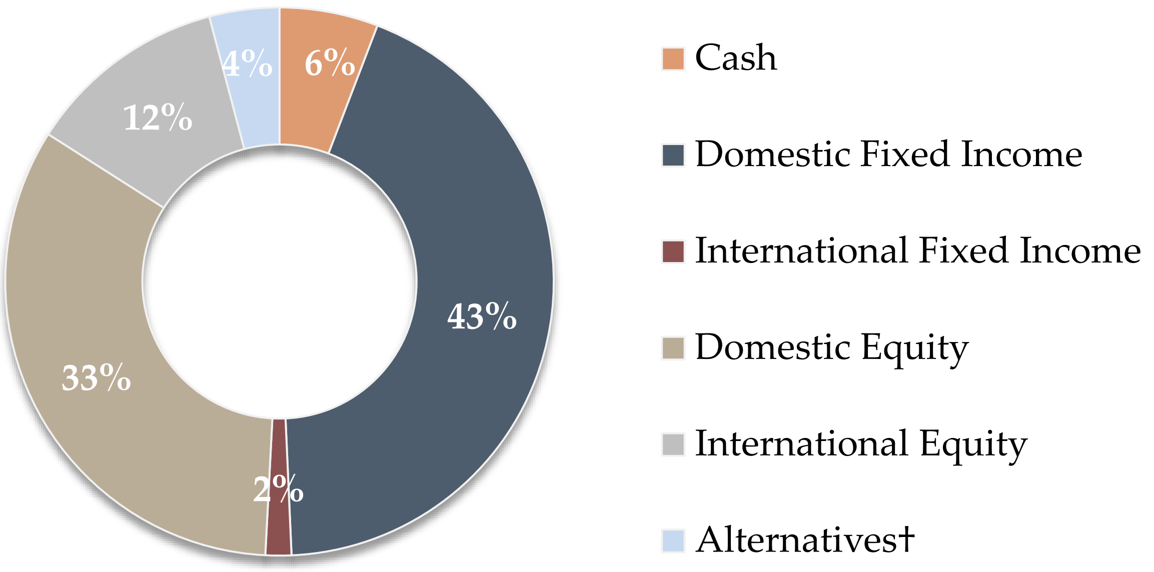
* *Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

7

Segment Summaries

Below Investment Grade*

Average Allocation



Financial Metrics

Operating Margin (%)	
Average	0.72
Median	1.55
High	19.00
Low	-22.00

Net Operating Margin (%)	
Average	6.05
Median	4.50
High	27.00
Low	-4.00

Debt Service Coverage (x)	
Average	2.44
Median	2.00
High	5.45
Low	1.23

Days Cash on Hand (days)	
Average	370.67
Median	306.50
High	1350.00
Low	89.65

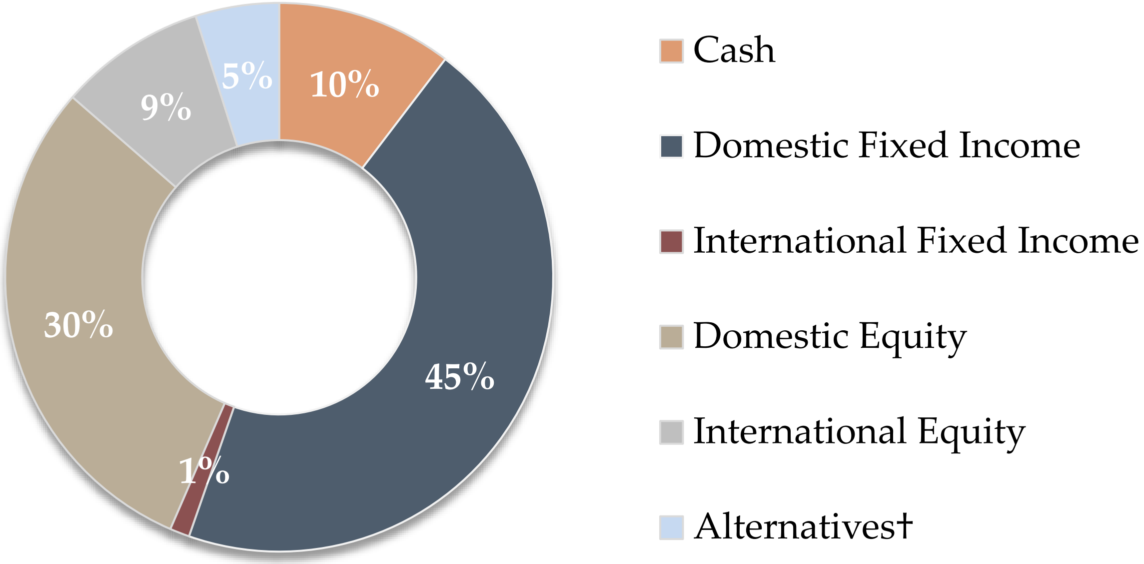
Cash to Debt (%)	
Average	69.55
Median	60.00
High	210.00
Low	15.00

