

AGENDA

Joint Meeting of El Camino Hospital's Finance Committee and Investment Committee

Monday, January 25, 2016 5:30 p.m.

Conference Rooms A & B, Ground Floor

2500 Grant Road, Mountain View, California

John Zoglin will participate via telephone from 88 Madison Avenue, New York, New York

Richard Juelis will participate via telephone from 4955 Wiley Post Way, Salt Lake City, Utah

MISSION: The purpose of the Finance Committee ("Committee") is to provide oversight, information sharing and financial reviews related to budgeting, capital budgeting, long-range financial planning and forecasting, and monthly financial reporting for El Camino Hospital Board of Directors ("Board"). In carrying out its review, advisory and oversight responsibilities, the Committee shall remain flexible in order to best define financial strategies that react to changing conditions.

MISSION: The purpose of the Investment Committee is to develop and recommend to the El Camino Hospital Board of Directors the organization's investment policies, maintain current knowledge of the management and investment of the invested funds of the hospital and its pension plan(s), provide guidance to management in its investment management role, and provide oversight of the allocation of the investment assets.

AGENDA ITEM	PRESENTED BY		
1. CALL TO ORDER/ROLL CALL	John Zoglin, Chair Investment Committee		5:30 p.m.
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	John Zoglin, Chair Investment Committee		5:31 – 5:32
3. PUBLIC COMMUNICATION	John Zoglin, Chair Investment Committee		5:32 – 5:35
4. ALIGNMENT OF INVESTMENT POLICY WITH CASH FLOW PROJECTIONS ATTACHMENT 4	Iftikhar Hussain, Chief Financial Officer		Discussion 5:35 – 6:29
5. ADJOURNMENT	John Zoglin, Chair Investment Committee		6:30 p.m.



