System and Strategic Overview
Company Snapshot

Inpatient Market Share
1st: Aggregate Market Share
1st: Burns
1st: Cardiology
1st: ENT
1st: General Medicine
1st: General Surgery
1st: Neurology
1st: Neurosurgery
1st: Obstetrics
1st: Ophthalmology
1st: Orthopedics
1st: Rehab
1st: Thoracic Surgery
1st: Urology
1st: Vascular
2nd: Gynecology
2nd: Neonatology
2nd: Oncology
2nd: Spine

$5.5B Total Assets
$4.2B Net Operating Revenue
22,000 Employees; 5,000 Physicians

212 Locations

Market Share Ranking

Greater Houston MSA 6.36 million population, projected to 7.0 million (2019)
Integrated Delivery System
Brand Compass
ADVANCE Strategic Priorities

Our Vision
Memorial Hermann will be the preeminent health system in the U.S. by advancing the health of those we serve through trusted partnerships with physicians, employees and others to deliver the best possible health solutions while relentlessly pursuing quality and value.

Our Culture
Innovative
Accountable
Empowered
Collaborative
Compassionate
Results Oriented
One Memorial Hermann

Brand Promise
We advance health.
Recent Accolades

15 Top Health Systems; Top 5 Large Health Systems (2012 & 2013)

National Patient Safety & Quality Award (2012)

National Quality Forum Healthcare Award (2009)

TIRR Memorial Hermann - No. 3 in rehabilitation hospitals

Texas Hospital Association Bill Aston Quality Award (2011)

Healthcare’s “100 Most Wired” 8th consecutive year

America’s #1 Quality Hospital for Overall Care (2011 & 2012)

The Joint Commission Top Performer (2012), Heart Attack, Heart Failure, Pneumonia, Surgical Care

2011 Texas Healthcare Foundation Quality Improvement Awards (9 Memorial Hermann Campuses)

2014 Houston Business Journal (HBJ) No. 3 Best Places to Work
High Reliability Organization

System Adult ICU CLABSI
Do No Harm
Central Line Associated Blood Stream

High Reliability Certified Zero Award
To: Memorial Hermann Katy Rehab Hospital
Zero Serious Safety Events 1 & 2 for 24 months
July 2012 to June 2014

Severity counts on high-reliability organizations to ensure their safety when flying on commercial airlines or traveling near nuclear power plants, Air traffic control, nuclear submarines, nuclear aircraft carriers and naval aviation all have well-deserved reputations for high-reliability operation.

But can hospitals be evaluated by HRO standards? In general, the answer seems to be no, beginning with the Institute of Medicine’s 2000 publication of To Err is Human and continuing to the 2009 report by HHS’ inspector general’s office that 13.5% of Medicare beneficiaries suffer a preventable serious adverse event during hospital stays.

In 2005, the Memorial Hermann Healthcare System in Houston embarked on a quest to become an HRO. The high-reliability program is a key element of what was implemented in all intensive-care units and operating rooms. Memorial Hermann worked with the Joint Commission’s Center for Transforming Healthcare to radically improve hand hygiene.

In 2010-11, the new culture was apparent. Zero preventable mortality translated in January 2011 to preventable of 807,000 adjusted days of care and nearly 500 preventable adverse events.

EXTENDING THE COST CURVE
Reporting months being alive hospital had gone up occurrence of a particular
Q: When you think of hospital systems in the area, which one comes to mind first?

* 2013 & 2014 data reflects phone and online survey
Q: Which hospital system would you prefer to use if you or someone in your household needed medical care?

* 2013 & 2014 data reflects phone and online survey
Accountable Care

Clinically Integrated IPA
Private, Employed & Faculty Integration
Exclusive Contracting DOJ/FTC Protections

3 Distinct Practice Models

Employment
Private
Faculty

11 Independent Medical Staffs

Gr Houston >11,000
MHMD 4,000
CI 2,900
ACO 2,700
PCMH 323
Medicare Shared Savings Program
Top Preforming ACO in the US

MHHS Year 1 CMS Shared Savings Results: $57,800,000

MSSP was developed to facilitate coordination and cooperation among providers to improve the quality of care for Medicare Fee-For-Service (FFS) beneficiaries and reduce unnecessary costs.

