

## AGENDA

**Investment Committee Meeting  
Of the El Camino Hospital Board**  
Monday, August 14, 2017, **5:30 p.m.**  
Conference Room A, Ground Floor  
2500 Grant Road, Mountain View, California

*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		
<b>1. CALL TO ORDER/ROLL CALL</b>	Jeffrey Davis, MD Chair		5:30 – 5:31
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Jeffrey Davis, MD Chair		5:31 – 5:32
<b>3. PUBLIC COMMUNICATION</b>	Jeffrey Davis, MD Chair		5:32 – 5:33
<b>4. CONSENT CALENDAR:</b> <i>Any Committee Member or member of the public may remove an item for discussion before a motion is made.</i>	Jeffrey Davis, MD Chair	<i>public comment</i>	<b>Motion</b> 5:33 – 5:40
<b>Approval:</b> a. <a href="#">Minutes of Investment Committee</a> - <a href="#">May 8, 2017 Minutes</a> <b>Information:</b> b. <a href="#">CFO – Report Out – Finance Committee Open Session Materials</a> c. <a href="#">ECHI Financial Performance (FY17 Period 12 Financials)</a> d. <a href="#">Updated 2018 Pacing Plan</a> e. <a href="#">Article of Interest</a>			
<b>5. REPORT ON BOARD ACTIONS</b> <a href="#">ATTACHMENT 5</a>	Jeffrey Davis, MD Chair		<b>Information</b> 5:40 – 5:45
<b>6. WORKFLOW AND PAVILION PACING</b> <a href="#">ATTACHMENT 6</a>	Antonio DiCosola and Chris Kuhlmann, Pavilion Advisory Group		<b>Information</b> 5:45 – 6:00
<b>7. INVESTMENT GOALS UPDATE</b> <a href="#">ATTACHMENT 7</a>	Iftikhar Hussain, CFO		<b>Motion</b> 6:00 – 6:15
<b>8. INVESTMENT COMMITTEE SCORECARD AND PERFORMANCE REVIEW</b> a. Investment Committee Scorecard b. First Quarter Performance Review <a href="#">ATTACHMENT 8</a>	Antonio DiCosola and Chris Kuhlmann, Pavilion Advisory Group		<b>Information</b> 6:15 – 6:45
<b>9. COMMITTEE EDUCATION: HEDGE FUND TRENDS AND ASSET ALLOCATION</b>	Antonio DiCosola and Chris Kuhlmann,		<b>Information</b> 6:45 – 7:15

A copy of the agenda for the Regular Committee Meeting will be posted and distributed at least seventy-two (72) hours prior to the meeting. In observance of the Americans with Disabilities Act, please notify us at 650-988-7504 prior to the meeting so that we may provide the agenda in alternative formats or make disability-related modifications and accommodations.

AGENDA ITEM	PRESENTED BY		
<b>REVIEW</b> <a href="#"><u>ATTACHMENT 9</u></a>	Pavilion Advisory Group		
<b>10. ADJOURN TO CLOSED SESSION</b>			7:15
<b>11. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Jeffrey Davis, MD Chair		7:15 – 7:16
<b>12. CONSENT CALENDAR:</b> <i>Any committee member may remove an item for discussion before a motion is made.</i> <b>Approval:</b> Meeting Minutes of the Closed Session Gov't Code Section 54957.2. - May 8 <sup>th</sup> , 2017	Jeffrey Davis, MD Chair		<b>Motion</b> 7:16 – 7:18
<b>13. RECONVENE OPEN SESSION</b>			7:18 – 7:19
To report any required disclosures regarding permissible actions taken during Closed Session.	Jeffrey Davis, MD Chair		
<b>14. ADJOURNMENT</b>	Jeffrey Davis, MD Chair		7:19 p.m.

**Important Dates:**

FY18 Investment Committee Meetings

- November 13, 2017
- January 29, 2018 – *Joint Finance & Investment Committee Meeting*
- February 12, 2018
- May 14, 2018

Semi-Annual Board & Committee Educational Gatherings

- October 25, 2017
- April 25, 2018

**Minutes of the Open Session of the  
 Investment Committee Meeting of the  
 El Camino Hospital Board  
 Monday, May 8, 2017  
 El Camino Hospital, Conference Room A  
 2500 Grant Road, Mountain View, California**

**Members Present**

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

**Members Absent**

**Members Excused**

A quorum was present at the El Camino Hospital Investment Committee on the 8<sup>th</sup> day of May, 2017 meeting.

Agenda Item	Comments/Discussion	Approvals/Action
<b>1. CALL TO ORDER/ ROLL CALL</b>	The meeting of the Investment Committee of El Camino Hospital (the "Committee") was called to order by Committee Chair John Zoglin at 5:30 p.m. Silent roll call was taken.	<i>None</i>
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	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>
<b>3. PUBLIC COMMUNICATION</b>	Chair Zoglin asked if there was any public communication to present. None were noted.	<i>None</i>
<b>4. CONSENT CALENDAR ITEMS</b>	Chair Zoglin asked if any Committee member wished to remove any items from the consent calendar for discussion. <u><b>Motion:</b></u> To approve the consent calendar (Open Minutes of the March 6, 2017 Investment Committee Meeting and proposed FY18 Meeting Dates). <u><b>Movant:</b></u> Nelson <u><b>Second:</b></u> Conover <u><b>Ayes:</b></u> Boone, Conover, Davis, Kalbach, Nelson, and Zoglin. <u><b>Abstentions:</b></u> None <u><b>Absent:</b></u> None <u><b>Excused:</b></u> None <u><b>Recused:</b></u> None	<i>The Open Minutes of the March 6, 2017 Investment Committee Meeting and the proposed FY18 Meeting Dates were approved.</i>
<b>5. REPORT ON BOARD ACTIONS</b>	Chair Zoglin briefly reviewed the Report on Board Actions as further detailed in the packet and noted the upcoming Board meeting to address the expansion of the current Board model, as well as the launch of the new strategic plan. Mr. Zoglin asked the Committee if there were any questions or concerns. None were noted.	<i>None</i>
<b>6. EL CAMINO HOSPITAL FINANCIAL PERFORMANCE</b>	Iftikhar Hussain, Chief Financial Officer, reviewed the Hospital's current financial performance with the Committee. Mr. Hussain detailed the inpatient volume, outpatient volume, operating income, and budget variance and monthly trends to	<i>None</i>

Agenda Item	Comments/Discussion	Approvals/Action
	<p>include:</p> <ul style="list-style-type: none"> <li>• March inpatient discharges exceed budget by 2.9% and 5.4% from PY; YTD discharge is lower than budget by 1.4%. With strong OP revenue, YTD adj. discharges are now ahead of budget.</li> <li>• Delivery, BHS and Rehab volume all lagging from budget but we see a volume increase in HVI (5%, particularly cardiac surgery cases), Spine surgeries (9%), and GYN cases (11%).</li> <li>• OP volume posted a strong month in March with a 10.3% higher than budget. YTD overall OP volume ahead of budget by 1.1%</li> <li>• Observed significant increase in OP surgery at both campuses in March (28%) as well as YTD (7.9%).</li> <li>• Endo cases (5.9%), Cancer Center, Infusion Center case volume also posted an all-time high volume in March which result a significant increase in gross charges.</li> <li>• Commercial mix improved from February from 40.4% to 41.5% as respiratory cases eased with the warm weather. YTD PM is still under budget due to higher Medicare.</li> <li>• Net days in AR are ahead of target and improved further in March. Total cash on hand is still at an all-time high of 418 days in March.</li> </ul> <p>Mr. Hussain asked the Committee for feedback and a brief discussion ensued.</p> <p>Chair Zoglin asked for clarification on what was driving the Capital projection up \$30-\$35 million. Mr. Hussain noted he was currently waiting for information from Mr. King and would report back at the next Board meeting.</p>	
<p><b>7. INVESTMENT COMMITTEE SCORECARD AND PERFORMANCE REVIEW</b></p>	<p>Antonio DiCosola and Chris Kuhlman, Pavilion Advisory Group, reviewed the Investment Committee Scorecard, First Calendar Quarter Performance, and Manager Performance as further detailed in the submitted materials to include the following:</p> <p>a. <b>Scorecard:</b> Mr. DiCosola reported that Investment performance for both portfolios was strong this quarter with surplus cash outperforming its benchmark by 20 basis points, and cash balance outperforming its benchmark by 60 basis points. Mr. DiCosola also reported on manager performance rolling 3 year rankings vs. peers, and surplus cash composite and manager asset allocation and performance.</p> <p>b. <b>Surplus Cash:</b> Mr. Kuhlman noted that the Investment performance for the Surplus Cash Portfolio returned +3.3% for the quarter, outperforming its benchmark by 20 basis points (bps). For The FY 17 return was at benchmark at +6.4%. Outperformance during the quarter was driven by</p>	<p><i>The Investment Committee Scorecard and Performance Review Report were approved.</i></p>

Agenda Item	Comments/Discussion	Approvals/Action
	<p>favorable manager results as the domestic equity, international equity, and fixed income composites outperformed their respective benchmarks. Notable outperformers included Large Cap Growth Manager Sands (+13.8%), which outperformed the Russell 1000 Growth Index by 490 bps, rebounding from a difficult fourth quarter, and International Equity manager Northern Cross (+8.7%), which outpaced the MSCI AC World ex US by 80 bps.</p> <p>c. <b>Cash Balance Plan:</b> The Cash Balance Plan returned +4.2% for the quarter, outperforming its benchmark by 60 basis points (bps). Over the trailing one year period, the Plan returned +9.6%, outpacing the benchmark by approximately 30 bps. Outperformance during the quarter was driven by favorable manager results as all four composites outperformed their respective benchmarks. Notable outperformers included Large Cap Growth Manager Sands (+13.8%), which outperformed the Russell 1000 Growth Index by 490 bps, rebounding from a difficult fourth quarter and Hedge Fund of Fund Pointer (+4.7%), which bested the HFRI Fund of Funds Composite Index by 240 bps. The International Equity composite outperformed the MSCI AC World ex US by 90 bps.</p> <p>d. <b>Hedge Fund:</b> The Hedge Fund Portfolio returned +1.3% during the first calendar quarter, underperforming the HFRI Fund of Funds Composite Index by 100 basis points. Three of the Portfolio’s four strategies delivered positive absolute returns, with one of the four strategies (Relative Value) performing better than its underlying benchmark.</p> <p>Mr. DiCosola asked the Committee for feedback and a brief discussion ensued.</p> <p><b>Motion:</b> To approve the Investment Committee Scorecard and Performance Review Report. <b>Movant:</b> Boone <b>Second:</b> Conover <b>Ayes:</b> Boone, Conover, Davis, Kalbach, Nelson, and Zoglin. <b>Abstentions:</b> None <b>Absent:</b> None <b>Excused:</b> None <b>Recused:</b> None</p>	
<p><b>8. 403b REVIEW</b></p>	<p>Brian Montanez, Multnomah Group, reviewed Multnomah Group Investment Performance with the Committee. Mr. Montanez reported on the Fund scorecard, Performance review, U.S equity markets, Fixed Income, International equity markets, Unpredictability of asset class returns, T. Rowe price retirement funds, and Plan asset details fidelity as further detailed in the submitted materials.</p>	<p>None</p>

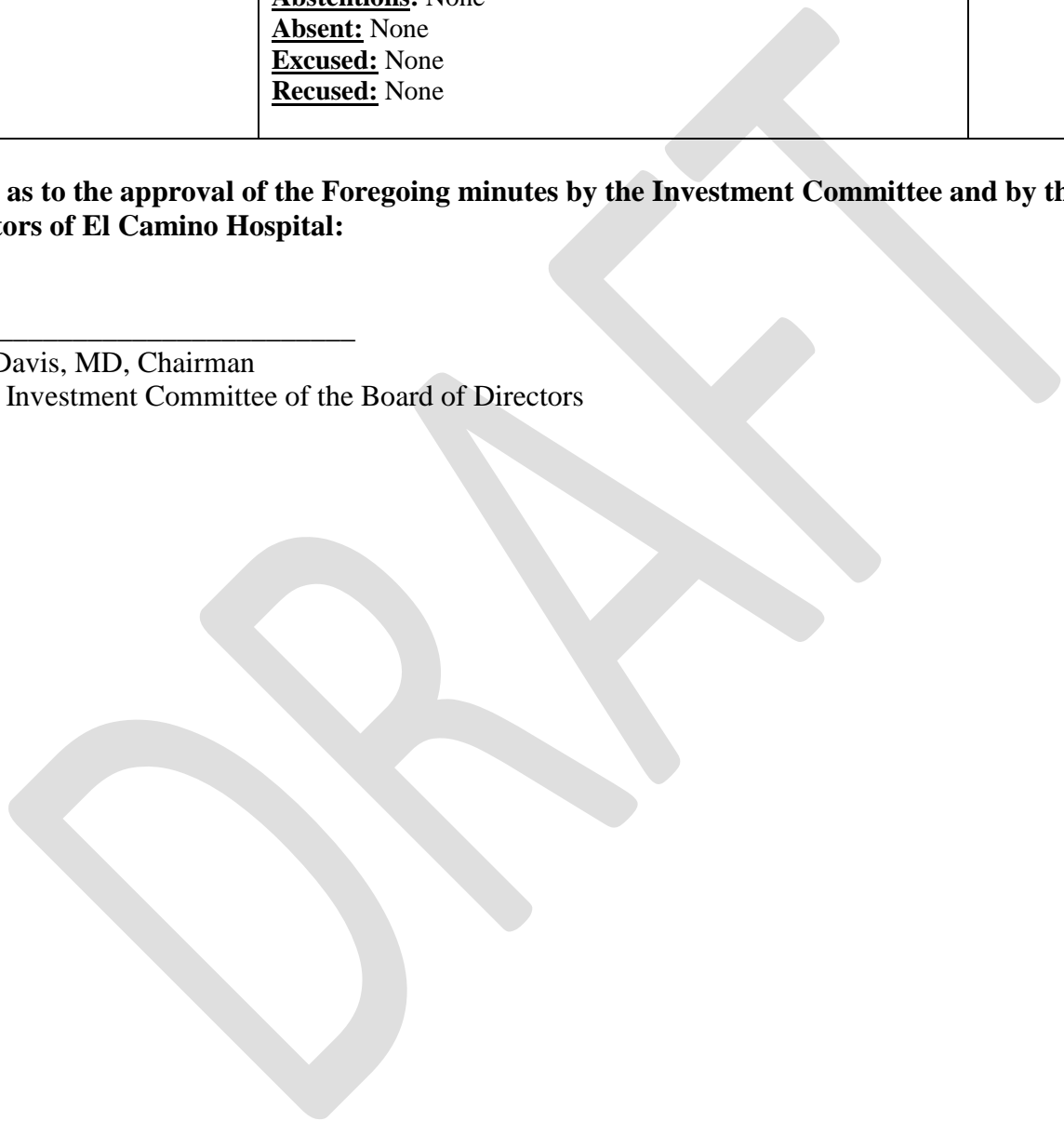
Agenda Item	Comments/Discussion	Approvals/Action
	<p>Below is a summary of the Multnomah Group comments for Q1 2017 for El Camino Hospital 403(b), 457(b) and Supplemental Executive Retirement Plans:</p> <ol style="list-style-type: none"> <li>1. Market Commentary: The U.S. economy advanced at a moderate pace in the fourth quarter, growing at an annualized rate of 2.1% (the most recent quarter available). This is consistent with the late stage economic recovery which began after the 2007-2008 global financial crisis. Prospects for increased infrastructure spending, lower taxes, and deregulation given the new administration may provide the economy with yet another push, but the degree and timing of the economic impact remain unknown. Core CPI remained low in February but inflationary pressures are visible. The unemployment rate at 4.7% remained a bright spot and job creation is continuing at a strong pace. New orders for factory goods recently recorded its fifth consecutive monthly gain with a surge in demand for commercial aircraft. Offsetting this, consumer spending leveled off in February amid delays in the payment of income tax returns. For the second time in three months, the Fed raised interest rates by a quarter point in March. Fixed income markets were less volatile, versus the prior quarter as aggregate bonds gained 0.82% for the quarter. The yield on the 10-year Treasury declined modestly to 2.40%. The S&amp;P 500 continued to climb rising more than 6% for the quarter, as some say it's an extension of the so-called 'Trump Bump'. Healthcare stocks staged a comeback jumping 8.37% in the first quarter after declining 2.69% in 2016. Energy and telecom stocks reported negative returns for the quarter. Large cap stocks outperformed small cap stocks reversing last year's trend. For the quarter, international equity markets outperformed domestic markets. Emerging markets reported the strongest return of all asset classes with an 11.45% return. After ending the year on a strong note, commodities lost 2.33%, becoming the worst performing asset class for the quarter. Oil prices declined modestly but remained over \$50 per barrel. Gold prices rallied. While real estate fundamentals are still strong, the cycle appears to be in the latter stages of its recovery.             <ul style="list-style-type: none"> <li>• Recommendation: As none of the investments are categorized as "Watch List" or "Recommended for Removal," no actions are recommended at this time.</li> </ul> </li> <li>2. Plan Fee Benchmarking: Annually, Multnomah Group conducts a fee benchmarking study for the administration and recordkeeping services provided to the Plan. Multnomah Group creates a Peer Range for fees for Plans of similar size and demographics. The Peer Range is an estimate of the total cost of plan services available in today's market. The range is calculated based on the average account balance of the plan and the number of participants with a plan balance. The Multnomah Group</li> </ol>	

Agenda Item	Comments/Discussion	Approvals/Action
	<p>utilized a range of price sources, including existing clients' pricing, vendor responses to recent comparative searches, and discussions with vendors regarding their current pricing structures. As of December 31, 2016, the 403(b) Plan pays \$92.00 per participant which equates to 0.10% for Plan services. This fee is at the bottom of the peer range, determined by Multnomah Group, of 0.10% and 0.15% and is considered reasonable for services received.</p> <ul style="list-style-type: none"> <li>• Recommendation: As none of the investments are categorized as “Watch List” or “Recommended for Removal,” no actions are recommended at this time.</li> </ul> <p>Mr. Montanez asked the Committee for questions or feedback and discussion ensued. Committee Members requested the inclusion of 2 year period vs. 3 year reporting, fee schedule, and fee benchmarking in the next year’s performance review. The report will be made in calendar Q2 to allow for the availability of fee benchmark data. The members also asked about information given to participants to guide their investment and retirement decisions. Mr. Montanez stated that Fidelity is providing these services to the participants.</p> <p><i>*Committee Members requested continued pacing of this item for this timeframe on the FY18 Pacing plan.</i></p>	
<p><b>9. FY18 COMMITTEE GOALS AND PACING PLAN</b></p>	<p>Iftikhar Hussain, Chief Financial Officer, submitted the proposed FY18 Goals and FY18 Pacing Plan to the Committee for approval.</p> <p><b>Motion:</b> To approve the proposed FY18 Investment Committee Goals and FY18 Pacing Plan.</p> <p><b>Movant:</b> Kalbach</p> <p><b>Second:</b> Conover</p> <p><b>Ayes:</b> Boone, Conover, Davis, Kalbach, Nelson, and Zoglin.</p> <p><b>Abstentions:</b> None</p> <p><b>Absent:</b> None</p> <p><b>Excused:</b> None</p> <p><b>Recused:</b> None</p>	<p><i>A motion to approve the FY18 Goals and FY18 Pacing Plan was approved</i></p>
<p><b>10. ADJOURN TO CLOSED SESSION</b></p>	<p><b>Motion:</b> To adjourn to closed session at 7:01pm.</p> <p><b>Movant:</b> Kalbach</p> <p><b>Second:</b> Boone</p> <p><b>Ayes:</b> Boone, Conover, Davis, Kalbach, Nelson, and Zoglin.</p> <p><b>Abstentions:</b> None</p> <p><b>Absent:</b> None</p> <p><b>Excused:</b> None</p> <p><b>Recused:</b> None</p>	<p><i>A motion to adjourn to closed session at 7:01p.m. was approved.</i></p>
<p><b>11. AGENDA ITEM 13 RECONVENE OPEN SESSION/ REPORT OUT</b></p>	<p><i>Agenda Items 11 through 12 were conducted in closed session.</i></p> <p>Chair Zoglin reported that the Closed Minutes of the March 6<sup>th</sup>, 2016 Investment Committee were approved, and updated</p>	<p><i>None</i></p>

Agenda Item	Comments/Discussion	Approvals/Action
	the Committee on the upcoming meetings.	
<p><b>12. AGENDA ITEM 14 ADJOURNMENT</b></p>	<p><b><u>Motion:</u></b> To adjourn the Investment Committee meeting at 7:03pm.  <b><u>Movant:</u></b> Nelson  <b><u>Second:</u></b> Davis  <b><u>Ayes:</u></b> Boone, Conover, Davis, Kalbach, Nelson, and Zoglin.  <b><u>Abstentions:</u></b> None  <b><u>Absent:</u></b> None  <b><u>Excused:</u></b> None  <b><u>Recused:</u></b> None</p>	<p><i>A motion to adjourn to the Investment Committee meeting at 7:03 pm was approved.</i></p>

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

\_\_\_\_\_  
 Jeff Davis, MD, Chairman  
 ECH Investment Committee of the Board of Directors





<b>Item:</b>	Finance Committee Report El Camino Hospital Investment Committee (IC) August 14, 2017
<b>Responsible party:</b>	Iftikhar Hussain, CFO
<b>Action requested:</b>	For Information
<b>Background:</b> The Finance Committee meets 6 times per year. The Committee last met on July 31, 2017 and meets next on September 25, 2017.	
<p><b>Summary and session objectives:</b> To update the Investment Committee on the work of the Finance Committee.</p> <ol style="list-style-type: none"> <li>1. Progress Against Goals: Service Line review for HVI, BHS and Oncology are scheduled for September, November and January FC meetings</li> <li>2. Reviewed FY 18 year-end financial results.</li> <li>3. Reviewed Patient Price Estimator on-line tool to advance transparency of patient out of pocket costs.</li> <li>4. Reviewed status of major capital plans – BHS, IMOB, Garage and Central Utility Plant</li> <li>5. Important Future Activities <ol style="list-style-type: none"> <li>a. Setting up an additional FC meeting in April to review and provide input for the FY 19 budget</li> </ol> </li> </ol>	
<b>Suggested discussion questions:</b> None.	
<p><b>Proposed Board motion, if any:</b></p> <ol style="list-style-type: none"> <li>1. Approval of P11 and P12 Financial Statements</li> <li>2. Give management the authority to negotiate the following physician contracts <ol style="list-style-type: none"> <li>a. Neurointerventional Radiology – Physician Recruitment</li> <li>b. Cardiothoracic ED Call Panel – MV</li> <li>c. Pediatric Consultations ED Call Agreement _ MV</li> <li>d. General Surgery ED Call Panel – LG</li> <li>e. Processional Service Agreement for Cancer Center- University Healthcare Alliance</li> </ol> </li> </ol>	
<p><b>LIST OF ATTACHMENTS:</b> The Finance Committee Open Session Materials may be accessed by clicking <a href="#">here</a>.</p>	



**El Camino Hospital**

THE HOSPITAL OF SILICON VALLEY

## Summary of Financial Operations

Fiscal Year 2017 – Period 12

7/1/2016 to 6/30/2017

	Annual				Month			YTD		
	2015	2016	2017 Proj.	2017 Bud/Target	PY	CY	Bud/Target	PY	CY	Bud/Target
<b>Volume</b>										
Licensed Beds	443	443	443	443	443	443	443	443	443	443
ADC	246	242	239	245	248	245	242	243	239	245
Adjusted Discharges	22,342	22,499	23,446	22,992	1,723	2,057	1,845	21,960	23,446	22,993
Total Discharges	19,637	19,367	19,646	19,781	1,548	1,680	1,583	19,169	19,660	19,790
<b>Inpatient Cases</b>										
MS Discharges	13,114	13,344	13,616	13,499	1,020	1,175	1,080	13,024	13,616	13,500
Deliveries	5,067	4,717	4,660	4,810	401	388	385	4,717	4,660	4,810
BHS	901	806	909	901	79	77	73	928	923	910
Rehab	555	500	461	570	48	40	46	500	461	570
<b>Outpatient Cases</b>										
ED	128,110	139,935	145,927	147,053	11,755	12,461	11,459	139,926	145,927	143,255
Procedural Cases	49,106	48,609	48,648	51,258	4,135	4,070	4,087	44,764	48,648	51,095
OP Surg	6,488	6,070	6,666	6,427	535	542	497	6,076	6,666	6,211
Endo	2,520	2,324	2,159	2,479	184	197	190	2,324	2,159	2,378
Interventional	1,998	2,021	1,963	2,323	165	112	182	2,023	1,963	2,281
All Other	67,998	80,911	86,491	84,566	6,736	7,540	6,503	84,739	86,491	81,290
<b>Financial Perf.</b>										
Net Patient Revenues	746,645	772,020	832,279	789,585	73,165	87,372	64,432	772,020	832,279	789,585
Total Operating Revenue	767,751	795,657	858,363	814,645	76,986	89,212	66,519	795,657	858,363	814,645
Operating Expenses	689,631	743,044	752,786	764,828	65,534	71,600	62,775	743,044	752,786	756,360
Operating Income \$	78,120	52,613	105,578	49,817	11,451	17,612	3,743	52,613	105,578	58,285
Operating Margin	10.2%	6.6%	12.3%	6.1%	14.9%	19.7%	5.6%	6.6%	12.3%	7.2%
EBITDA \$	128,002	108,554	157,631	109,890	17,319	21,766	8,560	108,554	157,631	116,511
EBITDA %	16.7%	13.6%	18.4%	13.5%	22.5%	24.4%	12.9%	13.6%	18.4%	14.3%
IP Margin <sup>1</sup>	-3.9%	-8.7%	-4.7%	-6.1%	-6.3%	7.3%	-6.1%	-9.4%	-4.7%	-6.1%
OP Margin <sup>1</sup>	26.7%	26.7%	34.0%	26.4%	26.3%	33.3%	26.4%	25.3%	34.0%	26.4%
<b>Payor Mix</b>										
Medicare	46.2%	46.6%	47.7%	46.4%	46.1%	47.7%	46.4%	46.6%	47.7%	46.4%
Medi-Cal	6.6%	7.4%	7.3%	6.5%	8.4%	7.0%	6.5%	7.4%	7.3%	6.5%
Commercial IP	24.2%	23.2%	22.3%	24.0%	23.9%	22.4%	24.0%	24.0%	22.3%	24.0%
Commercial OP	18.7%	18.7%	20.2%	19.0%	19.0%	20.6%	19.0%	19.3%	20.2%	19.0%
Total Commercial	42.9%	41.9%	42.5%	43.0%	42.8%	43.0%	43.0%	43.3%	42.5%	43.0%
Other	4.3%	4.1%	2.5%	4.1%	2.6%	2.4%	4.1%	2.8%	2.5%	4.1%
<b>Cost</b>										
Employees	2,452.4	2,542.8	2,510.0	2,549.8	2,524.2	2,585.3	2,527.8	2,584.9	2,510.0	2,549.8
Hrs/APD	30.5	30.4	30.3	30.6	29.8	30.1	30.6	29.2	30.3	30.6
<b>Balance Sheet</b>										
Net Days in AR	43.6	53.7	44.8	48.0	53.7	44.8	48.0	53.7	44.8	48.0
Days Cash	401	361	444	266	361	444	266	361	444	266
<b>Affiliates - Net Income (\$000s)</b>										
Hosp	94,787	43,043	246,038	67,032	14,336	19,942	4,472	43,043	164,026	67,032
Concern	1,202	1,823	2,087	2,604	(114)	142	233	1,823	1,391	2,604
ECSC	(41)	(282)	(158)	0	29	(14)	0	(282)	(105)	0
Foundation	710	982	3,645	(450)	62	253	27	982	2,430	(450)
SVMD	106	156	293	0	68	190	1	156	195	0

**Volume**

- Very strong volume in June. Combined volume, measured in adjusted discharges, was 11.5% higher than budget and 19% higher than prior year.
- For the year, combined volume was 2% higher than budget with the growth coming primarily from OP services.
- The OP volume growth is in Behavioral Health 33.3%, Oncology 26.7%, Rehab Services 11.6% and HVI 9.4%.
- The inpatient growth is mainly in general medicine, HVI, general surgery and spine surgery.

**Financial Performance:**

- June's operating income was very strong driven by high volume and \$8.1M in IGT and Medi-Cal supplemental funding.
- For the year, net income is \$97 million ahead of target; \$47M from operations and \$50M in investment income. Operating income includes two years of IGT, strong volume and expense efficiencies.

**Payor Mix:**

- Commercial mix is at budget for the month of June and within a percent for the year.

**Cost:**

- YTD FTEs are under budget by 39.8 FTEs.

**Balance Sheet:**

- Net days in AR are ahead of target and improved further in June to 44.8 from 47.5 in May. Total cash on hand is still at an all time high of 444 days in June.
- AR will climb during the next 3 months due to Anthem claims hold in July (required due to charge increase) and Nuance transcription malware disruption.

Green - Equal to or better than budget; Yellow - Unfav by up to 5%; Red - Greater than 5% unfav  
FY2017 budget presented excludes 2016 and 2017 bonds cost of issuance and interest expense

# Budget Variances

Fiscal Year 2017 YTD (7/1/2016-6/30/2017) Waterfall

(in thousands)	Month to Date (MTD)			Year to Date (YTD)		
	Detail	Net Income Impact	% Net Revenue	Detail	Net Income Impact	% Net Revenue
<b>Budgeted Hospital Operations FY2017</b>		<b>3,743</b>	<b>5.6%</b>		<b>58,285</b>	<b>7.2%</b>
<b>Net Revenue</b>		22,693	25.4%		43,718	5.1%
* Volume and Payor Mix	14,022			14,667		
* Rev cycle improvements	500			10,000		
* Insurance Payment Variances	579			1,698		
* Mcare Settlement	81			3,379		
* BPCI Settlement				(2,092)		
* Medi-Cal Supplemental				1,510		
* IGT Supplemental	6,823			13,358		
* AB 915 (Medi-Cal OP Supplemental payment)	880			880		
* Various Adjustments under \$250k	(192)			318		
<b>Labor and Benefit Expense Change</b>		759	0.9%		10,467	1.2%
* Benefits - No accrual in Pension and WC due low actuarial estimates	548			(855)		
* Accrued Time Off - Repricing PRN PTO.				1,146		
* Productivity, vacancies and volume mix	211			13,256		
* WC Reserve Update based on Favorable Exp				2,524		
* Pay for performance bonus				(3,204)		
* Ratification bonus				(2,400)		
<b>Professional Fees &amp; Purchased Services</b>		(5,614)	-6.3%		(8,483)	-1.0%
* Physician Fees - Bonus Paid & VMOC 5 month reserve	(317)			1,243		
* Consulting Fee - Various Administration, Legal, FP&A and HR consultants	(2,058)			(6,834)		
* Purchased Services - Outside Labor (Informatics offset by lower labor from vacancies)	(2,895)			(6,992)		
* Maintenance Fees (Annual service contract renewals)	(344)			4,100		
<b>Supplies</b>		(4,262)	-4.8%		(4,204)	-0.5%
* Drug Expense - Offset by revenue	(1,353)			(4,112)		
* Medical Supplies - Year end inventory adjustment	(2,259)			(833)		
* Non Med Supplies - \$422k due to patient TV replacement.	(650)			741		
<b>Other Expenses</b>		(369)	-0.4%		(378)	0.0%
* Leases & Rental Fees (mainly mobile CT at LG during upgrade)	4			(268)		
* Bad Debt Expense	(73)			(73)		
* Utilities & Telephone	62			473		
* Other G&A	(362)			(511)		
<b>Depreciation &amp; Interest</b>		662	0.7%		6,173	0.7%
* Depreciation (Under budget in Facilities Dev and Real Estate & ICARE depreciation and equipment)	492			4,923		
* Interest Expense - 2017 bonds & Capital Interest 2015 bonds	170			1,250		
<b>Actual Hospital Operations FY2017</b>		<b>17,612</b>	<b>19.7%</b>		<b>105,578</b>	<b>12.3%</b>

# El Camino Hospital (\$000s)

12 months ending 6/30/2017

PERIOD 12 FY 2016	PERIOD 12 FY 2017	PERIOD 12 Budget 2017	Variance Fav (Unfav)	Var%	\$000s	YTD FY 2016	YTD FY 2017	YTD Budget 2017	Variance Fav (Unfav)	Var%
<b>OPERATING REVENUE</b>										
234,757	263,963	238,936	25,027	10.5%	<b>Gross Revenue</b>	2,755,387	3,018,494	2,900,812	117,682	4.1%
(161,592)	(176,591)	(174,504)	(2,086)	1.0%	<b>Deductions</b>	(1,983,367)	(2,186,216)	(2,111,227)	(74,989)	3.6%
<b>73,165</b>	<b>87,372</b>	<b>64,432</b>	<b>22,940</b>	<b>35.6%</b>	<b>Net Patient Revenue</b>	<b>772,020</b>	<b>832,279</b>	<b>789,585</b>	<b>42,693</b>	<b>5.4%</b>
3,820	1,840	2,087	(247)	-11.8%	<b>Other Operating Revenue</b>	23,636	26,085	25,059	1,025	4.1%
<b>76,986</b>	<b>89,212</b>	<b>66,519</b>	<b>22,693</b>	<b>34.1%</b>	<b>Total Operating Revenue</b>	<b>795,657</b>	<b>858,363</b>	<b>814,645</b>	<b>43,718</b>	<b>5.4%</b>
<b>OPERATING EXPENSE</b>										
38,368	37,480	38,239	759	2.0%	<b>Salaries &amp; Wages</b>	435,988	448,696	459,163	10,467	2.3%
11,037	14,036	9,774	(4,262)	-43.6%	<b>Supplies</b>	117,988	122,290	118,085	(4,204)	-3.6%
7,664	13,420	7,806	(5,614)	-71.9%	<b>Fees &amp; Purchased Services</b>	98,019	102,292	93,809	(8,483)	-9.0%
2,598	2,509	2,140	(369)	-17.3%	<b>Other Operating Expense</b>	35,109	27,455	27,077	(378)	-1.4%
1,618	278	448	170	38.0%	<b>Interest</b>	7,193	4,128	5,379	1,250	23.2%
4,249	3,876	4,368	492	11.3%	<b>Depreciation</b>	48,748	47,925	52,848	4,923	9.3%
<b>65,534</b>	<b>71,600</b>	<b>62,775</b>	<b>(8,824)</b>	<b>-14.1%</b>	<b>Total Operating Expense</b>	<b>743,044</b>	<b>752,786</b>	<b>756,360</b>	<b>3,574</b>	<b>0.5%</b>
<b>11,451</b>	<b>17,612</b>	<b>3,743</b>	<b>13,869</b>	<b>370.5%</b>	<b>Net Operating Income/(Loss)</b>	<b>52,613</b>	<b>105,578</b>	<b>58,285</b>	<b>47,293</b>	<b>81.1%</b>
2,885	2,330	729	1,601	219.7%	<b>Non Operating Income</b>	(9,570)	58,448	8,747	49,701	568.2%
<b>14,336</b>	<b>19,942</b>	<b>4,472</b>	<b>15,470</b>	<b>345.9%</b>	<b>Net Income(Loss)</b>	<b>43,043</b>	<b>164,026</b>	<b>67,032</b>	<b>96,994</b>	<b>144.7%</b>
22.5%	24.4%	12.9%	11.5%		<b>EBITDA</b>	13.6%	18.4%	14.3%	4.1%	
14.9%	19.7%	5.6%	14.1%		<b>Operating Margin</b>	6.6%	12.3%	7.2%	5.1%	
18.6%	22.4%	6.7%	15.6%		<b>Net Margin</b>	5.4%	19.1%	8.2%	10.9%	

# Non Operating Items and Net Income by Affiliate

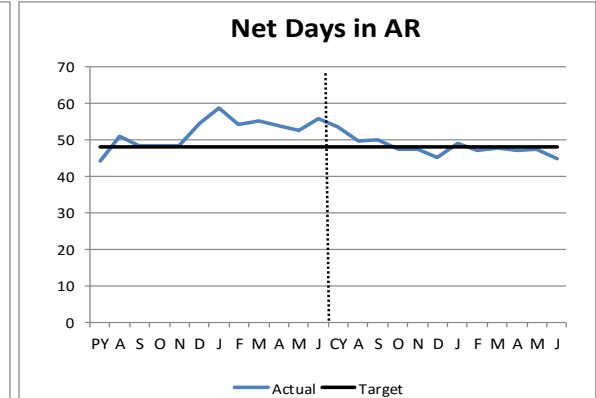
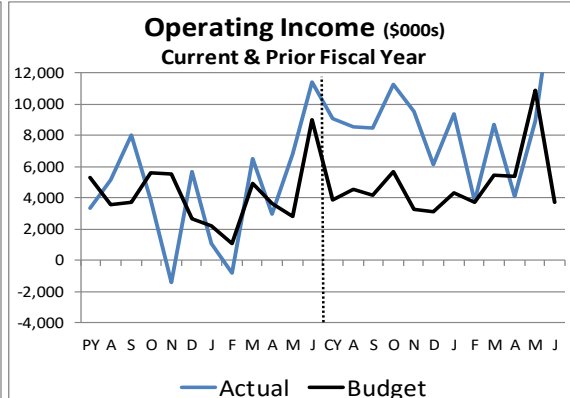
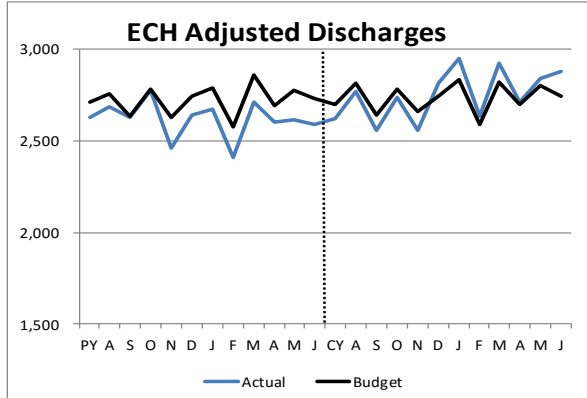
## \$ in thousands

	Period 12 - Month			Period 12 - FYTD		
	Actual	Budget	Variance	Actual	Budget	Variance
<b>El Camino Hospital Income (Loss) from Operations</b>						
Mountain View	15,586	2,820	12,765	100,039	46,483	53,555
Los Gatos	2,026	923	1,103	5,539	11,801	(6,262)
<b>Sub Total - El Camino Hospital, excl. Affiliates</b>	<b>17,612</b>	<b>3,743</b>	<b>13,869</b>	<b>105,578</b>	<b>58,285</b>	<b>47,293</b>
<b>Operating Margin %</b>	<b>19.7%</b>	<b>5.6%</b>		<b>12.3%</b>	<b>7.2%</b>	
<b>El Camino Hospital Non Operating Income</b>						
Investments	3,014	1,512	1,502	62,919	18,140	44,779
Swap Adjustments	399	0	399	3,429	0	3,429
Community Benefit	(50)	(283)	234	(3,131)	(3,400)	269
Other (IPECH / Foundation)	(1,033)	(499)	(533)	(4,769)	(5,993)	1,224
<b>Sub Total - Non Operating Income</b>	<b>2,330</b>	<b>729</b>	<b>1,601</b>	<b>58,448</b>	<b>8,747</b>	<b>49,701</b>
<b>El Camino Hospital Net Income (Loss)</b>	<b>19,942</b>	<b>4,472</b>	<b>15,470</b>	<b>164,026</b>	<b>67,032</b>	<b>96,994</b>
<b>ECH Net Margin %</b>	<b>22.4%</b>	<b>6.7%</b>		<b>19.1%</b>	<b>8.2%</b>	
Concern	142	233	(91)	1,391	2,604	(1,213)
ECSC	(14)	0	(14)	(105)	0	(105)
Foundation	253	27	226	2,430	(450)	2,880
Silicon Valley Medical Development	190	1	188	195	(0)	195
<b>Net Income Hospital Affiliates</b>	<b>571</b>	<b>262</b>	<b>310</b>	<b>3,911</b>	<b>2,155</b>	<b>1,756</b>
<b>Total Net Income Hospital &amp; Affiliates</b>	<b>20,513</b>	<b>4,734</b>	<b>15,779</b>	<b>167,936</b>	<b>69,186</b>	<b>98,750</b>

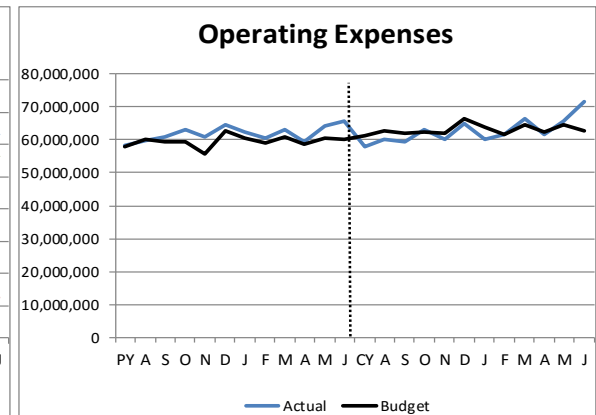
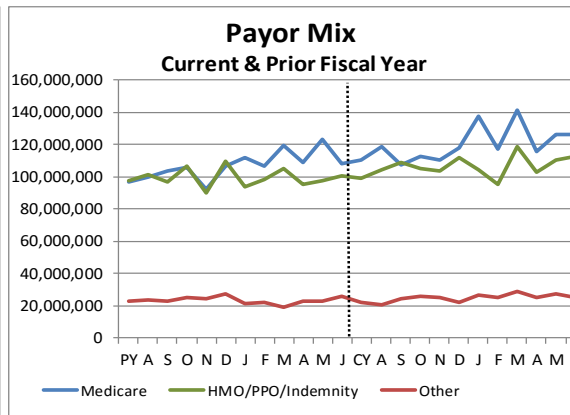
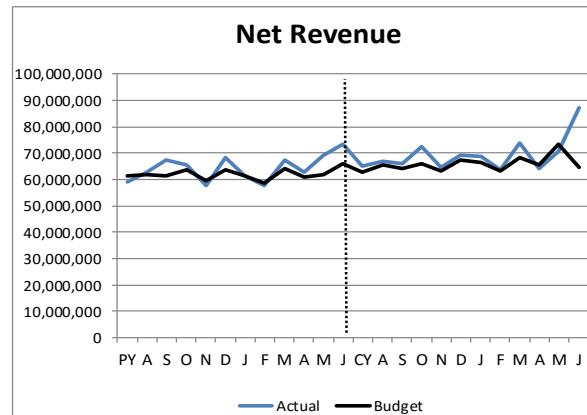
- Investments favorable for June and YTD
- Swap gain for the year due to rise in interest rates.
- Favorable other due to lower SVMD loss and Pathways investment income.

- Concern unfavorable - \$800 from ops and \$400 in investment due to requirement to invest in fixed income.
- Foundation favorable both June and YTD due to investment income.

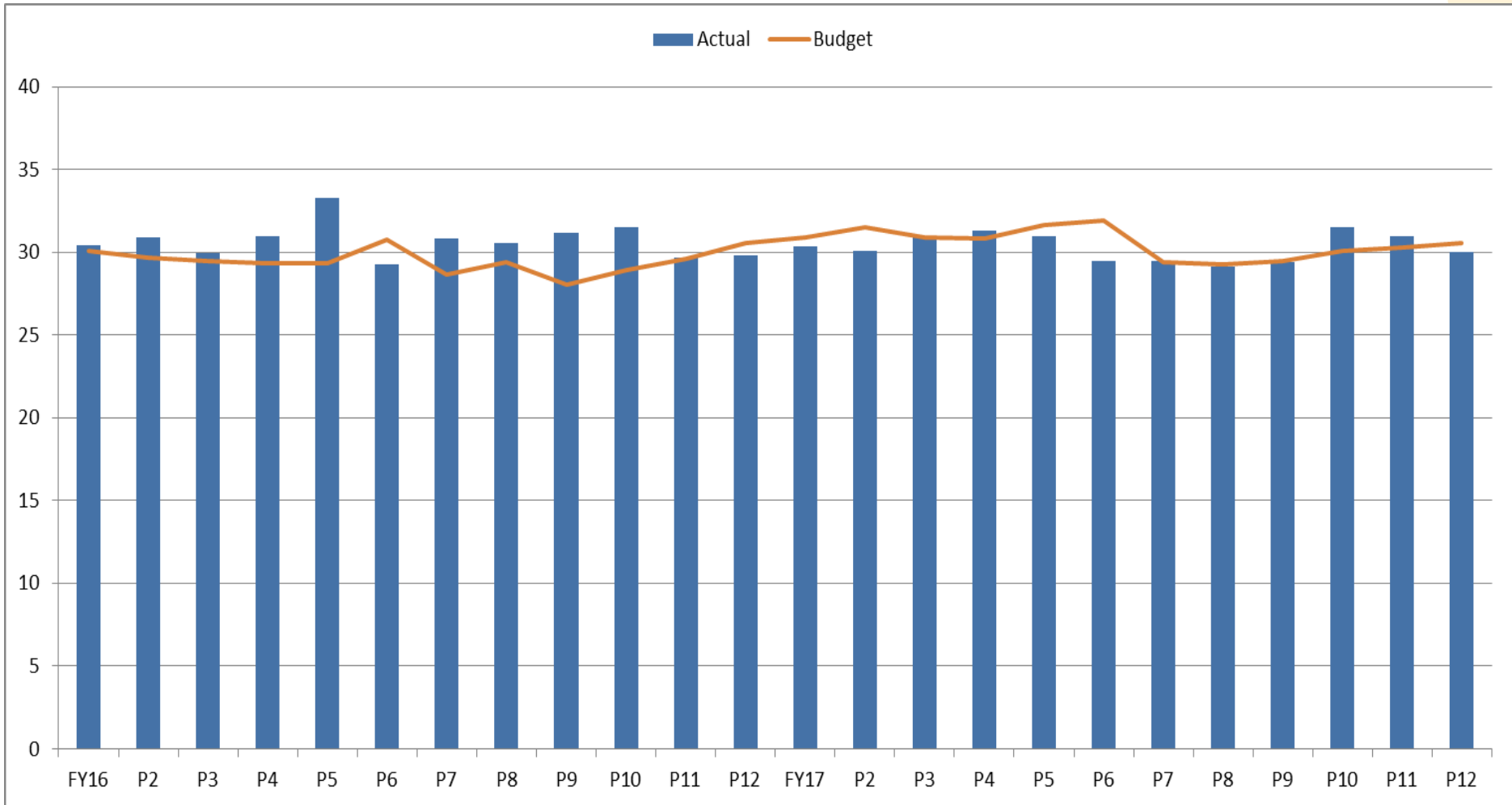
# Monthly Financial Trends



June volume is higher than budgeted for the month by 4.9% and slightly higher YTD at 0.5%. Operating expenses are higher than budgeted in June due to higher volume and is \$3.6M favorable to budget YTD.



