



FOUNDED BY BRIGHAM AND WOMEN'S HOSPITAL
AND MASSACHUSETTS GENERAL HOSPITAL

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Partners HealthCare Reports First Quarter 2015 Financial Results *State Policy Issues Continue to Present Challenges for NHP*

BOSTON, MA – Partners HealthCare today reported operating income of \$74 million in the first quarter of fiscal year 2015, which ended on December 31, 2014. Health care provider activity generated \$67 million in operating income (see *Provider Activity*). Insurance activity (Neighborhood Health Plan or NHP) resulted in \$7 million in operating income, inclusive of a \$27 million reduction in medical claims expense due to the amortization of a premium deficiency reserve that was booked in fiscal 2014 (see *Insurance Activity*). Excluding the impact of the premium deficiency reserve amortization, insurance activity would have generated a loss from operations of \$20 million in the first quarter of fiscal year 2015. In the first quarter of fiscal 2014, Partners reported income from operations of \$45 million, including \$44 million from provider activity and \$1 million from insurance activity.

“Our hospitals and our doctors deliver world class, high quality care to our patients and their families. Maintaining our focus on the cost effective, efficient delivery of care, Partners’ health care providers generated a strong operating margin, which enables us to reinvest in population health management programs to further improve the patient experience,” said **Peter K. Markell, Chief Financial Officer and Treasurer for Partners HealthCare**. “However, our insurance plan, NHP, still faces a significant challenge with respect to receiving adequate rates from the State for the care of MassHealth members. We will continue to work with the State to address this. We are cautiously optimistic that NHP can return to a secure financial footing if the State develops rates using sound actuarial practices that incorporate actual patient experience and the true impact of the Affordable Care Act.”

Partners total operating revenue increased \$201 million (8%) to \$2.8 billion in the three months ended December 31, 2014, reflecting growth in both provider and insurance activities. Total operating expenses increased \$173 million (7%) to \$2.8 billion, due to higher wages and benefits, supplies and medical insurance claims. Excluding the impact of the premium deficiency reserve amortization (\$27 million), Partners income from operations was \$47 million (1.7% operating margin). In the first quarter of fiscal 2014, Partners reported income from operations of \$45 million (1.7% operating margin).

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In the quarter ended December 31, 2014, Partners HealthCare absorbed \$298 million in Medicare, Medicaid, and Health Safety Net shortfalls due to government reimbursements that failed to pay the full cost of providing care to Medicare, low-income, and uninsured patients, an increase of 4% over the shortfall absorbed in the comparable prior year period. Government payers represented approximately 50% of Partners gross patient service revenues in the first quarter of 2015. In fiscal year 2014, Partners absorbed a \$1.1 billion shortfall due to government reimbursements that failed to pay the full cost of providing care.

Partners reported an overall gain of \$41 million, including a non-operating loss of \$33 million, in the first quarter of fiscal 2015. Non-operating activity includes gains and losses on investments and interest rate swaps, which can vary significantly year to year, and philanthropy. For the first quarter of fiscal 2014, Partners reported an overall gain of \$164 million, including non-operating income of \$119 million.

First Quarter Fiscal 2015 Results – Health Care Provider & Other Activity (Provider Activity)

Provider activity generated operating income of \$67 million on \$2.5 billion in revenue (2.7% operating margin) in the first quarter of fiscal 2015. In the comparable fiscal 2014 quarter, provider activity generated operating income of \$44 million on \$2.3 billion in revenue (1.9% operating margin).

Net patient service revenue increased \$96 million (5%) to \$1.9 billion. Growth in inpatient and outpatient activity and increases in the complexity and severity of cases contributed to the increase in net patient service revenue, but was partially offset by a continued payer mix shift to public payers. Research revenue increased \$21 million (6%) to \$403 million, reflecting growth in both government sponsored and non-government sponsored research activity. Other operating revenue, excluding patient care and research revenue, increased \$12 million (8%) to \$164 million.

Operating expenses attributable to provider activity increased \$107 million (5%) to \$2.4 billion in the 2015 first quarter. Higher benefits costs (13%) contributed to an increase in employee compensation and benefits of \$56 million (4%) to \$1.4 billion. Supplies and other expenses increased \$19 million (4%) to \$550 million, reflecting increased costs for specialty pharmaceuticals, blood products and medical devices. Depreciation and interest increased \$9 million (6%) to \$153 million.

First Quarter Fiscal 2015 Results - Insurance Activity

For the quarter ended December 31, 2014, insurance activity generated operating income of \$7 million on total revenue of \$456 million. Premium revenue grew \$101 million (28%), driven by a 24% increase in membership. As of December 31 2014, NHP had 337,552 members, of which approximately 75% were in government-sponsored plans.

In connection with the adoption of national health reform, NHP experienced a significant increase in

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MassHealth adult members during 2014. Those members generated substantially higher medical claims than state actuaries had projected and on which rates were set, resulting in significant operating losses. Based on rates set by the state for its 2015 contract year and in accordance with accounting requirements, a charge of \$92 million was recorded in fiscal 2014 to establish a premium deficiency reserve for anticipated losses related to NHP's state contracts. Over the course of fiscal 2015, that reserve will be amortized to offset a portion of NHP's actual medical claims experience.