- Eligible providers, hospitals, and suppliers may participate in the CMS Shared Savings Program by creating or joining an ACO.
- Year one (18 months from July 1, 2012 through December 31, 2013) results: Fifty-three out of the 204 ACOs generated shared savings totaling more than $300 million during their first performance year.
- Memorial Hermann’s ACO (39,000 covered MSSP lives) generated total savings of $57.8M, resulting in a net payment of $28.3 million (after sequestration dollars) – **The top performing ACO in the country**
- Shown here is MHHS’ ACO’s flow of MSSP savings to eligible providers in the ACO.
Greater Houston Area and Market Position
Houston Overview: Fastest Growing City in America

MSA: Houston-Sugar Land-Baytown, Texas
Median Salary: $71,900  National Avg: $51,939

- 2013 Population Growth: 1.8%
- 2014 Population Growth: 1.7%
- Job Growth: 4.5%
- Unemployment: 4.8%
- Gross Metro Product: 1.7%

“When oil prices are low, Houston’s economy grows. When oil prices are high, Houston’s economy booms” - Forbes

Population & Employment Forecast
Metro Houston, Millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6.0</td>
<td>2.6</td>
</tr>
<tr>
<td>2015</td>
<td>6.6</td>
<td>3.0</td>
</tr>
<tr>
<td>2020</td>
<td>7.2</td>
<td>3.3</td>
</tr>
<tr>
<td>2025</td>
<td>7.9</td>
<td>3.6</td>
</tr>
<tr>
<td>2030</td>
<td>8.6</td>
<td>3.9</td>
</tr>
<tr>
<td>2035</td>
<td>9.4</td>
<td>4.2</td>
</tr>
<tr>
<td>2040</td>
<td>10.2</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Source: The Perryman Group

Houston MSA data from Forbes “America’s Fastest Growing Cities 2015”
National data from usatoday.com story, bls.gov website & bea.gov website
Market Diversification

The growing health of the US economy and industry diversification point to continued job growth in Houston despite the recent downturn to oil exploration & production.

2015- Greater Houston Partnership Employment Forecast

Oil Prices and Employment Growth

Note: Ranked by number of employees. The list does not include casual dining establishments, municipalities, school districts, community colleges, public universities (except UTMB Heath and The University of Texas MD Anderson) and governmental agencies.

Source: Greater Houston Partnership Database, June 2014
Population & Inpatient Utilization Trend
Expanded Greater Houston MSA

• Nationally, Moody’s observes that IP admissions have been flat to declining since 2007

• For the Houston MSA, IP admissions have grown 3.4% since 2007, despite declining use rates

• For Memorial Hermann, IP admissions have grown 10.5% since 2007, a result of market share and growth initiatives

Note: Use Rate Inpatient Discharges are rolling years (April - March)
*Q32013, Q42013 & Q12014 inpatient discharges include estimates
Sources:
- Population: Claritas
- Market Inpatient Discharges: Texas Hospital Association Patient Data System (FY2012Q1 – FY2014Q3) provided by Truven, formerly Thomson Reuters. Texas Hospital Inpatient Discharge Public Use Data File, [FY2007 Q1– FY2013 Q3] provided by Texas Department of State Health Services, Center for Health Statistics; Q1FY2014 – Q3FY2014 discharges estimated by using historical data by hospital. Excludes Normal Newborns and SNF. Expanded Greater Houston consists of 12 counties: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, Waller, Walker and Wharton.
Strength of Key Service Lines

Speciality Service Line Market Share

Transplants by Type

Memorial Hermann - Nation’s Busiest L1 Trauma Center

MH-TMC
Advanced Heart Failure
A Case Study on Execution

UNOS Approval
1st Heart Transplant
10th Heart Transplant
25th LVAD
5th TAH
CMS Cert. Heart Transplant
75th LVAD
75th Heart Transplant
99th Heart Transplant