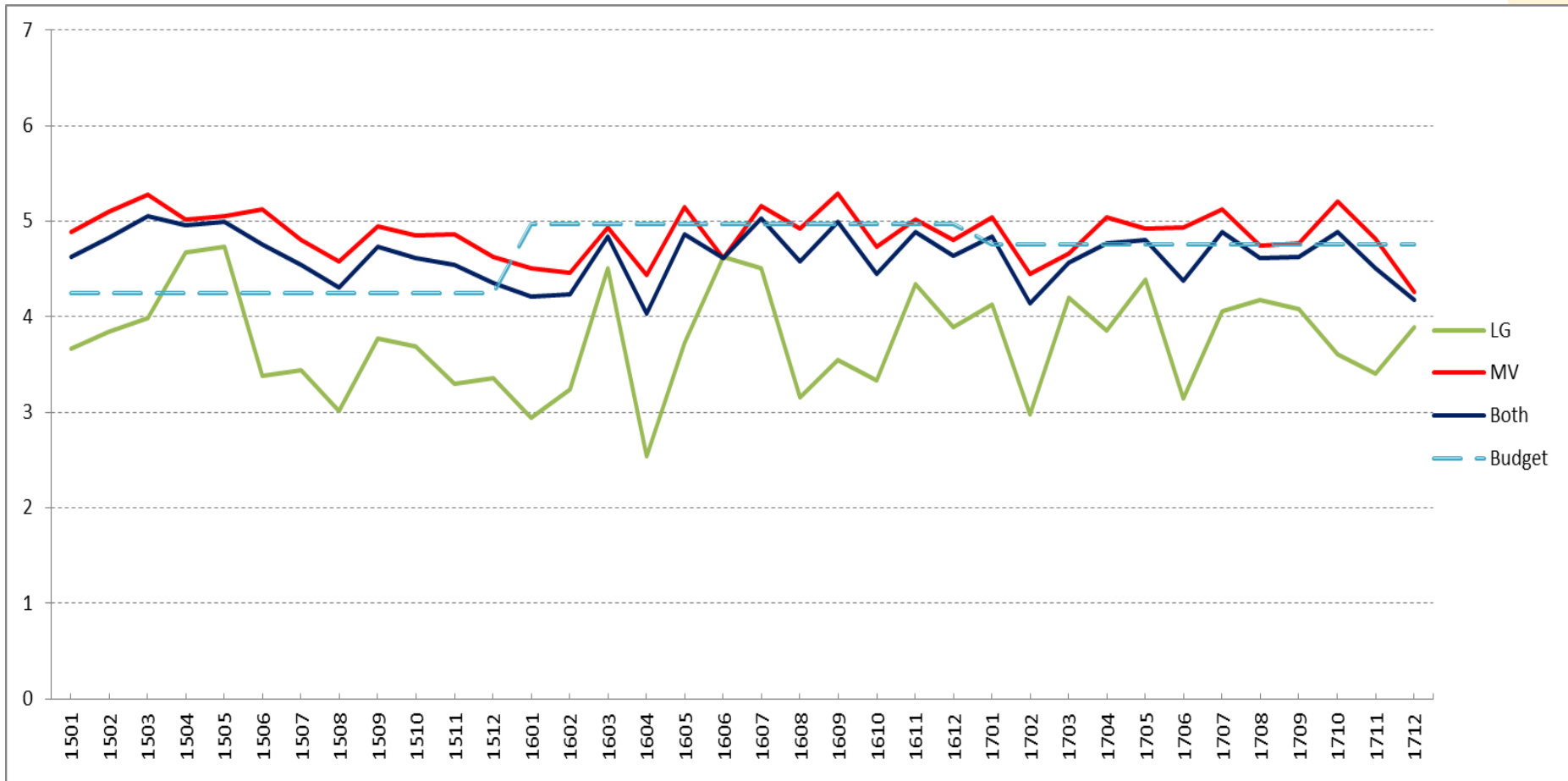
# Worked Hours per Adjusted Patient Day



Work hours per adjusted patient day decreased in June, with a decrease in both IT and sitter hours. Overall the month of June is 30.1 worked hours per adjusted patient day and 30.3 average YTD.



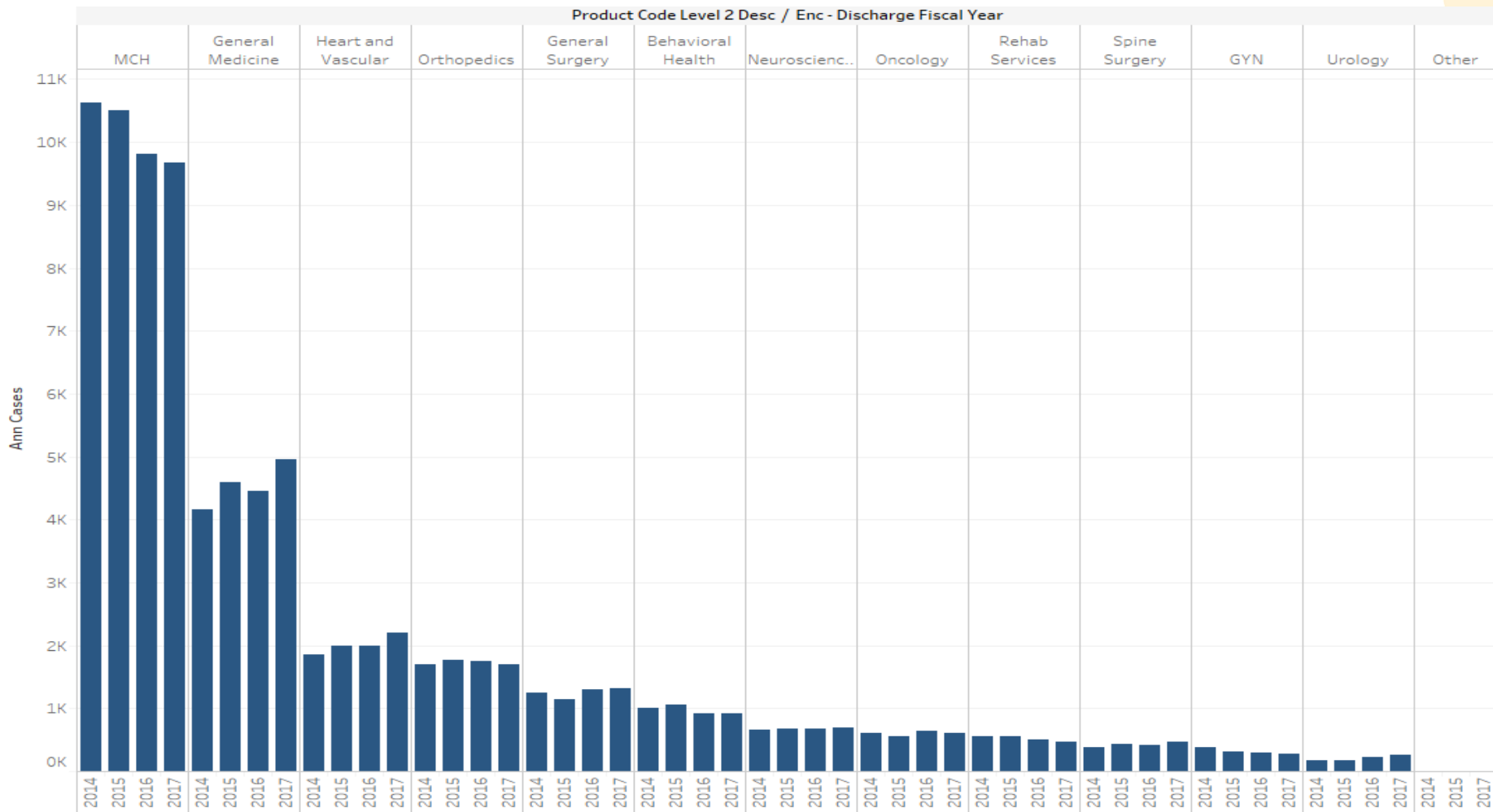
## Medicare ALOS



•ALOS is ahead of target as of June. YTD ALOS (4.60) is below budget (4.76) by .16.

# El Camino Hospital Volume Annual Trends – Inpatient

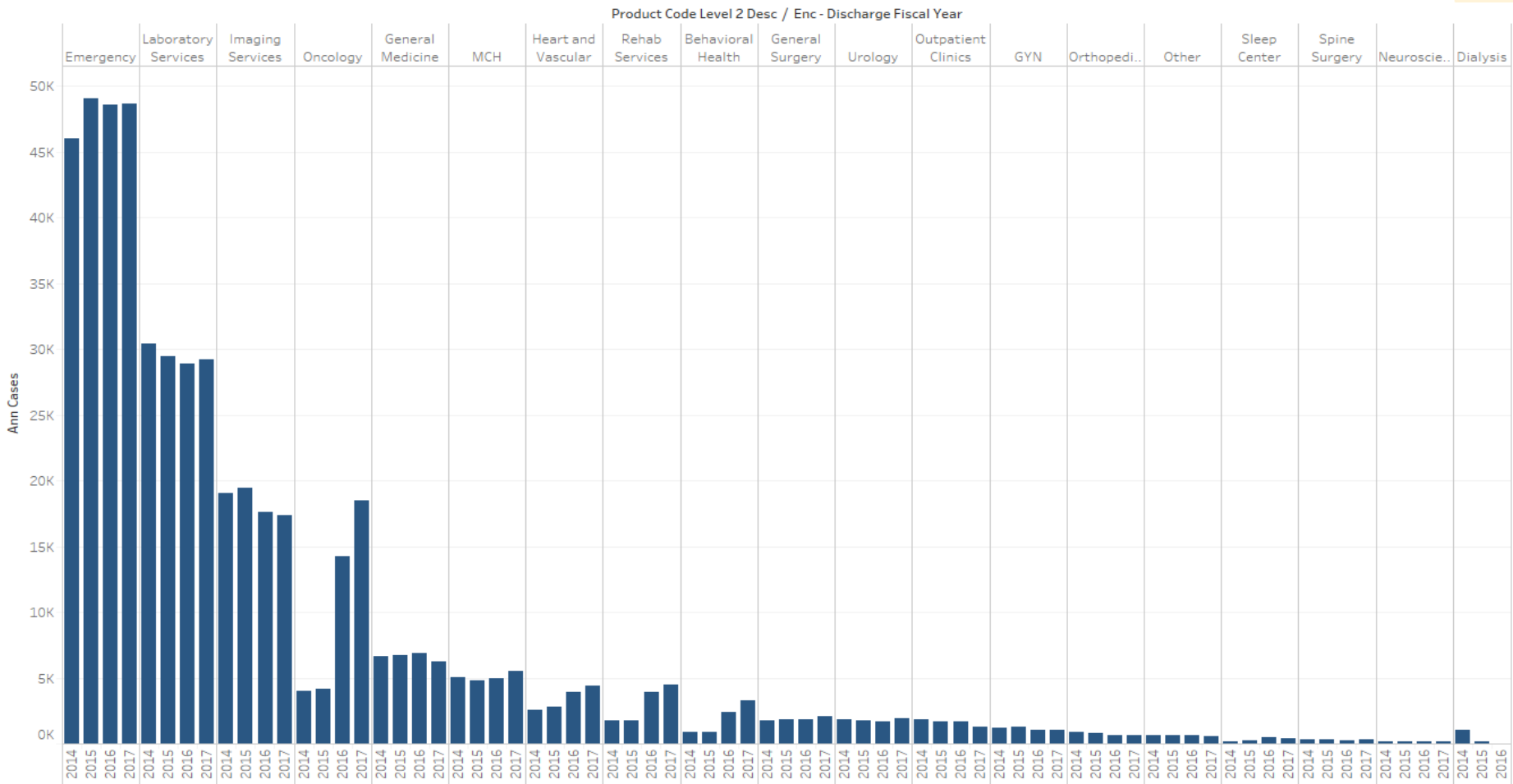
## FY 2017 is annualized



- MCH volume shows a decreasing trend year-over-year and is currently at 96.8% YTD of budget.
- Both HVI, General Surgery, Neuroscience and Spine Surgery show an increasing trend year-over-year. HVI is ahead of budget by 8.5% YTD, General Surgery is ahead of budget by 3.1%, Neuroscience is slightly behind budget by 0.7% and Spine Surgery is ahead by 11.9%.

# El Camino Hospital Volume Annual Trends – Outpatient

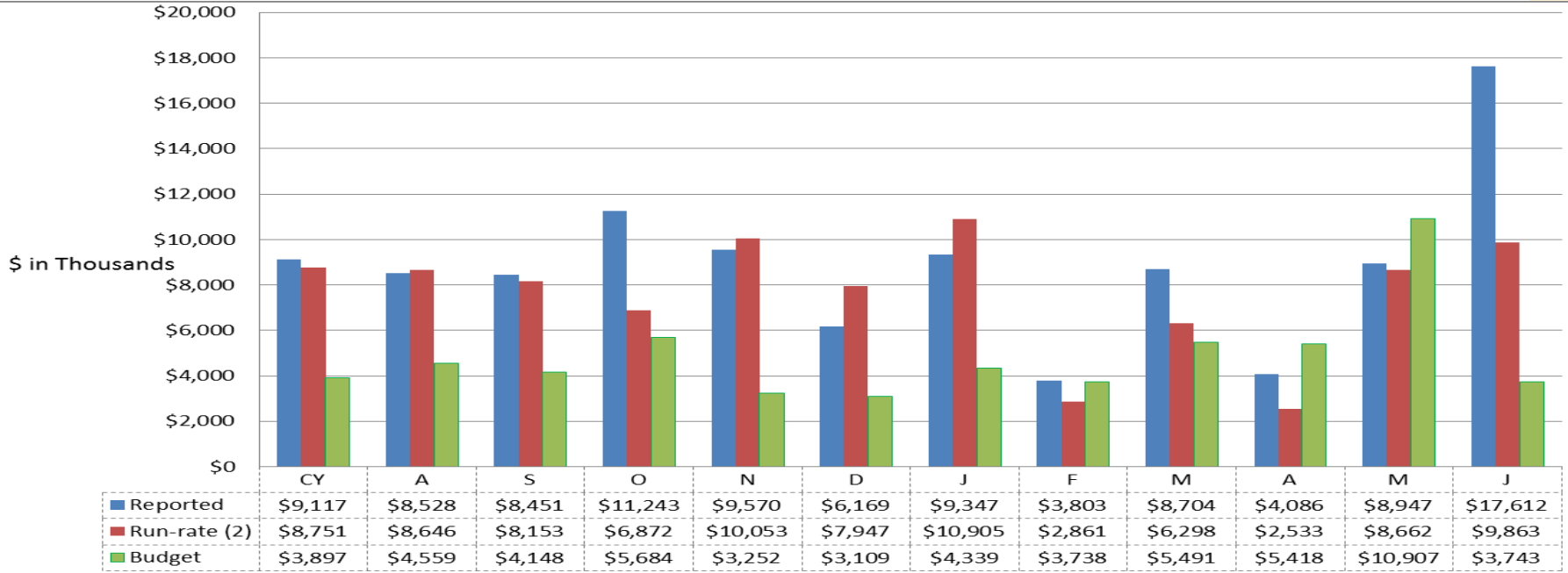
FY 2017 is annualized



- Comparing year-over-year, Emergency, Oncology, MCH, HVI, Behavioral Health and General Surgery shows an increasing trend in volume and Behavioral Health, Emergency, General Surgery, Heart & Vascular, Laboratory Service, MCH, Oncology, Orthopedics, Rehab Services and Urology are all ahead of budget YTD.

# ECH Operating Margin

Run rate is booked operating income adjusted for material non-recurring transactions



## FY 2017 Actual Run Rate Adjustments (in thousands) - FAV / <UNFAV>

Revenue Adjustments		J	A	S	O	N	D	J	F	M	A	M	J	YTD
Insurance (Payment Variance)		335	-	61	145	36	-	-	-	544	-	-	579	1,698
Mcare Settlmt/Appeal/Tent Settlmt/PIP		100	(158)	74	67	67	100	67	947	27	1,953	54	81	3,379
BPCI Settlement		-	-	-	-	-	-	(2,167)	-	-	-	76	-	(2,092)
Medi-Cal Supplemental		-	-	-	-	-	312	814	240	-	-	144	-	1,510
IGT Supplemental		-	-	-	6,535	-	-	-	-	-	-	-	6,823	13,358
AB 915		-	-	-	-	-	-	-	-	-	-	-	880	880
Various Adjustments under \$250k		(69)	40	164	25	12	9	131	157	12	19	11	(192)	318
<b>Total</b>		<b>366</b>	<b>(118)</b>	<b>299</b>	<b>6,771</b>	<b>115</b>	<b>421</b>	<b>(1,155)</b>	<b>1,344</b>	<b>582</b>	<b>1,972</b>	<b>284</b>	<b>8,171</b>	<b>19,052</b>
Expense Adjustments														
Pay-For-Performance Bonus		-	-	-	-	-	(2,400)	(403)	(401)	-	-	-	-	(3,204)
Ratification Bonus		-	-	-	(2,400)	-	-	-	-	-	-	-	-	(2,400)
Purchases Below Capital Threshold		-	-	-	-	(598)	-	-	-	-	-	-	-	(598)
WC Reserve Updates Based on Fav. Experience		-	-	-	-	-	700	-	-	1,824	-	-	-	2,524
Other Purchased Services (Clinical Informatics)		-	-	-	-	-	(500)	-	-	-	-	-	-	(500)
Other Minor Equipment (TV replacements)		-	-	-	-	-	-	-	-	-	-	-	(422)	(422)
Accrued Time Off (Repricing of PRN PTO)		-	-	-	-	-	-	-	-	-	(419)	-	-	(419)
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,400)</b>	<b>(598)</b>	<b>(2,200)</b>	<b>(403)</b>	<b>(401)</b>	<b>1,824</b>	<b>(419)</b>	<b>-</b>	<b>(422)</b>	<b>(5,019)</b>

# El Camino Hospital Investment Committee Scorecard

June 30, 2017

Key Performance Indicator	Status	El Camino		Benchmark		El Camino		Benchmark		FY17 Year-end Budget	Expectation Per Asset Allocation
		2Q 2017		Fiscal Year-to-date		4y 8m Since Inception (annualized)		May 2016			
<b>Investment Performance</b>											
Surplus cash balance & op. cash (millions)		\$900.5	--	--	--	--	--	\$657.2	--		
Surplus cash return	Green	2.4%	2.1%	8.9%	8.7%	5.4%	5.3%	4.0%	5.2%		
Cash balance plan balance (millions)		\$243.8	--	--	--	--	--	\$220.6	--		
Cash balance plan return	Green	3.1%	2.4%	11.2%	10.3%	7.9%	7.2%	6.0%	5.8%		
403(b) plan balance (millions)		\$406.6	--	--	--	--	--	--	--		
<b>Risk vs. Return</b>											
Surplus cash Sharpe ratio	Green	0.83	0.86	--	--	1.26	1.24	--	0.55		
Net of fee return	Green	3.9%	4.1%	--	--	5.4%	5.3%	--	5.2%		
Standard deviation	Green	4.5%	4.5%	--	--	4.1%	4.1%	--	8.6%		
Cash balance Sharpe ratio	Green	0.84	0.79	--	--	1.37	1.31	--	0.49		
Net of fee return	Green	4.9%	4.5%	--	--	7.9%	7.2%	--	5.8%		
Standard deviation	Green	5.7%	5.6%	--	--	5.6%	5.3%	--	10.7%		
<b>Asset Allocation</b>											
Surplus cash absolute variances to target	Green	9.6%	< 10%	--	--	--	--	--	--		
Cash balance absolute variances to target	Green	9.4%	< 10%	--	--	--	--	--	--		
<b>Manager Compliance</b>											
Surplus cash manager flags	Yellow	19	< 19 Green < 23 Yellow	--	--	--	--	--	--		
Cash balance plan manager flags	Yellow	20	< 20 Green < 25 Yellow	--	--	--	--	--	--		

# El Camino Hospital

## Capital Spending (in millions)

Category	Detail	Total Estimated Cost of Project	Total Authorized Active	Spent from Inception	FY 17 YTD Spent
<b>CIP</b>	EPIC Upgrade		6.1	2.3	2.8
<b>IT Hardware, Software, Equipment*</b>			5.4	2.7	2.7
<b>Medical &amp; Non Medical Equipment FY 16**</b>			4.3	4.2	4.2
<b>Medical &amp; Non Medical Equipment FY 17***</b>			10.3	5.4	5.4
<b>Facility Projects</b>					
	1245 Behavioral Health Bldg	91.5	91.5	16.4	10.3
	1413 North Drive Parking Expansion	24.5	24.5	17.3	18.1
	1414 Integrated MOB	275.0	275.0	42.0	32.8
	1422 CUP Upgrade	9.0	9.0	2.1	1.2
	1430 Women's Hospital Expansion	91.0	6.0	0.4	0.5
	1425 IMOB Preparation Project - Old Main	3.0	3.0	2.6	1.9
	1502 Cabling & Wireless Upgrades	2.8	2.8	2.4	0.4
	1525 New Main Lab Upgrades	1.6	3.1	0.4	0.5
	1515 ED Remodel Triage/Psych Observation	1.6	0.0	0.0	0.0
	1503 Willow Pavilion Tomosynthesis	1.3	1.3	0.3	0.3
	1602 JW House (Patient Family Residence)	2.5	0.0	0.0	0.0
	Site Signage and Other Improvements	1.0	0.0	0.0	0.0
	IR Room #6 Development	2.6	0.0	0.0	0.0
	Nurse Call System Upgrades	2.4	0.0	0.0	0.0
	1707 Imaging Equipment Replacement ( 5 or 6)	20.7	0.0	0.0	0.0
	1708 IR/ Cath Lab Equipment Replacement	19.4	0.0	0.0	0.0
	1709 ED Remodel / CT Triage - Other	5.0	0.0	0.0	0.0
	Flooring Replacement	1.6	0.0	0.0	0.0
	1219 LG Spine OR	4.1	4.1	3.3	2.2
	1313 LG Rehab HVAC System & Structural	3.7	3.7	3.7	1.9
	1248 LG Imaging Phase II (CT & Gen Rad)	8.8	8.8	7.1	6.7
	1307 LG Upgrades	19.3	19.3	13.4	3.1
	1519 LG Electrical Systems Upgrade	1.2	0.0	0.0	0.0
	1508 LG NICU 4 Bed Expansion	0.0	0.5	0.2	0.2
	1507 LG IR Upgrades	1.1	0.0	0.0	0.0
	LG Building Infrastructure Upgrades	1.5	0.0	0.0	0.0
	1603 LG MOB Improvements (17)	5.0	5.0	0.2	0.3
	All Other Projects under \$1M	26.4	4.8	40.4	2.7
		<b>627.6</b>	<b>462.3</b>	<b>152.1</b>	<b>83.0</b>
<b>GRAND TOTAL</b>			<b>488.4</b>	<b>166.6</b>	<b>97.9</b>

\*Excluding EPIC

\*\* Unspent Prior Year routine used as contingency

\*\*\*Includes 2 robot purchases

2017 projected spend includes items to be presented for approval during the fiscal year

# Balance Sheet (in thousands)

## ASSETS

	Audited	
	June 30, 2017	June 30, 2016
<b>CURRENT ASSETS</b>		
(1) Cash	125,547	59,169
Short Term Investments	138,303	105,284
(2) Patient Accounts Receivable, net	109,443	120,960
Other Accounts and Notes Receivable	2,628	4,369
(3) Intercompany Receivables	1,519	2,200
(4) Inventories and Prepays	41,583	39,678
<b>Total Current Assets</b>	<b>419,023</b>	<b>331,660</b>
<b>BOARD DESIGNATED ASSETS</b>		
Plant & Equipment Fund	131,153	119,650
(5) Women's Hospital Expansion	9,298	-
Operational Reserve Fund	100,196	100,196
Community Benefit Fund	12,237	13,037
Workers Compensation Reserve Fund	21,434	22,309
Postretirement Health/Life Reserve Fund	19,880	18,256
PTO Liability Fund	23,268	22,984
Malpractice Reserve Fund	1,634	1,800
Catastrophic Reserves Fund	16,575	14,125
<b>Total Board Designated Assets</b>	<b>335,675</b>	<b>312,358</b>
(6) FUNDS HELD BY TRUSTEE	<b>287,006</b>	<b>30,841</b>
<b>LONG TERM INVESTMENTS</b>	<b>257,391</b>	<b>207,597</b>
<b>INVESTMENTS IN AFFILIATES</b>	<b>32,864</b>	<b>31,627</b>
<b>PROPERTY AND EQUIPMENT</b>		
Fixed Assets at Cost	1,188,826	1,171,372
Less: Accumulated Depreciation	(531,785)	(485,856)
Construction in Progress	121,031	46,009
<b>Property, Plant &amp; Equipment - Net</b>	<b>778,072</b>	<b>731,525</b>
<b>DEFERRED OUTFLOWS</b>	29,213	29,814
<b>RESTRICTED ASSETS - CASH</b>	0	-
<b>TOTAL ASSETS</b>	<b>2,139,245</b>	<b>1,675,422</b>

## LIABILITIES AND FUND BALANCE

	Audited	
	June 30, 2017	June 30, 2016
<b>CURRENT LIABILITIES</b>		
(7) Accounts Payable	25,886	28,519
Salaries and Related Liabilities	24,989	22,992
Accrued PTO	23,268	22,984
Worker's Comp Reserve	2,300	2,300
Third Party Settlements	10,776	11,314
Intercompany Payables	84	105
Malpractice Reserves	1,634	1,936
Bonds Payable - Current	3,735	3,635
Bond Interest Payable	7,462	5,459
Other Liabilities	4,831	10,478
<b>Total Current Liabilities</b>	<b>104,965</b>	<b>106,830</b>
<b>LONG TERM LIABILITIES</b>		
Post Retirement Benefits	19,880	18,256
Worker's Comp Reserve	19,134	20,009
Other L/T Obligation (Asbestos)	3,746	3,637
Other L/T Liabilities (IT/Medl Leases)	-	-
(8) Bond Payable	527,311	225,857
<b>Total Long Term Liabilities</b>	<b>570,071</b>	<b>267,759</b>
<b>DEFERRED REVENUE-UNRESTRICTED</b>	567	
<b>DEFERRED INFLOW OF RESOURCES</b>	2,892	2,892
<b>FUND BALANCE/CAPITAL ACCOUNTS</b>		
Unrestricted	1,125,075	985,583
Board Designated	335,675	312,358
Restricted	0	-
(9) <b>Total Fund Bal &amp; Capital Accts</b>	<b>1,460,750</b>	<b>1,297,941</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>2,139,245</b>	<b>1,675,422</b>

## El Camino Hospital Comparative Balance Sheet Variances and Footnotes

- (1) The increase in cash is due allowing for immediate cash to be available for the recent significant construction projects that have started in MV campus. Note that we have in place a routine to seek repayment from the 2017 bond proceeds, we will be reducing this balance by at least \$40M and transfer it into various investments given upcoming recommendations from our investment consultant.
- (2) The decrease is primarily due to the significant cash payments the Patient Accounts team has brought in during the nine months, four months were in excess of \$70M where the projected budgeted was approximately \$63M per month.
- (3) The decrease is just a timing issue of intercompany payments from one quarter to another. Normally at a fiscal year end, they are higher due to the books being held open for a longer period of time in preparation for audit.
- (4) The increase is principally due to three quarterly pension contributions of \$2.6M each since July 1, 2016, less reserves for pension expense.
- (5) A new item, the District allocated its FY 2014 and FY 2015 Capital Appropriation Funds in support of future renovations to the Women's Hospital when the IMOB is completed and those floors become for patient care.
- (6) This reflects the 2017 Revenue Bonds that were issued in March. The total amount now reflects this new issue of \$292M, the bond premium on it of \$21M, less paybacks to the hospital of \$36M for prior construction costs on the 4 major MV projects. Also there still exists \$21M in the LG Project Fund from the 2015A proceeds.
- (7) The decrease is due to significant General Contractor payments being accrued at year end, that were subsequently relieved during the first quarter of fiscal year 2017.
- (8) The increase is due to the new 2017 debt added as of March 2017, along with the associated bond premium that will be amortized over the life of the new debt.
- (9) The increase is to this year's financial performance (\$105M from Operations and \$58M in Non-Operations income - primarily driven by significant incomes from unrealized investment gains).



## EL CAMINO HOSPITAL - BOARD DESIGNATED FUND DESCRIPTIONS/HISTORY ( 1 OF 2)

**Plant & Equipment Fund** – original established by the District Board in the early 1960’s to fund new capital expansion projects of building facilities or equipment (new or replacements). The funds came from the M&O property taxes being received and the funding depreciation expense at 100%. When at the end of 1992, the 501(c)(3) Hospital was performed by the District, the property tax receipts remained with the District. The newly formed Hospital entity continued on with funding depreciation expense, but did that funding at 130% of the depreciation expense to account for an expected replacement cost of current plant and property assets. It is to be noted that within this fund is an itemized amount of \$14 million for the Behavioral Health Service building replacement project. This amount came from the District’s Capital Appropriation Fund (excess Gann Limit property taxes) of the fiscal years of 2010 thru 2013 by various District board actions.

**Women’s Hospital Expansion** – established June 2016 by the District authorizing the amounts accumulated in its Capital Appropriation Fund (excess Gann Limit property taxes) for the fiscal years of 2014 and 2015 to be allocated for the renovation of the Women’s Hospital upon the completion of Integrated Medical Office Building currently under construction.

**Operational Reserve Fund** – originally established by the District in May 1992 to establish a fund equal to sixty (60) days of operational expenses (based on projected budget) and only be used in the event of a major business interruption event and/or cash flow.

**Community Benefit Fund** – following in the footsteps of the District in 2008 of forming its Community Benefit Fund using Gann Limit tax receipts, the Hospital in 2010 after opening its campus outside of District boundaries in Los Gatos formed its own Community Benefit Fund to provide grants/sponsorships in Los Gatos and surrounding areas. The funds come from the Hospital reserving \$1.5M a year from its operations, the entity of CONCERN contributing 40% of its annual income each year (an amount it would have paid in corporate taxes if it wasn’t granted tax exempt status), that generates an amount of \$800,000 or more a year. \$10 million within this fund is board designated endowment fund formed in 2015 to generate investment income to be used for grants and sponsorships, currently generating approximately \$400,000 a year.

## EL CAMINO HOSPITAL - BOARD DESIGNATED FUND DESCRIPTIONS/HISTORY ( 2 OF 2)

**Workers Compensation Reserve Fund** – as the Hospital is self-insured for its workers compensation program (since 1978) this fund was originally formed in early 2000's by management to reserve cash equal to the yearly actuarially determined Workers Compensation amount. The thought being if the business was to terminate for some reason this is the amount in cash that would be needed to pay out claims over the next few years.

**Postretirement Health/Life Reserve Fund** – following the same formula as the Workers Compensation Reserve Fund this fund was formed in the early 2000's by management to reserve cash equal to the yearly actuarially determined amount to fund the Hospital's postretirement health and life insurance program. Note this program was frozen in 1995 for all new hires after that date.

**PTO (Paid Time Off) Liability Fund** – originally formed in 1993 as the new 501(c)(3) Hospital began operations, management thought as a business requirement of this vested benefit program that monies should be set aside to extinguish this employee liability should such a circumstance arise. This balance is equal to the PTO Liability on the Balance Sheet.

**Malpractice Reserve Fund** – originally established in 1989 by the then District's Finance Committee and continued by the Hospital. The amount is actuarially determined each year as part of the annual audit to fund potential claims less than \$50,000. Above \$50,000 our policy with the BETA Healthcare Group kicks in to a \$30 million limit per claim/\$40 million in the aggregate.

**Catastrophic Loss Fund** – was established in 1999 by the Hospital Board to be a "self-insurance" reserve fund for potential non-major earthquake repairs. Initially funded by the District transferring \$5 million and has been added to by the last major payment from FEMA for the damage caused the Hospital by the October 1989 earthquake. It is to be noted that it took 10 years to receive final settlement from FEMA grants that totaled \$6.8 million that did mostly cover all the necessary repairs.

# APPENDIX

# El Camino Hospital – Mountain View (\$000s)

12 months ending 6/30/2017

PERIOD 12 FY 2016	PERIOD 12 FY 2017	PERIOD 12 Budget 2017	Variance Fav (Unfav)	Var%	\$000s	YTD FY 2016	YTD FY 2017	YTD Budget 2017	Variance Fav (Unfav)	Var%
<b>OPERATING REVENUE</b>										
191,795	215,092	194,124	20,968	10.8%	<b>Gross Revenue</b>	2,261,921	2,477,374	2,362,401	114,973	4.9%
(130,619)	(142,084)	(142,067)	(17)	0.0%	<b>Deductions</b>	(1,629,121)	(1,788,602)	(1,721,776)	(66,826)	3.9%
<b>61,176</b>	<b>73,008</b>	<b>52,057</b>	<b>20,951</b>	<b>40.2%</b>	<b>Net Patient Revenue</b>	<b>632,800</b>	<b>688,772</b>	<b>640,625</b>	<b>48,147</b>	<b>7.5%</b>
3,639	1,676	1,872	(197)	-10.5%	<b>Other Operating Revenue</b>	21,332	24,080	22,483	1,596	7.1%
<b>64,815</b>	<b>74,684</b>	<b>53,929</b>	<b>20,754</b>	<b>38.5%</b>	<b>Total Operating Revenue</b>	<b>654,131</b>	<b>712,851</b>	<b>663,108</b>	<b>49,743</b>	<b>7.5%</b>
<b>OPERATING EXPENSE</b>										
31,699	30,922	31,825	904	2.8%	<b>Salaries &amp; Wages</b>	362,688	372,813	382,275	9,462	2.5%
9,134	11,885	8,000	(3,885)	-48.6%	<b>Supplies</b>	96,500	99,976	96,619	(3,357)	-3.5%
6,405	11,778	6,562	(5,216)	-79.5%	<b>Fees &amp; Purchased Services</b>	81,907	85,753	78,865	(6,888)	-8.7%
996	854	584	(270)	-46.2%	<b>Other Operating Expense</b>	16,267	8,341	7,849	(492)	-6.3%
1,618	278	448	170	38.0%	<b>Interest</b>	7,193	4,128	5,379	1,250	23.2%
3,732	3,382	3,690	308	8.4%	<b>Depreciation</b>	42,659	41,801	45,638	3,837	8.4%
<b>53,584</b>	<b>59,098</b>	<b>51,109</b>	<b>(7,989)</b>	<b>-15.6%</b>	<b>Total Operating Expense</b>	<b>607,214</b>	<b>612,813</b>	<b>616,625</b>	<b>3,812</b>	<b>0.6%</b>
<b>11,231</b>	<b>15,586</b>	<b>2,820</b>	<b>12,765</b>	<b>452.6%</b>	<b>Net Operating Income/(Loss)</b>	<b>46,918</b>	<b>100,039</b>	<b>46,483</b>	<b>53,555</b>	<b>115.2%</b>
2,885	2,330	729	1,601	219.7%	<b>Non Operating Income</b>	(9,544)	58,459	8,747	49,712	568.3%
<b>14,116</b>	<b>17,916</b>	<b>3,549</b>	<b>14,366</b>	<b>404.8%</b>	<b>Net Income(Loss)</b>	<b>37,374</b>	<b>158,498</b>	<b>55,231</b>	<b>103,267</b>	<b>187.0%</b>
25.6%	25.8%	12.9%	12.9%		<b>EBITDA</b>	14.8%	20.5%	14.7%	5.8%	
17.3%	20.9%	5.2%	15.6%		<b>Operating Margin</b>	7.2%	14.0%	7.0%	7.0%	
21.8%	24.0%	6.6%	17.4%		<b>Net Margin</b>	5.7%	22.2%	8.3%	13.9%	

# El Camino Hospital – Los Gatos(\$000s)

12 months ending 6/30/2017

PERIOD 12 FY 2016	PERIOD 12 FY 2017	PERIOD 12 Budget 2017	Variance Fav (Unfav)	Var%	\$000s	YTD FY 2016	YTD FY 2017	YTD Budget 2017	Variance Fav (Unfav)	Var%
<b>OPERATING REVENUE</b>										
42,962	48,870	44,811	4,059	9.1%	<b>Gross Revenue</b>	493,466	541,121	538,411	2,710	0.5%
(30,973)	(34,506)	(32,437)	(2,069)	6.4%	<b>Deductions</b>	(354,245)	(397,614)	(389,451)	(8,163)	2.1%
<b>11,989</b>	<b>14,364</b>	<b>12,375</b>	<b>1,989</b>	<b>16.1%</b>	<b>Net Patient Revenue</b>	<b>139,221</b>	<b>143,507</b>	<b>148,960</b>	<b>(5,454)</b>	<b>-3.7%</b>
181	164	215	(51)	-23.5%	<b>Other Operating Revenue</b>	2,305	2,005	2,576	(571)	-22.2%
<b>12,171</b>	<b>14,528</b>	<b>12,589</b>	<b>1,939</b>	<b>15.4%</b>	<b>Total Operating Revenue</b>	<b>141,526</b>	<b>145,512</b>	<b>151,536</b>	<b>(6,025)</b>	<b>-4.0%</b>
<b>OPERATING EXPENSE</b>										
6,669	6,559	6,414	(145)	-2.3%	<b>Salaries &amp; Wages</b>	73,300	75,883	76,888	1,005	1.3%
1,903	2,151	1,774	(377)	-21.3%	<b>Supplies</b>	21,488	22,314	21,467	(847)	-3.9%
1,259	1,642	1,244	(398)	-32.0%	<b>Fees &amp; Purchased Services</b>	16,112	16,539	14,944	(1,595)	-10.7%
1,602	1,655	1,556	(99)	-6.4%	<b>Other Operating Expense</b>	18,842	19,114	19,227	114	0.6%
0	0	0	0	0.0%	<b>Interest</b>	0	0	0	0	0.0%
517	495	678	184	27.1%	<b>Depreciation</b>	6,089	6,124	7,209	1,086	15.1%
<b>11,950</b>	<b>12,502</b>	<b>11,666</b>	<b>(835)</b>	<b>-7.2%</b>	<b>Total Operating Expense</b>	<b>135,830</b>	<b>139,973</b>	<b>139,735</b>	<b>(238)</b>	<b>-0.2%</b>
<b>220</b>	<b>2,026</b>	<b>923</b>	<b>1,103</b>	<b>119.6%</b>	<b>Net Operating Income/(Loss)</b>	<b>5,695</b>	<b>5,539</b>	<b>11,801</b>	<b>(6,262)</b>	<b>-53.1%</b>
(0)	0	0	0	0.0%	<b>Non Operating Income</b>	(26)	(10)	0	(10)	0.0%
<b>220</b>	<b>2,026</b>	<b>923</b>	<b>1,103</b>	<b>119.6%</b>	<b>Net Income(Loss)</b>	<b>5,669</b>	<b>5,528</b>	<b>11,801</b>	<b>(6,273)</b>	<b>-53.2%</b>
6.1%	17.4%	12.7%	13.0%		<b>EBITDA</b>	8.3% <span style="color: green;">▲</span>	8.0% <span style="color: green;">▲</span>	12.5%	-4.5%	
1.8%	13.9%	7.3%	6.6%		<b>Operating Margin</b>	4.0%	3.8%	7.8%	-4.0%	
1.8%	13.9%	7.3%	6.6%		<b>Net Margin</b>	4.0%	3.8%	7.8%	-4.0%	

\* Due to a 5.8% lower in cases and 9.4% lower in patient days comparing to budget and a requirement to maintain core staffing, LG generated a less favorable operating margin (4% below budget) in FY17.

## Capital Spend Trend & FY 18 Budget

Capital Spending (in 000's)	Actual FY2014	Actual FY2015	Actual FY2016	Actual FY2017	Budget FY2017	Budget FY2018
EPIC	6,838	29,849	20,798	2,755	6,137	1,922
IT Hardware / Software Equipment	2,788	4,660	6,483	2,659	5,391	12,238
Medical / Non Medical Equipment*	12,891	13,340	17,133	9,556	10,254	5,635
Non CIP Land, Land I , BLDG, Additions	22,292	-	4,189	-	-	-
Facilities	13,753	38,940	48,137	82,953	204,477	98,160
<b>GRAND TOTAL</b>	<b>58,561</b>	<b>86,789</b>	<b>96,740</b>	<b>97,923</b>	<b>226,259</b>	<b>117,955</b>
*Includes 2 robot purchases in projected FY 2017 & FY16 Medical/Non Medical Equipment spent in FY17						

El Camino Hospital Capital Spending (in thousands) FY 2012 – FY 2016

Category	2013	2014	2015	2016	2017	Category	2013	2014	2015	2016	2017
<b>EPIC</b>	<b>0</b>	<b>6,838</b>	<b>29,849</b>	<b>20,798</b>	<b>2,755</b>	<b>Facilities Projects CIP cont.</b>					
<b>IT Hardware/Software Equipment</b>	<b>8,019</b>	<b>2,788</b>	<b>4,660</b>	<b>6,483</b>	<b>2,659</b>	1403 - Hosp Drive BLDG 11 TI's	0	86	103	0	0
<b>Medical/Non Medical Equipment</b>	<b>10,284</b>	<b>12,891</b>	<b>13,340</b>	<b>17,133</b>	<b>9,556</b>	1404 - Park Pav HVAC	0	64	7	0	0
<b>Non CIP Land, Land I, BLDG, Additions</b>	<b>0</b>	<b>22,292</b>	<b>0</b>	<b>4,189</b>	<b>0</b>	1405 - 1 - South Accessibility Upgrades	0	0	0	168	95
						1408 - New Main Accessibility Upgrades	0	0	7	46	501
						1415 - Signage & Wayfinding	0	0	0	106	58
						1416 - MV Campus Digital Directories	0	0	0	34	23
						1423 - MV MOB TI Allowance	0	0	0	588	369
<b>Facilities Projects CIP</b>						1425 - IMOB Preparation Project - Old Main	0	0	0	711	1,860
<b>Mountain View Campus Master Plan Projects</b>						1429 - 2500 Hospital Dr Bldg 8 TI	0	0	101	0	0
1245 - Behavioral Health Bldg Replace	0	1,257	3,775	1,389	10,323	1430 - Women's Hospital Expansion	0	0	0	0	464
1413 - North Drive Parking Structure Exp	0	0	167	1,266	18,120	1432 - 205 South Dr BHS TI	0	0	8	15	0
1414 - Integrated MOB	0	0	2,009	8,875	32,805	1501 - Women's Hospital NPC Comp	0	0	4	0	223
1422 - CUP Upgrade	0	0	0	896	1,245	1502 - Cabling & Wireless Upgrades	0	0	0	1,261	367
<b>Sub-Total Mountain View Campus Master Plan</b>	<b>0</b>	<b>1,257</b>	<b>5,950</b>	<b>12,426</b>	<b>62,493</b>	1503 - Willow Pavillion Tomosynthesis	0	0	0	53	257
						1504 - Equipment Support Infrastructure	0	0	61	311	0
<b>Mountain View Capital Projects</b>						1523 - Melchor Pavillion Suite 309 TI	0	0	0	10	59
9900 - Unassigned Costs	734	470	3,717	0	0	1525 - New Main Lab Upgrades	0	0	0	0	464
1108 - Cooling Towers	450	0	0	0	0	1526 - CONCERN TI	0	0	0	37	99
1120 - BHS Out Patient TI's	66	0	0	0	0	<b>Sub-Total Mountain View Projects</b>	<b>8,145</b>	<b>7,219</b>	<b>26,744</b>	<b>5,588</b>	<b>5,535</b>
1129 - Old Main Card Rehab	9	0	0	0	0	<b>Los Gatos Capital Projects</b>					
0817 - Womens Hosp Upgrds	645	1	0	0	0	0904 - LG Facilities Upgrade	2	0	0	0	0
0906 - Slot Build-Out	1,003	1,576	15,101	1,251	294	0907 - LG Imaging Masterplan	244	774	1,402	17	0
1109 - New Main Upgrades	423	393	2	0	0	1005 - LG OR Light Upgrd	14	0	0	0	0
1111 - Mom/Baby Overflow	212	29	0	0	0	1122 - LG Sleep Studies	7	0	0	0	0
1204 - Elevator Upgrades	25	30	0	0	0	1210 - Los Gatos VOIP	147	89	0	0	0
0800 - Womens L&D Expansion	2,104	1,531	269	0	0	1116 - LG Ortho Pavillion	177	24	21	0	0
1131 - MV Equipment Replace	216	0	0	0	0	1124 - LG Rehab BLDG	49	458	0	0	0
1208 - Willow Pav. High Risk	110	0	0	0	0	1247 - LG Infant Security	134	0	0	0	0
1213 - LG Sterilizers	102	0	0	0	0	1307 - LG Upgrades	376	2,979	3,282	3,511	3,081
1225 - Rehab BLDG Roofing	7	241	4	0	0	1308 - LG Infrastructure	0	114	0	0	0
1227 - New Main eICU	96	21	0	0	0	1313 - LG Rehab HVAC System/Structural	0	0	0	1,597	1,904
1230 - Fog Shop	339	80	0	0	0	1219 - LG Spine OR	0	214	323	633	2,163
1315 - 205 So. Drive TI's	0	500	2	0	0	1221 - LG Kitchen Refrig	0	85	0	0	0
0908 - NPCR3 Seismic Upgrds	1,302	1,224	1,328	240	342	1248 - LG - CT Upgrades	0	26	345	197	6,669
1125 - Will Pav Fire Sprinkler	57	39	0	0	0	1249 - LG Mobile Imaging	0	146	0	0	0
1211 - SIS Monitor Install	215	0	0	0	0	1328 - LG Ortho Canopy FY14	0	255	209	0	0
1216 - New Main Process Imp Office	19	1	16	0	0	1345 - LG Lab HVAC	0	112	0	0	0
1217 - MV Campus MEP Upgrades FY13	0	181	274	28	0	1346 - LG OR 5, 6, and 7 Lights Replace	0	0	285	53	22
1224 - Rehab Bldg HVAC Upgrades	11	202	81	14	6	1347 - LG Central Sterile Upgrades	0	0	181	43	66
1301 - Desktop Virtual	0	13	0	0	0	1421 - LG MOB Improvements	0	0	198	65	303
1304 - Rehab Wander Mgmt	0	87	0	0	0	1508 - LG NICU 4 Bed Expansion	0	0	0	0	207
1310 - Melchor Cancer Center Expansion	0	44	13	0	0	1600 - 825 Pollard - Aspire Phase II	0	0	0	0	80
1318 - Women's Hospital TI	0	48	48	29	2	1603 - LG MOB Improvements	0	0	0	0	285
1327 - Rehab Building Upgrades	0	0	15	20	0	<b>Sub-Total Los Gatos Projects</b>	<b>1,150</b>	<b>5,276</b>	<b>6,246</b>	<b>6,116</b>	<b>14,780</b>
1320 - 2500 Hosp Dr Roofing	0	75	81	0	0	1550 - Land Acquisition	0	0	0	24,007	0
1340 - New Main ED Exam Room TVs	0	8	193	0	0	1701 - 828 S Winchester Clinic TI	0	0	0	0	145
1341 - New Main Admin	0	32	103	0	0	<b>Sub-Total Other Strategic Projects</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24,007</b>	<b>145</b>
1344 - New Main AV Upgrd	0	243	0	0	0	<b>Subtotal Facilities Projects CIP</b>	<b>9,294</b>	<b>13,753</b>	<b>38,940</b>	<b>48,137</b>	<b>82,953</b>
1400 - Oak Pav Cancer Center	0	0	5,208	666	52	<b>Grand Total</b>	<b>27,598</b>	<b>58,561</b>	<b>86,789</b>	<b>96,740</b>	<b>97,923</b>
						Forecast at Beginning of year	70,503	70,037	101,607	114,025	212,000

## FY18 Pacing Plan

<b>FY2018: Q1</b>		
JULY – NO MEETING	<b>AUGUST 14, 2017 Meeting</b>	SEPTEMBER – NO MEETING
N/A	<ul style="list-style-type: none"> <li>▪ Discussion on Investment Committee Meeting Structure and Pacing Calendar</li> <li>▪ Capital Markets Review and Portfolio Performance</li> <li>▪ Tactical Asset Allocation Positioning and Market Outlook</li> <li>▪ Hedge Fund Education and Structure Review</li> <li>▪ CFO Report Out – Open Session Finance Committee Materials</li> </ul>	N/A
<b>FY2018: Q2</b>		
OCTOBER – NO MEETING	<b>NOVEMBER 13, 2017 Meeting</b>	DECEMBER – NO MEETING
<i>October 25, 2017 – Board and Committee Educational Session</i>	<ul style="list-style-type: none"> <li>▪ Capital Markets Review and Portfolio Performance</li> <li>▪ Tactical Asset Allocation Positioning and Market Outlook</li> <li>▪ Asset Allocation and Investment Policy Review</li> <li>▪ CFO Report Out – Open Session Finance Committee Materials</li> </ul>	N/A
<b>FY2018: Q3</b>		
<b>JANUARY 29, 2018</b>	<b>FEBRUARY 12, 2018 Meeting</b>	MARCH – NO MEETING
<ul style="list-style-type: none"> <li>▪ <i>Joint Finance Committee and Investment Committee meeting.</i></li> </ul>	<ul style="list-style-type: none"> <li>▪ Capital Markets Review and Portfolio Performance</li> <li>▪ Tactical Asset Allocation Positioning and Market Outlook</li> <li>▪ 5-Year Review of Investment Performance &amp; Advisor (Pavilion)</li> <li>▪ CFO Report Out – Open Session Finance Committee Materials</li> <li>▪ Propose FY2019 Goals/ Pacing Plan</li> </ul>	N/A
<b>FY2018: Q4</b>		
APRIL – NO MEETING	<b>MAY 14, 2018 Meeting</b>	JUNE – NO MEETING
<i>April 25, 2018 – Board and Committee Educational Session.</i>	<ul style="list-style-type: none"> <li>▪ Capital Markets Review and Portfolio Performance</li> <li>▪ Tactical Asset Allocation Positioning and Market Outlook</li> <li>▪ CFO Report Out – Open Session Finance Committee Materials</li> <li>▪ Proposed FY19 Meeting Dates</li> <li>▪ Review Biennial Committee Self-Assessment</li> <li>▪ 403(b) Investment Performance</li> </ul>	N/A



# Stock Picking Is Dying Because There Are No More Stocks to Pick

[Jason Zweig](#) Jun 23, 2017 9:17 am ET



*Photo: Christophe Vorlet*

**By**  
**Jason Zweig**

In less than two decades, more than half of all publicly traded companies have disappeared. There were 7,355 U.S. stocks in November 1997, according to the Center for Research in Security Prices at the University of Chicago's Booth School of Business. Nowadays, there are fewer than 3,600.

