El Camino Hospital
THE HOSPITAL OF SILICON VALLEY

AGENDA
INVESTMENT COMMITTEE MEETING
OF THE EL CAMINO HOSPITAL BOARD
Monday, November 13, 2017 – 5:30 pm

El Camino Hospital | Conference Room A (ground floor)
2500 Grant Road, Mountain View, CA 94040

Nicola Boone will be participating via teleconference from 310 University Ave 3rd Fl., Palo Alto CA. 94301

PURPOSE: 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		ESTIMATED TIMES
1.	**CALL TO ORDER / ROLL CALL**	Jeffrey Davis, MD Chair		**5:30 – 5:32 pm**
2.	**POTENTIAL CONFLICT OF INTEREST DISCLOSURES**	Jeffrey Davis, MD Chair		**5:32 – 5:33**
3.	**PUBLIC COMMUNICATION** a. Oral Comments *This opportunity is provided for persons in the audience to make a brief statement, not to exceed 3 minutes on issues or concerns not covered by the agenda.* b. Written Correspondence	Jeffrey Davis, MD Chair	*public comment*	**information** **5:33 – 5:36**
4.	**CONSENT CALENDAR** *Any Committee Member or member of the public may remove an item for discussion before a motion is made.* ***Approval*** a. Minutes of the Open Session of the Investment Committee Meeting August 14, 2017 b. FY 18 Pacing Plan ***Information*** c. CFO Report Out – Finance Committee Open Session Materials d. Article of Interest	Jeffrey Davis, MD Chair	*public comment*	**motion required** **5:36 – 5:40**
5.	**REPORT ON BOARD ACTIONS** **ATTACHMENT 5**	Jeffrey Davis, MD Chair		**information** **5:40 – 5:45**
6.	**INVESTMENT REPORT** a. Capital Market Review & Portfolio Performance b. Tactical Asset Allocation Positioning & Market Outlook **ATTACHMENT 6**	Antonio DiCosola & Chris Kuhlman, Pavilion Advisory Group		**information** **5:45 – 6:15**
7.	**INVESTMENT POLICY REVIEW** a. Cash Balance Investment b. Surplus Cash Investment	Antonio DiCosola & Chris Kuhlman, Pavilion Advisory Group		**information** **6:15 – 6:30**
8.	**ADJOURN TO CLOSED SESSION**	Jeffrey Davis, MD Chair		**motion required** **6:30 -6:31**

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	AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
9.	**POTENTIAL CONFLICT OF INTEREST DISCLOSURES**	Jeffrey Davis, MD Chair		**6:31 – 6:32**
10.	**CONSENT CALENDAR** *Any Committee Member may remove an item for discussion before a motion is made.* ***Approval*** *Gov't Code Section 54957.2.* a. Minutes of the Closed Session of the Investment Committee Meeting August 14, 2017	Jeffrey Davis, MD Chair		**motion required** **6:32 – 6:33**
11.	**ADJOURN TO OPEN SESSION**	Jeffrey Davis, MD Chair		**motion required** **6:33 – 6:34**
12.	**RECONVENE OPEN SESSION / REPORT OUT**	Jeffrey Davis, MD Chair		**6:34 – 6:35**
	To report any required disclosures regarding permissible actions taken during Closed Session.			
13.	**ADJOURNMENT**	Jeffrey Davis, MD Chair		**motion required** **6:35pm**

Important Dates:

FY 2018 Investment Committee Meetings

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

Semi-Annual Board and All Committee Meetings

- April 25, 2018

El Camino Hospital
THE HOSPITAL OF SILICON VALLEY

Minutes of the Open Session of the Investment Committee of the Board of Directors
Monday, August 14, 2017
El Camino Hospital, 2500 Grant Road, Mountain View, California
Conference Room A

Members Present	Members Absent	Members Excused
Jeffrey Davis, Chair Nicola Boone John Conover Gary Kalbach Brooks Nelson John Zoglin – Arrived at 5:37pm		

A quorum was present at the El Camino Hospital Investment Committee on Monday, August 14th 2017 meeting.

Agenda Item	Comments/Discussion	Approvals/Action
1. CALL TO ORDER/ ROLL CALL	The meeting of the Investment Committee of El Camino Hospital (the "Committee") was called to order by Dr. Davis, Committee Chair at 5:30 p.m.	*None*
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Chair Davis 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.	*None*
3. PUBLIC COMMUNICATION	Chair Davis asked if there was any public communication to present. None were noted.	*None*
4. CONSENT CALENDAR ITEMS	Chair Davis asked if any Committee member wished to remove any items from the consent calendar for discussion. None were noted. **Motion:** To approve the consent calendar (Open Minutes of the May 8, 2017 Investment Committee Meeting. **Movant:** Kalbach **Second:** Nelson **Ayes:** Boone, Davis, Nelson, Conover, Kalbach, and Zoglin. **Abstentions:** None **Absent:** None **Excused:** None **Recused:** None	***The Open Minutes of the May 8, 2017 Investment Committee Meeting were approved.***
5. REPORT ON BOARD ACTIONS	Chair Davis reported on the expected arrival of Dan Woods, the new CEO as of end of August. He further complimented Mr. Zoglin for his previous service as Chair and the committee members for years of service continuity. Dr. Davis introduced Lisa Foster, Executive Assistant to the committee. ***Action** – Chair Davis and the Committee expressed that they would like to add the Strategic Planning Process for 5-10 minutes at the next Investment Committee meeting on November 13th, 2017.*	*None*

Agenda Item	Comments/Discussion	Approvals/Action
6. WORKFLOW AND PAVILION PACING	Antonio DiCosola, Pavilion Advisory Group, explained the intent of the changes to the Pacing Plan for FY18: 1. Capital Markets Review and Portfolio Performance; 2. Tactical Asset Allocation Positioning and Market Outlook; 3. Asset Allocation and Investment Policy Review; 4. Rotating Topics: examples included Hedge Funds education and structure, Performance self-assessment/ report card etc. Mr. DiCosola asked the Committee for feedback and a brief discussion ensued. There was a general consensus with the proposed Pacing Plan.	
7. INVESTMENT GOALS UPDATE	Iftikhar Hussain, Chief Financial Officer, reviewed the proposed revised FY18 Committee Goals with the Committee members as further detailed in the packet and discussion ensued. **Motion:** To recommend that the Board approve the proposed revision to FY18 Investment Committee Goals with the following provisions: Incorporate ERM framework into goal (**3**) Asset Allocation and Investment Policy Review. **Movant:** Kalbach **Second:** Nelson **Ayes:** Boone, Conover, Davis, Kalbach, Nelson, and Zoglin. **Abstentions:** None **Absent:** None **Excused:** None **Recused:** None	***A motion for recommendation to the board to approve the revised Committee Goals.***
8. INVESTMENT COMMITTEE SCORECARD AND PERFORMANCE REVIEW	Antonio DiCosola and Chris Kuhlman, Pavilion Advisory Group, reviewed the Investment Committee Scorecard and First Quarter Performance as further detailed in the submitted materials to include the following: a. **Scorecard:** Mr. DiCosola reported that the 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 by10 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 the fiscal year end is much lower at $657.2 million. 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	

Agenda Item	Comments/Discussion	Approvals/Action
	Balance Plan ended the quarter at $243.8 million. The budgeted amount for fiscal year 2017 is $220.6 million. 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. **Surplus Cash:** Mr. Kuhlman noted that 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. • Pavilion recommended no changes to the traditional asset manager lineup at this time. c. **Cash Balance Plan:** Mr. Kuhlman further reported that 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. • Pavilion recommended no changes to the traditional asset manager lineup at this time. d. **Hedge Fund:** Mr. DiCosola gave a high level review of the Hedge Fund Portfolio, to be further detailed in agenda item # 9. He further reported that the Hedge Fund 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).	

Agenda Item	Comments/Discussion	Approvals/Action
	Mr. DiCosola asked the Committee for feedback and a brief discussion ensued. There was a general consensus with the proposed Scorecard and Performance Review.	
9. COMMITTEE EDUCATION: HEDGE FUND TRENDS AND ASSET ALLOCATION	Antonio DiCosola and Chris Kuhlman, Pavilion Advisory Group presented to the Committee the education on the Hedge Fund Trends and Asset Allocations. Mr. DiCosola prepared his 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. 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. Mr. DiCosola discussed the rational for Hedge Fund Investing, Hedge fund strategy definitions, and further detailed the Surplus Cash fund portfolio performance. Mr. DiCosola stated Pavilion will continue to enhance the Surplus Cash hedge fund portfolio through: 1. Sizing the overall hedge fund allocation with consideration to market opportunities. 2. Focusing on portfolio diversification and limiting downside. 3. Careful manager selection and rigorous due diligence. 4. Providing access to capacity constrained managers. 5. Adjusting hedge fund portfolio strategy allocation based on medium term outlook. 6. Ongoing focus on negotiating lower fees. Mr. DiCosola asked the Committee for feedback and a brief discussion ensued.	

Agenda Item	Comments/Discussion	Approvals/Action
10. ADJOURN TO CLOSED SESSION	**Motion:** To adjourn to closed session at 7:22pm **Movant:** Boone **Second:** Nelson **Ayes:** Boone, Conover, Davis, Kalbach, Nelson, and Zoglin. **Abstentions:** None **Absent:** None **Excused:** None **Recused:** None	***A motion to adjourn to closed session at 7:22pm was approved.***
11. AGENDA ITEM 13 RECONVENE OPEN SESSION	*Agenda Items 11 through 12 were conducted in closed session.* Chair Davis reported that the Closed Session Minutes of the May 8, 2017 Investment Committee were approved.	***None***
12. AGENDA ITEM 15 ADJOURNMENT	**Motion:** To adjourn the Investment Committee meeting at 7:24 pm. **Movant:** Nelson **Second:** Boone **Ayes:** Boone, Conover, Davis, Kalbach, Nelson, and Zoglin. **Abstentions:** None **Absent:** None **Excused:** None **Recused:** None	***A motion to adjourn to the Investment Committee meeting at 7:24 pm was approved.***

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

____
Jeffery Davis, MD, Chairman
ECH Investment Committee of the Board of Directors

FY2018: Q1		
JULY – NO MEETING	**AUGUST 14, 2017 Meeting**	SEPTEMBER – NO MEETING
N/A	▪ Discussion on Investment Committee Meeting Structure and Pacing Calendar ▪ Capital Markets Review and Portfolio Performance ▪ Tactical Asset Allocation Positioning and Market Outlook ▪ Hedge Fund Education and Structure Review ▪ CFO Report Out – Open Session Finance Committee Materials	N/A
FY2018: Q2		
OCTOBER – NO MEETING	**NOVEMBER 13, 2017 Meeting**	DECEMBER – NO MEETING
October 25, 2017 – Board and Committee Educational Session	▪ Capital Markets Review and Portfolio Performance ▪ Tactical Asset Allocation Positioning and Market Outlook ▪ ~~Asset Allocation and~~ Investment Policy Review ▪ CFO Report Out – Open Session Finance Committee Materials	N/A
FY2018: Q3		
JANUARY 29, 2018	**FEBRUARY 12, 2018 Meeting**	MARCH – NO MEETING
▪ *Joint Finance Committee and Investment Committee meeting.*	▪ Capital Markets Review and Portfolio Performance ▪ Tactical Asset Allocation Positioning and Market Outlook ▪ 5-Year Review of Investment Performance & Advisor (Pavilion) ▪ Asset Allocation Review and ERM Framework ▪ CFO Report Out – Open Session Finance Committee Materials ▪ Propose FY2019 Goals/ Pacing Plan	N/A
FY2018: Q4		
APRIL – NO MEETING	**MAY 14, 2018 Meeting**	JUNE – NO MEETING
April 25, 2018 – Board and Committee Educational Sesstion	▪ Capital Markets Review and Portfolio Performance ▪ Tactical Asset Allocation Positioning and Market Outlook ▪ CFO Report Out – Open Session Finance Committee Materials ▪ Proposed FY19 Meeting Dates ▪ Review Biennial Committee Self-Assessment ▪ 403(b) Investment Performance	N/A

	Item:	Finance Committee Report El Camino Hospital Investment Committee (IC) November 13, 2017
	Responsible party:	Iftikhar Hussain, CFO
	Action requested:	For Information
	Background: The Finance Committee meets 6 times per year. The Committee last met on September 25, 2017 and meets next on November 25, 2017	

	Summary and session objectives:
	To update the Investment Committee on the work of the Finance Committee.
	
	1. Progress Against Goals:
	    a. Service Line review for HVI.
	    b. Reviewed Education topic - employed primary care physician business model
	2. Reviewed FY 18 year-end financial results.
	3. Reviewed status of major capital plans – BHS, IMOB, Garage and Central Utility Plant
	4. Important Future Activities
	    a. Setting up an additional FC meeting in April to review and provide input for the FY 19 budget	

	Suggested discussion questions: None.	

	Proposed Board motion, if any:
	1. Approval of FY18 P2 Financial Statements
	2. Give management the authority to negotiate the following physician contracts
	    a. NICU Call Panel
	    b. Physician Recruitment Loan	

	LIST OF ATTACHMENTS: The Finance Committee Open Session Materials may be accessed by clicking here.	

THE WALL STREET JOURNAL.

MARKETS

Bank Bets Tied to Government Bailouts Soar Up to 1,440% in a Year

Funds run by John Paulson, Bill Miller among winners as warrants rally

Django Davidson, pictured here on Nov. 3 in London, is a founding partner at Hosking Partners, which bought about $200 million of the warrants for banks. PHOTO: NIALL MCDIARMID FOR THE WALL STREET JOURNAL

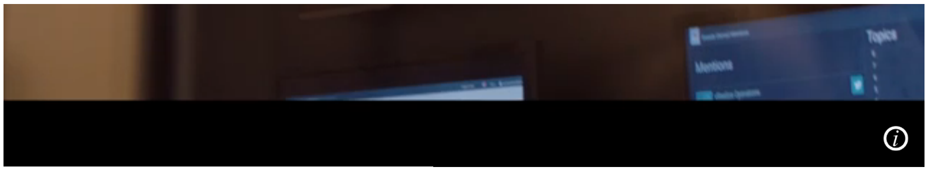
By Rachel Louise Ensign

Updated Nov. 6, 2017 5:46 p.m. ET

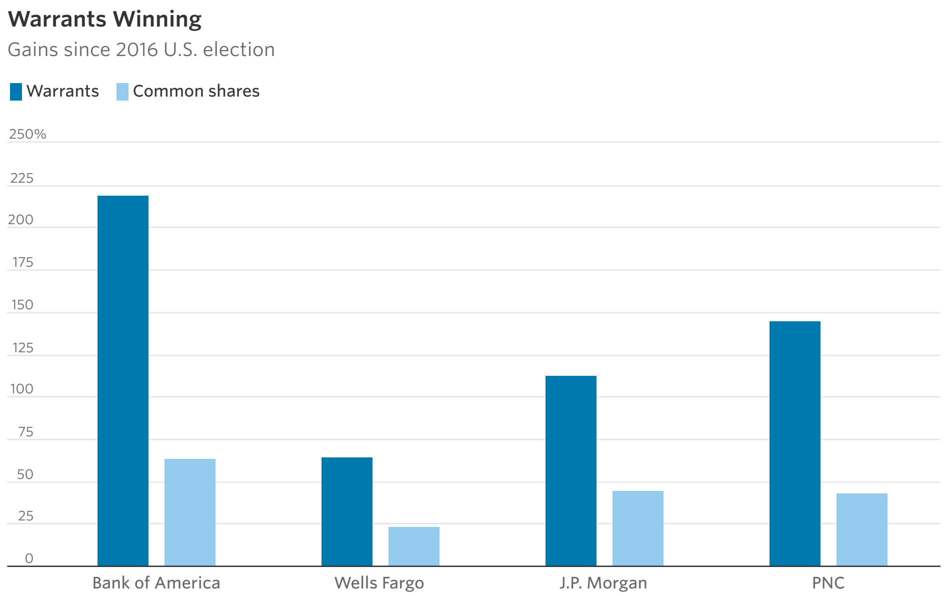
The U.S. banking industry is booming—a development that is bringing windfall gains to a small group of investors who had the gumption to buy esoteric bank securities when the outlook for financial firms and the economy was far less clear cut.

After years of banks grappling with the fallout of the crisis and low interest rates, the bets on what are known as TARP warrants are finally paying off. The investors, who include fund managers John Paulson and Bill Miller, bought these warrants for bank stocks secondhand, after they were initially issued to the government during the 2008 bank bailout.

The investors' unpopular view at the time was that banks and their stock prices would recover to precrisis levels. By betting on warrants, a high-octane security similar to an option, the fund managers basically doubled down on that opinion, risking their entire investment if it didn't happen by 2018 or 2019.



"If the subprime credit-default swaps were this asymmetric, beautiful investment to express what was wrong with American capitalism..., these securities are the opposite," said Django Davidson, a founding partner at London-based Hosking Partners LLP, which bought about $200 million of the warrants for banks including Bank of America Corp.



The warrants date to the financial crisis, when the government invested about $250 billion in about 700 banks as a part of the Troubled Asset Relief Program. As part of TARP, which aimed to shore up bank capital and restart lending, the government got warrants to buy shares in the banks. The Treasury Department started getting rid of the warrants in 2009, a process that included selling some off to investors.

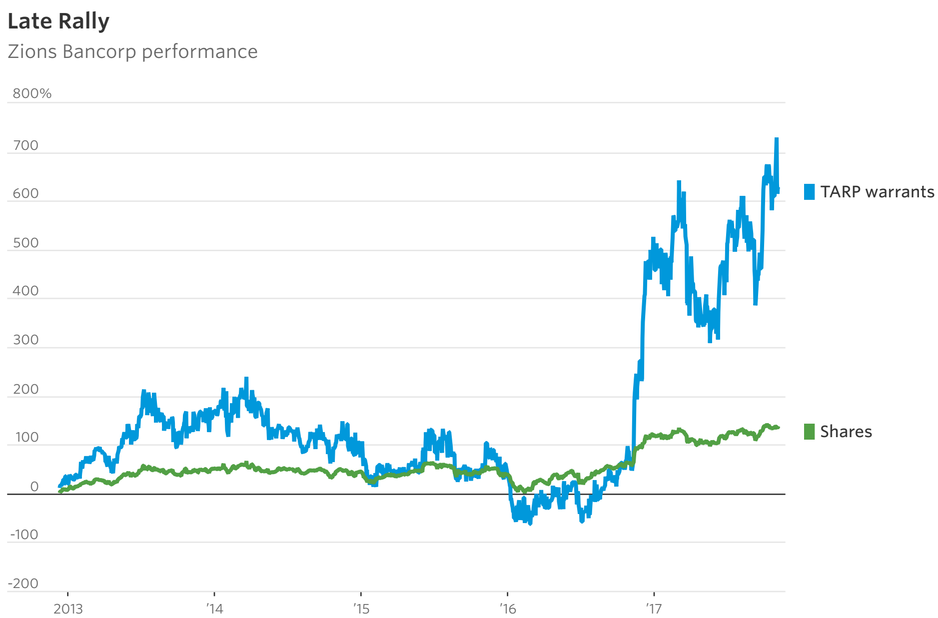
For years after the crisis, many investors hated bank stocks, comparing them to heavily regulated utilities no longer able to take risks and grow. The warrants also slumped; some of Citigroup Inc.'s fell so much they were delisted from the New York Stock Exchange in 2016.

But since last November's presidential election, bank stocks have helped lead a broad stock-market rally tied to renewed confidence and hopes of tax and regulatory overhaul. Meanwhile, banks' crisis-era legal problems have subsided and interest rates have started to rise, making lending more profitable.

The change in sentiment has made the warrants a turnaround story. Some from big banks have surged 65% to 1,440% since the election, easily outpacing the 36% rally in the KBW Nasdaq Bank stock index. One group of Bank of America's warrants, once left for dead, are up the most in the group. With the recent jump, J.P. Morgan Chase & Co. warrants are up 426% since they started trading in late 2009, compared with a 146% increase for the bank's stock.

The warrants give investors the right to buy a stock at a predetermined price. If the stock rises far above that "strike price," the warrant is like a winning lottery ticket. If it stays below that price, the warrant ends up worthless.

While exchange-traded stock options usually go out only a couple of years, warrants often last longer. "We were lucky it was a 10-year warrant," said Philippe Jabre, a Geneva-based fund manager who bought warrants in SunTrust Banks Inc., among others. He said the recovery took longer than he had expected.



Source: FactSet

THE WALL STREET JOURNAL

"There were good days and other days when I felt like crying," said John Hadwen, a portfolio manager at CI Investments' Signature Global Asset Management, which has held TARP warrants since 2010. When his J.P. Morgan warrants fell in value after the bank's 2012 London whale trading loss, Mr. Hadwen pushed to buy the rest available, but the Canadian asset manager's chief investment officer said no.

Mr. Davidson said he learned about the warrants a few years ago at an Omaha, Neb., bar where he was mingling with attendees at Berkshire Hathaway 's annual meeting. Warren Buffett, the conglomerate's chairman, got warrants unrelated to TARP as a part of Berkshire's crisis-era investments in Goldman Sachs Group and Bank of America.

The Miller Opportunity Trust mutual fund said it has notched gains of about $77 million on a $24 million investment in J.P. Morgan warrants.

When the fund bought the warrants, "the market hated financials and was pricing in pretty dire scenarios," said Samantha McLemore, co-manager on the portfolio with Mr. Miller.

Mr. Paulson, who made billions of dollars betting against subprime mortgages a decade ago, turned a roughly $100 million profit on about $600 million in bank warrant investments, according to a person familiar with the matter. But he could have earned more if his funds hadn't sold their J.P. Morgan warrants in 2012. Mr. Miller's fund similarly lost out by selling Bank of America warrants around that time, though Ms. McLemore said the fund has done well by hanging onto the bank's common stock.