Inpatient Volume - Center for Advanced Heart Failure

<table>
<thead>
<tr>
<th></th>
<th>Volume Since Inception</th>
<th>National Rank</th>
<th>Texas Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heart Transplants</td>
<td>99</td>
<td>#13 out of 129*</td>
<td>#2</td>
</tr>
<tr>
<td>Total Artificial Hearts</td>
<td>11</td>
<td>#4 out of 56**</td>
<td>#1</td>
</tr>
</tbody>
</table>

*Per 2013 and 2014 OPTN Publicly Reported Data (http://optn.transplant.hrsa.gov/)
(January 1, 2013 – October 31, 2014)

**Per Syncardia Systems, INC. for Calendar Year 2014 (http://www.syncardia.com)

CAHF - Center for Advanced Heart Failure
LVAD - Left Ventricular Assist Device
TAH – Total Artificial Heart
Growth Strategy – Care Delivery

Heat Map Analysis Criteria
Red areas represent higher total score
- 21 - 27
- 11 - 20
- 5 - 10

Hot Zips (in rank order):
1. 77494/77450 (Katy)
2. 77429/77095 (Cypress)
3. 77584 (Pearland)
4. 77379 (Spring)
5. 77479 (Sugar Land)

Future MH Cypress
CCC South Katy
CCC Spring
Summer Creek

Future MH Pearland
CCC League City
CCC South Katy

Katy Hospital Expansion
MH Katy

Sugar Land Hospital Expansion
MH SL
MH SIenna ER

New Cypress Hospital

New Pearland Hospital
MH TWL
MH NE
MH CCC
MH SW
MH TMC
MH MC
MH NW
MH NE
MH CCC
MH SW
MH TMC
MH MC
MH NW
Life Flight: Trauma Center Houston on Lifetime
Financial Performance
Organizational Structure

Corporate Members

Memorial Hermann Health System

Memorial Hermann Foundation
Health Professionals Insurance Co., Ltd. (HePIC)
Memorial Hermann Medical Group
Memorial Hermann Physician Network (MHMD)

Legend: Part of the Obligated Group

MH Health Solutions, Inc.
MH Health Insurance Company
MH Health Plan (HMO)
Patient Volumes - Inpatient

**Total Inpatient Admissions**

- **Inpatient CAGR=5.0%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Inpatient Admissions</th>
<th>Adjusted Admissions (excluding OB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2012</td>
<td>134,064</td>
<td>108,438</td>
</tr>
<tr>
<td>FY 2013</td>
<td>140,900</td>
<td>113,336</td>
</tr>
<tr>
<td>FY 2014</td>
<td>147,847</td>
<td>122,923</td>
</tr>
<tr>
<td>YTD 2Q'14</td>
<td>72,682</td>
<td>59,650</td>
</tr>
<tr>
<td>YTD 2Q'15</td>
<td>77,788</td>
<td>64,798</td>
</tr>
</tbody>
</table>

**Adjusted Admissions**

- **CAGR=5.7%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted Admissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2012</td>
<td>256,175</td>
</tr>
<tr>
<td>FY 2013</td>
<td>268,962</td>
</tr>
<tr>
<td>FY 2014</td>
<td>286,487</td>
</tr>
<tr>
<td>YTD 2Q'14</td>
<td>138,487</td>
</tr>
<tr>
<td>YTD 2Q'15</td>
<td>149,004</td>
</tr>
</tbody>
</table>
Patient Volumes - Outpatient

Growth/Volumes
Payer Activity
Operating Income & Cash Flow
Balance Sheet Position
Liquidity Leverage

Diagnostic & Therapeutic Visits

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>960,736</td>
<td>1,041,110</td>
<td>1,159,143</td>
</tr>
<tr>
<td>CAGR</td>
<td>9.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

OP Surgery Cases

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>79,275</td>
<td>82,156</td>
<td>85,194</td>
</tr>
<tr>
<td>CAGR</td>
<td>3.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Emergency Room Visits

