Hi-line Capital Management

A Registered Investment Advisor

We are the Chief Investment Office for Hospitals and Foundations, Focused on Protecting and Growing Financial Assets for Future Generations

Investing Flash Report for Hospitals

Real Data, Real Analysis, Real Results.

As of June 30, 2026

TABLE OF CONTENTS

About the Report

The <u>Investing</u> Flash Report for Hospitals uses data from the Federal Reserve, Bloomberg, ICE, and certain custodial data. The report is intended share information about markets, interest rates, performance and strategies for managing the balance sheet of hospitals, nursing home and other healthcare providers.

Inflation is like a tapeworm which contributes to financial repression. In order to grow purchasing power and financial strength, one must earn returns on average over time well above the rate of inflation. Inflation is often measured by CPI or PCE – but both estimates underrepresent the true inflation experienced by healthcare providers. Therefore, HLCM created the *<u>Hospital Inflation Indicator</u>*.

The *<u>Hospital Inflation Indicator</u>* utilizes other inflation indicators more representative of the costs pressures facing healthcare providers like the employment cost index, the producer price index and construction index. Each index is weighted according to the average proportion representing total expenditures. The result is an inflation indicator for healthcare providers that is more realistic and often <u>higher</u> than the traditional measure of inflation. Knowing the rate of inflation is key to determine what the return baseline needs to be in maintain financial strength. If you earn a return above inflation, the financial strength will improve. If you earn less than inflation over time, the financial strength will be compromised.

Market commentary is also provided to give context from a macro perspective the results of various economic or market indicators. No investment decisions should ever be made based on market commentary or observations, but the information is shared, nonetheless.

The "Pool" concept is used to identify common time horizons, risks to manage, and investment objectives. Each pool has natural assets that best accomplish the objectives. A one-page summary of potential strategies and commentary is shared for each pool. What is not included is the recommendations of which strategies and in what proportion make sense given the current valuation along with risk management considerations.

Hi-Line Capital Management is a firm specializing in rural healthcare investing which we refer to as "Business #2". It is our job to assess, analyze, complete due diligence, stress test, teach and prepare all things with the various constituents and decision makers involved. We have proven the ability to provide effective executive level leadership to the investment department for rural healthcare while only needing 1-2 hours per month of the CEO, CFO and Board's time. And time is money.

HOSPITAL INFLATION INDICATOR @ 3.8%

Inflation represents the loss of purchasing power. The Consumer Price Index (CPI) is often the primary index used to describe the impact of declining purchasing power. But the true inflation depends in the end user, and Hospitals have a far different composition of spending needs than what's reflected in CPI.

The current estimate for the *Hospital Inflation Indicator* is 3.8% based on the uptick in the CPI data reported for period ending May 2026. This is unchanged from the calculation of Dec 2025 data. The Iran conflict and persistent wage inflation may result in continuing persistent or elevated results.

Most bank deposits are often under the Fed Funds Rates which is between 3.50% – 3.75%. The risk of underearning inflation is increasing with short-term financial assets.

The only way to improve financial strength and purchasing power is to consistently earn returns well more than the actual inflation experienced.

☆ Consumer Price Index for All Urban Consumers: All Items in U.S. City Average (CPIAUCSL)