El Camino Hospital

THE HOSPITAL OF SILICON VALLEY

**Alignment of Investment Policy with Cash
Forecast**

January 25, 2016

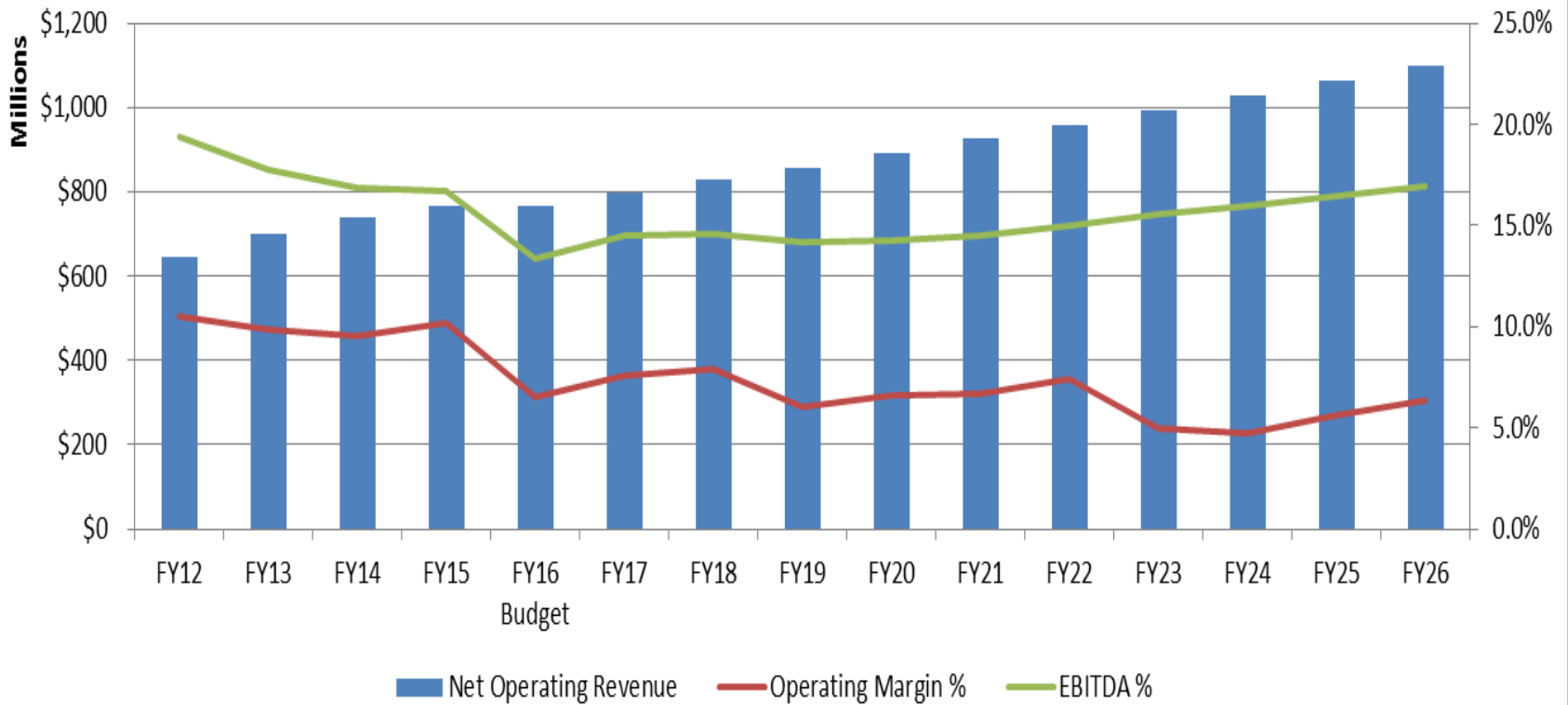
Long Range Financial Targets

Financial Guardrails

Financial Metric	Target	Forecast Results Range		Moody's Medians		
		Highest	Lowest	Aa	A	Baa
Net Patient Revenue (\$Millions)	> 770	1,068	771	2,148	567	327
Operating Margin (%)	> 4%	7.9%	4.7%	3.5	2.5	0.8
Excess Margin (%)	> 6%	10.4%	6.9%	7.2	5.7	3.3
Annual Debt Service Coverage (x)	> 9x	17.7	9.1	7.4	5	3.3
Days Cash on Hand	> 215	348	126	270	215	148