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>450,010</td>
<td>476,909</td>
<td>509,615</td>
</tr>
<tr>
<td>CAGR</td>
<td>6.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>YTD 2Q'14</th>
<th>YTD 2Q'15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>565,910</td>
<td>629,308</td>
</tr>
<tr>
<td>CAGR</td>
<td>9.8%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>
Case Mix / Payer Mix
Impact of a comprehensive network
In 2014, Just under 200,000 ultimately enrolled in the greater-Houston market

2015: Estimated 250,000

<table>
<thead>
<tr>
<th>Enrollment Period</th>
<th>Cumulative Enrollment – National Enrollees</th>
<th>Metal Detail – National Enrollees</th>
<th>Premium Assistance – National Enrollees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Final Enrollment</td>
<td>8,019,763</td>
<td>65% Silver; 20% Bronze</td>
<td>85%</td>
</tr>
<tr>
<td>2015 Enrollment thru 1/16/15</td>
<td>9,500,000</td>
<td>Pending</td>
<td>87%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cumulative Enrollment – Texas Enrollees</th>
<th>Metal Detail - Texas Enrollees</th>
<th>Premium Assistance – Texas Enrollees</th>
</tr>
</thead>
<tbody>
<tr>
<td>733,757</td>
<td>67% Silver; 23% Bronze</td>
<td>84%</td>
</tr>
<tr>
<td>918,894</td>
<td>Pending</td>
<td>86%</td>
</tr>
</tbody>
</table>
### Healthcare Reform

Impact of Medicare Losses and Insurance Exchange

<table>
<thead>
<tr>
<th>Annual Federal Reductions</th>
<th>2015 (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Affordable Care Act (2010)</strong></td>
<td></td>
</tr>
<tr>
<td>Reduction to operating payment</td>
<td></td>
</tr>
<tr>
<td>Reduction to DSH/UC payments</td>
<td></td>
</tr>
<tr>
<td><strong>Budget Control Act (2011)</strong></td>
<td></td>
</tr>
<tr>
<td>Sequestration</td>
<td></td>
</tr>
<tr>
<td><strong>American Tax Reform Act (2012)</strong></td>
<td></td>
</tr>
<tr>
<td>2015 Reductions Incurred</td>
<td>$(42,200)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact of Health Insurance Exchange</th>
<th>2015 (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Annualized Net Revenue</td>
<td>$ 90,000</td>
</tr>
<tr>
<td>Percentage previously uninsured (50%)</td>
<td>45,000</td>
</tr>
<tr>
<td>Less previous collection amounts</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Net benefit from migration to exchange</td>
<td>$ 35,000</td>
</tr>
</tbody>
</table>

Current full year impact for 2015 estimated at $(7,200)

**Health Insurance Exchange Contracting Approach:**
- Selective Alignments: Aetna, Community Health Choice
- Participation in broad based plans
- Non par arrangements: Blue Cross and United HealthCare (contracts currently reimbursing MHHS as “out of network”)

**NOTE:** Texas did not expand Medicaid Coverage
Texas Medicaid Update

- Massive statewide restructuring of Medicaid through 1115 Waiver
- Year 4 of implementation
- Year 5 ends in August 31, 2016
- RHP3 anchor – Harris Health (District)
- Supplemental Funding – expected to continue at historical levels
  - 1115 Waiver (UC Pool & DSRIP; formerly UPL program)
  - State DSH funding
  - Level I Trauma funding
  - ARRA Meaningful Use (Federal & State)

Payment Shortfall FYE 2014

- Medicaid
  - Reimbursement: 52%
  - DSH: 6%
  - UC: 6%
  - DSRIP: 6%
  - Shortfall: 30%

- Medicare
  - Reimbursement: 84%
  - Shortfall: 16%

Trauma funds = .4%
Net Operating Revenue Trend

Growth/Volumes
Payer Activity
Operating Income & Cash Flow
Balance Sheet Position
Liquidity Leverage

CAGR = 8.4%

* Restated pursuant to Bad Debt Classification ASU 2011-7 prior to FYE’2014
Strong Operating Performance
Sustained & Growing Cash Flow Generation