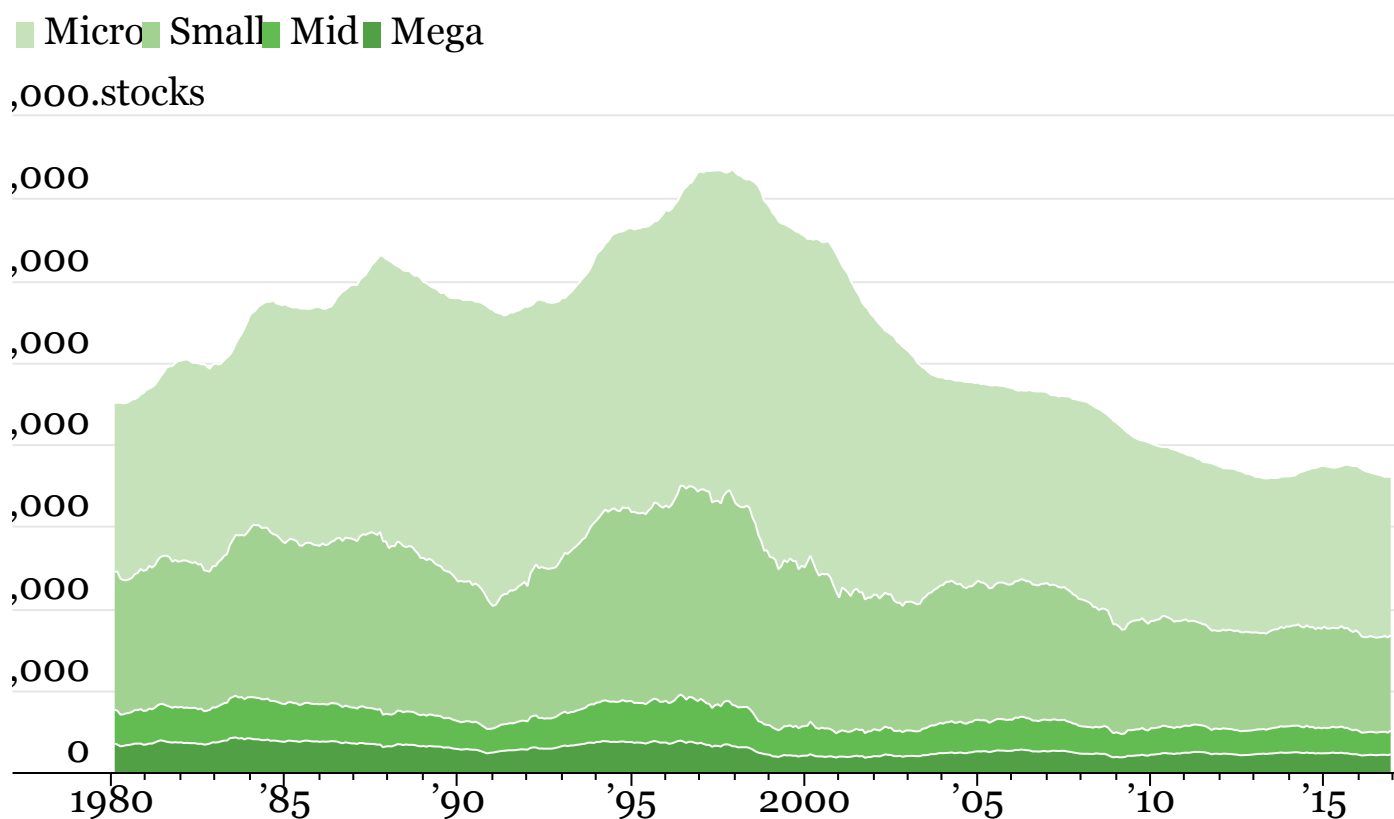
A close look at the data helps explain why stock pickers have been underperforming. And [the shrinking number of companies](#) should make all investors more skeptical about the market-beating claims of recently trendy strategies.

Back in November 1997, there were more than 2,500 small stocks and nearly 4,000 tiny “microcap” stocks, according to CRSP. At the end of 2016, fewer than 1,200 small and just under 1,900 microcap stocks were left.

### **Number of U.S. stock listings, by market capitalization**

Note: "Mega" stocks cumulatively make up the top 70% of total U.S. stock-market "micro," the final 2%. Data are monthly.

Source: Center for Research in Security Prices at the University of Chicago Booth School of Business  
THE WALL STREET JOURNAL



Most of those companies melted away between 2000 and 2012, but the numbers so far show no signs of recovering.

Several factors explain the shrinking number of stocks, analysts say, including the regulatory red tape that discourages smaller companies from going and staying public; the flood of venture-capital funding that enables young companies to stay private longer; and the rise of private-equity funds, whose buyouts take shares off the public market.

For stock pickers, differentiating among the remaining choices is “an even harder game” than it was when the market consisted of twice as many companies, says Michael Mauboussin, an investment strategist at Credit Suisse in New York who wrote a report this spring titled “[The Incredible Shrinking Universe of Stocks.](#)”

That’s because the surviving companies tend to be “fewer, bigger, older, more

profitable and easier to analyze,” he says — making stock picking much more competitive.

Consider small-stock funds. Often, they compare themselves to the Russell 2000, an index of the U.S. stocks ranked 1,001 through 3,000 by total market value. “Twenty years ago, there were over 4,000 stocks smaller” than the inclusion cutoff for the Russell 2000, says Lubos Pastor, a finance professor at the University of Chicago. “That number is down to less than 1,000 today.”

So fund managers have far fewer stocks to choose from if they venture outside the index — the very area where the best bargains might be found. More money chasing fewer stocks could lead some fund managers to buy indiscriminately, regardless of value.

Eric Cinnamond is a veteran portfolio manager with a solid record of investing in small stocks. Last year, he took the drastic step of shutting down his roughly \$400 million mutual fund, Aston/River Road Independent Value, and giving his investors their money back.

“Prices got so crazy in small caps, I fired myself,” he says. “My portfolio was 90% in cash at the end, because I couldn’t find anything to buy. If I’d kept investing, I was sure I’d lose people their money.”

He adds, “It was the hardest thing I’ve ever done professionally, but I didn’t feel I had a choice. I knew my companies were overvalued.”

Mr. Cinnamond hopes to return to the market when, in his view, values become attractive again. He doesn’t expect recent conditions to be permanent.

The evaporation of thousands of companies may have one enduring result, however — and it could catch many investors by surprise.

Most research on historical returns, [points out Mr. Mauboussin](#), is based on the days when the stock market had twice as many companies as it does today. “Was the population of companies so different then,” he asks, “that the inferences we draw from it might no longer be valid?”

So-called factor investing, also known as systematic or smart-beta investing, picks hundreds or thousands of stocks at a time based on common sources of risk and return. Among them: how big companies are, how much their shares fluctuate, how expensive their shares are relative to asset value and so on.

But the historical outperformance of many such factors may have been driven [largely by the tiniest companies](#) — exactly those that have disappeared from the market in droves.

Before concluding that small stocks or cheap “value” stocks will outrace the market as impressively as they did in the past, you should pause to consider how they will perform without the tailwinds from thousands of tiny stocks that no longer exist.

The stock market has more than tripled in the past eight years, so the eclipse of so many companies hasn’t been a catastrophe. But it does imply that investing in some of the market’s trendiest strategies might be less profitable in the future than they looked in the past.

*Write to Jason Zweig at [intelligentinvestor@wsj.com](mailto:intelligentinvestor@wsj.com), and follow him on Twitter at [@jasonzweigwsj](https://twitter.com/jasonzweigwsj).*

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Report on ECH and ECHD Board Actions Investment Committee Meeting Date: August 14, 2017
<b>Responsible party:</b>	Cindy Murphy, Director of Governance Services
<b>Action requested:</b>	For Information
<b>Background:</b>	IN FY16 we added this item to each Board Committee agenda to keep Committee members informed about Board actions via a verbal report by the Committee Chair. This written report is intended to supplement the Chair's verbal report.
<b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b>	None.
<b>Summary and session objectives :</b>	To inform the Committee about recent Board actions
<b>Suggested discussion questions:</b>	None.
<b>Proposed Committee motion, if any:</b>	None. This is an informational item
<b>LIST OF ATTACHMENTS:</b>	Report on ECH and ECHD June 2017 Board Actions

### **June 2017 ECH Board Actions\***

1. June 14, 2017
  - a. Approved the FY17 Period 10 Financials
  - b. Approved the FY18 Operating and Capital Budget
  - c. Approved the FY 18 Community Benefit Plan awarding approximately \$3.2 million in grants and sponsorships.
  - d. Approved the FY18 CEO and Executive Salary Ranges
  - e. Approved recommended revisions to the Executive Benefits Design Plan increasing Long-Term Disability Benefits
  - f. Approved Funding for the Xi Da Vinci Robot, 828 Winchester Tenant Improvements, Los Gatos MRI Replacement, and Initial Development Steps for Patient Family Residence
  - g. Approved FY18 Board Committee Appointments and Re-Appointments
  - h. Approved FY18 Advisory Committee Goals
  - i. Approved Recommended Revisions to the Physician Financial Arrangements Review and Approval Policy authorizing the CEO to execute certain agreements not to exceed \$1 million.
  - j. Approved the FY18 Organizational Goals
  - k. Approved the Management of Serious Events and Red Alert Patient safety Policy
  - l. Approved Employment of Dan Woods as El Camino Hospital's CEO.
  
2. June 28, 2017
  - a. Approved the El Camino Hospital Strategic Framework.
  - b. Adopted a Resolution acknowledging Neal Cohen's 5 years of service on the Hospital Board.

### **June 2017 ECHD Board Actions\***

1. June 14, 2017
  - a. Approved the Selection of Dan Woods as El Camino Hospital's CEO.
  
2. June 20, 2017
  - a. Approved the FY18 El Camino Hospital Capital and Operating Budget
  - b. Approved the FY18 Community Benefit program awarding approximately \$7 million in grants and sponsorships
  - c. Elected Board Officers:
    - i. Chair – Peter C. Fung, MD
    - ii. Vice Chair – Julia Miller
    - iii. Secretary/Treasurer – John Zoglin
  - d. Voted to fill the vacancy on the ECHD Board created by Dennis Chiu's resignation by appointment at a meeting scheduled for August 16, 2017.
  - e. Elected John Zoglin and Dave Reeder to serve on an Ad hoc Committee that will make recommendations to the District Board regarding selection of ECH Board Members.

\*This list is not meant to be exhaustive, but includes agenda items the Board voted on that are most likely to be of interest to or pertinent to the work of El Camino Hospital's Board Advisory Committees.

Christina Lai, a member of the Hospital's Governance Committee, will serve as Advisor to the Committee.

3. June 28, 2017

- a. Approved the El Camino Hospital Strategic Framework.
- b. Adopted a Resolution acknowledging Dennis Chiu's nearly 5 years of service on the District and Hospital Boards.
- c. Approved a revision to the El Camino Hospital Bylaws expanding the Board to 10 seats, but removing the CEO as a voting member of the Board.

\*This list is not meant to be exhaustive, but includes agenda items the Board voted on that are most likely to be of interest to or pertinent to the work of El Camino Hospital's Board Advisory Committees.





**According to the El Camino Hospital Surplus Cash and Cash Balance Investment Policy Statements, the responsibilities of the Investment Committee are:**

1. Establish and recommend revisions to the investment policy, as appropriate.
2. Review compliance with policy.
3. Approve allocations across investment styles and investment managers that are consistent with this investment policy.
4. Assure that implementation of each investment program is consistent with its overall investment objectives and risk tolerances.
5. Monitor performance of investment managers through reports provided by the Investment Consultant.

**Pavilion believes quarterly Investment Committee meetings should be structured as follows:**

1. Capital Markets Review and Portfolio Performance
  - a. Overview of recent market drivers and performance
  - b. Total Fund Performance: Surplus Cash and Cash Balance Portfolios
    - i. Focus on absolute and relative performance
    - ii. Have longer-term (5 year) returns met expectations?
      1. Expectation per asset allocation study
      2. Budgeted/Actuarial return
  - c. Composite level performance
    - i. Focus on absolute and relative performance
  - d. Manager performance
    - i. Touch on recent drivers, outliers and organizational updates, but manager performance monitoring should emphasize longer-term results relative to benchmarks and peers
2. Tactical Asset Allocation Positioning and Market Outlook
  - a. Current asset allocation positioning
  - b. Forward looking asset class expectations
  - c. Discuss whether marginal changes to the current positioning are needed
    - i. This is separate from setting the long-term target asset allocation
3. Rotating Topic - will change every meeting. Examples include:
  - a. To be presented on an annual basis:
    - i. Asset Allocation and Investment Policy Review
    - ii. Performance self-assessment / report card
  - b. Ongoing education:
    - i. Hedge Fund education and Structure Review

- ii. Active vs. Passive management within equity and fixed income strategies
- iii. Private Equity education
- iv. Investment management trends within the Healthcare industry

## **FY2018 Pacing Calendar**

### **Q1: August 14, 2017 Investment Committee Meeting**

- 1. Discussion on Investment Committee Meeting Structure and Pacing Calendar
- 2. Capital Markets Review and Portfolio Performance
- 3. Tactical Asset Allocation Positioning and Market Outlook
- 4. Hedge Fund Education and Structure Review

### **Q2: November 13, 2017 Investment Committee Meeting**

- 1. Capital Markets Review and Portfolio Performance
- 2. Tactical Asset Allocation Positioning and Market Outlook
- 3. Asset Allocation and Investment Policy Review

### **Q3: February 12, 2018 Investment Committee Meeting**

- 1. Capital Markets Review and Portfolio Performance
- 2. Tactical Asset Allocation Positioning and Market Outlook
- 3. 5-Year Review of Investment Performance & Advisor (Pavilion)

### **Q4: May 14, 2018 Investment Committee Meeting**

- 1. Capital Markets Review and Portfolio Performance
- 2. Tactical Asset Allocation Positioning and Market Outlook
- 3. TBD as opportunities/needs present themselves

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Investment Committee (IC) FY 18 Goals Update Investment Committee August 14, 2017
<b>Responsible party:</b>	Iftikhar Hussain
<b>Action requested:</b>	Approval of Updated Goals
<b>Background:</b>	The FY 2018 IC goals have been revised to incorporate the Workflow and Pacing Plan presented at the meeting.
<b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b>	None.
<b>Suggested discussion questions:</b>	None.
<b>Proposed Committee motion, if any:</b>	To approve the updated IC FY 2018 goals
<b>LIST OF ATTACHMENTS:</b>	IC FY 18 Goals



**FY18 COMMITTEE GOALS**  
Investment Committee

**PURPOSE**

The purpose of the Investment Committee is to develop and recommend to the El Camino Hospital (ECH) Board of Directors (“Board”) the investment policies governing the Hospital’s assets, maintain current knowledge of the management and investment funds of the Hospital, and provide oversight of the allocation of the investment assets.

**STAFF:** Iftikhar Hussain, Chief Financial Officer

*The CFO shall serve as the primary staff to support the Committee and is responsible for drafting the Committee meeting agenda for the Committee Chair’s consideration. Additional members of the Executive Team or hospital staff may participate in the meetings upon the recommendation of the CFO and at the discretion of the Committee Chair. The CEO is an ex-officio member of this Committee.*

<b>GOALS</b>	<b>TIMELINE by Fiscal Year</b> (Timeframe applies to when the Board approves the recommended action from the Committee, if applicable)	<b>METRICS</b>
1. Review performance of consultant recommendations of managers and asset allocations	<ul style="list-style-type: none"> <li>Each quarter - ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Committee to review selection of money managers and make recommendations to the CFO</li> </ul>
2. Educate the Board and Committee: Hedge Fund trends and allocation review	<ul style="list-style-type: none"> <li>Q1 FY18</li> </ul>	<ul style="list-style-type: none"> <li>Completed by the end of Q1</li> </ul>
3. Asset Allocation and Investment Policy Review. <del>Review/revise Executive Dashboard</del>	<ul style="list-style-type: none"> <li><del>Q2 Each quarter - ongoing</del></li> </ul>	<ul style="list-style-type: none"> <li>Completed by November <del>June</del> 2017</li> </ul>
4. 5-Year Review of Investment Performance & Advisor (Pavilion)	<ul style="list-style-type: none"> <li>Q3</li> </ul>	<ul style="list-style-type: none"> <li>Complete by February 2018</li> </ul>
<del>5. Review and evaluate Management’s recommended ERM framework regarding how the Board will establish its risk appetite and tolerance levels</del>	<ul style="list-style-type: none"> <li><del>Q4 FY18</del></li> </ul>	<ul style="list-style-type: none"> <li><del>Completed by the end of Q4</del></li> </ul>

**SUBMITTED BY:**

Jeffrey Davis, MD  
Iftikhar Hussain

**Chair**, Investment Committee  
**Executive Sponsor**, Investment Committee

**Approved by the ECH Board of Directors on June 14, 2017**

# Executive Summary



## El Camino Hospital

2nd Quarter 2017

Pavilion Advisory Group Inc.  
227 W. Monroe Street, Suite 2020  
Chicago, IL 60606  
Phone: 312-798-3200  
Fax: 312-902-1984  
[www.pavilioncorp.com](http://www.pavilioncorp.com)



PAVILION

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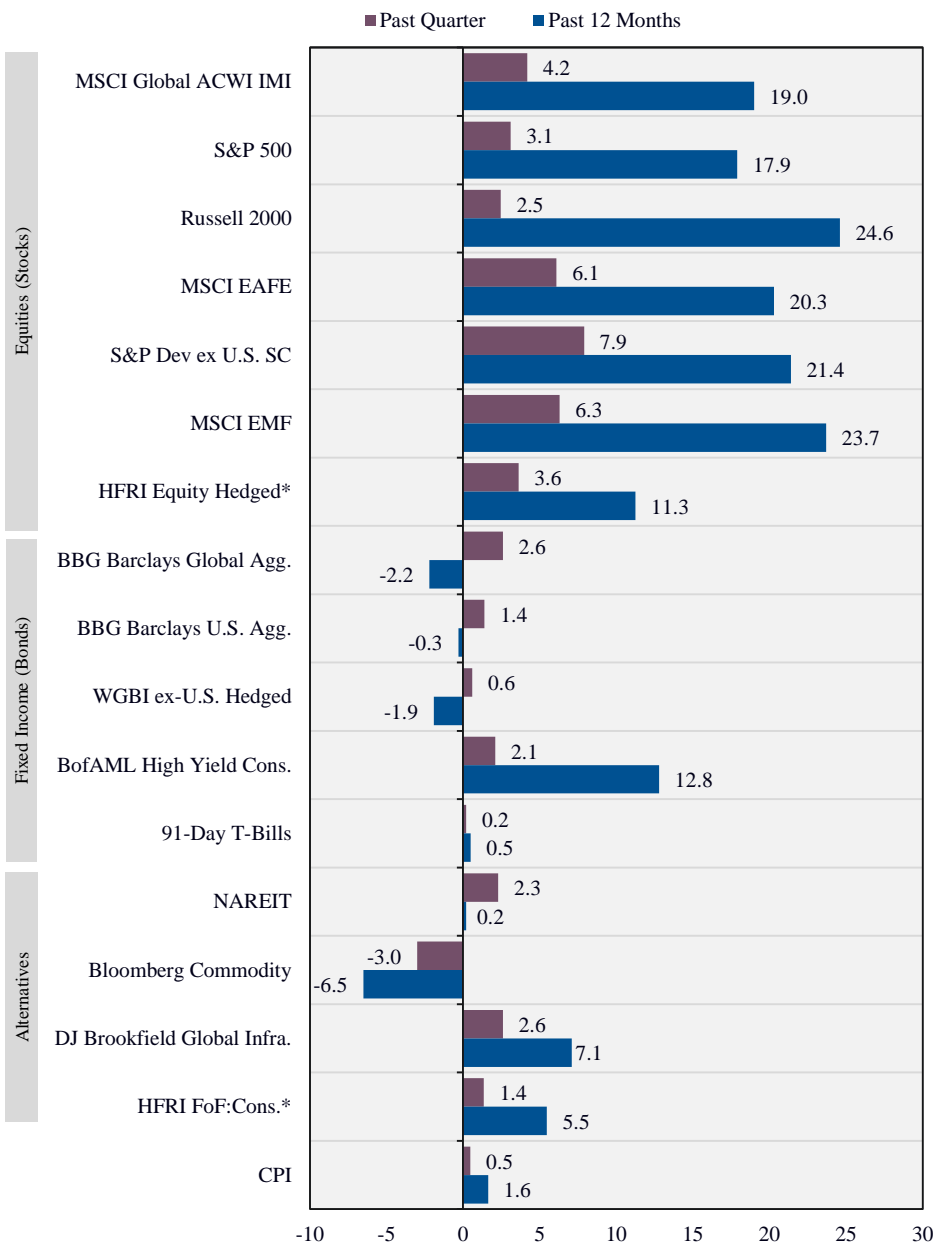


# Capital Markets Review

# Capital Markets Review

## Summary

### Performance: Past Quarter and Year (%)



### Sustainable Economic Expansion

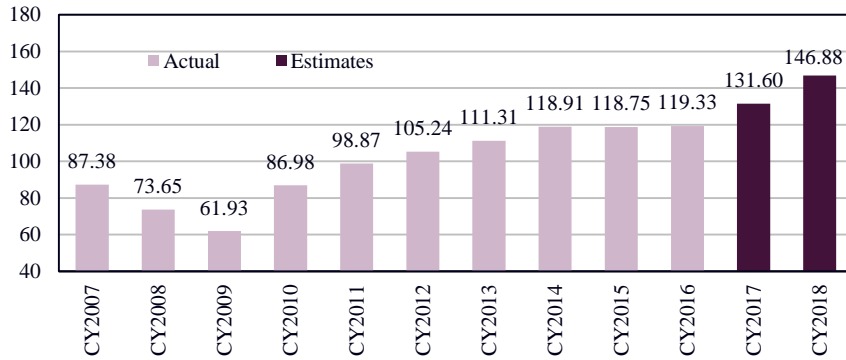
- Capital markets continued to benefit from the ongoing synchronized recovery in global growth, with particularly strong improvements in emerging markets. Cyclical risks remain low across developed markets, which we believe should allow existing trends to remain intact.
- In addition to strengthening economic conditions, Europe benefited from the positive resolution of several challenges, most notably French election results as well as the release of the final Greek loan payment. The reduction in risk allowed for strong performance of European equity markets.
- While core inflation remains below target in most developed markets, improving growth has allowed central bank policy makers to begin publicly discussing the prospects for normalizing rates, placing some upward pressure on still historically low yields. The prospects for a future convergence in monetary policy also weighed on the dollar, reducing risks of further rapid appreciation.
- Domestically, the U.S. yield curve flattened as the Federal Open Market Committee (“FOMC”) raised rates again in June (as expected), marginally detracting from intermediate duration performance; however, declines in long-term rates buoyed longer duration instruments. The improving economic conditions also led to spread compression for most sectors, driving outperformance relative to similar duration Treasuries.
- Global growth helped boost domestic and international equities. After turning positive in the third quarter of 2016, earnings growth has been robust and widespread with expectations continuing to reflect the improving growth landscape. Internationally, earnings and positive currency movements propelled equity prices higher.
- For the second quarter in a row, commodity prices turned down, dragged by energy and agriculture prices. While prices declined, income-oriented strategies, like infrastructure, generated positive performance, aided by a flattening yield curve and contractual volume based compensation.



# Capital Markets Review

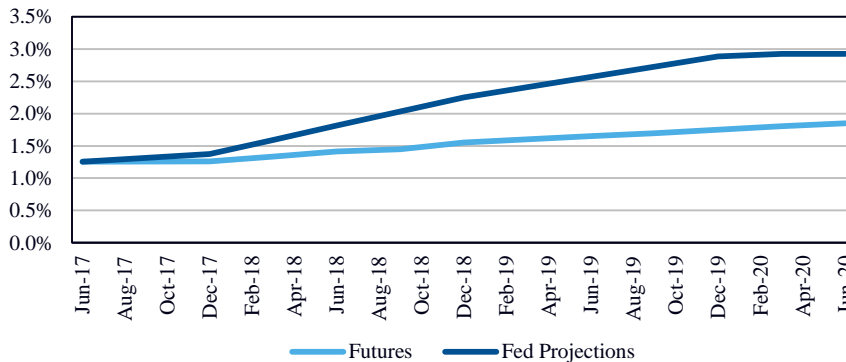
## Asset Class Outlook

### S&P 500 Calendar Year Bottom-Up EPS Actuals & Estimates



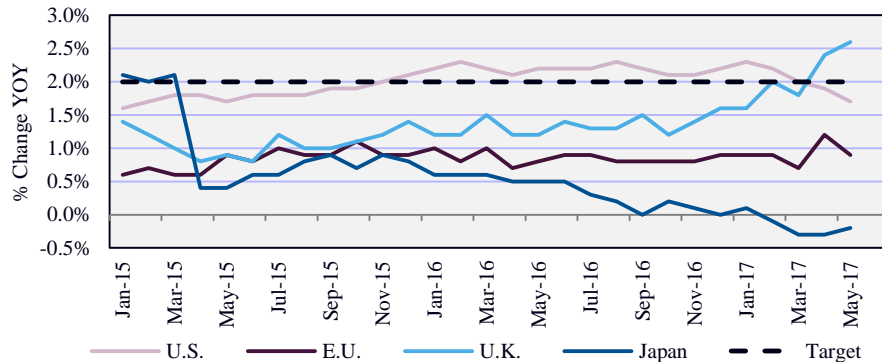
Source: FactSet as of July 7, 2017

### Projected vs. Expected Path of Fed Funds



Source: Bloomberg & Federal Reserve

### Core inflation rates remain below target



Source: Bloomberg

## Equities

- In our view, the main driver of equity market performance over the past twelve months has been the recovery in earnings growth. While the pace of earnings growth is likely to slow in coming quarters, underlying fundamentals remain strong and should support further growth in earnings as well as equity market performance, especially that of emerging markets. Equity markets also should benefit from modestly positive but constrained inflation levels. Additionally, growth assets in general and equities in particular look more attractive once an adjustment is made for the current low level of interest rates. While U.S. fiscal policy enhancements appear less likely than earlier in the year, any progress should provide tailwinds for the U.S. equity market.

## Fixed Income

- The FOMC raised rates again during the quarter, and laid out the framework by which they expect to eventually reduce the balance sheet. During the quarter, spurred by improving global growth conditions, central bankers in several developed markets publicly commented on a change in forward guidance. This changing guidance appears to be designed to prepare investors for the eventual normalization of rates in these markets – bringing the markets into synch with U.S. policy. As a result, interest rates rose across developed markets, while the dollar declined. While we anticipate rates rising, it likely will be very gradual, as key inflation measures remain below target. As a result, we believe investors are well served maintaining some high quality duration risk as portfolio protection, including exposure to select securitized sectors such as Non-Agency MBS, CMBS, and off-the-run ABS. While credit markets have experienced further spread tightening, it is difficult to identify a near term catalyst for broad spread widening. Weakness in retail and lower energy prices may, however, put pressure on select industries. Where possible, we recommend investors build in carry advantage through select below investment grade exposures.

## Real Assets

- Core inflation remains constrained and below the 2% target in most developed markets. Factors such as globalization, technological innovation, as well as shifting demographics are weighing on inflation, conditions that likely will persist into the foreseeable future. In the U.S., we do not anticipate inflation levels sustaining an increase much above the Federal Reserve's 2% target near-term. In the current low yield environment, we maintain our view that global listed infrastructure likely provides a diversifying income stream with a slightly lower volatility profile than commodities. Within commodities and infrastructure, we continue to favor the energy complex. We maintain a cautious view on REITs, due to historical correlations with long duration instruments.

# Capital Markets Review

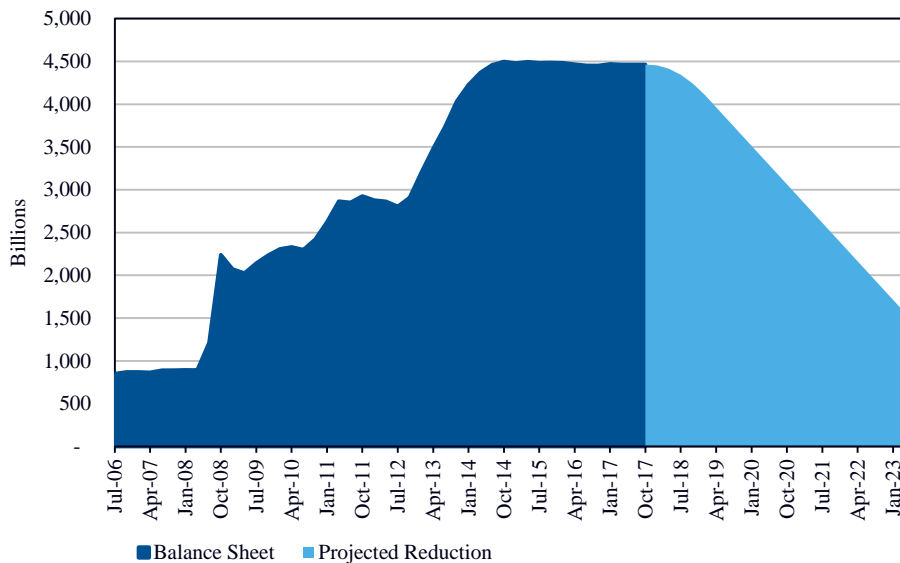
## Key Market Risks

### Current Risk Levels



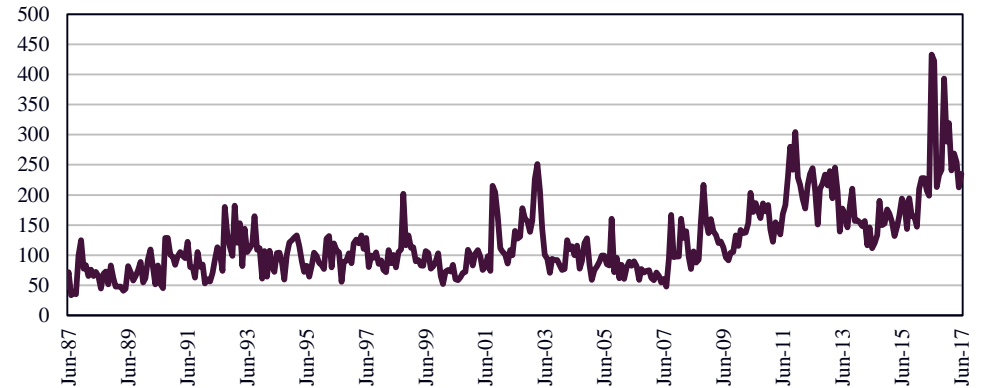
Source: Bloomberg, FactSet, Recession Alert, & Pavilion Analysis

### Potential Change in Fed Balance Sheet



Source: Federal Reserve FRED Data & Pavilion Analysis

### Economic Policy Uncertainty Remains Elevated in The European Union



Source: Economic Policy Uncertainty

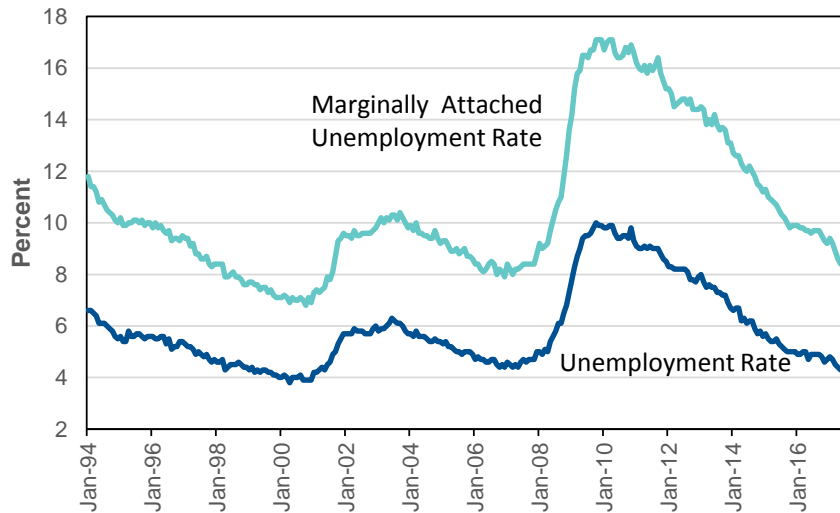
### Cyclical Risks Remain Low with Regional Disturbances Present

- Ongoing Threat from European Challenges:**
  - The results of French elections provided some welcome relief, but more elections loom, most notably in Italy.
  - The U.K. faces rising challenges navigating Brexit. While the decline in the British Pound immediately following the Brexit vote provided some near-term stimulus, the downside is now being felt in the form of rising inflation. This rise in inflation may come at an inopportune moment, as the economy may be feeling the drag from declining capital investment as firms evaluate the post Brexit landscape.
  - While banks in other E.U. countries have addressed re-capitalization issues, Italy has only begun the process, and the underperformance of Italian banks makes recapitalization efforts more difficult, potentially setting the stage for a tightening of European financial conditions.
- Policy Misstep or Shortfall:** The failure to pass healthcare reform has increased uncertainty regarding the administration's ability to advance other elements of its business-friendly agenda. Geopolitical risks also have become more elevated, with the threat of deploying trade sanctions against China as leverage to resolve the North Korean crisis being one example. Near-term, the single biggest policy risk may be the inability to raise the debt ceiling limit.
- Removing Accommodation Prematurely:** Since the beginning of the recovery, several central banks have made attempts to reduce accommodation, most notably the ECB, only to end up reversing course over a relatively short time period. The challenge for the Fed and other central banks will be normalizing rates while simultaneously reducing balance sheets – uncharted waters to be sure.

# Capital Markets Review

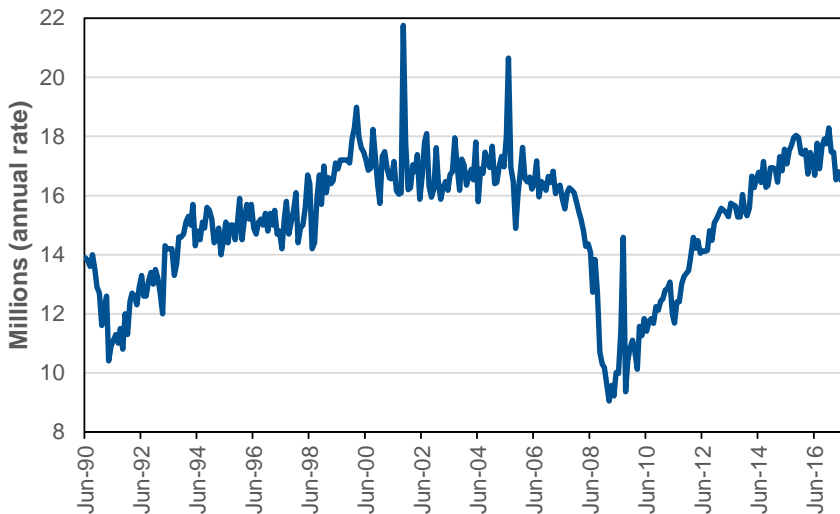
## Economy

### Unemployment Rates



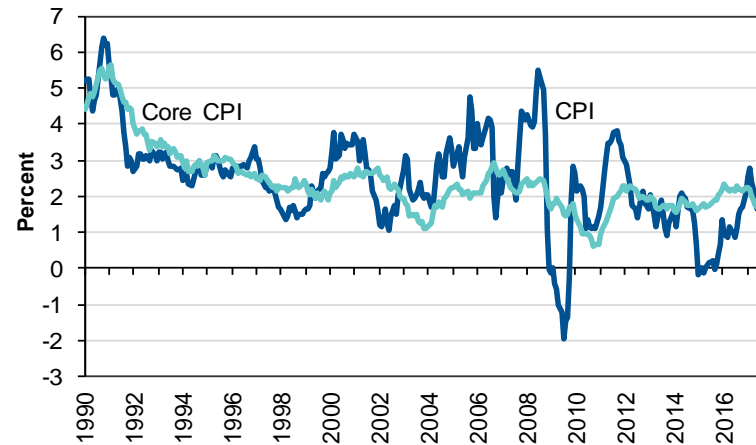
Source: Bloomberg

### Auto Sales



Source: Bloomberg

### U.S. Inflation



Source: Federal Reserve

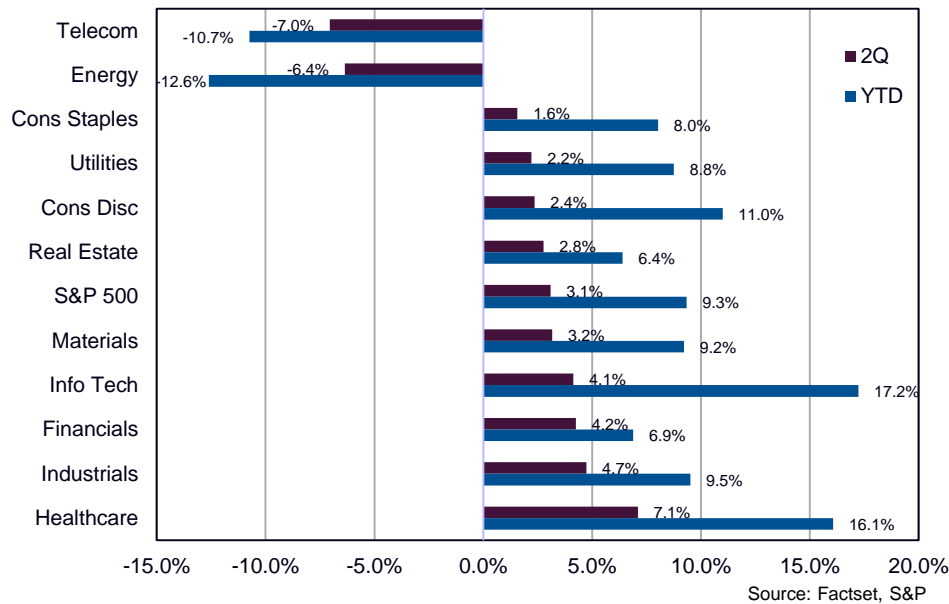
### Economy Moves Forward, Despite Political Hindrances

- U.S. economic activity carried on as if plans for tax cuts, healthcare reform and regulatory reforms under a new president never existed. A succinct lack of Congressional productivity planted seeds for future economic uncertainties, as a continuation of current fiscal and regulatory policies may be a hindrance to expanding GDP growth above its decade-long slump. Growth remained dependent upon businesses to lower costs and improve efficiency. The Federal Reserve increased interest rates 25bps in June, and markets expect its tactics to shift from rate increases to balance sheet reduction by allowing Treasury and mortgage holdings to mature without reinvestment. This process is expected to start very gradually so as to gauge market impact.
- Consumer enthusiasm for auto purchases waned following several strong quarters of growth. A decline in pent-up demand combined with manufacturers' reluctance to cut prices to reduce inventories are negatively affecting the ability of the auto sector to maintain the more recent rapid pace of growth. Auto loan interest rates have moved up slightly, while the median loan term is approaching six years.
- Unemployment rates reached levels generally considered full employment, where further labor-intensive economic expansion would demand higher wage growth. A decrease in immigration, coupled with increased industrial and manufacturing demand for labor, resulted in escalating wages, though at a pace much lower than traditional models would forecast. Technological improvements brought intense price competition, limiting the ability of businesses to raise prices.

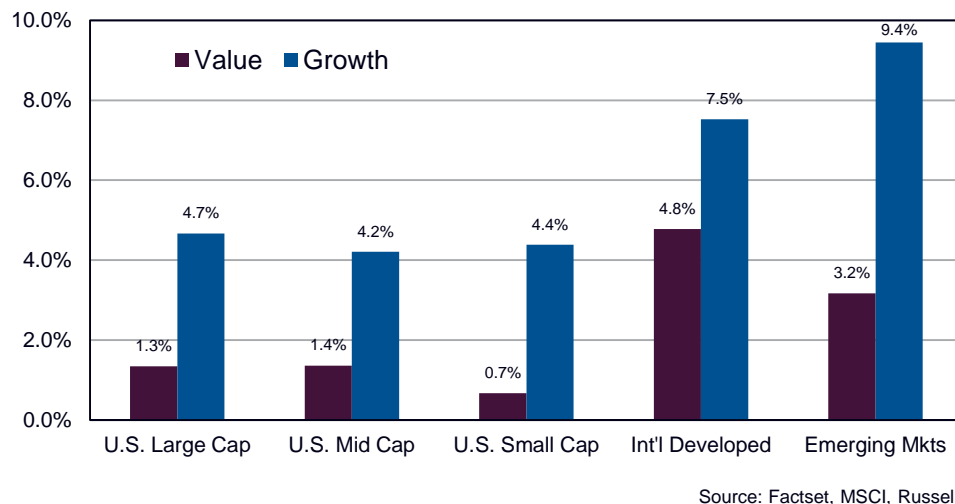
# Capital Markets Review

## Equities

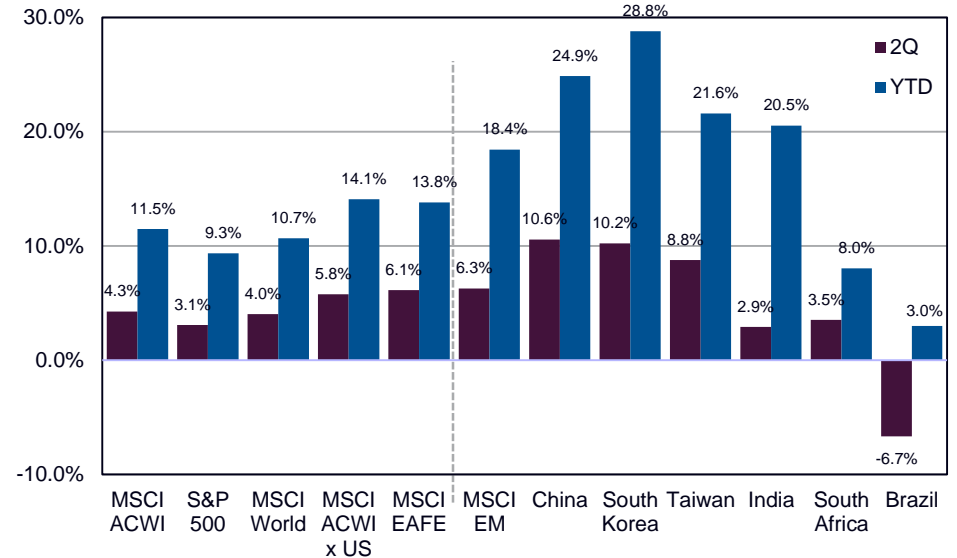
### Second Quarter and YTD S&P 500 Sector Returns



### Growth Continued to Outperformed Value in the Second Quarter



### Second Quarter and YTD World and Emerging Market Equity Returns



Source: Factset, MSCI

### Growth Continued to Propel Equity Markets Higher

- The S&P 500 Index returned +3.1% during the second quarter. Healthcare posted the strongest returns for the quarter, followed by Industrials, Financials, and Information Technology. Energy and Telecom were the only sectors to post a loss during the second quarter, continuing a trend from the first quarter.
- Most developed market equity indices provided similar returns in the +4% to +6% range during the second quarter, the exception being the S&P 500 at +3.1%. Emerging Market equities were slightly higher, returning +6.3%, led by China, South Korea, and Taiwan.
- Growth has continued to outperform value in the second quarter, as it did during the first quarter. Emerging Markets experienced the most pronounced performance differential by style, as well as the highest absolute return of growth stocks.

# Capital Markets Review

## Fixed Income

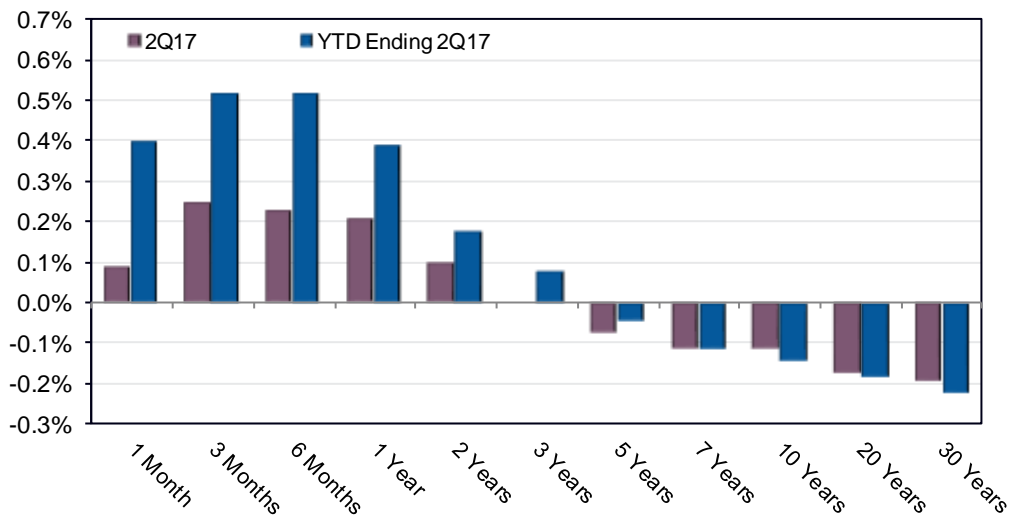
### Duration – Adjusted Excess Returns to Treasuries (bps)

	2010	2011	2012	2013	2014	2015	2016	1Q17	2Q17
Aggregate	171	-114	226	93	10	-53	138	11	30
Agency	77	-25	166	1	10	-133	121	60	20
MBS	225	-106	91	98	40	-5	-11	-17	-4
ABS	169	52	246	24	53	44	95	22	32
CMBS	1501	47	841	97	108	-28	236	8	34
Credit	192	-322	693	226	-18	-169	442	47	99
High Yield	974	-240	1394	923	-112	-577	1573	214	146
EMD (USD)	508	-537	1503	-32	-120	3	880	259	72

■ Best Period  
 ■ Second Best Period  
 ■ Worst Period  
 ■ Second Worst Period

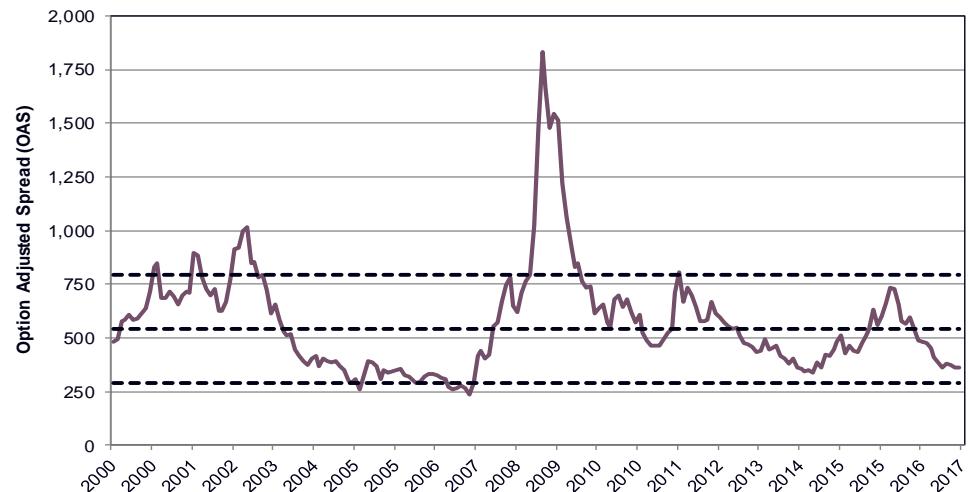
Source: Bloomberg Barclays

### U.S. Treasury Yield Curve Change



Source: US Dept. of The Treasury

### Historical High Yield Credit Valuations



Source: Bloomberg Barclays

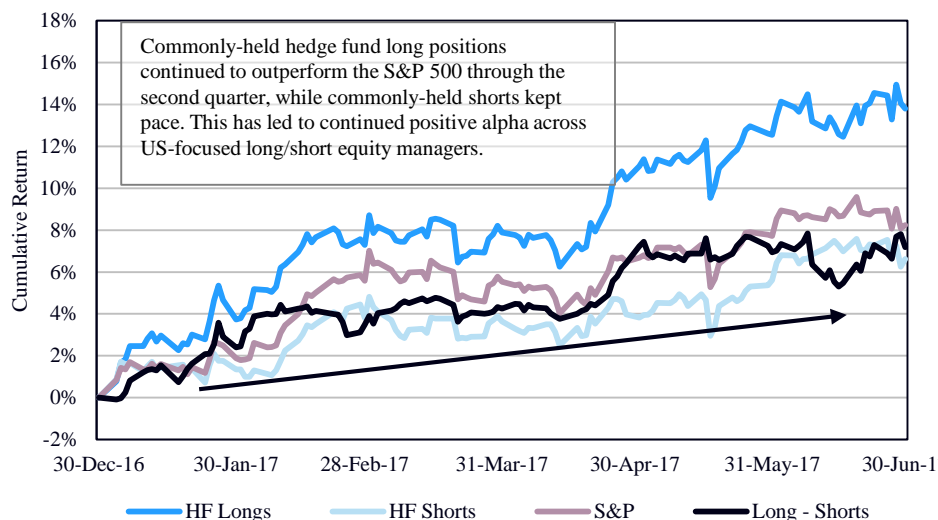
### End of Easing Front and Center

- The Federal Reserve (“Fed”) raised rates 0.25% in June, setting the Federal Funds Rate target at 1.00% to 1.25%. However, Fed comments hint they are poised to take a pause, as concerns about inflation losing steam have taken hold. The Fed also offered details on the strategy of shrinking its balance sheet and plans to allow a small, but increasing amount of securities to mature each month without reinvestment starting later in 2017.
- Treasuries returned +1.2% for the quarter. The Treasury curve flattened with yields rising at the short-end while longer-term rates fell. The yield curve spread between 2- and 30-year Treasuries fell 29 basis points (bps) while the spread between 10- and 30-year Treasuries narrowed 8 bps. TIPS declined -0.4% on falling inflation expectations.
- Investment grade credit returned +2.4% for the quarter and outpaced Treasuries by 99 bps on a duration-adjusted basis. The OAS of the U.S. Credit Index ended the quarter 9 bps tighter at 103 bps, a level not seen since 2014. Industrials outpaced utilities, financials, and non-corporates on a duration-adjusted basis. High yield bonds returned +2.2%, while spreads ended the quarter 28 bps tighter at 364 bps. Energy re-emerged as a pocket of weakness, with oil prices hitting calendar year lows in late June.
- Agency MBS generated a +0.9% total return, but trailed duration-matched Treasuries by 4 bps for the quarter. Spreads ended the quarter 5 bps wider at 32 bps, prodded by the Fed’s discussion of the end of reinvestment in Agency MBS. CMBS and ABS proved resilient with modestly tighter spreads and continued demand for high quality carry in a low yield environment.