For the quarter ended December 31, 2014, medical claims expense increased \$96 million (30%) to \$421 million. Excluding the quarterly impact of premium deficiency reserve amortization, NHP's medical claims expense increased \$120 million (37%) to \$448 million. NHP's medical loss ratio (the percentage of insurance premiums that are used to pay medical claims) was 98% for the quarter ended December 31, 2014 (excluding the impact of the premium deficiency reserve amortization) and 92% for the quarter ended December 31, 2013. General and administrative costs decreased \$2 million (-6%) to \$28 million in the 2015 first quarter as the prior year period reflected costs associated with the implementation of national health reform.

Excluding the impact of the premium deficiency reserve amortization, insurance activity would have generated a loss from operations of \$20 million on total revenue of \$456 million (-4.2% operating margin) in the 2015 first quarter. In the 2014 first quarter, insurance activity generated income from operations of \$1 million on total operating revenue of \$356 million (break-even operating results).

Commitment to Community

Serving and investing in the community is a major focus of Partners' mission. In order to improve the health and well-being of our communities, Partners makes targeted, effective investments in three priority areas: access to health care, educational and economic opportunity, and prevention. Last year, Partners served more than 159,000 low-income patients and reported to the Attorney General investments of \$210 million through a wide-range of community commitments. Examples include:

Community Health Center Support - As part of Partners' continued commitment to strengthen community health centers, Partners last year provided more than \$6.5 million to help make care more efficient and effective through two signature initiatives – *The Partnership for Community Health* and the IMPACT program. The *Partnership for Community Health*, an initiative of Neighborhood Health Plan, Partners HealthCare and the Massachusetts League of Community Health Centers, awarded \$6 million to support ground-breaking efforts to increase patient use of interactive health technology and develop shared services and shared data capacity across multiple health centers – all with the aim of lowering costs while improving patient care. The Integrated, Measurable, Process, Alignment, and Capacity-

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building Tools and Techniques (IMPACT) program provides another \$500,000 to support health center staff in their continuous efforts to identify opportunities for enhancing patient experience, staff satisfaction, health care delivery, and organizational efficiency.

HealthCorps - Partners is committed to ongoing efforts to help develop the future health care workforce. In collaboration with the Mass League of Community Health Centers and the AmeriCorps Program, Partners is supporting HealthCorps members--recent college graduates who are exploring the health care field by working in area community health centers. 17 HealthCorps members are working on a variety of projects in health centers, providing the health centers with needed support while also learning more about health care careers. Many HealthCorps members go on to pursue advanced degrees in medicine, dentistry, nursing, social work and other health science fields after their year of service.

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Forward-Looking Statements

This press release contains certain “forward-looking statements” concerning financial and operating plans and results which involve known and unknown risks and uncertainties. In particular, statements preceded or followed by, or that include the words, “believes,” “expects,” “estimates,” “anticipates,” “plans,” “intends,” “scheduled,” or similar expressions are forward-looking statements. Various factors could cause Partners’ actual results to differ materially including, but not limited to, federal and state regulation of healthcare providers, changes in reimbursement policies of state and federal government and managed care organizations, competition in the healthcare industry in our market, general economic and capital market conditions, and changes in our labor and supply costs and in our ability to retain personnel. For more information on these and other risk factors, please refer to our most recent bond official statement or annual disclosure statement filed on the Electronic Municipal Market Access (EMMA) website maintained by the Municipal Securities Rulemaking Board. We undertake no responsibility to update any such forward-looking statements except as expressly required by law.

Partners HealthCare is an integrated health system founded by Brigham and Women’s Hospital and Massachusetts General Hospital. In addition to its two academic medical centers, the Partners system includes community and specialty hospitals, a managed care organization, community health centers, a physician network, home health and long-term care services, and other health-related entities. Partners is one of the nation’s leading biomedical research organizations and a principal teaching affiliate of Harvard Medical School. Partners HealthCare is a non-profit organization.

Partners HealthCare System, Inc. and Affiliates
Consolidated Balance Sheets
(In Thousands)

