

Minutes of the Open Session of the
Investment Committee of the Board of Directors
Monday, May 9, 2016
El Camino Hospital, 2500 Grant Road, Mountain View, California
Conference Room A

Members Present

John Zoglin, Nicki Boone,
 Brooks Nelson, John Conover,
 Gary Kalbach, and Jeffrey Davis, MD.

Members Absent
Members Excused

A quorum was present at the El Camino Hospital Investment Committee on the 9th day of May, 2016 meeting.

Agenda Item	Comments/Discussion	Approvals/Action
1. CALL TO ORDER/ ROLL CALL	The meeting of the Investment Committee of El Camino Hospital (the "Committee") was called to order by Committee Chair John Zoglin at 5:27 p.m. Silent roll call was taken.	<i>None</i>
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Chair Zoglin 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 Zoglin if there was any public communication to present. None were noted.	<i>None</i>
4. CONSENT CALENDAR ITEMS	<p>Chair Zoglin asked if any Committee member wished to remove any items from the consent calendar for discussion. None were noted.</p> <p><u>Motion:</u> To approve the consent calendar (Open Minutes of the February 8, 2016 Investment Committee Meeting, and Joint Minutes of the January 25, 2016 Finance and Investment Committees).</p> <p><u>Movant:</u> Kalbach</p> <p><u>Second:</u> Conover</p> <p><u>Ayes:</u> Boone, Davis, Nelson, Conover, Kalbach, and Zoglin.</p> <p><u>Abstentions:</u> None</p> <p><u>Absent:</u> None</p> <p><u>Excused:</u> None</p> <p><u>Recused:</u> None</p>	<i>The Open Minutes of the February 8, 2016 Investment Committee Meeting, and Joint Minutes of the January 25, 2016 Finance and Investment Committees were approved.</i>
5. REPORT ON BOARD ACTIONS	Chair Zoglin reported that the Board is currently focused on the close of the FY16 Budget, the recent land purchase in South San Jose, the opening of 3 Urgent Care Facilities, and the upcoming renovation projects including:	<i>None</i>

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	<p>MV Parking Structure, Behavioral Health Building, and the iMOB Building.</p> <p><i>*Investment Committee requested standing agenda items to include:</i></p> <ul style="list-style-type: none"> <i>Hospital Financial Update and Finance Committee Open session materials and/or Finance Committee Report to be included on the consent calendar as information.</i> 	
<p>6. INVESTMENT COMMITTEE SCORECARD AND PERFORMANCE REVIEW</p>	<p>Antonio DiCosola, Pavilion Advisory Group, reviewed the Investment Committee Scorecard and Performance Review as of March 31, 2016 and reported the following:</p> <p>a. Scorecard: Investment performance for the Surplus Cash portfolio was 70 basis points lower than the benchmark for the quarter with a return of +0.2%. The portfolio fell slightly behind the benchmark since inception (Nov. 1, 2012) with a return of +4.2% annualized versus +4.3% for the benchmark. The assets within the Surplus Cash account ended the quarter at \$695.4 million, significantly lower than the beginning of the quarter due to large capital expenditures and is now slightly behind the budgeted amount for June 30, 2016. The Cash Balance Plan's performance outperformed ^{under} its benchmark for the quarter by 140 basis points with a return of -0.4%, but has outperformed its benchmark since inception. The since inception annualized return stands at +6.9%, 50 basis points ahead of its benchmark per year. The assets within the Cash Balance Plan ended the quarter at \$216.3 million, \$7.9 million below the budgeted amount for June 30, 2016. The 403(b) balance increased by \$15.8 million during the quarter, a little over 5%.</p> <p>b. First Quarter Performance Review: Surplus Cash; The Surplus Cash portfolio excluding District assets returned 0.2% during the first quarter, trailing its benchmark by 70 basis points (bps). While asset allocation differences relative to the benchmark had a marginally positive impact on returns, manager performance more than offset the positive impact. Large cap growth manager Sands was the primary detractor from performance, returning -10.2% vs. 0.7% for the Russell 1000 Growth Index and ranking near the bottom of its peer</p>	