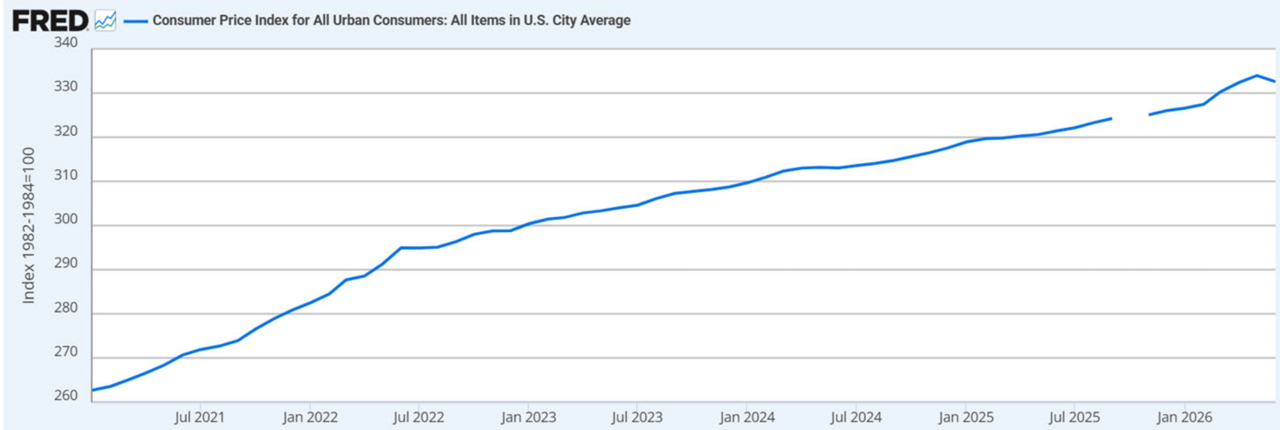
Observations
Jun 2026: **332.568**
Updated: Jul 14, 2026 8:10 AM CDT
Next Release Date: Aug 12, 2026

Units:
Index 1982-1984=100,
Seasonally Adjusted

Frequency:
Monthly

1Y | 5Y | 10Y | Max
2021-01-01 to 2026-06-01

Edit Graph
Download



Source: U.S. Bureau of Labor Statistics via FRED®
Shaded areas indicate U.S. recessions.
fred.stlouisfed.org
Fullscreen

CPI Year over Year	Weighting	45%	35%	10%	10%	
Date		**Employment Cost Index for Healthcare**	**Producer Price Index for Health**	**New Building Construction Index**	**CPI - General**	**Hospital Inflation Indicator**
January 1, 2021		2.2%	3.7%	1.7%	1.4%	**2.6%**
January 1, 2022		5.1%	3.7%	17.3%	7.6%	**6.1%**
January 1, 2023		5.3%	3.6%	17.8%	6.3%	**6.1%**
January 1, 2024		4.5%	5.1%	-0.5%	3.1%	**4.1%**
January 1, 2025		4.4%	2.6%	-0.2%	3.0%	**3.2%**
January 1, 2026		4.0%	3.8%	4.2%	2.4%	**3.8%**
June 1, 2026		3.8%	3.8%	3.6%	3.5%	***3.8%***
Last 12 Months		**3.8%**	**3.8%**	**3.6%**	**3.5%**	***3.8%***
Last 3 Years		**4.1%**	**3.7%**	**1.7%**	**3.0%**	***3.6%***
Last 5 Years		**4.6%**	**3.7%**	**6.7%**	**4.1%**	***4.5%***

Market Commentary

Quarter In Review

Summary of the Economy: No material changes from Q1 2026 observations. The U.S. economy remains resilient with consumers still earning and spending at acceptable rates, and business activity remains healthy. Several tailwinds are supporting this environment, including fiscal stimulus, the deregulation benefits, AI-driven capital investment and the Fed's asset purchases. At the same time, there remains complex risks that include; geopolitical tensions and wars, energy price volatility, trade uncertainty, large global fiscal deficits and extremely high asset prices in tech hardware. No one is able to predict how these risks and uncertainties will ultimately play out but one needs to be prepared for challenges.

Fiscal and Monetary Policy: Kevin Warsh started term as Chair of Federal Reserve. The result of his first Fed meeting was to keep fed funds rate at the benchmark rate to 3.50-3.75%, but Warsh emphasized "price stability" which is likely a signal of higher rates soon. Fiscal policy remains accommodative as well given total spend is 23% of GDP (vs 50-year average of 19%) and interest expense nearing 25% of total federal spending. The debt problem is growing in concern.

