

**University Health System Pension Plan
(A Component Unit of Bexar County Hospital District
d/b/a University Health System)**

Independent Auditor's Reports and Financial Statements

December 31, 2019 and 2018

University Health System Pension Plan
(A Component Unit of University Health System)
December 31, 2019 and 2018

Contents

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Statements of Fiduciary Net Position	5
Statements of Changes in Fiduciary Net Position	6
Notes to Financial Statements	7
Required Supplementary Information	
Schedule of Changes in Net Pension Liability and Related Ratios	22
Schedule of Pension Contributions	23
Schedule of Investment Returns	24

Independent Auditor's Report

Board of Trustees
University Health System Pension Plan
San Antonio, Texas

We have audited the accompanying financial statements of the University Health System Pension Plan (the Plan), a fiduciary fund of the Bexar County Hospital District d/b/a University Health System, which comprise the statements of fiduciary net position as of December 31, 2019 and 2018, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2019 and 2018, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Dallas, Texas
May 14, 2020

University Health System Pension Plan
(A Component Unit of Bexar County Hospital District
d/b/a University Health System)

Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

This discussion and analysis of the University Health System Pension Plan (the Plan) is for the years ended December 31, 2019 and 2018. This analysis provides a summary of the financial position of the Plan, including highlights and comparisons. For more detailed information regarding the Plan's financial activities, the reader should also review the actual financial statements, including notes and supplementary schedules.

Financial Statements

The financial statements of the Plan include statements of fiduciary net position and statements of changes in fiduciary net position. The purpose of these statements is to present information about the Plan's present and future ability to pay benefits as they become due. These statements are presented using an economic resource measurement focus and the accrual basis of accounting. The financial statements also include notes that explain the history and purpose of the Plan, significant accounting policies, investment details, and other required information regarding the financial position of the Plan.

Summarized Financial Information

The following table displays the total assets, liabilities and net position of the Plan:

	2019	2018	2017	Changes 2019-2018	Changes 2018-2017
Assets	\$ 458,956,380	\$ 379,842,348	\$ 382,948,301	20.83%	-0.81%
Liabilities	291,549	367,808	248,310	-20.73%	48.12%
Net position	\$ 458,664,831	\$ 379,474,540	\$ 382,699,991	20.87%	-0.84%

The assets of the Plan consist of cash, investments and receivables. The increase in net position is primarily a result of the fair value of investments increasing due to a positive performance in the markets in 2019 as compared to 2018. Net position held in trust by the Plan totaled \$458,664,831 and \$379,474,540 at December 31, 2019 and 2018, respectively. The Plan's net position increased by \$79,190,291 in 2019 compared to a decrease by \$3,225,451 in 2018. The net position of the Plan is held exclusively for the benefit of the Plan participants, their beneficiaries, and reasonable administrative expenses for administering the Plan.

The following table displays the changes in plan net position:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>Changes 2019-2018</u>	<u>Changes 2018-2017</u>
Contributions	\$ 34,073,365	\$ 33,832,170	\$ 33,129,111	0.71%	2.12%
Net investment income (loss)	69,280,739	(15,294,470)	54,996,513	552.98%	-127.81%
Total additions	<u>103,354,104</u>	<u>18,537,700</u>	<u>88,125,624</u>	<u>457.53%</u>	<u>-78.96%</u>
Benefits paid	23,878,692	21,538,461	17,799,076	10.87%	21.01%
Administrative expenses	285,121	224,690	237,079	26.90%	-5.23%
Total deductions	<u>24,163,813</u>	<u>21,763,151</u>	<u>18,036,155</u>	<u>11.03%</u>	<u>20.66%</u>
Change in net position	<u>\$ 79,190,291</u>	<u>\$ (3,225,451)</u>	<u>\$ 70,089,469</u>	<u>2555.17%</u>	<u>-104.60%</u>

The additions to the plan are comprised of contributions and investment returns, and the primary deductions from the Plan are for benefits paid to the Plan's participants and their beneficiaries. Contributions made in 2019 totaled \$34,073,365, which was an increase of \$241,195 from the contributions made in 2018. Contributions made in 2018 totaled \$33,832,170 which was an increase of \$703,059 from the contributions made in 2017. Benefits payments made in 2019 totaled \$23,878,692, which was an increase of \$2,340,231 from the benefits payments made in 2018. Benefits payments made in 2018 totaled \$21,538,461, which was an increase of \$3,739,385 from the benefits payments made in 2017. Total investment income was \$69,280,739 in 2019, compared to a total investment loss of \$15,294,470 in 2018, which represented an increase in investment income of \$84,575,209 in 2019.

Contact Information

This financial report is designed to provide a general overview of the Plan's finances and to demonstrate the Plan's accountability and for the contributions it receives. If you have any questions about this report or need additional financial information, contact the Plan's Financial Offices at 4502 Medical Drive, San Antonio, Texas 78229.