	<u>December 31, 2014</u>	<u>September 30, 2014</u> (audited)
ASSETS		
Current assets		
Cash and equivalents	\$ 453,487	\$ 457,244
Investments	1,384,319	1,474,058
Current portion of investments limited as to use	2,025,346	2,120,057
Patient accounts receivable, net	862,917	876,214
Research grants receivable	130,644	115,786
Other current assets	382,902	381,517
Receivable for settlements with third-party payers	44,816	39,082
Total current assets	<u>5,284,431</u>	<u>5,463,958</u>
Investments limited as to use, less current portion	2,956,744	2,927,360
Long-term investments	1,022,407	1,026,538
Pledges receivable, net and contributions receivable from trusts, less current portion	210,104	197,975
Property and equipment, net	4,742,237	4,615,908
Other assets	<u>498,466</u>	<u>499,353</u>
Total assets	<u>\$ 14,714,389</u>	<u>\$ 14,731,092</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term obligations	\$ 237,996	\$ 238,204
Accounts payable and accrued expenses	660,020	645,999
Accrued medical claims and related expenses	214,806	254,480
Accrued compensation and benefits	626,593	677,957
Current portion of accrual for settlements with third-party payers	56,994	55,918
Unexpended funds on research grants	<u>196,730</u>	<u>183,222</u>
Total current liabilities	<u>1,993,139</u>	<u>2,055,780</u>
Other liabilities		
Accrual for settlements with third-party payers, less current portion	53,985	58,899
Accrued professional liability	456,615	455,463
Accrued employee benefits	1,053,707	1,066,840
Interest rate swaps liability	373,167	295,656
Accrued other	<u>155,608</u>	<u>157,029</u>
	<u>2,093,082</u>	<u>2,033,887</u>
Long-term obligations, less current portion	<u>3,697,071</u>	<u>3,697,938</u>
Total liabilities	<u>7,783,292</u>	<u>7,787,605</u>
Net assets		
Unrestricted	5,625,911	5,623,759
Temporarily restricted	826,709	855,954
Permanently restricted	<u>478,477</u>	<u>463,774</u>
Total net assets	<u>6,931,097</u>	<u>6,943,487</u>
Total liabilities and net assets	<u>\$ 14,714,389</u>	<u>\$ 14,731,092</u>

Partners HealthCare System, Inc. and Affiliates
Consolidated Statements of Operations
(In Thousands)

	First Quarter Ended December 31,	
	2014	2013
Operating revenue		
Net patient service revenue, net of provision for bad debts	\$ 1,823,186	\$ 1,756,225
Premium revenue	454,956	354,215
Direct academic and research revenue	318,953	296,367
Indirect academic and research revenue	84,292	85,460
Other revenue	164,003	152,087
Total operating revenue	2,845,390	2,644,354
Operating expenses		
Employee compensation and benefits	1,390,256	1,333,440
Supplies and other expenses	562,083	545,356
Medical claims and related expenses	346,825	279,640
Direct academic and research expenses	318,953	296,367
Depreciation and amortization	122,854	115,322
Interest	30,361	28,707
Total operating expenses	2,771,332	2,598,832
Income from operations	74,058	45,522
Nonoperating gains (expenses)		
Income from investments	23,339	70,267
Change in fair value of interest rate swaps	(77,972)	20,435
Gifts and other, net of fundraising and other expenses	819	(11,380)
Academic and research gifts, net of expenses	20,340	39,240
Total nonoperating gains (expenses), net	(33,474)	118,562
Excess of revenues over expenses	40,584	164,084
Other changes in net assets		
Change in net unrealized appreciation on marketable investments	(51,482)	29,195
Change in fair value of interest rate swaps	461	13,511
Funds utilized for property and equipment	11,238	6,536
Other	1,351	(1,975)
Increase in unrestricted net assets	\$ 2,152	\$ 211,351

Partners HealthCare System, Inc. and Affiliates
Consolidated Statements of Cash Flows
(In Thousands)

	First Quarter Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (12,390)	298,163
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	77,511	(33,946)
Depreciation and amortization	122,854	115,322
Provision for bad debts	29,028	30,888
Loss on disposal of property	5	188
Net realized and change in unrealized appreciation on investments	38,972	(110,021)
Restricted contributions and investment income	(32,988)	(33,880)
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable	(15,731)	(11,590)
Research grants receivable	(14,858)	(5,921)
Other current assets	(25,427)	(7,039)
Pledges receivable and contributions receivable from trusts	11,913	(33,743)
Other assets	(1,245)	1,263
Accounts payable and accrued expenses	14,021	(48,281)
Accrued medical claims and related expenses	(39,674)	(4,066)
Accrued compensation and benefits	(51,364)	6,563
Settlements with third-party payers	(9,572)	15,440
Unexpended funds on research grants	13,508	(130)
Accrued employee benefits and other	(13,402)	(6,225)
Net cash provided by operating activities	91,161	172,985
Cash flows from investing activities:		
Purchase of property and equipment	(247,134)	(177,341)
Proceeds from sale of property	78	5
Net purchases of investments	120,225	(4,777)
Net cash used for investing activities	(126,831)	(182,113)
Cash flows from financing activities:		
Payments on long-term obligations	(1,075)	(1,049)
Restricted contributions and investment income	32,988	33,880
Net cash provided by financing activities	31,913	32,831
Net (decrease) increase in cash and equivalents	(3,757)	23,703
Cash and equivalents at beginning of period	457,244	471,322
Cash and equivalents at end of period	\$ 453,487	\$ 495,025

Notes to Consolidated Financial Statements
(In Thousands)

1. The accompanying consolidated quarterly financial statements have been prepared on the accrual basis of accounting and include the accounts of Partners HealthCare System, Inc. (PHS) and its affiliates. PHS, together with all of its affiliates, is referred to as "Partners HealthCare." The financial statements do not include all the information and footnote disclosures required by generally accepted accounting principles. These statements should be read in conjunction with Partners HealthCare's audited consolidated financial statements for the fiscal year ended September 30, 2014.