Mr. Davidson said he learned about the warrants a few years ago at an Omaha bar where he was mingling with attendees at Berkshire Hathaway's annual meeting. PHOTO: NIALL MCDIARMID FOR THE WALL STREET JOURNAL

Investors got the warrants only because the U.S. government didn't want to hold on to them. By late 2009, the biggest banks had paid TARP money back and the Treasury started auctioning the warrants. By the end of 2012, it had made about $5 billion auctioning them off to investors. In other cases, Treasury sold the warrants back to the banks.

That has transferred the rest of the gains to private hands. The TARP warrants still trading in Bank of America, J.P. Morgan, Wells Fargo & Co. and PNC Financial Services Group Inc., for example, are worth more than $2 billion more on paper than when the government sold. At banks such as J.P. Morgan that hit their strike price a while ago, investors have likely netted additional profits by exercising the warrants.

New York-based Maltese Capital Management bought 2.2 million TARP warrants in Salt Lake City-based Zions Bancorp . from the government for about $1.35 apiece and held on to most of them. Today, they are worth about $11.15 a share, a return of around 726%. "We'd like a few more of those," said Terry Maltese, the firm's founder.

Write to Rachel Louise Ensign at rachel.ensign@wsj.com

<u>October 2017 ECH Board Actions*</u>

1. August 9, 2017
    a. Appointed Ms. Ina Bauman as patient advocate member of the Quality, Patient Care and Patient Experience Committee
    b. Approved the FY18 Board Education Plan, including attendance at the Estes Park Institute Conference in San Francisco October 29 – November 1, 2017. All Board and Committee members are invited and encouraged to attend.
    c. Approved the proposed FY18 Competency Matrix for use in evaluating gaps on the ECH Board. The Competency Matrix will be referred to the District Board for consideration.
    d. FY 18 Executive Individual Incentive Goals approved.
    e. FY 18 Executive Base Salaries approved as revised.
    f. Director Peter Fung, MD, was appointed to serve on the Silicon Valley Medical Development LLC Board of Managers.
    g. Approved the FY17 Period 12 Financials

2. September 13, 2017
    a. Approved a revision to the Investment Committee's Goals
    b. Approved additional funding over original approved budget for major construction projects at the Mountain View Campus: Behavioral Health Services Building ($4.6 million) and Integrated Medical Office Building ($27.1 Million).
    c. Appointed new Board Member Neysa Fligor to the Executive Compensation Committee and the Corporate Compliance, Privacy and Internal Audit Committee.

3. October 11, 2017
    a. Recognized the Cancer Center at El Camino Hospital for 10 years of providing high quality care.
    b. Approved the FY18 Period 1 and Period 2 Financials.
    c. Voted to recommend that the District Board adopt the Governance Committee's Proposals to Revise the ECH Board Member Election and Re-Election Process and the ECH Board Member Position Specification , retaining the same high priority competencies identified in FY17.
    d. Approved the FY17 Compliance Summary Report and Semi-Annual Physician Expense Report,
    e. Approved the FY17 Individual Executive Goal Scores and Incentive Plan Payments
    f. Approved the HR Leave of Absence Policy
    g. Approved the Annual Financial, 403(b), and Participant Cash Balance Plan Audits
    h. Approved the Level II NICU Call Panel Agreement
    i. Approved the Medical Staff Development Pan and Recruitment Budget not to exceed $5.9 million

*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.

October 2017 ECHD Board Actions*

1. August 16, 2017
    a. After Interviewing 11 Applicants - Appointed Neysa Fligor to the El Camino Healthcare District Board of Directors

2. August 23, 2017
    a. Elected Neysa Fligor to the El Camino Hospital Board of Directors

3. October 17, 2017
    a. Approved the FY17 Year End Consolidated and Stand-Alone Financials
    b. Approved the FY 17 Financial Audit
    c. Approved the Revised Budget for Major El Camino Hospital Capital Budgets: Behavioral Health Services Building (additional $4.6 Million) and Integrated Medical Office Building (additional $27.1 million).
    d. Approved the Revised ECH Board Member Election and Re-Election Process and the ECH Board Member Position Specification, retaining the same high priority competencies identified in FY17.
    e. Re-Elected El Camino Hospital Board Director Lanhee Chen to the El Camino Hospital Board of Directors for a second term of three years effective July 1, 2018.
    f. Approved the FY17 Community Benefit Plan Report.

*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.

Executive Summary

El Camino Hospital

3rd Quarter 2017

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PAVILION

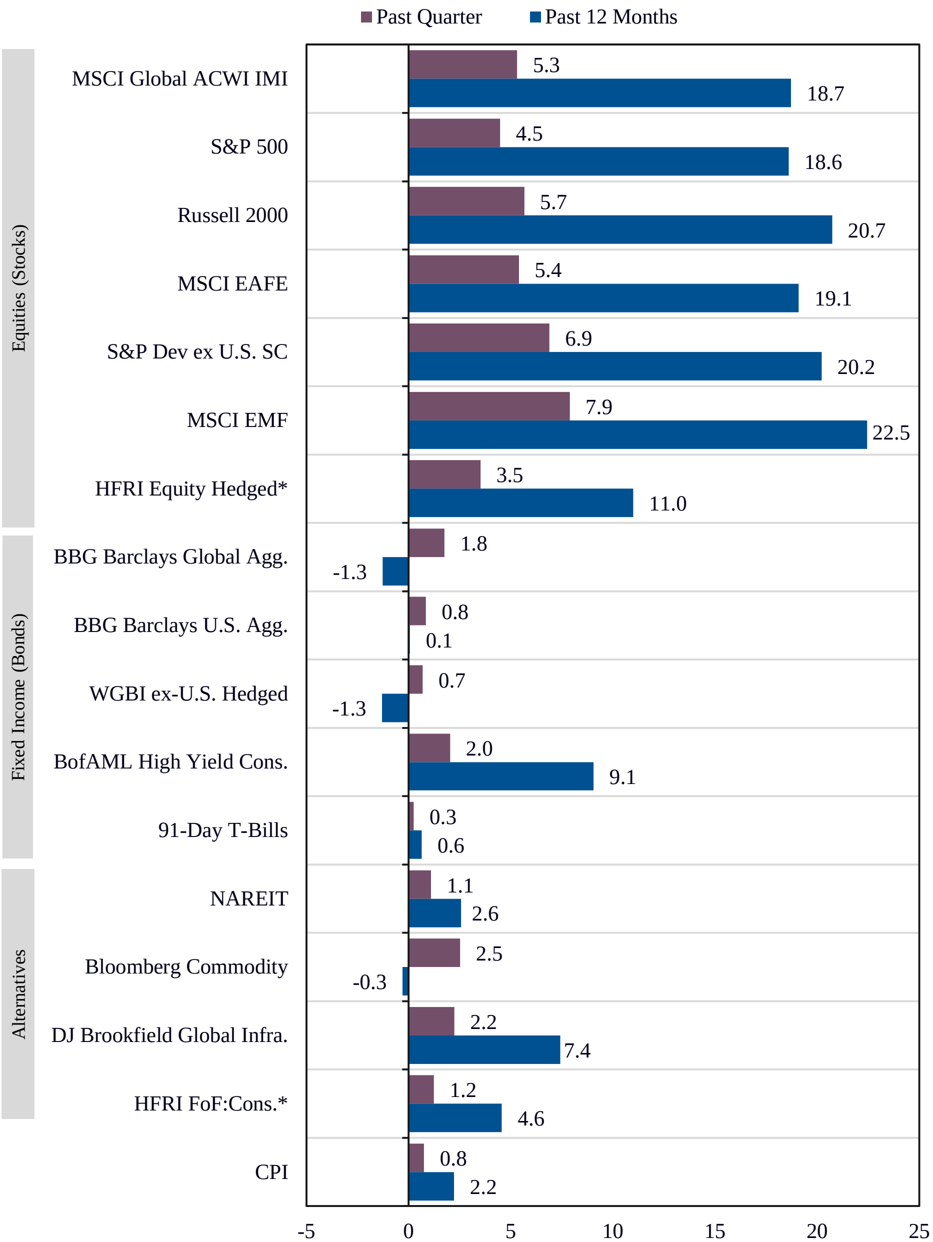
Table of Contents

Capital Markets Review

Capital Markets Review

Summary

Performance: Past Quarter and Year (%)



* HFRI data are subject to revision.

Source: FactSet & Bloomberg

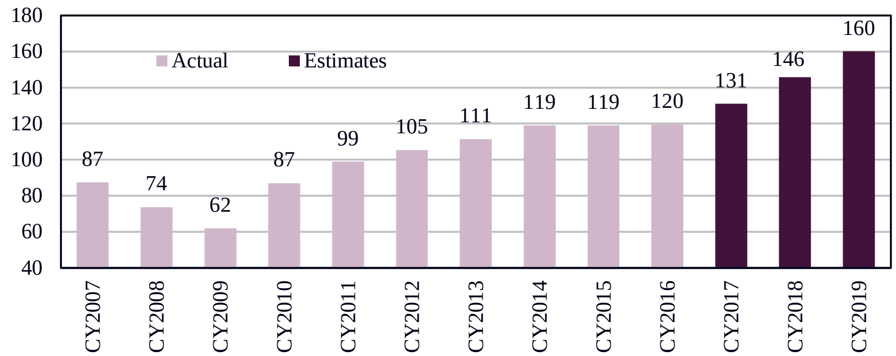
Amid Noise, the Trend Persists

- During the third quarter, geopolitical events and natural disasters dominated the headlines, although financial markets proved resilient, focusing on improving economic data. Risk assets rose. Additionally, cyclical risks remain low across developed markets, which we believe should allow existing trends to remain intact.
- While natural disasters may shock near-term economic data, political actions in the U.S. and Europe have the potential to alter fundamentals. In the U.S., tax cuts could produce a near-term benefit but escalating tensions with North Korea could challenge trade with China, a close ally to Pyongyang. In Europe, Brexit negotiations continue to loom, and while Angela Merkel won reelection, her party's power decreased, a blow to pro-European Union policies.
- Strengthening corporate profits and economic data continue to bode well for global growth prospects. Consumer sentiment and corporate expectations have been particularly positive, capturing the rebound beginning in the middle of 2016, which has translated into hard data in 2017.
- Core inflation remains below target in most developed markets, but economic growth and advancing labor markets have encouraged central bank policy makers to publicly discuss the prospects for normalization. In September, the U.S. once again led the global central banks in announcing the reduction in its balance sheet, scheduled to be begin in October. Outside the U.S., several central banks are contemplating or amending forward guidance. The European Central Bank, in particular, warrants monitoring, as missteps have the potential to repeat 2011's mistakes.
- Domestically, the U.S. yield curve declined and flattened further, amid the Federal Open Market Committee ("FOMC") announcement, which marginally detracted from intermediate duration bond performance. Within credit, improving economic conditions led to spread compression for most sectors, driving outperformance relative to similar duration Treasuries.
- Emerging market equity performance dominated in the third quarter and year-to-date (+27.8%). Developed equity markets also surged during the quarter and year-to-date periods, as widespread growth permeated economic fundamentals and expectations.
- After two down quarters, commodity prices turned up, led by industrial metals and energy sub-indices. Income-oriented strategies, like infrastructure, continued to generate positive performance; although, a flattening yield curve likely held back performance.

Capital Markets Review

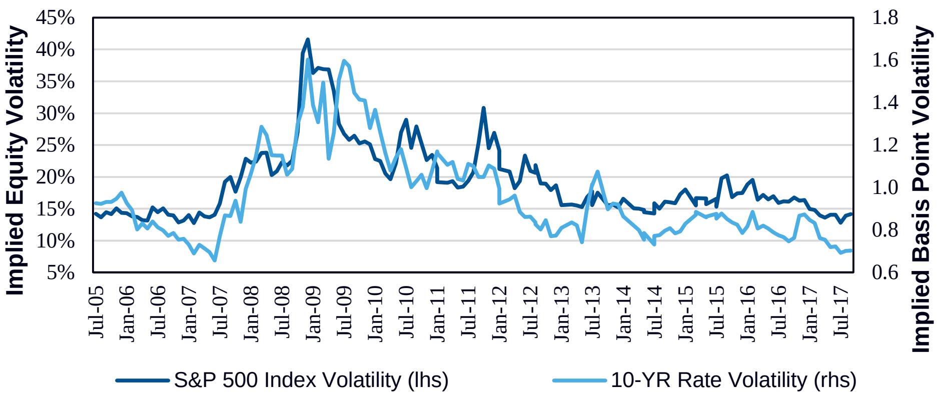
Asset Class Outlook

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



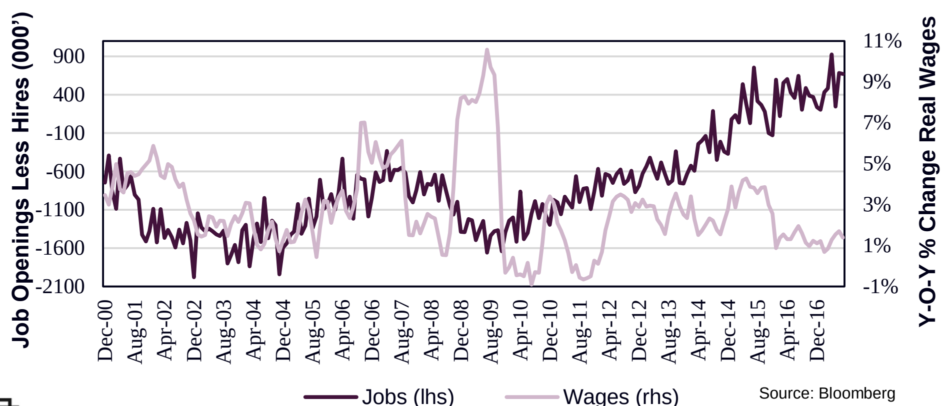
Source: FactSet as of October 6, 2017

Implied Volatilities at Post Crisis Lows



Source: Bloomberg

Wage Growth Stagnant



Source: Bloomberg

Equities

- Equity markets continued their strong performance, reflecting the confluence of improving growth, ongoing financial accommodation, and constrained inflation. These factors have contributed to a world in which profit margins and earnings estimates rise, on the further strengthening in underlying fundamentals. These conditions have given rise to extremely steady markets, with the S&P 500 experiencing the lowest realized volatility in over 30 years. Option markets have reflected the current stability as implied volatility or option premiums plumbed to historically low levels. While some suggest these low levels of implied volatility reflect complacency among investors, we view them as the artifact of simple math. Specifically, asset prices move in response to changes in the present value of expected future cash flows. With growth steady and positive, there has been very little volatility in expected future cash flows, and with interest rates and inflation steady, there has been very little volatility in the discounting of future cash flows. The end result is low realized volatility. While these conditions will not last forever, current levels of implied volatility suggest persistence over the coming quarters.

Fixed Income

- The FOMC held interest rates steady over the quarter, choosing instead to begin the process of balance sheet reduction. In addition to announcing the balance sheet reduction, Federal Reserve (“Fed”) officials revealed in their Summary of Economic Projections that they lowered their expectation for the long-run neutral funds rate to 2.8% and do not anticipate core inflation breaching the 2% target until 2020. All of these factors suggest the Fed will continue its patient process of interest rate normalization with one more rate hike this year and possibly as few as three next year. This patient approach to policy refinement also is being pursued by central banks in other developed markets and has allowed fixed income markets to duplicate the low volatility witnessed in equity markets. Fixed income returns are largely being driven by the income streams associated with the various sectors. In addition to accommodative monetary policy, yields on longer maturity bonds continue to receive support from structural and demographic factors that are likely to remain in place for the foreseeable future. While the biggest risk to the current environment is a policy misstep that would give way to a spike in interest rates, the catalyst for such an event is further in the future so we continue to view high quality duration as source of diversification and protection against unanticipated economic events.

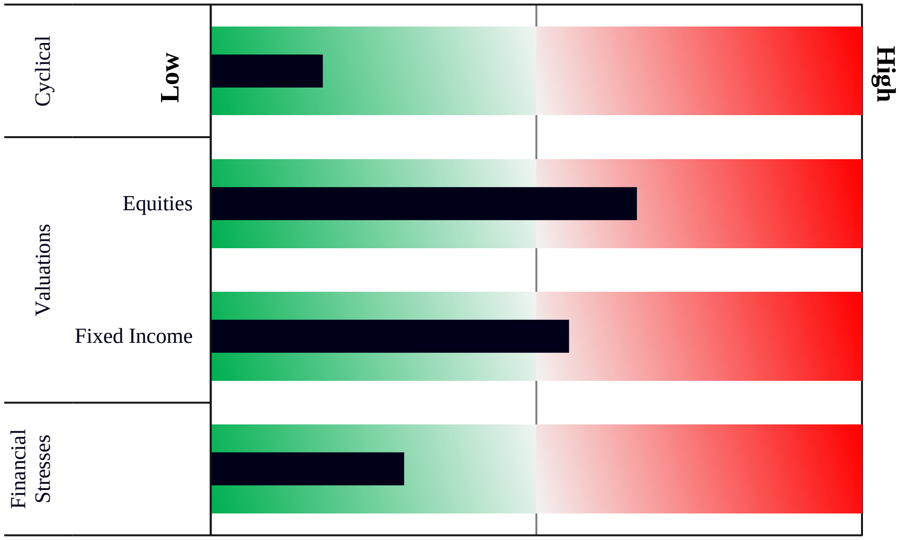
Real Assets

- Core inflation continues to remain constrained and below the 2% target in most developed markets, circumstances that are likely to persist for some time. One example holding back inflation is the absence of wage growth despite the increase in labor demand, as reflected by unfilled job openings. 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. We maintain a cautious view on REITs, due to historical correlations with long duration instruments.

Capital Markets Review

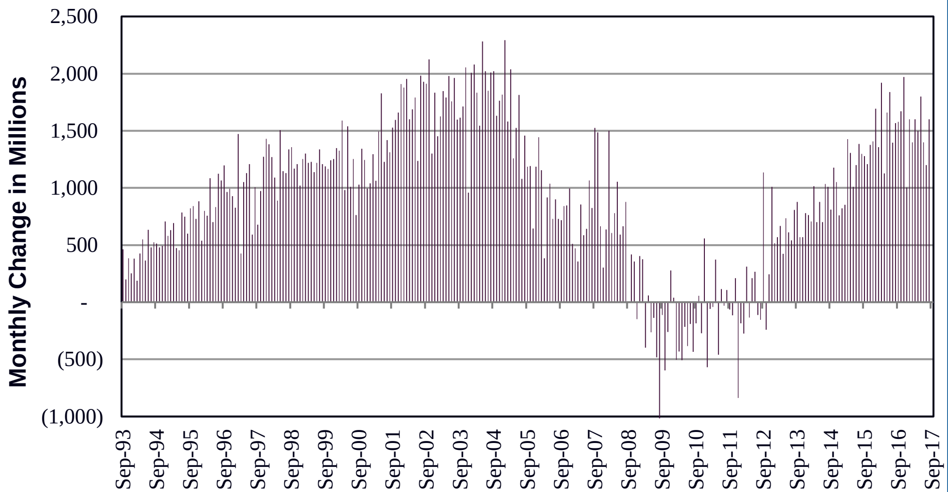
Key Market Risks

Current Risk Levels



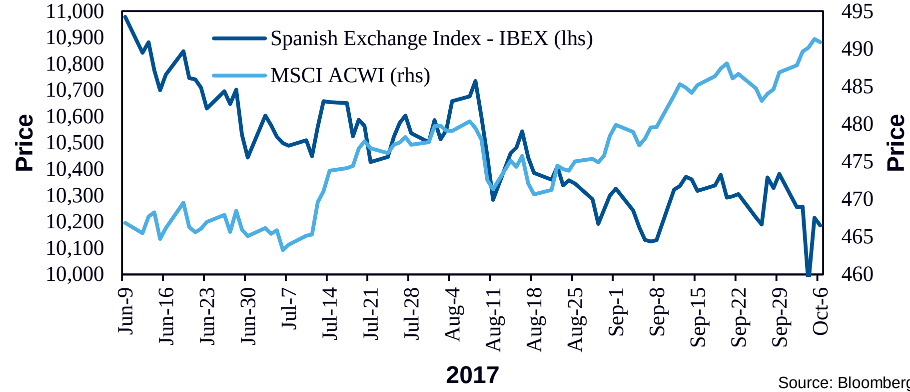
Source: Bloomberg, FactSet, Recession Alert, & Pavilion Analysis

Rapid Growth in U.K. Consumer Credit Raises Concerns



Source: Bloomberg

Economic Policy Uncertainty Remains Elevated in the European Union



Source: Bloomberg

Cyclical Risks Remain Low While Policy and Geopolitical Risks Persist

- **Normalization of Monetary Policy:** Since the financial crisis began 10 years ago, central bankers have deployed multiple policy mechanisms in an effort to enhance financial conditions. With improvements in global growth, policy makers have begun the process of plotting the removal of current levels of accommodation. Given the unique nature of the many policy measures undertaken during the crisis, the playbook for normalization has never been implemented, providing much uncertainty. Central bankers will be challenged by not only the timing but the pace of policy adjustments.
- **Ongoing Threat from European Challenges:**
  - The results of German elections may be felt for some time. Victories by the right will likely force Angela Merkel to form a coalition that will make strengthening the E.U. more difficult. Challenges include providing permanent debt relief for Greece.
  - The U.K. faces numerous headwinds. Rising inflation may force the hand of the Bank of England, raising interest rates prematurely. This comes at the time of falling real wages, as well as disruptions resulting from the lack of progress in Brexit negotiations. Additionally, there are growing concerns that burgeoning consumer debt may pose a threat to the financial system.
  - The Catalonian independence movement, and the resulting response from the Spanish government, is one more reminder of the simmering social unrest in Europe. While the impact of these events has largely been limited to Spanish markets, the risk of similar movements or contagion remains.
- **Policy Misstep:** The current administration faces many choices in terms of re-negotiating trade policy, the appointment of new Federal Reserve leadership, as well as efforts to revamp tax policy. Unexpected outcomes among any of these decisions presents the possibility for market disruptions.