University Health System Pension Plan
(A Component Unit of University Health System)
Statements of Fiduciary Net Position
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 1,861,554	\$ 3,105,167
Receivables		
Accrued interest	-	15,938
Employer contributions	444,176	397,318
Total receivables	<u>444,176</u>	<u>413,256</u>
Investments, at Fair Value		
Marketable securities		
Common stocks - mid capitalization	50,428,755	38,214,108
Mutual funds - common stocks - large capitalization	89,288,603	71,389,331
Mutual funds - fixed income securities	86,366,274	77,993,618
Mutual funds - international equity	57,195,871	42,007,326
Total marketable securities	<u>283,279,503</u>	<u>229,604,383</u>
Alternative investments		
Investment in Arrowstreet Capital, Ltd.	56,744,936	45,032,307
Investment in Portfolio Advisors Private Equity Fund VI, VII, VIII, and IX, L.P.	26,641,696	23,969,378
Investment in Crestline Offshore Fund, Ltd.	-	36,916
Investment in Heitman Real Estate Trust	44,472,342	39,321,332
Investment in Standard Life Investments	21,677,008	18,497,861
Investment in Newton Investment Management	23,025,165	19,861,748
Investment in Pantheon Access Luxembourg	810,000	-
Total alternative investments	<u>173,371,147</u>	<u>146,719,542</u>
Total investments	<u>456,650,650</u>	<u>376,323,925</u>
Total assets	<u>458,956,380</u>	<u>379,842,348</u>
Liabilities		
Accrued expenses	<u>291,549</u>	<u>367,808</u>
Total Net Position Restricted for Pensions	<u>\$ 458,664,831</u>	<u>\$ 379,474,540</u>

University Health System Pension Plan
(A Component Unit of University Health System)
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Additions		
Contributions		
Plan members	\$ 8,795,716	\$ 8,045,526
Employer	<u>25,277,649</u>	<u>25,786,644</u>
Total contributions	<u>34,073,365</u>	<u>33,832,170</u>
Investment Income		
Interest income	115,477	146,285
Dividend income	7,009,131	5,935,333
Net appreciation (depreciation) in fair value of investments	63,254,676	(20,317,526)
Investment expenses	<u>(1,098,545)</u>	<u>(1,058,562)</u>
Net investment income	<u>69,280,739</u>	<u>(15,294,470)</u>
Total additions	<u>103,354,104</u>	<u>18,537,700</u>
Deductions		
Benefits paid to plan members	23,878,692	21,538,461
Administrative expenses	<u>285,121</u>	<u>224,690</u>
Total deductions	<u>24,163,813</u>	<u>21,763,151</u>
Net Increase (Decrease) in Net Position	79,190,291	(3,225,451)
Net Position Restricted for Pensions, Beginning of Year	<u>379,474,540</u>	<u>382,699,991</u>
Net Position Restricted for Pensions, End of Year	<u>\$ 458,664,831</u>	<u>\$ 379,474,540</u>

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Note 1: Reporting Entity and Summary of Significant Accounting Policies

The University Health System Pension Plan (the Plan) is a single employer defined benefit pension plan which covers substantially all full-time and part-time employees of its sponsor, the University Health System (System) and provides for pension and death benefits. Participation in the Plan is a condition of employment for all eligible employees. The Plan is administered by a Board of Trustees that is comprised of seven to nine individuals. Two Trustees are appointed from System administrative staff, two Trustees are appointed from the System's Board of Managers and three to five Trustees are appointed from Bexar County residents.

Basis of Accounting

The financial statements of the Plan have been prepared in conformity with accounting principles generally accepted in the United States of America for local governmental units as prescribed by the Governmental Accounting Standards Board. The Plan's financial statements are prepared using the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and the actuarial present value of accumulated plan benefits at the date of the financial statements and changes therein. Actual results could differ from those estimates.

Federal Income Tax Status

The plan was determined to be qualified for pursuant to Section 401 of the Internal Revenue Code and is, therefore, exempt from income taxes. The Plan has obtained a favorable determination letter from the Internal Revenue Service and believes it continues to qualify and operate as designed.

Valuation of Investments and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Alternative investments are held in the form of nonmarketable limited partnerships and private equity funds. The fair valuation of these investments is based on net asset values as set by the fund managers or general partners. These values may differ from the value that would have been used had a readily available market for the investments existed, and such differences could be material.

The Plan's investment policy is reviewed by the Plan Trustees annually with any amendments requiring the approval of the System Board of Managers. The policy includes target asset allocations and benchmark criteria. There were no changes to the policy in 2019.

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Purchases and sale of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Note 2: Description of Plan

Eligibility

The System sponsors a single employer defined benefit pension plan which covers substantially all of the System's employees who work at least 20 hours per week or at least 1,000 hours annually. Employees are eligible for participation in the Plan after attaining the age of 21 and completing one year of service. Employees hired as of June 30, 2012 participate in the Defined Benefit aspect of the Plan while those hired after June 30, 2012 participate in the Cash Balance portion of the Plan.