Average Age of Facility (yrs)	
Average	12.78
Median	13.00
High	19.80
Low	4.86

†Alternatives Asset Class includes: Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.
** Below Investment Grade (BIG) includes BB (+/–) and unrated organizations.*

BBB Rated

Average Allocation



Financial Metrics

Operating Margin (%)	
Average	5.28
Median	6.00
High	14.80
Low	-6.15

Net Operating Margin (%)	
Average	8.04
Median	8.50
High	19.41
Low	0.00

Debt Service Coverage (x)	
Average	2.85
Median	2.87
High	5.35
Low	1.25

Days Cash on Hand (days)	
Average	531.88
Median	529.50
High	1113.00
Low	262.00

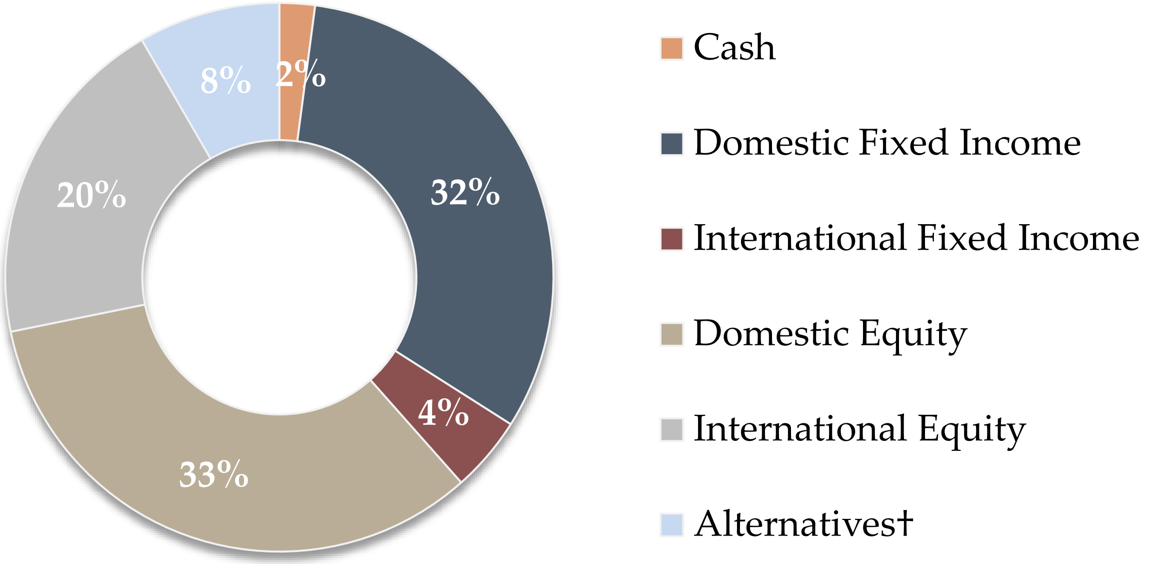
Cash to Debt (%)	
Average	69.42
Median	69.40
High	122.90
Low	30.36

Average Age of Facility (yrs)	
Average	12.45
Median	11.70
High	21.00
Low	7.99

†Alternatives Asset Class includes: Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.