- Fiscal Year 2014 operating income before extraordinary items of $192 million
- 14 consecutive years of solid operating performance with results at or above industry medians
Plans for Growth
## Upcoming Capital Plans

**FY15 – FY19 Total Capital Expenditures = $2.4 Billion**

<table>
<thead>
<tr>
<th>Project Description</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>15-19 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearland CCC &amp; Hospital ($90.5MM)</td>
<td>$100</td>
<td>$100</td>
<td>$150</td>
<td>$200</td>
<td>$250</td>
<td>$1000</td>
</tr>
<tr>
<td>Cypress Hospital &amp; MOB ($151.5MM)</td>
<td>$200</td>
<td>$250</td>
<td>$300</td>
<td>$350</td>
<td>$400</td>
<td>$1700</td>
</tr>
<tr>
<td>Sugar Land Expansion ($73MM)</td>
<td>$50</td>
<td>$75</td>
<td>$100</td>
<td>$125</td>
<td>$150</td>
<td>$550</td>
</tr>
<tr>
<td>Katy Expansion ($70.4MM)</td>
<td>$50</td>
<td>$50</td>
<td>$60</td>
<td>$60</td>
<td>$70</td>
<td>$270</td>
</tr>
<tr>
<td>Physician Acquisition ($55MM)</td>
<td>$40</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
<td>$250</td>
</tr>
<tr>
<td>NE Expansion ($60MM)</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$150</td>
</tr>
<tr>
<td>TMC Capacity Overflow ($30MM)</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$150</td>
</tr>
<tr>
<td>Ortho Service Expansion ($38MM)</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$150</td>
</tr>
<tr>
<td>Complete PY Strategic ($118.1MM)</td>
<td>$40</td>
<td>$40</td>
<td>$40</td>
<td>$40</td>
<td>$40</td>
<td>$200</td>
</tr>
<tr>
<td>Convenient Care Centers ($42.8MM)</td>
<td>$20</td>
<td>$20</td>
<td>$20</td>
<td>$20</td>
<td>$20</td>
<td>$100</td>
</tr>
<tr>
<td>Strategic Capital ($509.9MM)</td>
<td>$100</td>
<td>$100</td>
<td>$100</td>
<td>$100</td>
<td>$100</td>
<td>$500</td>
</tr>
<tr>
<td>TMC Master Facility Plan ($630MM)</td>
<td>$150</td>
<td>$150</td>
<td>$150</td>
<td>$150</td>
<td>$150</td>
<td>$750</td>
</tr>
<tr>
<td>Routine Capital ($515.5MM)</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
<td>$250</td>
</tr>
</tbody>
</table>

### Key Spending Ratios

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap Ex &amp; Debt Svc % Op Cash Flow</td>
<td>138%</td>
<td>138%</td>
<td>111%</td>
<td>112%</td>
<td>70%</td>
<td>111%</td>
</tr>
<tr>
<td>Capital Spending Ratio</td>
<td>225%</td>
<td>228%</td>
<td>166%</td>
<td>184%</td>
<td>100%</td>
<td>177%</td>
</tr>
</tbody>
</table>
2014 Bonds Proceeds
Capital Expenditures projection

Series 2014 Financing Closed in May 2014. $305MM of proceeds were available for projects.
Treasury Update
Pro-Forma Debt Profile

Pre-Financing Underlying Interest Rate Exposure

- Fixed Rate Debt, 42.6%
- Non-Puttable Variable Rate (FRN's), 47.0%
- Puttable Variable Rate (VRDB's), 14.1%

Post-Financing Underlying Interest Rate Exposure

- Fixed Rate Debt, 43.1%
- Non-Puttable Variable Rate (FRN's), 42.8%
- Puttable Variable Rate (VRDB's), 10.4%