Plan Membership

At December 31, 2019 and 2018, plan membership consisted of the following:

	<u>2019</u>	<u>2018</u>
Inactive participants		
Retirees and beneficiaries currently receiving benefits	1,193	1,117
Terminated employees with deferred benefits	<u>1,692</u>	<u>1,614</u>
Total inactive participants	<u>2,885</u>	<u>2,731</u>
Active participants		
Fully vested	3,683	3,427
Nonvested	<u>2,759</u>	<u>2,784</u>
Total active participants	<u>6,442</u>	<u>6,211</u>
Total participants	<u><u>9,327</u></u>	<u><u>8,942</u></u>

Contributions

The System has agreed (but does not guarantee) to voluntarily contribute such amounts as are necessary to maintain the Plan on a sound actuarial basis. The System has the right to discontinue such contributions and terminate the Plan at any time. However, under no condition may the System withdraw its contributions, or use them for any purpose other than the exclusive benefit of the Plan participants and their beneficiaries; and, to pay for administrative expenses.

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Participants in the Plan, hired before June 30, 2012, contribute 2% of gross pay upon achievement of eligibility and thereafter until the time of retirement or separation from employment with the System. The System makes contributions which are actuarially determined to pay the Plan's total cost (determined as a level of percentage of total participant compensation) less the projected employee contributions.

Participants in the Cash Balance portion of the Plan, which are those employees hired after June 30, 2012, contribute 3% of gross pay upon achievement of eligibility; and thereafter, until the time of retirement or separation from employment with the System. The System makes contributions to the Plan, on behalf of the employee equal to 3% of the employee's gross pay. Benefits for Cash Balance participants are based on the actuarial equivalent of 6% of the participant's compensation plus interest earned. The System began making contributions to the Cash Balance portion of the Plan effective January 1, 2014.

The System also deposits amounts to the Plan to fund a Match Savings Plan to encourage eligible employees to participate in a 457 Deferred Compensation Retirement Savings Plan (457 Plan). Under the Match Savings Plan, the System will deposit 25% of an employee's contribution to the 457 Plan, up to the lower of 4% of compensation or \$12,000. Benefits will be distributed upon retirement or separation from service after satisfying the vesting requirements.

In the event of Plan termination, the net position of the Plan is to be used to pay benefits in the following order:

- (a) to retired participants, contingent pensioners and other beneficiaries who are receiving benefits on the date of termination, and to participants who have attained normal retirement age but who have not yet retired before the date of termination;
- (b) to retired participants whose early pension or deferred vested pension payments are deferred to commence after the date of termination;
- (c) to participants who have met the eligibility requirements for early retirement for early retirement or deferred vested retirement but who have not yet retired before the date of termination;
- (d) to all other participants according to the respective actuarial values of their accrued benefits as of the date of termination.

The actuarially determined annual required contributions of the System for the year ended December 31, 2019 and 2018 were \$20,431,000 and \$21,110,000, respectively, which were paid by the end of the respective fiscal year ends. The System contributed an additional \$3,000,000 to the Plan in both years, for a total of \$23,431,000 and \$24,110,000 in employer contributions for the years ending December 31, 2019 and 2018, respectively.

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Vesting

Plan participants have a 100% vested right in the accrued benefits derived from their accumulated contributions.

With regard to participants' accrued benefits derived from employer contributions, the participants become fully vested at the completion of 5 years of vesting service.

Retirement and Death Benefits

Participants are eligible for normal retirement benefits after attaining age 65 and completing 5 years of vesting service; or, after age 55 and the number of years of service needed to equal 85 (Rule of 85). Annual normal retirement benefits (accrued benefits) are equal to 1.5% of the participant's average 5 highest years' pay in the last 10 years, times the number of years of credited service.

An early retirement provision is available to participants who attain age 55 and 5 years vesting service, but do not satisfy the Rule of 85. The early retirement benefit equals the normal retirement benefit at actual retirement reduced at the rate of 1/15th for each of the first 5 years before age 65 and 1/30th for each of the next 5 years before age 65 and the participants actual retirement age.

Pre-retirement death benefits before vesting or attainment of age 55 are equal to the amount of the participant's contributions plus 4.5% interest per annum and may be distributed in a lump sum or in installments up to 60 months.

Pre-retirement death benefits on or after eligibility for normal retirement are payable monthly to the named beneficiary and equal to 50% of the present actuarial value of the participant's accrued benefit otherwise payable on the participant's date of death.

Plan Amendments

On September 24, 2013, the Plan was amended to indicate that employees hired by the University Health System (System) after June 30, 2012; and, previously unvested rehires are eligible to participate in the contributory Cash Balance portion of the Plan.

On June 11, 2012, the Plan was amended to indicate that employees hired by the System after June 30, 2012 shall not be eligible to participate in the Plan, except for the 457 Match Savings Plan. Other employees rehired after June 30, 2012 shall be treated as subject to this amendment unless they were vested in their accrual benefits prior to the date of being rehired.