The consolidated quarterly financial statements are unaudited. These statements include all adjustments (consisting of normal recurring accruals) considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

2. Income from investments (including realized gains and losses, change in value of equity method investments, interest, dividends and endowment income distributions) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Income from investments is reported net of investment-related expenses.

A write-down in the cost basis of investments is recorded when the decline in fair value below cost has been judged to be other-than-temporary. Depending on any donor-imposed restrictions on the underlying investments, the amount of the write-down is reported as a realized loss in either temporarily restricted net assets or in excess of revenues over expenses as a component of income from investments, with no adjustment in the cost basis for subsequent recoveries.

For the quarters ended December 31, 2014 and 2013, included in excess of revenues over expenses are realized losses of \$28,487 and \$7,893, respectively, related to other-than-temporary declines in the fair value of investments. In addition, temporarily restricted net assets were reduced by \$6,429 and \$1,770 respectively, for impairment adjustments.

Including the impairment charges noted above, for the quarters ended December 31, 2014 and 2013, included in excess of revenues over expenses are net realized gains of \$27,960 and \$56,078, respectively.

3. Changes in third party payer settlements and other estimates are recorded in the year of the change in estimate. For the quarters ended December 31, 2014 and 2013, adjustments to prior year estimates resulted in an increase in income from operations of \$12,015 and \$1,761, respectively.

Effective October 1, 2007, the Centers for Medicare and Medicaid Services (CMS) adopted the MS-DRG patient classification system (MS-DRGs) for inpatient services to better recognize severity of illness in Medicare payment rates for acute care hospitals. The adoption of MS-DRGs resulted in the expansion of the number of diagnosis related groups (DRGs), a system of classifying patients for purposes of inpatient reimbursement. By increasing the number of DRGs and more fully taking into account patients' severity of illness in Medicare payment rates for acute care hospitals, the use of MS-DRGs encourages hospitals to improve their documentation and coding of patient diagnoses. CMS has determined that the adoption of the MS-DRGs has increased aggregate payments to hospitals due to additional documentation and coding without a corresponding increase in actual patient severity of illness.

CMS is required by its enabling statute to maintain budget neutrality by prospectively adjusting the Medicare payment rate to eliminate the effect of changes in DRG classification that do not reflect real changes in case-mix. CMS requires Congressional authority, however, to recoup any overpayments made in prior years. Under the American Taxpayer Relief Act of 2012, Congress granted CMS the authority to recoup overpayments made to hospitals in 2010 through 2012 through rate reductions in 2014 through 2017.

In fiscal year 2013, Partners HealthCare recorded the estimated overpayment amounts received in 2010 through 2012 of approximately \$79,020 as deferred revenue, to be amortized into net patient service revenue in 2014 through 2017 to offset the rate reductions. For the quarters ended December 31, 2014 and 2013, amortization amounted to \$3,798 and \$1,723, respectively. Management believes this accounting treatment better reflects the financial impact of this rate methodology and more accurately presents the recognition of revenue.

Notes to Consolidated Financial Statements
(In Thousands)

4. Neighborhood Health Plan (NHP) recognizes premium deficiency reserves based upon expected premium revenue, medical expense and administrative expense levels, and remaining contractual obligations using historical experience. Anticipated investment income is not included in the determination of premium deficiency reserves as its impact is deemed to be immaterial. As of December 31, 2014 and September 30, 2014, premium deficiency reserves totaled approximately \$65,033 and \$91,555, respectively, and are included in accrued medical claims and related expenses in the accompanying consolidated balance sheets.
5. PHS has committed to maintain NHP's risk-based capital (RBC) at a minimum of 300%. RBC is the minimum level of capital deemed necessary for a managed care organization based upon the types of assets held and business written, calculated in accordance with the managed care organizations' RBC formula that was adopted by the National Association of Insurance Commissioners (NAIC). If a company's Total Adjusted Capital, as defined, falls below RBC, the Insurance Commissioner is required to take actions considered necessary to protect policyholders and creditors. To improve NHP's RBC level, PHS transferred to NHP \$86,000 and \$60,000 in June 2014 and December 2014, respectively.
6. The current portion of long-term obligations includes payments scheduled to be made over the next twelve months of \$64,736 along with variable rate bonds supported by Partners HealthCare liquidity of \$173,260. The variable rate bonds supported by self liquidity provide the bondholder with an option to tender the bonds to Partners HealthCare. Accordingly, these bonds are classified as a current liability.
7. In January 2014, PHS issued \$496,040 of Partners HealthCare System Series M Revenue Bonds, plus bond premium of \$14,337. The bond proceeds, net of issuance costs of \$4,042, were used to refund the Series D-3 Bonds (\$71,665) and the Series K-3 Bonds (\$73,815) and to finance certain capital projects (\$360,855).

In March 2014, PHS issued \$150,000 of Partners HealthCare System Taxable Senior Notes. Proceeds from the notes were used to finance certain capital projects.