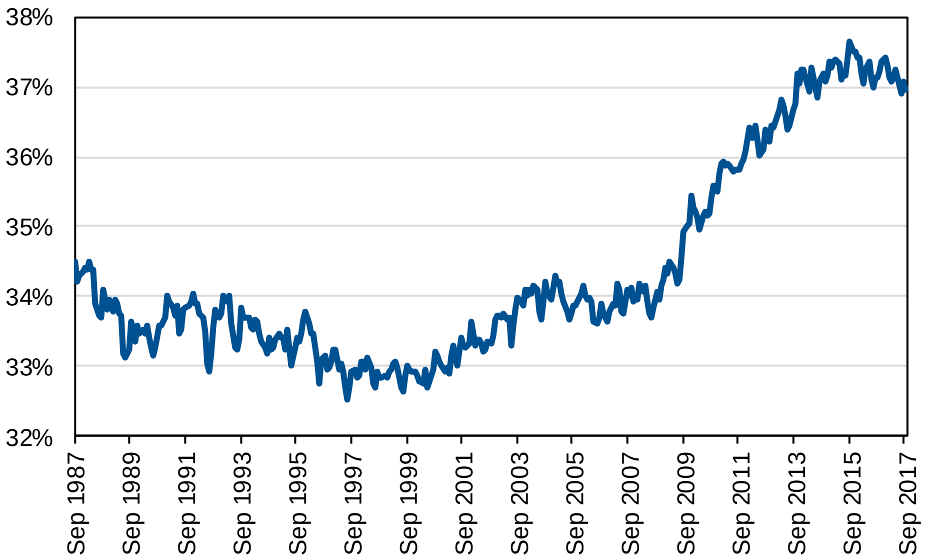
Capital Markets Review

Economy

U.S. Dollar Slide Eased at Quarter-End

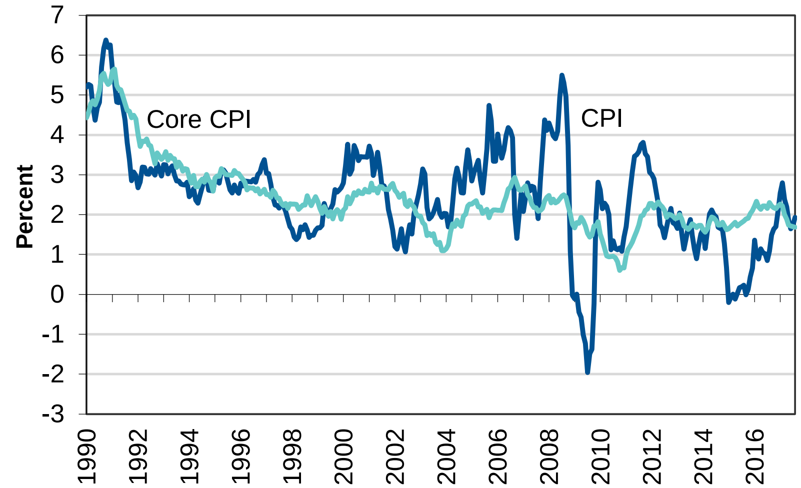
Source: Bloomberg

Working Age Civilians Not in Labor Force



Source: Bureau of Labor Statistics

U.S. Inflation



Source: Federal Reserve

Hurricanes and Future Fed Actions Drive Sentiment

- Three major hurricanes battered the U.S. mainland and territories, causing property damage in excess of $100 billion. Florida saw damage to its electric grid and housing, Texas saw extensive housing and energy infrastructure damage, mainly due to flooding, while Puerto Rico absorbed two hurricanes that destroyed housing and infrastructure. The storms were a drag on third quarter GDP, as unemployment claims rose and economic activity slowed in these areas, while higher gasoline prices hit nationwide. Insurance companies likely will pass costs on to policyholders across the nation.

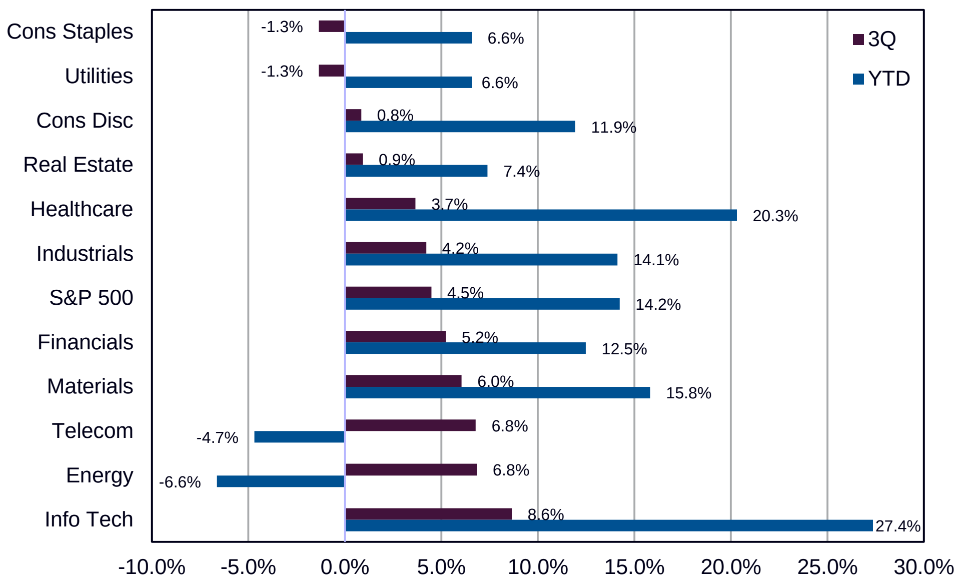
- All eyes on the Fed was a common occurrence during the quarter, as investors attempted to divine the FOMC's course toward policy normalization. In the end, it is likely that the Fed will begin to slowly liquidate its balance sheet in Q4, with the next interest rate hike likely in December, and the possibility of additional rate hikes in 2018. The U.S. dollar's slide eased in late September after expectations of a rate hike rose and the balance sheet liquidation was announced.

- Inflation and employment continued to perplex policymakers, as the accepted theory held that falling unemployment will lead to higher inflation. Currently, inflation remains below 2% and the unemployment rate, at 4.2%, is below the historical average. Employers have more open positions than seen in years, and the non-working labor force is diminishing, suggesting that more workers need to be employed before wage pressures exert further inflationary influence.

Capital Markets Review

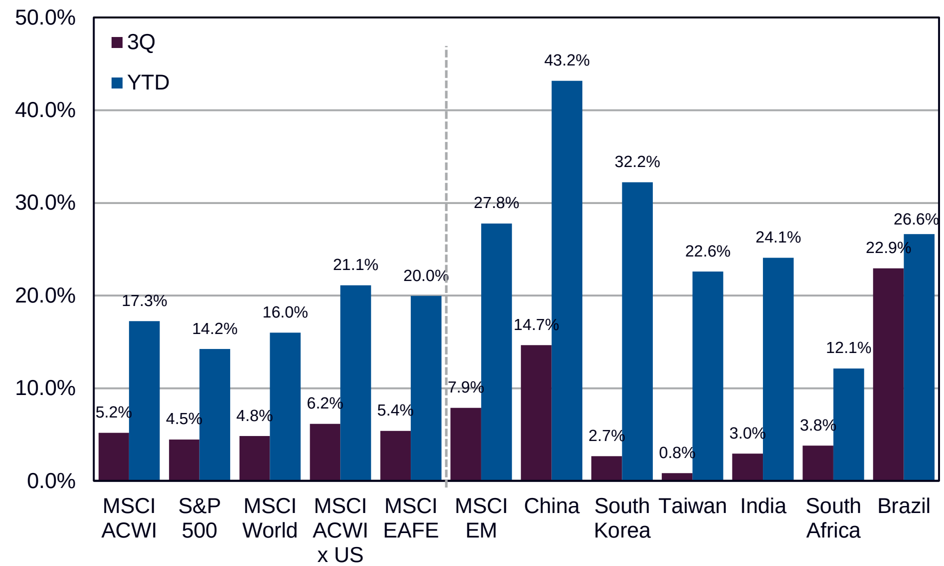
Equities

Third Quarter and YTD S&P 500 Sector Returns



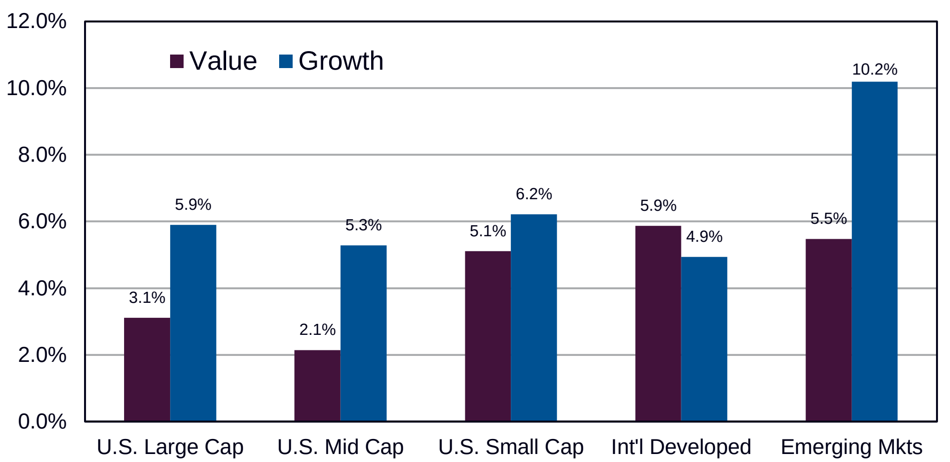
Source: FactSet, S&P

Third Quarter and YTD World and Emerging Market Equity Returns



Source: FactSet, MSCI

Growth Continued to Outperformed Value in U.S. and Emerging Markets



Source: FactSet, MSCI, Russell

Growth in U.S. and Emerging Markets Led the Way in the Third Quarter

- The S&P 500 Index returned +4.5% during the third quarter, bringing the year-to-date return to +14.2%. Information Technology was the strongest contributor to performance for both the quarter and year-to-date periods. Energy and Telecom were the next best performing sectors during the quarter but remain the only sectors with negative returns year-to-date. Consumer Staples and Utilities were the only sectors to post a loss during the third quarter.
- Most developed market equity indices provided returns in the +4% to +6% range during the third quarter. Emerging Market equities were slightly higher, returning +7.9%, led by Brazil and China. year-to-date, the key regional indices all provided double digit returns, with the foreign markets benefitting from strong local market returns as well as currency appreciation vs. the U.S. dollar.
- Growth continued to outperform value in the third quarter within the U.S. and Emerging Markets. Emerging Markets again experienced the most pronounced style differential, as well as the highest absolute return of Growth stocks. International Developed markets, however, saw value edge out growth in the third quarter, a reversal from the first half of the year.

Capital Markets Review

Fixed Income

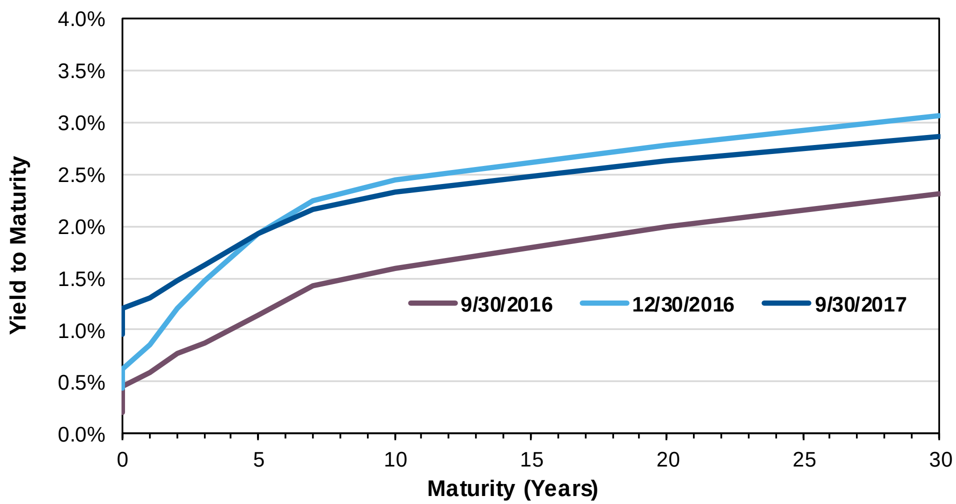
Duration – Adjusted Excess Returns to Treasuries (bps)

	2010	2011	2012	2013	2014	2015	2016	1Q17	2Q17	3Q17
Aggregate	171	-114	226	93	10	-53	138	11	30	41
Agency	77	-25	166	1	10	-133	121	60	20	45
MBS	225	-106	91	98	40	-5	-11	-17	-4	47
ABS	169	52	246	24	53	44	95	22	32	14
CMBS	1501	47	841	97	108	-28	236	8	34	34
Credit	192	-322	693	226	-18	-169	442	47	99	89
High Yield	974	-240	1394	923	-112	-577	1573	214	146	160
EMD (USD)	508	-537	1503	-32	-120	3	880	259	72	186

Best Period | Second Best Period | Worst Period | Second Worst Period

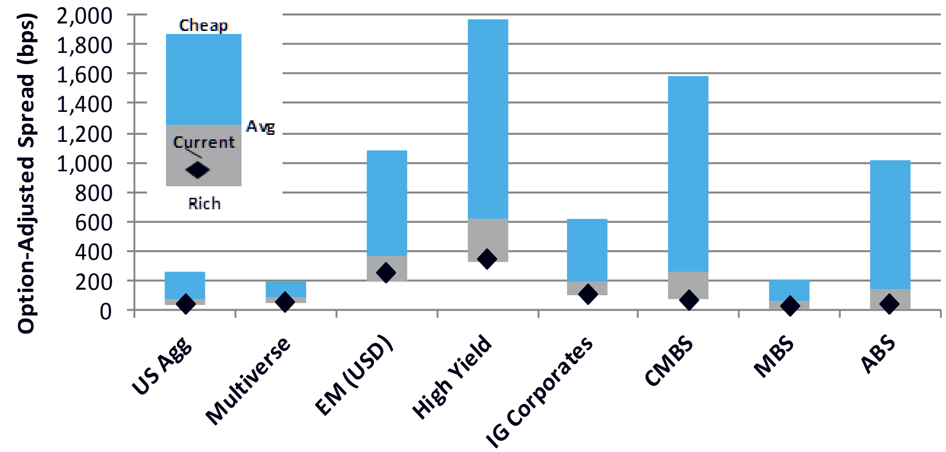
Source: Bloomberg Barclays

U.S. Treasury Yield Curve Change



Source: US Dept. of The Treasury

Historical Credit Valuations (10-Yr Range)



Source: Bloomberg Barclays

FOMC Undeterred by Inflation, Storm Effects

- Following its September meeting, the Federal Reserve ("Fed") announced its intention to begin balance sheet normalization in October with maturity roll-offs. The Fed also indicated it plans to raise the federal funds rate one additional time in 2017, striking a slightly more hawkish tone than expected. All fixed income spread sectors posted positive duration-adjusted excess returns for the quarter.

- For the third consecutive quarter, U.S. Treasuries generated positive absolute returns (+0.4%). The yield on the ten-year U.S. Treasury fell as low as 2.04% in early September before rebounding sharply to finish the quarter at 2.33%. The yield curve flattened as the spread between 2- and 30-year Treasuries fell 8 basis points (bps). TIPS improved, returning +0.9% on rising inflation expectations led by recent wage growth data.

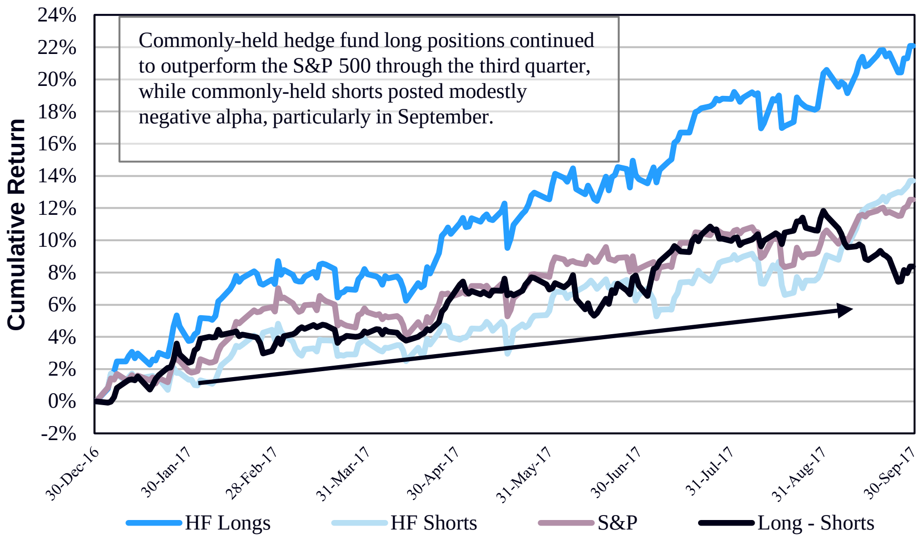
- Investment grade credit returned +1.3%, outperforming other higher quality sectors. The OAS of the U.S. Credit Index ended the quarter at +96 bps, a level not seen since June 2014. High yield bonds returned +2.0%, while spreads ended the quarter 17 bps tighter at 347 bps. Spread tightening was supported by a rebound in oil prices and the prospect of fiscal stimulus via tax reform. Strong overseas demand for U.S. spread product has remained a technical tailwind for the asset class.

- Agency MBS generated a +0.4% total return, bringing the YTD return into positive territory. Spreads ended the quarter 10 bps tighter at 22 bps, taking the Fed's well-telegraphed taper announcement in stride. CMBS and ABS proved resilient with modestly tighter spreads and continued demand for high quality carry in a low yield environment.

Capital Markets Review

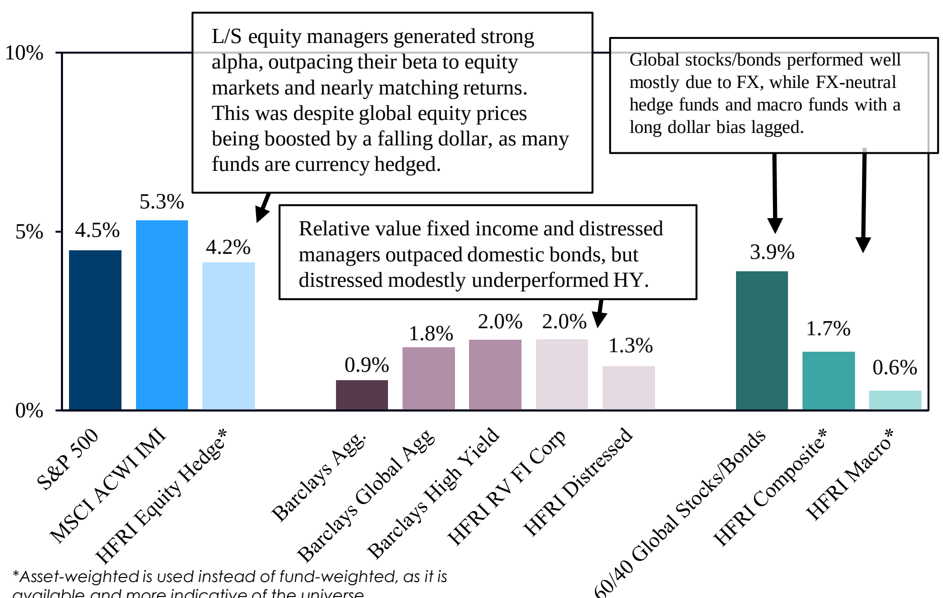
Alternative Investments

Top Hedge Fund Equity Longs vs Shorts (Goldman VIP)



Sources: Bloomberg, Goldman Sachs

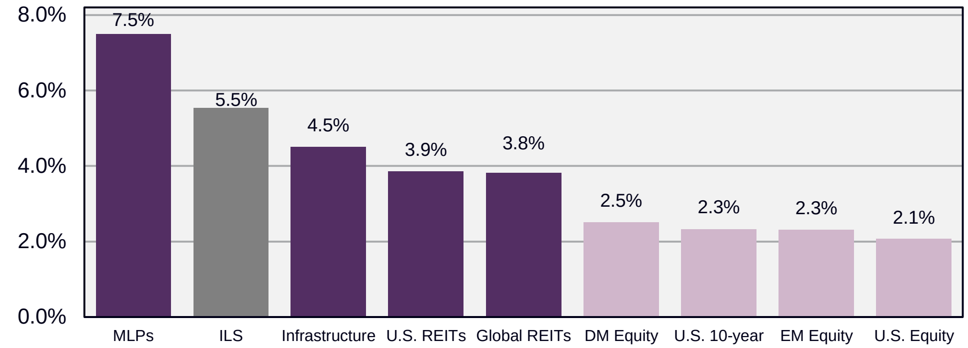
Hedge Funds vs Long-Only: Total Returns 2017 Q3



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

Sources: Hedge Fund Research, Factset

Asset Class Yields



Source: Alerian, Elementum, FactSet, Federal Reserve

Global Alternatives Rise with Risk Assets

- **Hedge Funds:** Hedge funds posted moderate gains during a robust quarter for equity markets. Long/short equity strategies were off to a strong start in the beginning weeks of the quarter, with technology, financials, and cable/media names playing prominent roles on the long side of portfolios, while short positions skewed toward consumer retail. Hedge fund alpha was strong across value and growth names, with the average fund outperforming its beta to equity markets. In fixed income, distressed managers registered weaker than expected performance due to prominent exposure to Puerto Rico, as well as select coal and industrials names. On the positive side, oil and gas companies undergoing restructurings rallied significantly in September. Global high yield and non-agency RMBS and CMBS positions benefitted corporate credit and asset-backed managers. Macro managers were hurt by currency positioning – many were positioned with a long bias to the U.S. dollar and a short bias to interest rates. Underlying volatility levels have stayed low for some time, which does not help macro. Event-driven managers benefited from a steady pace of new deals, with most deals closing as expected.
- **Real Assets:** In a lower yield environment, real assets (infrastructure, MLPs, and REITs) continue to provide diversifying earning streams that are competitive with traditional equities and fixed income. During the quarter, listed infrastructure was positively impacted by the toll road and port sectors. Toll roads moved higher based on expectations of further industry consolidation in Europe, and the port sector benefited from record import volumes during July and August, as retailers prepare for the holiday season.
- **Private Capital Markets**: Fundraising remained strong through the third quarter of 2017, as 267 funds closed with commitments totaling $150 billion. Aggregate private equity capital raised year-to-date 2017 has increased to $338 billion compared to $286 billion raised in same period of 2016. If fundraising momentum continues, 2017 may well be within reach of the all-time annual private equity fundraising record of $415 billion set in 2007. In terms of multiples, the median EV/EBITDA multiple jumped from 9.7x in the first quarter to 10.4x in the second quarter, but has stayed at more-or-less 10x earnings for the last 18 months.