A Rated

Average Allocation



Financial Metrics

Operating Margin (%)	
Average	4.95
Median	5.26
High	16.40
Low	-9.18

Net Operating Margin (%)	
Average	3.29
Median	3.80
High	12.80
Low	-6.74

Debt Service Coverage (x)	
Average	3.39
Median	3.44
High	4.55
Low	2.40

Days Cash on Hand (days)	
Average	848.40
Median	925.00
High	1153.00
Low	332.00

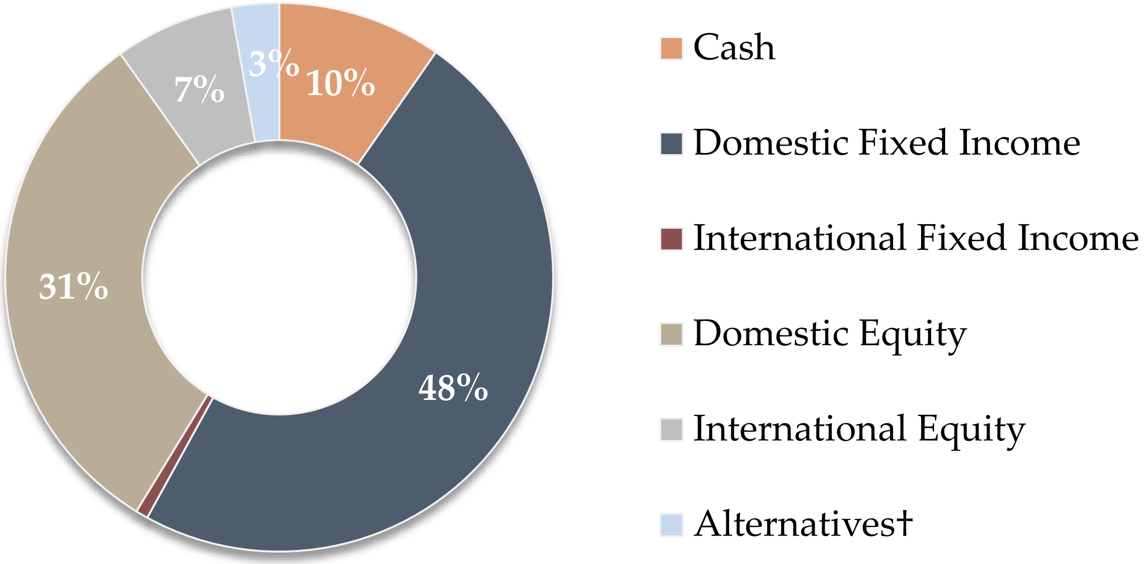
Cash to Debt (%)	
Average	205.39
Median	162.00
High	618.00
Low	76.20

Average Age of Facility (yrs)	
Average	11.89
Median	12.49
High	13.80
Low	7.31

†Alternatives Asset Class includes: Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.

< $25 Million Portfolio

Average Allocation



Financial Metrics

Operating Margin (%)	
Average	0.46
Median	0.18
High	14.80
Low	-22.00

Net Operating Margin (%)	
Average	5.43
Median	3.30
High	27.00
Low	-4.00

Debt Service Coverage (x)	
Average	2.47
Median	2.12
High	5.45
Low	1.23

Days Cash on Hand (days)	
Average	331.17
Median	261.00
High	1350.00
Low	89.65

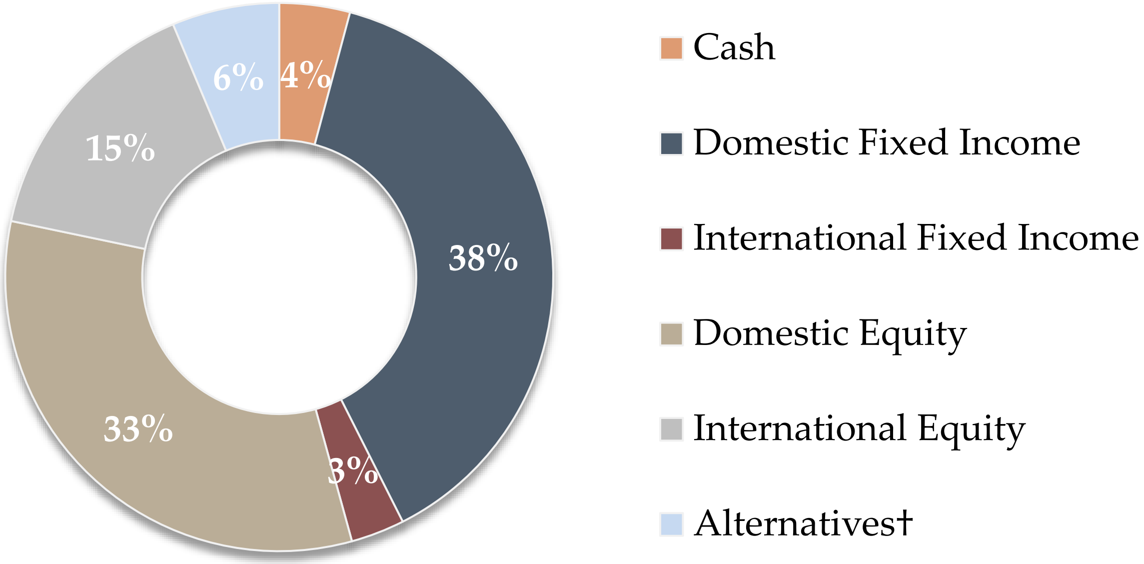
Cash to Debt (%)	
Average	56.49
Median	38.90
High	190.00
Low	15.00