And the 2-Year Treasury Increased 0.5% in Q2 2026. Jeffrey Gundlach, the CIO of DoubleLine Capital, is adamant the best way to judge Fed policy is to simply observe the change of the 2-year treasury. The market is nimbler and incorporates data real time while the Fed Reserve is a natural laggard since it is data dependent on the past. Warsh may be different, but the strong economic results and increased inflation clearly suggest the next move will be higher.

Financial Markets: In the bond market, corporate bond spreads continued to tighten which is a sign of froth. In the stock market, certain pockets went crazy. For example, the technology sector of the Russell 1000 value index increased by 80% in the quarter! It largely has highly cyclical hardware tech-based companies, but given AI hype and increased leveraged ETFs, prices went vertical.

As of June 30, 2026

Index Returns	Qtr	1 Yr
Bonds/Currency		
1-3 Yr Treasury	0.4%	2.9%
1-3 Yr Corporate	0.9%	3.9%
Barclays Agg Index	0.7%	3.8%
1-3 Yr High Yield	2.5%	5.9%
Dollar Index	0.6%	2.7%
Real Assets		
REIT Index - Dow	10.7%	15.5%
Commodity Index	-8.9%	20.7%
Precious Metals	-15.7%	29.1%
Equity Assets		
S&P 500 – CAP Wgt	15.2%	22.3%
S&P 500 – Equal Wgt	11.4%	19.2%
S&P 400	14.5%	25.9%
S&P 600	19.7%	37.6%
Russell 1000 – Value	13.9%	27.1%
Russell 1000 – Growth	16.7%	17.7%
Int'l Developed	11.1%	20.9%
Int'l Emerging	24.1%	44.2%

Economic Data – As of June 30th

Noteworthy Statistics	2021	2022	2023	2024	2025	2026 / Trend
CPI – Year over Year	7.0%	6.5%	3.1%	2.7%	2.7%	3.4% / Up
GDP – Year over Year	6.2%	2.5%	2.9%	2.8%	2.1%	2.1% / Down
Unemployment %	5.4%	3.6%	3.6%	4.0%	4.3%	4.3% / Down
Fed Funds Rate - Upper	0.25%	4.75%	5.50%	4.50%	3.75%	3.75% / Up
2-Year Treasury Yield	0.73%	4.43%	4.25%	4.24%	3.48%	3.85% / Up
2-Year Corporate Bond Spread	0.42%	0.80%	0.82%	0.55%	0.52%	n/a
Euro to USD Exchange Rate	1.14	1.07	1.10	1.04	1.17	1.17 / Down
Gov't Budget Deficit - % GDP	-10%	-5%	-6%	-7%	-5.4%	-6.3% / Up
Total Gov't Debt as % of GDP	97%	96%	97%	99%	102%	102% / Flat
S&P 500 – Earnings Growth *(via EEO)*	n/a	6%	0%	6%	12%	+21% / Up
S&P 500 EW – Earnings Growth	n/a	8%	-8%	-2%	9%	15% / Up
S&P 500 – Returns	29%	-18%	26%	25%	18%	
S&P 500 EW – Returns	30%	-11%	14%	13%	11%	
S&P 500 – CAPE Ratio	40x	31x	35x	41x	43x	
S&P 500 EW – CAPE Ratio	31x	25x	26x	27x	27x	

Summary: Economic expectations for 2026 remain favorable but concerns about abrupt changes in inflation and liquidity remain more elevated after beginning of Iran conflict. But volatility creates potential opportunities.