In August 2014, PHS issued \$141,350 of Partners HealthCare System Series N Revenue Bonds. The bond proceeds were used to refund the Series F-4 Bonds (\$91,350) and the Series I-1 Bonds (\$50,000).

8. Partners HealthCare has a \$150,000 Credit Agreement (the Agreement) that provides access to same day funds. Advances under the Agreement bear a variable rate of interest based on the London Interbank Offered Rate (LIBOR). As of December 31, 2014, there were no amounts outstanding under the Agreement. The Agreement expires in June 2017.

PARTNERS HEALTHCARE SYSTEM, INC.: ACUTE CARE SECTOR ⁽¹⁾

UTILIZATION STATISTICS:

	First Quarter Ended December 31,	
	2014	2013
INPATIENT:		
Discharges	39,448	38,483
% Change	2.5%	
Discharge Days	208,795	203,631
% Change	2.5%	
Average Length of Stay (Days)	5.29	5.29
% Change	0.0%	
Patient Days	193,730	189,959
% Change	2.0%	
Births	4,193	4,488
% Change	-6.6%	
OUTPATIENT:		
ATO's	6,992	7,535
% Change	-7.2%	
ED Observations	2,187	2,334
% Change	-6.3%	
Day Surgery	17,265	17,282
% Change	-0.1%	
Routine Visits	312,332	291,678
% Change	7.1%	
ER Visits	88,600	85,094
% Change	4.1%	
Significant Procedures	29,453	28,627
% Change	2.9%	
Major Imaging	78,897	77,228
% Change	2.2%	
Minor Imaging	327,817	308,873
% Change	6.1%	
Treatments	143,192	135,562
% Change	5.6%	
Minor Procedures	170,806	182,137
% Change	-6.2%	
Therapies	197,417	203,233
% Change	-2.9%	
Psychiatric Services	60,569	66,882
% Change	-9.4%	
Lab Services	2,670,805	2,592,358
% Change	3.0%	
CASE MIX INDEX (CMI)⁽²⁾:		
Combined Academic (The General & BWH)	1.79	1.72
	4.1%	
Combined Community (BWFH, NSMC & NWH)	1.04	1.02
	2.0%	

⁽¹⁾ Includes data from The General, BWH, BWFH, NSMC, NWH, Cooley Dickinson, Nantucket and Martha's Vineyard

⁽²⁾ CMI based on APR-DRG version 30, NY weight

**PARTNERS HEALTHCARE SYSTEM, INC.: REHABILITATION & PSYCHIATRIC CARE SECTORS
UTILIZATION STATISTICS**

	First Quarter Ended December 31,	
	2014	2013
REHABILITATION		
Inpatient:		
Discharges	1,698	1,660
% Change	2.3%	
Discharge Days	33,792	35,624
% Change	-5.1%	
Average Length of Stay (Days)	19.90	21.46
% Change	-7.3%	
Patient Days	35,112	36,853
% Change	-4.7%	
Outpatient:		
Routine Visits	9,332	8,353
% Change	11.7%	
Home Health	237,162	225,614
% Change	5.1%	
Therapies	83,624	76,850
% Change	8.8%	

Note: Rehabilitation sector includes Spaulding Boston, Spaulding Cambridge, Spaulding North Shore, Spaulding Cape Cod and Partners HealthCare at Home

PSYCHIATRIC

Inpatient:		
Discharges	1,412	1,483
% Change	-4.8%	
Discharge Days	14,697	14,245
% Change	3.2%	
Average Length of Stay (Days)	10.41	9.61
% Change	8.3%	
Patient Days	15,006	14,543
% Change	3.2%	
Outpatient:		
Psychiatric Services	29,506	30,430
% Change	-3.0%	

**PARTNERS HEALTHCARE SYSTEM, INC.: INSURANCE SECTOR
STATISTICS**

	First Quarter Ended December 31,	
	2014	2013
Medical loss ratio ⁽¹⁾	98.2%	92.4%
% Change	5.8%	
Total members	337,552	273,429
% Change	23.5%	

⁽¹⁾ Excludes impact of premium deficiency reserve charge.

Statistic	Definition
Discharges	The total number of patients discharged from a hospital bed in a given time period
Discharge Days	The total number of days each discharged patient occupied a bed during the duration of their hospital stay
Average Length of Stay	Patient days divided by the number of patient discharges
Patient Days	Total number of days a patient occupied a hospital bed in a given time period
ATO's	Patients admitted under observation status and generally discharged within 24 hours
ED Observations	Patients admitted under observation status in the ER (at GH and BWH) and generally discharged within 24 hours
Day Surgery	Surgical procedures performed on an outpatient basis
Routine Visits	Includes office/outpatient services, office consults, confirmatory consults, preventive medicine and prolonged visit - clinic O/P
ER Visits	Emergency room visits
Significant Procedures	Includes pacemaker/defibrillators/EP, ablations, coronary stents, angioplasty, percutaneous valvuloplasty, atherectomy, cardiac cath, endovascular repair of abdominal aortic aneurysm and GI
Major Imaging	Includes MRI, CT Scan, nuclear medicine and PET Scan
Minor Imaging	Includes radiology diagnostic, ultrasound and mammography
Treatments	Includes chemotherapy, radiation therapy, non chemo infusions, dialysis and electroconvulsive therapy
Minor Procedures	Includes procedures performed in physician offices and hospital clinics
Therapies	Includes respiratory therapy, physical therapy, occupational therapy speech language pathology, cardiac rehabilitation and nutrition
Psychiatric Services	Includes partial days, ART days, individual therapy, group therapy, family therapy, child and adolescent days and other therapies
Lab Services	Lab services
Case Mix Index	The average diagnosis-related-group weight for all of a hospital's inpatient volume
Home Health	Nurse visits, aide visits, physical therapy, occupational therapy, speech-language pathology, registered dietitian, medical social work and private duty converted hours