Average Age of Facility (yrs)	
Average	13.24
Median	13.00
High	21.00
Low	4.86

†Alternatives Asset Class includes: Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.

$25-$50 Million Portfolio

Average Allocation



Financial Metrics

Operating Margin (%)	
Average	3.94
Median	4.00
High	19.00
Low	-10.00

Net Operating Margin (%)	
Average	8.30
Median	5.70
High	21.00
Low	-2.06

Debt Service Coverage (x)	
Average	2.67
Median	2.57
High	4.98
Low	1.25

Days Cash on Hand (days)	
Average	591.36
Median	542.00
High	1113.00
Low	275.00

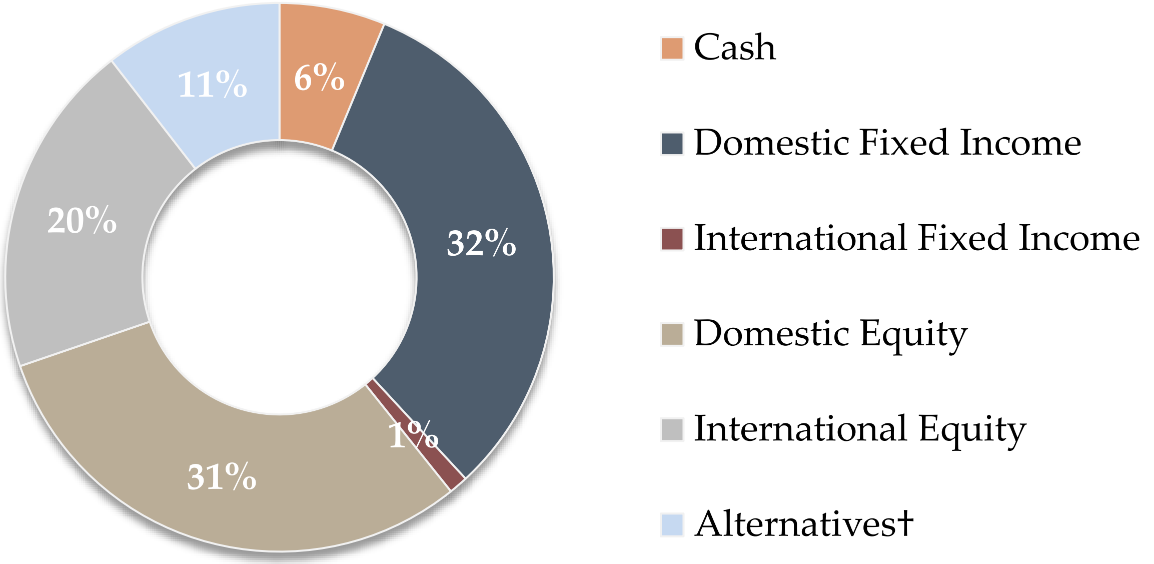
Cash to Debt (%)	
Average	99.00
Median	84.00
High	210.00
Low	29.00

Average Age of Facility (yrs)	
Average	12.01
Median	11.80
High	16.40
Low	7.99

†Alternatives Asset Class includes: Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.