HI-LINE CAPITAL MANAGEMENT

Denotes projected figures based on Bloomberg Survey

Source: Bloomberg via ECFC

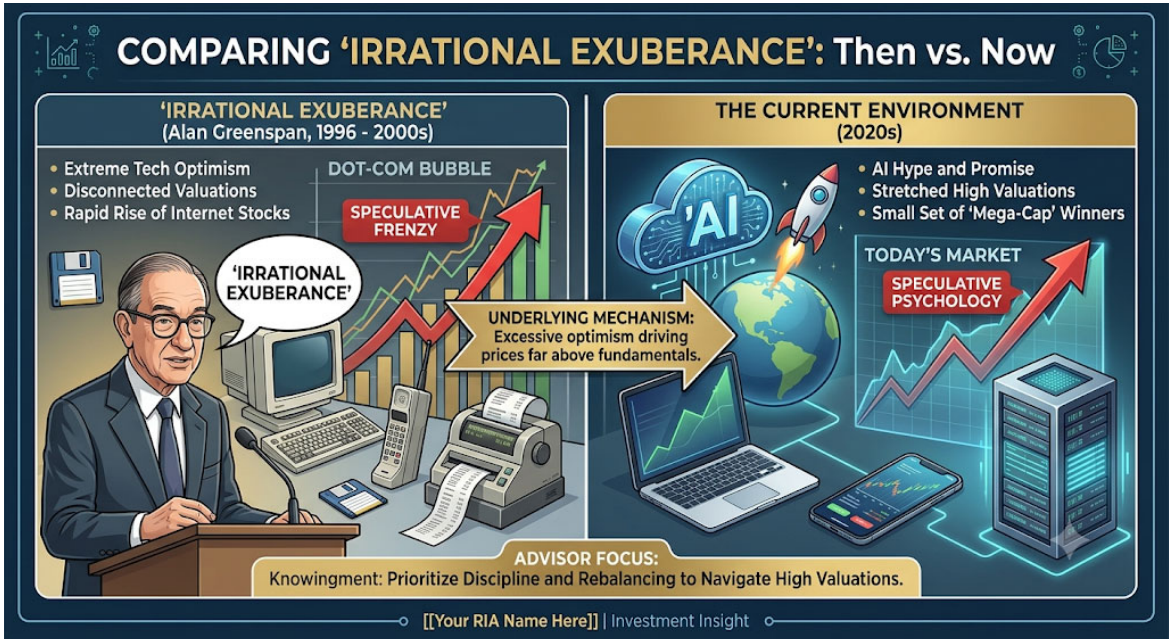
Bubbles are Forming – It's Irrational Exuberance 2.0

Bubbles are forming and Q2 2026 clearly represents the increasing excitement about the potential of Artificial Intelligence, Moonshots, and the development of automation to eliminate the need for people! It is the ultimate productivity dream. We judge the hype to be greater than the probable benefits. This is not the first time automation caused exciting bubbles.

The 1990's were exciting as well, the following recounts the period likely known as the original "irrational exuberance".
- In 1996, Fed Chair Alan Greenspan mentioned the difficulty of knowing "*when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions.*" He was worried about a bubble forming.
- In 1998, Greenspan started believing productivity gains from equipment and software were not being measured correctly.
- In 1999, as prices of internet stocks became hotter, Greenspan testified before Congress about the "lottery ticket" analogy. He observed that people have long been willing to pay more for a lottery ticket than their chances of winning would justify, simple because they are drawn to the remote chance of a huge win. This is simply health venture style capitalism.
- And in 1999, Greenspan believed traditional economics measurement tools did not accurately capture productivity gains.

The Federal Reserve did not raise interest rates in the hot economy, and it added fuel to the fire by increasing liquidity, which increased leverage within the economy.

Today, things are very similar. Lots of hype over the productivity miracle of AI and automation. Lots of liquidity, lots of leverage, and lots of high prices. But bubbles, if they are forming are not forming everywhere. We estimate the US equity market may have 25-30% of the companies priced at levels clearly not supported by long-term valuation fundamentals. We continue to focus on avoiding speculative assets which means we seek to only invest in the safe assets.



