



**Minutes of the Open Session of the
Investment Committee of the Board of Directors
Monday, August 12, 2019
El Camino Hospital, 2500 Grant Road, Mountain View, California
Conference Room A**

Members Present
Nicola Boone, Vice Chair
Gary Kalbach, Chair
Julia E. Miller
Brooks Nelson
Jack Po, MD

Members Absent
John Conover

Members Excused

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 6:05pm by Committee Chair Gary Kalbach. Mr. John Conover was absent. All other Committee members were present.	<i>None</i>
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Chair 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	Chair Kalbach asked if there was any public communication to present. None were noted.	<i>None</i>
4. CONSENT CALENDAR	<p>Chair Kalbach asked if any Committee member wished to remove any items from the consent calendar for discussion. No items were pulled.</p> <p>Motion: To approve the consent calendar: (a) Open Minutes of the May 13, 2019 Investment Committee Meeting; and for information: (b) FY20 Pacing Plan, (c) Progress Against FY20 Committee Goals; (d) CFO Report Out on Open Session Finance Committee Materials; and (e) Article of Interest.</p> <p>Movant: Boone Second: Nelson Ayes: Boone, Kalbach, Miller, Nelson, Po Noes: None Abstentions: None Absent: Conover Recused: None</p>	<i>Consent Calendar approved</i>
5. REPORT ON BOARD ACTIONS	There were no questions about the Report on Board Actions.	
6. APPOINTMENT OF VICE CHAIR	Chair Kalbach appointed Committee member Nikki Boone as Vice Chair of the Committee.	
7. ALTERNATIVE INVESTMENT	Chair Kalbach reported that the Fogarty Institute is considering raising approximately \$100 million for a venture capital fund and has asked El Camino Hospital if it would be interested in committing \$10 million, which has a drawdown schedule similar to other private equity funds. Chair Kalbach explained that the Institute would hire an experienced general partner to manage the fund, which will invest in seed stage companies that are hosted within the Fogarty Institute. In response to questions, Iftikhar Hussain CFO reported that ECH has not made this type of investment before and that ECH's Investment Policy may need to be revised to permit this type of investment should the	

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	<p>Hospital want to move forward. Chair Kalbach also noted that part of the due diligence process would include looking at other companies that had incubated at the Institute and understand what the returns would have been. The Committee discussed whether strategic or financial considerations should weigh more heavily in making the decision whether to invest in the fund or not. Chair Kalbach noted that the timeline for a decision is at least six to twelve months.</p> <p>The Committee asked staff to bring the Investment Policy to the November meeting for review if it would need to be revised to provide the flexibility to permit this kind of investment.</p>	
<p>8. INVESTMENT REVIEW ITEMS</p>	<p><u>Capital Markets Review & Portfolio Performance and Tactical Asset Allocation Positioning and Market Outlook</u></p> <p>Chris Kuhlman of Pavilion provided an update on capital markets, noting that interest rates have continued to fall and stocks and bonds have performed well through June 30, 2019. He explained that primary performance drivers have been the Fed's signaling of future interest rate cuts, offset by continued slowing of global economic growth, and uncertainty resulting from rising trade tensions. U.S. equities have continued to outperform their developed and emerging markets counterparts, partially due to a strong U.S. dollar.</p> <p>Antonio DiCosola of Pavilion reviewed the Investment Committee Scorecard reporting that as of June 30, 2019, Surplus Cash portfolio performance was 2.9% (Q2), 5.4% (FYTD) and 5.6% (since inception annualized). He also reported that Cash Balance Plan performance was 3.1% (Q2), 6.0% (FYTD) and 7.8% (since inception annualized). ECH's total Surplus Cash Assets as of June 30, 2019 was nearly \$1.2 billion, which includes \$83 million in debt reserves and \$41 million in District assets that are in short term fixed income.</p> <p>Mr. DiCosola reviewed the Performance Summary with the Committee as provided in the meeting materials. Mr. DiCosola reported that the Surplus Cash Portfolio ex District and Debt Reserves returned 9.8% Calendar YTD through June 30, 2019, while the Cash Balance Plan returned 11.8% during the same period. He also reviewed the composite asset allocation within the portfolio with the Committee including total equity, fixed income and total alternatives. He reported that manager performance overall has been strong. He also reviewed the Cash Balance Plan composite asset allocation and performance with the Committee.</p> <p>Mr. DiCosola presented Pavilion's investment outlook and discussed current positioning of the Surplus Cash and Cash Balance Plan, noting that Pavilion did not recommend any strategic or tactical changes at this time.</p> <p>Mr. DiCosola reported that in July, ECH received a majority of the proceeds from the Chatham Asset Management High Yield Offshore Fund redemption. Pavilion recommended a \$10 million initial investment in Waterfall Eden Fund, Ltd. Mr. DiCosola reviewed the recommended investment with the Committee noting that the fund invests primarily within the structured credit markets, specifically within ABS. He explained that the fund has one of the longest track records in the ABS space and is supported by a seasoned team of investment professionals. There was no disagreement with the recommendation.</p>	
<p>9. ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE</p>	<p>Mr. Kuhlman provided an educational report to the Committee on Environmental, Social & Governance (ESG) Investing. He reported that investors are increasingly incorporating ESG considerations into their investment process. He also noted studies have shown a positive connection</p>	

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INVESTING	<p>between ESG and corporate financial performance. Mr. Kuhlman explained Mercer's ESG Ratings, which assess how well managers integrate ESG factors into their investment process using a scale of 1 (most active in ESG) to 4 (little or no integration of ESG). The managers which ECH currently invests are primarily rated ESG2 or ESG3 by Mercer. Currently less than 17% of the strategies rated by Mercer achieve ESG1 or ESG2.</p> <p>The Committee requested information on (1) the screening of companies involved with the manufacturing of opioids and (2) examples of what other hospitals and health systems are doing in terms of ESG investing and social screening.</p>	
10. ADJOURN TO CLOSED SESSION	<p>Motion: To adjourn to closed session at 7:51pm.</p> <p>Movant: Nelson</p> <p>Second: Boone</p> <p>Ayes: Boone, Kalbach, Miller, Nelson, Po</p> <p>Noes: None</p> <p>Abstentions: None</p> <p>Absent: Conover</p> <p>Recused: None</p>	<i>Adjourned to Closed Session at 7:51pm</i>
11. AGENDA ITEM 14: RECONVENE OPEN SESSION	<p>Agenda Items 11 -13 were conducted in closed session. The Closed Session Minutes of the May 13, 2019 meeting were approved by a unanimous vote of all members present (Boone, Kalbach, Miller, Nelson, and Po) Mr. Conover was absent.</p>	
12. AGENDA ITEM 15: INVESTMENT ADVISOR REVIEW	<p>The Committee discussed ECH's investment strategy prior to bringing Pavilion in. Iftikhar Hussain, CFO, commented that ECH's investment performance has improved since bringing Pavilion on in 2012 and reported that the Committee did a five year review of Pavilion two years ago. Ms. Boone commented that the conclusion at that time was that the Committee was satisfied with performance and to continue the relationship with Pavilion.</p>	
13. AGENDA ITEM 16: ADJOURNMENT	<p>Motion: To adjourn at 8:11pm.</p> <p>Movant: Nelson</p> <p>Second: Boone</p> <p>Ayes: Boone, Kalbach, Miller, Nelson, Po</p> <p>Noes: None</p> <p>Abstentions: None</p> <p>Absent: Conover</p> <p>Recused: None</p>	<i>Adjourned at 8:11pm</i>

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



Gary Kalbach,
Chair, Investment Committee