PARTNERS HEALTHCARE
INVESTMENT LIQUIDITY⁽¹⁾
as of December 31, 2014

Funds Available (in thousands)

Investment Pool	Same Day	1 Week	1 Month	3 Months	1 Year	>1 Year	Total
Money Market	\$329,359	\$105,850	\$0	\$0	\$0	\$0	\$435,209
Aggregate Bond	530,861	683,005	0	166,120	141,291	45,955	1,567,233
Long Term	111,505	1,723,180	960,024	850,102	714,581	1,502,671	5,862,063
Total	\$971,725	\$2,512,036	\$960,024	\$1,016,222	\$855,872	\$1,548,626	\$7,864,505
Cumulative Total	\$971,725	\$3,483,761	\$4,443,785	\$5,460,007	\$6,315,879	\$7,864,505	

⁽¹⁾ Excludes ERISA.

Internally Managed Money Market Pool as of 12/31/14

Portfolio Manager **Sean Blatchley** since October 2012
 Benchmark **iMoneyNet Money Market Fund Average/All Taxable**

	Portfolio	Benchmark
Market Value (\$000)	\$ 435,231	n/a
Avg Rating	A1/P1	A1/P1
Avg Maturity (Days)	42.9	n/a
Avg Life (Days)	42.9	n/a
Avg Yield	0.05%	n/a

Net Asset Value	1.0
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Annualized Returns	Portfolio	Benchmark	Outperform. *
Month	0.00%	0.00%	+ 0.00%
Quarter	0.02%	0.00%	+ 0.02%
FYTD	0.02%	0.00%	+ 0.02%
CYTD	0.15%	0.01%	+ 0.14%
1 Year	0.15%	0.01%	+ 0.14%
2 Year	0.21%	0.01%	+ 0.20%
3 Year	0.27%	0.02%	+ 0.26%
5 Year	0.32%	0.02%	+ 0.30%
Inception (12/31/94)	3.05%	2.55%	+ 0.50%

Annualized Performance Measures since Inception (01/05)			
StdDev	0.65%	0.63%	-
Sharpe Ratio	0.52	(0.26)	+
Tracking Error	0.06%	n/a	
Info Ratio	5.36	n/a	
Monthly Alpha	0.04%	0.00%	+
Beta	1.00	1.00	+
BM Correl	1.00	1.00	

Relative Performance		# Months	Average
Up Months	Above BM	239	0.041%
	Below BM	1	
Down Months	Above BM	0	
	Below BM	0	

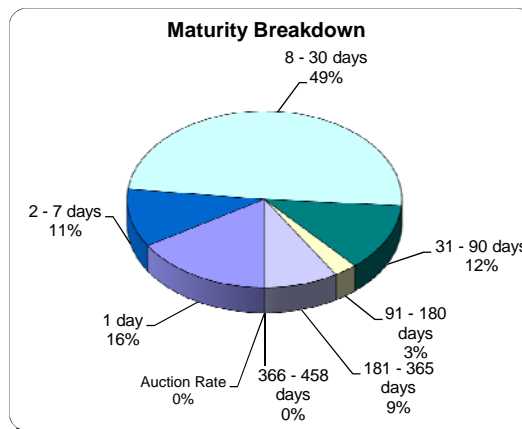
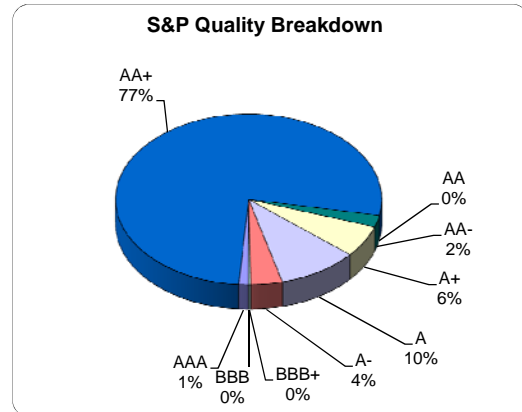
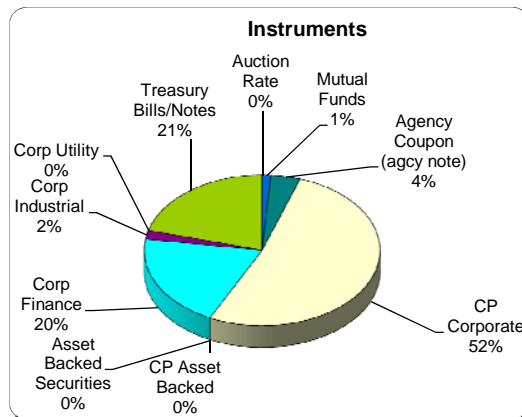
* computed outperformance may not match portfolio/benchmark returns due to rounding.