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	<p>group. Sands was hurt by poor stock selection within the healthcare and technology sectors, including holdings in Regeneron Pharmaceuticals (-33.6%) and LinkedIn (-49.2%). Mr. DiCosola further noted that the quarter was historically difficult for active large cap growth managers, as 93% lagged the index. Large cap value manager Barrow Hanley also negatively impacted overall performance, trailing the Russell 1000 Value Index benchmark by 200 bps. Both small cap managers, Cortina and Wellington, outperformed their respective benchmarks. The international equity composite returned 1.2%, outperforming the MSCI AC World ex USA Index by 160 bps. Developed international managers Walter Scott and Northern Cross outperformed the benchmark by 120 bps and 90 bps, respectively, largely due to favorable stock selection. Emerging markets manager Harding Loevner was the Portfolio's top performer in absolute terms, returning 6.6% as emerging markets rebounded from a difficult 2015, driven by a recovery in oil prices and weaker US dollar. Market duration fixed income managers Dodge & Cox and MetWest slightly hindered performance as both trailed the Barclays Aggregate, which posted strong returns as rates fell amidst a risk-off environment. The Barrow Hanley Short Duration fixed income separate account returned 1.1%, marginally outperforming the Barclays 1-3 Year Gov/Credit by 10 bps. The hedge fund portfolio was the second largest detractor from performance, returning -4.3% vs. -2.8% for the HFRI Fund of Funds Composite Index. Long/short equity and relative value funds particularly struggled, as most began to increase short positions in January prior to the "Vshaped" recovery in equities.</p> <ul style="list-style-type: none"> • While Pavilion recommended no changes to the traditional asset manager lineup at this time, a small cap growth (Cortina) manager search was presented later in the meeting. <i>(Refer to 6f)</i> <p>Cash Balance Plan; The Cash Balance Plan returned -0.4% during the quarter, underperforming its benchmark by 140 basis points. Underperformance was driven primarily by manager results in large cap equity and hedge fund of funds, while asset allocation differences relative to the benchmark also slightly dampened results. Large cap growth manager Sands was the primary detractor from</p>	

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	<p>performance, returning -10.2% vs. 0.7% for the Russell 1000 Growth Index and ranking near the bottom of its peer group. As noted above, Sands was hurt by poor stock selection within the healthcare and technology sectors, including holdings in Regeneron Pharmaceuticals (-33.6%) and LinkedIn (-49.2%). It should be mentioned that the quarter was historically difficult for active large cap growth managers, as 93% lagged the index. Large cap value manager Barrow Hanley also negatively impacted overall performance, trailing the Russell 1000 Value Index benchmark by 190 bps. Both small cap managers, Cortina and Wellington, outperformed their respective benchmarks. The international equity composite returned 0.6%, outperforming the MSCI AC World ex USA Index by 100 bps. Both Walter Scott and Northern Cross generated strong relative returns, outperforming the benchmark by 120 bps and 90 bps, respectively, largely due to favorable stock selection. Market duration fixed income managers Dodge & Cox and MetWest slightly hindered performance as both trailed the Barclays Aggregate, which posted strong returns as rates fell amidst a risk-off environment. The Barrow Hanley Short Duration fixed income separate account returned 1.0%, matching the Barclays 1-3 Year Gov/Credit Index. Hedge fund of fund Pointer significantly detracted from performance, returning -8.2% vs. -2.8% for the HFRI Fund of Funds Composite Index. Pointer's losses predominantly came from underlying long equity positions, where their managers' largest positions meaningfully underperformed in a weak market.</p> <ul style="list-style-type: none"> • While Pavilion recommended no changes to the traditional asset manager lineup at this time, a small cap growth (Cortina) manager search was presented later in the meeting. <i>(Refer to 6f)</i> <p>c. Hedge Fund; The Hedge Fund Portfolio returned -4.3% during the first quarter, underperforming the HFRI Fund of Funds Composite Index, which returned -2.8%. Each of the Portfolio's four hedge fund strategies, with the exception of the macro strategy, underperformed their benchmarks. The equity and relative value segments were notable laggards underperforming their benchmarks by 640 and 610 basis points, respectively. Hedge Funds struggled during the quarter, primarily due to a sharp</p>	