Forecasted Results

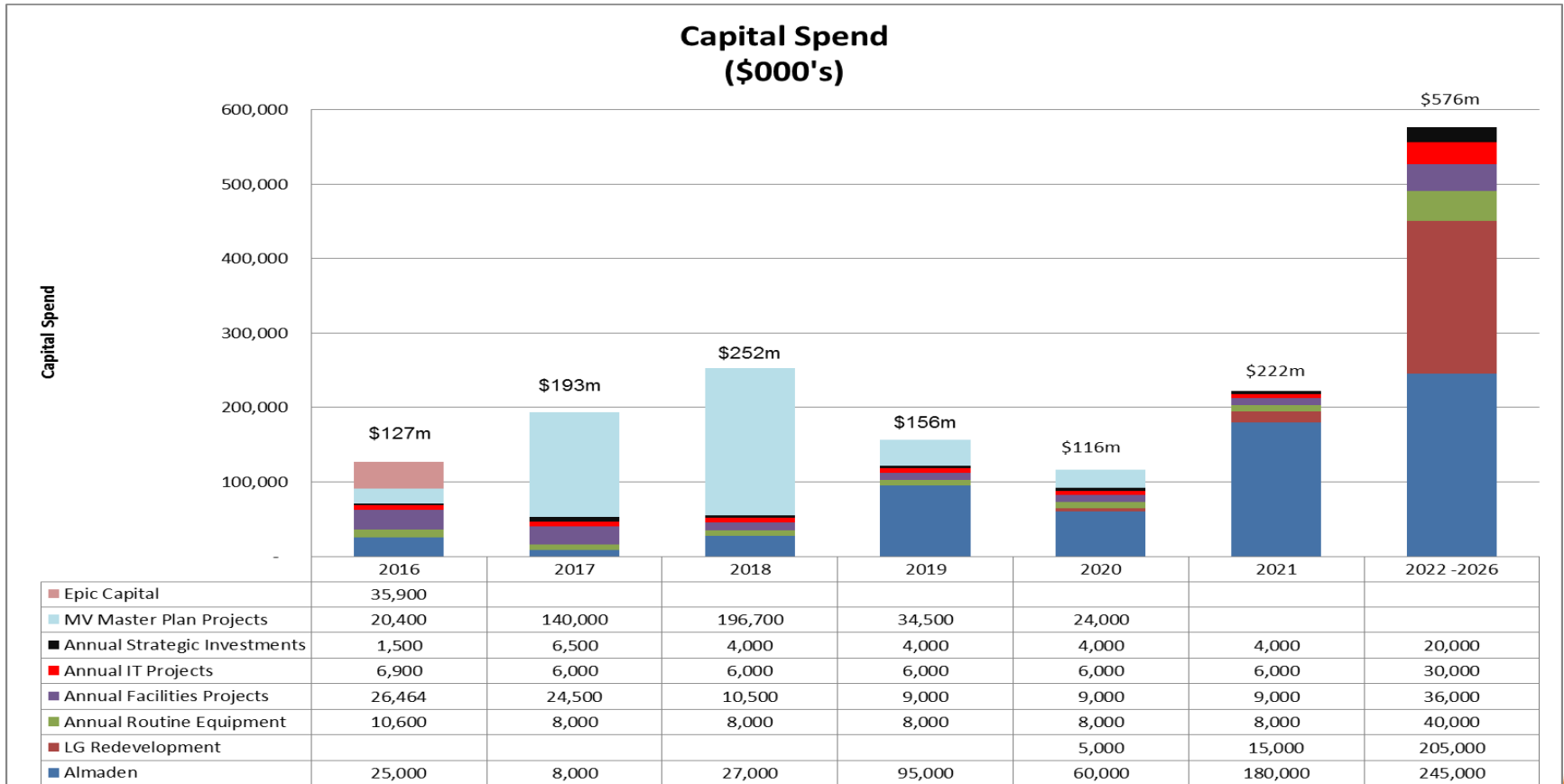
Operating Revenue & Margin
Including BHS, Women's, MOB