Note: The AI Image is "Slop" and only used to depict the current environment

Asset Allocation Concepts

POOL #1 (Cash Allocation)

a. Time Horizon:

- < 1 Year

b. Objective:

- Daily Liquidity

c. Top Risks to Avoid:

- Illiquidity
- Volatility

Primary Assets

- Bank Deposits
- ST Treasury

POOL #2 (Reserve Allocation)

a. Time Horizon:

- 1 – 3 Years

b. Objective:

- Liquidity when needed then Return

c. Top Risks to Avoid:

- Illiquidity
- Volatility
- Credit Loss

Primary Assets

- Gov't Securities
- Asset Backed Bonds
- Corporate Income

POOL #3 (Intermediate Allocation)

a. Time Horizon:

- 4 – 10 Years

b. Objective:

- Total Return with less than equity volatility

c. Top Risks to Avoid:

- Inflation
- Permanent Loss
- Temperament

Primary Assets

- Corporate Income
- Real Estate
- Real Assets

POOL #4 (Equity Allocation)

a. Time Horizon:

- 10 + Years

b. Objective:

- Total Return

c. Top Risks to Avoid:

- Temperament
- Permanent Loss
- Business

Primary Assets

- Equity USA
- Equity Int'l

OPERATING POOL

(Cash Allocation)

As of 6/30/2026

POOL #1 FACTSHEET

POLICY OVERVIEW

1. **Provide operating liquidity.**
2. **Market-based Returns.**
3. **Time Horizon:**
   - ❑ 1 - 6 Months
4. **Objective:**
   - ❑ Liquidity, then market-based returns
5. **Top Risks to Avoid:**
   - ❑ Illiquidity, Loss of Principle, Volatility, Fees
6. **Asset Options (Primary)**
   - ❑ Banking Deposits
   - ❑ Treasury Bills and Bonds
   - ❑ Corporate Income Producing Securities
7. **RETURN OBJECTIVE**
   - ❑ Returns near 30-day treasury yield.

Strategy Commentary: The strategy is the first line of defense for liquidity needs above and beyond daily cash needs as served by a depository bank. The objective is to provide advantaged returns relative to bank deposit or CD rates with daily liquidity characteristics. The strategy will only buy treasury bills and bonds that mature within 1 - 6 months. The following summarizes yields at the end of the quarter.

Assets	Industry	Duration	Yield	Credit Rating
1 Month Treasury	Government	0.1	3.7%	AA
3 Month Treasury	Government	0.3	3.8%	AA
6 Month Treasury	Government	0.5	4.0%	AA

Market Commentary: The Federal Reserve opted to maintain current federal funds rate levels during their meetings in the second quarter of 2026 under new Chair Kevin Warsh, shifting to a distinctly more hawkish stance as forward guidance signaling future cuts was removed in favor of an explicit commitment to price stability. Markets responded by a continuation of yields rising on the curve like we saw during the first quarter. Pressures in the energy markets have subsided some but persistent core inflation figures have drove yields up across the yield curve, especially in the 1 - 5 year time frame. A 1-year treasury is yielding 50 basis points more than it was in December 2025 at 4.0% and a 2-year treasury is yielding 70 basis points more now at 4.2%. Yields at the very short end of the curve remain similar to what they were to end 2025.

RESERVE POOL

(Income Allocation)

POOL #2 FACTSHEET

As of 6/30/2026

POLICY OVERVIEW, COMMENTARY & RETURNS

POLICY OVERVIEW

1. **Provide back-up liquidity when needed**
2. **Returns above inflation.**
3. **Time Horizon:**
   - 1 - 3 Years
4. **Objective:**
   - Liquidity when needed, then Real Return
5. **Top Risks to Avoid:**
   - Illiquidity, Opportunity Cost, Loss of Principle, Inflation, Volatility, Fees
6. **Asset Options (Primary)**
   - Government Bonds
   - Asset Back Bonds
   - Corporate Income Producing Securities
7. **Return Objective**
   - Returns above inflation.

COMMENTARY

Over the past 1 year, returns have been less than the trailing rate of inflation of 4.2%. Inflation has spiked dramatically in a recent months as a result of energy price increases driven by the Iran conflict.