Capital Markets Review

Index Returns

As of September 30, 2017

(Percentage Return)

	Quarter	Year To Date	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Domestic Equity Indices								
Dow Jones Wilshire 5000	4.6	13.7	18.9	17.1	11.0	14.3	14.3	7.6
S&P 500	4.5	14.2	18.6	17.0	10.8	14.2	14.4	7.4
Russell 1000 Index	4.5	14.2	18.5	16.7	10.6	14.3	14.4	7.5
Russell 1000 Growth Index	5.9	20.7	21.9	17.8	12.7	15.3	15.4	9.1
Russell 1000 Value Index	3.1	7.9	15.1	15.7	8.5	13.2	13.2	5.9
Russell Midcap Index	3.5	11.7	15.3	14.8	9.5	14.3	13.8	8.1
Russell Midcap Growth Index	5.3	17.3	17.8	14.5	10.0	14.2	13.8	8.2
Russell Midcap Value Index	2.1	7.4	13.4	15.3	9.2	14.3	13.8	7.8
Russell 2000 Index	5.7	10.9	20.7	18.1	12.2	13.8	13.5	7.8
Russell 2000 Growth Index	6.2	16.8	21.0	16.5	12.2	14.3	14.2	8.5
Russell 2000 Value Index	5.1	5.7	20.5	19.7	12.1	13.3	12.8	7.1
International Equity Indices								
MSCI EAFE	5.4	20.0	19.1	12.6	5.0	8.4	6.4	1.3
MSCI EAFE Growth Index	4.9	22.4	15.7	12.5	6.5	8.9	7.0	2.1
MSCI EAFE Value Index	5.9	17.6	22.5	12.6	3.5	7.8	5.7	0.5
MSCI EAFE Small Cap	7.5	25.4	21.8	17.0	11.1	12.8	10.0	4.6
MSCI AC World Index	5.2	17.3	18.6	15.3	7.4	10.2	9.2	3.9
MSCI AC World ex US	6.2	21.1	19.6	14.3	4.7	7.0	5.2	1.3
MSCI Emerging Markets Index	7.9	27.8	22.5	19.6	4.9	4.0	2.5	1.3
Fixed Income Indices								
Blmbg. Barc. U.S. Aggregate	0.8	3.1	0.1	2.6	2.7	2.1	3.0	4.3
Blmbg. Barc. Intermed. U.S. Government/Credit	0.6	2.3	0.2	1.9	2.1	1.6	2.3	3.6
Blmbg. Barc. U.S. Long Government/Credit	1.5	7.7	-0.8	6.7	5.5	3.9	6.2	7.4
Blmbg. Barc. U.S. Corp: High Yield	2.0	7.0	8.9	10.8	5.8	6.4	7.5	7.8
BofA Merrill Lynch 3 Month U.S. T-Bill	0.3	0.6	0.7	0.5	0.3	0.2	0.2	0.5
Blmbg. Barc. U.S. TIPS	0.9	1.7	-0.7	2.9	1.6	0.0	2.6	3.9
Citigroup Non-U.S. World Government Bond	2.6	8.6	-3.1	4.4	0.5	-1.1	0.3	2.7
JPM EMBI Global Diversified (external currency)	2.6	9.0	4.6	10.3	6.5	4.9	6.3	7.5
JPM GBI-EM Global Diversified (local currency)	3.6	14.3	7.3	12.1	0.3	-0.9	0.7	3.8
Real Asset Indices								
Bloomberg Commodity Index Total Return	2.5	-2.9	-0.3	-1.4	-10.4	-10.5	-6.8	-6.8
Dow Jones Wilshire REIT	0.6	2.4	0.1	8.7	9.7	9.5	11.4	5.6

Returns for periods greater than one year are annualized.

Portfolio Review

Investment Committee Scorecard

As of September 30, 2017

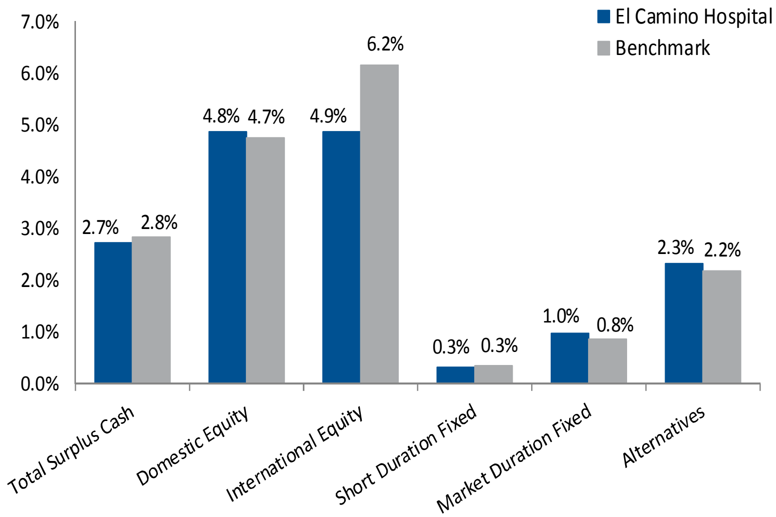
Key Performance Indicator	Status	El Camino	Benchmark	El Camino	Benchmark	El Camino	Benchmark	FY17 Year-end Budget	Expectation Per Asset Allocation
Investment Performance		3Q 2017		Fiscal Year-to-date		4y 11m Since Inception (annualized)			May 2016
Surplus cash balance & op. cash (millions)*		$1,158.5	--	--	--	--	--	$1,262.5	--
Surplus cash return		2.7%	2.8%	2.7%	2.8%	5.7%	5.7%	1.9%	5.7%
Cash balance plan balance (millions)		$250.6	--	--	--	--	--	$257.1	--
Cash balance plan return		3.2%	3.3%	3.2%	3.3%	8.2%	7.6%	6.0%	6.1%
403(b) plan balance (millions)		$411.2	--	--	--	--	--	--	--
Risk vs. Return		3-year				4y 11m Since Inception (annualized)			May 2016
Surplus cash Sharpe ratio		1.08	1.14	--	--	1.36	1.34	--	0.46
Net of fee return		5.0%	5.3%	--	--	5.7%	5.7%	--	5.7%
Standard deviation		4.4%	4.4%	--	--	4.0%	4.1%	--	8.6%
Cash balance Sharpe ratio		1.08	1.07	--	--	1.45	1.39	--	0.43
Net of fee return		6.3%	6.0%	--	--	8.2%	7.6%	--	6.1%
Standard deviation		5.6%	5.3%	--	--	5.4%	5.2%	--	8.7%
Asset Allocation		3Q 2017							
Surplus cash absolute variances to target		8.4%	< 10%	--	--	--	--	--	--
Cash balance absolute variances to target		6.0%	< 10%	--	--	--	--	--	--
Manager Compliance		3Q 2017							
Surplus cash manager flags		19	< 19 Green < 23 Yellow	--	--	--	--	--	--
Cash balance plan manager flags		19	< 20 Green < 25 Yellow	--	--	--	--	--	--

*Includes Debt Reserve funds, excludes District Assets, Foundation assets, and Concern.

PAVILION

Surplus Cash Executive Summary
Dashboard
As of September 30, 2017

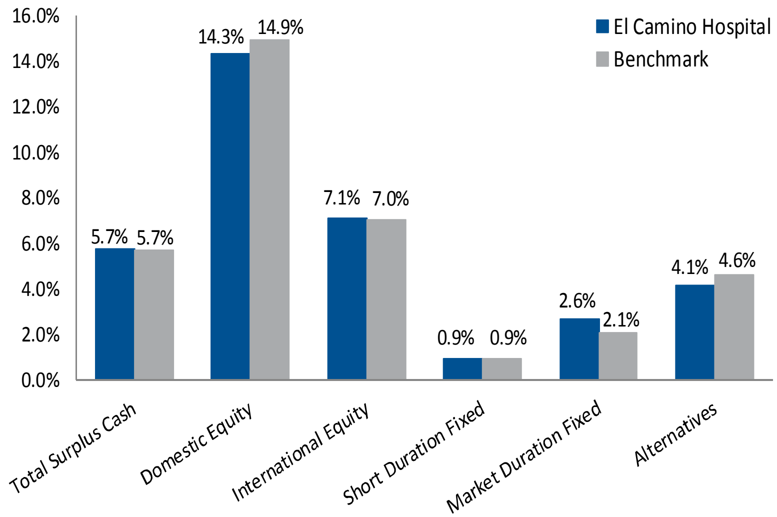
Performance: Most Recent Quarter



Asset Allocation

Manager	Total Assets ($, mil.)	Percent of Total	Target Allocation	Variance to Target	Target Range	Within Policy Range
Domestic Equity	$219.2	26.3%	25.0%	+ 1.3%	20-30%	Yes
International Equity	$131.9	15.8%	15.0%	+ 0.8%	10-20%	Yes
Short-Duration Fixed	$100.5	12.1%	10.0%	+ 2.1%	8-12%	No
Market-Duration Fixed	$247.0	29.6%	30.0%	- 0.4%	25-35%	Yes
Alternatives	$135.3	16.2%	20.0%	- 3.8%	17-23%	No
Total (X District)	**$834.0**	**100.0%**				

Performance: Since Inception[1]



[1] Reflects the date Pavilion's recommended portfolio was implemented (November 1, 2012).

Portfolio Updates

Manager News/Issues

- The Surplus Cash Portfolio returned +2.7% for the quarter, trailing its benchmark by 10 basis points (bps). Over the trailing one year period, the Portfolio returned +9.0%, outpacing the benchmark by 10 bps.
- Marginal relative underperformance during the quarter was driven by unfavorable manager results within the International Equity Composite (+4.9%), which trailed the MSCI AC World ex USA Index by 130 bps.
- Notable outperformers included Large Cap Growth manager Sands (+6.5%), which outperformed the Russell 1000 Growth Index by 60 bps, continuing its rebound from 2016, and Small Cap Growth manager Conestoga (+9.8%), which outpaced the Russell 2000 Growth Index by 360 bps.
- The Direct Hedge Fund portfolio (+2.6%) bested the HFRI Fund of Funds Composite Index by 30 bps.

Funding News/Issues

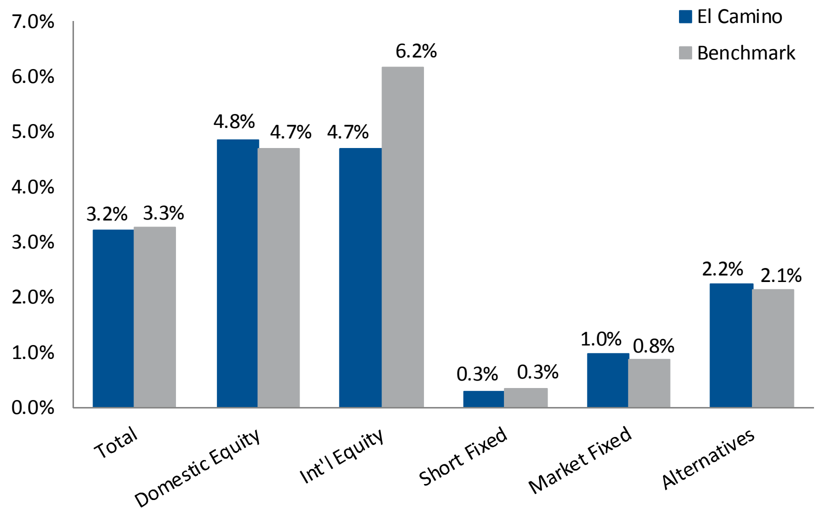
- In July, $40.0 million was transferred into the portfolio, $3.7 million to Barrow Short, $22.3 million to hedge funds, $6.0 million to MetWest, and $8.0 million to Dodge & Cox.
- In July, received $3.5 million in redemption proceeds from Luxor Capital Partners (Equity hedge fund), $3.8 million in redemption proceeds from ESG Cross Border (Equity hedge fund), $1.6 million in redemption proceeds from Brevan Howard (Macro hedge fund), and $0.6 million in redemption proceeds from Pine River (Relative Value hedge fund).
- In August, $9.2 million was invested in Chatham Asset High Yield Offshore Fund (new Credit hedge fund), $9.2 million in Marshall Wace Eureka Fund (new Equity hedge fund), and $10.2 million in EMSO Saguaro Fund (new Macro hedge fund).
- In August, $5.1 million was redeemed from Marathon (Credit hedge fund).
- In August, remaining redemption proceeds ($220,382) received from Passport 1x/2x.
- In August, Walton Street Real Estate Fund VII made a distribution payment of $230,008.
- In September, Oaktree Real Estate Opportunities Fund VI made a distribution payment of $366,819.

Cash Balance Plan Executive Summary

Dashboard

As of September 30, 2017

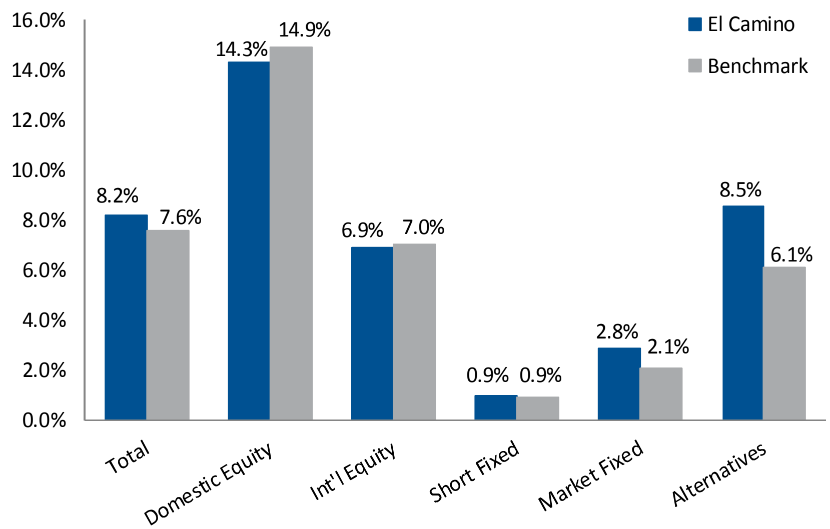
Performance: Most Recent Quarter



Asset Allocation

Manager	Total Assets ($, mil.)	Percent of Total	Target Allocation	Variance to Target	Target Range	Within Policy Range
Domestic Equity	$ 85.7	34.2%	32.0%	+ 2.2%	27-37%	Yes
International Equity	$ 47.2	18.8%	18.0%	+ 0.8%	15-21%	Yes
Short-Duration Fixed	$ 8.5	3.4%	5.0%	- 1.6%	0-8%	Yes
Market-Duration Fixed	$ 62.1	24.8%	25.0%	- 0.2%	20-30%	Yes
Alternatives	$ 47.1	18.8%	20.0%	- 1.2%	17-23%	Yes
Total	**$250.6**	**100.0%**				

Performance: Since Inception[1]



Portfolio Updates

Manager News/Issues

- The Cash Balance Plan returned +3.2 for the quarter, trailing its benchmark by 10 basis points (bps). Over the trailing one year period, the Portfolio returned +11.0%, outpacing the benchmark by 40 bps.
- Marginal relative underperformance during the quarter was driven by unfavorable manager results within the International Equity Composite (+4.7%), which trailed the MSCI AC World ex USA Index by 150 bps.
- Notable outperformers included Large Cap Growth manager Sands (+6.5%), which outperformed the Russell 1000 Growth Index by 60 bps, continuing its rebound from 2016, and Small Cap Growth manager Conestoga (+9.8%), which outpaced the Russell 2000 Growth Index by 360 bps.
- The Plan's asset allocation positioning proved beneficial (overweight Equity, underweight Fixed Income).
- The Hedge Fund Composite (+2.9%) outperformed the HFRI Fund of Funds Composite Index by 60 bps.

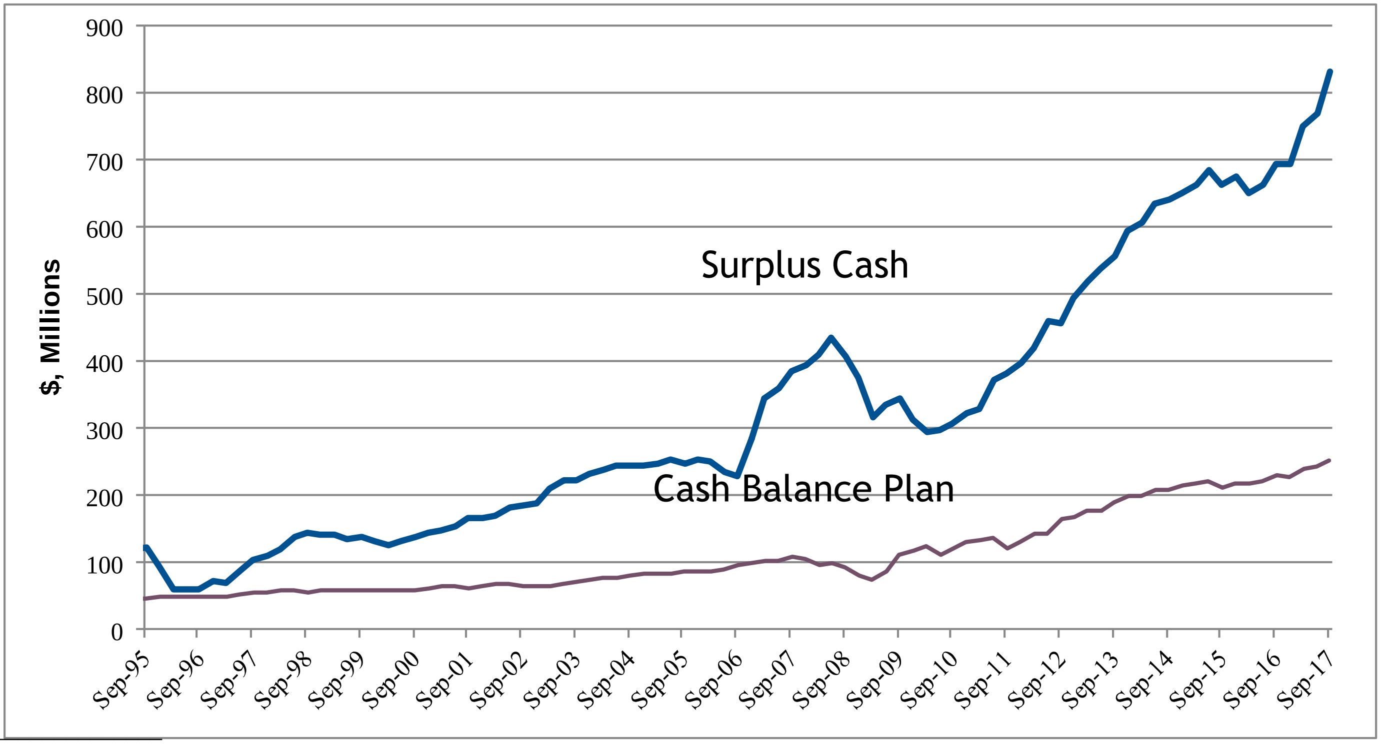
Funding News/Issues

- In July, the portfolio was rebalanced to reduce the Equity overweight, with proceeds reinvested in Fixed Income.
- In July, a $2.6 million employer contribution was made with the proceeds allocated to the Barrow Short Duration Fixed Income account.
- In August, Walton Street Real Estate Fund VII made a distribution payment of $138,005.
- In September, Oaktree Real Estate Opportunities Fund VI made a distribution payment of $220,092.

[1] Reflects the date Pavilion's recommended portfolio was implemented (November 1, 2012).