$50-$100 Million Portfolio

Average Allocation



Financial Metrics

Operating Margin (%)	
Average	9.80
Median	6.30
High	16.40
Low	5.29

Net Operating Margin (%)	
Average	7.91
Median	6.25
High	19.08
Low	0.90

Debt Service Coverage (x)	
Average	3.29
Median	3.94
High	4.31
Low	1.74

Days Cash on Hand (days)	
Average	684.38
Median	646.00
High	1153.00
Low	262.00

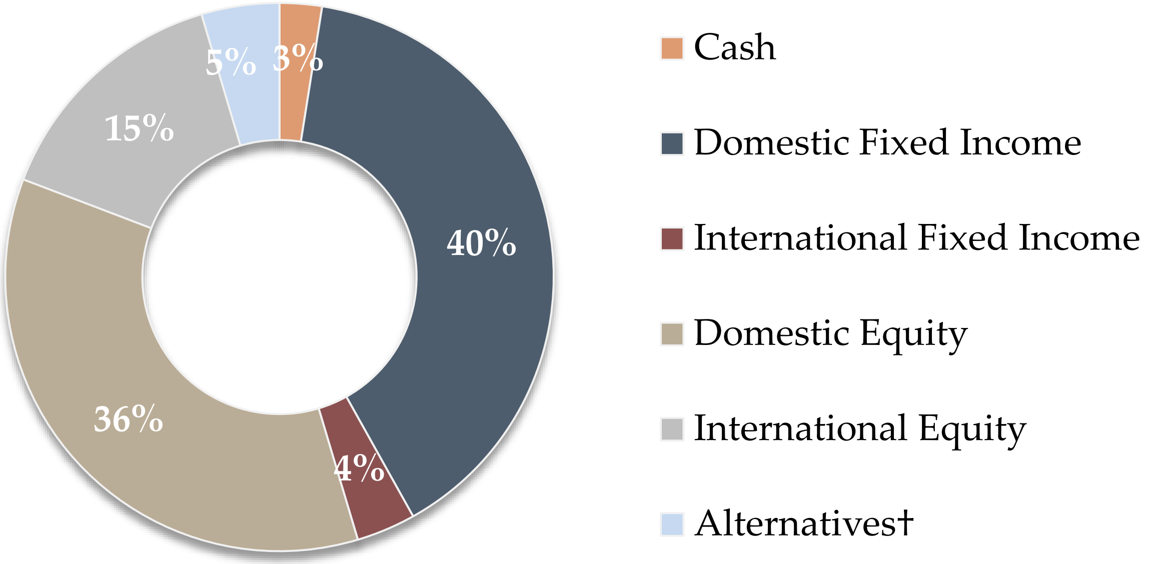
Cash to Debt (%)	
Average	201.70
Median	135.50
High	618.00
Low	41.50

Average Age of Facility (yrs)	
Average	13.00
Median	13.00
High	14.90
Low	10.31

†Alternatives Asset Class includes: Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.

$100 Million +

Average Allocation



Financial Metrics

Operating Margin (%)	
Average	1.44
Median	2.85
High	10.00
Low	-9.18

Net Operating Margin (%)	
Average	3.18
Median	3.30
High	14.60
Low	-6.74

Debt Service Coverage (x)	
Average	3.61
Median	3.73
High	5.35
Low	2.40

Days Cash on Hand (days)	
Average	598.50
Median	519.00
High	992.00
Low	294.00

Cash to Debt (%)	
Average	95.14
Median	79.25
High	245.00
Low	47.10

Average Age of Facility (yrs)	
Average	11.19
Median	10.80
High	14.60
Low	7.31

†Alternatives Asset Class includes: Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.

About Johnson Financial Group

Johnson Financial Group (JFG) is a full service financial services firm with offices throughout Wisconsin and Arizona offering wealth, banking and insurance services to organizations, families and individuals. JFG is the parent of three affiliated entities, Johnson Bank, Johnson Wealth Inc. (formerly known as Cleary Gull Advisors Inc.(CGA)), and Johnson Insurance Services, LLC.

Johnson Wealth Inc. serves as an outsourced investment office and co-fiduciary for not-for-profit institutions with a unique specialization in serving senior living communities and hospitals. Integrated asset allocation and risk management strategies are designed from an open-architecture, multi-asset-class platform based on each client's unique mission and purpose.

- Risk Budgeting & Asset Allocation
- Asset Class Strategy & Portfolio Construction
- Manager Selection & Evaluation/Investment Research
- Investment Policy Oversight
- Trustee and Board Education
- Resident/Donor Presentations

Contact Us

Steven J. Backus
Vice President - Client Advisor
sbackus@johnsonfinanicalgroup.com
(414) 270-2273 | www.johnsonbank.com