Over the past 3 years, the returns have been at or above the trailing rate of inflation which was 4.2% annualized.

Going forward, the assets judged advantageous include the treasury inflation protected securities and corporate income securities and minor to no exposure to asset-backed or mortgage -backed securities. The pool remains highly liquid with expected yields well above assumed inflation of 3.0%.

RETURNS	Asset Class #1 U.S. Treasury Index	Asset Class #2 Gov Income	Asset Class #3 ABS Index	Asset Class #4 Income Advantage	Asset Class #5 MBS Index
1 Yr Trailing	2.9%	3.6%	4.0%	5.1%	5.2%
3 Yr Trailing	4.4%	-	5.3%	6.5%	4.6%
5 Yr Trailing	1.9%	-	2.5%	3.9%	0.5%

INTERMEDIATE POOL
(Real Asset Allocation)

POOL #3 FACTSHEET

As of 6/30/2026

POLICY OVERVIEW, COMMENTARY & RETURNS

POLICY OVERVIEW

1. **Provide periodic liquidity to fund capital replacement**
2. **Capital preservation largely from income-producing assets.**
3. **Time Horizon:**
   - ❑ 4 - 10 Years
4. **Objective:**
   - ❑ Total Return with less than equity volatility
5. **Top Risks to Avoid:**
   - ❑ Inflation, Loss of Principle, Opportunity Cost, Temperament, Fees
6. **Asset Options (Primary)**
   - ❑ Corporate Income Producing Securities
   - ❑ High Yield Securities
   - ❑ Securitized Income
   - ❑ Real Assets and Real Estate
7. **Return Objective**
   - ❑ Returns 1.5% - 2.5% over inflation.

COMMENTARY

Over the past 1 year, returns have approximated the trailing rate of inflation which totaled 4.2%. Inflation has spiked dramatically in recent months as a result of energy price increases driven by the Iran conflict

Over the past 3 years, the returns have also been at or above the trailing rate of inflation which was 4.2% annualized.

Going forward, the assets judged advantageous include corporate income securities, high yield and TIPs. Due diligence continues on real estate or real asset based opportunities to pursue satisfactory returns well above assumed inflation of 3.0%.

RETURNS	Asset Class #1 Agg Bond Index	Asset Class #2 MBS Index	Asset Class #3 Inflation Pro	Asset Class #4 Intermediate Corp Index	Asset Class #5 High Yield Index
1 Yr Trailing	3.8%	5.2%	3.6%	4.1%	5.9%
3 Yr Trailing	4.2%	4.6%	6.7%	5.9%	8.8%
5 Yr Trailing	0.1%	0.5%	3.1%	1.9%	4.2%

LONG-TERM POOL
(Equity Allocation)

Pool #4 Factsheet

As of 6/30/2026

Policy Overview, Commentary & Returns

Policy Overview

1. Pursue capital preservation (by avoiding permanent loss).
2. Then compound total return
3. Time Horizon:
   - ❑ 10+ Years
4. Objective:
   - ❑ Compound Returns and remember the Rule of 72…assets will double ever 10 yrs with 7.2% CAGR
5. Top Risks to Avoid:
   - ❑ Temperament, Permanent Loss, Opportunity Cost, Fees
6. Asset Options (Primary)
   - ❑ Equity Securities - USA
   - ❑ Equity Securities – Developed Int'l
   - ❑ Equity Securities – Emerging Markets
7. Return Objective
   - ❑ Compounding returns > 7.0% annually or 3.0 – 4.0% over inflation

Commentary

Equity strategies were largely positive in Q2 2026 with satisfactory returns for the trailing 1 year. Over the last 5 years, returns are near long-term expectations. While the trailing 10 year returns for the S&P 500 remain far above likely future returns due to tailwinds of favorable business environments, high levels of liquidity and healthy doses of "animal spirits", especially related to tech and AI. The animal spirits contain lots of optimism as observed by the large price expansion relative to underlying earnings. If growth expectations are achieved as expected, then prices are justified.