Market Value Reconciliation
As of September 30, 2017

$ in Millions	Surplus Cash					Cash Balance Plan				
	2013	2014	2015	2016	YTD 2017	2013	2014	2015	2016	YTD 2017
Beginning Market Value	**$493.8**	**$596.3**	**$651.6**	**$677.5**	**$694.7**	**$168.8**	**$198.3**	**$213.7**	**$216.8**	**$228.1**
Net Cash Flow	$55.3	$27.4	$27.0	($17.5)	$73.5	$2.4	$3.8	$0.6	$0.4	($3.1)
Income	n/a	$12.3	$12.6	$12.4	$9.2	n/a	$3.4	$3.3	$3.4	$2.5
Realized Gain/(Loss)	n/a	$10.4	$4.4	$7.1	($0.2)	n/a	$4.7	$2.0	$4.5	$2.1
Unrealized Gain/(Loss)	n/a	$5.3	($18.0)	$15.1	$56.5	n/a	$3.4	($2.7)	$3.0	$21.0
Capital App/(Dep)	$47.2	$27.9	($1.0)	$34.6	$65.5	$27.2	$11.5	$2.5	$10.9	$25.6
End of Period Market Value	**$596.3**	**$651.6**	**$677.5**	**$694.7**	**$834.0**	**$198.3**	**$213.7**	**$216.8**	**$228.1**	**$250.6**
Return Net of Fees	8.8%	4.4%	-0.2%	5.2%	9.0%	15.8%	5.6%	1.1%	4.9%	11.2%



[1] 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 September 30, 2017

Managers	Vanguard S&P 500 Index	Sands Large Cap Growth (Touchstone)	Barrow Hanley LCV	Barrow Hanley LCV	Wellington Small Cap Value	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	Surplus Cash	Pension	Both	Both	Both	Both
Organizational/Product Issues										
No changes to investment team	+	+	+	+	+	+	+	+	+	+
No organizational changes	+	+	+	+	+	+	+	+	+	+
No accounting or regulatory concerns	+	+	+	+	+	+	+	+	+	+
Currently in adherence to guidelines	+	+	+	+	+	+	+	+	+	+
Characteristics meet stylistic expectations	+	+	+	+	+	+	+	+	+	+
Relative Performance [1,2]										
Three-year return > benchmark	In-Line	-540 bps	-90 bps	-60 bps	-100 bps	-100 bps	+	+	-110 bps	+
Three-year ranking > peer group median	+	97	61	+	+	+	+	+	76	+
Five year return > benchmark	In-Line	-280 bps	-10 bps	+	-50 bps	-60 bps	+	In-Line	-60 bps	+
Five year ranking > peer group median	+	81	+	+	+	+	+	58	68	+
Performance Status	+	-	+	+	+	+	+	+	-	+
Date performance status changed		2Q16							4Q16	
Summary Status	+	+	+	+	+	+	+	+	+	+
Date summary status changed										

[1] Manager performance is evaluated net of investment management fees.
[2] For each manager that underperformed its benchmark and/or peer group, the magnitude of underperformance and/or peer group ranking is shown.

PAVILION

Executive Summary

Manager Compliance Checklist

As of September 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
Organizational/Product Issues								
No changes to investment team	-	-	+	+	+	+	+	+
No organizational changes	+	+	+	+	+	+	+	+
No accounting or regulatory concerns	+	+	+	+	+	+	+	+
Currently in adherence to guidelines	+	+	+	+	+	+	+	+
Characteristics meet stylistic expectations	+	+	+	+	+	+	+	+
Relative Performance [1, 2]								
Three-year return > benchmark	+	-10 bps	+	+	-20 bps	-30 bps	+	+
Three-year ranking > peer group median	+	62	+	+	65	72	N/A	N/A
Five year return > benchmark	In-Line	-10 bps	+	+	+	+	+	+
Five year ranking > peer group median	57	64	+	+	66	+	N/A	N/A
Performance Status	+	+	+	+	+	+	+	+
Date performance status changed								
Summary Status	+	+	+	+	+	+	+	+
Date summary status changed								

[1] Manager performance is evaluated net of investment management fees.
[2] 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 September 30, 2017

Manager	Compliance Issue	Explanation	Recommended Action	Comments
Sands Large Cap Growth (Touchstone)	Performance	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. Performance has rebounded in 2017. Through the first three quarters, Sands has outperformed the Index by over 900 basis points and ranked within the top decile of the large-cap growth peer group	**Hold**	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. Pavilion recommends no action at this time and will monitor this situation closely moving forward.
Northern Cross (Harbor)	Performance	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.	**Hold**	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 underweight allocations to banks and emerging markets. 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.

Executive Summary

Manager Compliance Checklist

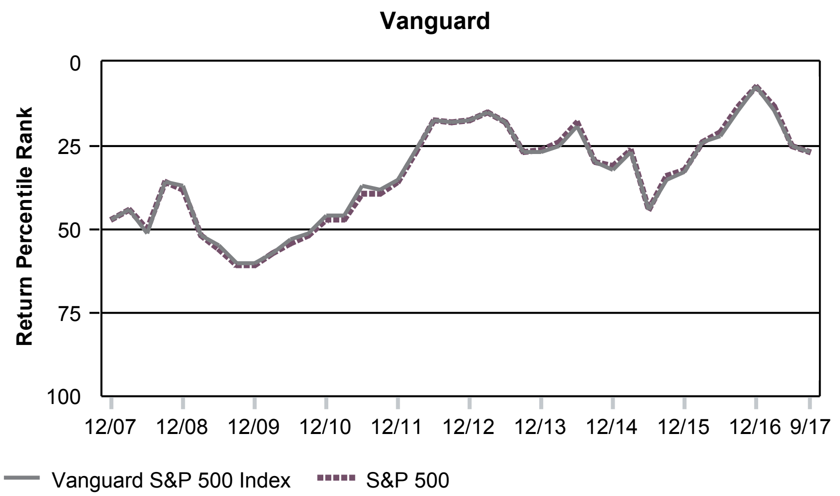
As of September 30, 2017

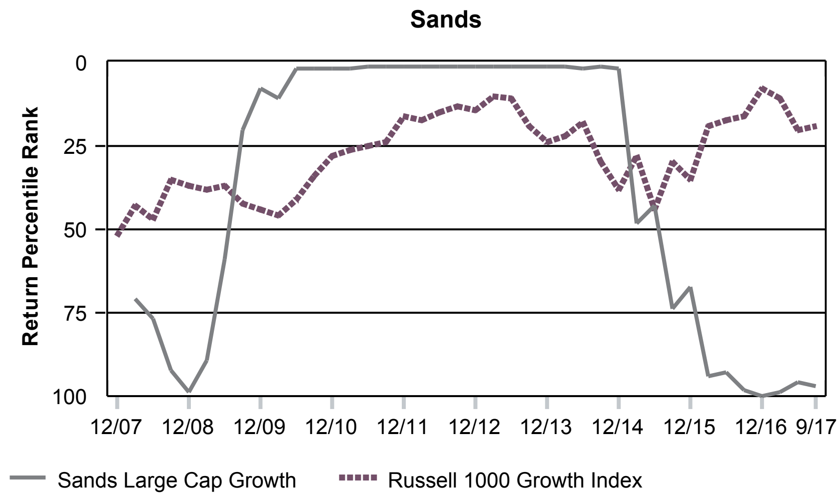
Manager	Compliance Issue	Explanation	Recommended Action	Comments
Barrow Hanley Short Fixed	Investment Team Changes	On April 28, 2017, Barrow Hanley announced that Mark Luchsinger and Scott McDonald will become the Co-Heads of the BHMS Fixed Income Group. As Managing Directors and senior members of the 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.	**Hold**	This transition has taken place in preparation for the eventual retirement of CIO, John Williams in February 2018. 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.

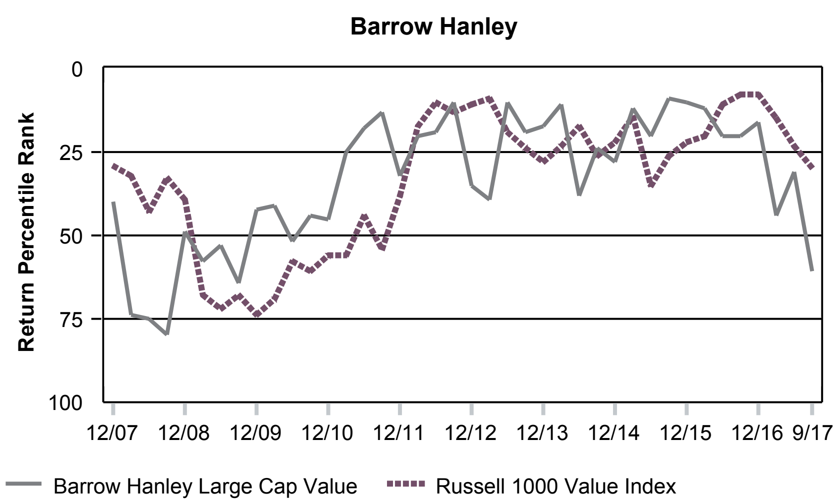
Manager Performance Evaluation

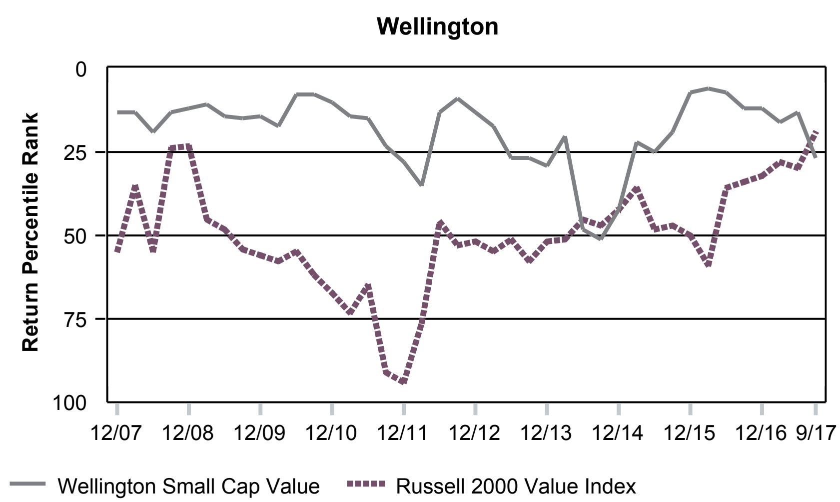
Rolling 3 Year Rankings vs. Peers

As of September 30, 2017





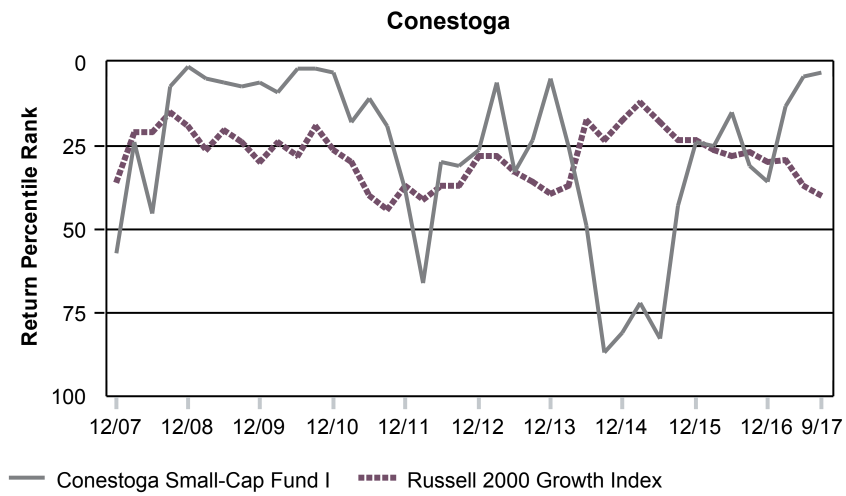


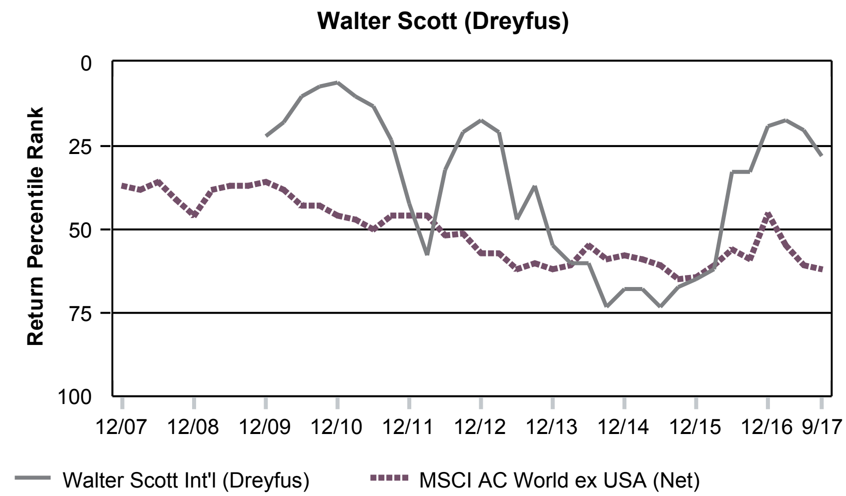


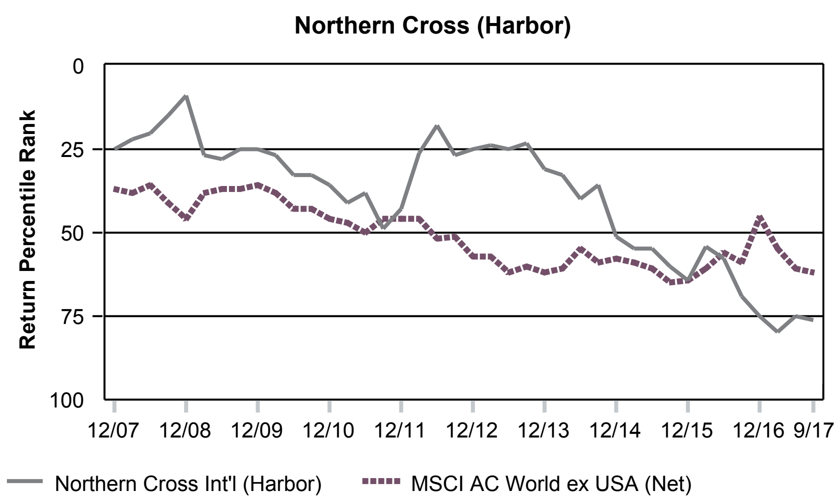
Manager Performance Evaluation

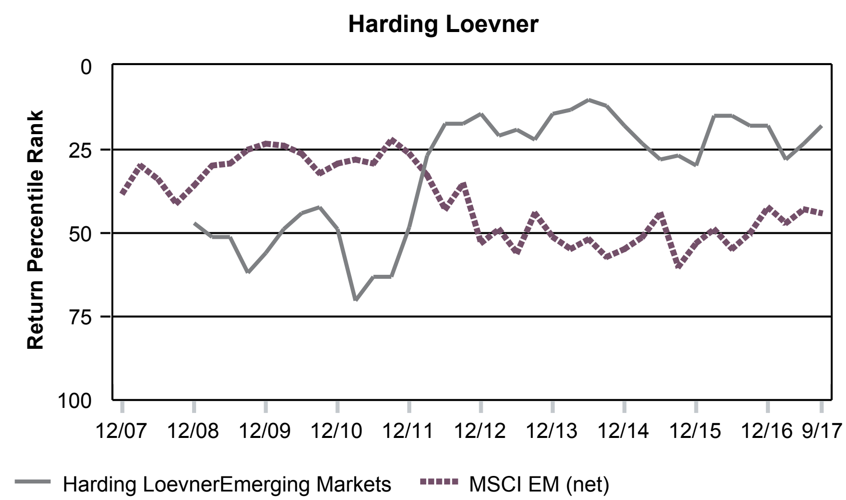
Rolling 3 Year Rankings vs. Peers

As of September 30, 2017





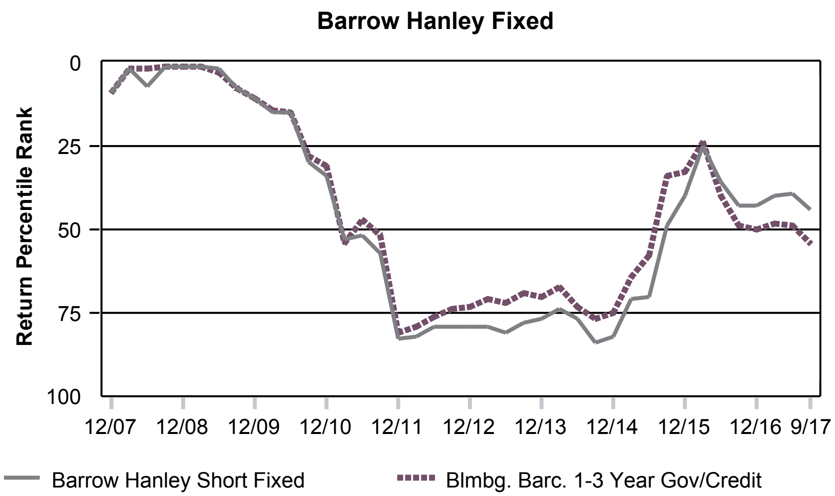


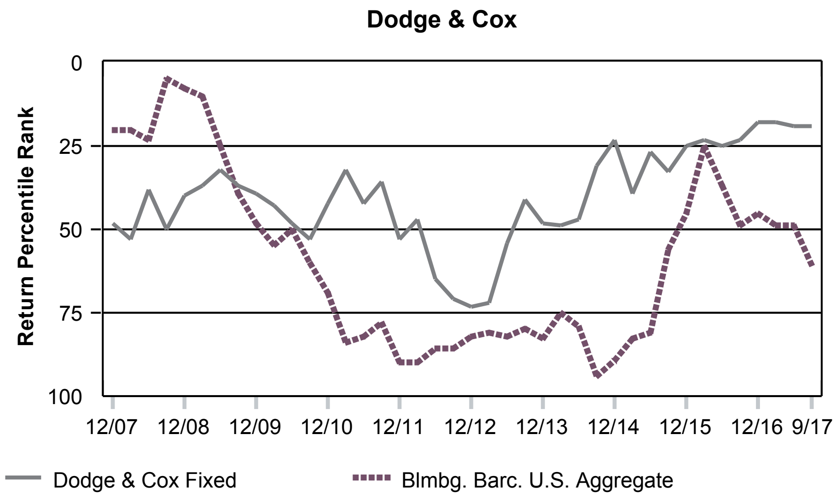


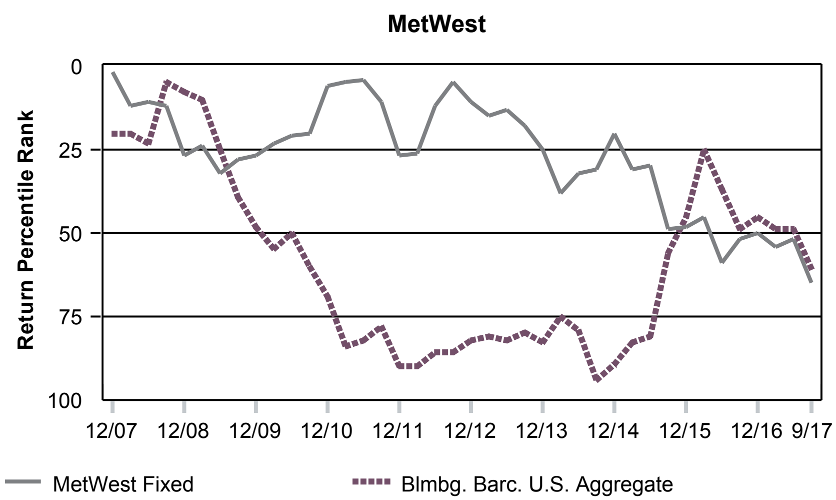
Manager Performance Evaluation

Rolling 3 Year Rankings vs. Peers

As of September 30, 2017





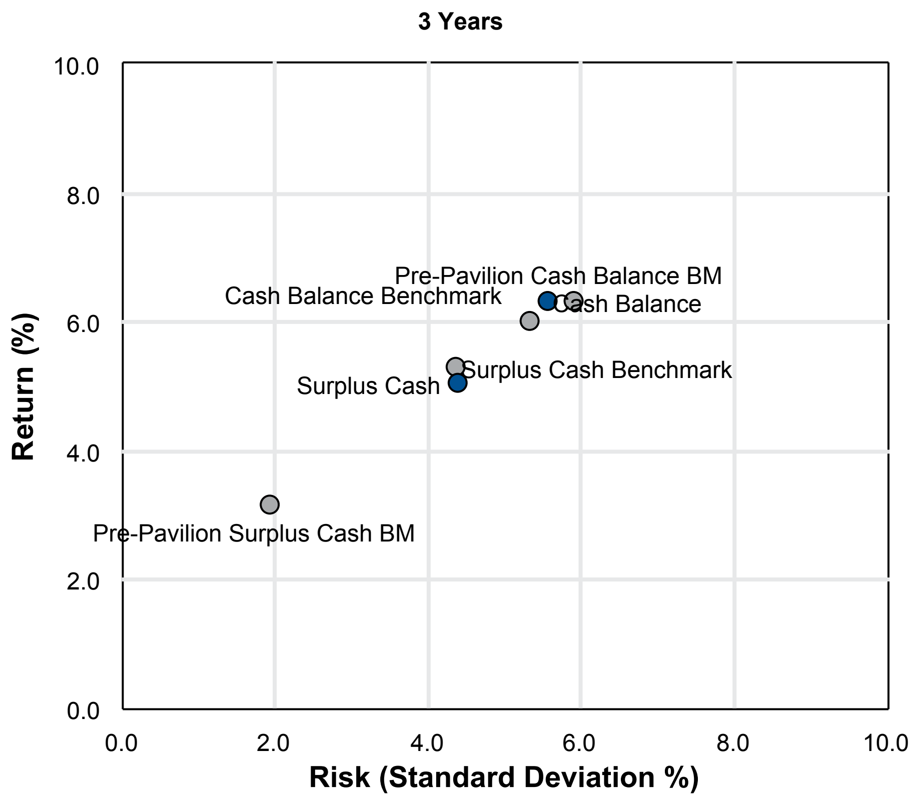


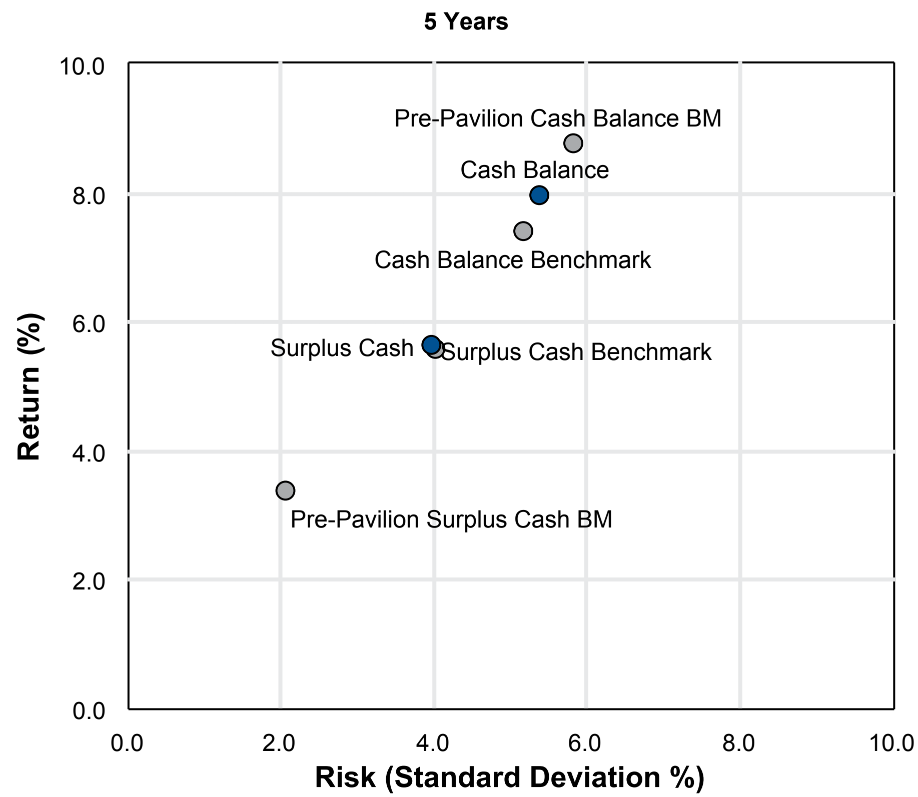
Performance Summary

Surplus Cash and Cash Balance Plan

Risk and Return Summary (Net of Fees)