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Note 3: Investments

The Plan's assets are invested as authorized by the Plan's investment policy. The Plan utilizes investment consultants that make recommendations to the Plan as to the appropriate target portfolio (e.g. stocks, mutual funds, limited partnerships, cash, etc.) within the Plan. The majority of the Plan's assets, with the exception of alternative investments, are held by a custodian bank, Wells Fargo Bank. Cash equivalents are invested in a short term money market fund administered by the Plan's custodian bank.

The Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	<u>2019</u>	<u>2018</u>
Mutual Funds - common stocks - large capitalization	\$ 30,759,260	\$ (12,126,774)
Common stocks - mid capitalization	10,879,353	(3,263,213)
Fixed income securities	3,562,744	(2,605,926)
Arrowstreet Capital International Equity Fund	10,712,629	(7,136,585)
Portfolio Advisors Private Equity Funds	3,388,809	4,026,752
Crestline Offshore Fund, Ltd	103	17,408
Private Advisors Stable Value ERISA Fund	-	(31,870)
Heitman Real Estate Trust	(390,787)	1,485,570
Standard Life Investments	1,679,148	(1,077,576)
Newton Global Investments	2,663,417	394,688
	<u>\$ 63,254,676</u>	<u>\$ (20,317,526)</u>

The Plan may invest in equity securities. Investments in venture capital, private placements, lettered stock and real estate, except for publicly traded real estate investment trusts, are prohibited as are investments using options, futures, derivatives, short sales, margin transactions or other hedging strategies.

Foreign Currency Risk

Foreign currency risk is the risk of losses arising from foreign changes in exchange rates. The Plan's investment policy has a target allocation for foreign investments of 24% with a range of 19% to 29%. The Plan is subject to currency risk as currency exposures are unhedged. As international currencies gain or lose value in relation to the U.S. dollar, the Fund will gain or lose value. The currency risk inherent in the Fund's investments is mitigated as a result of the Fund investing only in developed markets.

The following schedule addresses foreign currency risk exposure and by specific currencies:

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Currency	2019		2018	
	Fair Value	Allocation	Fair Value	Allocation
United Arab Emirates (AED)	\$ (1,843,218)	-1.62%	\$ -	0.00%
Argentina (ARS)	4,190	0.00%	175	0.00%
Australia (AUD)	886,215	0.78%	4,455,057	5.12%
Brazil (BRL)	1,757,824	1.54%	689,779	0.79%
Canada (CAD)	4,262,560	3.74%	3,152,440	3.62%
Switzerland (CHF)	7,045,500	6.18%	5,333,181	6.13%
Chile (CLP)	(991,888)	-0.87%	61	0.00%
China offshore (CNH)	2,000,204	1.76%	-	0.00%
China (CNY)	3,668,979	3.22%	3,391,125	3.90%
Columbia (COP)	128,291	0.11%	-	0.00%
Czech Republic (CZK)	(712,161)	-0.63%	5,275	0.01%
Denmark (DKK)	(1,847,824)	-1.62%	763,890	0.88%
Egypt (EGP)	(114,173)	-0.10%	-	0.00%
Euro (EUR)	24,303,071	21.33%	23,004,700	26.43%
United Kingdom (GBP)	9,398,716	8.25%	6,453,592	7.41%
Hong Kong (HKD)	4,027,906	3.54%	(91,210)	-0.10%
Croatia (HRK)	(13,421)	-0.01%	-	0.00%
Hungary (HUF)	(202,603)	-0.18%	7,654	0.01%
Indonesia (IDR)	1,310,945	1.15%	19,292	0.02%
Israel (ILS)	(238,253)	-0.21%	260,112	0.30%
India (INR)	2,485,748	2.18%	-	0.00%
Japan (JPY)	19,374,814	17.00%	15,205,961	17.47%
Korea (KRW)	1,842,792	1.62%	2,419,471	2.78%
Mexico (MXN)	37,523	0.03%	271,884	0.31%
Norway (NOK)	781,166	0.69%	896,973	1.03%
New Zealand (NZD)	1,332,944	1.17%	793,165	0.91%
Philippines (PHP)	331,107	0.29%	-	0.00%
Poland (PLN)	(204,206)	-0.18%	87,896	0.10%
Qatar (QAR)	(222,901)	-0.20%	-	0.00%
Romania (RON)	343,206	0.30%	-	0.00%
Russia (RUB)	(1,095,145)	-0.96%	809,813	0.93%
Saudi Arabia (SAR)	(962,893)	-0.85%	283,706	0.33%
Sweden (SEK)	3,467,383	3.04%	2,224,538	2.56%
Singapore (SGD)	(1,157,588)	-1.02%	1,957,012	2.25%
Thailand (THB)	66,708	0.06%	179,966	0.21%
Turkey (TRY)	181,568	0.16%	149,979	0.17%
Taiwan (TWD)	(350,872)	-0.31%	901,082	1.04%
United States (USD)	34,691,604	30.45%	11,583,841	13.31%
South Africa (ZAR)	166,989	0.15%	1,829,223	2.10%
	<u>\$ 113,940,807</u>	<u>100%</u>	<u>\$ 87,039,633</u>	<u>100%</u>

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Plan invests in high-quality, short-term money market instruments. These investments may have fixed, floating, or variable rates of interest. The security selection is based on several factors, including credit quality, yield and maturity, while taking into account the fund's overall level of liquidity and weighted average maturity.

