

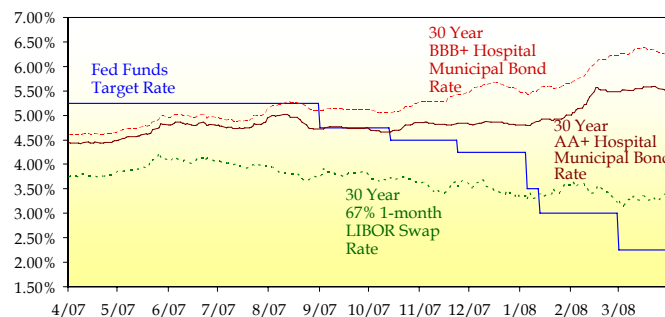
## Give Me Shelter

Much has been written about the funding crisis in the health care sector of the U.S. Economy. The impact of the abuses in the mortgage markets led to a general deterioration in the strength of financial institutions leading to a downgrading of most mono-line bond insurers and ultimately the collapse of the \$330 billion auction rate market. Relocating \$330 billion in capital is not an easy task, and most entities are paying dearly to do so in an unstable and liquidity-deprived market.

Most of the entities utilizing the auction rate market were strong credits and will ultimately find sufficient funding. However, there are two significant consequences shown in Exhibit I. First, as the stronger credits absorb the available credit capacity, weaker credits will have a harder time attracting reasonably priced capital as evidenced by the widening long-term interest rate spread between BBB and AA credits. Second, the predominant funding structure for many in the auction rate market involved underlying variable rate debt hedged with a percentage of LIBOR fixed pay swap. As these entities convert into significantly more expensive fixed rate bonds they are also paying dearly to terminate the LIBOR based swaps in a market where interest rates have decreased. The net affect is a 50% to 100% increase in funding cost for many of these issuers. There are strategies for mitigating these costs and I would direct you to Cain Brothers House Call archives for a detailed discussion.

([http://www.cainbrothers.com/research\\_preview/house\\_calls\\_pvw.cfm](http://www.cainbrothers.com/research_preview/house_calls_pvw.cfm) for details)

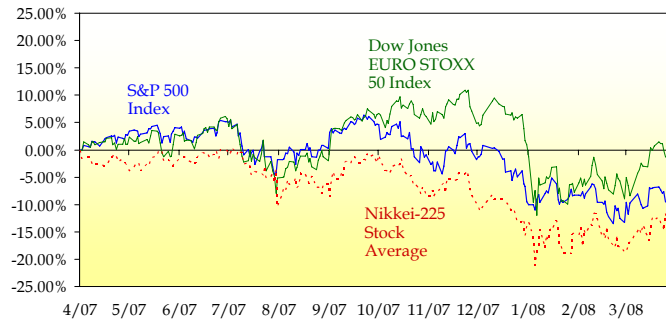
Exhibit I



While most health care financial executives are spending 110% of their time refinancing their debt, their investment portfolios have performed equally as poorly but received very little attention. The impact has generally been felt in two areas: 1) investment vehicles or funds with exposure to mortgage backed securities and 2) investments in equity markets that are reeling from the distress in the financial sector and only now beginning to reveal the impact a recession in the U.S. Exhibit II shows the relative performance of the major

equity indices of the developed world. The indices for the developing world look even worse. The double impact of increased funding costs and poor investment performance due to passive management strategies could lead to significant credit deterioration in the health care industry.

## Exhibit II



Cain Brothers is an advocate of active investment management that seeks to make our clients' money work for them. We believe an absolute return strategy focused on capital preservation while maximizing returns is the most appropriate and conservative approach for many of our health care clients. Utilizing investment strategies with asymmetric returns, we can structure portfolios with minimum return levels defined for a specified investment period.

Please contact Amy Hayman at 312.604.0578 or [ahayman@cainbrothers.com](mailto:ahayman@cainbrothers.com) if you would like to receive additional information on our investment approach.

--Amy A. Hayman, Managing Director, Cain Brothers  
312.604.0578, [ahayman@cainbrothers.com](mailto:ahayman@cainbrothers.com)