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	<p>bounce back in equity and commodity markets in mid-February. Hedge fund managers had brought exposure down in the second half of 2015 and as a result protected on the downside in the beginning of the quarter but were unable to take advantage of the sharp rally from mid-February. The macro strategy provided some helpful diversification returning +1.4%. Mr. DiCosola reported in further detail the performance of hedge funds as submitted in the committee packet.</p> <ul style="list-style-type: none"> • Pavilion recommended no changed at this time. <p>d. Asset Class and Investment Strategy Mix: Mr. DiCosola presented an overview of the Asset Class and Investment Strategy Mix as of March 31, 2016. He further examined the structure of the El Camino Surplus Cash portfolio, including the asset classes invested, the goal of each underlying investment strategy utilized, and manager risk assessment as further detailed in the materials submitted in the Investment Committee packet.</p> <ul style="list-style-type: none"> • Pavilion recommended no changed at this time. <p>e. May 2016 Asset Allocation Review: Mr. DiCosola reported that Pavilion last presented an asset allocation review for the Surplus Cash portfolio to El Camino Hospital in February of 2015. At that time the Committee elected at that time to increase domestic and international equities by 5% each and decrease broad fixed income by 10% according to the following mix: 25% U.S. equity, 15% int'l equity, 10% short-duration fixed, 30% market-duration fixed, 20% alternatives. Currently, the Hospital's Surplus Cash asset allocation is in line with that of peers, however, there may be an opportunity to diversify the alternatives allocation by introducing a diversified private equity program that includes venture capital and growth, buyout, and special situations/distressed managers. He further detailed Peer Comparison, Mean Variance Optimization, and Stochastic Modeling. Mr. DiCosola asked the Committee for questions and feedback and discussion ensued. The Committee asked for follow up discussion on Source of funds, designation of funds, Reporting, and Risk vs. Return.</p> <ul style="list-style-type: none"> • Pavilion recommended either maintaining the current asset allocation or if agreeable, adding a 5% target allocation to private equity with the 	

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	<p>proceeds coming from public equity.</p> <p><i>*Items to be agendaized for the August 8th meeting: Source of funds, Designation of funds, Reporting, and Risk vs. Return.</i></p> <p>f. Small-Cap Growth Equity Search: Mr. DiCosola presented the Committee with an overview of various candidates included in the Small-Cap Growth Equity Search. He provided in-depth Summaries, Comparative Analysis, Performance, and Manager Profiles on each candidate. Discussion ensued.</p> <ul style="list-style-type: none"> • Pavilion recommended Conestoga Capital Advisors as a Small-Cap Growth manager. 	
7. 403(b) REVIEW	<p>Brian Montanez, Multnomah Group, reported to the Committee that on a quarterly basis, Multnomah Group reviews the 403(b) Plan's investments in accordance with the Plan's Investment Policy Statement and reports their findings to the Hospital's Retirement Plan Administration Committee (RPAC). Below is a summary of 2015 Multnomah Group and RPAC actions.</p> <p>Fund Actions:</p> <p>Effective April 24th, 2015, the RPAC instructed Fidelity to make the below changes:</p> <ol style="list-style-type: none"> 1. Removed Fidelity Freedom Funds and mapped the assets into the T. Rowe Price Retirement Funds due to persistent underperformance, changes in the investment glide path, portfolio management personnel, and underlying investment management philosophy of the funds. 2. Removed JPMorgan Core Bond Select and mapped the assets into the Fidelity Total Bond to enhance the investment manager's flexibility to invest in non-core sectors of the fixed income market that should provide an opportunity enhance returns. 3. Removed Vanguard Small Cap Index and mapped the assets into the Fidelity Spartan Extended Market Index to enhance a non-large cap domestic index profile. 4. Replaced Principal Fixed Income Guarantee with NY Life Guaranteed Option (Liquid Assets will be Mapped) to increase crediting rate. 5. Removed Artisan Mid Cap Value and mapped the assets into the Northern Small Cap Value to decrease correlation of asset class to Large Cap Value. 	None