The Plan's investment in Wells Fargo Advantage Treasury Plus Money Market Fund is \$1,861,554, and \$3,105,167, at December 31, 2019 and 2018, respectively.

The Plan's fixed income mutual bond funds are also subject to interest rate risk. As indicated in the Plan's investment policy, investments in fixed income securities should range between 20% - 30% of the total investments. This target range helps limit its exposure to fair value losses arising from rising interest rates. The Plan invests in two fixed income mutual funds, Dodge Cox Income Fund and Loomis Core Plus, with values of \$43,308,242 and \$43,058,032, respectively, at December 31, 2019 and values of \$38,989,256 and \$39,004,362, respectively, as of December 31, 2018.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to an investment transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2019 and 2018, the Plan's money market funds in the amount of \$1,861,554 and \$3,105,167, respectively, are held by Wells Fargo. Wells Fargo acts as the disbursing agent for benefits to participants and to pay expenses approved by an authorized officer member of the Board of Trustees.

Concentration Risk

Concentration risk is the exposure to loss that can result from failing to diversify investments. Accordingly, a government should disclose investments that represent 5% or more of its total investments that are invested in a single issuer. Concentration risk does not arise in connection with U.S. government obligations and obligations explicitly guaranteed by the U.S. government; mutual funds; and, similar pooled investments which are designed, in part, to provide diversification.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Investments by fair value level				
Common stocks	\$ 50,428,755	\$ 50,428,755	\$ -	\$ -
Money market mutual fund	1,861,554	1,861,554	-	-
Mutual Funds - common stocks	146,484,474	146,484,474	-	-
Mutual Funds - fixed income securities	86,366,274	86,366,274	-	-
Total investments by fair value level	285,141,057	\$ 285,141,057	\$ -	\$ -
Investments Measured at NAV				
Arrowstreet Capital International Equity	56,744,936			
Portfolio Advisors Private Equity	26,641,696			
Heitman Real Estate Trust	44,472,342			
Standard Life Investments	21,677,008			
Newton Global Investments	23,025,165			
Pantheon Access Luxembourg	810,000			
Total investments measured at NAV	173,371,147			
Total investments	\$ 458,512,204			

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Investments by fair value level				
Common stocks	\$ 38,214,108	\$ 38,214,108	\$ -	\$ -
Money market mutual fund	3,105,167	3,105,167	-	-
Mutual Funds - common stocks	113,396,657	113,396,657	-	-
Mutual Funds - fixed income securities	<u>77,993,618</u>	<u>77,993,618</u>	-	-
Total investments by fair value level	<u>232,709,550</u>	<u>\$ 232,709,550</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at NAV				
Pooled international equity funds	45,032,307			
Portfolio Advisors Private Equity	23,969,378			
Crestline Offshore Hedge Fund	36,916			
Heitman Real Estate Trust	39,321,332			
Standard Life Investments	18,497,861			
Newton Global Investments	<u>19,861,748</u>			
Total investments measured at NAV	<u>146,719,542</u>			
Total investments	<u>\$ 379,429,092</u>			

The valuation method for investments measured at the NAV per share (or its equivalent) is presented in the following tables:

December 31, 2019				
Investments Measured At NAV	Asset value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Arrowstreet International Equity	\$ 56,744,936	N/A	Monthly	30 days
Portfolio Advisors Private Equity	26,641,696	17,292,928	N/A	N/A
Heitman Real Estate Trust	44,472,342	N/A	Quarterly	90 days
Standard Life Investments	21,677,008	N/A	Monthly	N/A
Newton Global Investments	23,025,165	N/A	Daily	3 days
Pantheon Access Luxembourg	<u>810,000</u>	9,190,000	N/A	N/A
	<u>\$ 173,371,147</u>			

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

December 31, 2018					
Investments Measured At NAV	Asset value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	
Arrowstreet International Equity	\$ 45,032,307	N/A	Monthly	30 days	
Portfolio Advisors Private Equity	23,969,378	20,360,143	N/A	N/A	
Crestline Offshore Hedge Fund	36,916	N/A	Monthly	95 days	
Heitman Real Estate Trust	39,321,332	N/A	Quarterly	90 days	
Standard Life Investments	18,497,861	N/A	Monthly	N/A	
Newton Global Investments	19,861,748	N/A	Daily	3 days	
	\$ 146,719,542				

Arrowstreet International Equity Fund invests in risk-controlled core portfolio of international equities similar to the MSCI ACWIxUS index. The fair values of the investments in this asset have been determined using the NAV per share (or its equivalents) based on the market value of securities held.