Series 2014

- New money of $285 million
  - $145 million Fixed rate
  - $70 million Floating Rate Notes
  - $70 million Self-Liquidity VRDBs
- Pro forma net debt exposure goes from approximately 100% net fixed to 91% net fixed
- In conjunction with the Series 2014 financing, a portion of the swap portfolio was novated to a new counterparty
  - Same financial terms as existing (except for counterparty par call option in 2019 or later)
  - Collateral posting for all swaps if MHHS ≤ A-/A3
  - Removal of insurance
  - Updated MTI
  - Counterparty rated A2/A, same as existing

### ($mm)

<table>
<thead>
<tr>
<th></th>
<th>Pre-Financing</th>
<th>Post-Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total par outstanding</td>
<td>1,028.0</td>
<td>1,235.6</td>
</tr>
<tr>
<td>Weighted Average Cost of Capital</td>
<td>4.43%</td>
<td>4.05%</td>
</tr>
<tr>
<td>Committed funding percentage¹</td>
<td>89.6%</td>
<td>85.9%</td>
</tr>
<tr>
<td>Total Interest &amp; Swap Expense</td>
<td>45.5</td>
<td>50.0</td>
</tr>
<tr>
<td>Debt supported by banks</td>
<td>377.2</td>
<td>347.2</td>
</tr>
</tbody>
</table>

¹ Assumes total par of FRNs is considered committed funding
* Does not include capital lease obligations
MHHS Debt Breakdown

**Underlying Interest Rate Exposure**

- Fixed Rate, 47.6%
- Non-Putable Variable Rate (FRN's), 42.8%
- Putable Variable Rate (VRDB's), 14.1%

**Fixed/Variable Debt Mix (After Swaps)**

- Synthetic Fixed, 47.6%
- Fixed Rate, 43.1%
- Variable Rate, 9.3%

**Net Interest Rate Exposure**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Par Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>$532,765,000</td>
<td>43.1%</td>
</tr>
<tr>
<td>Variable Rate</td>
<td>$115,280,000</td>
<td>9.3%</td>
</tr>
<tr>
<td>Synthetic Fixed</td>
<td>$587,600,000</td>
<td>47.6%</td>
</tr>
</tbody>
</table>

*1Mk-to-mkt as of 12.31.2014 was $(111,848,145).*

**Credit Provider Exposure**

- Wells Fargo 22%
- RBC 78%

**Underlying Debt Mix**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Par Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>$532,765,000</td>
<td>43.1%</td>
</tr>
<tr>
<td>Variable</td>
<td>$173,985,000</td>
<td>14.1%</td>
</tr>
<tr>
<td>Self Liquidity VRDB's</td>
<td>181,695,000</td>
<td>14.7%</td>
</tr>
<tr>
<td>FRN's Held By Investors</td>
<td>347,200,000</td>
<td>28.1%</td>
</tr>
<tr>
<td>Total</td>
<td>$702,880,000</td>
<td></td>
</tr>
</tbody>
</table>

**Net Interest Rate Exposure**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Par Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>$532,765,000</td>
<td>43.1%</td>
</tr>
<tr>
<td>Variable</td>
<td>$115,280,000</td>
<td>9.3%</td>
</tr>
<tr>
<td>Synthetic Fixed</td>
<td>$587,600,000</td>
<td>47.6%</td>
</tr>
</tbody>
</table>

**Credit Provider Rollover Exposure**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Par Amount</th>
<th>Renewal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wells Fargo</td>
<td>$77,000,000</td>
<td>9/1/16</td>
</tr>
<tr>
<td>2008A-2 FRN</td>
<td>162,400,000</td>
<td>1/1/16</td>
</tr>
<tr>
<td>2008A-1 FRN</td>
<td>107,800,000</td>
<td>9/1/16</td>
</tr>
<tr>
<td>Total</td>
<td>$347,200,000</td>
<td></td>
</tr>
</tbody>
</table>

*2Does not include bank line of credit*
MHHCS has approximately $700 million of capital leases, mostly from the Memorial City Lease.
Investment Program
Unrestricted Investments