# Capital Markets Review

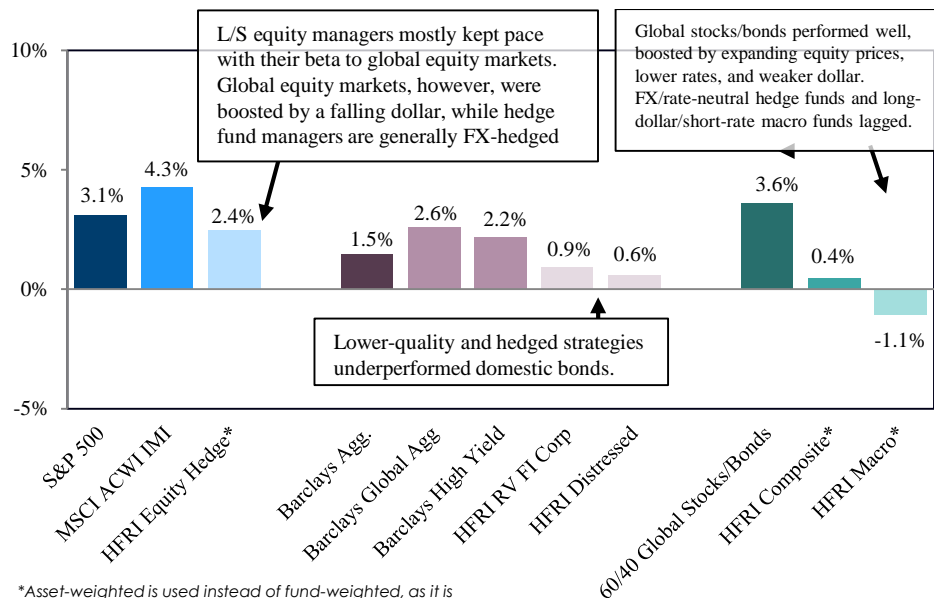
## Alternative Investments

### Top Hedge Fund Equity Longs vs Shorts (Goldman VIP)



Sources: Bloomberg, Goldman Sachs

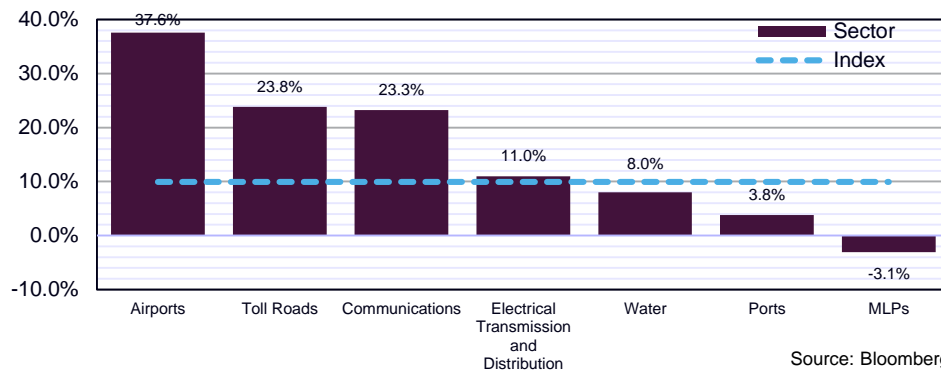
### Hedge Funds vs Long-Only: Total Returns 2017 Q2



\*Asset-weighted is used instead of fund-weighted, as it is available and more indicative of the universe.

Sources: Hedge Fund Research, Factset

### Listed Infrastructure (Year-to-Date Performance)



### Global Alternatives Rise with Risk Assets

- Hedge Funds:** Hedge fund strategies posted gains alongside risk assets. Global equity markets continued their climb, energy- and commodity-related investments were challenged, and domestic interest rates fell. Long/short equity strategies posted strong results, and like long-only strategies, managers with long exposures to global stocks and growth-oriented names outperformed those with long exposures to domestic value names and stocks within the troubled energy sector. Distressed-oriented and long/short credit funds struggled to keep up with U.S. bonds and high yield markets, particularly those with energy exposure. These credit strategies typically have little exposure to interest rate duration, which was a tailwind to long-only bond strategies. A robust merger and financing environment continues to be a boon to event-driven strategies, and while relative value strategies generally posted positive returns, macro strategies posted losses.
- Real Assets:** Infrastructure rose +9.9% YTD. The top contributors to performance have been the communications and airport sectors, with the only negative sector being MLPs. From a regional perspective, Europe and Asia have done well, as political uncertainty and economic fears have abated. Many infrastructure companies own long-duration physical assets and enjoy relatively stable, contractually-based cash flows that provide investors with an attractive diversifying income stream.
- Private Capital Markets:** Fundraising remained strong through the second quarter of 2017, as 295 funds closed with commitments totaling \$175 billion, bringing total private capital fundraising to \$356 billion during H1 2017. Given the current trajectory of fundraising activity, and sustained high levels of fund distributions, it is probable that 2017 will be the largest ever fundraising year for private capital. As was the story in recent years, the industry's strong returns and increasing dry powder continues to create more competition for deals. Exit activity declined for the third consecutive quarter, with 489 private equity exits in Q2 (vs. 576 in Q1). As of May 31, 2017, the median LBO EV/EBITDA multiple reached 10.8x, up from 10.2x in Q1 of 2017. As a result, equity contributions as a percentage of total capital structure have reached near record highs (5.0x in 2017 vs. 3.3x in 2012), as sponsors seek ways to differentiate themselves in the transaction process.

# Capital Markets Review

## Index Returns

As of June 30, 2017

(Percentage Return)

	Quarter	Year To Date	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
<b>Domestic Equity Indices</b>								
Dow Jones Wilshire 5000	2.9	8.7	18.5	10.5	9.3	14.6	15.3	7.3
S&P 500	3.1	9.3	17.9	10.7	9.6	14.6	15.4	7.2
Russell 1000 Index	3.1	9.3	18.0	10.2	9.3	14.7	15.4	7.3
Russell 1000 Growth Index	4.7	14.0	20.4	11.4	11.1	15.3	16.5	8.9
Russell 1000 Value Index	1.3	4.7	15.5	9.0	7.4	13.9	14.3	5.6
Russell Midcap Index	2.7	8.0	16.5	8.2	7.7	14.7	15.3	7.7
Russell Midcap Growth Index	4.2	11.4	17.0	7.0	7.8	14.2	15.2	7.9
Russell Midcap Value Index	1.4	5.2	15.9	9.4	7.5	15.1	15.3	7.2
Russell 2000 Index	2.5	5.0	24.6	7.8	7.4	13.7	14.4	6.9
Russell 2000 Growth Index	4.4	10.0	24.4	5.4	7.6	14.0	15.2	7.8
Russell 2000 Value Index	0.7	0.5	24.9	10.3	7.0	13.4	13.5	5.9
<b>International Equity Indices</b>								
MSCI EAFE	6.1	13.8	20.3	3.9	1.1	8.7	7.9	1.0
MSCI EAFE Growth Index	7.5	16.7	15.7	4.9	2.8	9.2	8.6	2.1
MSCI EAFE Value Index	4.8	11.1	25.0	2.8	-0.6	8.1	7.1	-0.1
MSCI EAFE Small Cap	8.1	16.7	23.2	8.9	5.6	12.9	11.4	3.4
MSCI AC World Index	4.3	11.5	18.8	6.9	4.8	10.5	10.5	3.7
MSCI AC World ex US	5.8	14.1	20.5	4.0	0.8	7.2	6.7	1.1
MSCI Emerging Markets Index	6.3	18.4	23.7	4.3	1.1	4.0	3.9	1.9
<b>Fixed Income Indices</b>								
Blmbg. Barc. U.S. Aggregate	1.4	2.3	-0.3	2.8	2.5	2.2	3.2	4.5
Blmbg. Barc. Intermed. U.S. Government/Credit	0.9	1.7	-0.2	2.0	1.9	1.8	2.6	3.9
Blmbg. Barc. U.S. Long Government/Credit	4.4	6.0	-1.1	7.0	5.3	4.3	6.8	7.6
Blmbg. Barc. U.S. Corp: High Yield	2.2	4.9	12.7	7.0	4.5	6.9	8.2	7.7
BofA Merrill Lynch 3 Month U.S. T-Bill	0.2	0.3	0.5	0.3	0.2	0.2	0.2	0.6
Blmbg. Barc. U.S. TIPS	-0.4	0.9	-0.6	1.8	0.6	0.3	2.9	4.3
Citigroup Non-U.S. World Government Bond	3.8	5.9	-5.0	4.0	-2.2	-0.8	1.4	3.2
JPM EMBI Global Diversified (external currency)	2.2	6.2	6.0	7.9	5.4	5.7	7.1	7.4
JPM GBI-EM Global Diversified (local currency)	3.6	10.4	6.4	4.2	-2.8	-0.7	1.9	4.0
<b>Real Asset Indices</b>								
Bloomberg Commodity Index Total Return	-3.0	-5.3	-6.5	-10.0	-14.8	-9.3	-5.7	-6.5
Dow Jones Wilshire REIT	1.8	1.8	-1.7	9.9	8.3	9.3	13.3	5.6

Returns for periods greater than one year are annualized.



# Portfolio Review



# Investment Committee Scorecard

As of June 30, 2017

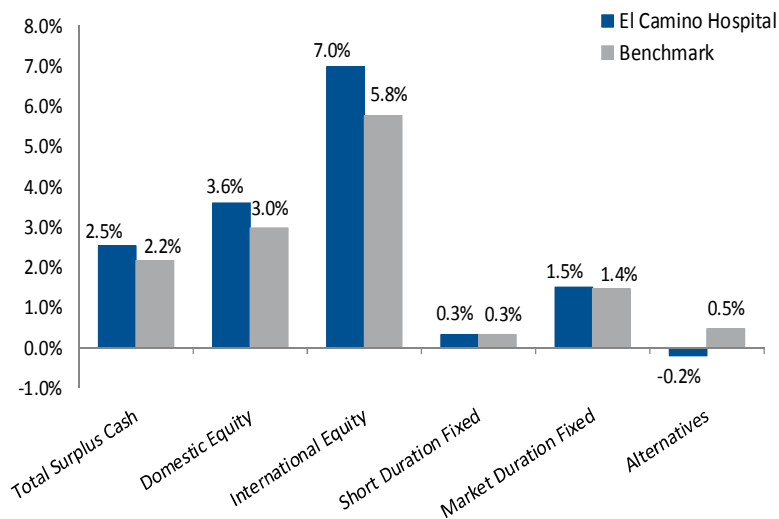
Key Performance Indicator	Status	El Camino		Benchmark		El Camino		Benchmark		FY17 Year-end Budget	Expectation Per Asset Allocation
		2Q 2017		Fiscal Year-to-date		4y 8m Since Inception (annualized)		May 2016			
<b>Investment Performance</b>											
Surplus cash balance & op. cash (millions)		\$901.7	--	--	--	--	--	\$657.2	--		
Surplus cash return		2.5%	2.2%	9.1%	8.8%	5.4%	5.3%	4.0%	5.2%		
Cash balance plan balance (millions)		\$243.8	--	--	--	--	--	\$220.6	--		
Cash balance plan return		3.1%	2.4%	11.2%	10.4%	7.9%	7.2%	6.0%	5.8%		
403(b) plan balance (millions)		\$406.6	--	--	--	--	--	--	--		
<b>Risk vs. Return</b>											
Surplus cash Sharpe ratio		0.84	0.87	--	--	1.27	1.24	--	0.55		
Net of fee return		3.9%	4.1%	--	--	5.4%	5.3%	--	5.2%		
Standard deviation		4.5%	4.5%	--	--	4.1%	4.1%	--	8.6%		
Cash balance Sharpe ratio		0.84	0.80	--	--	1.37	1.31	--	0.49		
Net of fee return		4.9%	4.5%	--	--	7.9%	7.2%	--	5.8%		
Standard deviation		5.7%	5.6%	--	--	5.6%	5.3%	--	10.7%		
<b>Asset Allocation</b>											
Surplus cash absolute variances to target		9.3%	< 10%	--	--	--	--	--	--		
Cash balance absolute variances to target		9.5%	< 10%	--	--	--	--	--	--		
<b>Manager Compliance</b>											
Surplus cash manager flags		17	< 19 Green < 23 Yellow	--	--	--	--	--	--		
Cash balance plan manager flags		18	< 20 Green < 25 Yellow	--	--	--	--	--	--		

# Surplus Cash Executive Summary

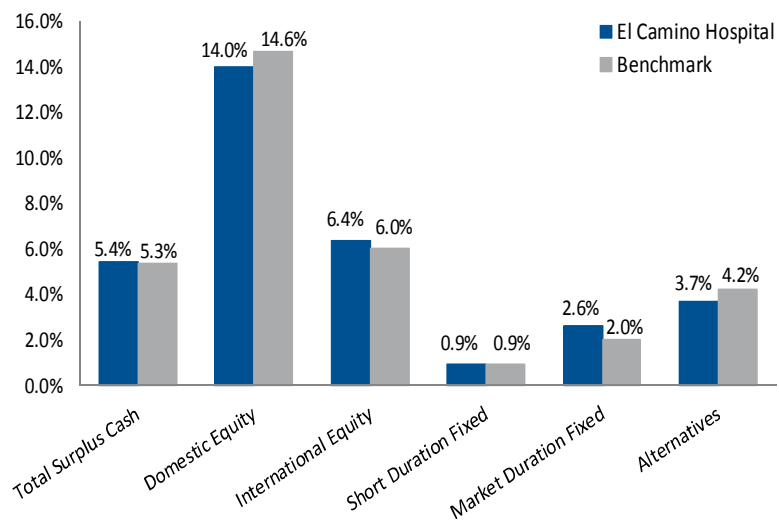
## Dashboard

As of June 30, 2017

### Performance: Most Recent Quarter



### Performance: Since Inception<sup>1</sup>



<sup>1</sup> Reflects the date Pavilion's recommended portfolio was implemented (November 1, 2012).

### Asset Allocation

Manager	Total Assets (\$ mil.)	Percent of Total	Target Allocation	Variance to Target	Target Range	Within Policy Range
Domestic Equity	\$209.0	27.1%	25.0%	+ 2.1%	20-30%	Yes
International Equity	\$125.8	16.3%	15.0%	+ 1.3%	10-20%	Yes
Short-Duration Fixed	\$ 86.6	11.2%	10.0%	+ 1.2%	8-12%	Yes
Market-Duration Fixed	\$230.7	29.9%	30.0%	- 0.1%	25-35%	Yes
Alternatives	\$118.6	15.4%	20.0%	- 4.6%	17-23%	No
<b>Total (X District)</b>	<b>\$770.8</b>	<b>100.0%</b>				

### Portfolio Updates

#### Manager News/Issues

- The Surplus Cash Portfolio returned +2.5% for the quarter, outperforming its benchmark by 30 basis points (bps). Over the trailing one year period, the Portfolio returned +9.1%, outpacing the benchmark by approximately 30 bps.
- Outperformance during the quarter was driven by favorable manager results as the domestic equity, international equity, and fixed income composites exceeded or matched their respective benchmarks.
- Notable outperformers included Large Cap Growth manager Sands (+7.1%), which outperformed the Russell 1000 Growth Index by 240 bps, continuing its rebound from 2016, and Small Cap Growth manager Conestoga (+8.7%), which outpaced the Russell 2000 Growth Index by 430 bps.
- The Direct Hedge Fund portfolio returned -0.3%, trailing the HFRI Fund of Funds Composite Index by 100 bps.

#### Funding News/Issues

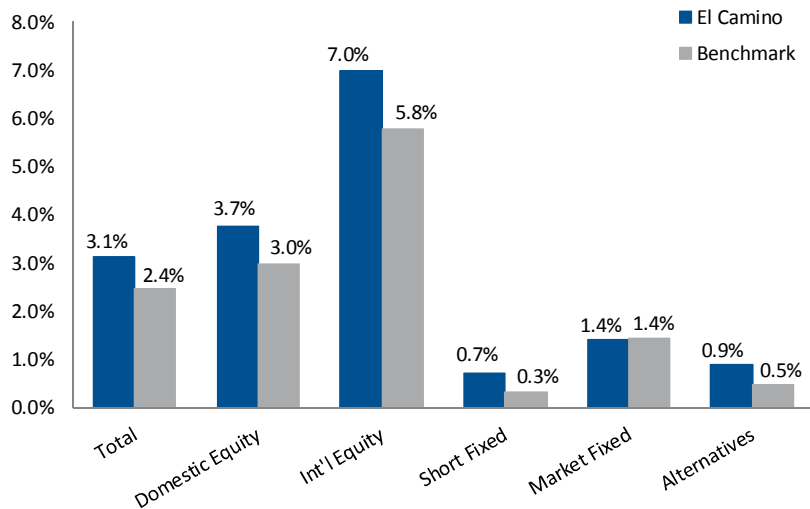
- In April, \$4.2 million was redeemed from Passport 1x/2x (Equity hedge fund).
- In April, \$1.6 million was redeemed from Brevan Howard (Macro hedge fund).
- In April, \$2.0 million was redeemed from Pine River (Relative Value hedge fund).
- In May, \$4.5 million was redeemed from Fir Tree (Relative Value hedge fund).
- In May, a \$2.9 million contribution was made to Robeco Transtrend (Macro hedge fund).
- In May, Walton Street Real Estate Fund VIII called \$3.25 million.
- In May, Oaktree Real Estate Opportunities Fund VI made a distribution payment of \$254,716.
- In June, Oaktree Real Estate Opportunities Fund VI made a distribution payment of \$420,000.
- In June, Walton Street Real Estate Fund VII made a distribution payment of \$602,403.

# Cash Balance Plan Executive Summary

## Dashboard

As of June 30, 2017

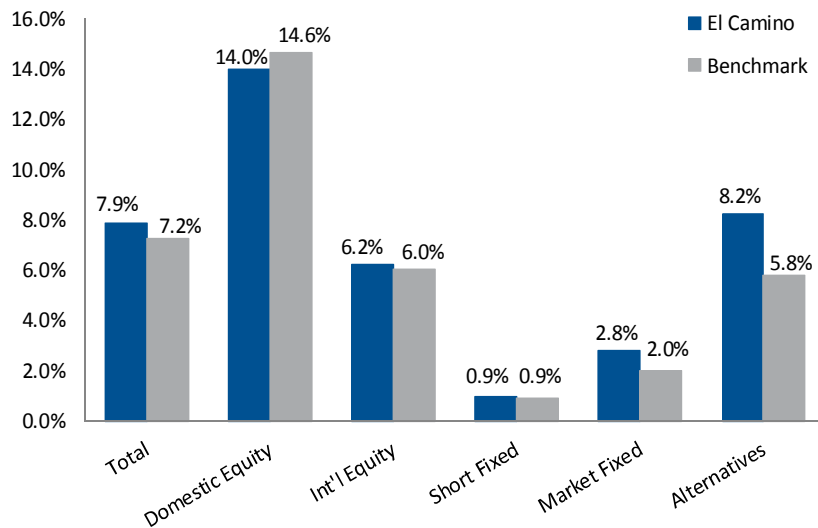
### Performance: Most Recent Quarter



### Asset Allocation

Manager	Total Assets (\$ mil.)	Percent of Total	Target Allocation	Variance to Target	Target Range	Within Policy Range
Domestic Equity	\$ 87.3	35.8%	32.0%	+ 3.8%	27-37%	Yes
International Equity	\$ 46.1	18.9%	18.0%	+ 0.9%	15-21%	Yes
Short-Duration Fixed	\$ 6.6	2.7%	5.0%	- 2.3%	0-8%	Yes
Market-Duration Fixed	\$ 57.9	23.7%	25.0%	- 1.3%	20-30%	Yes
Alternatives	\$ 46.0	18.8%	20.0%	- 1.2%	17-23%	Yes
<b>Total</b>	<b>\$243.8</b>	<b>100.0%</b>				

### Performance: Since Inception<sup>1</sup>



### Portfolio Updates

#### Manager News/Issues

- The Cash Balance Plan returned +3.1% for the quarter, outperforming its benchmark by 70 basis points (bps). Over the trailing one year period, the Plan returned +11.2%, outpacing the benchmark by approximately 80 bps.
- Outperformance during the quarter was driven by favorable manager results as all composites outperformed their respective benchmarks. Notable outperformers included Large Cap Growth manager Sands (+7.1%), which outperformed the Russell 1000 Growth Index by 240 bps, continuing its rebound from 2016, and Small Cap Growth manager Conestoga (+8.7%), which outpaced the Russell 2000 Growth Index by 430 bps.
- The International Equity composite outperformed the MSCI AC World ex US by 120 bps.

#### Funding News/Issues

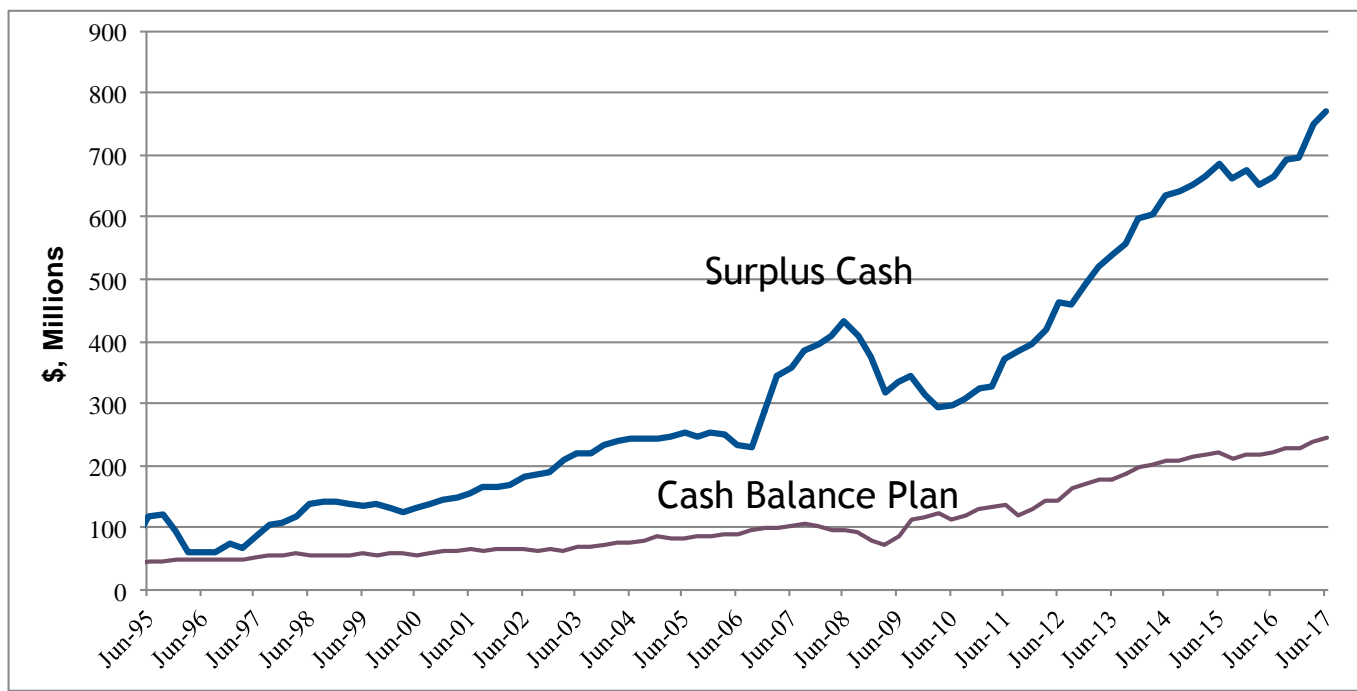
- In April, a \$1.6 million contribution was made to the Barrow Hanley Short-Term Fixed account.
- In May, Oaktree Real Estate Opportunities Fund VI made a distribution payment of \$152,830.
- In May, Walton Street Real Estate Fund VIII called \$2.5 million.
- In June, Oaktree Real Estate Opportunities Fund VI made a distribution payment of \$252,000.
- In June, Walton Street Real Estate Fund VII made a distribution payment of \$361,442.

<sup>1</sup> Reflects the date Pavilion's recommended portfolio was implemented (November 1, 2012).

# Market Value Reconciliation

As of June 30, 2017

\$ in Millions	Surplus Cash					Cash Balance Plan				
	2013	2014	2015	2016	2nd Quarter 2017	2013	2014	2015	2016	2nd Quarter 2017
<b>Beginning Market Value</b>	\$493.8	\$596.3	\$651.6	\$677.5	\$750.1	\$168.8	\$198.3	\$213.7	\$216.8	\$238.3
<b>Net Cash Flow</b>	\$55.3	\$27.4	\$27.0	(\$17.5)	\$1.5	\$2.4	\$3.8	\$0.6	\$0.4	(\$1.9)
Income	n/a	\$12.3	\$12.6	\$12.4	\$3.1	n/a	\$3.4	\$3.3	\$3.4	\$0.8
Realized Gain/(Loss)	n/a	\$10.4	\$4.4	\$7.1	\$0.0	n/a	\$4.7	\$2.0	\$4.5	\$0.1
Unrealized Gain/(Loss)	n/a	\$5.3	(\$18.0)	\$15.1	\$16.1	n/a	\$3.4	(\$2.7)	\$3.0	\$6.6
<b>Capital App/(Dep)</b>	\$47.2	\$27.9	(\$1.0)	\$34.6	\$19.2	\$27.2	\$11.5	\$2.5	\$10.9	\$7.5
<b>End of Period Market Value</b>	\$596.3	\$651.6	\$677.5	\$694.7	\$770.8	\$198.3	\$213.7	\$216.8	\$228.1	\$243.8
<b>Return Net of Fees</b>	8.8%	4.4%	-0.2%	5.2%	2.5%	15.8%	5.6%	1.1%	4.9%	3.1%



<sup>1</sup> Beginning 8/1/2012, Surplus Cash 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.

# Executive Summary

## Manager Compliance Checklist

As of June 30, 2017

Managers	Vanguard S&P 500 Index	Sands Large Cap Growth (Touchstone)	Barrow Hanley LCV	Barrow Hanley LCV	Wellington Small Cap Value	Conestoga Small Cap	Walter Scott Int'l (Dreyfus)	Northern Cross (Harbor Int'l)	Harding Loevner
Asset Pool	Both	Both	Surplus Cash	Pension	Both	Both	Both	Both	Both
<b>Organizational/Product Issues</b>									
No changes to investment team	+	+	+	+	+	+	+	+	+
No organizational changes	+	+	+	+	+	+	+	+	+
No accounting or regulatory concerns	+	+	+	+	+	+	+	+	+
Currently in adherence to guidelines	+	+	+	+	+	+	+	+	+
Characteristics meet stylistic expectations	+	+	+	+	+	+	+	+	+
<b>Relative Performance <sup>1,2</sup></b>									
Three-year return > benchmark	In-Line	-500 bps	-30 bps	-10 bps	+	+	+	-80 bps	+
Three-year ranking > peer group median	+	96	+	+	+	+	+	75	+
Five year return > benchmark	In-Line	-240 bps	-20 bps	In-Line	-50 bps	+	-10 bps	-40 bps	+
Five year ranking > peer group median	+	78	+	+	+	+	61	65	+
<b>Performance Status</b>	+	-	+	+	+	+	+	-	+
Date performance status changed		2Q16						4Q16	
<b>Summary Status</b>	+	+	+	+	+	+	+	+	+
Date summary status changed									

<sup>1</sup> Manager performance is evaluated net of investment management fees.

<sup>2</sup> For each manager that underperformed its benchmark and/or peer group, the magnitude of underperformance and/or peer group ranking is shown.

# Executive Summary

## Manager Compliance Checklist

As of June 30, 2017

Managers	Barrow Hanley Short Fixed	Barrow Hanley Short Fixed	Dodge & Cox Fixed	Dodge & Cox Fixed	MetWest Fixed	MetWest Fixed	Lighthouse	Pointer
Asset Pool	Surplus Cash	Pension	Surplus Cash	Pension	Surplus Cash	Pension	Pension	Pension
<b>Organizational/Product Issues</b>								
No changes to investment team	-	-	+	+	+	+	+	+
No organizational changes	+	+	+	+	+	+	+	+
No accounting or regulatory concerns	+	+	+	+	+	+	+	+
Currently in adherence to guidelines	+	+	+	+	+	+	+	+
Characteristics meet stylistic expectations	+	+	+	+	+	+	+	+
<b>Relative Performance</b> <sup>1,2</sup>								
Three-year return > benchmark	+	-10 bps	+	+	-10 bps	-20 bps	+	+
Three-year ranking > peer group median	+	54	+	+	52	61	N/A	N/A
Five year return > benchmark	+	In-Line	+	+	+	+	+	+
Five year ranking > peer group median	63	67	+	+	+	+	N/A	N/A
<b>Performance Status</b>	+	+	+	+	+	+	+	+
Date performance status changed								
<b>Summary Status</b>	+	+	+	+	+	+	+	+
Date summary status changed								

<sup>1</sup> Manager performance is evaluated net of investment management fees.

<sup>2</sup> For each manager that underperformed its benchmark and/or peer group, the magnitude of underperformance and/or peer group ranking is shown.

# Executive Summary

## Manager Compliance Checklist

As of June 30, 2017

Manager	Compliance Issue	Explanation	Recommended Action	Comments
Sands Large Cap Growth (Touchstone)	Investment Team Changes/ Performance	<p>Sands trailed the Russell 1000 Growth Index over the trailing three- and five-year terms while ranking in the bottom quartile of the large-cap growth peer group universe.</p> <p>Sands has continued to rebound in 2017, returning +7.1% year-to-date and ranking in the top quintile among peers.</p>	<b>Hold</b>	<p>The concentrated nature of the strategy causes it to outperform or underperform significantly from time to time. 2016 was a particularly difficult year for Sands, returning -8.6% versus a +7.1% return for the Russell 1000 Growth Index. Sands was hampered by poor stock selection and overweight allocation to the health care sector, the worst performing sector in the index during 2016. Additionally, unfavorable stock selection in the information technology sector, which comprises approximately 50% of the portfolio at any given time, hampered results.</p> <p>Pavilion recommends no action at this time and will monitor this situation closely moving forward.</p>
Northern Cross (Harbor)	Performance	<p>Harbor has trailed the MSCI ACWI ex US Index and the international equity peer group median over the trailing 3- and 5-year time periods.</p> <p>The Fund has experienced favorable results in the second quarter, returning +6.8% versus +5.8% for the benchmark.</p>	<b>Hold</b>	<p>Intermediate term performance has admittedly been difficult and frustrating. Pavilion does not believe anything has changed in the philosophy/process or at the team level that would result in future performance trends differing from historical trends. Some of the recent performance can be explained by headwinds, some of it can be explained by poor allocation choices. Harbor's contrarian-style investing in 2014 and 2016 was detrimental as market performance was driven by macro events. In 2014, the Fund's slight value bias was the largest deterrent to relative performance. In 2016, underperformance was driven by holdings in pharmaceuticals and overweight allocations to banks and emerging markets.</p> <p>The strategy has still managed to outpace the ACWI ex US in seven of the last ten years. There have been some outflows out of the Fund over the past two years (-\$6.7 billion in 2016, -\$3.7 billion in 2015), but Pavilion is not concerned about the Fund's viability since it still has just shy of \$36 billion in assets. Pavilion is monitoring the Fund closely, but recommends no immediate action.</p>

# Executive Summary

## Manager Compliance Checklist

As of June 30, 2017

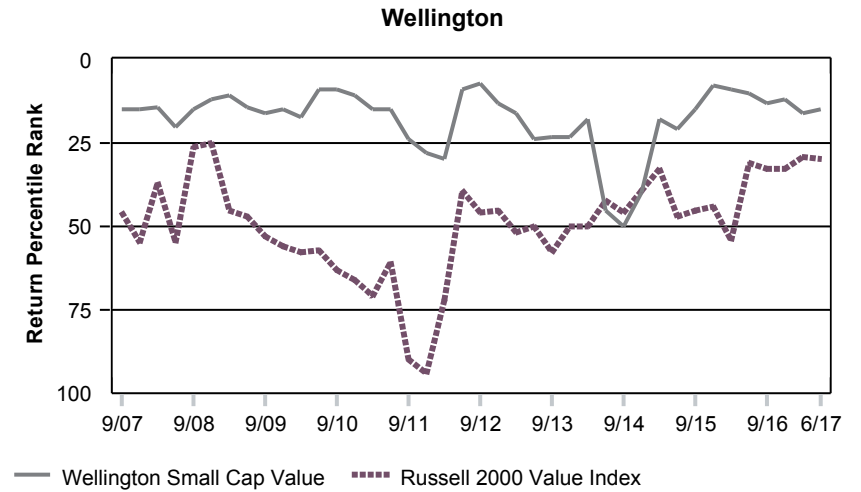
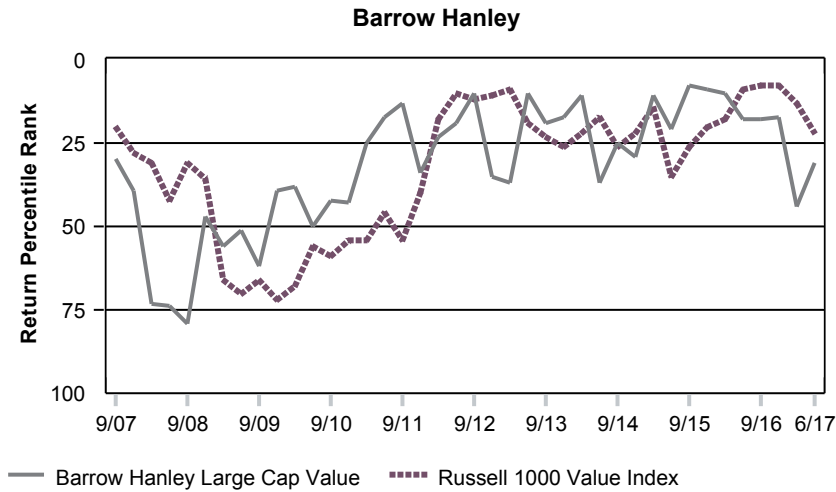
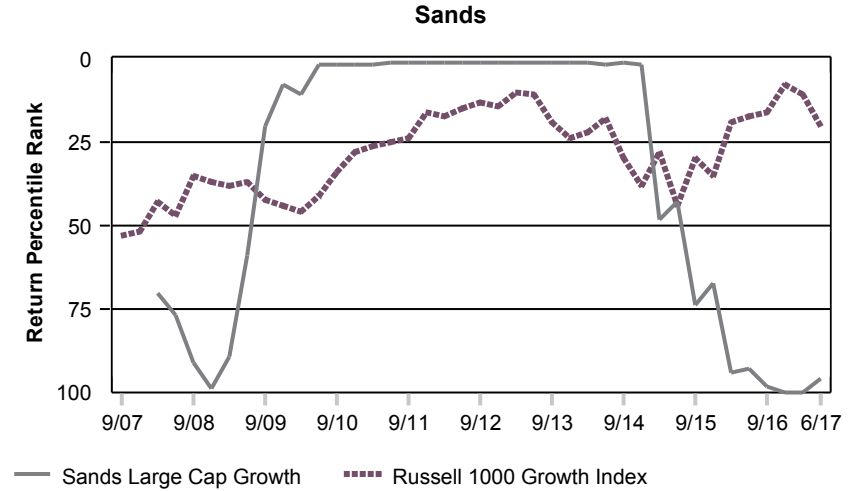
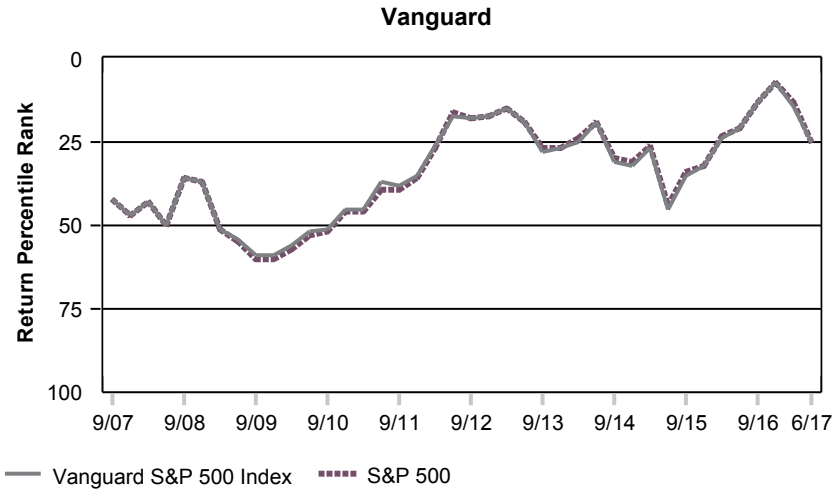
Manager	Compliance Issue	Explanation	Recommended Action	Comments
Barrow Hanley Short Fixed	Investment Team Changes	On April 28, 2017, Barrow Hanley announced that Mark Luchsinger and Scott McDonald will become the Co-Heads of the BHMS Fixed Income Group. As Managing Directors and senior members of the team for over twenty years, Mark and Scott have had an integral role in setting the investment policy for, and also serving as portfolio managers of various fixed income strategies. In this transition, John Williams will relinquish the day-to-day operational management responsibilities of the Group.	<b>Hold</b>	This transition has taken place in preparation for the eventual retirement of CIO, John Williams. Barrow Hanley has been planning the transition for the past two years as John turns 65 next year. Mr. Williams is relinquishing the CIO title and it will not be used in the future. The fixed income team will now be led by the Co-Heads of Fixed Income, Mark Luchsinger and Scott McDonald. Pavilion recommends no action at this time as the investment philosophy and process will remain the same.



# Manager Performance Evaluation

## Rolling 3 Year Rankings vs. Peers

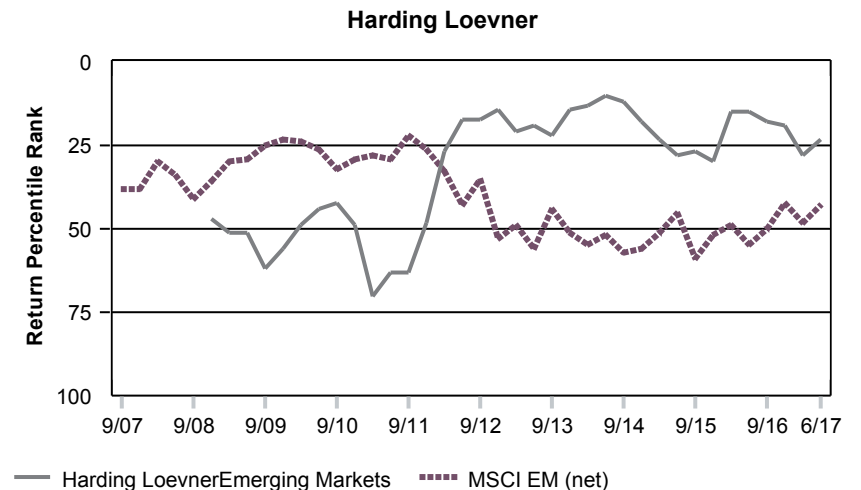
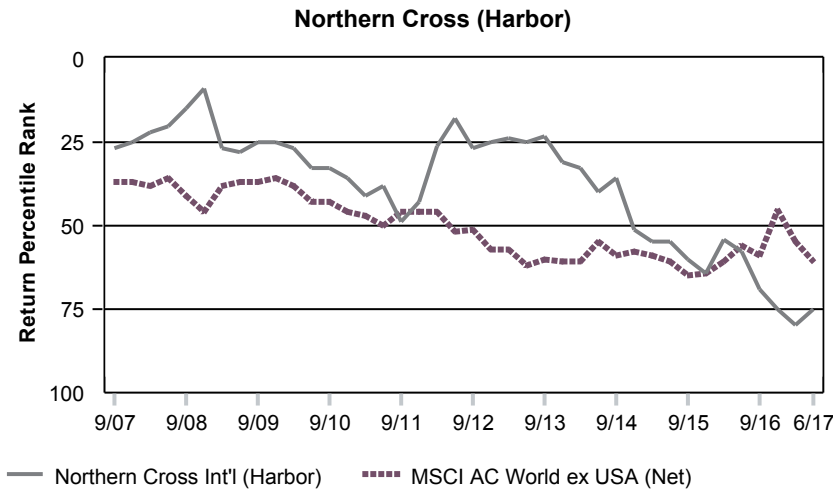
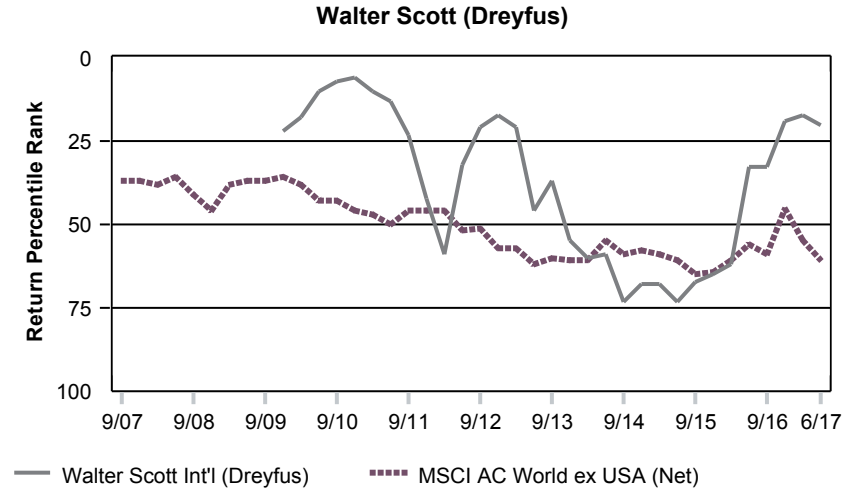
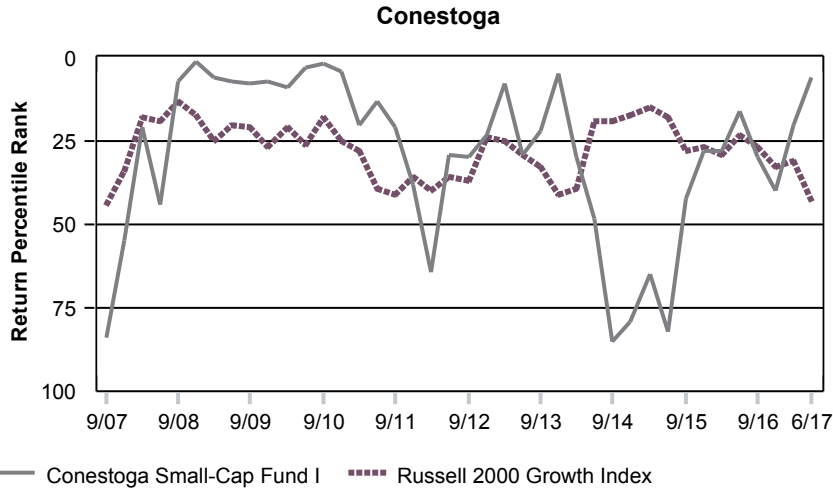
As of June 30, 2017



# Manager Performance Evaluation

## Rolling 3 Year Rankings vs. Peers

As of June 30, 2017

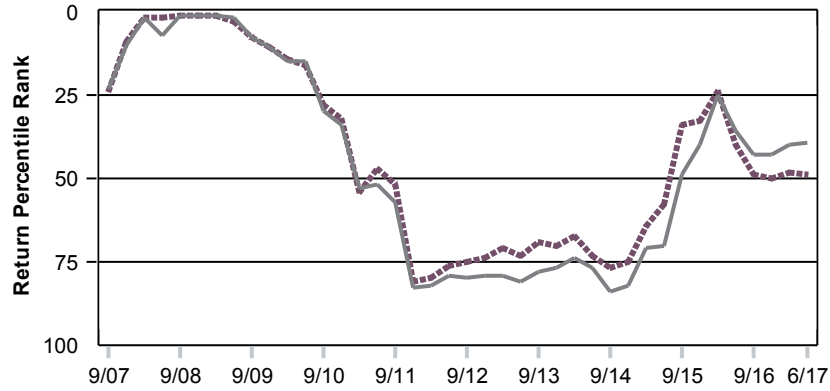


# Manager Performance Evaluation

## Rolling 3 Year Rankings vs. Peers

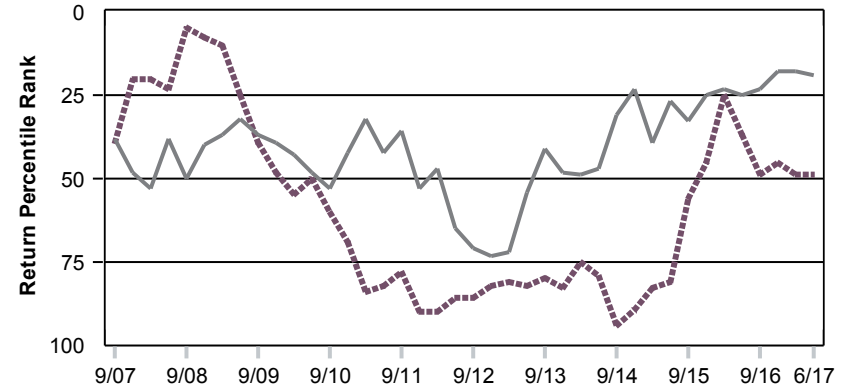
As of June 30, 2017

**Barrow Hanley Fixed**



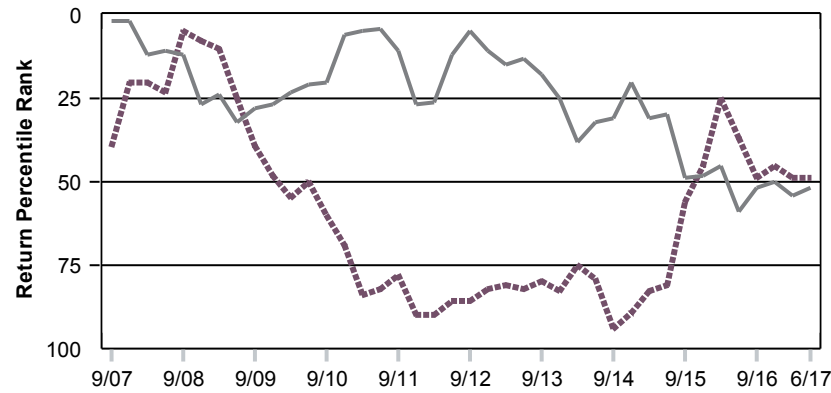
— Barrow Hanley Short Fixed      - - - - - Blmbg. Barc. 1-3 Year Gov/Credit