Stress Tests	P&L (\$000)	% Ret.	Result
Int. Rates Up 100bps	\$ (298)	-0.07%	Pass
Cred. Sprds up 100 bps	\$ (192)	-0.04%	Pass

The Money Market Fund outperformed the benchmark by zero basis point (bp) in December. The U.S. economy ended the year on an upbeat note as employers created the most new jobs in three years in November, and the final reading of third quarter GDP was revised sharply higher to 5%, the fastest pace of growth since 2003. Oil prices continued their free fall in December and closed around \$53/barrel at year end, down from \$69/barrel at the beginning of the month and 50% off their peak in late June. The effects of this steep and rapid decline are bound to reverberate throughout the global economy in a number of ways in 2015, including likely boosts to consumer spending on the domestic front and a negative impact on the fortunes of oil-producing countries around the world.

While most economists expect rate hikes to begin in the last half of 2015, following their final meeting of 2014, the FOMC stated that the central bank "can be patient in beginning to normalize the stance of monetary policy," but the Committee was careful to clarify that the new description is consistent with their previous statement that rates would stay between the target range of 0% to 0.25% for a "considerable time". The money market yield curve steepened over the month. Overnight LIBOR fell by 1bp, six-month LIBOR rose 3bp and one-year LIBOR rose 6bp to 0.09%, 0.36% and 0.63% respectively. The pool's average maturity excluding auction rate securities fell to 43 days from 48 days the prior month. This was driven by a continued emphasis upon short-term liquidity in the pool.

Management continues to maintain a barbelled position, with a focus on providing daily liquidity through continued investment in U.S. Treasuries, overnight and short-dated commercial paper, and money funds. The MMP balance was relatively unchanged from approximately \$430M at the beginning of November to \$435M by the end of the month. In the corporate space no names were added in the month. The need for the pool to remain highly liquid did guide management towards 13 Treasury Bill purchases in December, stemming from the heavy emphasis upon overnight and near term liquidity for the pool. This pool's focus remains to meet the PHS' self liquidity needs, as well as to meet the operational requirements of the organization. Secondly and where appropriate, management is still aiming to selectively add yield.



Congress Short Term Treasuries

as of 12/31/14

Portfolio Manager **Jeff Porter** since April 2014
 Benchmark BC US Treas 1-5 yr

	Portfolio	Benchmark	
Market Value (\$000)	\$ 299,621	n/a	
# Issues	23	154	
Avg Coupon	1.93%	1.92%	
Avg Rating	AAA	AAA/AA+	
Avg Maturity	2.77	2.78	
Avg Yield	0.96%	0.98%	
Avg Mod. Duration	2.67	2.68	0.67%
Avg. Convexity	0.10	0.10	