The allocation has been steadily reduced away from the primary passive index being the S&P 500 capitalization weight index due to price concerns being too elevated. The equal weight index has been increased in allocation. due to far better valuation. All other primary allocations remain priced at appropriate and acceptable levels.

Returns	Allocation #1 S&P 500 Cap Wgt	Allocation #2 S&P 500 Equal Wgt	Allocation #3 S&P 400	Allocation #4 Intrinsic Value	Allocation #5 Int'l Developed	Allocation #6 Int'l Emerging
1 Yr Trailing	22.3%	19.2%	25.9%	13.7%	20.8%	44.2%
5 Yr Trailing	13.4%	9.1%	9.0%	7.0%	8.8%	7.6%
10 Yr Trailing	15.6%	12.5%	11.8%	11.3%	9.8%	10.7%

LONG-TERM RETURNS EXPECTATIONS

Principle #1
Long-Term Expectations

(OVER 10-20 YEARS)

AND SHORT-TERM VOLATILITY EXPECTATIONS

Asset Allocation	Holding Horizon	LT Return Expectations	Short-Term Volatility*
0. Inflation *(presently near 3.0%)*		3.0% or more	
1. Operating Pool *(Cash & Equiv)*	< 1 Year	2.5 – 4.0%	Near 0%
2. Reserve Pool *(Income Assets)*	1 - 3 Years	4.0 – 5.5%	0.0 – 7.0%
3. Intermediate Pool *(Real Assets)*	4 - 10 Years	5.5 – 7.0%	7.0 – 15.0%
4. Long-Term Pool *(Equity Assets)*	10+ Years	7.0 – 8.0%	15.0 – 35.0%

**Note: Short-Term volatility is the range of negative price change that could be experienced in 1 year. Long-Term volatility will be equal to the total compound returns.*

Opportunities with Changing Interest Rates

A Second Option or "TIP"