As of September 30, 2017





Surplus Cash Portfolio ex District

Composite Asset Allocation & Performance

As of September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Total Surplus Cash X District	**833,953,772**	**100.0**	**2.7**	**2.7**	**9.0**	**9.0**	**5.0**	**5.6**	**5.7**	**5.7**	**4y 11m**
Surplus Cash Total Benchmark			2.8	2.8	8.6	8.9	5.3	5.6	5.2	5.7	
Pre-Pavilion Surplus Cash Total Benchmark			1.0	1.0	3.2	2.4	3.2	3.4	4.1	3.4	
Total Surplus Cash X District X Privates	**811,235,094**	**97.3**	**2.8**	**2.8**	**9.1**	**9.1**	**4.8**	**5.5**	**5.6**	**5.5**	**4y 11m**
Surplus Cash Total Benchmark x Privates			2.9	2.9	8.7	9.0	5.3	5.6	5.2	5.7	
Total Equity Composite	**351,161,384**	**42.1**	**4.9**	**4.9**	**17.2**	**17.9**	**8.8**	**11.8**	**5.5**	**12.0**	**4y 11m**
Total Equity Benchmark - Surplus			5.3	5.3	16.4	19.4	8.9	11.9	5.3	12.2	
Domestic Equity Composite	**219,249,660**	**26.3**	**4.8**	**4.8**	**14.6**	**18.7**	**10.1**	**14.1**	**6.5**	**14.3**	**4y 11m**
Domestic Equity Benchmark - Surplus			4.7	4.7	13.6	19.1	11.2	14.5	6.5	14.9	
Large Cap Equity Composite	178,420,228	21.4	4.5	4.5	15.3	18.1	9.5	14.4	6.7	14.6	4y 11m
Large Cap Equity Benchmark			4.5	4.5	14.2	18.6	10.7	14.5	6.5	14.9	
Small Cap Equity Composite	40,829,431	4.9	6.6	6.6	11.5	21.7	12.7	-	-	13.4	4y 11m
Small Cap Equity Benchmark			5.7	5.7	11.1	20.9	12.2	13.8	7.9	14.6	
International Equity Composite	**131,911,724**	**15.8**	**4.9**	**4.9**	**21.9**	**16.2**	**6.1**	**-**	**-**	**7.1**	**4y 11m**
MSCI AC World ex USA (Net)			6.2	6.2	21.1	19.6	4.7	7.0	1.3	7.0	

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 September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Total Fixed Income Composite	**347,499,799**	**41.7**	**0.8**	**0.8**	**2.9**	**1.3**	**2.5**	**2.2**	**4.0**	**2.2**	**4y 11m**
Total Fixed Income Benchmark - Surplus			0.7	0.7	2.6	0.2	2.3	1.8	3.7	1.8	
Short Duration Fixed Income Composite	**100,542,289**	**12.1**	**0.3**	**0.3**	**1.1**	**0.8**	**1.2**	**0.9**	**2.9**	**0.9**	**4y 11m**
Short Duration Fixed Income Benchmark - Surplus			0.3	0.3	1.1	0.7	1.1	0.9	2.9	0.9	
Market Duration Fixed Income Composite	**246,957,510**	**29.6**	**1.0**	**1.0**	**3.6**	**1.6**	**3.0**	**2.7**	**5.4**	**2.6**	**4y 11m**
Blmbg. Barc. U.S. Aggregate			0.8	0.8	3.1	0.1	2.7	2.1	4.3	2.1	
Total Alternatives Composite	**135,292,589**	**16.2**	**2.3**	**2.3**	**4.2**	**6.8**	**2.7**	**-**	**-**	**4.1**	**4y 5m**
Total Alternatives Benchmark - Surplus			2.2	2.2	5.5	6.6	4.1	-	-	4.6	
Real Estate Composite	**26,195,217**	**3.1**	**1.1**	**1.1**	**5.7**	**6.9**	**10.7**	**-**	**-**	**11.3**	**4y 1m**
NCREIF Property Index			1.7	1.7	5.1	6.9	9.8	10.3	6.2	10.2	
Hedge Fund Composite	**109,097,373**	**13.1**	**2.6**	**2.6**	**3.8**	**6.7**	**0.7**	**-**	**-**	**2.5**	**4y 5m**
HFRI Fund of Funds Composite Index			2.3	2.3	5.6	6.5	2.2	3.9	1.1	3.1	

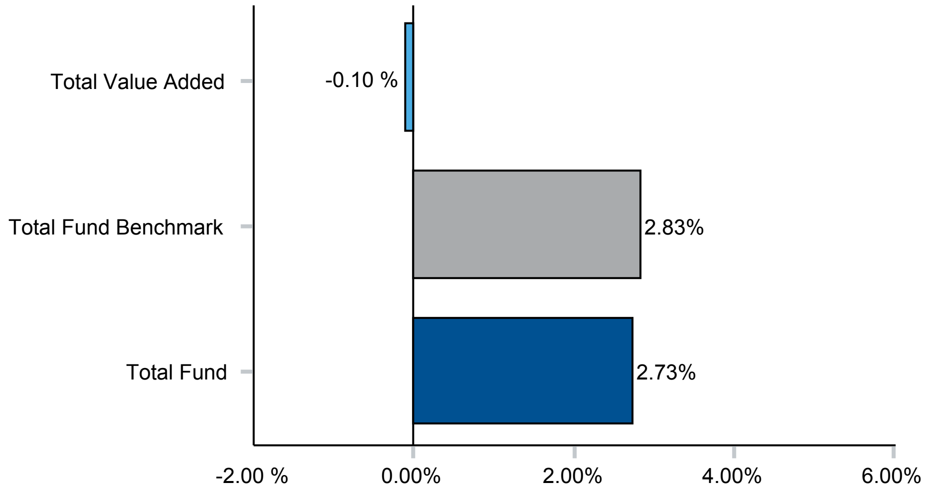
Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized.
Peer group percentile ranks are shown in parentheses.

Surplus Cash Portfolio ex District

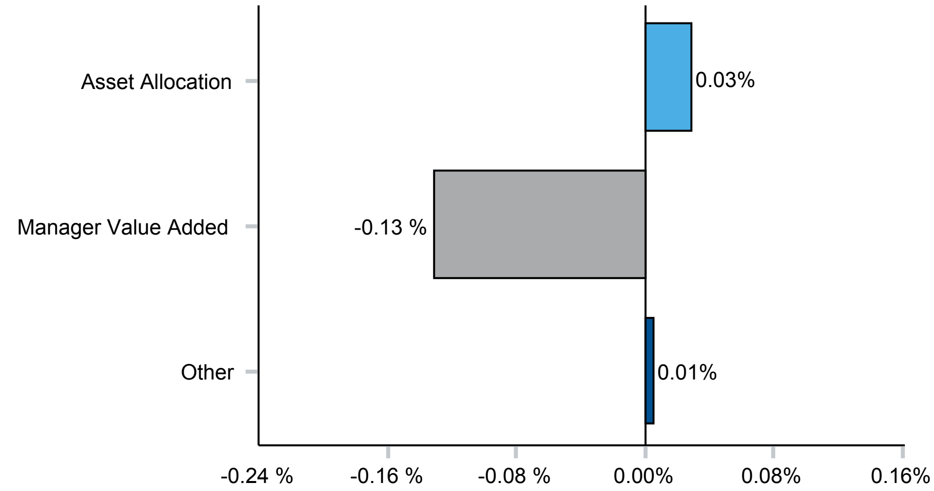
Attribution Analysis

1 Quarter Ending September 30, 2017

Total Fund Performance

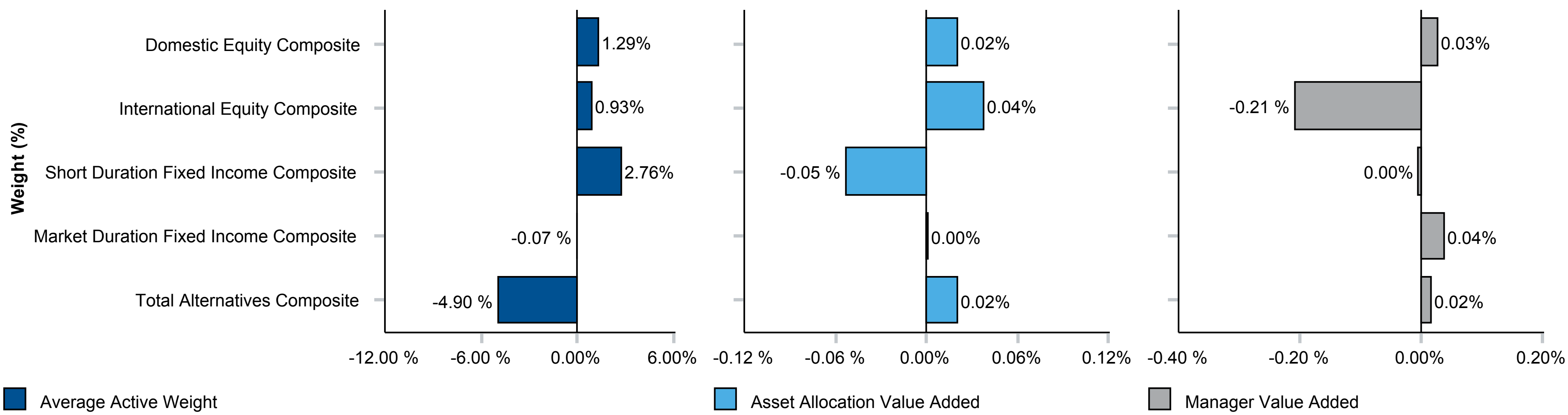


Total Value Added:-0.10 %



Total Asset Allocation:0.03%

Total Manager Value Added:-0.13 %



"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 September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Large-Cap Equity											
Vanguard S&P 500 Index	111,392,605	13.4	4.5 (46)	4.5 (46)	14.2 (37)	18.6 (44)	10.8 (17)	14.2 (16)	7.4 (20)	14.9 (15)	4y 11m
S&P 500			4.5 (46)	4.5 (46)	14.2 (37)	18.6 (43)	10.8 (16)	14.2 (16)	7.4 (20)	14.9 (15)	
IM U.S. Large Cap Core Equity			*4.4*	*4.4*	*13.5*	*18.3*	*9.4*	*13.1*	*6.6*	*13.8*	
Sands Large Cap Growth (Touchstone)	33,198,458	4.0	6.5 (21)	6.5 (21)	29.8 (4)	20.2 (48)	7.3 (97)	12.5 (81)	10.0 (4)	14.1 (70)	4y 11m
Russell 1000 Growth Index			5.9 (35)	5.9 (35)	20.7 (58)	21.9 (26)	12.7 (19)	15.3 (21)	9.1 (17)	16.2 (22)	
IM U.S. Large Cap Growth Equity			*5.5*	*5.5*	*21.7*	*20.0*	*11.1*	*13.9*	*7.9*	*15.1*	
Barrow Hanley Large Cap Value	33,829,165	4.1	2.5 (88)	2.5 (88)	6.9 (90)	14.4 (83)	7.6 (61)	13.1 (27)	6.1 (31)	9.1 (8)	17y 2m
Russell 1000 Value Index			3.1 (71)	3.1 (71)	7.9 (77)	15.1 (75)	8.5 (30)	13.2 (24)	5.9 (39)	7.2 (45)	
IM U.S. Large Cap Value Equity			*3.7*	*3.7*	*9.5*	*16.9*	*7.9*	*12.4*	*5.5*	*7.1*	
Small-Cap Equity											
Wellington Small Cap Value	20,543,241	2.5	3.6 (77)	3.6 (77)	1.2 (86)	14.1 (80)	11.1 (27)	12.8 (49)	8.9 (3)	13.2 (50)	4y 11m
Russell 2000 Value Index			5.1 (48)	5.1 (48)	5.7 (40)	20.5 (32)	12.1 (19)	13.3 (43)	7.1 (49)	13.8 (40)	
IM U.S. Small Cap Value Equity			*5.0*	*5.0*	*4.5*	*18.6*	*10.0*	*12.5*	*7.1*	*13.2*	
Conestoga Small Cap Growth	20,286,191	2.4	9.8 (5)	9.8 (5)	24.2 (16)	30.4 (11)	19.0 (3)	16.3 (6)	10.6 (2)	30.1 (19)	1y 3m
Russell 2000 Growth Index			6.2 (42)	6.2 (42)	16.8 (38)	21.0 (31)	12.2 (40)	14.3 (32)	8.5 (24)	25.0 (39)	
IM U.S. Small Cap Growth Equity			*5.6*	*5.6*	*14.0*	*19.8*	*11.4*	*12.5*	*7.7*	*23.5*	
International Equity											
Walter Scott Int'l (Dreyfus)	54,567,080	6.5	4.9 (75)	4.9 (75)	21.5 (62)	15.4 (81)	7.0 (28)	7.0 (58)	4.2 (11)	6.9 (60)	4y 11m
MSCI AC World ex USA (Net)			6.2 (51)	6.2 (51)	21.1 (65)	19.6 (48)	4.7 (62)	7.0 (58)	1.3 (55)	7.0 (58)	
IM International Equity			*6.2*	*6.2*	*23.1*	*19.3*	*5.4*	*7.5*	*1.4*	*7.5*	
Northern Cross Int'l (Harbor)	50,811,680	6.1	3.6 (88)	3.6 (88)	20.3 (73)	15.1 (82)	3.6 (76)	6.4 (68)	2.0 (39)	6.4 (68)	4y 11m
MSCI AC World ex USA (Net)			6.2 (51)	6.2 (51)	21.1 (65)	19.6 (48)	4.7 (62)	7.0 (58)	1.3 (55)	7.0 (58)	
IM International Equity			*6.2*	*6.2*	*23.1*	*19.3*	*5.4*	*7.5*	*1.4*	*7.5*	
Harding Loevner Emerging Markets	26,532,965	3.2	7.3 (58)	7.3 (58)	28.0 (48)	21.9 (42)	6.4 (18)	6.4 (16)	2.6 (19)	18.3 (28)	2y 1m
MSCI EM (net)			7.9 (48)	7.9 (48)	27.8 (49)	22.5 (38)	4.9 (44)	4.0 (54)	1.3 (45)	17.0 (41)	
IM Emerging Markets Equity			*7.8*	*7.8*	*27.6*	*21.1*	*4.6*	*4.1*	*1.0*	*15.9*	

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.

PAVILION

Surplus Cash Portfolio ex District

Manager Asset Allocation & Performance

As of September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Short Duration Fixed Income											
Barrow Hanley Short Fixed	83,770,460	10.0	0.3 (70)	0.3 (70)	1.2 (62)	0.9 (75)	1.2 (44)	0.9 (57)	2.0 (50)	4.7 (17)	26y 6m
Blmbg. Barc. 1-3 Year Gov/Credit			0.3 (72)	0.3 (72)	1.1 (73)	0.7 (83)	1.1 (54)	0.9 (58)	2.1 (49)	4.2 (23)	
IM U.S. Short Term Investment Grade			*0.4*	*0.4*	*1.4*	*1.2*	*1.1*	*1.0*	*2.0*	*3.9*	
Cash Composite	16,771,829	2.0	0.2	0.2	0.4	0.5	0.3	-	-	0.0	4y 11m
90 Day U.S. Treasury Bill			0.3	0.3	0.6	0.6	0.3	0.2	0.4	0.2	
Market Duration Fixed Income											
Dodge & Cox Fixed	124,110,999	14.9	1.2 (27)	1.2 (27)	4.1 (46)	2.8 (14)	3.6 (19)	3.4 (16)	5.2 (32)	3.2 (16)	4y 11m
Blmbg. Barc. U.S. Aggregate			0.8 (75)	0.8 (75)	3.1 (81)	0.1 (92)	2.7 (61)	2.1 (75)	4.3 (78)	2.1 (72)	
IM U.S. Broad Market Core+ Fixed Income			*1.0*	*1.0*	*4.0*	*1.7*	*3.0*	*2.5*	*4.9*	*2.4*	
MetWest Fixed	109,740,829	13.2	0.8 (83)	0.8 (83)	3.1 (81)	0.5 (87)	2.5 (65)	2.2 (66)	5.5 (17)	2.2 (68)	4y 11m
Blmbg. Barc. U.S. Aggregate			0.8 (75)	0.8 (75)	3.1 (81)	0.1 (92)	2.7 (61)	2.1 (75)	4.3 (78)	2.1 (72)	
IM U.S. Broad Market Core+ Fixed Income			*1.0*	*1.0*	*4.0*	*1.7*	*3.0*	*2.5*	*4.9*	*2.4*	
Met West Total Return Bond Plan - CONCERN	13,105,681	1.6	0.7 (87)	0.7 (87)	3.1 (82)	0.4 (88)	2.5 (68)	2.8 (40)	-	2.7 (89)	1y 8m
Blmbg. Barc. U.S. Aggregate			0.8 (75)	0.8 (75)	3.1 (81)	0.1 (92)	2.7 (61)	2.1 (75)	4.3 (78)	2.6 (90)	
IM U.S. Broad Market Core+ Fixed Income			*1.0*	*1.0*	*4.0*	*1.7*	*3.0*	*2.5*	*4.9*	*4.5*	
Real Estate											
Oaktree Real Estate Opportunities Fund VI	12,074,507	1.4	2.5	2.5	4.5	4.4	8.0	-	-	8.9	4y 1m
NCREIF Property Index			1.7	1.7	5.1	6.9	9.8	10.3	6.2	10.2	
Walton Street Real Estate Fund VII, L.P.	10,644,171	1.3	0.0	0.0	6.1	8.9	14.0	-	-	17.2	3y 11m
NCREIF Property Index			1.7	1.7	5.1	6.9	9.8	10.3	6.2	10.2	
Walton Street Real Estate Fund VIII, L.P.	3,476,539	0.4	0.0	0.0	-	-	-	-	-	7.0	0y 4m
NCREIF Property Index			1.7	1.7	5.1	6.9	9.8	10.3	6.2	2.3	
Hedge Funds											
Hedge Fund Composite	109,097,373	13.1	2.6	2.6	3.8	6.7	0.7	-	-	2.5	4y 5m
HFRI Fund of Funds Composite Index			2.3	2.3	5.6	6.5	2.2	3.9	1.1	3.1	

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.