Portfolio Advisors Private Equity Funds VI, VII, VIII, and IX and the Pantheon Access Luxembourg fund are private equity investments. These investments cannot be withdrawn or transferred without the consent of the General Partner. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of each fund. The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. Investments in the limited partnerships are valued at their net asset value as reported by their underlying investment manager.

Heitman Real Estate Trust is a perpetual life, open-ended comingled fund for the objective and purpose of creating a high quality, low risk, diversified portfolio of stabilized, income-producing real estate investments. Fair value of this asset is using the NAV per share (or its equivalent) based on an annual appraisal performed by an independent appraisal management firm.

Standard Life Investments Global Absolute Return Strategies Offshore Feeder Fund Ltd. invests in the Master Fund with the objective to deliver positive absolute returns by investing in a combination of traditional assets and investment strategies based on advance derivative techniques using a combination of traditional assets including equities, bonds, and a diversified portfolio limited to permitted derivative contracts including but not limited to futures, options, swaps, forward currency contracts and other derivatives. The fund is valued by the manager at the end of each month.

Newton Global Real Return Fund invests primarily in a diversified group of equities, bonds, cash, as well as other assets held via tradeable securities, including real estate, commodities, currencies, and alternative strategies.

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Note 4: Capital Commitments

The Plan has a commitment to invest capital in two investment companies under investment capital agreements. These commitments are subject to periodic calls from the investment companies. Following are the changes in capital commitments:

	<u>2019</u>	<u>2018</u>
Commitment balance - beginning of year	\$ 30,360,143	\$ 13,948,188
Add: amount committed during year	-	20,000,000
Less: amount called during year	<u>(3,877,215)</u>	<u>(3,588,045)</u>
Commitment balance - end of year	<u>\$ 26,482,928</u>	<u>\$ 30,360,143</u>

At December 31, 2018, \$10,000,000 was committed to Pantheon Access for a new investment that was subsequently funded in 2019.

Note 5: Net Pension Liability

The components of the net pension liability for the System at December 31, 2019, were as follows:

Total pension liability	<u>\$ 583,568,977</u>
Plan fiduciary net position	<u>436,563,397</u>
Net pension liability	<u>\$ 147,005,580</u>
Plan fiduciary net position as a percentage of total pension liability	<u>74.8%</u>

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Actuarial Assumptions

The total pension liability as of December 31, 2019, was determined based on January data using the following actuarial assumptions:

Actuarial cost	Entry age normal cost
Amortization	Closed
Remaining	26 years
Asset valuation	5-year smoothed market
Inflation:	3.5%
Salary increases:	5.5% (based on service, includes wage inflation at 3.5%)
Investment rate of return:	7.0%, net of pension plan investment expense, including inflation
Retirement age:	Based on age, ranging from age 55 to age 70, with 100% retirement at age 70. Higher rates apply when eligible for Rule of 85 prior to age 65.

Healthy mortality rates were based on the sex-distinct PubG-2010, projected with Generational Mortality (Scale MP-2018), with separate tables for males and females.

The Plan generally performs an experience study every three to five years. The assumptions used to generate the numbers in these statements were based on an experience study performed in 2019.

The long-term expected rate of return on pension fund investments was determined using a building-block method in which best-estimate ranges of future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimate of geometric rates of return for each major asset class included in the pension fund's target asset allocation as of December 31, 2019 are summarized in the following table:

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Equity	29.0%	4.6%
International Equity	24.0%	4.5%
Fixed Income	20.0%	0.8%
Real Estate	10.0%	3.5%
Private Equity	7.0%	5.1%
Absolute Return/Hedge Fund	10.0%	2.8%

Discount Rate

The blended discount rate used to measure the total pension liability is 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the System will be made at the current contribution rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension fund investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System's calculation using the discount rate of 7.0%, as well as what the System's net pension liability would be if it were calculated using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
System's net pension liability	<u>\$ 225,220,149</u>	<u>\$ 147,005,580</u>	<u>\$ 81,875,654</u>

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Pension Plan Financial Statements

The following tables include financial information for the pension and match savings account plans as of December 31, 2019 and 2018:

	2019			2018		
	Pension	Match Savings	Total	Pension	Match Savings	Total
Assets						
Cash and Cash Equivalents	\$ 1,771,852	\$ 89,702	\$ 1,861,554	\$ 2,952,331	\$ 152,836	\$ 3,105,167
Receivables						
Accrued interest	-	-	-	15,154	784	15,938
Employer contributions	422,773	21,403	444,176	377,762	19,556	397,318
Total receivables	422,773	21,403	444,176	392,916	20,340	413,256
Investments, at Fair Value						
Marketable securities						
Common stocks - mid capitalization	47,998,772	2,429,983	50,428,755	36,333,212	1,880,896	38,214,108
Mutual funds - common stocks - large capitalization	84,986,101	4,302,502	89,288,603	67,875,552	3,513,779	71,389,331
Mutual funds - fixed income securities	82,204,589	4,161,685	86,366,274	74,154,776	3,838,842	77,993,618
Mutual funds - international equity	54,439,805	2,756,066	57,195,871	39,939,728	2,067,598	42,007,326
Total marketable securities	269,629,267	13,650,236	283,279,503	218,303,268	11,301,115	229,604,383
Alternative investments						
Investment in Arrowstreet Capital, Ltd.	54,010,598	2,734,338	56,744,936	42,815,819	2,216,488	45,032,307
Investment in Portfolio Advisors Private Equity Fund VI, VII, VIII, and IX, L.P.	25,357,927	1,283,769	26,641,696	22,789,607	1,179,771	23,969,378
Investment in Crestline Offshore Fund, Ltd.	-	-	-	35,099	1,817	36,916
Investment in Heitman Real Estate Trust	42,329,377	2,142,965	44,472,342	37,385,938	1,935,394	39,321,332
Investment in Standard Life Investments	20,632,470	1,044,538	21,677,008	17,587,397	910,464	18,497,861
Investment in Newton Investment Management	21,915,664	1,109,501	23,025,165	18,884,154	977,594	19,861,748
Investment in Pantheon Access Luxembourg	770,969	39,031	810,000	-	-	-
Total alternative investments	165,017,005	8,354,142	173,371,147	139,498,014	7,221,528	146,719,542
Total investments	434,646,272	22,004,378	456,650,650	357,801,282	18,522,643	376,323,925
Total assets	436,840,897	22,115,483	458,956,380	361,146,529	18,695,819	379,842,348
Liabilities						
Accrued expenses	277,500	14,049	291,549	349,705	18,103	367,808
Total Net Position Restricted for Pensions	<u>\$ 436,563,397</u>	<u>\$ 22,101,434</u>	<u>\$ 458,664,831</u>	<u>\$ 360,796,824</u>	<u>\$ 18,677,716</u>	<u>\$ 379,474,540</u>

University Health System Pension Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

	2019			2018		
	Pension	Match Savings	Total	Pension	Match Savings	Total
Additions						
Contributions						
Plan members	\$ 8,795,716	\$ -	\$ 8,795,716	\$ 8,045,526	\$ -	\$ 8,045,526
Employer	23,431,000	1,846,649	25,277,649	24,110,000	1,676,644	25,786,644
Total contributions	32,226,716	1,846,649	34,073,365	32,155,526	1,676,644	33,832,170
Investment Income						
Interest income	109,913	5,564	115,477	139,085	7,200	146,285
Dividend income	6,671,386	337,745	7,009,131	5,643,196	292,137	5,935,333
Net appreciation (depreciation) in fair value of investments	60,492,757	2,761,919	63,254,676	(19,402,275)	(915,251)	(20,317,526)
Investment expenses	(1,045,610)	(52,935)	(1,098,545)	(1,006,460)	(52,102)	(1,058,562)
Net investment income	66,228,446	3,052,293	69,280,739	(14,626,454)	(668,016)	(15,294,470)
Total additions	98,455,162	4,898,942	103,354,104	17,529,072	1,008,628	18,537,700
Deductions						
Benefits paid to plan members	22,403,468	1,475,224	23,878,692	20,011,038	1,527,423	21,538,461
Administrative expenses	285,121	-	285,121	224,690	-	224,690
Total deductions	22,688,589	1,475,224	24,163,813	20,235,728	1,527,423	21,763,151
Net Increase (Decrease) in Net Position	75,766,573	3,423,718	79,190,291	(2,706,656)	(518,795)	(3,225,451)
Net Position Restricted for Pensions, Beginning of Year	360,796,824	18,677,716	379,474,540	363,503,480	19,196,511	382,699,991
Net Position Restricted for Pensions, End of Year	\$ 436,563,397	\$ 22,101,434	\$ 458,664,831	\$ 360,796,824	\$ 18,677,716	\$ 379,474,540

Note 7: Subsequent Events

There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline which has resulted in a substantial decline in the value of the Plan's investment portfolio subsequent to year end.