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Markets</th>
<th>Absolute Return</th>
<th>Equity</th>
<th>Fixed Income</th>
<th>Cash/Equiv.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010</td>
<td>57%</td>
<td>14%</td>
<td>14%</td>
<td>36%</td>
<td>1%</td>
</tr>
<tr>
<td>FY 2011</td>
<td>46%</td>
<td>40%</td>
<td>14%</td>
<td>34%</td>
<td>1%</td>
</tr>
<tr>
<td>FY 2012</td>
<td>52%</td>
<td>34%</td>
<td>14%</td>
<td>38%</td>
<td>1%</td>
</tr>
<tr>
<td>FY 2013</td>
<td>46%</td>
<td>38%</td>
<td>17%</td>
<td>47%</td>
<td>1%</td>
</tr>
<tr>
<td>FY 2014</td>
<td>46%</td>
<td>19%</td>
<td>11%</td>
<td>47%</td>
<td>2%</td>
</tr>
<tr>
<td>FY 2015-Dec. '14</td>
<td>53%</td>
<td>22%</td>
<td>14%</td>
<td>53%</td>
<td>2%</td>
</tr>
<tr>
<td>Target</td>
<td>15%</td>
<td>20%</td>
<td>38%</td>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

1 Includes hedge funds and private investments. An additional 9% of assets (Equities and Fixed Income) can be in a more liquid hedge fund vehicle
2 Equity includes MLPs
Historical Performance
(Operating Fund Returns)

Operating Return vs Policy Benchmark

Prior Investment Program

Active Investment Program

- FY 2010: Operating Fund 5.4%, Policy Benchmark 5.6%
- FY 2011: Operating Fund 4.9%, Policy Benchmark 5.4%
- FY 2012: Operating Fund 2.8%, Policy Benchmark 2.6%
- FY 2013: Operating Fund 4.4%, Policy Benchmark 2.1%
- FY 2014: Operating Fund 10.9%, Policy Benchmark 9.6%
- FY 2015-Dec 2014: Operating Fund 15.70%, Policy Benchmark 13.50%

Source: MHHS Investment Office
# Performance Comparison

## Estimated Performance (Annualized/Annual)

<table>
<thead>
<tr>
<th>Operating Fund ex-cash/equiv.</th>
<th>Active Investment Program</th>
<th>Prior²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ann. since Inception</td>
<td>FY2015 YTD¹</td>
<td>FY2014¹</td>
</tr>
<tr>
<td>Operating Fund ex-cash/equiv.</td>
<td>8.4%</td>
<td>(1.1%)</td>
</tr>
<tr>
<td>less: Tactical Benchmark ex-cash/equi.</td>
<td>6.0%</td>
<td>(1.8%)</td>
</tr>
<tr>
<td>equals: Alpha Gained (Lost)</td>
<td>+2.4%</td>
<td>+0.7%</td>
</tr>
</tbody>
</table>

## Alpha Breakdown

- Newly Hired Active Managers | +2.8% | +1.5% | +2.6% | +1.7% | n/a |
- Legacy Managers (Active and Passive) | +0.3% | (0.7%) | +0.7% | +0.4% | (0.4%) |

### Alpha Comparison of Top Institutional Investors

<table>
<thead>
<tr>
<th></th>
<th>Rice³</th>
<th>UTIMCO³</th>
<th>Ascension Health⁴</th>
<th>Texas Teachers⁵</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+1.6%</td>
<td>(0.9%)</td>
<td>+1.3%</td>
<td>+0.8%</td>
</tr>
<tr>
<td></td>
<td>+2.0%</td>
<td>(2.4%)</td>
<td>+1.2%</td>
<td>+1.5%</td>
</tr>
</tbody>
</table>

---

- **Active Investment Program** has been “team approach”, including: hiring investment team, additional external consulting expertise, more interaction with general consultant, support from senior leadership, IC & Board

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2. Operating Fund and Passive Benchmark Performance includes Cash. If Cash excluded, alpha generated is likely lower.
3. Endowment Alpha is vs NACUBO-Commonfund Benchmark for > $1B; NACUBO = National Association of College and University Business Officers. Entire fiscal year data used
5. Texas Teachers excess return versus its Policy Benchmark.
6. FY2013 alpha for “Top Institutional Investors” represent annual excess return. FY2013 MHHS alpha represents excess return from January 2013 – June 2013 and is not annualized.
“Capital Deficit” at MHHS at 2012