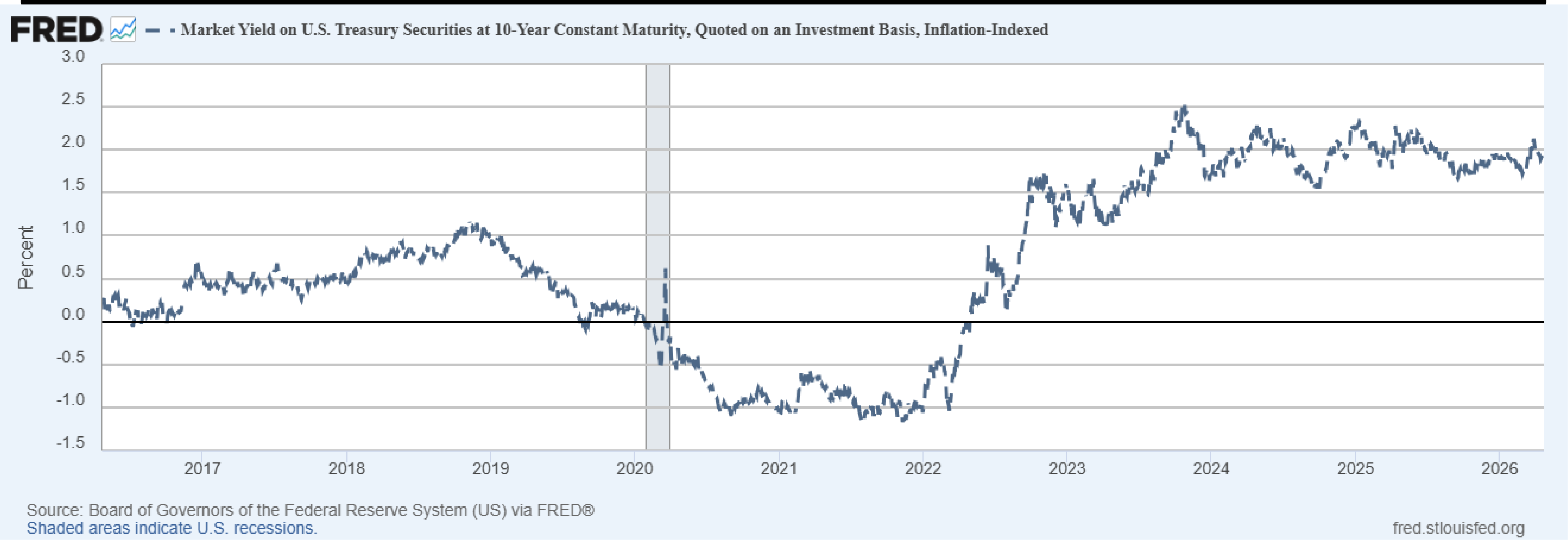
Strategies for Business #2

April 24, 2026

Inflation is up, but bank deposit rates and CD rates have declined since September 2024. Why? The Federal Reserve has reduced the Fed Funds rate 6 times to the current target near 3.5%.

A good option is with TIPS--Treasury Inflation Protected Securities. But do not invest in just any TIP. The right TIP depends a several factors. The right TIP will lock-in a return above inflation and provide needed diversification benefits. The "real yield" for TIPS remain at their highest level over the past 10 years.

And if inflation averages 3.0% annually going forward, the total return for a TIP may be near 5.0% based on present prices. Rates AND inflation change…..so do opportunities.



About HLCM -- Meet The Team

Michael Anderson, MHA
President / CIO

Prior Experience: CIO/CFO Prairie Lakes Healthcare System. Michael Anderson is Founder and Chief Investment Officer of Hi-Line Capital Management, bringing more than three decades of executive and investment leadership experience, including service as both CFO and CIO in rural healthcare.

Michael holds a Bachelor's degree in Healthcare Finance at Concordia College and a Master of Healthcare Administration (MHA) at the University of Minnesota, Carlson School of Management.

Matt Roby, JD
VP & Chief Compliance Officer

Prior Experience: Watertown SD, City Attorney, Private law practice, work within the insurance industry and service with the SD Attorney General's office. Matt is currently serving as a member of the SD House of Representatives and is active in the Stat Bar of SD.

Matt earned degrees in accounting and economics from the University of Nebraska–Lincoln and his Juris Doctor from the University of St. Thomas School of Law.

Ethan Smith, CPA
Director of Accounting & Reporting

Prior Experience: Corporate financial reporting at a large biofuels company and in public accounting as an auditor.

Ethan is a licensed Certified Public Accountant (CPA) in the State of South Dakota. He earned a Bachelor of Business Administration in Accounting and a Master of Professional Accountancy from the University of South Dakota.

Jennifer Pletan, MHA
Director of Communication & Special Projects

Prior Experience: Prior to joining Hi-Line Capital, Jennifer spent more than two decades in healthcare operational leadership.

Jennifer earned a Bachelor of Science in Health Services Administration from the University of South Dakota and Master of Healthcare Administration (MHA) at the University of Minnesota, Carlson School of Management.

About HLCM – An Overview

Mission

We are the Chief Investment Office for Hospitals and Foundations, Focused on Protecting and Growing Financial Assets for Future Generations

Healthcare is Unique, Experience with;

- Boards and Committees
- Politics and process
- Tax topics for NFPs
- Investment policy process
- Importance of local relationships
- Medicare reimbursement, funded depreciation and CAH's

Over $1.0 Billion in Assets Under Advisement

Unique Background

Healthcare Experience

Healthcare CFO / CIO	20+ Year Equity Research
Healthcare Leadership	20+ Year Leadership in Healthcare
Healthcare Accounting / Auditing	7+ Year CPA / Advisory
Fiduciary / Transparency	10+ Year Legal Experience

Connect with Us

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