

**Minutes of the Open Session of the
Investment Committee of the Board of Directors
Monday, May 13, 2019
El Camino Hospital, 2500 Grant Road, Mountain View, California
Conference Room A**

Members Present

Nicola Boone
John Conover
Jeffrey Davis, Chair
Gary Kalbach

Members Absent

George Ting, MD
Brooks Nelson

Members Excused

A quorum was present at the El Camino Hospital Investment Committee on Monday, May 13, 2019 meeting.

Agenda Item	Comments/Discussion	Approvals/Action
1. CALL TO ORDER/ ROLL CALL	The open session meeting of the Investment Committee of El Camino Hospital (the "Committee") was called to order at 5:30pm by Committee Member Gary Kalbach at the request of Chair Davis. Committee Chair Jeffrey Davis, MD and Committee Members Brooks Nelson and George Ting, MD were absent. All other Committee members were present.	<i>None</i>
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Mr. Kalbach asked if any Committee member or anyone in the audience believes that a Committee member may have a conflict of interest on any of the items on the agenda. No conflict of interest was reported.	<i>None</i>
3. PUBLIC COMMUNICATION	Mr. Kalbach asked if there was any public communication to present. None were noted.	<i>None</i>
4. CONSENT CALENDAR ITEMS	This item was deferred until the end of the meeting due to lack of a quorum.	<i>Deferred to 2nd Open Session</i>
5. REPORT ON BOARD ACTIONS	At Mr. Kalbach's request, Cindy Murphy, Director of Governance Services, briefly reviewed the Report on Board Actions as further detailed in the packet.	<i>Information</i>
6. 403(b) INVESTMENT PERFORMANCE	Brian Montanez of the Multnomah Group, summarized the Hospital's 403(b) Plan Performance. Mr. Montanez reviewed the Fund Actions, including (1) the New York Life Guaranteed Interest Account moving to a lower share class, increasing the yield by 25 basis points; (2) the final Principal Fixed Account transfer payment was made for the 403(b) Plan; (3) American Beacon Stephens Small Cap Growth was replaced with Conestoga Small cap due to continued under performance; and (4) Fidelity Government Money Market was replaced with Vanguard Federal Money Market for expense reasons. Mr. Montanez explained that T. Rowe Price Equity Income is the only investment in the menu that scores in the bottom half of Multnomah's Group Qualitative Scoring peer group but performance has picked up under the new manager's tenure and Multnomah believes it is a solid option. He also reported that the fixed dollar fee arrangement was reduced from \$91 to \$81 per	


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	<p>participant which is well within the range of similarly sized plans with similar services.</p> <p>Mr. Montanez reviewed the Fund Scorecard with the Committee and asked if any of the Committee members had any concerns about any of the plans investments. No concerns were raised.</p>	
<p>7. HEDGE FUND RESEARCH AND DUE DILIGENCE</p>	<p>Alex Da Costa of Pavilion described Pavilion/Mercer's dedicated hedge fund research team as one of the largest teams doing this type of work. He explained what hedge funds are, and how using them can improve the risk/reward proposition through the flexibility inherent in hedge funds. He also explained that hedge funds can play a role in portfolios as they can provide attractive risk adjusted returns relative to traditional stock and bond portfolios and provide diversified exposures to traditional stock and bond portfolios.</p> <p>Chair Davis arrived at 6:03 pm.</p> <p>Mr. Da Costa reported that Mercer's hedge fund philosophy is to diversify the return drivers in the growth portfolio and generate attractive risk-adjusted returns relative to equities over a market cycle. In evaluating hedge funds, Mercer's operational due diligence team does a deep dive into the quality of service, the fund auditor, the fund administrator, the valuation policy, and brokerage firms utilized. He also explained that four main areas (factors) are looked at when assessing a hedge fund strategy: Idea Generation, Portfolio Construction, Implementation and Business Management, and described Mercer's process including research, reporting, legal assessment and due diligence.</p> <p>Antonio DiCosola of Pavilion clarified that in cases where ECH must redeem from a hedge fund in a timely manner, Iftikhar Hussain, CFO, makes that decision on Pavilion's recommendation and that is subsequently reported to the Committee, but going into a new fund is brought to the Committee for discussion.</p>	
<p>8. AGENDA ITEM 9 - ASSEST ALLOCATION REVIEW AND ERM FRAMEWORK</p>	<p>This item was taken out of order.</p> <p>Antonio DiCosola and Chris Kuhlman of Pavilion presented a Healthcare Enterprise Risk Modeling analysis. Using ECH's Long Range Financial Plan from January 2019, the analysis incorporates the overall risks and financial situation of the organization into a review of the Surplus Cash Portfolio asset allocation. They reported that there is no need for ECH to reduce risk in its portfolio at this time due to strong financial position and strong operations. They also reported that ECH can maintain a long term investment horizon and weather bouts of volatility. If the Committee desires, ECH has the ability to increase its risk and return profile or allocate a higher percentage to illiquid strategies. They explained this is based on the following:</p>	