Balance Sheet Decomposition and Financing Risk Factors*

Operating Balance Sheet
- Capital and operating assets
- Net Assets "Equity"
- Oper. liabilities

Financing Balance Sheet
- "Capital deficit"
- Cash and investments
- Debt and leases

Total Balance Sheet
- Total assets
- Net Assets
- Total liabilities

Investments
- US Cash 52%
- US Aggregates Bonds 34%
- US Small-Mid Cap 2%
- US Large Cap 9%
- Int’l Equity 3%

Debt and Capitalized Leases
- Natural Fixed 25%
- Synthetic Fixed 32%
- Unhed. Floating 3%
- Cap. Leases (Fixed) 40%

Net Exposure
Key Statistics
- Expected Net Financial Margin (48,419)
- Net Volatility 43,201
- 95% Worst Margin (119,485)
- Net Margin (% of investments) (3.54)
- Net Volatility (% of investments) 3.16

Return (% of Investments)
- "Expected" 3.2%
- +1σ 6.6%
- +2σ 9.9%

Cost (% of Debt)
- Synthetic Fixed 5.2%
- Natural Fixed 5.4%
- "Expected" 5.6%
- +2σ 5.7%

Net Financial Exp. (% of Inv.)
- "Expected" 3.5%
- +1σ 6.7%
- +2σ 9.9%

*Data as of 6/30/12

*Capital Deficit* at MHHS at 2012

**Balance Sheet Decomposition and Financing Risk Factors**

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**Net Financial Exp. (% of Inv.)**
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- +1σ 6.7%
- +2σ 9.9%

*Data as of 6/30/12*
Current State (“Capital Surplus”)

Over the course of the last 18-24 months, we ramped up an effective strategy to restructure the System’s balance sheet, the result of which now serves to support operations, rather than draw from them.

### June 30, 2012:
- Cost of tax-exempt debt and capital leases = 5.4%
- Expected return on investments = 3.2%
- Expected annual capital **DEFICIT** of $47 million

**Investments = $1.4 billion**

**Expected Annual Return**

<table>
<thead>
<tr>
<th>Return</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2σ</td>
<td>(3.5%)</td>
</tr>
<tr>
<td>-1σ</td>
<td>(0.1%)</td>
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<tr>
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</tr>
<tr>
<td>+1σ</td>
<td>6.6%</td>
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<tr>
<td>+2σ</td>
<td>9.9%</td>
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**Tax-Exempt Debt Structure**

<table>
<thead>
<tr>
<th>Debt Structure</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>$408,335</td>
<td>40.4%</td>
</tr>
<tr>
<td>Synthetic Fixed</td>
<td>$598,100</td>
<td>59.2%</td>
</tr>
<tr>
<td>Net Floating</td>
<td>$3,700</td>
<td>0.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,010,135</td>
<td></td>
</tr>
</tbody>
</table>

**WACC of 5.10% (15-yr. historical)**

### December 31, 2014:
- Cost of tax-exempt debt and capital leases = 4.9%
- Expected return on investments = 7.4%
- Expected annual capital **SURPLUS** of $100 million

**Investments = $2 billion**

**Expected Annual Return**

<table>
<thead>
<tr>
<th>Return</th>
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</tr>
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<tbody>
<tr>
<td>-2σ</td>
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<td>Net Floating</td>
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<td>9.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,235,645</td>
<td></td>
</tr>
</tbody>
</table>

**WACC of 4.4% (15-yr. historical rates)**
Conclusion
Key Points

• Market Share Leader in Growing Houston MSA
• Superior Regional Coverage
• Sustained and Growing Operating Cash Flow Generation
• Improved Liquidity and Leverage Position
• Executing on Accountable Care and Population Health Strategies
• Quality – Competitive Advantage for Memorial Hermann
• National Recognition – Significant Accomplishments as a Provider of Excellence