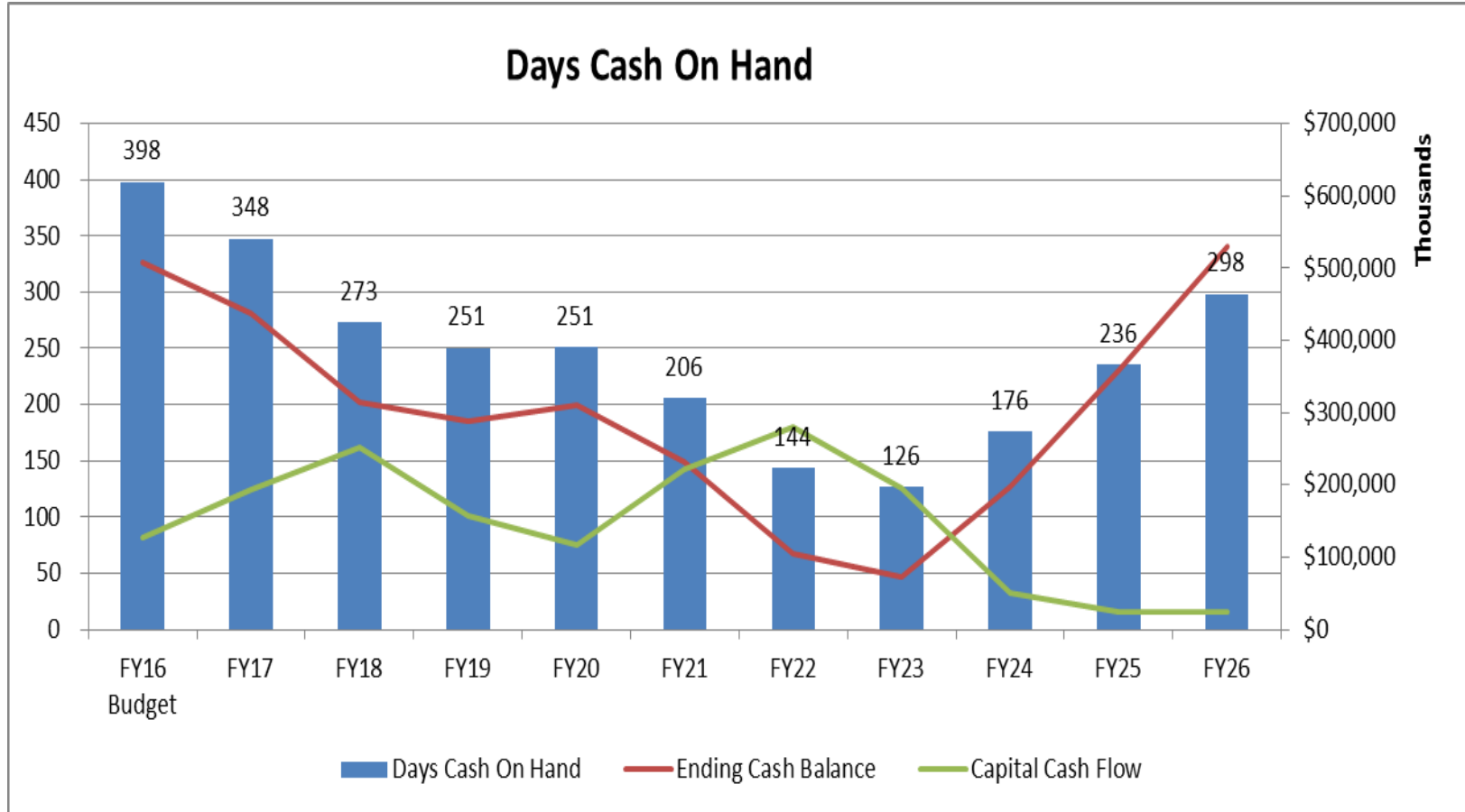
Required Investment: \$1.6 billion

- Timing based on conservative assumption of “fastest spend” . Actual spend may be slower depending on OSPHD approvals and construction
- Each project has two Go/No Go decision points:
 - At the start of design phase
 - After govt. approval (6 – 9 months for OSHPD) but before execution of construction contracts