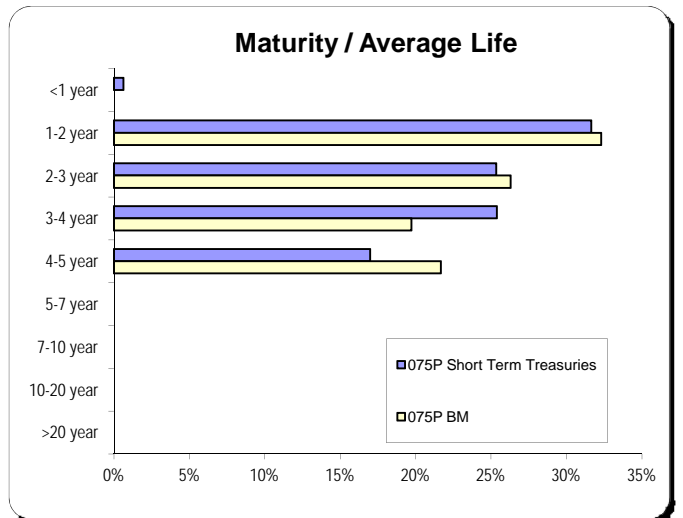
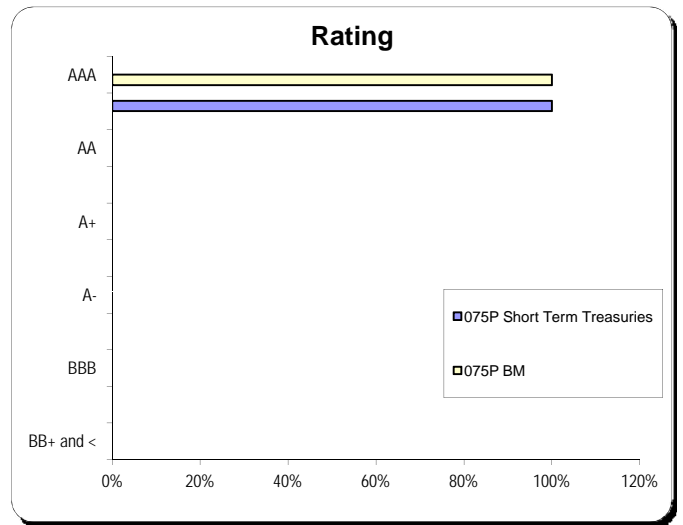
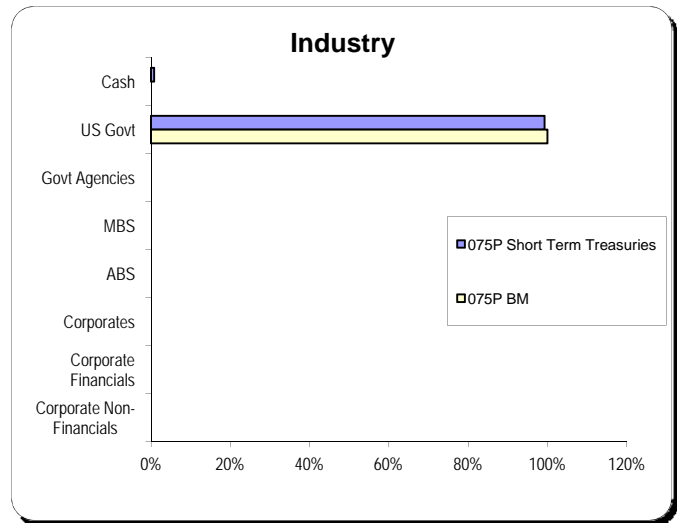
Annualized Returns	Portfolio	Benchmark	Outperform. *
Month	-0.25%	0.32%	- 0.57%
Quarter	0.56%	1.09%	- 0.53%
FYTD	0.56%	1.09%	- 0.53%
CYTD	n/a	n/a	n/a
1 Year	n/a	n/a	n/a
2 Year	n/a	n/a	n/a
3 Year	n/a	n/a	n/a
5 Year	n/a	n/a	n/a
Inception (4/1/14)	n/a	n/a	n/a

Annualized Performance Measures since Inception (4/14)			
StDev	n/a	n/a	n/a
Sharpe Ratio	n/a	n/a	n/a
Tracking Error	n/a	n/a	n/a
Info Ratio	n/a	n/a	n/a
Monthly Alpha	n/a	n/a	n/a
Beta	n/a	n/a	n/a
BM Correl	n/a	n/a	n/a

Relative Performance		# Months	Average
Up Months	Above BM	n/a	n/a
	Below BM	n/a	n/a
Down Months	Above BM	n/a	n/a
	Below BM	n/a	n/a

Stress Tests	P&L (\$000)	% Ret.
Int. Rates Up 100bps	\$ (7,942)	-2.65%
Cred. Sprds up 100 bp	\$ 2,460	0.82%

* computed outperformance may not match portfolio/benchmark returns due to rounding.



Congress Intermediate Domestic Fixed Income

as of 12/31/14

Portfolio Manager **Jeff Porter** since June 2002
 Benchmark BC Intermediate US Govt/Credit

	Portfolio	Benchmark	
Market Value (\$000)	\$ 406,840	n/a	
# Issues	51	6,024	
Avg Coupon	2.94%	2.86%	
Avg Rating	AA	AA+/AA	
Avg Maturity	4.17	4.33	
Avg Yield	1.49%	1.76%	
Avg Mod. Duration	3.73	3.93	0.93%
Avg. Convexity	0.22	0.21	

Annualized Returns	Portfolio	Benchmark	Outperform. *
Month	0.20%	0.32%	- 0.12%
Quarter	1.44%	1.53%	- 0.09%
FYTD	1.44%	1.53%	- 0.09%
CYTD	3.78%	3.77%	+ 0.01%
1 Year	3.78%	3.77%	+ 0.01%
2 Year	1.17%	1.43%	- 0.26%
3 Year	2.00%	2.24%	- 0.24%
5 Year	3.82%	3.67%	+ 0.15%
Inception (5/31/02)	5.10%	4.46%	+ 0.63%

Annualized Performance Measures since Inception (06/02)			
StDev	3.27%	3.09%	-
Sharpe Ratio	1.12	0.98	+
Tracking Error	1.11%	n/a	
Info Ratio	3.30	n/a	
Monthly Alpha	0.05%	n/a	-
Beta	0.99	1.00	+
BM Correl	0.94	1.00	

Relative Performance		# Months	Average
Up Months	Above BM	58	0.20%
	Below BM	46	-0.15%
Down Months	Above BM	25	0.25%
	Below BM	22	-0.14%

* computed outperformance may not match portfolio/benchmark returns due to rounding

Stress Tests	P&L (\$000)	% Ret.
Int. Rates Up 100bps	\$ (14,665)	-3.60%
Cred. Sprds up 100 bp	\$ (3,327)	-0.82%