Surplus Cash Portfolio ex District

Manager Asset Allocation & Performance

As of September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Total Plan											
Total Surplus Cash X District	833,953,772	100.0	2.7	2.7	9.0	9.0	5.0	5.6	5.7	5.7	4y 11m
Total Surplus Cash Benchmark			2.8	2.8	8.6	8.9	5.3	5.6	5.2	5.7	
Pre-Pavilion Total Surplus Cash Benchmark			1.0	1.0	3.2	2.4	3.2	3.4	4.1	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 September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Total Cash Balance Plan	**250,591,534**	**100.0**	**3.2**	**3.2**	**11.2**	**11.0**	**6.3**	**8.0**	**5.7**	**8.2**	**4y 11m**
Total Cash Balance Plan Benchmark			3.3	3.3	9.8	10.6	6.0	7.4	4.9	7.6	
Pre-Pavilion Total Cash Balance Plan Benchmark			2.2	2.2	6.0	9.0	6.3	8.8	5.6	9.0	
Total Cash Balance Plan X Private Structures	**237,024,919**	**94.6**	**3.3**	**3.3**	**11.6**	**11.3**	**6.0**	**7.7**	**5.6**	**7.9**	**4y 11m**
Cash Balance Plan Total X Privates Benchmark			3.4	3.4	10.1	10.8	5.8	7.3	4.9	7.4	
Total Equity Composite	**132,890,271**	**53.0**	**4.8**	**4.8**	**17.2**	**17.6**	**8.3**	**11.3**	**4.9**	**11.7**	**4y 11m**
Total Equity Benchmark			5.2	5.2	16.4	19.3	8.8	11.8	5.2	12.1	
Domestic Equity Composite	**85,681,508**	**34.2**	**4.8**	**4.8**	**15.0**	**18.6**	**9.7**	**13.9**	**6.1**	**14.3**	**4y 11m**
Domestic Equity Benchmark			4.7	4.7	13.8	19.0	11.0	14.5	6.5	14.9	
Large Cap Equity Composite	71,814,815	28.7	4.5	4.5	15.6	18.0	9.2	14.0	6.2	14.5	4y 11m
Large Cap Equity Benchmark			4.5	4.5	14.2	18.6	10.7	14.5	6.5	14.9	
Small Cap Equity Composite	13,866,693	5.5	6.6	6.6	11.4	21.6	12.7	-	-	13.3	4y 11m
Small Cap Equity Benchmark			5.7	5.7	11.1	20.9	12.2	13.8	7.9	14.6	
International Equity Composite	**47,208,762**	**18.8**	**4.7**	**4.7**	**21.9**	**16.0**	**5.6**	**-**	**-**	**6.9**	**4y 11m**
MSCI AC World ex USA (Net)			6.2	6.2	21.1	19.6	4.7	7.0	1.3	7.0	

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 September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Total Fixed Income Composite	**70,583,174**	**28.2**	**0.9**	**0.9**	**3.1**	**1.4**	**2.5**	**2.4**	**5.0**	**2.4**	**4y 11m**
Total Fixed Income Benchmark			0.8	0.8	2.6	0.3	2.3	1.8	4.1	1.8	
Short Duration Fixed Income Composite	**8,481,588**	**3.4**	**0.3**	**0.3**	**1.3**	**1.2**	**1.2**	**0.9**	**-**	**0.9**	**4y 11m**
Short Duration Fixed Income Benchmark			0.3	0.3	1.1	0.7	1.1	0.9	0.8	0.9	
Market Duration Fixed Income Composite	**62,101,587**	**24.8**	**1.0**	**1.0**	**3.5**	**1.4**	**2.8**	**2.9**	**5.2**	**2.8**	**4y 11m**
Blmbg. Barc. U.S. Aggregate			0.8	0.8	3.1	0.1	2.7	2.1	4.3	2.1	
Total Alternatives Composite	**47,118,089**	**18.8**	**2.2**	**2.2**	**6.9**	**7.8**	**6.6**	**-**	**-**	**8.5**	**4y 11m**
Total Alternatives Benchmark			2.1	2.1	5.4	6.6	4.7	5.9	-	6.1	
Hedge Fund of Fund Composite	**30,877,214**	**12.3**	**2.9**	**2.9**	**7.7**	**8.3**	**4.4**	**-**	**-**	**7.0**	**4y 11m**
HFRI Fund of Funds Composite Index			2.3	2.3	5.6	6.5	2.2	3.9	1.1	4.0	
Real Estate Composite	**16,240,875**	**6.5**	**1.1**	**1.1**	**5.3**	**6.6**	**10.5**	**-**	**-**	**11.0**	**4y 9m**
NCREIF Property Index			1.7	1.7	5.1	6.9	9.8	10.3	6.2	10.3	

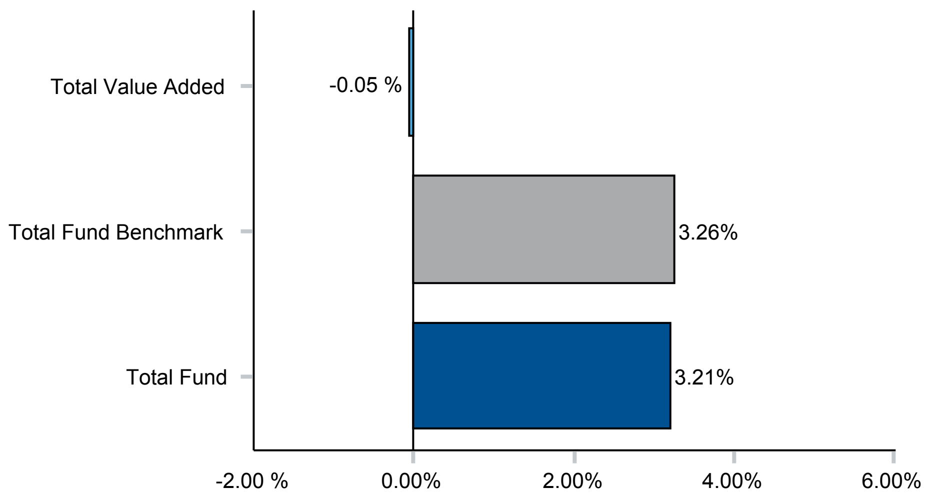
Returns are expressed as percentages and are net of investment management fees. Returns for periods greater than one year are annualized.
Peer group percentile ranks are shown in parentheses.

Cash Balance Plan

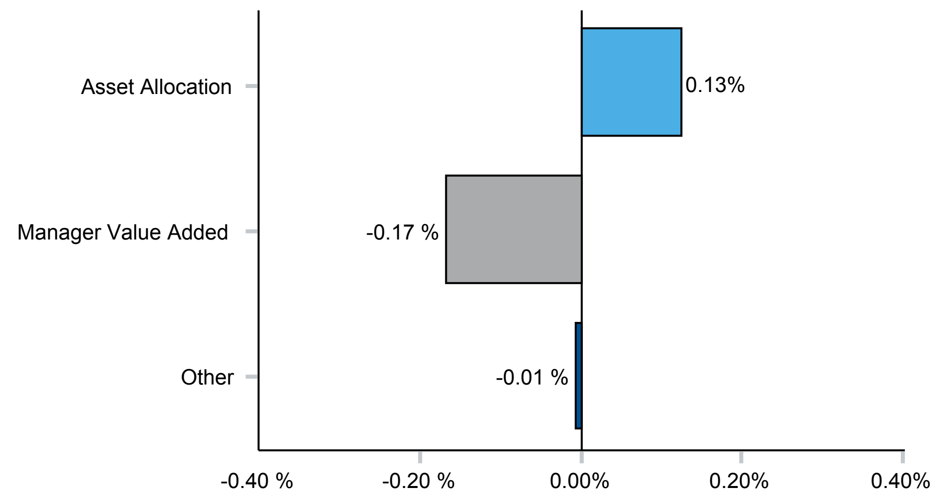
Attribution Analysis

1 Quarter Ending September 30, 2017

Total Fund Performance

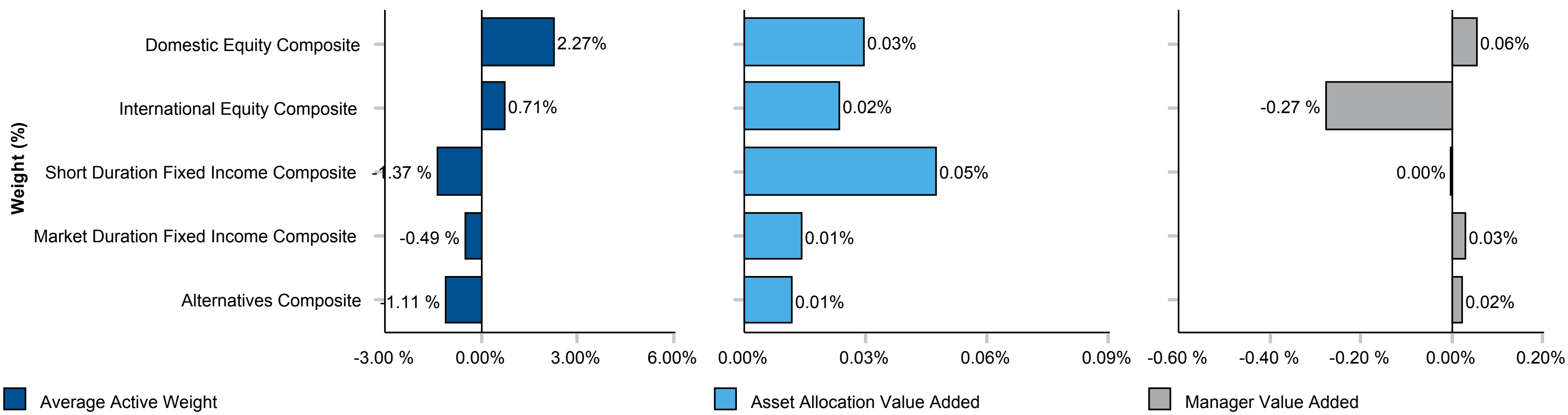


Total Value Added:-0.05 %



Total Asset Allocation:0.13%

Total Manager Value Added:-0.17 %



"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 September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Large-Cap Equity											
Vanguard Institutional Index Fund	36,859,167	14.7	4.5 (46)	4.5 (46)	14.2 (37)	18.6 (44)	10.8 (17)	14.2 (16)	7.4 (20)	14.9 (15)	4y 11m
S&P 500			4.5 (46)	4.5 (46)	14.2 (37)	18.6 (43)	10.8 (16)	14.2 (16)	7.4 (20)	14.9 (15)	
IM U.S. Large Cap Core Equity			*4.4*	*4.4*	*13.5*	*18.3*	*9.4*	*13.1*	*6.6*	*13.8*	
Sands Large Cap Growth (Touchstone)	17,799,759	7.1	6.5 (21)	6.5 (21)	29.8 (4)	20.2 (48)	7.3 (97)	12.5 (81)	10.0 (4)	14.1 (70)	4y 11m
Russell 1000 Growth Index			5.9 (35)	5.9 (35)	20.7 (58)	21.9 (26)	12.7 (19)	15.3 (21)	9.1 (17)	16.2 (22)	
IM U.S. Large Cap Growth Equity			*5.5*	*5.5*	*21.7*	*20.0*	*11.1*	*13.9*	*7.9*	*15.1*	
Barrow Hanley Large Cap Value	17,155,889	6.8	2.5 (86)	2.5 (86)	7.1 (87)	14.7 (79)	7.9 (50)	13.3 (23)	6.2 (28)	13.6 (25)	4y 11m
Russell 1000 Value Index			3.1 (71)	3.1 (71)	7.9 (77)	15.1 (75)	8.5 (30)	13.2 (24)	5.9 (39)	13.6 (25)	
IM U.S. Large Cap Value Equity			*3.7*	*3.7*	*9.5*	*16.9*	*7.9*	*12.4*	*5.5*	*12.7*	
Small-Cap Equity											
Wellington Small Cap Value	6,935,457	2.8	3.5 (79)	3.5 (79)	0.9 (86)	13.8 (81)	11.1 (28)	12.7 (50)	8.9 (3)	13.2 (52)	4y 11m
Russell 2000 Value Index			5.1 (48)	5.1 (48)	5.7 (40)	20.5 (32)	12.1 (19)	13.3 (43)	7.1 (49)	13.8 (40)	
IM U.S. Small Cap Value Equity			*5.0*	*5.0*	*4.5*	*18.6*	*10.0*	*12.5*	*7.1*	*13.2*	
Conestoga Small Cap Growth	6,931,236	2.8	9.8 (5)	9.8 (5)	24.2 (16)	30.4 (11)	19.0 (3)	16.3 (6)	10.6 (2)	30.1 (19)	1y 3m
Russell 2000 Growth Index			6.2 (42)	6.2 (42)	16.8 (38)	21.0 (31)	12.2 (40)	14.3 (32)	8.5 (24)	25.0 (39)	
IM U.S. Small Cap Growth Equity			*5.6*	*5.6*	*14.0*	*19.8*	*11.4*	*12.5*	*7.7*	*23.5*	
International Equity											
Walter Scott Int'l (Dreyfus)	20,875,477	8.3	4.9 (75)	4.9 (75)	21.5 (62)	15.4 (81)	7.0 (28)	7.0 (58)	4.2 (11)	6.9 (60)	4y 11m
MSCI AC World ex USA (Net)			6.2 (51)	6.2 (51)	21.1 (65)	19.6 (48)	4.7 (62)	7.0 (58)	1.3 (55)	7.0 (58)	
IM International Equity			*6.2*	*6.2*	*23.1*	*19.3*	*5.4*	*7.5*	*1.4*	*7.5*	
Northern Cross Int'l (Harbor)	19,572,955	7.8	3.6 (88)	3.6 (88)	20.3 (73)	15.1 (82)	3.6 (76)	6.4 (68)	2.0 (39)	6.4 (68)	4y 11m
MSCI AC World ex USA (Net)			6.2 (51)	6.2 (51)	21.1 (65)	19.6 (48)	4.7 (62)	7.0 (58)	1.3 (55)	7.0 (58)	
IM International Equity			*6.2*	*6.2*	*23.1*	*19.3*	*5.4*	*7.5*	*1.4*	*7.5*	
Harding Loevner Inst. Emerging Markets I	6,760,330	2.7	7.3 (58)	7.3 (58)	28.0 (48)	21.9 (42)	6.4 (18)	6.4 (16)	2.6 (19)	22.9 (40)	0y 11m
MSCI EM (net)			7.9 (48)	7.9 (48)	27.8 (49)	22.5 (38)	4.9 (44)	4.0 (54)	1.3 (45)	22.2 (46)	
IM Emerging Markets Equity (MF) Median			*7.8*	*7.8*	*27.6*	*21.1*	*4.6*	*4.1*	*1.0*	*21.5*	

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 September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Short Duration Fixed Income											
Barrow Hanley Short Fixed	7,094,127	2.8	0.3 (84)	0.3 (84)	1.0 (78)	0.6 (85)	1.0 (62)	0.8 (64)	2.0 (53)	0.8 (62)	4y 11m
Blmbg. Barc. 1-3 Year Gov/Credit			0.3 (72)	0.3 (72)	1.1 (73)	0.7 (83)	1.1 (54)	0.9 (58)	2.1 (49)	0.9 (56)	
IM U.S. Short Term Investment Grade			*0.4*	*0.4*	*1.4*	*1.2*	*1.1*	*1.0*	*2.0*	*1.0*	
Cash Composite	1,387,461	0.6	0.3	0.3	3.1	3.8	3.1	2.0	-	2.0	4y 11m
90 Day U.S. Treasury Bill			0.3	0.3	0.6	0.6	0.3	0.2	0.4	0.2	
Market Duration Fixed Income											
Dodge & Cox Income Fund	31,106,568	12.4	1.1 (34)	1.1 (34)	3.9 (56)	2.6 (17)	3.2 (32)	3.2 (22)	5.1 (44)	6.8 (32)	28y 9m
Blmbg. Barc. U.S. Aggregate			0.8 (75)	0.8 (75)	3.1 (81)	0.1 (92)	2.7 (61)	2.1 (75)	4.3 (78)	6.4 (71)	
IM U.S. Broad Market Core+ Fixed Income			*1.0*	*1.0*	*4.0*	*1.7*	*3.0*	*2.5*	*4.9*	*6.6*	
Met West Total Return Fund Pl	30,995,019	12.4	0.7 (87)	0.7 (87)	3.0 (84)	0.2 (91)	2.4 (72)	2.7 (44)	5.8 (12)	2.7 (41)	4y 11m
Blmbg. Barc. U.S. Aggregate			0.8 (75)	0.8 (75)	3.1 (81)	0.1 (92)	2.7 (61)	2.1 (75)	4.3 (78)	2.1 (72)	
IM U.S. Broad Market Core+ Fixed Income			*1.0*	*1.0*	*4.0*	*1.7*	*3.0*	*2.5*	*4.9*	*2.4*	
Hedge Fund of Funds											
Lighthouse Diversified	16,049,026	6.4	1.2	1.2	3.5	4.5	3.1	5.5	3.1	5.6	4y 11m
HFRI Fund of Funds Composite Index			2.3	2.3	5.6	6.5	2.2	3.9	1.1	4.0	
Pointer Offshore LTD	14,828,188	5.9	4.7	4.7	12.7	12.8	6.0	8.4	7.0	8.6	4y 9m
HFRI Fund of Funds Composite Index			2.3	2.3	5.6	6.5	2.2	3.9	1.1	3.8	
Real Estate											
Oaktree RE Opportunities Fund VI	7,184,920	2.9	2.5	2.5	3.7	3.7	7.7	-	-	9.3	4y 8m
NCREIF Property Index			1.7	1.7	5.1	6.9	9.8	10.3	6.2	10.3	
Walton Street Real Estate Fund VII, L.P.	6,381,695	2.5	0.0	0.0	6.1	8.9	14.0	-	-	16.0	4y 3m
NCREIF Property Index			1.7	1.7	5.1	6.9	9.8	10.3	6.2	10.2	
Walton Street Real Estate Fund VIII, L.P.	2,674,260	1.1	0.0	0.0	-	-	-	-	-	7.0	0y 4m
NCREIF Property Index			1.7	1.7	5.1	6.9	9.8	10.3	6.2	2.3	

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.

Cash Balance Plan

Manager Asset Allocation & Performance

As of September 30, 2017

	Allocation		Performance(%)								
	Market Value ($)	%	Quarter	Fiscal YTD	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Period
Total Plan											
Total Cash Balance Plan	250,591,534	100.0	3.2	3.2	11.2	11.0	6.3	8.0	5.7	8.2	4y 11m
Total Cash Balance Plan Benchmark			3.3	3.3	9.8	10.6	6.0	7.4	4.9	7.6	
Pre-Pavilion Total Cash Balance Plan Benchmark			2.2	2.2	6.0	9.0	6.3	8.8	5.6	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 September 30, 2017 ($ in Millions)

Partnership	Vintage Year	Committed Capital	Paid-in Capital	Unfunded Commitment	Market Value[1]	Distributions	Total Value	Net IRR[2]	TV / PI	D / PI
Surplus Cash										
Oaktree RE Opportunities VI	2012	$14.0	$15.0	$3.2	$12.1	$6.9	$19.0	9.4%	1.3	0.5
Walton Street RE Fund VII	2012	$14.0	$11.9	$7.9	$10.6	$5.8	$16.5	16.2%	1.4	0.5
Walton Street RE Fund VIII	2017	$13.0	$3.3	$9.7	$3.5	$0.0	$3.5	N/A	1.1	0.0
Total		$41.0	$30.1	$20.9	$26.2	$12.8	$39.0		1.3	0.4
Cash Balance										
Oaktree RE Opportunities VI	2012	$8.4	$10.9	$1.9	$7.2	$6.4	$13.6	9.0%	1.2	0.6
Walton Street RE Fund VII	2012	$8.4	$7.3	$4.7	$6.4	$3.6	$10.0	15.9%	1.4	0.5
Walton Street RE Fund VIII	2017	$10.0	$2.5	$7.5	$2.7	$0.0	$2.7	N/A	1.1	0.0
Total		$26.8	$20.7	$14.2	$16.2	$10.0	$26.2		1.3	0.5

[1] 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.
[2] Net IRR is through the previous quarter end.

Asset Class Diversification

Growth Has Improved Across Economic Regions

Executive Summary

- Global growth should remain sound, although some regions will benefit more than others.
- Inflation will remain subdued in the near-term, with tight U.S. labor markets a potential threat. Any sustained wage gains may be a leading indicator of changes in inflation dynamics.
- Valuations in equity and credit markets appear full on an absolute basis but reflect strong underlying fundamentals, and the likelihood that interest rates, though expected to rise slightly, will stay low for longer.
- Central bank policy makers have begun to refine forward guidance, but policy changes likely will continue to be very gradual with accommodation remaining in place for some time.
- Risks remain, particularly geopolitical risks that likely could rock markets periodically. A monetary policy misstep is also a possibility.
- We recommend maintaining the current positioning: overweight equities, emphasis on the US and emerging markets within equities, and high quality fixed income exposure with some duration for diversification, and the use of emerging market debt either through active managers or dedicated positions.