**Dodge & Cox**



— Dodge & Cox Fixed      - - - - - Blmbg. Barc. U.S. Aggregate

**MetWest**



— MetWest Fixed      - - - - - Blmbg. Barc. U.S. Aggregate

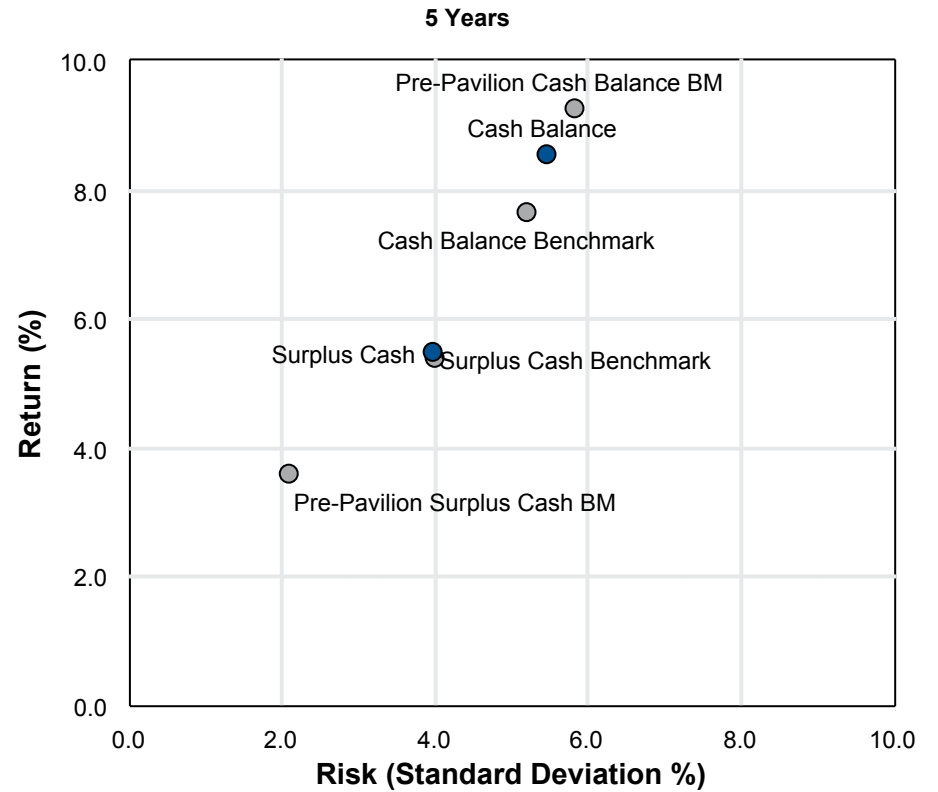
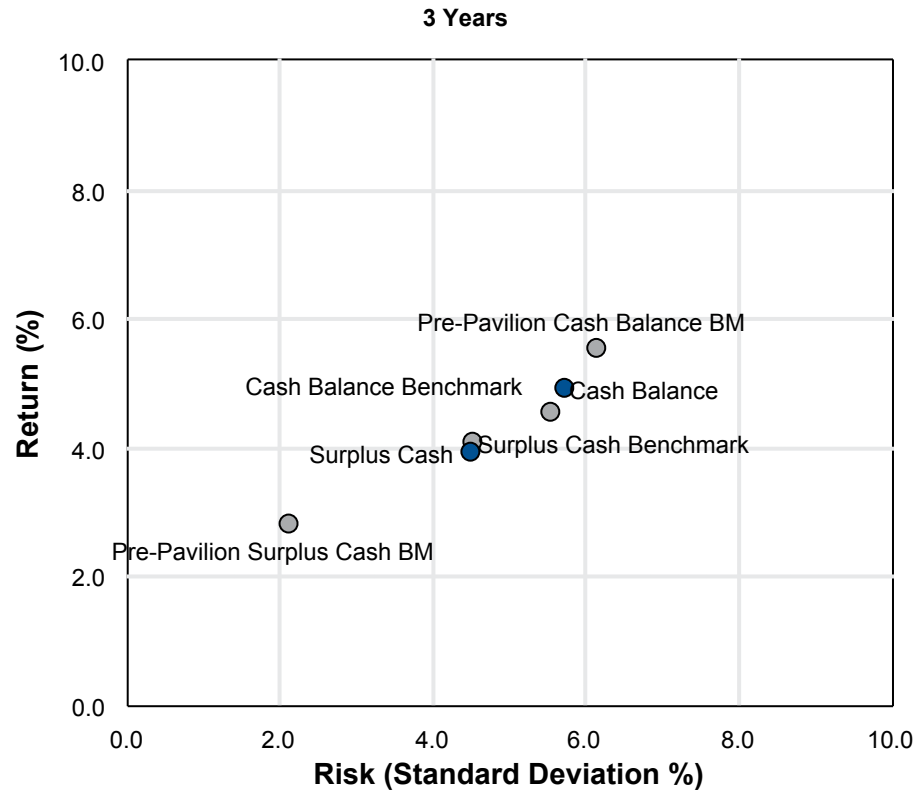


# Performance Summary

# Surplus Cash and Cash Balance Plan

## Risk and Return Summary (Net of Fees)

As of June 30, 2017



# Surplus Cash Portfolio ex District

## Composite Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Total Surplus Cash X District</b>	<b>770,771,988</b>	<b>100.0</b>	<b>2.5</b>	<b>9.1</b>	<b>9.1</b>	<b>3.9</b>	<b>5.5</b>	<b>5.6</b>	<b>5.4</b>	<b>4y 8m</b>
Surplus Cash Total Benchmark			2.2	8.8	8.8	4.1	5.4	5.1	5.3	
Pre-Pavilion Surplus Cash Total Benchmark			1.0	2.1	2.1	2.8	3.6	4.3	3.4	
<b>Total Surplus Cash X District X Privates</b>	<b>748,211,605</b>	<b>97.1</b>	<b>2.6</b>	<b>9.3</b>	<b>9.3</b>	<b>3.7</b>	<b>5.3</b>	<b>5.5</b>	<b>5.2</b>	<b>4y 8m</b>
Surplus Cash Total Benchmark x Privates			2.3	8.9	8.9	4.1	5.4	5.2	5.3	
<b>Total Equity Composite</b>	<b>334,821,412</b>	<b>43.4</b>	<b>4.8</b>	<b>18.6</b>	<b>18.6</b>	<b>6.3</b>	<b>11.9</b>	<b>4.9</b>	<b>11.5</b>	<b>4y 8m</b>
Total Equity Benchmark - Surplus			4.0	19.9	19.9	6.1	12.1	4.7	11.7	
<b>Domestic Equity Composite</b>	<b>209,016,531</b>	<b>27.1</b>	<b>3.6</b>	<b>19.0</b>	<b>19.0</b>	<b>8.2</b>	<b>14.2</b>	<b>5.9</b>	<b>14.0</b>	<b>4y 8m</b>
Domestic Equity Benchmark - Surplus			3.0	19.4	19.4	9.0	14.9	6.0	14.6	
<b>Large Cap Equity Composite</b>	<b>170,752,833</b>	<b>22.2</b>	<b>3.7</b>	<b>18.8</b>	<b>18.8</b>	<b>8.5</b>	<b>14.5</b>	<b>6.1</b>	<b>14.4</b>	<b>4y 8m</b>
Large Cap Equity Benchmark			3.1	18.0	18.0	9.4	15.0	6.0	14.7	
<b>Small Cap Equity Composite</b>	<b>38,263,698</b>	<b>5.0</b>	<b>3.4</b>	<b>20.1</b>	<b>20.1</b>	<b>7.4</b>	<b>-</b>	<b>-</b>	<b>12.6</b>	<b>4y 8m</b>
Small Cap Equity Benchmark			2.5	24.7	24.7	7.4	13.7	6.9	14.1	
<b>International Equity Composite</b>	<b>125,804,882</b>	<b>16.3</b>	<b>7.0</b>	<b>17.6</b>	<b>17.6</b>	<b>2.4</b>	<b>-</b>	<b>-</b>	<b>6.4</b>	<b>4y 8m</b>
MSCI AC World ex USA (Net)			5.8	20.5	20.5	0.8	7.2	1.1	6.0	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized. Peer group percentile ranks are shown in parentheses.

# Surplus Cash Portfolio ex District

## Composite Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Total Fixed Income Composite</b>	<b>317,301,709</b>	<b>41.2</b>	<b>1.2</b>	<b>1.6</b>	<b>1.6</b>	<b>2.3</b>	<b>2.3</b>	<b>4.2</b>	<b>2.1</b>	<b>4y 8m</b>
Total Fixed Income Benchmark - Surplus			1.2	-0.1	-0.1	2.1	1.9	3.9	1.8	
<b>Short Duration Fixed Income Composite</b>	<b>86,626,027</b>	<b>11.2</b>	<b>0.3</b>	<b>0.6</b>	<b>0.6</b>	<b>1.0</b>	<b>1.1</b>	<b>3.2</b>	<b>0.9</b>	<b>4y 8m</b>
Short Duration Fixed Income Benchmark - Surplus			0.3	0.3	0.3	1.0	1.0	3.1	0.9	
<b>Market Duration Fixed Income Composite</b>	<b>230,675,682</b>	<b>29.9</b>	<b>1.5</b>	<b>1.9</b>	<b>1.9</b>	<b>2.7</b>	<b>3.0</b>	<b>5.6</b>	<b>2.6</b>	<b>4y 8m</b>
Blmbg. Barc. U.S. Aggregate			1.4	-0.3	-0.3	2.5	2.2	4.5	2.0	
<b>Total Alternatives Composite</b>	<b>118,648,866</b>	<b>15.4</b>	<b>-0.2</b>	<b>5.3</b>	<b>5.3</b>	<b>2.1</b>	<b>-</b>	<b>-</b>	<b>3.7</b>	<b>4y 2m</b>
Total Alternatives Benchmark - Surplus			0.5	6.1	6.1	3.5	-	-	4.2	
<b>Real Estate Composite</b>	<b>25,810,383</b>	<b>3.3</b>	<b>0.0</b>	<b>4.1</b>	<b>4.1</b>	<b>11.3</b>	<b>-</b>	<b>-</b>	<b>11.0</b>	<b>3y 10m</b>
NCREIF Property Index			0.0	5.1	5.1	9.5	10.1	6.2	9.9	
<b>Hedge Fund Composite</b>	<b>92,838,483</b>	<b>12.0</b>	<b>-0.3</b>	<b>5.6</b>	<b>5.6</b>	<b>0.0</b>	<b>-</b>	<b>-</b>	<b>2.0</b>	<b>4y 2m</b>
HFRI Fund of Funds Composite Index			0.7	6.4	6.4	1.5	3.8	0.9	2.7	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized.

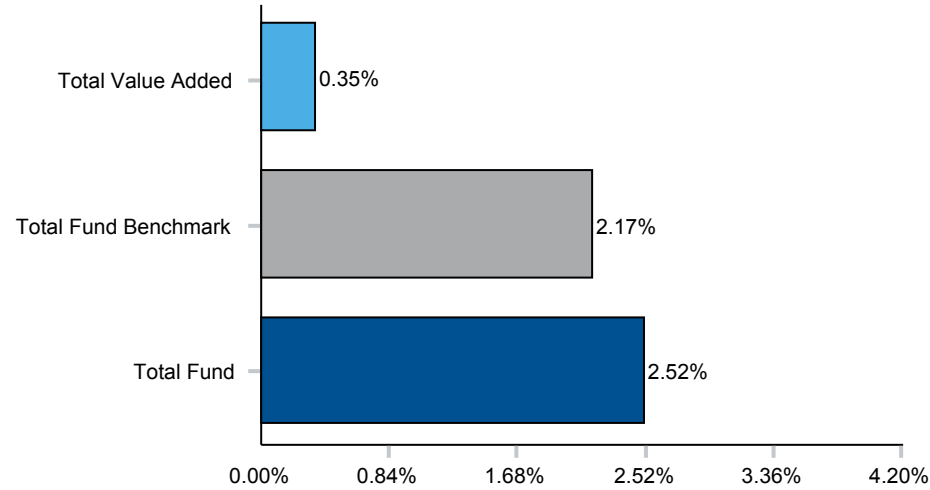
Peer group percentile ranks are shown in parentheses.

# Surplus Cash Portfolio ex District

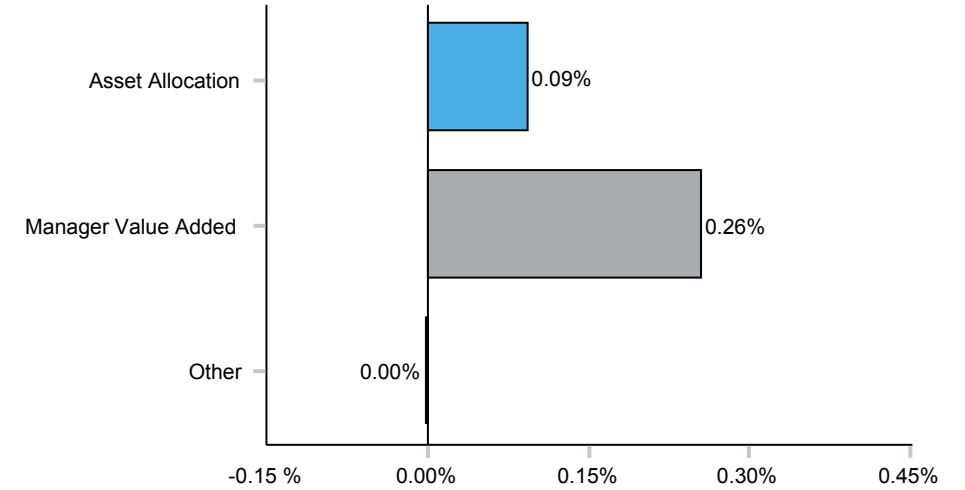
## Attribution Analysis

1 Quarter Ending June 30, 2017

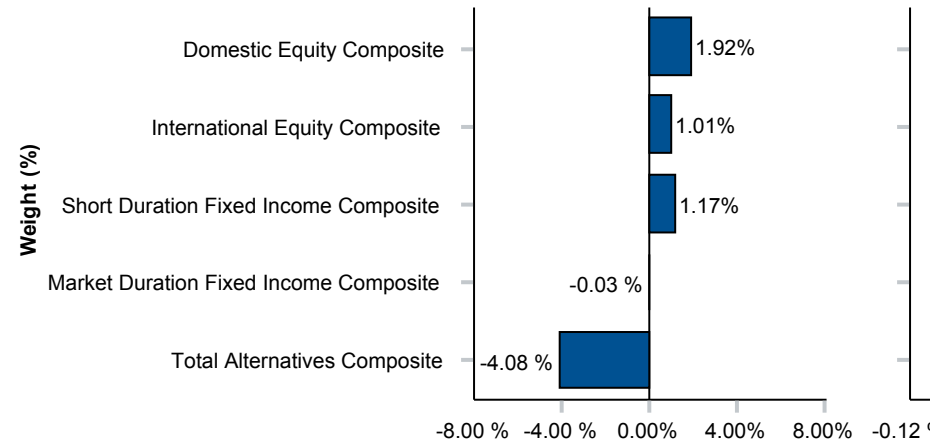
### Total Fund Performance



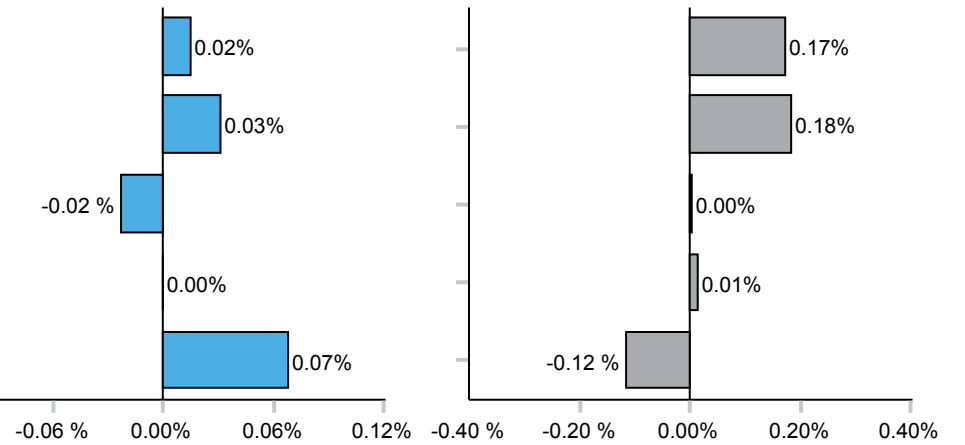
### Total Value Added:0.35%



### Total Asset Allocation:0.09%



### Total Manager Value Added:0.26%



■ Average Active Weight

■ Asset Allocation Value Added

■ Manager Value Added

“Other” includes the effects of all other factors on the Fund’s relative return, including rebalancing and other trading activity.



# Surplus Cash Portfolio ex District

## Manager Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Large-Cap Equity</b>										
Vanguard S&P 500 Index	106,620,353	13.8	3.1 (48)	17.9 (44)	17.9 (44)	9.6 (15)	14.6 (20)	7.2 (20)	14.7 (15)	4y 8m
S&P 500			3.1 (47)	17.9 (43)	17.9 (43)	9.6 (15)	14.6 (19)	7.2 (20)	14.7 (14)	
<i>IM U.S. Large Cap Core Equity</i>			3.0	17.2	17.2	8.1	13.6	6.3	13.5	
Sands Large Cap Growth (Touchstone)	31,172,458	4.0	7.1 (14)	24.5 (13)	24.5 (13)	6.1 (96)	12.9 (78)	10.3 (4)	13.4 (75)	4y 8m
Russell 1000 Growth Index			4.7 (69)	20.4 (50)	20.4 (50)	11.1 (20)	15.3 (23)	8.9 (21)	15.7 (22)	
<i>IM U.S. Large Cap Growth Equity</i>			5.3	20.4	20.4	9.7	14.2	8.0	14.6	
Barrow Hanley Large Cap Value	32,960,022	4.3	2.4 (30)	16.6 (59)	16.6 (59)	7.1 (31)	13.7 (26)	5.7 (26)	9.1 (5)	16y 11m
Russell 1000 Value Index			1.3 (73)	15.5 (74)	15.5 (74)	7.4 (22)	13.9 (19)	5.6 (31)	7.1 (39)	
<i>IM U.S. Large Cap Value Equity</i>			2.0	17.3	17.3	6.6	13.0	4.9	6.8	
<b>Small-Cap Equity</b>										
Wellington Small Cap Value	19,788,702	2.6	-1.1 (84)	14.8 (83)	14.8 (83)	7.7 (15)	12.9 (44)	8.1 (2)	13.1 (41)	4y 8m
Russell 2000 Value Index			0.7 (47)	24.9 (33)	24.9 (33)	7.0 (30)	13.4 (35)	5.9 (42)	13.4 (40)	
<i>IM U.S. Small Cap Value Equity</i>			0.6	21.7	21.7	5.3	12.7	5.7	12.5	
Conestoga Small Cap Growth	18,474,996	2.4	8.7 (7)	26.5 (42)	26.5 (42)	11.6 (6)	14.3 (38)	9.9 (3)	26.5 (42)	1y
Russell 2000 Growth Index			4.4 (61)	24.4 (66)	24.4 (66)	7.6 (43)	14.0 (39)	7.8 (41)	24.4 (66)	
<i>IM U.S. Small Cap Growth Equity</i>			5.1	25.8	25.8	6.5	12.7	7.4	25.8	
<b>International Equity</b>										
Walter Scott Int'l (Dreyfus)	52,029,076	6.8	7.2 (36)	16.7 (74)	16.7 (74)	3.9 (20)	7.1 (61)	4.1 (9)	6.2 (56)	4y 8m
MSCI AC World ex USA (Net)			5.8 (67)	20.5 (44)	20.5 (44)	0.8 (61)	7.2 (59)	1.1 (54)	6.0 (59)	
<i>IM International Equity</i>			6.4	19.7	19.7	1.4	7.7	1.3	6.6	
Northern Cross Int'l (Harbor)	49,039,600	6.4	6.8 (43)	17.7 (67)	17.7 (67)	0.0 (75)	6.8 (65)	2.2 (34)	5.9 (61)	4y 8m
MSCI AC World ex USA (Net)			5.8 (67)	20.5 (44)	20.5 (44)	0.8 (61)	7.2 (59)	1.1 (54)	6.0 (59)	
<i>IM International Equity</i>			6.4	19.7	19.7	1.4	7.7	1.3	6.6	
Harding Loevner Emerging Markets	24,736,206	3.2	6.9 (29)	22.5 (42)	22.5 (42)	2.3 (23)	6.3 (15)	3.2 (16)	16.5 (18)	1y 10m
MSCI EM (net)			6.3 (40)	23.7 (29)	23.7 (29)	1.1 (43)	4.0 (48)	1.9 (39)	14.7 (38)	
<i>IM Emerging Markets Equity</i>			6.0	21.1	21.1	0.7	3.8	1.4	13.3	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized.

Peer group percentile ranks are shown in parentheses.

# Surplus Cash Portfolio ex District

## Manager Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Short Duration Fixed Income</b>										
Barrow Hanley Short Fixed	78,843,708	10.2	0.4 (67)	0.6 (80)	0.6 (80)	1.1 (39)	1.0 (63)	2.3 (44)	4.8 (17)	26y 3m
Blmbg. Barc. 1-3 Year Gov/Credit			0.3 (75)	0.3 (87)	0.3 (87)	1.0 (49)	0.9 (63)	2.3 (43)	4.3 (23)	
<i>IM U.S. Short Term Investment Grade</i>			0.4	1.1	1.1	0.9	1.2	2.2	3.9	
Cash Composite	7,782,319	1.0	0.1	0.4	0.4	0.3	-	-	0.0	4y 8m
90 Day U.S. Treasury Bill			0.2	0.4	0.4	0.2	0.1	0.6	0.2	
<b>Market Duration Fixed Income</b>										
Dodge & Cox Fixed	114,597,096	14.9	1.6 (57)	3.4 (19)	3.4 (19)	3.2 (19)	3.6 (19)	5.3 (38)	3.1 (17)	4y 8m
Blmbg. Barc. U.S. Aggregate			1.4 (67)	-0.3 (96)	-0.3 (96)	2.5 (49)	2.2 (83)	4.5 (75)	2.0 (70)	
<i>IM U.S. Broad Market Core+ Fixed Income</i>			1.6	1.9	1.9	2.4	2.9	5.1	2.4	
MetWest Fixed	103,069,493	13.4	1.4 (69)	0.6 (82)	0.6 (82)	2.4 (52)	3.0 (47)	5.8 (16)	2.1 (64)	4y 8m
Blmbg. Barc. U.S. Aggregate			1.4 (67)	-0.3 (96)	-0.3 (96)	2.5 (49)	2.2 (83)	4.5 (75)	2.0 (70)	
<i>IM U.S. Broad Market Core+ Fixed Income</i>			1.6	1.9	1.9	2.4	2.9	5.1	2.4	
Met West Total Return Bond Plan - CONCERN	13,009,093	1.7	1.4 (74)	0.4 (88)	0.4 (88)	2.4 (55)	3.5 (21)	-	2.6 (90)	1y 5m
Blmbg. Barc. U.S. Aggregate			1.4 (67)	-0.3 (96)	-0.3 (96)	2.5 (49)	2.2 (83)	4.5 (75)	2.5 (92)	
<i>IM U.S. Broad Market Core+ Fixed Income</i>			1.6	1.9	1.9	2.4	2.9	5.1	4.5	
<b>Real Estate</b>										
Oaktree Real Estate Opportunities Fund VI	12,088,222	1.6	0.0	0.9	0.9	9.2	-	-	8.7	3y 10m
NCREIF Property Index			0.0	5.1	5.1	9.5	10.1	6.2	9.9	
Walton Street Real Estate Fund VII, L.P.	10,472,161	1.4	0.0	8.2	8.2	14.1	-	-	17.3	3y 8m
NCREIF Property Index			0.0	5.1	5.1	9.5	10.1	6.2	9.9	
Walton Street Real Estate Fund VIII, L.P.	3,250,000	0.4	-	-	-	-	-	-	0.0	0y 1m
NCREIF Property Index			0.0	5.1	5.1	9.5	10.1	6.2	0.0	
<b>Hedge Funds</b>										
Hedge Fund Composite	92,838,483	12.0	-0.3	5.6	5.6	0.0	-	-	2.0	4y 2m
HFRI Fund of Funds Composite Index			0.7	6.4	6.4	1.5	3.8	0.9	2.7	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized.

Peer group percentile ranks are shown in parentheses.

# Surplus Cash Portfolio ex District

## Manager Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Total Plan</b>										
Total Surplus Cash X District	770,771,988	100.0	2.5	9.1	9.1	3.9	5.5	5.6	5.4	4y 8m
Total Surplus Cash Benchmark			2.2	8.8	8.8	4.1	5.4	5.1	5.3	
Pre-Pavilion Total Surplus Cash Benchmark			1.0	2.1	2.1	2.8	3.6	4.3	3.4	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized. Peer group percentile ranks are shown in parentheses.

# Cash Balance Plan

## Composite Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Total Cash Balance Plan</b>	<b>243,807,612</b>	<b>100.0</b>	<b>3.1</b>	<b>11.2</b>	<b>11.2</b>	<b>4.9</b>	<b>8.5</b>	<b>5.3</b>	<b>7.9</b>	<b>4y 8m</b>
Total Cash Balance Plan Benchmark			2.4	10.4	10.4	4.5	7.6	4.7	7.2	
Pre-Pavilion Total Cash Balance Plan Benchmark			1.4	9.0	9.0	5.5	9.3	5.5	9.0	
<b>Total Cash Balance Plan X Private Structures</b>	<b>230,335,982</b>	<b>94.5</b>	<b>3.3</b>	<b>11.7</b>	<b>11.7</b>	<b>4.5</b>	<b>8.3</b>	<b>5.2</b>	<b>7.6</b>	<b>4y 8m</b>
Cash Balance Plan Total X Privates Benchmark			2.6	10.6	10.6	4.3	7.5	4.6	7.1	
<b>Total Equity Composite</b>	<b>133,385,033</b>	<b>54.7</b>	<b>4.8</b>	<b>18.5</b>	<b>18.5</b>	<b>6.0</b>	<b>12.1</b>	<b>4.2</b>	<b>11.2</b>	<b>4y 8m</b>
Total Equity Benchmark			4.0	19.7	19.7	6.2	12.0	4.7	11.6	
<b>Domestic Equity Composite</b>	<b>87,309,225</b>	<b>35.8</b>	<b>3.7</b>	<b>19.1</b>	<b>19.1</b>	<b>8.1</b>	<b>14.6</b>	<b>5.4</b>	<b>14.0</b>	<b>4y 8m</b>
Domestic Equity Benchmark			3.0	19.1	19.1	9.2	14.9	6.0	14.6	
<b>Large Cap Equity Composite</b>	<b>74,312,446</b>	<b>30.5</b>	<b>3.8</b>	<b>19.0</b>	<b>19.0</b>	<b>8.2</b>	<b>14.9</b>	<b>5.5</b>	<b>14.2</b>	<b>4y 8m</b>
Large Cap Equity Benchmark			3.1	18.0	18.0	9.4	15.0	6.0	14.7	
<b>Small Cap Equity Composite</b>	<b>12,996,780</b>	<b>5.3</b>	<b>3.4</b>	<b>20.1</b>	<b>20.1</b>	<b>7.4</b>	<b>-</b>	<b>-</b>	<b>12.6</b>	<b>4y 8m</b>
Small Cap Equity Benchmark			2.5	24.7	24.7	7.4	13.7	6.9	14.1	
<b>International Equity Composite</b>	<b>46,075,807</b>	<b>18.9</b>	<b>7.0</b>	<b>17.4</b>	<b>17.4</b>	<b>2.1</b>	<b>-</b>	<b>-</b>	<b>6.2</b>	<b>4y 8m</b>
MSCI AC World ex USA (Net)			5.8	20.5	20.5	0.8	7.2	1.1	6.0	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized. Peer group percentile ranks are shown in parentheses.

# Cash Balance Plan

## Composite Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Total Fixed Income Composite</b>	<b>64,469,060</b>	<b>26.4</b>	<b>1.3</b>	<b>1.6</b>	<b>1.6</b>	<b>2.3</b>	<b>2.7</b>	<b>5.1</b>	<b>2.3</b>	<b>4y 8m</b>
Total Fixed Income Benchmark			1.1	-0.1	-0.1	2.0	1.9	4.3	1.7	
<b>Short Duration Fixed Income Composite</b>	<b>6,613,928</b>	<b>2.7</b>	<b>0.7</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>0.9</b>	<b>-</b>	<b>0.9</b>	<b>4y 8m</b>
Short Duration Fixed Income Benchmark			0.3	0.3	0.3	1.0	0.8	0.9	0.9	
<b>Market Duration Fixed Income Composite</b>	<b>57,855,132</b>	<b>23.7</b>	<b>1.4</b>	<b>1.7</b>	<b>1.7</b>	<b>2.6</b>	<b>3.2</b>	<b>5.3</b>	<b>2.8</b>	<b>4y 8m</b>
Blmbg. Barc. U.S. Aggregate			1.4	-0.3	-0.3	2.5	2.2	4.5	2.0	
<b>Total Alternatives Composite</b>	<b>45,953,520</b>	<b>18.8</b>	<b>0.9</b>	<b>6.7</b>	<b>6.7</b>	<b>6.1</b>	<b>-</b>	<b>-</b>	<b>8.2</b>	<b>4y 8m</b>
Total Alternatives Benchmark			0.5	6.0	6.0	4.1	-	-	5.8	
<b>Hedge Fund of Fund Composite</b>	<b>29,981,889</b>	<b>12.3</b>	<b>1.3</b>	<b>8.3</b>	<b>8.3</b>	<b>3.5</b>	<b>-</b>	<b>-</b>	<b>6.7</b>	<b>4y 8m</b>
HFRI Fund of Funds Composite Index			0.7	6.4	6.4	1.5	3.8	0.9	3.7	
<b>Real Estate Composite</b>	<b>15,971,630</b>	<b>6.6</b>	<b>0.0</b>	<b>3.7</b>	<b>3.7</b>	<b>11.1</b>	<b>-</b>	<b>-</b>	<b>10.7</b>	<b>4y 6m</b>
NCREIF Property Index			0.0	5.1	5.1	9.5	10.1	6.2	10.1	

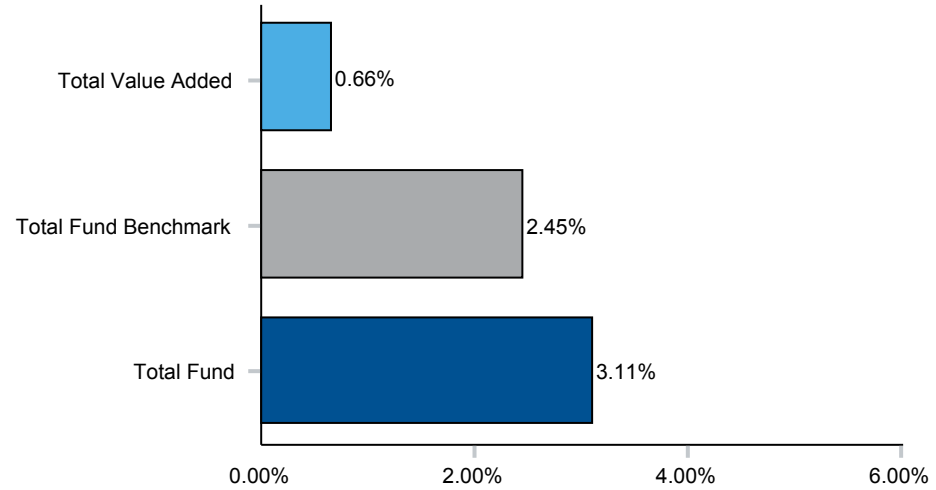
Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized. Peer group percentile ranks are shown in parentheses.

# Cash Balance Plan

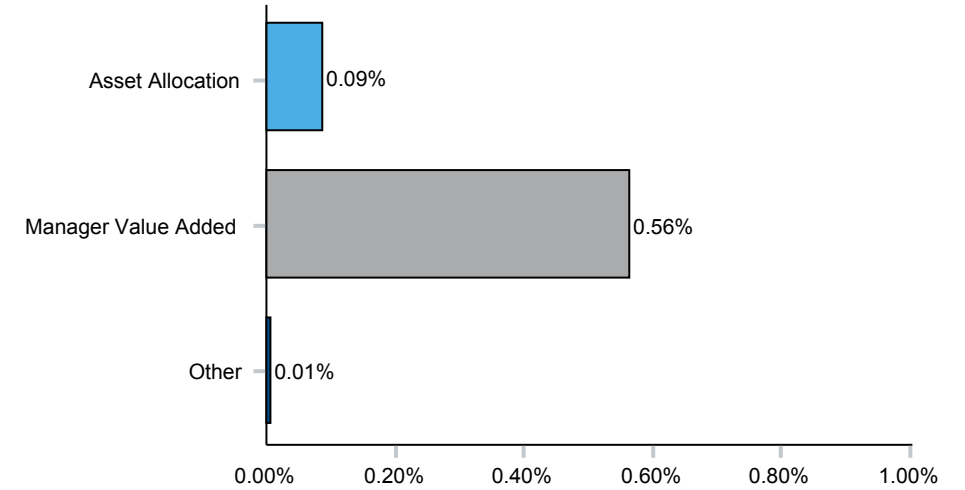
## Attribution Analysis

1 Quarter Ending June 30, 2017

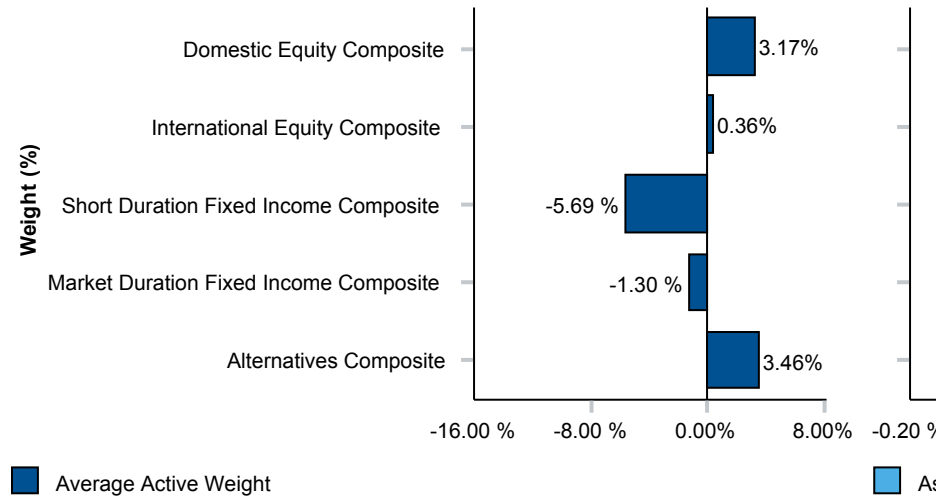
### Total Fund Performance



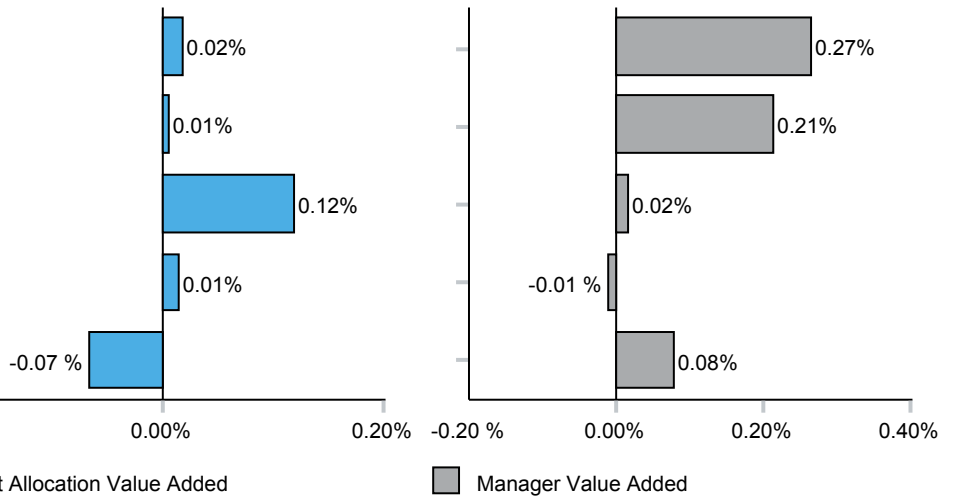
### Total Value Added:0.66%



### Total Asset Allocation:0.09%



### Total Manager Value Added:0.56%



“Other” includes the effects of all other factors on the Fund’s relative return, including rebalancing and other trading activity.

# Cash Balance Plan

## Manager Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Large-Cap Equity</b>										
Vanguard Institutional Index Fund	39,195,294	16.1	3.1 (48)	17.9 (44)	17.9 (44)	9.6 (15)	14.6 (20)	7.2 (20)	14.7 (15)	4y 8m
S&P 500			3.1 (47)	17.9 (43)	17.9 (43)	9.6 (15)	14.6 (19)	7.2 (20)	14.7 (14)	
<i>IM U.S. Large Cap Core Equity</i>			3.0	17.2	17.2	8.1	13.6	6.3	13.5	
Sands Large Cap Growth (Touchstone)	16,713,494	6.9	7.1 (14)	24.5 (13)	24.5 (13)	6.1 (96)	12.9 (78)	10.3 (4)	13.4 (75)	4y 8m
Russell 1000 Growth Index			4.7 (69)	20.4 (50)	20.4 (50)	11.1 (20)	15.3 (23)	8.9 (21)	15.7 (22)	
<i>IM U.S. Large Cap Growth Equity</i>			5.3	20.4	20.4	9.7	14.2	8.0	14.6	
Barrow Hanley Large Cap Value	18,403,658	7.5	2.5 (28)	16.8 (56)	16.8 (56)	7.3 (24)	13.9 (19)	5.8 (23)	13.7 (18)	4y 8m
Russell 1000 Value Index			1.3 (73)	15.5 (74)	15.5 (74)	7.4 (22)	13.9 (19)	5.6 (31)	13.6 (20)	
<i>IM U.S. Large Cap Value Equity</i>			2.0	17.3	17.3	6.6	13.0	4.9	12.6	
<b>Small-Cap Equity</b>										
Wellington Small Cap Value	6,684,379	2.7	-1.1 (85)	14.6 (84)	14.6 (84)	7.8 (15)	12.9 (44)	8.0 (2)	13.1 (41)	4y 8m
Russell 2000 Value Index			0.7 (47)	24.9 (33)	24.9 (33)	7.0 (30)	13.4 (35)	5.9 (42)	13.4 (40)	
<i>IM U.S. Small Cap Value Equity</i>			0.6	21.7	21.7	5.3	12.7	5.7	12.5	
Conestoga Small Cap Growth	6,312,400	2.6	8.7 (7)	26.5 (42)	26.5 (42)	11.6 (6)	14.3 (38)	9.9 (3)	26.5 (42)	1y
Russell 2000 Growth Index			4.4 (61)	24.4 (66)	24.4 (66)	7.6 (43)	14.0 (39)	7.8 (41)	24.4 (66)	
<i>IM U.S. Small Cap Growth Equity</i>			5.1	25.8	25.8	6.5	12.7	7.4	25.8	
<b>International Equity</b>										
Walter Scott Int'l (Dreyfus)	20,882,934	8.6	7.2 (36)	16.7 (74)	16.7 (74)	3.9 (20)	7.1 (61)	4.1 (9)	6.2 (56)	4y 8m
MSCI AC World ex USA (Net)			5.8 (67)	20.5 (44)	20.5 (44)	0.8 (61)	7.2 (59)	1.1 (54)	6.0 (59)	
<i>IM International Equity</i>			6.4	19.7	19.7	1.4	7.7	1.3	6.6	
Northern Cross Int'l (Harbor)	18,890,340	7.7	6.8 (43)	17.7 (67)	17.7 (67)	0.0 (75)	6.8 (65)	2.2 (34)	5.9 (61)	4y 8m
MSCI AC World ex USA (Net)			5.8 (67)	20.5 (44)	20.5 (44)	0.8 (61)	7.2 (59)	1.1 (54)	6.0 (59)	
<i>IM International Equity</i>			6.4	19.7	19.7	1.4	7.7	1.3	6.6	
Harding Loevner Inst. Emerging Markets I	6,302,534	2.6	6.9 (29)	22.5 (42)	22.5 (42)	2.3 (23)	6.3 (15)	3.2 (16)	14.6 (26)	0y 8m
MSCI EM (net)			6.3 (40)	23.7 (29)	23.7 (29)	1.1 (43)	4.0 (48)	1.9 (39)	13.2 (45)	
<i>IM Emerging Markets Equity (MF) Median</i>			6.0	21.1	21.1	0.7	3.8	1.4	12.9	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized. Peer group percentile ranks are shown in parentheses.

# Cash Balance Plan

## Manager Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Short Duration Fixed Income</b>										
Barrow Hanley Short Fixed	5,625,977	2.3	0.3 (69)	0.4 (86)	0.4 (86)	0.9 (54)	0.9 (67)	2.2 (48)	0.8 (58)	4y 8m
Blmbg. Barc. 1-3 Year Gov/Credit			0.3 (75)	0.3 (87)	0.3 (87)	1.0 (49)	0.9 (63)	2.3 (43)	0.9 (55)	
<i>IM U.S. Short Term Investment Grade</i>			0.4	1.1	1.1	0.9	1.2	2.2	0.9	
Cash Composite	987,951	0.4	2.5	4.0	4.0	3.1	2.0	-	2.1	4y 8m
90 Day U.S. Treasury Bill			0.2	0.4	0.4	0.2	0.1	0.6	0.2	
<b>Market Duration Fixed Income</b>										
Dodge & Cox Income Fund	29,168,229	12.0	1.5 (63)	3.2 (21)	3.2 (21)	2.8 (34)	3.4 (28)	5.2 (48)	6.9 (32)	28y 6m
Blmbg. Barc. U.S. Aggregate			1.4 (67)	-0.3 (96)	-0.3 (96)	2.5 (49)	2.2 (83)	4.5 (75)	6.4 (70)	
<i>IM U.S. Broad Market Core+ Fixed Income</i>			1.6	1.9	1.9	2.4	2.9	5.1	6.6	
Met West Total Return Fund I	28,686,903	11.8	1.3 (81)	0.2 (90)	0.2 (90)	2.3 (61)	3.5 (23)	6.0 (9)	2.6 (40)	4y 8m
Blmbg. Barc. U.S. Aggregate			1.4 (67)	-0.3 (96)	-0.3 (96)	2.5 (49)	2.2 (83)	4.5 (75)	2.0 (70)	
<i>IM U.S. Broad Market Core+ Fixed Income</i>			1.6	1.9	1.9	2.4	2.9	5.1	2.4	
<b>Hedge Fund of Funds</b>										
Lighthouse Diversified	15,854,542	6.5	0.5	4.8	4.8	3.1	5.7	2.8	5.7	4y 8m
HFRI Fund of Funds Composite Index			0.7	6.4	6.4	1.5	3.8	0.9	3.7	
Pointer Offshore LTD	14,127,347	5.8	2.3	12.6	12.6	4.1	7.9	7.0	8.0	4y 6m
HFRI Fund of Funds Composite Index			0.7	6.4	6.4	1.5	3.8	0.9	3.4	
<b>Real Estate</b>										
Oaktree RE Opportunities Fund VI	7,193,149	3.0	0.0	0.2	0.2	8.9	-	-	9.1	4y 5m
NCREIF Property Index			0.0	5.1	5.1	9.5	10.1	6.2	10.1	
Walton Street Real Estate Fund VII, L.P.	6,278,481	2.6	0.0	8.2	8.2	14.1	-	-	16.0	4y
NCREIF Property Index			0.0	5.1	5.1	9.5	10.1	6.2	10.0	
Walton Street Real Estate Fund VIII, L.P.	2,500,000	1.0	-	-	-	-	-	-	0.0	0y 1m
NCREIF Property Index			0.0	5.1	5.1	9.5	10.1	6.2	0.0	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized. Peer group percentile ranks are shown in parentheses.



# Cash Balance Plan

## Manager Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)							
	Market Value (\$)	%	Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
<b>Total Plan</b>										
Total Cash Balance Plan	243,807,612	100.0	3.1	11.2	11.2	4.9	8.5	5.3	7.9	4y 8m
Total Cash Balance Plan Benchmark			2.4	10.4	10.4	4.5	7.6	4.7	7.2	
Pre-Pavilion Total Cash Balance Plan Benchmark			1.4	9.0	9.0	5.5	9.3	5.5	9.0	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized. Peer group percentile ranks are shown in parentheses.

# Private Real Estate Summary

As of June 30, 2017 (\$ in Millions)

Partnership	Vintage Year	Committed Capital	Paid-in Capital	Unfunded Commitment	Market Value <sup>1</sup>	Distributions	Total Value	Net IRR <sup>2</sup>	TV / PI	D / PI
<b>Surplus Cash</b>										
Oaktree RE Opportunities VI	2012	\$14.0	\$14.0	\$3.2	\$12.1	\$6.6	\$18.7	9.9%	1.3	0.5
Walton Street RE Fund VII	2012	\$14.0	\$11.5	\$7.9	\$10.5	\$5.9	\$16.4	16.2%	1.4	0.5
Walton Street RE Fund VIII	2017	\$13.0	\$3.3	\$9.7	\$3.3	\$0.0	\$3.3	N/A	1.0	0.0
Total		\$41.0	\$28.8	\$20.9	\$25.8	\$12.5	\$38.3		1.3	0.4
<b>Cash Balance</b>										
Oaktree RE Opportunities VI	2012	\$8.4	\$8.4	\$1.9	\$7.2	\$4.3	\$11.5	9.4%	1.4	0.5
Walton Street RE Fund VII	2012	\$8.4	\$6.9	\$4.7	\$6.3	\$3.5	\$9.8	15.9%	1.4	0.5
Walton Street RE Fund VIII	2017	\$10.0	\$2.5	\$7.5	\$2.5	\$0.0	\$2.5	N/A	1.0	0.0
Total		\$26.8	\$17.8	\$14.2	\$16.0	\$7.8	\$23.8		1.3	0.4

<sup>1</sup> If a market value has not yet been released for a particular fund, the previous quarter's value is adjusted according to subsequent contributions and distributions.

<sup>2</sup> Net IRR is through the previous quarter end.



# Asset Class Diversification

# Growth Has Improved Across Economic Regions

## Executive Summary

- The second quarter of 2017 saw a continuation of strong and improving global growth, easing financial conditions and subdued inflation.
- Improving fundamentals accelerated earnings growth, which resulted in strong equity market performance and tightening credit spreads.
- Strong equity market performance has been a global phenomenon, reflecting improvements in global growth rather than just anticipated policy changes of the new administration. We continue to believe potential policy changes remain additive for future U.S. equity market performance.
- Strengthening economic conditions allowed the Federal Reserve (“Fed”) to continue the process of rate normalization as well as outlining a plan for balance sheet reduction.
- Firming conditions globally have allowed policy makers in other developed markets to modify forward guidance toward easing stimulus contributing to a rise in interest rates in developed markets near quarter-end.
- With core inflation remaining below target levels, policy adjustments likely will remain gradual, limiting the pace of future rate increases.
- Our base scenario remains that current trends of improving growth will persist, supported by accommodative monetary policy, which provides ongoing support for risk asset prices.

