



**Minutes of the Open Session of the
Investment Committee of the Board of Directors
Monday, February 10, 2020
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**
John Conover

Members Absent

**via teleconference

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 5:30pm by Committee Chair Gary Kalbach. Dr. Po participated via teleconference. Ms. Boone arrived at 5:35pm and was not present during roll call. All other Committee members were present.	
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.	
3. PUBLIC COMMUNICATION	Chair Kalbach asked if there was any public communication to present. None were noted.	
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 November 11, 2019 Investment Committee Meeting, (b) Open Minutes of the January 27, 2020 Joint Finance and Investment Meeting; and for information: (c) Article Interest, (d) CFO Report Out on Open Session Finance Committee Materials; (e) Progress against FY20 IC Goals; and (f) FY 20 Pacing Plan.</p> <p>Movant: Nelson Second: Miller Ayes: Boone, Kalbach, Miller, Nelson, Po, Conover Noes: None Abstentions: None Absent: None Recused: None</p>	Consent Calendar approved
5. REPORT ON BOARD ACTIONS	There were no questions about the Report on Board Actions. Chair Kalbach commented that there was a discussion on limiting investments on opioids at the board meeting. However, there was no action taken.	
6. ROTATING TOPICS	<p>Capital Markets Review and Portfolio Performance & Tactical Against FY20 Investment Committee Goals</p> <p>Antonio DiCosola and Chris Kuhlman from Pavilion, a Mercer Practice, reported the following:</p> <p>Mr. Kuhlman discussed performance summary on Page 52 of the packet covering what occurred during 4th quarter of 2019. 2019 was a very strong year. Global equities were up 26.6% in 2019 and in the 4th quarter, they were up 9% with fix income flat. Page 56 of the packet showed the breakdown of the various</p>	

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	<p>equity asset classes. The U.S. has been the strong performer whereas developed international and emerging markets have done well on an absolute basis, but have lagged U.S. markets. Over the last 10 years, U.S. stocks have. Tech stocks have driven the market and outperformed. In regards to valuations on Page 58, equities are more richly valued in the U.S. than Europe and Japan. In regards to fixed income, interest rates have declined. With risk assets rallying and interest rates low, credit spreads are at slightly below long term averages. Moving forward, fixed income returns are expected to be modest with low current yields.</p> <p>January 2020 started out very strong until the news of the Coronavirus. The U.S. has not been impacted as much as other areas such as China. Stocks did shut down during Chinese New Year so stocks weren't actively trading. Since then, they are actively trading again. Mr. DiCosola reported that nobody really knows what the impact will be. However, early indications have suggested that \$280B in GDP may have been at risk. If the virus is contained then we would expect the next couple of quarters to be impacted negatively and a strong rebound in the back half of the year. Equity valuations are currently rich; however, relative to the level of interest rates are reasonable. The 10-year UST increased to nearly 2% and then came right back down to 1.5%. With very little inflation and what's going on with the Coronavirus, the Fed is on the sidelines until there is more clarity.</p> <p>Mr. DiCosola continued to the Scorecard page (Page 63), noting that performance in general has been strong. For the quarter, the Surplus Cash portfolio lagged by 30 basis points, but long term return is still slightly ahead of the benchmark. The Cash Balance plan was 20 basis points ahead of the benchmark for the quarter and has outperformed by 70 basis points per annum since inception. Across the board, Mr. DiCosola reported lower volatility than what was priced in our modeling expectations. From the Surplus Cash Executive Summary, the portfolio was up 3.9% versus 4.2% for the benchmark. From a returns standpoint, the Alternatives composite underperformed partially due to the hedge fund portfolio underperforming. Currently Alternatives exposure within the Surplus Cash portfolio is at 15.6% as a result of returning capital from the hedge fund. The target range is 20% with a minimum of 17%. Alternative exposure will be increased with proposed additions at this meeting.</p> <p>Mr. Kuhlman reported that Vanguard had dropped Barrow Hanley as subadvisor last December and replaced it with Aristotle. That will result in a decrease of \$17B in assets under management for Barrow Hanley. However, their fee agreement with Vanguard was below average and will not have as big of an impact on the firm. On page 75, for the quarter, the total equity composite matched the return of the benchmark at 9%, which is very strong for just a quarter period.</p> <p>On the Hedge Fund portfolio, Mr. DiCosola reported that three managers (Steve Milliner, Moore, and York) are returning capital. Moore was known in the macro space and is now focusing on managing their own proprietary capital. The Stone Milliner and Moore portfolios are very liquid and have already returned most capital. As a result, there is \$20M of cash to invest within hedge funds. Pavilion recommended investing \$9M with existing managers and the remaining \$11M with a new fund called Wolverine Flagship Fund. They are a firm based in Chicago owned by 10 partners. The firm was created to give investors the ability to participate in the trading arbitrage expertise developed by Wolverine's trading platform. The fund is looking to achieve absolute return levels with very little market exposure, therefore resulting a market neutral strategy. Since inception,</p>	

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	<p>they've generated 7% returns annualized with less volatility than equity markets; about 6% versus 14% for equity markets.</p> <p>In response to Mr. Conover's request from a previous meeting for additional information about possibly using a dividend investing strategy as a replacement for part of the fixed income portfolio, Mr. Kuhlman reported two different strategies. The Vanguard Dividend Appreciation is for high quality companies that have both the ability and the commitment to grow their dividends over time. The high dividend yield fund are companies that are dedicated to consistently paying larger than average dividends. For the indices, we use the S&P 500, which is a broad U.S. large cap equity benchmark. The Bloomberg Barclays U.S. Aggregate is the standard overall U.S. bond market benchmark. Mr. Kuhlman stated that despite these being more defensive than the S&P 500 Index; they still have significant exposure to down equity markets. Mr. Kuhlman stated that Pavilion's recommendation was that they do believe dividend investing as an overall strategy; however, it would be more appropriate within the equity portfolio. As a substitute for fixed income, there's too much downside risk there as they behave like equities.</p>	
<p>7. PROPOSED FY21 GOALS/PACING/ MEETING DATES</p>	<p>Mr. Hussain suggested a deep dive of the structure of the other three categories of investments: equities, fixed income, and real estate. There would be one topic covered per meeting.</p> <p>Mr. Woods suggested private equity rather than fixed income. The committee members agreed to discuss further at another time.</p>	
<p>8. ADJOURN TO CLOSED SESSION</p>	<p>Motion: To adjourn to closed session at 6:53pm.</p> <p>Movant: Miller Second: Nelson Ayes: Boone, Kalbach, Miller, Nelson, Po, Conover Noes: None Abstentions: None Absent: None Recused: None</p>	<p><i>Adjourned to Closed Session at 6:53pm</i></p>
<p>9. AGENDA ITEM 12: RECONVENE OPEN SESSION</p>	<p>Open session was reconvened at 6:54pm. Agenda Items 9 -11 were conducted in closed session. The Closed Session Minutes of the November 11, 2019 Investment Committee Meeting and the January 27, 2020 Joint Finance and Investment meetings were approved by a unanimous vote of all members present (Boone, Kalbach, Miller, Nelson, Conover and Po) .</p>	
<p>10. AGENDA ITEM 13: ADJOURMENT</p>	<p>Motion: To adjourn at 7:00pm.</p> <p>Movant: Miller Second: Nelson Ayes: Boone, Kalbach, Miller, Nelson, Po, Conover Noes: None Abstentions: None Absent: None Recused: None</p>	<p><i>Adjourned at 7:00pm</i></p>

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

DocuSigned by:


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Gary Kalbach,
Chair, Investment Committee