LG NICU not included

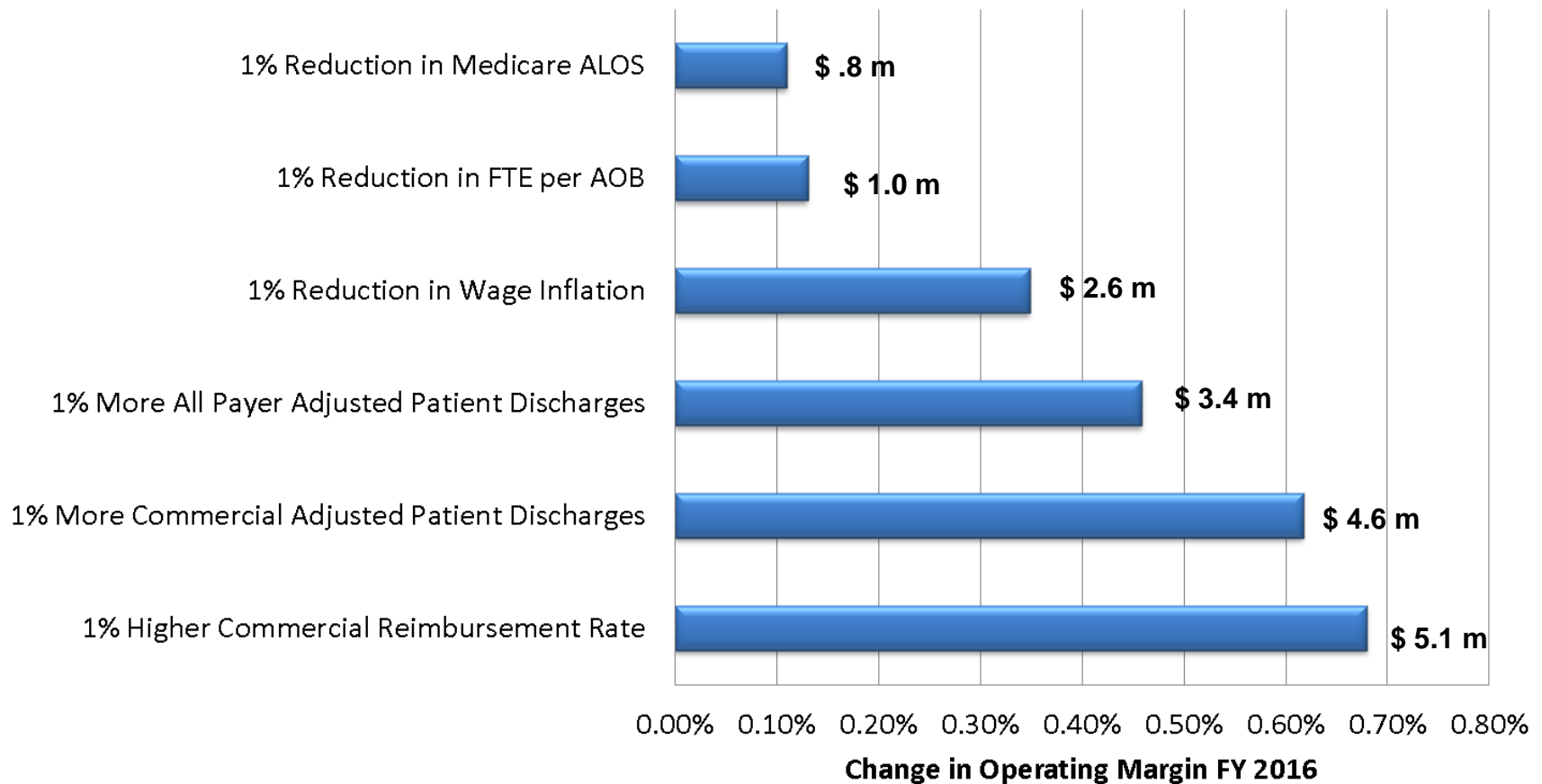


Cash Position



Sensitivity Analysis

Single Year Change in Operating Margin

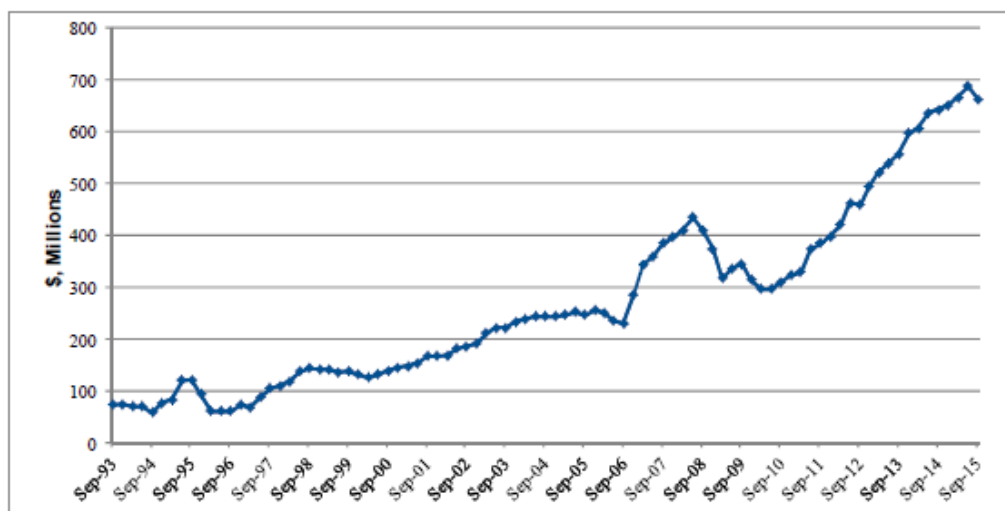


Surplus Cash Executive Summary

Market Value Reconciliation

As of September 30, 2015

\$ in Millions	2008	2009	2010	2011	2012 ¹	2013	2014	1st Quarter 2015	2nd Quarter 2015	3rd Quarter 2015
Beginning Market Value	\$395.6	\$374.4	\$313.5	\$322.6	\$396.7	\$493.8	\$596.3	\$651.6	\$664.9	\$688.1
Net Cash Flow	(\$16.3)	(\$91.8)	(\$10.5)	\$55.6	\$67.8	\$55.3	\$27.4	\$2.1	\$21.9	\$1.2
Income	n/a	n/a	n/a	n/a	n/a	n/a	\$12.3	\$3.3	\$2.6	\$2.6
Realized Gain/(Loss)	n/a	n/a	n/a	n/a	n/a	n/a	\$10.4	\$1.6	(\$0.4)	\$0.4
Unrealized Gain/(Loss)	n/a	n/a	n/a	n/a	n/a	n/a	\$5.3	\$6.4	(\$0.9)	(\$30.5)
Capital App/(Dep)	(\$5.0)	\$30.9	\$19.6	\$18.5	\$29.3	\$47.2	\$27.9	\$11.3	\$1.3	(\$27.4)
End of Period Market Value	\$374.4	\$313.5	\$322.6	\$396.7	\$493.8	\$596.3	\$651.6	\$664.9	\$688.1	\$661.9