## Manufacturing Purchasing Managers Indices

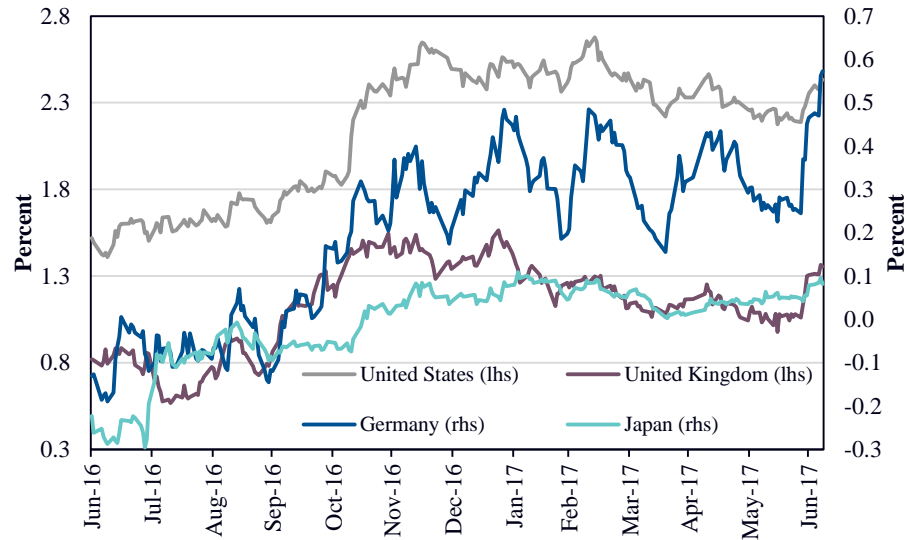
	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
<b>Global</b>	51.0	50.8	50.5	50.4	51.0	51.0	50.7	50.9	50.0	50.6	50.2	50.1	50.4	51.0	50.8	51.1	52.0	52.1	52.7	52.8	53.0	53.0	52.7	52.6	52.6
<b>Developed</b>	51.8	52.1	51.9	51.7	52.5	52.3	52.0	52.1	50.8	50.9	50.5	50.4	51.2	51.5	51.3	51.5	52.6	53.0	53.8	54.2	54.1	53.9	54.1	54.1	53.9
<b>Emerging</b>	49.9	49.1	48.6	48.4	49.0	49.2	49.0	49.4	48.9	50.2	49.5	49.5	49.3	50.3	50.1	50.3	51.0	50.8	51.1	50.8	51.3	51.6	50.8	50.5	50.8
<b>U.S.</b>	53.6	53.8	53.0	53.1	54.1	52.8	51.2	52.4	51.3	51.5	50.8	50.7	51.3	52.9	52.0	51.5	53.4	54.1	54.3	55.0	54.2	53.3	52.8	52.7	52.0
<b>Canada</b>	51.3	50.8	49.4	48.6	48.0	48.6	47.5	49.3	49.4	51.5	52.2	52.1	51.8	51.9	51.1	50.3	51.1	51.5	51.8	53.5	54.7	55.5	55.9	55.1	54.7
<b>U.K.</b>	51.9	52.3	51.8	51.5	54.5	52.5	51.2	52.5	50.9	51.1	49.5	50.4	53.1	48.3	53.5	55.3	54.2	53.5	55.9	55.6	54.6	54.0	57.0	56.3	54.3
<b>Euro Zone</b>	52.5	52.4	52.3	52.0	52.3	52.8	53.2	52.3	51.2	51.6	51.7	51.5	52.8	52.0	51.7	52.6	53.5	53.7	54.9	55.2	55.4	56.2	56.7	57.0	57.4
<b>Germany</b>	51.9	51.8	53.3	52.3	52.1	52.9	53.2	52.3	50.5	50.7	51.8	52.1	54.5	53.8	53.6	54.3	55.0	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6
<b>France</b>	50.7	49.6	48.3	50.6	50.6	50.6	51.4	50.0	50.2	49.6	48.0	48.4	48.3	48.6	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8
<b>Italy</b>	54.1	55.3	53.8	52.7	54.1	54.9	55.6	53.2	52.2	53.5	53.9	52.4	53.5	51.2	49.8	51.0	50.9	52.2	53.2	53.0	55.0	55.7	56.2	55.1	55.2
<b>Spain</b>	54.5	53.6	53.2	51.7	51.3	53.1	53.0	55.4	54.1	53.4	53.5	51.8	52.2	51.0	51.0	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7
<b>Greece</b>	46.9	30.2	39.1	43.3	47.3	48.1	50.2	50.0	48.4	49.0	49.7	48.4	50.4	48.7	50.4	49.2	48.6	48.3	49.3	46.6	47.7	46.7	48.2	49.6	50.5
<b>Ireland</b>	54.6	56.7	53.6	53.8	53.6	53.3	54.2	54.3	52.9	54.9	52.6	51.5	53.0	50.2	51.7	51.3	52.1	53.7	55.7	55.5	53.8	53.6	55.0	55.9	56.0
<b>Australia</b>	44.2	50.4	51.7	52.1	50.2	52.5	51.9	51.5	53.5	58.1	53.4	51.0	51.8	56.4	46.9	49.8	50.9	54.2	55.4	51.2	59.3	57.5	59.2	54.8	55.0
<b>Japan</b>	50.1	51.2	51.7	51.0	52.4	52.6	52.6	52.3	50.1	49.1	48.2	47.7	48.1	49.3	49.5	50.4	51.4	51.3	52.4	52.7	53.3	52.4	52.7	53.1	52.4
<b>China</b>	49.4	47.8	47.3	47.2	48.3	48.6	48.2	48.4	48.0	49.7	49.4	49.2	48.6	50.6	50.0	50.1	51.2	50.9	51.9	51.0	51.7	51.2	50.3	49.6	50.4
<b>Indonesia</b>	47.8	47.3	48.4	47.4	47.8	46.9	47.8	48.9	48.7	50.6	50.9	50.6	51.9	48.4	50.4	50.9	48.7	49.7	49.0	50.4	49.3	50.5	51.2	50.6	49.5
<b>S. Korea</b>	46.1	47.6	47.9	49.2	49.1	49.1	50.7	49.5	48.7	49.5	50.0	50.1	50.5	50.1	48.6	47.6	48.0	48.0	49.4	49.0	49.2	48.4	49.4	49.2	50.1
<b>Taiwan</b>	46.3	47.1	46.1	46.9	47.8	49.5	51.7	50.6	49.4	51.1	49.7	48.5	50.5	51.0	51.8	52.2	52.7	54.7	56.2	55.6	54.5	56.2	54.4	53.1	53.3
<b>India</b>	51.3	52.7	52.3	51.2	50.7	50.3	49.1	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9
<b>Brazil</b>	46.5	47.2	45.8	47.0	44.1	43.8	45.6	47.4	44.5	46.0	42.6	41.6	43.2	46.0	45.7	46.0	46.3	46.2	45.2	44.0	46.9	49.6	50.1	52.0	50.5
<b>Mexico</b>	52.0	52.9	52.4	52.1	53.0	53.0	52.4	52.2	53.1	53.2	52.4	53.6	51.1	50.6	50.9	51.9	51.8	51.1	50.2	50.8	50.6	51.5	50.7	51.2	52.3
<b>Russia</b>	48.7	48.3	47.9	49.1	50.2	50.1	48.7	49.8	49.3	48.3	48.0	49.6	51.5	49.5	50.8	51.1	52.4	53.6	53.7	54.7	52.5	52.4	50.8	52.4	50.3

Key      Contraction      Expansion

Source: Bloomberg, JP Morgan

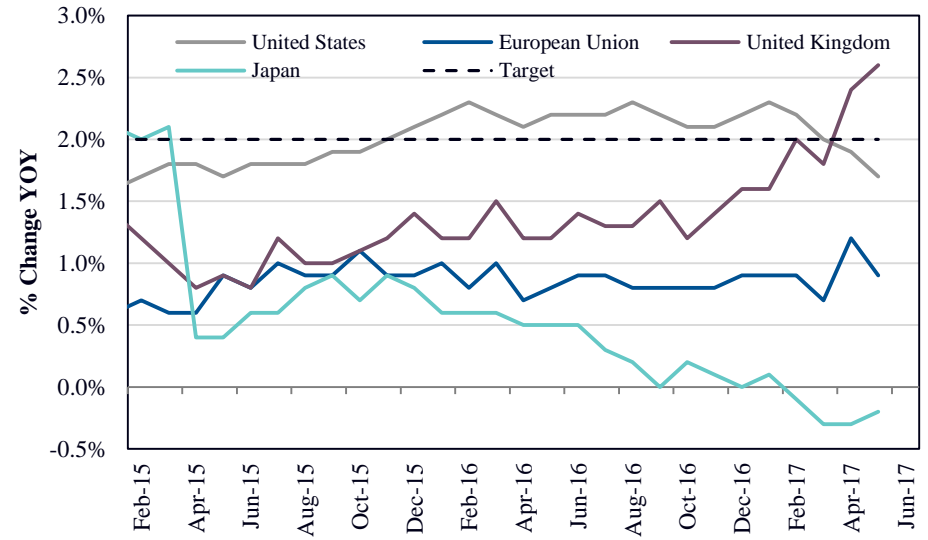
# Rates to Rise Slowly and Gradually

## Global 10-Year Yields



Source: World Trade Organization

## Core Inflation Rates Remain Below Target



Source: Bloomberg

### Observations

- Rising growth has allowed central bank policy makers to begin shifting guidance away from future easing – causing rates to rise.
- Significant accommodation, however, will remain for some time, as core inflation remains constrained.
- While growth has rebounded, inflation remains benign.
- Several factors weighing on inflation likely will persist:
  - Globalization
  - Technical innovation,
  - Changing demographics (older)
  - Shifting consumption (more services)
- With core inflation rates below target, policy makers can be more patient.

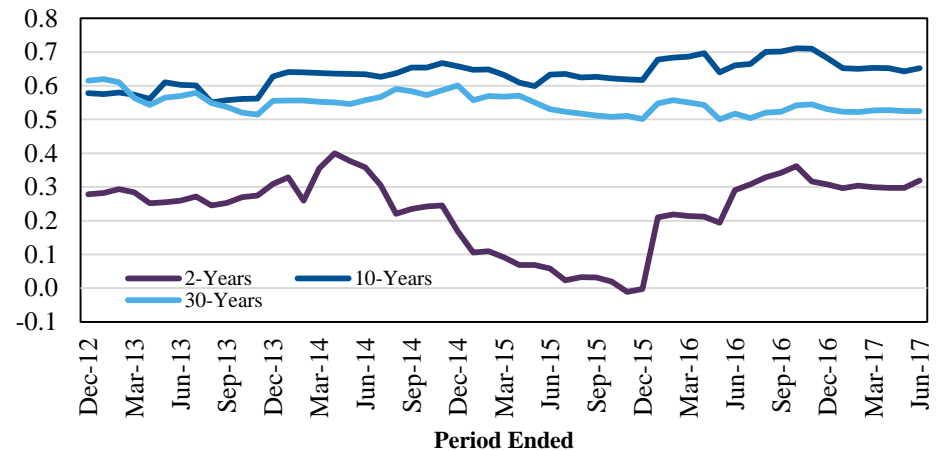
# Longer Term Yields are Correlated Across Major Markets

Rates Across Markets are Less Different than They Appear

	Domestic Yield	USD Yield*
U.S. 10-year	2.370%	2.370%
German 10-year	0.540%	2.365%
U.K. 10-year	1.270%	2.420%
Japan 10-year	0.085%	2.900%

Source: Bloomberg

Average Rolling 36-Months Pairwise Correlation of Global Government Yields\*\*



Source: Bloomberg

## Observations

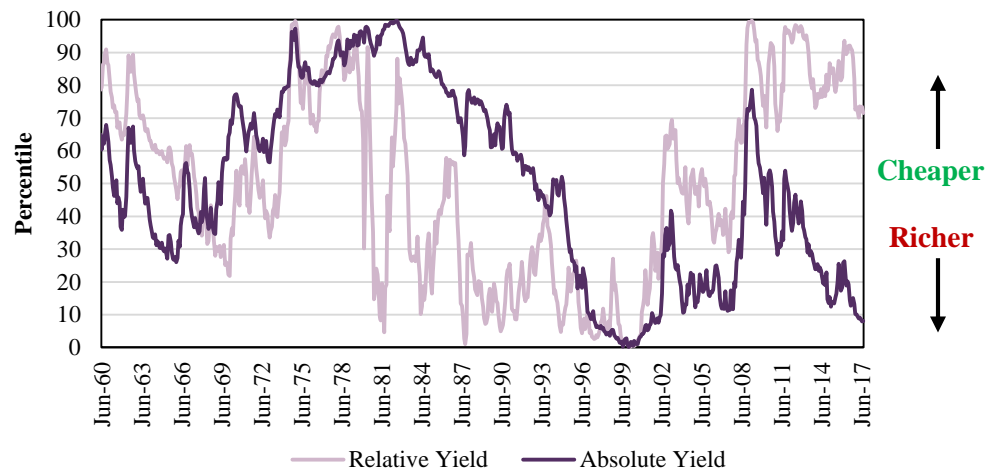
- Despite divergent policies, long rates in developed markets have become more synchronized.
- Adjusting for currency differences, sovereign bonds are close substitutes based on yields.
- While shorter dated interest rates will be driven by central bank policies, longer rates likely will reflect global levels of accommodation.
- As a result, yield curves may not behave as in the past and shape likely does not mean what it used to.

\* Represents the estimated yield obtained after hedging cash flows back to U.S. Dollar.

\*\* Average rolling 36-month pairwise correlation is estimated by computing the correlation of yield changes month-over-month for U.S., German, and Japanese government yields.

# On a Relative Basis, Equity Valuations Appear Fairly Priced

## Comparing CAPE Implied Earnings Yields\*

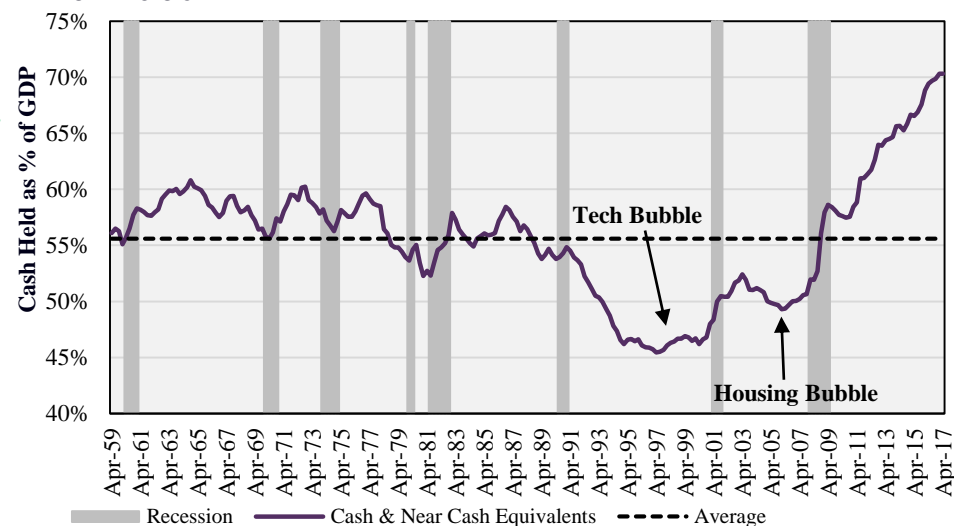


\* The absolute yield is calculated as the inverse of the CAPE ratio. The relative yield is calculated as the spread of the absolute yield over the 10-year Treasury rate for that period. The valuation percentiles were calculated using the entire time period in the presented time series – 1/1960 to 7/2017.

Source: Robert Schiller

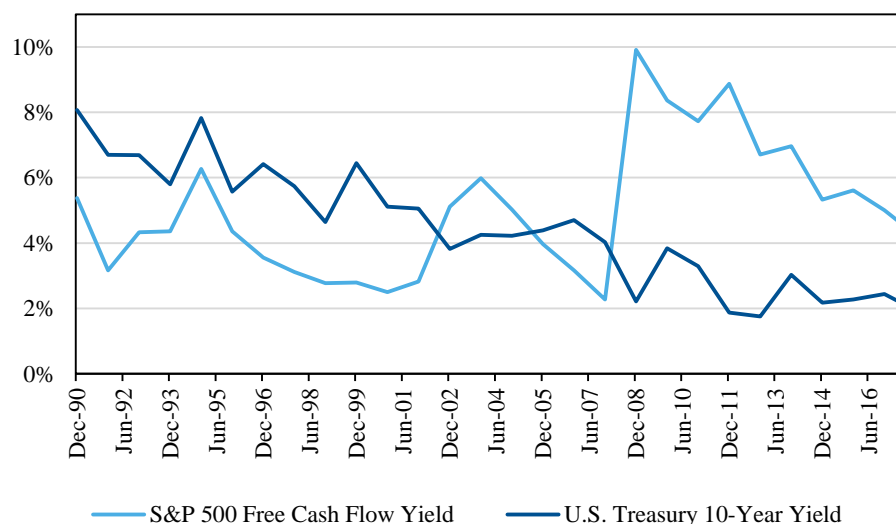
## Despite Improvements, 2008 Scars Remain

Investors Appear to be Holding Cash – Investing in “Certainty” – Reflecting Risk Aversion



Source: Federal Reserve FRED

## Free Cash Flow Yields Remain Elevated



Source: Bloomberg

## Observations

*“Stocks prices on the cheap side with interest rates at current levels”*

*Warren Buffett 2/27/2017 CNBC*

- While many assets appear to be rich or have low yields relative to historic levels, this is being driven primarily by the low level of interest rates, specifically riskless yields (Treasury and other sovereign bond rates).
- One example can be seen in earnings yields implied by Robert Shiller’s Cyclically Adjusted Price-Earnings (CAPE). While the absolute earnings yield for CAPE (simply the inverse of the CAPE value) is currently below the 10th percentile (rich), the interest rate adjusted CAPE is in the 70th percentile (cheap). The decline in the absolute CAPE yield since 2008 has been driven largely by the decline in interest rates.
- Comparing the free cash-flow yield of the S&P 500 to Treasury yields is another relative measure suggesting equities may be undervalued. Current levels of free cash-flows remain strong relative to asset prices and should be supportive of continued corporate buy-backs, lending further support to equity markets and extending credit cycle.

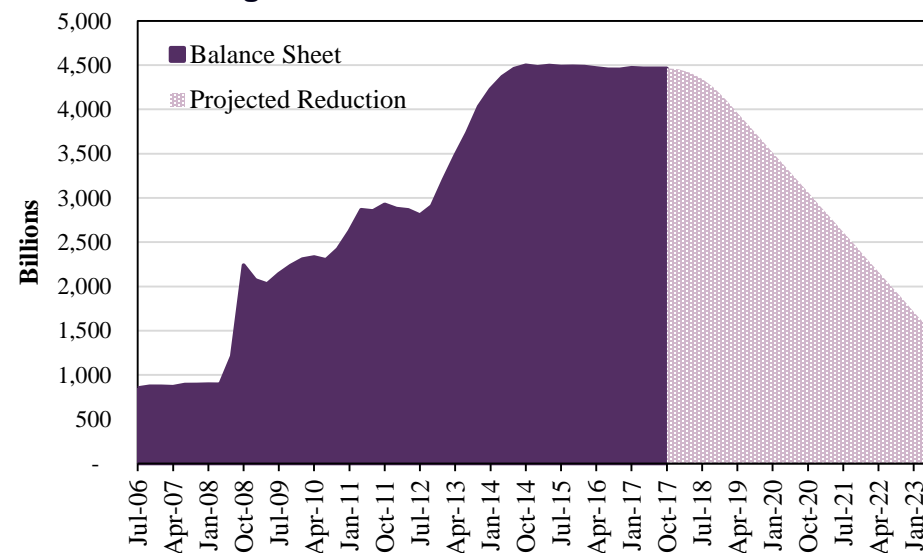
# Risks Remain: Monetary Policy

## Normalizing Policy too Quickly

A perpetual dilemma for central bankers is when and how to remove the punch bowl of monetary accommodation. While errors have been made both ways in the past – removing it too soon or taking too long – since the financial crisis, errors have been one way: central banks have consistently moved too soon. The risk is that these mistakes repeat themselves:

- In April and July of 2011, fearful of inflation, the E.C.B. raised rates only to reverse course in December of that year.
- From 2010-2011, Sweden, Australia and Israel – countries that largely had avoided the brunt of the financial crisis – all raised rates only to reverse course in short order as the slowdown in global growth eventually caught up with them.
- September 2014, the Federal Reserve signals a path for rate normalization. This change in forward guidance caused the dollar to spike, tightening global financial conditions and slowing global growth. The Fed remained on hold until December of 2015.

## Potential Change in Fed Balance Sheet



Source: Federal Reserve FRED Data & Pavilion

## Fed Balance Sheet Reduction

### Raising rates while reducing the balance sheet will create unfamiliar risks for the Fed

- At their June meeting, in addition to raising the Fed funds rate by 25 basis points, the FOMC released a plan to gradually begin reducing its balance sheet by limiting or not reinvesting proceeds from maturing bonds. The Fed stated that they likely will maintain a larger balance sheet than prior to the global financial crisis. Forecasts suggest a target balance sheet of approximately \$2.5 trillion.
- While the plan begins quite gradually, after a year the pace of balance sheet reduction will be approximately \$600 billion per year.
- The statement did not include a start date for the process; however, expectations are for it to begin “around the end of 2017.”
- While Fed officials will be able to react to challenges presented by the process (by bringing the short term rate down again or slowing the balance sheet reduction), these are uncharted waters.
- A risk is that other central banks decide to normalize monetary policy along with the U.S., which could drive up interest rates faster than anticipated and slow economic growth.



## Risks Remain: Geopolitical Challenges

While fundamentals are currently strong, many challenges exist that may serve to undermine confidence and possibly disrupt fundamentals. Specifically, the prospect of some event that creates significant economic uncertainty, materially curtailing business activity and capital investment. A few items we are watching:

- One recommendation to encourage more aggressive action from China in dealing with North Korean threats has been the implementation of trade sanctions against China. Material sanctions against such a substantial trade partner likely would be very disruptive.
- The inability of Congress to lift the debt ceiling in a timely fashion. In the past, such moves have infused markets with uncertainty and been disruptive. While such an outcome is unlikely, the investigation into Russian election interference appears to be slowing policy implementation.
- Flashpoints in the Middle East as well as Brexit negotiations represent potential, though unlikely sources of disruption.



# Conclusions

## **Risk assets should receive continued support**

- Global growth continued to improve in the second quarter, led by emerging markets with the U.S. and Eurozone showing improvements as well.
- Improving growth was largely reflected in the performance of risk assets, as equity markets continued their strong performance and credit spreads tightened.
- Despite an additional rate increase by the Fed, global financial conditions remained accommodative, which kept downward pressure on interest rates for much of the quarter.
- Improving growth, continued monetary accommodation, and constrained inflation should all provide support for risk assets over the coming quarter. Any reduction in risk aversion should provide an additional tailwind.

## **But there is no free lunch: Risks**

- Improving economic conditions have motivated central bankers in the U.K., Japan, and the E.U. to contemplate the prospects for future interest rate normalization. While still a ways off, recent comments by central bankers put some upward pressure on rates in the final days of the quarter.
- Should policy or even policy expectations advance too quickly, growth could become subdued – a lesson from past efforts.
- Certain geopolitical risks as well as the risk that a debt ceiling agreement is not reached represent additional near-term pitfalls.

# Asset Class Outlooks

	Near-Term View	LT Return*	Qualitative Assessment
US Large Cap Equity	+	7.2%	<ul style="list-style-type: none"> <li>Domestic equity valuations, while appearing rich or full on an absolute basis, appear less so after adjusting for the level of interest rates. Earnings are likely to remain strong over the near-term.</li> <li>While valuations are lower for developed international and emerging markets, these markets face additional challenges, particularly developed international markets. Valuations appear most attractive for emerging markets, particularly the value sector, as economic growth continues to improve.</li> <li>Within the U.S., large cap provides exposure to improving international growth while limiting geographic risks. Small cap provides more exposure to potentially positive policy changes; however, current valuations likely limit upside potential.</li> <li>Economic growth and stability have enhanced the prospects for emerging markets. Managers focusing on emerging consumer strategies may see higher tracking error due to reduced exposures to commodities and global conglomerates (e.g., Samsung), but should outperform over longer-term.</li> </ul>
US Small Cap Equity	~	8.4%	
International Equity	~	7.6%	
Emerging Markets	+	9.1%	
Private Equity	+	10.5%	
Long/Short Equity	~	5.1%	
Bonds – Core (US)	~	3.1%	<ul style="list-style-type: none"> <li>Despite low yield levels, high quality fixed income continues to provide investors with diversification benefits. Diversification benefits appear to be particularly pronounced in the securitized markets tied to U.S. housing and the consumer.</li> <li>Improving global growth has not only buoyed equity prices, but strengthening economic conditions and attractive yields have made emerging market debt an appealing investment with upside potential for currency moves.</li> <li>For long-term investors with an ability to sacrifice liquidity for yield pick-up, private credit provides an attractive opportunity. Select opportunities still exist for top quality managers possessing broad credit platforms that can focus on off-market transactions.</li> <li>While we view high yield more positively than investment grade corporates, traditional equity exposure remains our preferred source of equity risk.</li> <li>Opportunities exist for nimble, specialized multi-strategy and diversifying strategies.</li> <li>Inflationary risks currently remain muted. To become a more elevated risk, the emergence of stronger growth likely is required. As a result, investors should receive some near-term inflation protection from equity positions.</li> <li>Strategies with income and some sensitivity to inflation, however, offer opportunities.</li> <li>Within infrastructure, the energy space experienced indiscriminate selling in 2015, and continues to be volatile, which has provided the potential for acute mispricings and opportunities.</li> </ul>
Bonds – Core (Non-Dollar)	~	2.8%	
Bonds – Spread Sectors	~	3.8%	
Bonds – Emerging Markets	+	4.9%	
Long/Short Fixed Income	+	5.0%	
Distressed	~	8.8%	
Diversified Hedge Funds	~	4.9/5.5%	
Real Assets – Commodities	~	5.4%	
Real Assets – Real Estate	~	6.4%	
Real Assets – Infrastructure	+	6.3%	

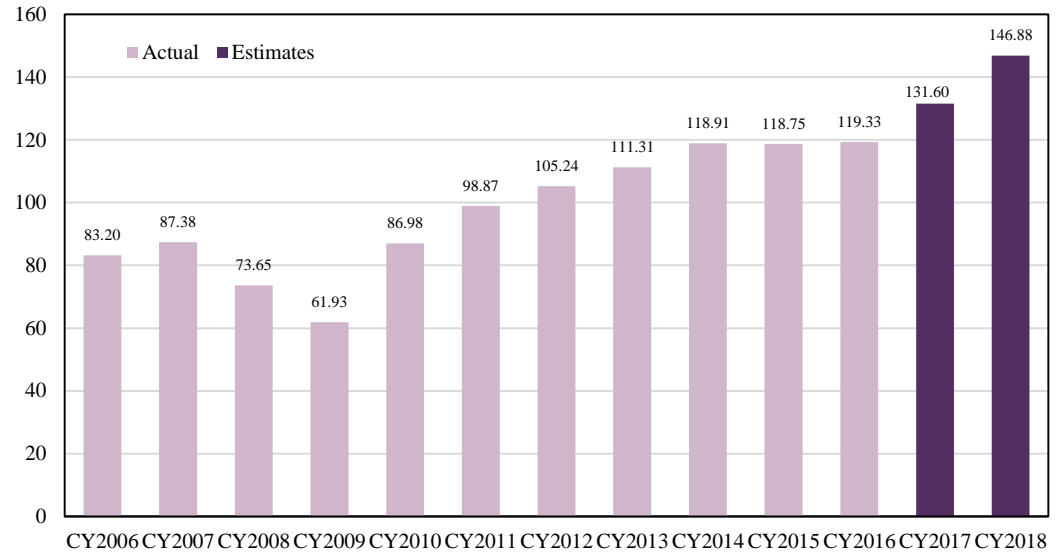
\*Represents 2017 PAG Asset Allocation Assumptions published in January 2017

# Implications: Equities

## Observations

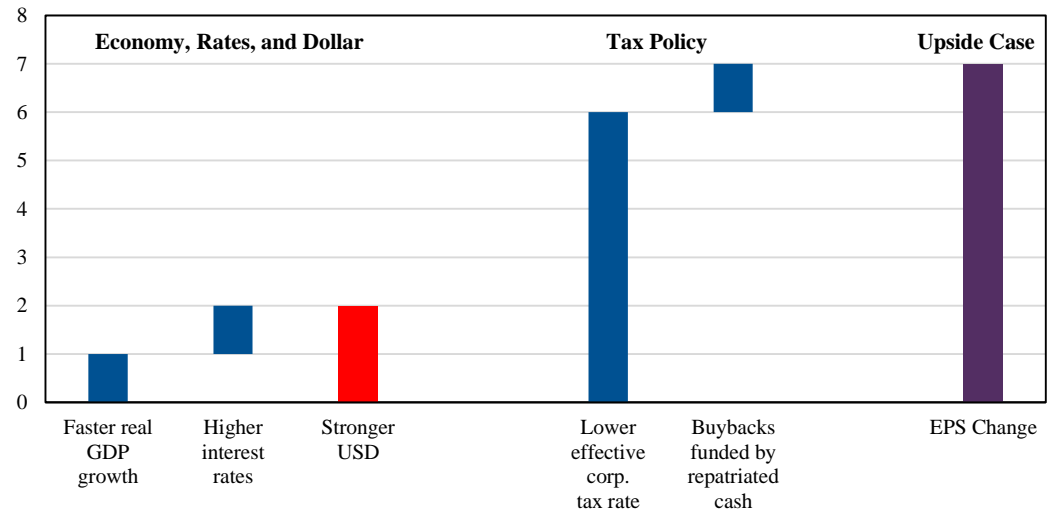
- Global growth has continued to improve while becoming increasingly synchronized; however, it is not symmetric across all regions. Investors should benefit from exposure to regions demonstrating the strongest improvements.
- Fundamentals for U.S. Equities remain strong: expectations for continued earnings growth should support U.S. equity prices. Policy reforms, if achieved, likely would be additive.
- Emerging market equities should continue to be supported by growth: rapid appreciation of the U.S. dollar could provide a headwind; however, the risks of such an appreciation have diminished.
- While valuations in Europe appear attractive, risks in the region remain elevated as well. Despite some risks being resolved by recent elections, sovereign risks, banking sector risks and policy risks all suggest that the region should be valued at a discount relative to the U.S.

S&P 500 Calendar Year Bottom-up EPS Actuals & Estimates



Source: Factset as of July 7, 2017

Goldman Sachs Estimate for Policy Impact on S&P 500 EPS



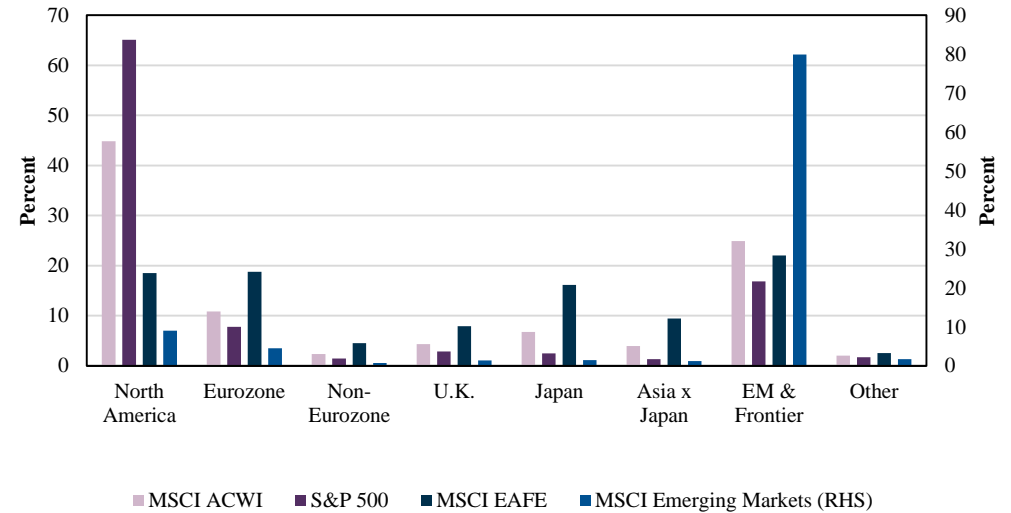
Source: Goldman Sachs as of December 5, 2016

# Implications: Barbell U.S. and EM Over Int'l Equity

## Observations

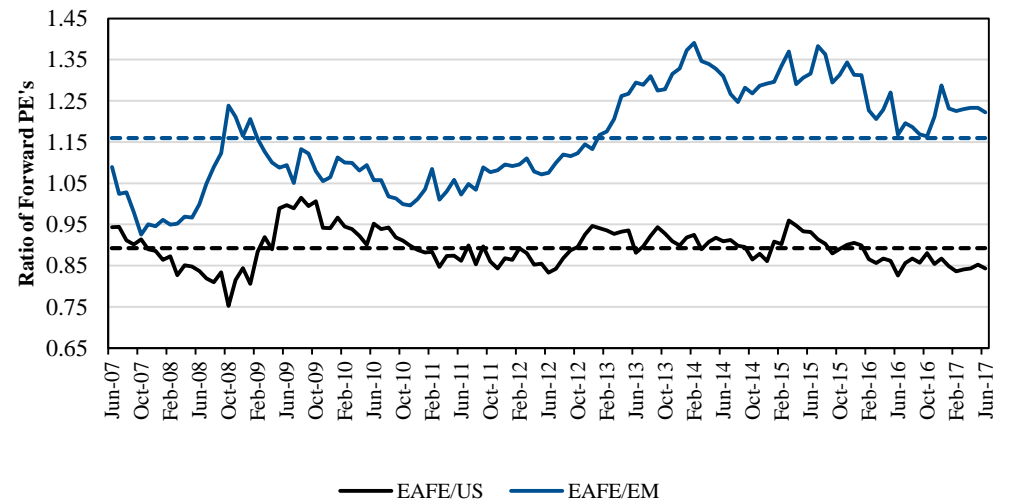
- Emerging market equities and debt are not the only benefactors to these regions improving growth, as many equities now have global exposure. Country of listing has become much less significant than revenue sourcing.
- Export driven emerging markets reap benefits from improving advanced economies' growth. The stabilization of the U.S. dollar and commodities prices has benefitted performance as well.
- U.S. equities, particularly large cap, also provide investors with significant exposures to global growth.
- While Europe has experienced improving growth and valuations appear more attractive, risks are elevated as well. In addition to unresolved sovereign and financial sector risks, European corporations face higher fixed labor costs, which in the past have caused E.U. equities to significantly underperform in down markets.
- As a result, we believe the most efficient exposure to improving global growth is through a slight overweight to U.S. and emerging market equities, with a slight underweight to ex-U.S. developed markets – what we refer to as a “barbell” approach.

Geographic Revenue



Source: Factset as of 12/31/2016

EAFE: Slightly Cheap to U.S., Rich to EM

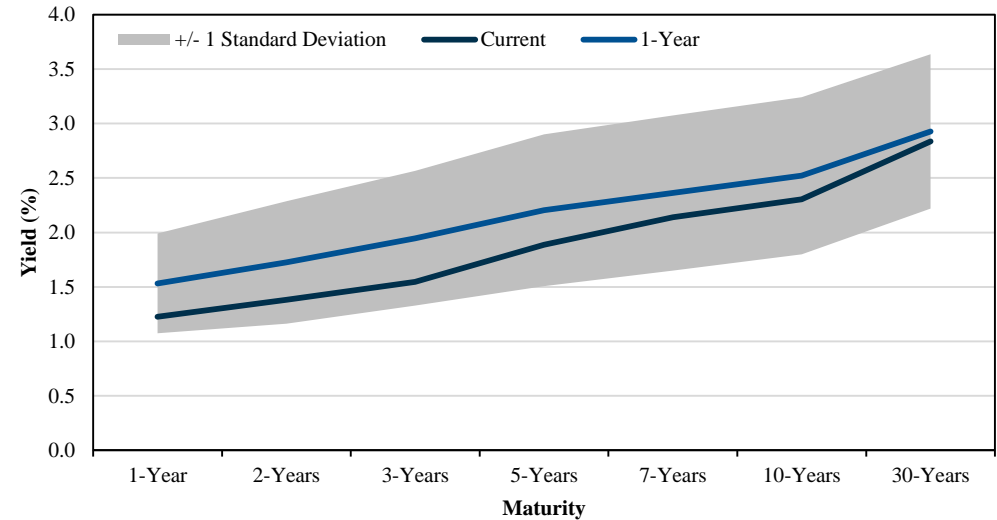


# Implications: Fixed Income

## Observations

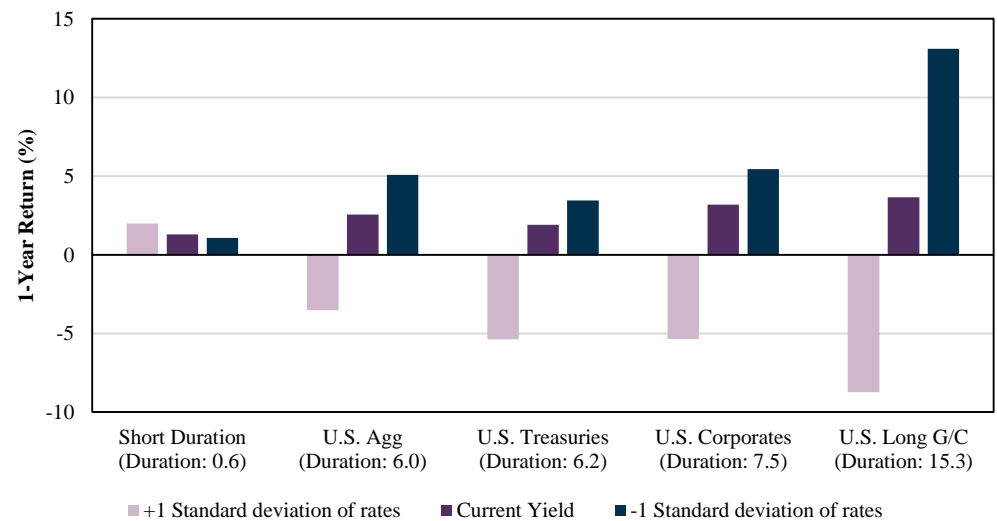
- Forward rates have normalized: current forward rates are at levels consistent with long-term FOMC projections. This suggests rate increases are expected to occur at a gradual pace where income offsets capital losses.
- Duration benefits remain: While the yield curve has flattened year-to-date, there continues to be a diversification benefit from owning bonds. We recommend obtaining duration exposure through high quality credit rather than Treasuries as the additional income significantly improves return.
- After a brief uptick, TIPS continue to imply inflation of less than 2%. We anticipate inflation will remain below 3%, and as a result see little benefit from a tactical tilt toward TIPS relative to nominal bonds.
- For emerging market debt (“EMD”), implementation matters: While EMD remains vulnerable to currency adjustments due to heightened uncertainties surrounding U.S. trade policy and geopolitical risks, it likely represents longer-term value for investors capable of tolerating the increased volatility.

Current Yields and Expected Forwards in 1-Year



Source: Bloomberg as of 6/30/2017

Fixed Income Returns



Source: Bloomberg as of 6/30/2017 with Bloomberg Barclays Indices

# Asset Class Diversification

## Surplus Cash Investment Program Structure

As of June 30, 2017

Manager	Asset Class/Type	Total Assets (\$ mil.)	Percent of Total	Target Allocation	Weighting Relative to Target	Target Range
<b>Large-Cap Domestic Equity</b>		<b>\$170.8</b>	<b>22.2%</b>	<b>20.0%</b>	<b>+ 2.2%</b>	<b>20-30%</b>
Vanguard S&P 500 Index	Large-Cap Index	\$106.6	13.8%	10.0%	+ 3.8%	
Sands	Large-Cap Growth	\$ 31.2	4.0%	5.0%	- 1.0%	
Barrow Hanley	Large-Cap Value	\$ 33.0	4.3%	5.0%	- 0.7%	
<b>Small-Cap Domestic Equity</b>		<b>\$ 38.3</b>	<b>5.0%</b>	<b>5.0%</b>	<b>- 0.0%</b>	
Conestoga	Small-Cap Growth	\$ 18.5	2.4%	2.5%	- 0.1%	
Wellington	Small-Cap Value	\$ 19.8	2.6%	2.5%	+ 0.1%	
<b>International Equity</b>		<b>\$125.8</b>	<b>16.3%</b>	<b>15.0%</b>	<b>+ 1.3%</b>	<b>10-20%</b>
Walter Scott	Developed and Emerging	\$ 52.0	6.8%			
Harbor	Developed and Emerging	\$ 49.0	6.4%			
Harding Loevner	Emerging	\$ 24.7	3.2%			
<b>Short-Duration Fixed Income</b>		<b>\$ 86.6</b>	<b>11.2%</b>	<b>10.0%</b>	<b>+ 1.2%</b>	<b>8-12%</b>
Barrow Hanley	Short Duration	\$ 78.8	10.2%			
Cash	Money Market	\$ 7.8	1.0%			
<b>Market-Duration Fixed Income</b>		<b>\$230.7</b>	<b>29.9%</b>	<b>30.0%</b>	<b>- 0.1%</b>	<b>25-35%</b>
Dodge & Cox	Market Duration	\$114.6	14.9%	15.0%	- 0.1%	
MetWest	Market Duration	\$116.1	15.1%	15.0%	+ 0.1%	
<b>Alternatives</b>		<b>\$118.6</b>	<b>15.4%</b>	<b>20.0%</b>	<b>- 4.6%</b>	<b>17-23%</b>
Oaktree RE Opps VI	Real Estate	\$ 12.1	1.6%			
Walton Street RE VII	Real Estate	\$ 10.5	1.4%			
Walton Street RE VIII	Real Estate	\$ 3.3	0.4%			
Direct Hedge Fund Composite	Hedge Fund	\$ 92.8	12.0%			
<b>Total (X District)</b>		<b>\$770.8</b>	<b>100.0%</b>			
District Assets - Barrow Hanley	Short Duration	\$ 28.4				
Debt Reserves - Ponder	Short Duration	\$287.1				
<b>Total Surplus Cash</b>		<b>\$1,086.2</b>				

\*Totals may not add due to rounding.

# Asset Class Diversification

## Cash Balance Plan Investment Program Structure

As of June 30, 2017

Manager	Asset Class/Type	Total Assets (\$, mil.)	Percent of Total	Target Allocation	Weighting Relative to Target	Target Range
<b>Large-Cap Domestic Equity</b>		<b>\$ 74.3</b>	<b>30.5%</b>	<b>27.0%</b>	<b>+ 3.5%</b>	<b>27-37%</b>
Vanguard S&P 500 Index	Large-Cap Index	\$ 39.2	16.1%	13.5%	+ 2.6%	
Sands	Large-Cap Growth	\$ 16.7	6.9%	6.8%	+ 0.1%	
Barrow Hanley	Large-Cap Value	\$ 18.4	7.5%	6.8%	+ 0.7%	
<b>Small-Cap Domestic Equity</b>		<b>\$ 13.0</b>	<b>5.3%</b>	<b>5.0%</b>	<b>+ 0.3%</b>	
Conestoga	Small-Cap Growth	\$ 6.3	2.6%	2.5%	+ 0.1%	
Wellington	Small-Cap Value	\$ 6.7	2.7%	2.5%	+ 0.2%	
<b>International Equity</b>		<b>\$ 46.1</b>	<b>18.9%</b>	<b>18.0%</b>	<b>+ 0.9%</b>	<b>15-21%</b>
Walter Scott	Developed and Emerging	\$ 20.9	8.6%			
Harbor	Developed and Emerging	\$ 18.9	7.7%			
Harding Loevner	Emerging Markets	\$ 6.3	2.6%			
<b>Short-Duration Fixed Income</b>		<b>\$ 6.6</b>	<b>2.7%</b>	<b>5.0%</b>	<b>- 2.3%</b>	<b>0-8%</b>
Barrow Hanley	Short Duration	\$ 5.6	2.3%			
Cash	Money Market	\$ 1.0	0.4%			
<b>Market-Duration Fixed Income</b>		<b>\$ 57.9</b>	<b>23.7%</b>	<b>25.0%</b>	<b>- 1.3%</b>	<b>20-30%</b>
Dodge & Cox	Market Duration	\$ 29.2	12.0%	12.5%	- 0.5%	
MetWest	Market Duration	\$ 28.7	11.8%	12.5%	- 0.7%	
<b>Alternatives</b>		<b>\$ 46.0</b>	<b>18.8%</b>	<b>20.0%</b>	<b>- 1.2%</b>	<b>17-23%</b>
Lighthouse	HFOF	\$ 15.9	6.5%			
Pointer	HFOF	\$ 14.1	5.8%			
Oaktree RE Opps VI	Real Estate	\$ 7.2	3.0%			
Walton Street RE VII	Real Estate	\$ 6.3	2.6%			
Walton Street RE VIII	Real Estate	\$ 2.5	1.0%			
<b>Total</b>		<b>\$243.8</b>	<b>100.0%</b>			

\*Totals may not add due to rounding.