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	<p>6. Removed Buffalo Mid Cap and mapped the assets into the American Beacon Stephens Small Cap Growth to decrease correlation of asset class to Large Cap Growth.</p> <p>7. Removed AllianzGI NFJ Small Cap Value and mapped the assets into the Northern Small Cap Value due to consistent style drift and underperformance.</p> <p>Added as a new asset class and investment to enhance diversification and index fund offering:</p> <ol style="list-style-type: none"> 1. U.S. Bond Market Index - Fidelity Spartan US Bond Market Index 2. International Equity Index - Fidelity Spartan Global ex-US Index 3. International Large Cap Value - Dodge & Cox International Stock 4. 4. International SMID - DFA International Small Company I <p>Mr. Montanez reported in further detail on the 403(b) fund plan and revisions as submitted in the committee packet, and asked the Committee for questions and feedback; discussion ensued.</p> <p><i>*Update Pacing Plan to reflect this agenda item for review at the February Investment Committee Meeting.</i></p>	
<p>8. FY17 GOALS AND PACING PLAN</p>	<p>Iftikhar Hussain, Chief Financial Officer, submitted the proposed FY17 Goals and FY17 Pacing Plan to the Committee for approval.</p> <p><u>Motion:</u> To approve the FY17 Goals and FY17 Pacing Plan.</p> <p><u>Movant:</u> Davis</p> <p><u>Second:</u> Kalbach</p> <p><u>Ayes:</u> Boone, Davis, Nelson, Conover, Kalbach, and Zoglin.</p> <p><u>Abstentions:</u> None</p> <p><u>Absent:</u> None</p> <p><u>Excused:</u> None</p> <p><u>Recused:</u> None</p>	<p><i>The FY17 Goals and FY17 Pacing Plan were approved.</i></p>
<p>9. ADJOURN TO CLOSED SESSION</p>	<p><u>Motion:</u> To adjourn to closed session at 7:15 pm.</p> <p><u>Movant:</u> Kalbach</p> <p><u>Second:</u> Conover</p> <p><u>Ayes:</u> Boone, Conover, Davis, Kalbach, Nelson, and Zoglin.</p> <p><u>Abstentions:</u> None</p> <p><u>Absent:</u> None</p> <p><u>Excused:</u> None</p>	<p><i>A motion to adjourn to closed session at 7:15 p.m. was approved.</i></p>

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	<u>Recused:</u> None	
10. AGENDA ITEM 14 RECONVENE OPEN SESSION/ REPORT OUT	<i>Agenda Items 10 through 13 were conducted in closed session.</i> Chair Zoglin reported that the Closed Minutes of the February 8, 2016 Investment Committee were approved.	<i>None</i>
11. AGENDA ITEM 15 ADJOURNMENT	<u>Motion:</u> To adjourn the Investment Committee meeting at 7:42 pm. <u>Movant:</u> Nelson <u>Second:</u> Kalbach <u>Ayes:</u> Boone, Conover, Davis, Kalbach, Nelson, and Zoglin. <u>Abstentions:</u> None <u>Absent:</u> None <u>Excused:</u> None <u>Recused:</u> None	<i>A motion to adjourn to the Investment Committee meeting at 7:42 pm was approved.</i>

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


John Zoglin, Chairman
ECH Investment Committee of the Board of Directors