Return Net of Fees	-1.2%	11.3%	6.4%	5.1%	6.0%	8.8%	4.4%	1.7%	0.2%	-4.0%



¹ Beginning 8/1/2012, market values represent the Surplus Cash portfolio excluding District assets, with \$13.9 million of District assets shown as a cash outflow in the third quarter of 2012.

Asset Allocation Summary

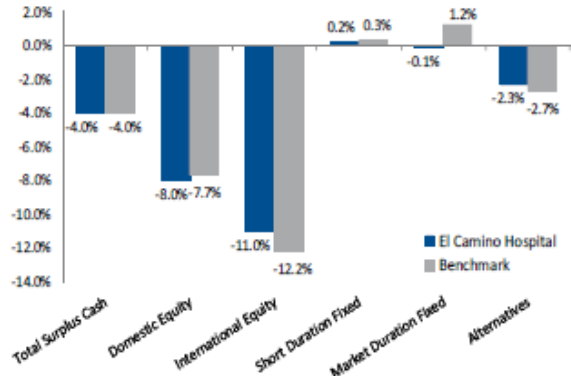
Asset Allocation

Manager	Total Assets (\$ mil.)	Percent of Total	Target Allocation	Variance to Target	Target Range	Within Policy Range
Domestic Equity	\$161.3	24.4%	25.0%	- 0.6%	20-30%	Yes
International Equity	\$ 88.7	13.4%	15.0%	- 1.6%	10-20%	Yes
Short-Duration Fixed	\$ 78.0	11.8%	10.0%	+ 1.8%	8-12%	Yes
Market-Duration Fixed	\$206.1	31.1%	30.0%	+ 1.1%	25-35%	Yes
Alternatives	\$127.7	19.3%	20.0%	- 0.7%	17-23%	Yes
Total (X District)	\$661.8	100.0%				

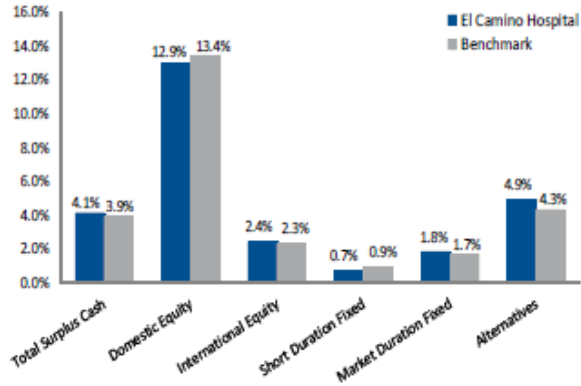
Surplus Cash Executive Summary Dashboard