# Surplus Cash Equity Portfolio Characteristics

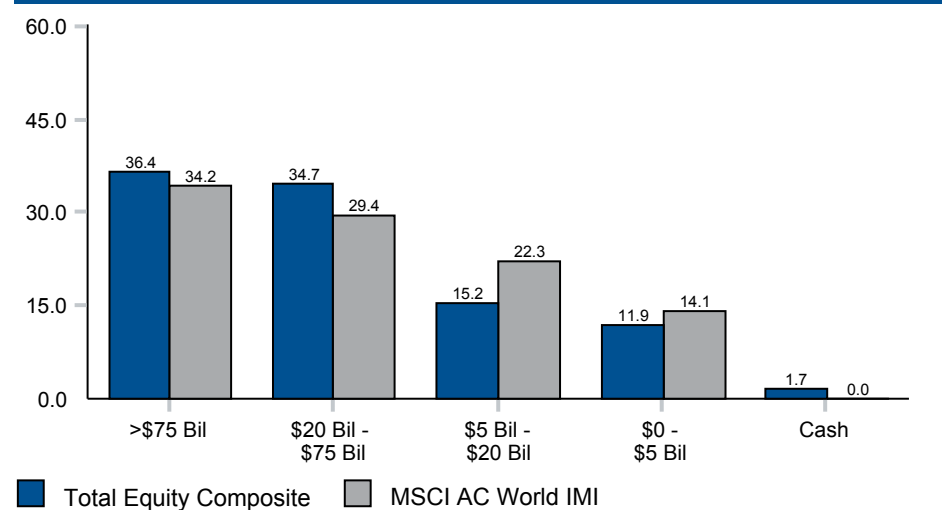
## Surplus Cash Equity Composite vs. MSCI AC World IMI

As of June 30, 2017

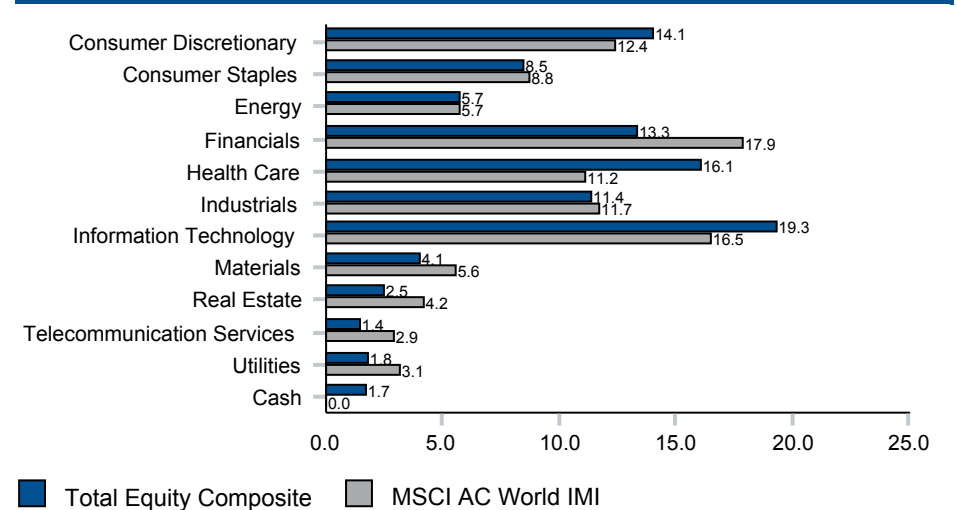
Portfolio Characteristics		
	Portfolio	Benchmark
Wtd. Avg. Mkt. Cap (\$M)	103,749	96,659
Median Mkt. Cap (\$M)	16,522	1,607
Price/Earnings ratio	23.3	18.8
Price/Book ratio	3.2	2.7
5 Yr. EPS Growth Rate (%)	9.3	9.3
Current Yield (%)	1.9	2.4
Debt to Equity	1.3	1.3
Number of Stocks	824	8,668
Beta (5 Years, Monthly)	0.95	1.00
Consistency (5 Years, Monthly)	51.67	1.00
Sharpe Ratio (5 Years, Monthly)	1.21	1.12
Information Ratio (5 Years, Monthly)	0.23	-
Up Market Capture (5 Years, Monthly)	97.42	-
Down Market Capture (5 Years, Monthly)	88.37	-

Top Ten Equity Holdings				
	Portfolio Weight (%)	Benchmark Weight (%)	Active Weight (%)	Quarterly Return (%)
Apple Inc	1.2	1.6	-0.4	0.7
Amazon.com Inc	1.2	0.8	0.4	9.2
Facebook Inc	1.2	0.7	0.5	6.3
Visa Inc	1.1	0.4	0.7	5.7
Microsoft Corp	1.0	1.1	-0.1	5.2
Alibaba Group Holding Ltd	1.0	0.3	0.7	30.7
Las Vegas Sands Corp	1.0	0.1	0.9	13.2
Alphabet Inc	0.9	0.6	0.3	9.7
JPMorgan Chase & Co	0.8	0.7	0.1	4.6
Johnson & Johnson	0.8	0.7	0.1	6.9
% of Portfolio	10.2	7.0		

### Distribution of Market Capitalization (%)



### Sector Weights (%)



# Cash Balance Plan Equity Portfolio Characteristics

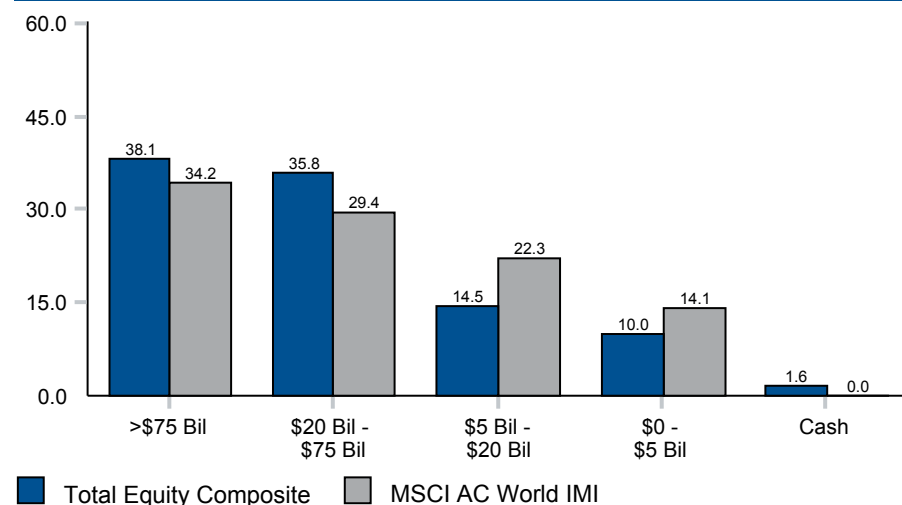
## Cash Balance Plan Equity Composite vs. MSCI AC World IMI

As of June 30, 2017

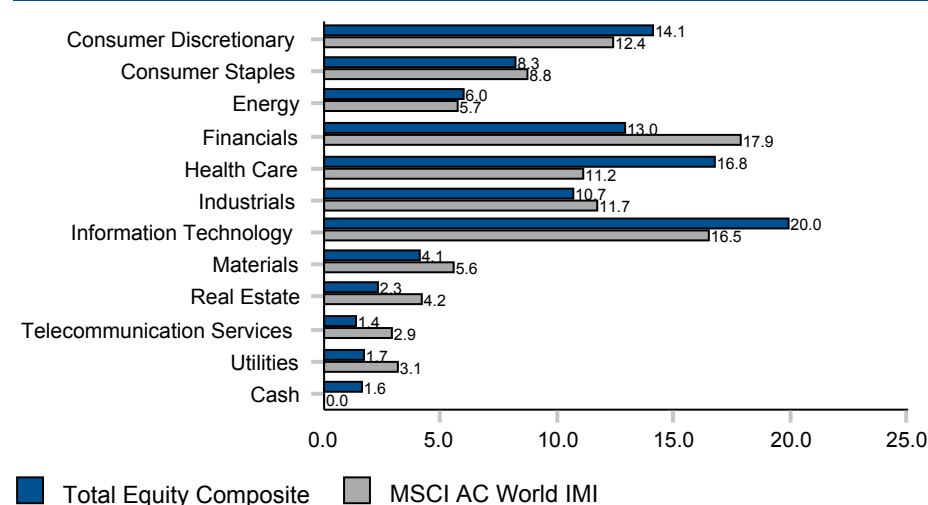
Portfolio Characteristics		
	Portfolio	Benchmark
Wtd. Avg. Mkt. Cap (\$M)	108,609	96,659
Median Mkt. Cap (\$M)	16,522	1,607
Price/Earnings ratio	23.7	18.8
Price/Book ratio	3.3	2.7
5 Yr. EPS Growth Rate (%)	9.4	9.3
Current Yield (%)	1.9	2.4
Debt to Equity	1.2	1.3
Number of Stocks	824	8,668
Beta (5 Years, Monthly)	0.96	1.00
Consistency (5 Years, Monthly)	55.00	1.00
Sharpe Ratio (5 Years, Monthly)	1.21	1.12
Information Ratio (5 Years, Monthly)	0.35	-
Up Market Capture (5 Years, Monthly)	100.81	-
Down Market Capture (5 Years, Monthly)	94.37	-

Top Ten Equity Holdings				
	Portfolio Weight (%)	Benchmark Weight (%)	Active Weight (%)	Quarterly Return (%)
Amazon.com Inc	1.4	0.8	0.6	9.2
Facebook Inc	1.4	0.7	0.7	6.3
Visa Inc	1.4	0.4	1.0	5.7
Alibaba Group Holding Ltd	1.2	0.3	0.9	30.7
Apple Inc	1.1	1.6	-0.5	0.7
Microsoft Corp	1.0	1.1	-0.1	5.2
Priceline Group Inc (The)	1.0	0.2	0.8	5.1
Alphabet Inc	1.0	0.6	0.4	9.7
Las Vegas Sands Corp	0.9	0.1	0.8	13.2
Johnson & Johnson	0.9	0.7	0.2	6.9
% of Portfolio	11.3	6.5		

### Distribution of Market Capitalization (%)



### Sector Weights (%)



# Surplus Cash Equity Portfolio - Country/Region Allocation

## Surplus Cash Equity Composite vs. MSCI AC World IMI

As of June 30, 2017

	Total Equity Composite	MSCI AC World IMI
Australia	0.7	2.3
Hong Kong	3.1	2.3
Japan	5.0	8.1
New Zealand	0.0	0.1
Singapore	0.1	0.7
<b>Pacific</b>	<b>9.0</b>	<b>13.6</b>
Austria	0.1	0.1
Belgium	0.3	0.4
Finland	0.3	0.4
France	4.1	3.0
Germany	2.1	3.0
Ireland	1.3	1.1
Italy	0.0	0.8
Netherlands	0.6	1.2
Portugal	0.0	0.1
Spain	0.6	1.1
<b>EMU</b>	<b>9.4</b>	<b>11.2</b>
Denmark	1.3	0.6
Norway	0.1	0.3
Sweden	0.6	1.1
Switzerland	3.4	2.9
United Kingdom	5.4	6.5
<b>Europe ex EMU</b>	<b>10.8</b>	<b>11.4</b>
Canada	0.5	3.2
United States	60.0	50.3
Israel	0.2	0.3
<b>Middle East</b>	<b>0.2</b>	<b>0.3</b>
<b>Developed Markets</b>	<b>89.9</b>	<b>90.0</b>

	Total Equity Composite	MSCI AC World IMI
Brazil	0.5	0.7
Cayman Islands	0.0	0.0
Chile	0.1	0.1
Colombia	0.8	0.0
Mexico	0.6	0.4
Peru	0.0	0.0
Virgin Islands	0.0	0.0
<b>EM Latin America</b>	<b>2.0</b>	<b>1.3</b>
China	1.8	1.7
India	0.6	1.1
Indonesia	0.2	0.3
Korea	0.8	1.8
Malaysia	0.0	0.3
Philippines	0.0	0.1
Taiwan	1.2	1.5
Thailand	0.1	0.3
<b>EM Asia</b>	<b>4.8</b>	<b>7.0</b>
Czech Republic	0.1	0.0
Egypt	0.0	0.0
Greece	0.0	0.1
Hungary	0.1	0.0
Poland	0.1	0.1
Qatar	0.0	0.1
Russia	0.3	0.3
South Africa	0.4	0.7
Turkey	0.1	0.1
United Arab Emirates	0.2	0.1
<b>EM Europe + Middle East + Africa</b>	<b>1.3</b>	<b>1.6</b>
<b>Emerging Markets</b>	<b>8.0</b>	<b>9.9</b>
<b>Frontier Markets</b>	<b>0.1</b>	<b>0.0</b>
Cash	1.7	0.0
Other	0.2	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

# Cash Balance Plan Equity Portfolio - Country/Region Allocation

## Cash Balance Plan Equity Composite vs. MSCI AC World IMI

As of June 30, 2017

	Total Equity Composite	MSCI AC World IMI
Australia	0.7	2.3
Hong Kong	2.7	2.3
Japan	5.0	8.1
New Zealand	0.0	0.1
Singapore	0.1	0.7
<b>Pacific</b>	<b>8.5</b>	<b>13.6</b>
Austria	0.1	0.1
Belgium	0.3	0.4
Finland	0.3	0.4
France	4.0	3.0
Germany	2.1	3.0
Ireland	1.5	1.1
Italy	0.0	0.8
Netherlands	0.5	1.2
Portugal	0.0	0.1
Spain	0.6	1.1
<b>EMU</b>	<b>9.5</b>	<b>11.2</b>
Denmark	1.3	0.6
Norway	0.1	0.3
Sweden	0.6	1.1
Switzerland	3.4	2.9
United Kingdom	5.3	6.5
<b>Europe ex EMU</b>	<b>10.6</b>	<b>11.4</b>
Canada	0.5	3.2
United States	62.5	50.3
Israel	0.2	0.3
<b>Middle East</b>	<b>0.2</b>	<b>0.3</b>
<b>Developed Markets</b>	<b>91.8</b>	<b>90.0</b>

	Total Equity Composite	MSCI AC World IMI
Brazil	0.3	0.7
Cayman Islands	0.0	0.0
Chile	0.0	0.1
Colombia	0.7	0.0
Mexico	0.5	0.4
Peru	0.0	0.0
Virgin Islands	0.0	0.0
<b>EM Latin America</b>	<b>1.6</b>	<b>1.3</b>
China	1.9	1.7
India	0.4	1.1
Indonesia	0.1	0.3
Korea	0.5	1.8
Malaysia	0.0	0.3
Philippines	0.0	0.1
Taiwan	0.9	1.5
Thailand	0.1	0.3
<b>EM Asia</b>	<b>4.0</b>	<b>7.0</b>
Czech Republic	0.1	0.0
Egypt	0.0	0.0
Greece	0.0	0.1
Hungary	0.1	0.0
Poland	0.1	0.1
Qatar	0.0	0.1
Russia	0.2	0.3
South Africa	0.2	0.7
Turkey	0.1	0.1
United Arab Emirates	0.1	0.1
<b>EM Europe + Middle East + Africa</b>	<b>0.8</b>	<b>1.6</b>
<b>Emerging Markets</b>	<b>6.4</b>	<b>9.9</b>
<b>Frontier Markets</b>	<b>0.1</b>	<b>0.0</b>
Cash	1.6	0.0
Other	0.1	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

# Surplus Cash Fixed Income Portfolio Characteristics

## Surplus Cash Fixed Income Composite vs. Total Fixed Income Bmk - Surplus

As of June 30, 2017

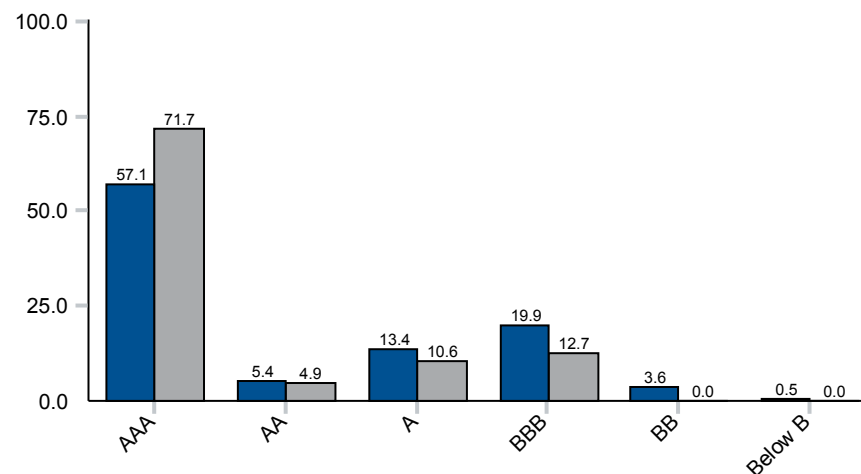
### Portfolio Characteristics

	Portfolio	Benchmark
Effective Duration	4.3	5.0
Avg. Maturity	6.5	6.7
Avg. Quality	AA	AA+
Yield To Maturity (%)	2.6	2.4

### Risk Characteristics - 5 Years

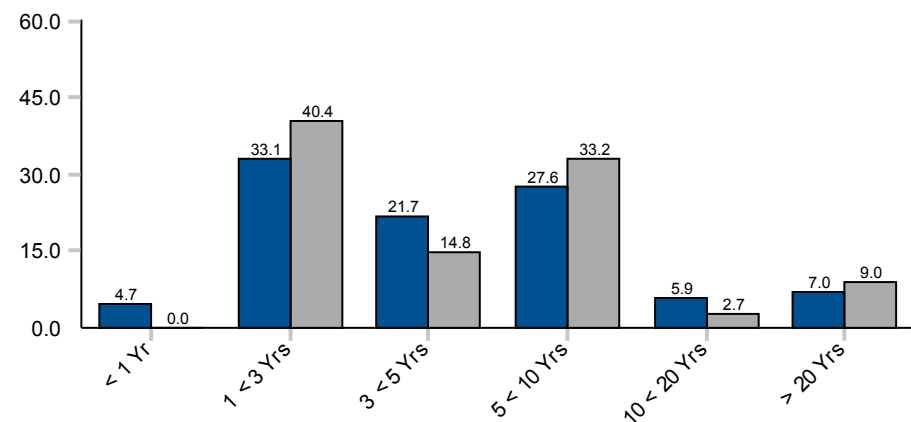
	Consistency	Sharpe Ratio	Information Ratio	Up Market Capture	Down Market Capture
Total Fixed Income Composite	58.3	1.2	0.5	94.5	69.8
Total Fixed Income Bmk - Surplus	0.0	0.8	N/A	100.0	100.0

### Credit Quality Distribution (%)



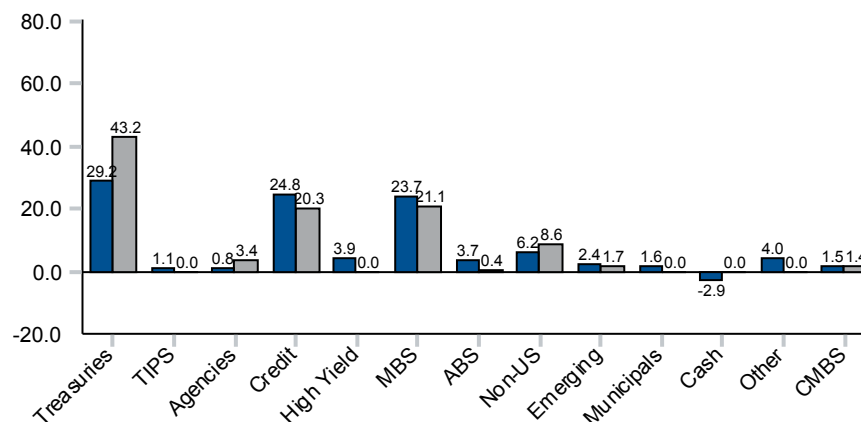
■ Total Fixed Income Composite    ■ Total Fixed Income Bmk - Surplus

### Maturity Distribution (%)



■ Total Fixed Income Composite    ■ Total Fixed Income Bmk - Surplus

### Sector Distribution (%)



■ Total Fixed Income Composite    ■ Total Fixed Income Bmk - Surplus

# Cash Balance Plan Fixed Income Portfolio Characteristics

## Cash Balance Plan Fixed Income Composite vs. Total Fixed Income Benchmark

As of June 30, 2017

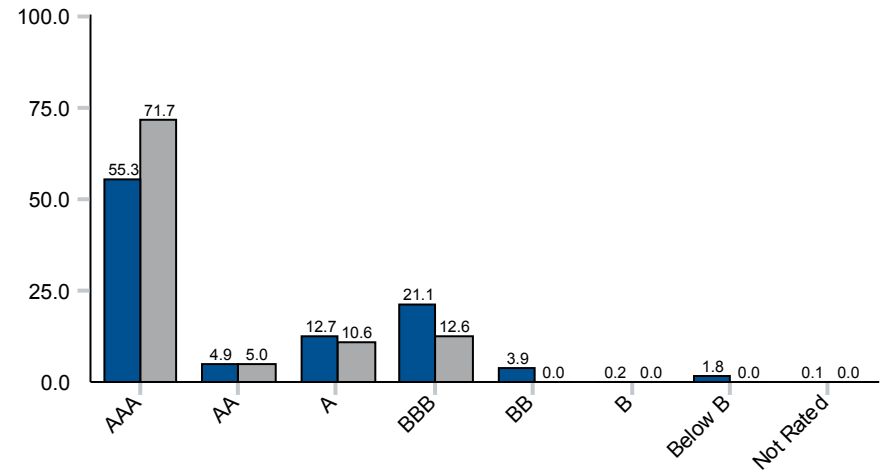
### Portfolio Characteristics

	Portfolio	Benchmark
Effective Duration	4.6	4.8
Avg. Maturity	7.0	6.5
Avg. Quality	AA	AA+
Yield To Maturity (%)	2.8	2.3

### Risk Characteristics - 5 Years

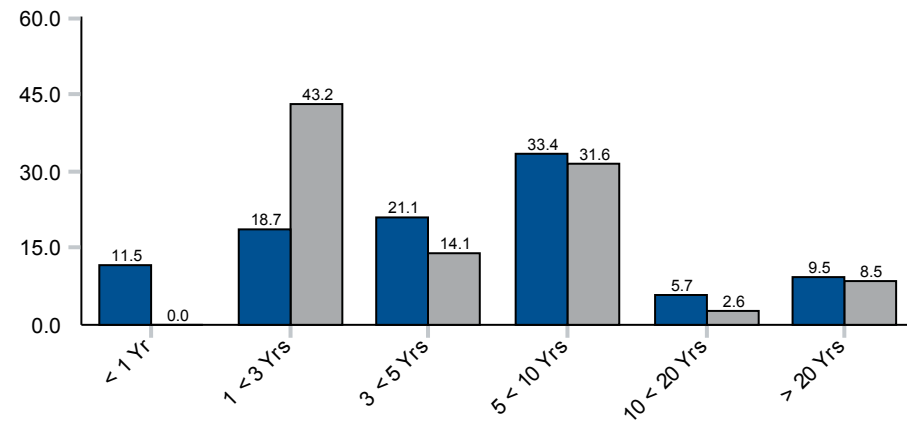
	Consistency	Sharpe Ratio	Information Ratio	Up Market Capture	Down Market Capture
Total Fixed Income Composite	63.3	1.2	0.9	106.9	76.0
Total Fixed Income Benchmark	0.0	0.8	N/A	100.0	100.0

### Credit Quality Distribution (%)



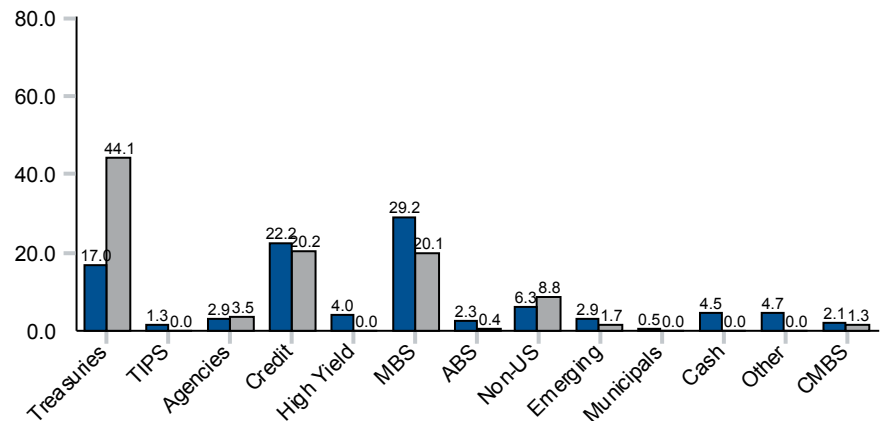
■ Total Fixed Income Composite    ■ Total Fixed Income Benchmark

### Maturity Distribution (%)



■ Total Fixed Income Composite    ■ Total Fixed Income Benchmark

### Sector Distribution (%)



■ Total Fixed Income Composite    ■ Total Fixed Income Benchmark



# Direct Hedge Fund Portfolio

# Surplus Cash Hedge Fund Portfolio Executive Summary

## Portfolio Update - Second Quarter 2017

The Hedge Fund Portfolio returned -0.3% during the second quarter, underperforming the HFRI Fund of Funds Composite Index by 100 basis points. Two of the Portfolio's four strategies delivered positive absolute returns, with one of the four strategies (Credit) performing better than its underlying benchmark (+80 basis points).

Strategy	Q2 Absolute Performance	12-Month Absolute Performance	Strategy Commentary	Manager Highlights Q2 Contributors/Detractors		
Equity Long / Short	+	+	Most equity long/short managers performed well during the quarter, with healthcare, industrials and technology stocks driving performance within portfolios. The Japan focused fund, Indus, delivered the strongest returns while the European specialist, CapeView, gave back some of their Q1 profits.	+	Indus	+3.5%
					<i>Luxor*</i>	+2.9%
					Bloom T/Tiger E	+2.6%
				-	CapeView Azri 2x	-1.2%
					CapeView Azri	-0.6%
Credit	+	+	Credit strategies delivered positive returns for the quarter except for Marathon, who suffered losses from positions in the energy sector. Despite muted credit markets, including subdued default activity and stable spreads, opportunities within distressed continue to appear attractive.	+	York	+3.4%
					DK	+1.9%
				-	<i>Marathon*</i>	-2.6%
Macro	-	-	Discretionary and systematic macro managers had another challenging quarter as low volatility and a lack of trends presented limited opportunities. Trading in fixed income, foreign exchange and commodities generated most of the losses.	+		
				-	BP Transtrend	-9.3%
					Moore	-2.4%
	Stone Milliner	-1.6%				
Relative Value	-	+	Performance for multi-strategy relative value managers was mixed for the quarter. The quantitative equity manager, BlackRock 32 Capital, gave back some of their Q1 gains primarily from trading in U.S. small cap stocks.	+		
				-	BlackRock 32	-1.8%
<i>Pine River*</i>	-0.4%					

\* Redemption in progress



## Investment Activity

Redemptions already in progress and proceeds received are summarized in the table below:

<b>Fund</b>	<b>Strategy</b>	<b>Redemption details</b>	<b>Redemption Status</b>	<b>Redemption Proceeds</b>
<b>Brevan Howard Multi-Strategy Fund Limited</b>	Macro	Redemption submitted starting on March 31, 2017. Takes four quarters to get out (25% investor level gate).	In progress	<i>The first of four cash flows (\$1.6 million) arrived in April 2017.</i>
<b>Luxor Capital Partners Offshore, Ltd.</b>	Equity	Redemption submitted for June 30, 2017.	In progress	<i>Partial proceeds of \$3.5 million received from Luxor. Remaining amount is held into liquidating special purpose vehicle (no timeline available) or held back until completion of annual audit in early 2018.</i>
<b>Pine River Fund Ltd.</b>	Relative Value	Redemption submitted starting on December 31, 2016. Takes four quarters to get out (25% investor level gate).	In progress	<i>Second redemption cash flow (\$2.0 million) arrived from Pine River in April 2017.</i>
<b>Fir Tree International Value Fund (USTE), L.P.</b>	Relative Value	Redemption of initial investment submitted for May 1, 2017 (proceeds received). Redemption for second investment pending for December 1, 2017 (redemption request submitted).	In progress	<i>Proceeds for the first investment tranche (\$4.5 million) were received in May 2017.</i>
<b>Passport Long Short Fund, Ltd.</b>	Equity	Redemption submitted for March 30, 2017.	Completed	<i>Proceeds of \$4.2 million were received in April 2017 (for the combined 1x and 2x positions). Remaining proceeds held until completion of final audit expected by September 2017.</i>
<b>Marathon Special Opportunity Fund Ltd.</b>	Credit	Redemption submitted for June 30, 2017.	In progress	<i>Proceeds of \$5.1 million received in August 2017. Remaining proceeds held back until completion of annual audit in early 2018.</i>
<b>ESG Cross Border Equity Offshore Fund, Ltd.</b>	Equity	Redemption submitted for June 30, 2017.	In progress	<i>Proceeds (\$4.0 million) received in July 2017. Remaining proceeds held back until completion of annual audit in early 2018.</i>

The proceeds were reinvested in the following funds:

<b>Fund</b>	<b>Strategy</b>	<b>Subscription Amount</b>	<b>Notes</b>
<b>May 1, 2017</b>			
<b>CapeView Azri Fund</b>	European Long Short Equity Manager <i>(Existing position)</i>	\$3 million	The new allocation was made to Class B shares of the fund which have a lower management fee of 1.35% (compared to 1.50% for Class A shares). Class B shares have slightly lower liquidity (quarterly as opposed to monthly) and impose a one-year “soft” lock up period with a 2.5% penalty within the first year. The existing allocation to this manager was also transferred as of May 1, 2017 and is subject to the same terms as the new allocation.
<b>June 1, 2017</b>			
<b>BP Transtrend Diversified Fund</b>	Systematic Macro Manager <i>(Existing position)</i>	\$2.9 million	Top up of existing position.
<b>August 1, 2017</b>			
<b>Chatham Asset High Yield Offshore Fund</b>	Credit Manager <i>(New position)</i>	\$9.2 million	New allocation.
<b>Emso Saguaro Fund</b>	Discretionary EM Macro Manager <i>(New position)</i>	\$10.2 million	New allocation.
<b>Marshall Wace Eureka Fund</b>	Global Long Short Equity Manager <i>(New position)</i>	\$9.2 million	New allocation.

**Recommendations or Action Items**

Pavilion recommends reinvesting upcoming proceeds from the above redemptions into higher conviction **Equity**, **Credit** and **Macro** funds. As cash flows come in, Pavilion is working with El Camino management to approve and implement changes.

# Direct Hedge Fund Portfolio Asset Allocation & Performance

As of June 30, 2017

	Allocation		Performance(%)						
	Market Value (\$)	%	Quarter	Year To Date	Fiscal YTD	1 Year	3 Years	Since Invested	Inception Period
<b>Hedge Fund Composite</b>	<b>92,838,483</b>	<b>100.0</b>	<b>-0.3</b>	<b>1.1</b>	<b>5.6</b>	<b>5.6</b>	<b>0.0</b>	<b>2.0</b>	<b>4y 2m</b>
HFRI Fund of Funds Composite Index			0.7	3.1	6.4	6.4	1.5	2.7	
El Camino HF Composite Benchmark			0.9	3.3	8.6	8.6	2.2	3.6	
<b>Equity HF Composite</b>	<b>33,411,101</b>	<b>36.0</b>	<b>1.7</b>	<b>4.1</b>	<b>6.1</b>	<b>6.1</b>	<b>-1.0</b>	<b>1.3</b>	<b>4y 2m</b>
HFRI Equity Hedge (Total) Index			2.0	5.9	12.2	12.2	2.9	4.9	
<b>Credit HF Composite</b>	<b>25,165,147</b>	<b>27.1</b>	<b>1.5</b>	<b>3.5</b>	<b>16.0</b>	<b>16.0</b>	<b>0.3</b>	<b>5.1</b>	<b>4y 2m</b>
HFRI ED: Distressed/Restructuring Index			0.7	3.3	14.9	14.9	0.7	3.7	
<b>Macro HF Composite</b>	<b>25,465,095</b>	<b>27.4</b>	<b>-4.4</b>	<b>-5.0</b>	<b>-1.9</b>	<b>-1.9</b>	<b>2.4</b>	<b>1.0</b>	<b>4y 2m</b>
HFRI Macro (Total) Index			-0.6	-0.7	-2.4	-2.4	1.2	0.5	
<b>Relative Value HF Composite</b>	<b>8,797,140</b>	<b>9.5</b>	<b>-1.2</b>	<b>0.5</b>	<b>2.7</b>	<b>2.7</b>	<b>-1.2</b>	<b>1.2</b>	<b>4y 2m</b>
HFRI RV: Multi-Strategy Index			0.5	2.3	7.0	7.0	3.2	3.8	

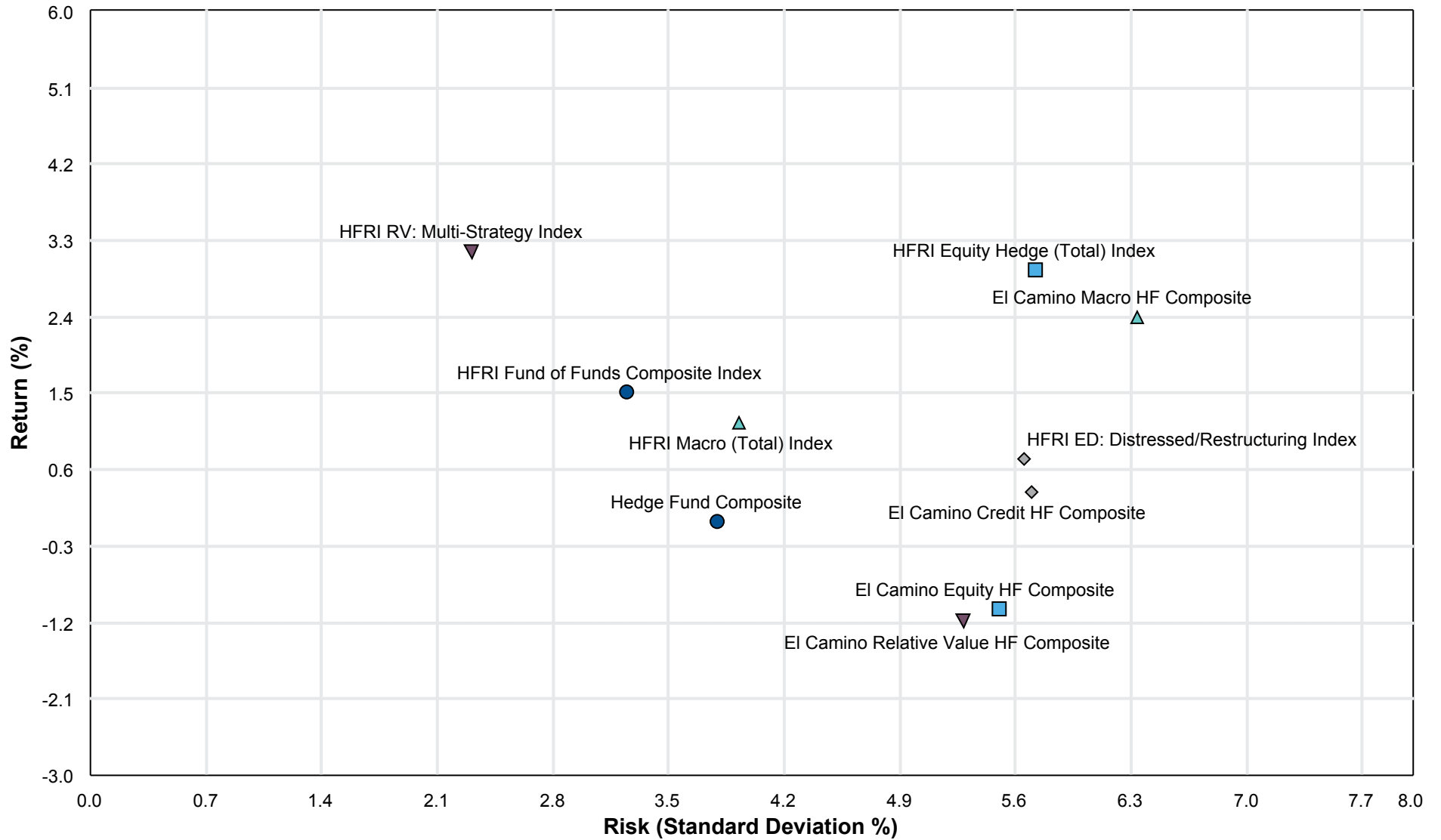
Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized.

The El Camino HF Composite Benchmark consists of 40% HFRI Equity Hedge (Total) Index, 20% HFRI ED: Distressed/Restructuring Index, 20% HFRI Macro (Total) Index, and 20% HFRI RV: Multi-Strategy Index.

# Direct Hedge Fund Portfolio

## Risk and Return Summary (Net of Fees)

3 Years Ending June 30, 2017



Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized.

# Direct Hedge Fund Portfolio Risk Statistics

As of June 30, 2017

	Since Inception Return	Since Inception Standard Deviation	Since Inception Maximum Drawdown	Since Inception Best Quarter	Since Inception Worst Quarter	Since Inception Sharpe Ratio	Since Inception Sortino Ratio	Inception Period
<b>Total Portfolio</b>								
Hedge Fund Composite	2.0	3.7	-9.5	4.9	-5.7	0.5	0.7	4y 2m
HFRI Fund of Funds Composite Index	2.7	3.3	-7.6	3.7	-4.2	0.8	1.1	
<b>Equity Long/Short</b>								
El Camino Equity HF Composite	1.3	5.1	-14.3	5.2	-8.1	0.2	0.3	4y 2m
HFRI Equity Hedge (Total) Index	4.9	5.6	-10.3	6.0	-6.3	0.9	1.4	
<b>Credit</b>								
El Camino Credit HF Composite	5.1	5.7	-18.5	7.0	-6.6	0.9	1.4	4y 2m
HFRI ED: Distressed/Restructuring Index	3.7	5.3	-17.5	7.4	-6.4	0.7	1.1	
<b>Macro</b>								
El Camino Macro HF Composite	1.0	6.1	-7.4	7.9	-4.8	0.2	0.3	4y 2m
HFRI Macro (Total) Index	0.5	3.7	-4.4	5.1	-3.5	0.1	0.2	
<b>Relative Value</b>								
El Camino Relative Value HF Composite	1.2	4.9	-13.8	5.3	-8.1	0.2	0.3	4y 2m
HFRI RV: Multi-Strategy Index	3.8	2.2	-4.2	2.9	-2.4	1.6	2.9	

Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized.

# Asset Class Diversification

## Hedge Fund Portfolio

As of June 30, 2017

Manager	Asset Class/Type	Total Assets (\$, mil.)	Percent of Total	Target Allocation	Weighting Relative to Target
<b>Equity Hedge Funds</b>		<b>\$ 33.4</b>	<b>36.0%</b>	<b>40.0%</b>	<b>- 4.0%</b>
ESG	Emerging Market Equity	\$ 4.0	4.3%		
Luxor	Event Driven Equity	\$ 4.8	5.2%		
CapeView 1x	European Equity	\$ 5.8	6.2%		
CapeView 2x	European Equity	\$ 3.2	3.5%		
Passport 1x	US Equity	\$ 0.1	0.1%		
Passport 2x	US Equity	\$ 0.1	0.1%		
Bloom Tree	Global Equity	\$ 5.2	5.6%		
Tiger Eye	US Equity	\$ 4.7	5.1%		
Indus Japan	Japanese Equity	\$ 5.5	5.9%		
<b>Credit Hedge Funds</b>		<b>\$ 25.2</b>	<b>27.1%</b>	<b>20.0%</b>	<b>+ 7.1%</b>
Davidson Kempner	Distressed Credit	\$ 9.9	10.6%		
York	Multi-Strategy Credit	\$ 9.9	10.7%		
Marathon	Multi-Strategy Credit	\$ 5.4	5.8%		
<b>Macro Hedge Funds</b>		<b>\$ 25.5</b>	<b>27.4%</b>	<b>20.0%</b>	<b>+ 7.4%</b>
BP Transtrend	Systematic Macro	\$ 9.4	10.1%		
Brevan Howard	Discretionary Macro	\$ 4.7	5.0%		
Moore	Discretionary Macro	\$ 6.3	6.8%		
Stone Milliner	Discretionary Macro	\$ 5.1	5.5%		
<b>Relative Value Hedge Funds</b>		<b>\$ 8.8</b>	<b>9.5%</b>	<b>20.0%</b>	<b>- 10.5%</b>
BlackRock 32 Capital	Quantitative Market Neutral	\$ 5.5	5.9%		
Fir Tree	Multi-Strategy	\$ 1.9	2.1%		
Pine River	Multi-Strategy	\$ 1.4	1.5%		
<b>Total Hedge Fund Portfolio</b>		<b>\$ 92.8</b>	<b>100.0%</b>		

\*Totals may not add due to rounding.

# Direct Hedge Fund Performance Summary

As of June 30, 2017

	Quarter	Year To Date	Fiscal YTD	1 Year	3 Years	5 Years	Since Invested	2016	2015	2014	2013	2012	2011	Inception Period
<b>Total Portfolio</b>														
Hedge Fund Composite	-0.3	1.1	5.6	5.6	0.0	-	2.0	1.0	-1.6	2.2	-	-	-	4y 2m
HFRI Fund of Funds Composite Index	0.7	3.1	6.4	6.4	1.5	3.8	2.7	0.5	-0.3	3.4	9.0	4.8	-5.7	
El Camino HF Composite Benchmark	0.9	3.3	8.6	8.6	2.2	4.9	3.6	6.7	-2.1	2.2	9.9	6.6	-5.0	
<b>Equity Long/Short</b>														
Equity HF Composite	1.7	4.1	6.1	6.1	-1.0	-	1.3	-8.0	2.0	-0.4	-	-	-	4y 2m
HFRI Equity Hedge (Total) Index	2.0	5.9	12.2	12.2	2.9	6.3	4.9	5.5	-1.0	1.8	14.3	7.4	-8.4	
ESG Cross Border Equity Offshore Fund, Ltd.	2.1	-2.4	-9.3	-9.3	-9.3	-2.5	-5.4	-13.1	-5.1	-7.0	13.4	6.7	9.3	4y 2m
HFRI Equity Hedge (Total) Index	2.0	5.9	12.2	12.2	2.9	6.3	4.9	5.5	-1.0	1.8	14.3	7.4	-8.4	
Luxor Capital Partners Offshore, Ltd.	2.9	12.8	35.4	35.4	-4.6	0.9	-0.8	8.0	-20.9	-8.4	16.1	1.7	-3.2	4y 2m
HFRI Equity Hedge (Total) Index	2.0	5.9	12.2	12.2	2.9	6.3	4.9	5.5	-1.0	1.8	14.3	7.4	-8.4	
CapeView Azri Fund Limited	-0.6	1.7	4.0	4.0	2.7	4.5	3.0	-8.3	9.8	4.6	11.4	5.8	1.3	4y
HFRI Equity Hedge (Total) Index	2.0	5.9	12.2	12.2	2.9	6.3	5.3	5.5	-1.0	1.8	14.3	7.4	-8.4	
CapeView Azri 2X Fund	-1.2	3.0	8.3	8.3	5.8	9.4	6.5	-15.9	21.6	9.8	24.4	12.7	4.3	4y
HFRI Equity Hedge (Total) Index	2.0	5.9	12.2	12.2	2.9	6.3	5.3	5.5	-1.0	1.8	14.3	7.4	-8.4	
Bloom Tree Offshore Fund, Ltd.	2.6	7.6	18.0	18.0	3.5	5.8	4.5	-3.8	6.3	3.0	12.8	13.7	23.7	3y 3m
HFRI Equity Hedge (Total) Index	2.0	5.9	12.2	12.2	2.9	6.3	3.4	5.5	-1.0	1.8	14.3	7.4	-8.4	
Tiger Eye Fund, Ltd.	2.6	7.6	7.0	7.0	1.1	9.3	1.5	-5.0	-2.0	3.9	37.7	17.7	5.6	3y 3m
HFRI Equity Hedge (Total) Index	2.0	5.9	12.2	12.2	2.9	6.3	3.4	5.5	-1.0	1.8	14.3	7.4	-8.4	
Indus Japan Fund Ltd.	3.5	5.4	14.0	14.0	2.5	10.3	2.5	-7.5	1.8	6.3	45.0	8.1	-1.6	3y 7m
HFRI Equity Hedge (Total) Index	2.0	5.9	12.2	12.2	2.9	6.3	3.8	5.5	-1.0	1.8	14.3	7.4	-8.4	

Returns are expressed as percentages. Returns for periods greater than one year are annualized. From May 1, 2013, results shown are El Camino Hedge Fund Portfolio returns.

Returns for Passport Long Short Fund, Ltd. (2x) prior to January 2013 are those of Passport Long Short Fund, Ltd. (1x); returns for CapeView Azri 2x Fund prior to October 2010 are those of CapeView Azri Fund Limited; returns for BP Transtrend Diversified Fund, LLC prior to April 2008 are those of the Transtrend Diversified Trend Program Enhanced Risk (USD) Fund.

# Direct Hedge Fund Performance Summary

As of June 30, 2017

	Quarter	Year To Date	Fiscal YTD	1 Year	3 Years	5 Years	Since Invested	2016	2015	2014	2013	2012	2011	Inception Period
<b>Credit</b>														
Credit HF Composite	1.5	3.5	16.0	16.0	0.3	-	5.1	14.7	-8.2	2.8	-	-	-	4y 2m
<i>HFRI ED: Distressed/Restructuring Index</i>	<i>0.7</i>	<i>3.3</i>	<i>14.9</i>	<i>14.9</i>	<i>0.7</i>	<i>5.7</i>	<i>3.7</i>	<i>15.1</i>	<i>-8.1</i>	<i>-1.4</i>	<i>14.0</i>	<i>10.1</i>	<i>-1.8</i>	
DK Distressed Opportunities International (Cayman) Ltd.	1.9	5.3	18.1	18.1	4.1	10.1	8.0	21.4	-6.2	3.2	21.7	13.5	-2.4	4y 2m
HFRI ED: Distressed/Restructuring Index	0.7	3.3	14.9	14.9	0.7	5.7	3.7	15.1	-8.1	-1.4	14.0	10.1	-1.8	
Marathon Special Opportunity Fund Ltd.	-2.6	-1.7	15.0	15.0	-1.7	5.4	-0.8	18.4	-11.9	-2.8	19.6	16.5	-4.8	3y 3m
HFRI ED: Distressed/Restructuring Index	0.7	3.3	14.9	14.9	0.7	5.7	1.5	15.1	-8.1	-1.4	14.0	10.1	-1.8	
York Credit Opportunities Unit Trust	3.4	4.6	13.2	13.2	-2.8	5.8	2.8	4.1	-7.9	3.4	15.6	18.9	-1.8	4y 2m
HFRI ED: Distressed/Restructuring Index	0.7	3.3	14.9	14.9	0.7	5.7	3.7	15.1	-8.1	-1.4	14.0	10.1	-1.8	
<b>Macro</b>														
Macro HF Composite	-4.4	-5.0	-1.9	-1.9	2.4	-	1.0	5.0	1.0	7.7	-	-	-	4y 2m
HFRI Macro (Total) Index	-0.6	-0.7	-2.4	-2.4	1.2	1.0	0.5	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
BP Transtrend Diversified Fund LLC	-9.3	-10.3	-11.1	-11.1	2.7	1.6	2.1	8.2	-1.1	18.9	0.6	1.2	-11.3	4y 2m
HFRI Macro (Total) Index	-0.6	-0.7	-2.4	-2.4	1.2	1.0	0.5	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
Brevan Howard Multi-Strategy Fund Limited	-0.4	-0.3	4.8	4.8	2.4	2.4	0.8	6.8	-1.9	1.8	0.8	5.3	6.0	4y 2m
HFRI Macro (Total) Index	-0.6	-0.7	-2.4	-2.4	1.2	1.0	0.5	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
Moore Macro Managers Fund Ltd.	-2.4	-2.4	2.0	2.0	1.4	5.2	1.6	0.0	3.1	5.4	13.4	8.9	-2.6	3y 3m
HFRI Macro (Total) Index	-0.6	-0.7	-2.4	-2.4	1.2	1.0	1.5	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
Stone Milliner Macro Fund Inc.	-1.6	-3.4	2.3	2.3	6.9	7.8	1.6	4.9	5.7	14.3	11.2	8.1	-1.6	2y 4m
HFRI Macro (Total) Index	-0.6	-0.7	-2.4	-2.4	1.2	1.0	-1.6	1.0	-1.3	5.6	-0.4	-0.1	-4.2	

Returns are expressed as percentages. Returns for periods greater than one year are annualized. From May 1, 2013, results shown are El Camino Hedge Fund Portfolio returns.

Returns for Passport Long Short Fund, Ltd. (2x) prior to January 2013 are those of Passport Long Short Fund, Ltd. (1x); returns for CapeView Azri 2x Fund prior to October 2010 are those of CapeView Azri Fund Limited; returns for BP Transtrend Diversified Fund, LLC prior to April 2008 are those of the Transtrend Diversified Trend Program Enhanced Risk (USD) Fund.



# Direct Hedge Fund Performance Summary

As of June 30, 2017

	Quarter	Year To Date	Fiscal YTD	1 Year	3 Years	5 Years	Since Invested	2016	2015	2014	2013	2012	2011	Inception Period
<b>Relative Value</b>														
Relative Value HF Composite	-1.2	0.5	2.7	2.7	-1.2	-	1.2	-0.4	-4.0	1.6	-	-	-	4y 2m
HFRI RV: Multi-Strategy Index	0.5	2.3	7.0	7.0	3.2	5.1	3.8	6.4	0.7	3.4	7.9	8.2	-2.4	
(BlackRock) The 32 Capital Fund, Ltd.	-1.8	2.9	2.6	2.6	0.9	1.4	0.0	-11.4	8.6	-0.3	7.1	8.9	21.1	0y 11m
HFRI EH: Equity Market Neutral Index	-0.5	0.7	2.8	2.8	2.9	3.8	2.0	2.2	4.3	3.1	6.5	3.0	-2.1	
Fir Tree International Value Fund (USTE), L.P.	0.1	0.4	5.4	5.4	-3.3	3.4	0.0	0.9	-8.9	-2.1	17.2	16.9	2.4	4y 2m
HFRI RV: Multi-Strategy Index	0.5	2.3	7.0	7.0	3.2	5.1	3.8	6.4	0.7	3.4	7.9	8.2	-2.4	
Pine River Fund Ltd.	-0.4	-0.4	3.6	3.6	0.2	4.5	-0.1	0.6	-2.8	4.7	9.7	21.7	5.7	3y 3m
HFRI RV: Multi-Strategy Index	0.5	2.3	7.0	7.0	3.2	5.1	3.5	6.4	0.7	3.4	7.9	8.2	-2.4	

Returns are expressed as percentages. Returns for periods greater than one year are annualized. From May 1, 2013, results shown are El Camino Hedge Fund Portfolio returns.

Returns for Passport Long Short Fund, Ltd. (2x) prior to January 2013 are those of Passport Long Short Fund, Ltd. (1x); returns for CapeView Azri 2x Fund prior to October 2010 are those of CapeView Azri Fund Limited; returns for BP Transtrend Diversified Fund, LLC prior to April 2008 are those of the Transtrend Diversified Trend Program Enhanced Risk (USD) Fund.



# Appendix

# Appendix

## Benchmark Descriptions

As of June 30, 2017

### Surplus Cash

#### Surplus Cash Total Benchmark

Beginning March 2015, the Surplus Cash Total Benchmark consists of 40% Total Equity Benchmark - Surplus, 30% Barclays Capital Aggregate, 10% Short Duration Fixed Income Benchmark - Surplus, and 20% Total Alternatives Benchmark - Surplus. From April 2014 to February 2015, the Surplus Cash Total Benchmark consisted of 30% Total Equity Benchmark - Surplus, 40% Barclays Capital Aggregate, 10% Short Duration Fixed Income Benchmark - Surplus, and 20% Total Alternatives Benchmark - Surplus. From August 2013 to March 2014, the Surplus Cash Total Benchmark consisted of 30% Total Equity Benchmark - Surplus, 40% Barclays Capital Aggregate, 20% Short Duration Fixed Income Benchmark - Surplus, and 10% Total Alternatives Benchmark - Surplus. During July 2013, the Surplus Cash Total Benchmark consisted of 30% Total Equity Benchmark - Surplus, 40% Barclays Capital Aggregate, 21% Short Duration Fixed Income Benchmark - Surplus, and 9% Total Alternatives Benchmark - Surplus. From May 2013 to June 2013, the Surplus Cash Total Benchmark consisted of 30% Total Equity Benchmark - Surplus, 40% Barclays Capital Aggregate, 22% Short Duration Fixed Income Benchmark - Surplus, and 8% HFRI Fund of Funds Composite Index. From November 2012 to April 2013, the Surplus Cash Total Benchmark consists of 30% Total Equity Benchmark - Surplus and 70% Total Fixed Income Benchmark - Surplus. From January 2007 to October 2012, the Surplus Cash Total Benchmark consisted of 15% Total Equity Benchmark - Surplus and 85% Total Fixed Income Benchmark - Surplus. From August 2000 to December 2006, the Surplus Cash Total Benchmark consisted of 2% Total Equity Benchmark - Surplus and 98% Total Fixed Income Benchmark - Surplus. From April 1991 to July 2000, the Surplus Cash Total Benchmark consisted of 100% Total Fixed Income Benchmark - Surplus.