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	<ul style="list-style-type: none"> • ECH is above its peers across all financial metrics; • ECH's 603 Days Cash on Hand ("DCOH") at the end of FY18 is significantly higher than Moody's peer median (252.4) and is projected to stay significantly higher through 2028; • Cash Balance is abnormally high, but being drawn down to cover major capital projects; • Cash to debt is projected to stay above 200% and eventually rise above 400% in 2028 after completion of spending reserved for major projects; and • Negative cash flow will slow down after planned major capital project spending is complete in 2026. <p>Mr. DiCosola and Mr. Kuhlman reviewed ECH's current asset allocation, a comparison to healthcare peers and possible asset allocation scenarios that would either reduce or increase risk. They reviewed the variability of expected return over 1 year and 5 years of each scenario, the historical scenario analysis, a downside stress test and liquidity comparison. Mr. DiCosola commented that the purpose of this exercise is to think about long term needs and strategic allocations.</p> <p>Mr. Kalbach commented that perhaps ECH should consider more investment in its own business, Dan Woods, CEO, and Iftikhar Hussain, CFO, commented that there is no need to reduce risk right now and Mr. Kalbach noted that there is no urgency to make any significant change right now.</p>	
9. AGENDA ITEM 8 - EL CAMINO HOSPITAL QUARTERLY PE-EXECUTIVE SUMMARY 1Q19	<p>Mr. DiCosola reviewed the Investment Committee Scorecard noting that performance is in line with or better than benchmark and that the Cash Balance Plan has more equity exposure and has had stronger performance as a result given the recent market environment. The Surplus Cash portfolio was up 6.7% in the first quarter, in line with its benchmark, and is 20 basis points ahead since inception. The Cash Balance Plan was up 8.3% in the first quarter, performing better than its benchmark, and is 70 basis points ahead since inception. He reviewed the Market Value Reconciliation noting that the Surplus Cash has gone from \$677 million in 2015 to almost \$1 billion, and the Cash Balance Plan has gone from \$216.8 million to \$270.7 million in the same time period. He reported that the managers have added value and that Wellington and Conestoga lagged in Q1, but results are still strong over the longer time periods. He also reported that international managers with growth orientation performed very well.</p>	

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10. HEDGE FUND CHANGE	Mr. Da Costa gave a report on 1 st Quarter Investment Activity reporting that ECH has submitted a redemption request for the Chatham Asset Management High Yield Offshore Fund effective June 30, 2019 and explained the reasons for doing so including observations of increasing illiquidity in the portfolio and negative press allegations of market manipulation. Though Pavilion's research showed no evidence of manipulation, they thought it prudent to step back from the investment.	
11. ADJOURN TO CLOSED SESSION	<p><u>Motion:</u> To adjourn to closed session at 7:30pm.</p> <p><u>Movant:</u> Kalbach <u>Second:</u> Boone <u>Ayes:</u>, Boone, Conover, Davis, Kalbach <u>Abstentions:</u> None <u>Absent:</u> Ting, Nelson <u>Excused:</u> None <u>Recused:</u> None</p>	<i>A motion to adjourn to the Closed Session at 7:30 pm was approved.</i>
12. AGENDA ITEM 15 RECONVENE OPEN SESSION	Agenda Items 12 -14 were conducted in closed session. The Closed Session Minutes of the February 25, 2019 meeting were approved by a unanimous vote of all members present (Boone, Conover, Davis, Kalbach).	
13. AGENDA ITEM 4 – CONSENT CALENDAR	<p>Chair Davis asked if any Committee member wished to remove any items from the consent calendar for discussion. Cindy Murphy, Director of Governance Services, suggested that the Committee could select an Educational Item for Goal #2 of the Committee's Proposed FY20 Committee Goals. Mr. Hussain suggested several topics and the Committee requested that an educational presentation on Environmental, Social, and Governance ("ESG") investing be added to Goal #2.</p> <p><u>Motion:</u> To approve the consent calendar: Open Minutes of the February 25, 2019 Investment Committee Meeting, Proposed FY20 Committee Goals (as amended) and Proposed FY20 Pacing Plan; and for information: CFO Report Out on Open Session Finance Committee Materials, Progress against FY19 Investment Committee Goals and Article of Interest.</p> <p><u>Movant:</u> Kalbach <u>Second:</u> Boone <u>Ayes:</u>, Boone, Conover, Davis, Kalbach <u>Abstentions:</u> None <u>Absent:</u> Nelson, Ting <u>Excused:</u> None <u>Recused:</u> None</p>	<i>The Open Session Minutes of the February 25, 2019 Investment Committee Meeting, the FY20 Pacing Plan and the Proposed FY 20 Committee Goals (as amended) were approved.</i>

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14. AGENDA ITEM 16 ADJOURNMENT	<p><u>Motion:</u> To adjourn the Investment Committee meeting at 7:40 pm.</p> <p><u>Movant:</u> Kalbach <u>Second:</u> Conover <u>Ayes:</u>, Boone, Conover, Davis, Kalbach <u>Abstentions:</u> None <u>Absent:</u> Ting, Nelson <u>Excused:</u> None <u>Recused:</u> None</p>	<p><i>A motion to adjourn to the Investment Committee meeting at 7:40 pm was approved.</i></p>

Attest as to the approval of the Foregoing minutes by the Investment Committee of El Camino Hospital:



Gary Kalbach,
Chair, Investment Committee