As of September 30, 2015

Performance: Most Recent Quarter



Performance: Since Inception¹



Asset Class Diversification

Surplus Cash Investment Program Structure

As of September 30, 2015

Manager	Asset Class/Type	Total Assets (\$ mil.)	Percent of Total	Target Allocation	Weighting Relative to Target	Target Range
Large-Cap Domestic Equity		\$132.9	20.1%	20.0%	+ 0.1%	20-30%
Vanguard S&P 500 Index	Large-Cap Index	\$ 81.4	12.3%	10.0%	+ 2.3%	
Sands	Large-Cap Growth	\$ 25.7	3.9%	5.0%	- 1.1%	
Barrow Hanley	Large-Cap Value	\$ 25.8	3.9%	5.0%	- 1.1%	
Small-Cap Domestic Equity		\$ 28.5	4.3%	5.0%	- 0.7%	
Cortina	Small-Cap Growth	\$ 13.1	2.0%	2.5%	- 0.5%	10-20%
Wellington	Small-Cap Value	\$ 15.4	2.3%	2.5%	- 0.2%	
International Equity		\$ 88.7	13.4%	15.0%	- 1.6%	10-20%
Walter Scott	Developed and Emerging	\$ 41.0	6.2%	7.5%	- 1.3%	
Harbor	Developed and Emerging	\$ 39.5	6.0%	7.5%	- 1.5%	
Harding Loevner	Emerging	\$ 8.2	1.2%	0.0%	+ 1.2%	
Short-Duration Fixed Income		\$ 78.0	11.8%	10.0%	+ 1.8%	8-12%
Barrow Hanley	Short Duration	\$ 77.8	11.7%	10.0%	+ 1.7%	
Cash	Money Market	\$ 0.2	0.0%	0.0%	+ 0.0%	
Market-Duration Fixed Income		\$206.1	31.1%	30.0%	+ 1.1%	25-35%
Dodge & Cox	Market Duration	\$101.2	15.3%	15.0%	+ 0.3%	
MetWest	Market Duration	\$104.9	15.8%	15.0%	+ 0.8%	
Alternatives		\$127.7	19.3%	20.0%	- 0.7%	17-23%
Oaktree RE Opportunities	Real Estate	\$ 17.1	2.6%	2.5%	+ 0.1%	
Walton Street	Real Estate	\$ 12.5	1.9%	2.5%	- 0.6%	
Direct Hedge Fund Composite	Hedge Fund	\$ 98.2	14.8%	15.0%	- 0.2%	
Total (X District)		\$661.8	100.0%			
District Assets - Barrow Hanley		\$ 22.7				
Debt Reserves - Ponder		\$ 35.3				
Total Surplus Cash		\$719.8				

*Totals may not add due to rounding.

Investment Outlook Dashboard

Fourth Quarter 2015

Market Segment	Valuations	Fundamentals	Sentiment
Growth – Value	In most market segments, valuations are neutral. In emerging markets and U.S. small caps, growth stocks appear overvalued.	A modest recovery in the U.S. and stagnant growth in Europe and Japan suggest that growth stocks should perform better. While economic growth is strong overall in the emerging markets, it is decelerating and varies significantly by country. Combined with uncertainties related to the global recovery and Fed tightening, the environment for earnings growth becomes less certain, and tends to favor growth stocks at the margin.	Sentiment has favored growth for the past several quarters in the U.S. and developed international equity markets. Growth stocks have been in favor since late 2010 in emerging markets.
Large cap – Small cap	Relative valuations are neutral.	With the exception of a strong U.S. dollar, fundamentals generally favor large cap stocks.	Performance trends have favored small cap stocks but a more risk averse environment favors large cap.
Global equities	Emerging markets and developed international stocks look cheap relative to U.S. stocks.	Economic growth trends favor the U.S. and select emerging markets countries. Earnings growth potential is stronger in Europe.	Sentiment favors U.S. stocks, but may be shifting toward foreign stocks.
Fixed Income	Interest rates are low, making fixed income not particularly attractive. Spreads on high yield and emerging market debt have widened, offering active investment managers an improved opportunity set.	Continued low interest rates, strong corporate earnings, and low (though slightly rising) default rates favor the credit sector, especially investment grade. Continued dollar strength as well as heightened currency volatility is a negative for foreign and emerging market debt. Foreign bond yields are generally below U.S. yields.	Except for periods of spikes in market volatility, sentiment is with high quality credit.