#### Surplus Cash Total Benchmark X Privates

Beginning March 2015 the Surplus Cash Total Benchmark consists of 42.1% Total Equity Benchmark - Surplus, 31.6% Barclays Capital Aggregate, 10.5% Short Duration Fixed Income Benchmark - Surplus, and 15.8% Total Alternatives Benchmark - Surplus. From April 2014 to February 2015 the Surplus Cash Total Benchmark consisted of 31.6% Total Equity Benchmark - Surplus, 42.1% Barclays Capital Aggregate, 10.5% Short Duration Fixed Income Benchmark - Surplus, and 15.8% Total Alternatives Benchmark - Surplus. From August 2013 to March 2014, the Surplus Cash Total Benchmark consisted of 30% Total Equity Benchmark - Surplus, 40% Barclays Capital Aggregate, 20% Short Duration Fixed Income Benchmark - Surplus, and 10% Total Alternatives Benchmark - Surplus. During July 2013, the Surplus Cash Total Benchmark consisted of 30% Total Equity Benchmark - Surplus, 40% Barclays Capital Aggregate, 21% Short Duration Fixed Income Benchmark - Surplus, and 9% Total Alternatives Benchmark - Surplus. From May 2013 to June 2013, the Surplus Cash Total Benchmark consisted of 30% Total Equity Benchmark - Surplus, 40% Barclays Capital Aggregate, 22% Short Duration Fixed Income Benchmark - Surplus, and 8% HFRI Fund of Funds Composite Index. From November 2012 to April 2013, the Surplus Cash Total Benchmark consists of 30% Total Equity Benchmark - Surplus and 70% Total Fixed Income Benchmark - Surplus. From January 2007 to October 2012, the Surplus Cash Total Benchmark consisted of 15% Total Equity Benchmark - Surplus and 85% Total Fixed Income Benchmark - Surplus. From August 2000 to December 2006, the Surplus Cash Total Benchmark consisted of 2% Total Equity Benchmark - Surplus and 98% Total Fixed Income Benchmark - Surplus. From April 1991 to July 2000, the Surplus Cash Total Benchmark consisted of 100% Total Fixed Income Benchmark - Surplus.

#### Pre-Pavilion Surplus Cash Total Benchmark

Beginning January 2007, the Pre-Pavilion Surplus Cash Total Benchmark consists of 15% Total Equity Benchmark - Surplus and 85% Total Fixed Income Benchmark - Surplus. From August 2000 to December 2006, the Pre-Pavilion Surplus Cash Total Benchmark consisted of 2% Total Equity Benchmark - Surplus and 98% Total Fixed Income Benchmark - Surplus. From April 1991 to July 2000, the Pre-Pavilion Surplus Cash Total Benchmark consisted of 100% Total Fixed Income Benchmark - Surplus.

#### Total Equity Benchmark - Surplus

Beginning March 2015, the Total Equity Benchmark - Surplus consists of 50% Large Cap Equity Benchmark, 12.5% Small Cap Equity Benchmark, and 37.5% MSCI AC World ex USA (Net). From November 2012 to February 2015, the Total Equity Benchmark - Surplus consisted of 50% Large Cap Equity Benchmark, 16.67% Small Cap Equity Benchmark, and 33.33% MSCI AC World ex USA (Net). From April 1991 to October 2012, the Total Equity Benchmark - Surplus consisted of 100% Large Cap Equity Benchmark.

#### Domestic Equity Benchmark - Surplus

Beginning March 2015, the Domestic Equity Benchmark - Surplus consists of 80% Large Cap Equity Benchmark and 20% Small Cap Equity Benchmark. From November 2012 to February 2015, the Domestic Equity Benchmark - Surplus consisted of 75% Large Cap Equity Benchmark and 25% Small Cap Equity Benchmark. From April 1991 to October 2012, the Domestic Equity Benchmark - Surplus consisted of 100% Large Cap Equity Benchmark.

# Appendix

## Benchmark Descriptions

As of June 30, 2017

### **Large Cap Equity Benchmark**

Beginning November 2012, the Large Cap Equity Benchmark consists of 25% Russell 1000 Value Index, 25% Russell 1000 Growth Index, and 50% S&P 500 Index. From April 1991 to October 2012, the Large Cap Equity Benchmark consisted of 100% Russell 1000 Value Index.

### **Small Cap Equity Benchmark**

Beginning November 2012, the Small Cap Equity Benchmark consists of 50% Russell 2000 Growth Index and 50% Russell 2000 Value Index.

### **Total Fixed Income Benchmark - Surplus**

Beginning March 2015, the Total Fixed Income Benchmark - Surplus consists of 75% Barclays Capital Aggregate and 25% Short Duration Fixed Income Benchmark - Surplus. From April 2014 to February 2015, the Total Fixed Income Benchmark - Surplus consisted of 80% Barclays Capital Aggregate and 20% Short Duration Fixed Income Benchmark - Surplus. From August 2013 to March 2014, the Total Fixed Income Benchmark - Surplus consisted of 66.67% Barclays Capital Aggregate and 33.33% Short Duration Fixed Income Benchmark - Surplus. During July 2013, the Total Fixed Income Benchmark - Surplus consisted of 65.57% Barclays Capital Aggregate and 34.43% Short Duration Fixed Income Benchmark - Surplus. From May 2013 to June 2013, the Total Fixed Income Benchmark - Surplus consisted of 64.52% Barclays Capital Aggregate and 35.48% Short Duration Fixed Income Benchmark - Surplus. From November 2012 to April 2013, the Total Fixed Income Benchmark - Surplus consisted of 57.14% Barclays Capital Aggregate and 42.86% Short Duration Fixed Income Benchmark - Surplus. From January 2007 to October 2012, the Total Fixed Income Benchmark - Surplus consisted of 40% Barclays Capital Aggregate and 60% Short Duration Fixed Income Benchmark - Surplus. From April 1991 to December 2006, the Total Fixed Income Benchmark - Surplus consisted of 100% Short Duration Fixed Income Benchmark - Surplus.

### **Short Duration Fixed Income Benchmark - Surplus**

Beginning in November 2012, the Short Duration Fixed Income Benchmark - Surplus consists of 100% Barclays Capital 1-3 Year Gov't/Credit. From January 2007 to October 2012, the Short Duration Fixed Income Benchmark - Surplus consisted of 66.67% Barclays Capital Intermediate Aggregate and 33.33% Barclays Capital Gov't 1-3 Year. From May 2001 to December 2006, the Short Duration Fixed Income Benchmark - Surplus consisted of 84.69% Barclays Capital Intermediate Aggregate and 15.31% Barclays Capital Gov't 1-3 Year. From April 1991 to April 2001, the Short Duration Fixed Income Benchmark - Surplus consisted of 100% Barclays Capital Gov't 1-3 Year.

### **Total Alternatives Benchmark - Surplus**

Beginning April 2014 the Total Alternatives Benchmark - Surplus consists of 75% HFRI Fund of Funds Composite Index and 25% NCREIF Property Index. From May 2013 to March 2014, the Total Alternatives Benchmark - Surplus consisted of 100% HFRI Fund of Funds Composite Index.

# Appendix

## Benchmark Descriptions

As of June 30, 2017

### Cash Balance Plan

#### Cash Balance Plan Total Benchmark

Beginning January 2013, the Cash Balance Plan Total Benchmark consists of 50% Total Equity Benchmark, 35% Total Fixed Income Benchmark, and 15% Alternatives Benchmark. From November 2012 to December 2012, the Cash Balance Plan Total Benchmark consisted of 50% Total Equity Benchmark, 45% Total Fixed Income Benchmark, and 5% Alternatives Benchmark. From October 1990 to October 2012, the Cash Balance Plan Total Benchmark consisted of 60% Russell 1000 Value Index and 40% Barclays Capital Aggregate.

#### Cash Balance Plan Total X Privates Benchmark

Beginning January 2013, the Cash Balance Plan Total Benchmark consists of 52.63% Total Equity Benchmark, 36.84% Total Fixed Income Benchmark, and 10.53% Alternatives Benchmark. From November 2012 to December 2012, the Cash Balance Plan Total Benchmark consisted of 50% Total Equity Benchmark, 45% Total Fixed Income Benchmark, and 5% Alternatives Benchmark. From October 1990 to October 2012

#### Pre-Pavilion Cash Balance Plan Total Benchmark

Beginning October 1990, the Cash Balance Plan Total Benchmark consists of 60% Russell 1000 Value Index and 40% Barclays Capital Aggregate.

#### Total Equity Benchmark

Beginning November 2012, the Total Equity Benchmark consists of 54% Large Cap Equity Benchmark, 10% Small Cap Equity Benchmark, and 36% MSCI AC World ex USA (Net). From October 1990 to October 2012, the Total Equity Benchmark consisted of 100% Large Cap Equity Benchmark.

#### Domestic Equity Benchmark

Beginning November 2012, the Domestic Equity Benchmark consists of 84.38% Large Cap Equity Benchmark and 15.62% Small Cap Equity Benchmark. From October 1990 to October 2012, the Domestic Equity Benchmark consisted of 100% Large Cap Equity Benchmark.

#### Large Cap Equity Benchmark

Beginning November 2012, the Large Cap Equity Benchmark consists of 25% Russell 1000 Value Index, 25% Russell 1000 Growth Index, and 50% S&P 500 Index. From October 1990 to October 2012, the Large Cap Equity Benchmark consisted of 100% Russell 1000 Value Index.

#### Small Cap Equity Benchmark

Beginning November 2012, the Small Cap Equity Benchmark consists of 50% Russell 2000 Growth Index and 50% Russell 2000 Value Index.

#### Total Fixed Income Benchmark

Beginning January 2013, the Total Fixed Income Benchmark consists of 71.43% Barclays Capital Aggregate and 28.57% Short Duration Fixed Income Benchmark. From November 2012 to December 2012, the Total Fixed Income Benchmark consists of 55.56% Barclays Capital Aggregate and 44.44% Short Duration Fixed Income Benchmark. From October 1990 to October 2012, the Total Fixed Income Benchmark consisted of 100% Barclays Aggregate.

#### Short Duration Fixed Income Benchmark

Beginning November 2012, the Short Duration Fixed Income Benchmark consists of 100% Barclays Capital 1-3 Year Gov't/Credit. From October 1990 to October 2012, the Short Duration Fixed Income Benchmark consisted of 100% 90 Day U.S. Treasury Bills.

#### Total Alternatives Benchmark

Beginning January 2013, the Alternatives Benchmark consists of 66.67% HFRI Fund of Funds Composite Index and 33.33% NCREIF Property Index. From November 2012 to December 2012, the Alternatives Benchmark consisted of 100% HFRI Fund of Funds Composite Index.

# Investment Committee Scorecard Glossary of Terms

As of June 30, 2017

Key Performance Indicator	Definition / Explanation
<b>Investment Performance</b>	
Surplus cash balance (millions)	Investment performance for the Surplus Cash portfolio was 30 bps ahead of the benchmark for the quarter with a +2.5% return. The portfolio has outperformed its benchmark by 10 bps per year since inception (Nov. 1, 2012) with a return of +5.4% annualized. The assets within the Surplus Cash account ended the quarter at \$901.7 million, significantly higher than the beginning of the quarter due to strong investment performance. With significant capital expenditures in the fiscal year 2017 plan the projected balance at fiscal year end is much lower at \$657.2 million.
Surplus cash return	
Cash balance plan balance (millions)	The Cash Balance Plan's performance was 70 bps ahead of its benchmark for the quarter with a return of +3.1% and has outperformed its benchmark since inception. The since inception annualized return stands at +7.9%, 70 basis points ahead of its benchmark per year. The assets within the Cash Balance Plan ended the quarter at \$243.8 million. The budgeted amount for fiscal year 2017 is \$220.6 million.
Cash balance plan return	
403(b) plan balance (millions)	The 403(b) balance has continued to rise and now stands at \$406.6 million, an increase of \$12.2 million or 3.1% over the March 31, 2017 value.
<b>Risk vs. Return</b>	
Surplus cash 3-year Sharpe ratio	The Sharpe ratio is the excess return of an investment over the risk free rate (US Treasuries) generated per unit of risk (standard deviation) taken to obtain that return. The higher the value, the better the risk-adjusted return. It is important to view returns in this context because it takes into account the risk associated with a particular return rather than simply focusing on the absolute level of return.
3-year return	
3-year standard deviation	Sharpe ratio = (actual return - risk free rate) / standard deviation
Cash balance 3-year Sharpe ratio	
3-year return	The Surplus Cash portfolio's 3-year Sharpe ratio was slightly below that of its benchmark, but well above the expected Sharpe ratio modeled. This was more so due to very little volatility over the period with moderate returns. The Cash Balance Plan's 3-year Sharpe ratio exceeded both modeling expectations and its benchmark. Both accounts have demonstrated strong risk-adjusted returns since inception.
3-year standard deviation	
<b>Asset Allocation</b>	
Surplus cash absolute variances to target	This represents the sum of the absolute differences between the portfolio's allocations to various asset classes and the target benchmark's allocations to those asset classes. The higher the number, the greater the portfolio's allocations deviate from the target benchmark's allocations, indicating a higher possibility for the portfolio's risk and return characteristics to differ from the Board's expectations.
Cash balance absolute variances to target	The threshold for an alert "yellow" status is set at 10% and the threshold for more severe "red" status is set at 20%. Both portfolios are below the 10% threshold as the private real estate managers are fully invested.
<b>Manager Compliance</b>	
Surplus cash manager flags	This section represents how individual investment managers have fared and draws attention to elevated concerns regarding performance, organizational stability, investment personnel, accounting and regulatory issues, and portfolio characteristics all at the individual manager level. The number of flags are aggregated and a percentage of the total is used to highlight an alert "yellow" status (40% of the performance flags) and a more severe "red" status (50%). In total there are 111 potential flags for the Surplus Cash account (46 performance based) and 125 for the Cash Balance Plan (50 performance based).
Cash balance plan manager flags	
	Currently, both accounts are near the threshold. Active managers have performed well over the last several quarters; however, have struggled over the 3 and 5 year periods.

## Hedge Fund Strategy Definitions

The **Equity Strategy** is comprised of Equity Long/Short strategies. Equity hedge strategies typically have a directional bias (long or short) and trade in equities and equity-related derivatives. Managers seek to buy undervalued equities with improving fundamentals and short overvalued equities with deteriorating fundamentals.

*Trade Example: Long a basket of energy stocks and short a basket of consumer electronics stocks.*

The **Credit Strategy** is comprised of Distressed Securities, Credit Long/Short, Emerging Market Debt and Credit Event Driven. Credit strategies typically have a directional bias and involve the purchase of various types of debt, equity, trade claims and fixed income securities. Hedging using various instruments such as Credit Default swaps is frequently employed.

*Trade Example: Buying the distressed bonds of a company which has defaulted and participating in the corporate restructuring.*

The **Macro Strategy** consists of Global Macro, Managed Futures, Commodities and Currencies. Macro strategies usually have a directional bias (which can be either long or short) and involve the purchase of a variety of securities and/or derivatives related to major markets. Managed futures strategies trade similar instruments but are typically implemented by computerized systems.

*Trade Example: Long the US Dollar and short the Japanese Yen.*

The **Relative Value Strategy** typically does not display a distinct directional bias. Relative Value encompasses a range of strategies covering different asset classes. Arbitrage strategies focus on capturing movements or anomalies in the price spreads between related or similar instruments. The rationale for Arbitrage trades is the ultimate convergence of the market price relationship to a known, theoretical or equilibrium relationship.

*Trade Example: Long the stock of a merger bid target and short the stock of the acquirer.*

# Statistical Definitions

## Risk Statistics

As of June 30, 2017

Statistics	Definition
Alpha	- A measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by beta. It is a measure of the portfolio's historical performance not explained by movements of the market, or a portfolio's non-systematic return.
Best Quarter	- The best of rolling 3 months(or 1 quarter) cumulative return.
Beta	- A measure of the sensitivity of a portfolio to the movements in the market. It is a measure of a portfolio's non-diversifiable or systematic risk.
Consistency	- The percentage of quarters that a product achieved a rate of return higher than that of its benchmark. The higher the consistency figure, the more value a manager has contributed to the product's performance.
Downside Risk	- A measure similar to standard deviation, but focuses only on the negative movements of the return series. It is calculated by taking the standard deviation of the negative set of returns. The higher the factor, the riskier the product.
Excess Return	- Arithmetic difference between the managers return and the risk-free return over a specified time period.
Information Ratio	- Measured by dividing the active rate of return by the tracking error. The higher the Information Ratio, the more value-added contribution by the manager.
Maximum Drawdown	- The drawdown is defined as the percent retrenchment from a fund's peak value to the fund's valley value. It is in effect from the time the fund's retrenchment begins until a new fund high is reached. The maximum drawdown encompasses both the period from the fund's peak to the fund's valley (length), and the time from the fund's valley to a new fund high (recovery). It measures the largest percentage drawdown that has occurred in any fund's data record.
Return	- Compounded rate of return for the period.
Sharpe Ratio	- Represents the excess rate of return over the risk free return divided by the standard deviation of the excess return. The result is the absolute rate of return per unit of risk. The higher the value, the better the product's historical risk-adjusted performance.
Sortino Ratio	- A ratio developed by Frank A. Sortino to differentiate between good and bad volatility in the Sharpe ratio. This differentiation of upwards and downwards volatility allows the calculation to provide a risk-adjusted measure of a security or fund's performance without penalizing it for upward price changes.
Standard Deviation	- A statistical measure of the range of a portfolio's performance, the variability of a return around its average return over a specified time period.
Tracking Error	- A measure of the standard deviation of a portfolio's performance relative to the performance of an appropriate market benchmark.
Worst Quarter	- The worst of rolling 3 months(or 1 quarter) cumulative return.



## Disclosures

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Returns are net of investment fees unless otherwise denoted. Returns for periods greater than one year are annualized. Mutual fund returns assume reinvestment of all distributions at net asset value (NAV) and deduction of fund expenses.

Past performance does not guarantee future results. This document may include certain forward-looking statements that are based on current estimates and forecasts. Actual results could differ materially. Investing in securities products involves risk, including possible loss of principal as the value of investments fluctuates.

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# Hedge Fund Update



El Camino Hospital

August 2017

# Asset Allocation Overview

- Pavilion completed asset allocation studies for the El Camino portfolios upon being hired in 2012. The recommendation introduced target hedge fund allocations of 10% in both the Surplus Cash and Cash Balance Plan portfolios. In 2014, the Surplus Cash target hedge fund allocation was raised to 15%. These hedge fund allocations were reconfirmed as recently as August 2016.
- Upon inception, the Surplus Cash and Cash Balance Plan hedge fund allocations were designed differently. Due to a greater level of assets, the Surplus Cash portfolio utilized a direct hedge fund approach while the Cash Balance Plan utilized hedge fund of funds.
- As of June 30, 12% of the Surplus Cash portfolio was invested in direct hedge funds, which is approximately 3% below target. 12% of the Cash Balance Plan portfolio's 20% alternatives allocation is currently invested in hedge fund of funds.
- The Surplus Cash direct hedge fund portfolio underweight is largely a result of ongoing repositioning, which began in 2016. The portfolio has fallen below target as redemptions from funds are received. In July 2017, El Camino invested in three new funds, which should bring the allocation closer to target.
- Pavilion has prepared this presentation to review the Surplus Cash direct hedge fund portfolio's performance since inception, provide an overview of recent changes and discuss Pavilion's outlook on hedge funds.

# Rationale for Hedge Fund Investing

- **Risk reduction / diversification.** A hedge fund allocation diversifies an investment program through investment in strategies that are not highly correlated with the stock and bond markets. Additionally, hedge fund exposure can dampen overall volatility.
- **Attractive risk-adjusted returns.** Over the long term, hedge funds have delivered returns comparable to traditional asset classes while taking on significantly less risk, as defined by standard deviation.
- **Capital preservation.** Hedge funds have demonstrated the ability to protect capital in down markets.

# Hedge Fund Strategy Definitions

The **Equity Strategy (36% of current hedge fund portfolio)** is comprised of Equity Long/Short strategies. Equity hedge strategies typically have a directional bias (long or short). Managers seek to buy undervalued equities with improving fundamentals and short overvalued equities with deteriorating fundamentals.

*Trade Example: Long a basket of energy stocks and short a basket of consumer electronics stocks.*

The **Credit Strategy (27% of the current hedge fund portfolio)** is comprised of Distressed Securities, Credit Long/Short, Emerging Market Debt and Credit Event Driven. Credit strategies typically have a directional bias and involve the purchase of various types of debt, equity, trade claims and fixed income securities.

*Trade Example: Buying the distressed bonds of a company which has defaulted and participating in the corporate restructuring.*

The **Macro Strategy (27% of current hedge fund portfolio)** consists of Global Macro, Managed Futures, Commodities and Currencies. Macro strategies usually have a directional bias (which can be either long or short) and involve the purchase of a variety of securities and/or derivatives related to major markets.

*Trade Example: Long the US Dollar and short the Japanese Yen.*

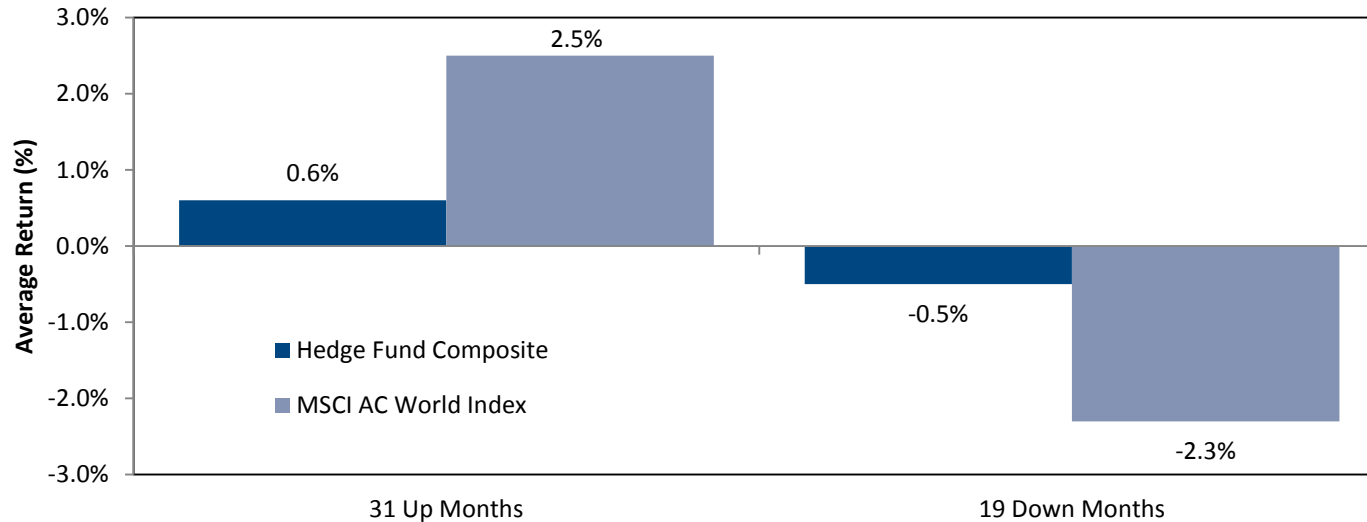
The **Relative Value Strategy (10% of the current hedge fund portfolio)** typically does not display a distinct directional bias. Relative Value encompasses a range of strategies covering different asset classes. Arbitrage strategies focus on capturing movements or anomalies in the price spreads between related or similar instruments. The rationale for Arbitrage trades is the ultimate convergence of the market price relationship to a known, theoretical or equilibrium relationship.

*Trade Example: Long the stock of a merger bid target and short the stock of the acquirer.*

# Surplus Cash Hedge Fund Portfolio Performance

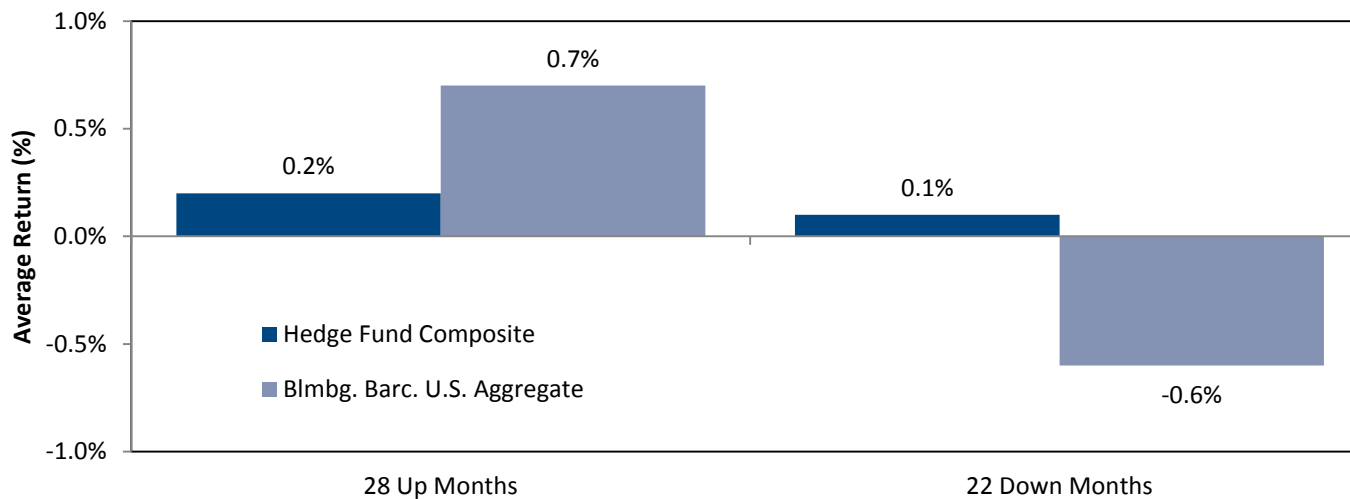
Up Down Analysis Since Inception (May 2013)  
As of June 30, 2017

**Average Monthly Performance: Surplus Cash Hedge Fund Composite vs. MSCI AC World Index**



Hedge fund portfolio has low sensitivity to equity markets adding diversification to the total portfolio

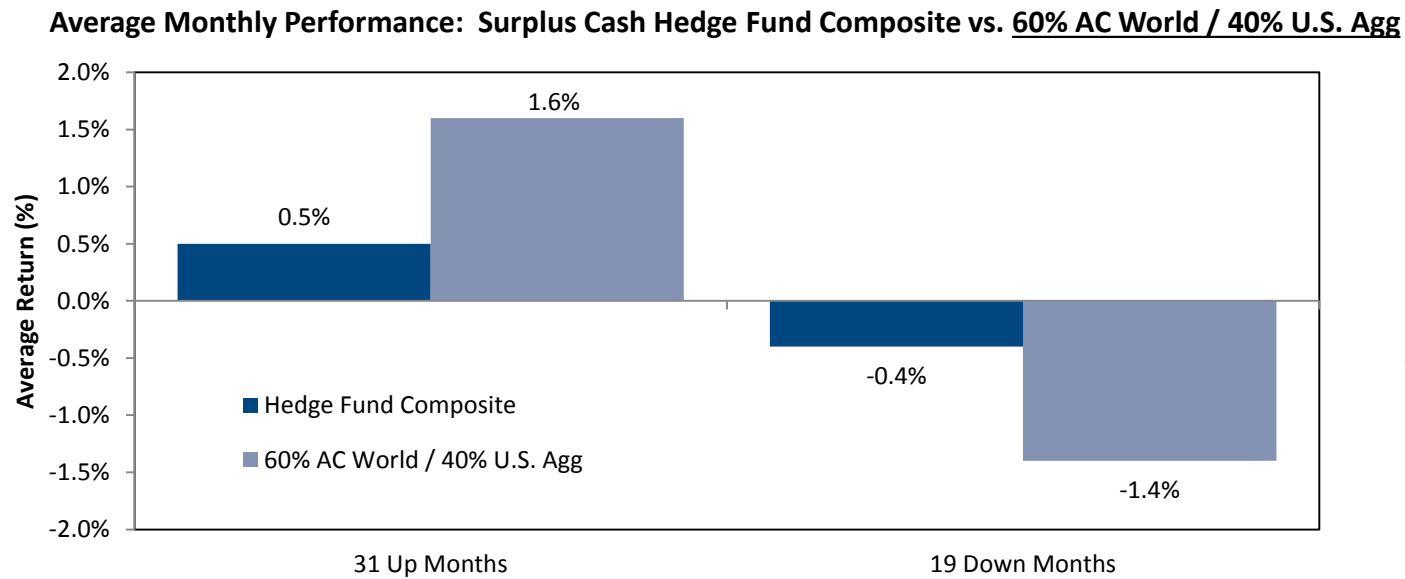
**Average Monthly Performance: Surplus Cash Hedge Fund Composite vs. Blmbg. Barc. U.S. Aggregate**



Hedge fund portfolio has delivered positive returns when fixed income returns were negative thus helping to diversify the total portfolio

# Surplus Cash Hedge Fund Portfolio Performance

Up Down Analysis Since Inception (May 2013)  
As of June 30, 2017



Hedge fund portfolio has provided better capital preservation relative to balanced mix of equities and fixed income

# Hedge Fund Index Performance Comparison

- Longer term returns continue to look attractive

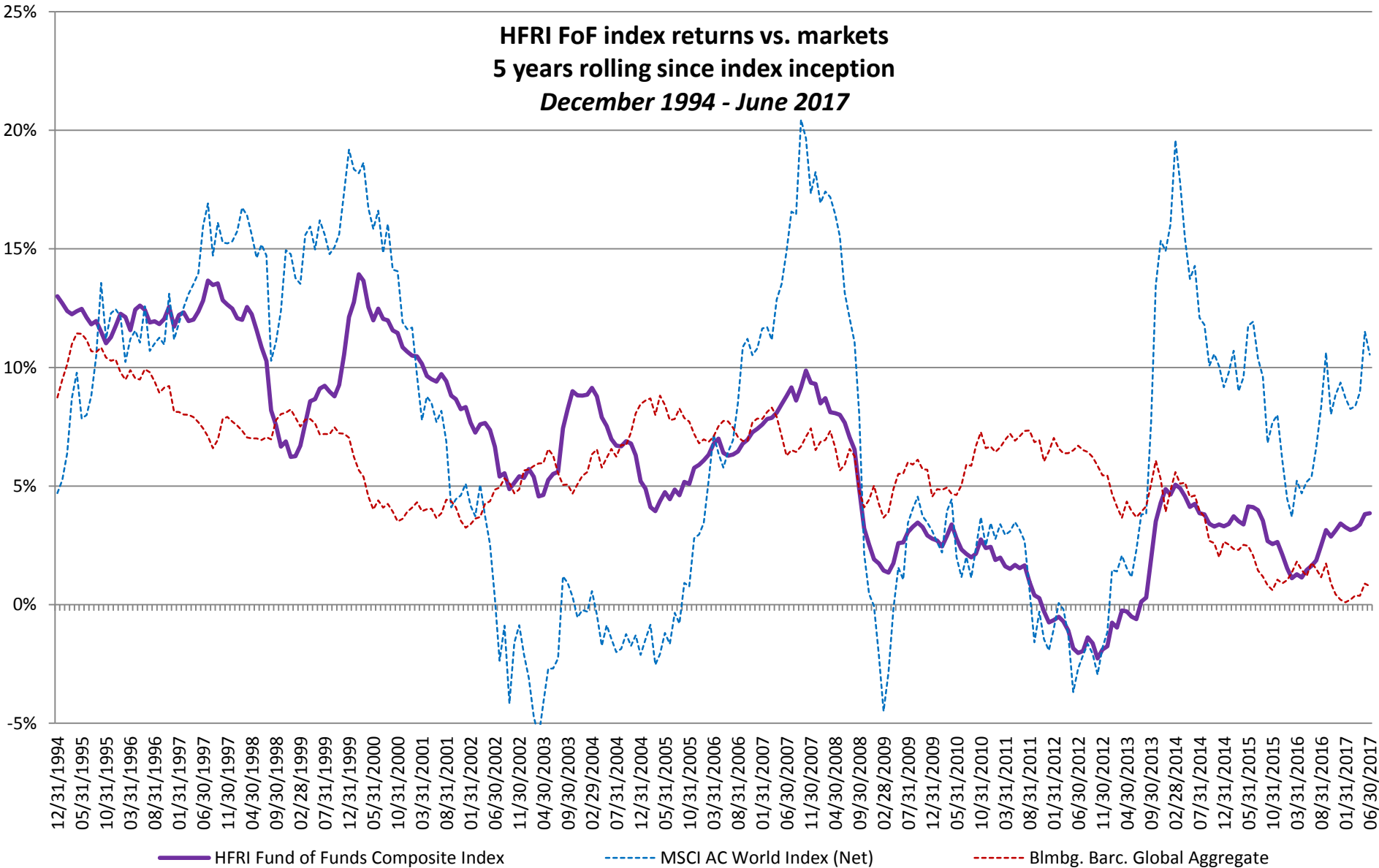
January 1990 to June 2017	Return	Standard Deviation	Return/Risk	Maximum Drawdown	Peak	Valley
<b>HFRI Fund of Hedge Fund Composite Index</b>	6.6%	5.5%	0.7	-22.2%	Oct-07	Feb-09
<i>MSCI AC World Index (Net)</i>	6.6%	15.1%	0.3	-54.9%	Oct-07	Feb-09
<i>Barclays Global Aggregate Index</i>	5.8%	5.4%	0.5	-10.1%	Mar-08	Oct-08

- Medium term returns have fallen but so has the volatility of returns

June 2012 to June 2017 (5 years)	Return	Standard Deviation	Return/Risk	Maximum Drawdown	Peak	Valley
<b>HFRI Fund of Hedge Fund Composite Index</b>	3.8%	3.2%	1.1	-7.6%	May-15	Feb-16
<i>MSCI AC World Index (Net)</i>	10.5%	9.9%	1.1	-13.4%	May-15	Feb-16
<i>Barclays Global Aggregate Index</i>	0.8%	4.6%	0.2	-7.7%	Jun-14	Nov-15

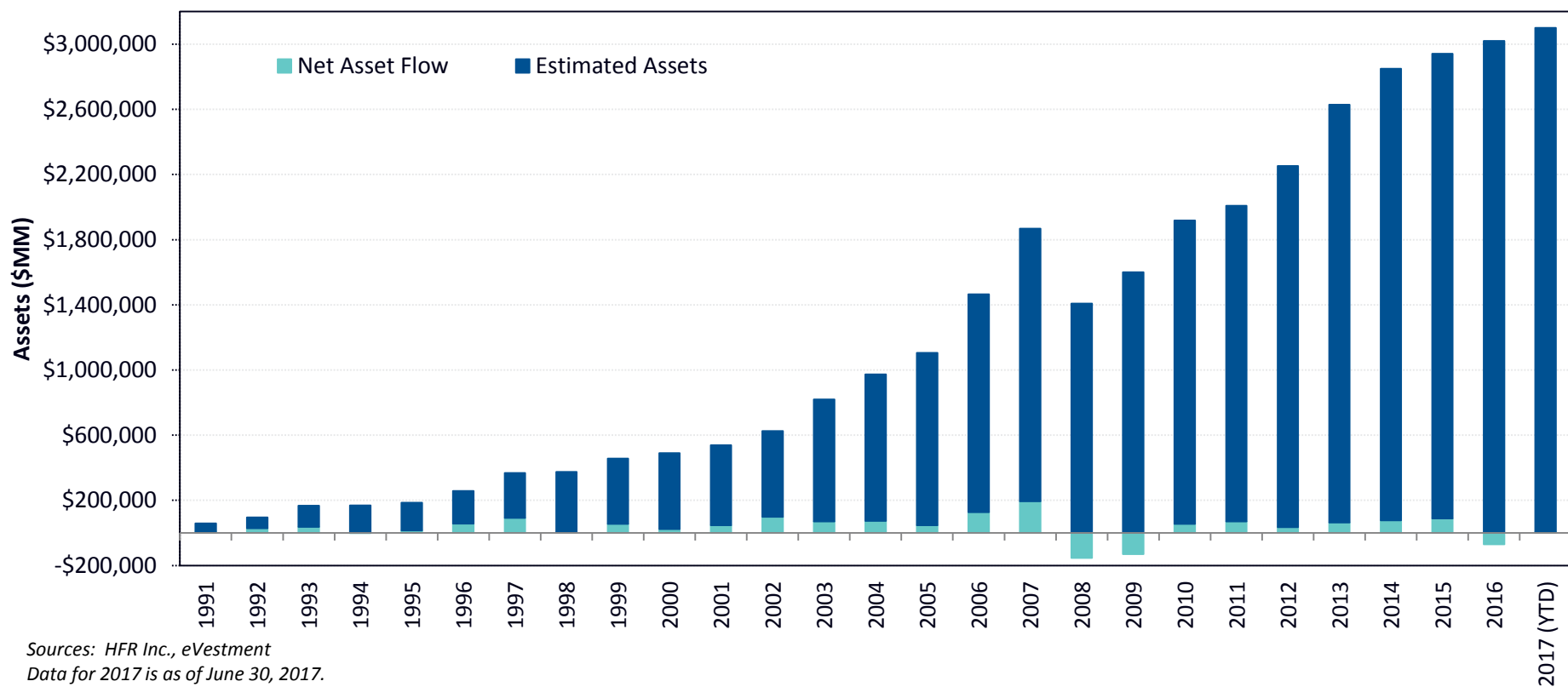


# Index Performance Review



# Hedge Fund Industry Asset Growth Rebounds

- According to HFR, total hedge fund industry assets increased in Q2 2017 for the fourth consecutive quarter to a record-breaking \$3.1 trillion
- Net capital inflows YTD of \$1.2 billion
- Negative press headlines about hedge funds have not been reflected in the data
- Redemptions remain small (e.g. \$70 billion in 2016 or 2.4% of total industry size)
- Periodic drops in AUM growth are normal and to be expected



Sources: HFR Inc., eVestment  
Data for 2017 is as of June 30, 2017.

# Cyclicality of Hedge Fund Strategies

- Strategy allocations should be adjusted tactically

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 YTD
	MSCI ACWI (Net) 34.6%	Relative Value 13.2%						Credit 15.1%	
	Credit 28.1%	MSCI ACWI (Net) 12.7%		MSCI ACWI (Net) 16.1%		Macro 5.6%		MSCI ACWI (Net) 7.9%	MSCI ACWI (Net) 11.5%
	Relative Value 24.7%	Credit 12.1%		Credit 10.1%	MSCI ACWI (Net) 22.8%	MSCI ACWI (Net) 4.2%		Relative Value 7.7%	L/S Equity 5.9%
	L/S Equity 24.6%	L/S Equity 10.5%		Relative Value 8.2%	L/S Equity 14.3%	Relative Value 3.4%		L/S Equity 5.5%	Barc. Global Agg 4.4%
	Fund of funds 11.5%	Macro 8.1%		L/S Equity 7.4%	Credit 14.1%	Fund of funds 3.4%		Barc. Global Agg 2.1%	Relative Value 2.7%
Macro 4.8%	Barc. Global Agg 6.9%	Fund of funds 5.7%		Fund of funds 4.8%	Fund of funds 9.0%	L/S Equity 1.8%		Macro 1.0%	Credit 3.3%
Barc. Global Agg 4.8%	Macro 4.3%	Barc. Global Agg 5.5%	Barc. Global Agg 5.6%	Barc. Global Agg 4.3%	Relative Value 7.9%	Barc. Global Agg 0.6%	Relative Value 0.7%	Fund of funds 0.5%	Fund of funds 3.1%
Relative Value -20.3%			Credit -1.8%	Macro -0.1%	Macro -0.4%	Credit -1.4%	Fund of funds -0.3%		Macro -0.7%
Fund of funds -21.4%			Relative Value -2.4%		Barc. Global Agg -2.6%		L/S Equity -1.0%		
Credit -25.2%			Macro -4.2%				Macro -1.3%		
L/S Equity -26.7%			Fund of funds -5.7%				MSCI ACWI (Net) -2.4%		
MSCI ACWI (Net) -42.2%			MSCI ACWI (Net) -7.3%				Barc. Global Agg -3.2%		
			L/S Equity -8.4%				Credit -8.1%		

Sources: HFR Inc., eVestment  
Data for 2017 is as of June 30, 2017.

# Hedge Fund Portfolio Executive Summary

## Portfolio Update - Second Quarter 2017

The Hedge Fund Portfolio returned -0.3% during the second quarter, underperforming the HFRI Fund of Funds Composite Index by 100 basis points. Two of the Portfolio's four strategies delivered positive absolute returns, with one of the four strategies (Credit) performing better than its underlying benchmark (+80 basis points).

Strategy	Q2 Absolute Performance	12-Month Absolute Performance	Strategy Commentary	Manager Highlights		
				Q2 Contributors/Detractors		
Equity Long / Short	+	+	Most equity long/short managers performed well during the quarter, with healthcare, industrials and technology stocks driving performance within portfolios. The Japan focused fund, Indus, delivered the strongest returns while the European specialist, CapeView, gave back some of their Q1 profits.	+	Indus	+3.5%
					Luxor*	+2.9%
					Bloom T/Tiger E	+2.6%
				-	CapeView Azri 2x	-1.2%
					CapeView Azri	-0.6%
Credit	+	+	Credit strategies delivered positive returns for the quarter except for Marathon, who suffered losses from positions in the energy sector. Despite muted credit markets, including subdued default activity and stable spreads, opportunities within distressed continue to appear attractive.	+	York	+3.4%
					DK	+1.9%
				-	Marathon*	-2.6%
Macro	-	-	Discretionary and systematic macro managers had another challenging quarter as low volatility and a lack of trends presented limited opportunities. Trading in fixed income, foreign exchange and commodities generated most of the losses.	+		
				-	BP Transtrend	-9.3%
					Moore	-2.4%
					Stone Milliner	-1.6%
Relative Value	-	+	Performance for multi-strategy relative value managers was mixed for the quarter. The quantitative equity manager, BlackRock 32 Capital, gave back some of their Q1 gains primarily from trading in U.S. small cap stocks.	+		
				-	BlackRock 32	-1.8%
					Pine River*	-0.4%

# Performance Review | by Strategy

## ABSOLUTE PERFORMANCE

Strategy	Portfolio Weight (June 30, 2017)	Performance Since Invested (4 yrs 2 mo)
Credit	27%	+5.1%
Equity Long / Short	36%	+1.3%
Relative Value	10%	+1.2%
Macro	27%	+1.0%

## RELATIVE PERFORMANCE

Contributing Strategies Since Invested (4 yrs 2 mo)	Outperformance vs. Reference Index	Reference Index
Credit	+1.4%	HFRI ED: Distressed/Restructuring Index
Macro	+0.5%	HFRI Macro (Total) Index
Detracting Strategies Since Invested (4 yrs 2 mo)	Underperformance vs. Reference Index	Reference Index
Equity Long / Short	-3.6%	HFRI Equity Hedge (Total) Index
Relative Value	-2.6%	HFRI RV: Multi-Strategy Index

# 2<sup>nd</sup> Quarter Investment Activity

## Redemption Activity

Fund	Strategy	Redemption details	Redemption Status
<b>Brevan Howard Multi-Strategy Fund Limited</b>	<b>Macro</b>	Redemption submitted starting on March 31, 2017. Takes four quarters to get out (25% investor level gate).	In progress
<b>Luxor Capital Partners Offshore, Ltd.</b>	<b>Equity</b>	Redemption submitted for June 30, 2017.	In progress
<b>Pine River Fund Ltd.</b>	<b>Relative Value</b>	Redemption submitted starting on December 31, 2016. Takes four quarters to get out (25% investor level gate).	In progress
<b>Fir Tree International Value Fund (USTE), L.P.</b>	<b>Relative Value</b>	Redemption of initial investment submitted for May 1, 2017 (proceeds received). Redemption for second investment pending for December 1, 2017 (redemption request submitted).	In progress
<b>Passport Long Short Fund, Ltd.</b>	<b>Equity</b>	Redemption submitted for March 30, 2017.	Completed
<b>Marathon Special Opportunity Fund Ltd.</b>	<b>Credit</b>	Redemption submitted for June 30, 2017.	In progress
<b>ESG Cross Border Equity Offshore Fund, Ltd.</b>	<b>Equity</b>	Redemption submitted for June 30, 2017.	In progress

## Reinvestment Activity

Fund	Strategy	Subscription Amount	Notes
<b>May 1, 2017</b>			
<b>CapeView Azri Fund</b>	European Long Short Equity Manager ( <i>Existing position</i> )	\$3 million	Top up of existing position.
<b>June 1, 2017</b>			
<b>BP Transtrend Diversified Fund</b>	Systematic Macro Manager ( <i>Existing position</i> )	\$2.9 million	Top up of existing position.
<b>August 1, 2017</b>			
<b>Chatham Asset High Yield Offshore Fund</b>	Credit Manager ( <i>New position</i> )	\$9.2 million	New allocation.
<b>Emso Saguaro Fund</b>	Discretionary EM Macro Manager ( <i>New position</i> )	\$10.2 million	New allocation.
<b>Marshall Wace Eureka Fund</b>	Global Long Short Equity Manager ( <i>New position</i> )	\$9.2 million	New allocation.

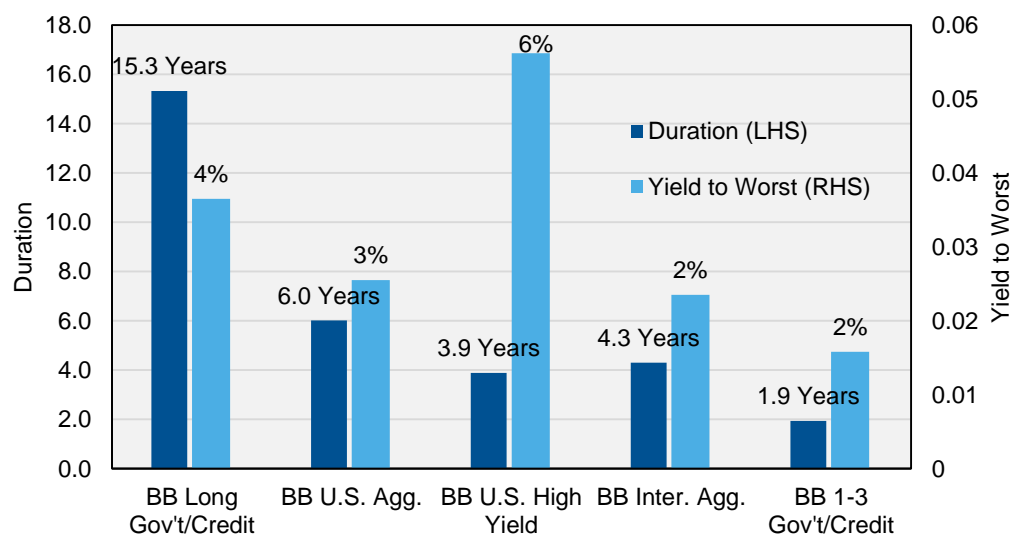
# Hedge Fund Strategy Outlook

Strategy	Outlook Comment
<b>Long / Short Equity</b>	We are positive on long/short equity as increased volatility and greater market dispersion between stock prices tends to be favorable for the strategy. Additionally, given strong equity returns since 2009, we believe that a low net exposure, hedged equity approach may outperform in a sideways or negative market environment. Sharp trend reversals and risk-on, risk-off market dynamics have been challenging for the strategy as of late.
<b>Credit</b>	We are positive on the outlook for credit oriented managers particularly those with a focus on distressed investing. We also believe there are selective opportunities within some areas of structured credit including some niche mortgage strategies.
<b>Relative Value</b>	We are less positive on the outlook for many of the relative value arbitrage strategies, which are suffering from a reduction in market liquidity and less available financing from banks.
<b>Macro</b>	Current geopolitical uncertainties and macro imbalances should provide good opportunities for macro style traders to profit. Divergence of central bank policy for the first time since the financial crisis should provide strong opportunities for discretionary macro managers and systematic CTAs. Rising dispersion across commodities is a further positive and we favor managers with meaningful exposure to the sector.

# Pavilion's Hedge Fund Outlook

- Hedge fund returns have fallen short term
- Hedge fund returns should continue to be attractive longer term
- Hedge funds insulate portfolios from large **equity market declines**
- Hedge funds are generally short duration assets with less vulnerability to **rising interest rates**
- Upside for fixed income is limited and it is unlikely to provide historical levels of protection during the next market decline.

**Bond Indices - Interest Rate Risk Rises as Yields Fall**



Source: Bloomberg As of June 30, 2017

**10-Year Treasury Yield – Still Near Historic Lows**



Source: Federal Reserve



# Pavilion will continue to enhance the Surplus Cash hedge fund portfolio through:

- Sizing the overall hedge fund allocation with consideration to market opportunities
- Focusing on portfolio diversification and limiting downside
- Careful manager selection and rigorous due diligence
- Providing access to capacity constrained managers
- Adjusting hedge fund portfolio strategy allocation based on medium term outlook
- Ongoing focus on negotiating lower fees

# Disclosures

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Returns are net of investment fees unless otherwise denoted. Returns for periods greater than one year are annualized. Mutual fund returns assume reinvestment of all distributions at net asset value (NAV) and deduction of fund expenses.

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