Required Supplementary Information

University Health System Pension Plan
(A Component Unit of University Health System)
Schedule of Changes in Net Pension Liability and Related Ratios

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 21,644,692	\$ 20,698,260	\$ 19,603,948	\$ 19,175,228	\$ 17,036,363	\$ 16,627,359
Interest	37,599,681	35,195,065	33,127,594	29,286,293	28,861,682	26,614,953
Effect of economic/demographic gains or losses	(659,022)	(1,304,127)	(6,090,546)	(4,243,338)	748,736	-
Changes of assumptions	20,879,114	-	-	26,890,274	-	-
Benefit payments, including refunds of employee contributions	(22,399,355)	(20,009,001)	(16,451,193)	(16,864,728)	(13,638,851)	(13,749,013)
Net Change in Total Pension Liability	<u>57,065,110</u>	<u>34,580,197</u>	<u>30,189,803</u>	<u>54,243,729</u>	<u>33,007,930</u>	<u>29,493,299</u>
Total Pension Liability - Beginning	<u>526,503,867</u>	<u>491,923,670</u>	<u>461,733,867</u>	<u>407,490,138</u>	<u>374,482,208</u>	<u>344,988,909</u>
Total Pension Liability - Ending (a)	<u>\$ 583,568,977</u>	<u>\$ 526,503,867</u>	<u>\$ 491,923,670</u>	<u>\$ 461,733,867</u>	<u>\$ 407,490,138</u>	<u>\$ 374,482,208</u>
Plan Fiduciary Net Position						
Contributions - employer	\$ 23,431,000	\$ 24,110,000	\$ 24,296,000	\$ 17,891,000	\$ 16,903,000	\$ 16,297,000
Contributions - employee	8,795,716	8,045,526	7,325,068	6,588,545	6,723,876	5,742,038
Net investment income	65,939,213	(15,129,290)	53,558,684	19,943,600	1,370,527	12,564,297
Benefit payments, including refunds of employee contributions	(22,399,355)	(20,009,001)	(16,451,193)	(16,864,728)	(13,638,851)	(13,749,013)
Net Change in Plan Fiduciary Net Position	<u>75,766,574</u>	<u>(2,982,765)</u>	<u>68,728,559</u>	<u>27,558,417</u>	<u>11,358,552</u>	<u>20,854,322</u>
Plan Fiduciary Net Position - Beginning	<u>360,796,823</u>	<u>363,779,588</u>	<u>295,051,029</u>	<u>267,492,612</u>	<u>256,134,060</u>	<u>235,279,738</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 436,563,397</u>	<u>\$ 360,796,823</u>	<u>\$ 363,779,588</u>	<u>\$ 295,051,029</u>	<u>\$ 267,492,612</u>	<u>\$ 256,134,060</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 147,005,580</u>	<u>\$ 165,707,044</u>	<u>\$ 128,144,082</u>	<u>\$ 166,682,838</u>	<u>\$ 139,997,526</u>	<u>\$ 118,348,148</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.8%	68.5%	74.0%	63.9%	65.6%	68.4%
Covered Payroll	\$ 380,744,589	\$ 354,486,512	\$ 331,014,376	\$ 307,617,260	\$ 280,165,000	\$ 254,100,410
Plan's Net Pension Liability as a Percentage of Covered Payroll	38.6%	46.7%	38.7%	54.2%	50.0%	46.6%

Note: This schedule is presented to illustrate the requirement to show 10 years of information. However, until a full 10-year trend is compiled, years for which the information is available will be presented.

University Health System Pension Plan
(A Component Unit of University Health System)
Schedule of Pension Contributions

Date	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
January 1, 2019	\$ 20,431,000	\$ 23,431,000	\$ (3,000,000)	\$ 380,744,589	6.2%
January 1, 2018	\$ 21,110,000	\$ 24,110,000	\$ (3,000,000)	\$ 354,486,512	6.8%
January 1, 2017	\$ 21,296,000	\$ 24,296,000	\$ (3,000,000)	\$ 331,014,376	7.3%
January 1, 2016	\$ 17,891,000	\$ 17,891,000	\$ -	\$ 307,617,260	5.8%
January 1, 2015	\$ 17,697,000	\$ 16,903,000	\$ 794,000	\$ 280,165,100	6.0%
January 1, 2014	\$ 16,297,000	\$ 16,826,504	\$ (529,504)	\$ 254,100,410	6.6%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal cost
Amortization method:	Closed
Remaining amortization period:	26
Asset valuation method:	5-year smoothed market
Inflation:	3.5%
Salary increases:	5.5% (based on service, includes wage inflation at 3.5%)
Investment rate of return:	7.0%, net of pension plan investment expense, including inflation
Retirement age:	Based on age, ranging from age 55 to age 70, with 100% retirement at age 70. Higher rates apply when eligible for Rule of 85 prior to age 65.
Mortality - Active Lives:	PubG-2010 Sex Distinct Employee; projected with Generational Mortality (Scale MP-2018)
Mortality - Retired Lives:	PubG-2010 Sex Distinct Employee; projected with Generational Mortality (Scale MP-2018)
Other information:	Plan is frozen to new participants effective June 30, 2012

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Plan will present information for those years for which information is available.

University Health System Pension Plan

(A Component Unit of University Health System)

Schedule of Investment Returns

	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	15.7%	-5.60%	16.90%	6.36%	-2.86%	17.22%

Note: This schedule is presented to illustrate the requirement to show 10 years of information. However, until a full 10-year trend is compiled, years for which the information is available will be presented.