Manufacturing Purchasing Managers Indices

	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	Jul-17	Aug-17	Sep-17
Global	53.2	52.3	52.8	53.3	52.5	52.3	50.6	51.4	51.4	51.0	51.2	51.6	51.7	51.7	53.2	53.3	53.5	53.8	53.6	53.8	53.7	53.8	53.7	53.6	53.9
Developed	54.6	53.6	54.0	54.6	53.7	53.2	51.2	51.7	51.9	51.5	51.5	51.6	51.8	52.0	53.7	54.0	54.1	54.6	54.1	54.3	54.4	54.3	54.5	54.4	54.7
Emerging	49.8	49.0	49.8	50.2	49.5	50.1	49.0	50.5	49.9	49.5	50.0	51.5	51.3	51.1	51.8	51.5	51.9	51.8	52.1	52.5	52.0	52.3	51.5	51.5	52.1
U. S.	55.7	55.0	55.0	55.9	54.0	53.2	50.0	51.3	52.4	50.9	51.2	51.8	51.5	52.3	54.9	54.9	54.1	55.8	54.1	53.0	53.2	53.6	53.9	54.6	55.3
Canada*	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	55.5	54.6
U. K.	55.2	53.4	55.2	55.7	55.1	55.7	52.7	53.7	52.0	53.2	52.6	47.6	53.4	53.8	54.8	55.3	56.6	55.2	53.7	54.9	56.1	54.3	53.8	54.1	54.0
Euro Zone	54.3	53.6	53.9	54.2	54.3	53.6	53.0	53.1	53.0	53.1	53.1	53.2	52.9	52.6	53.3	53.9	54.4	54.4	56.0	56.4	56.8	56.8	56.3	55.7	55.7
Germany	55.0	54.1	54.2	55.2	55.5	54.5	54.1	54.0	53.6	54.5	54.4	55.3	53.3	52.8	55.1	55.0	55.2	54.8	56.1	57.1	56.7	57.4	56.4	54.7	55.8
France	50.2	51.9	52.6	51.0	50.1	50.2	49.3	50.0	50.2	50.9	49.6	50.1	51.9	52.7	51.6	51.4	53.1	54.1	55.9	56.8	56.6	56.9	56.6	55.6	55.2
Italy	55.0	53.4	53.9	54.3	56.0	53.8	53.7	52.4	53.1	50.8	52.6	52.2	51.9	51.1	51.1	53.4	52.9	52.8	54.8	54.2	56.8	55.2	54.5	56.2	55.8
Spain	58.8	54.6	55.0	56.2	55.2	55.3	54.5	55.1	55.2	54.8	55.7	53.7	54.8	54.1	54.4	55.2	55.5	54.7	57.0	56.8	57.3	57.2	57.7	56.7	55.3
Greece*	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	50.5	52.2
Ireland	59.7	59.5	57.7	60.2	59.2	61.1	59.5	60.7	58.1	59.1	59.2	56.5	56.9	54.8	54.0	55.5	58.4	59.3	57.8	56.9	58.7	58.7	58.0	57.0	58.2
Australia	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	56.0	59.8
Japan	52.9	51.2	52.3	52.3	52.2	52.6	51.0	49.9	48.9	49.2	49.0	50.1	49.8	48.9	51.3	52.0	52.8	52.3	52.2	52.9	52.6	53.4	52.9	51.8	51.9
China	48.8	48.0	49.9	50.5	49.4	50.1	49.4	51.3	50.8	50.5	50.3	51.9	51.8	51.4	52.9	52.9	53.5	52.2	52.6	52.1	51.2	51.5	51.1	51.9	52.4
Indonesia*	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	48.6	50.7
S. Korea*	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	49.1	49.9
Taiwan*	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	53.6	54.3
India	52.6	51.5	52.6	50.2	51.6	53.3	51.2	54.3	52.8	50.9	51.1	52.4	54.6	52.4	55.4	49.1	47.6	49.4	50.7	52.3	51.3	52.5	52.7	46.0	49.0
Brazil	44.8	42.7	42.7	44.5	43.9	45.1	39.0	40.8	39.0	38.3	42.3	46.4	44.4	46.1	44.9	45.3	45.2	44.7	46.6	48.7	50.4	50.4	48.5	49.4	49.6
Mexico*	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	51.2	52.2
Russia	49.3	50.9	49.0	50.5	47.8	48.4	50.6	50.8	51.3	51.2	53.5	53.5	52.9	53.1	53.7	55.8	56.6	58.3	55.4	56.3	55.3	56.0	54.8	53.4	54.2

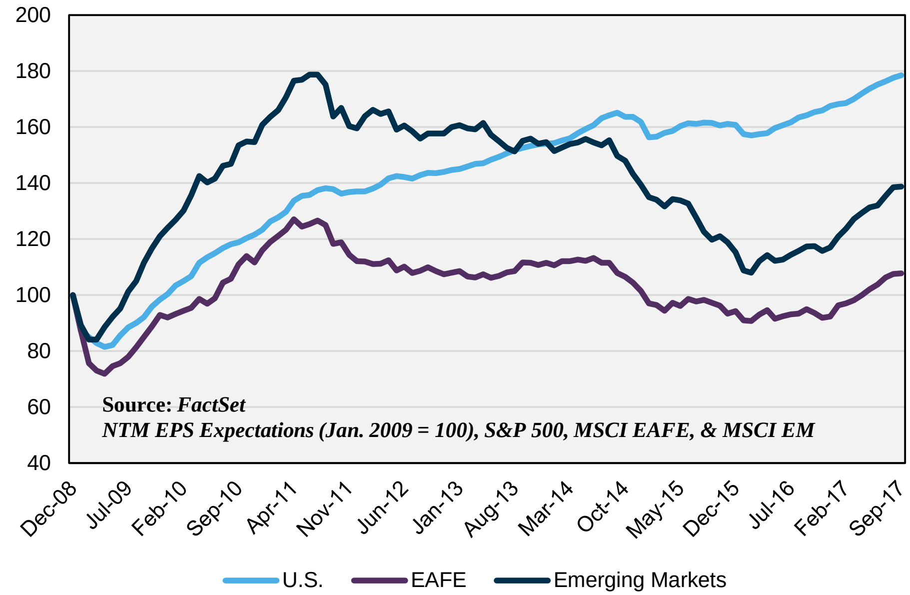
Key	Contraction	Expansion

Source: Bloomberg, JP Morgan

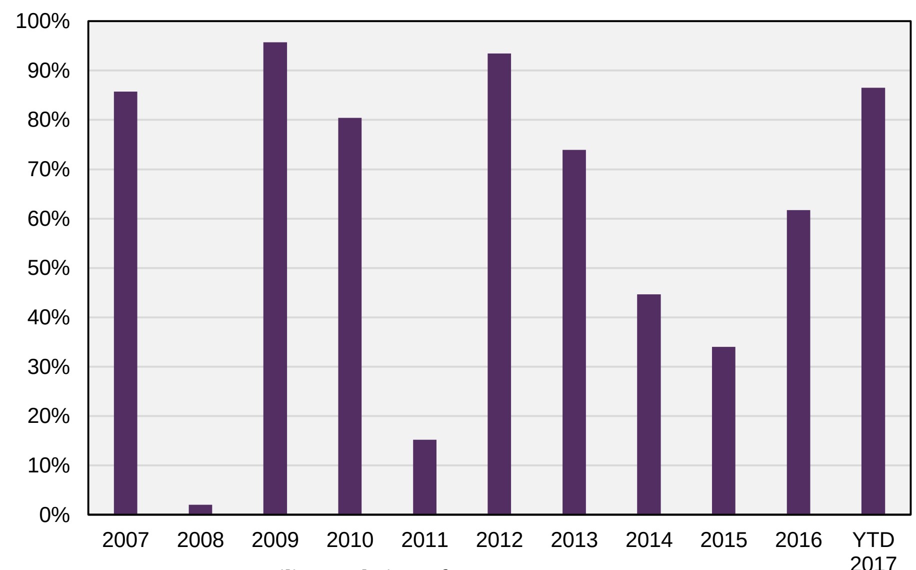
Equity Outlook

Summary	
Strong equity market performance this year has been a global phenomenon, reflecting improvements in worldwide growth, continued improvements in financial conditions, and constrained inflation.	
Themes & Implementation	
Valuations	U.S. equity valuations, while appearing full on an absolute basis, appear less so after adjusting for interest rate levels. Earnings likely will remain strong over the near-term as domestic companies benefit from global growth. While developed international market valuations appear attractive, adjusting for differing sector weightings and growth rates makes them appear less favorable. Emerging market valuations appear most attractive.
Uneven Regional Risks	Developed international markets, in particular Europe, have and will face challenges, as countries within the region have experienced an uneven recovery since the financial crisis.
Emerging Market Opportunities	Economic growth and stability, improved ROE and earnings combined with favorable valuations have enhanced the prospects for emerging markets. We recommend an overweight to emerging markets equity (higher beta) be balanced with an emphasis on U.S. equities (lower beta) to balance risk exposures
Key Risks	
Policy Misstep	As central banks shift guidance and policy towards the removal of accommodation, the risk is that they move too quickly. The European Central Bank may have the most difficult task, given the still uneven recovery in Europe.

Returning Earnings Growth



Percent of Countries in MSCI ACWI With Positive Equity Market Returns



Source: *FactSet & Pavilion Analysis as of 9/30/2017*

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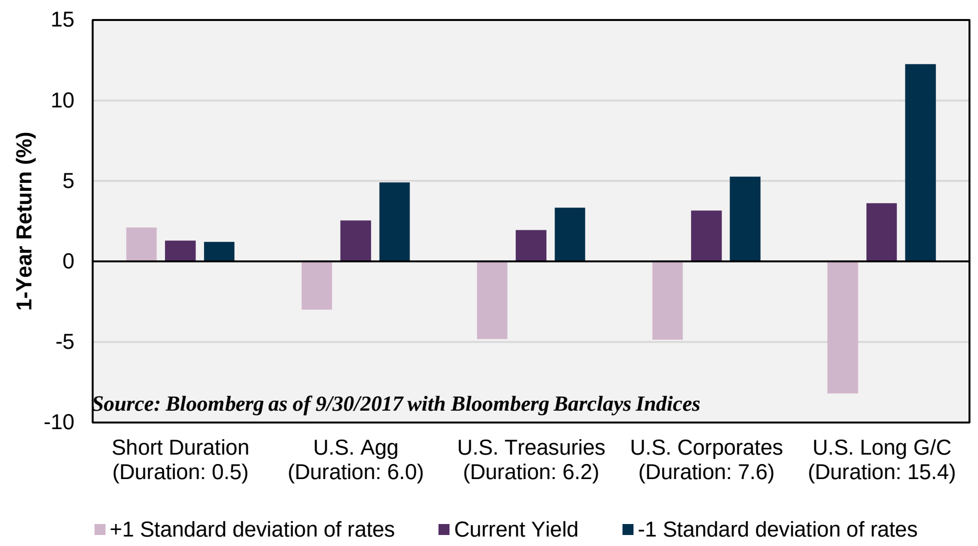
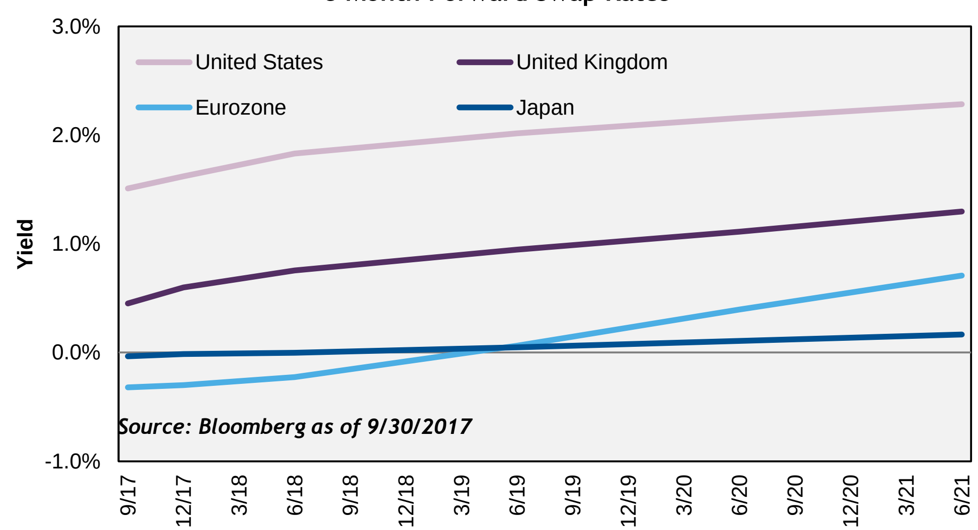
Fixed Income Outlook

Summary	
Despite low yield levels, high quality fixed income continues to provide investors with some diversification benefits and return opportunities.	
Themes & Implementation	
Selective Carry Positions	The securitized markets tied to U.S. housing and the consumer are providing managers with attractive value add opportunities and diversified income streams.
Emerging Markets Strengthening	Improving global growth conditions and attractive yields have made emerging market debt an appealing investment with upside potential for currency moves.
Illiquidity Premium	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 with a focus on off-market transactions.
Key Risks	
Central Bank Policy	Improving economic conditions have motivated central bankers in the U.K., Japan, and the E.U. to contemplate the prospects for future monetary policy normalization. While the goal is to reduce accommodation without derailing growth, sharp changes in guidance likely would result in spiking correlations between risk (equity) and defensive assets (fixed income).

Hypothetical 1-Year Fixed Income Return



3 Month Forward Swap Rates



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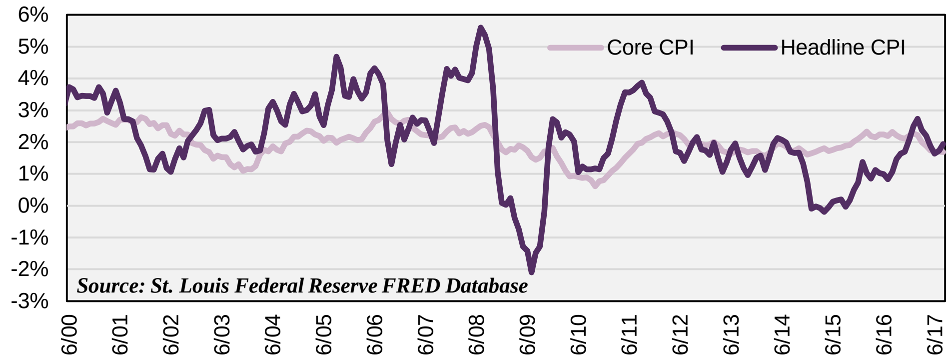
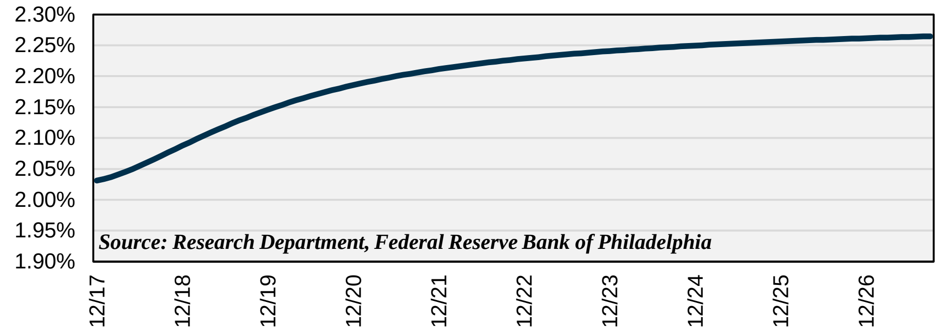
Real Assets Outlook

Summary	
Inflationary risks currently remain muted, as a multitude of factors are weighing on overall price levels. Risk assets, like equities, should defend portfolios from the small inflation increases we expect.	
Themes & Implementation	
Diversified Earnings	Inflation linked investments benefitting from economic growth drivers represent a balance between return diversification and inflation protection.
Subdued Inflation	With inflation unlikely to spike and rising yield headwinds, direct inflation linked assets, like TIPs, likely will see low returns.
Direct Commodity Avoidance	Commodities lack earnings streams and often suffer from unpredictable supply and demand swings that make valuation challenging. Combined with secular declines in the marginal costs of production, modest worldwide growth and limited inflation, commodity prices likely will stay low.
Key Risks	
Geopolitical Tensions	While the U.S. has increased oil production, tensions in the Middle East and OPEC decisions still bear a significant influence over price moves.
Trade Policy	While a targeted trade war with China appears to have abated, rhetoric between North Korea and the U.S. has escalated. If policies become more aggressive toward North Korea, its close ally, China, may retaliate through trade policy with rippling effects on goods prices.

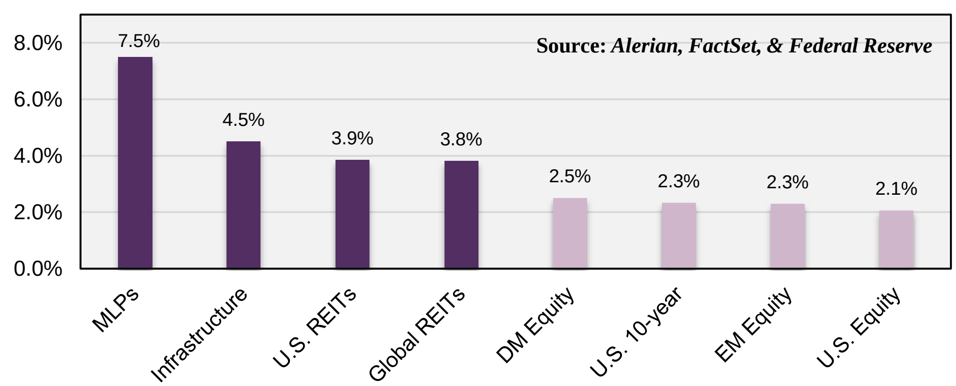
Year-Over-Year U.S. Inflation



Term Structure of Inflation Expectations
average annualized expected CPI inflation



Asset Class Yields



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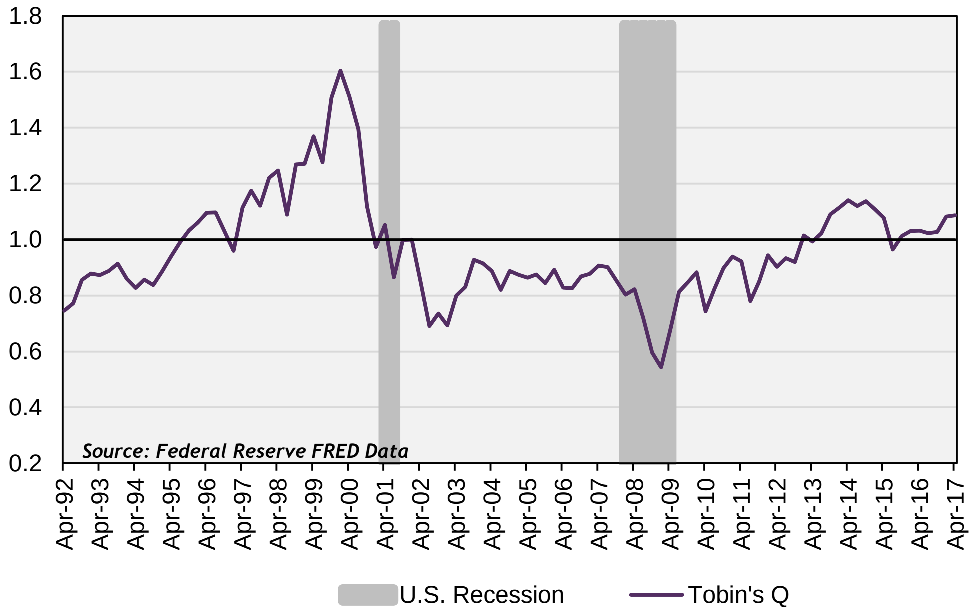
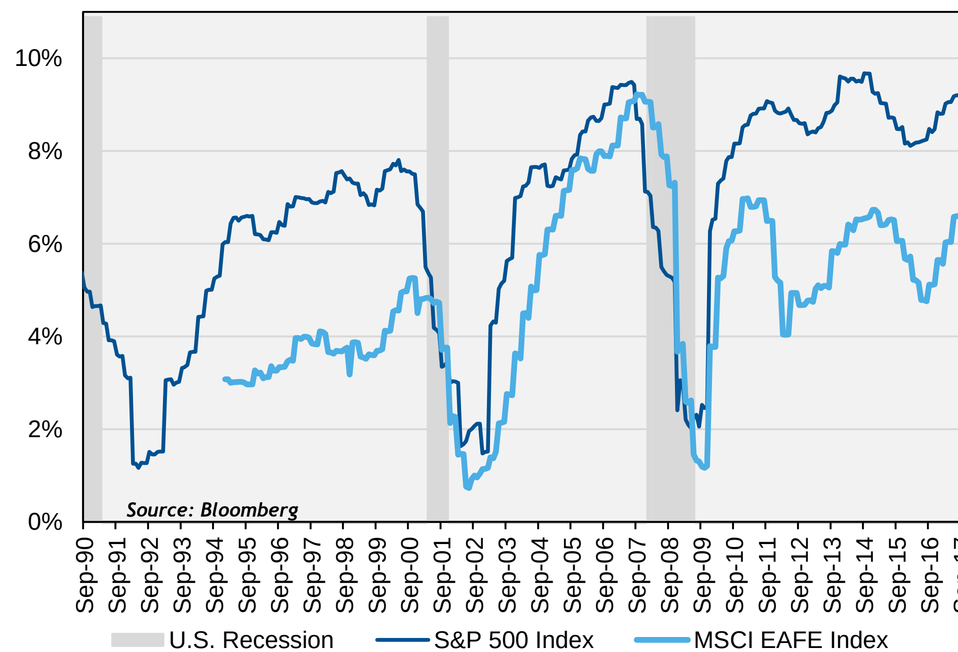
Valuations: Equities

U.S. Tobin's Q[1]

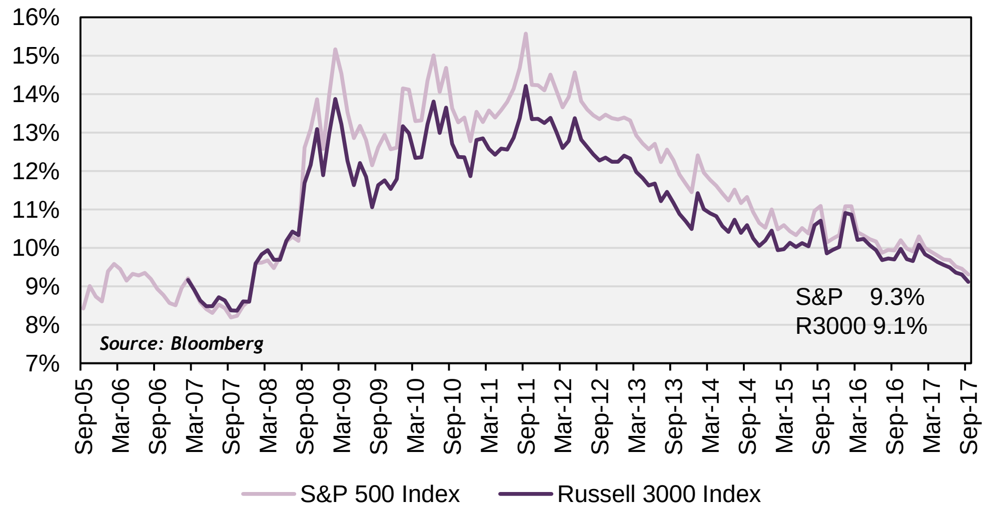


Profit Margins



- Investors are paying slightly more than replacement value for equities, but replacement value may be understated, as contributions of human capital and intangibles have grown over the years.
- As expressed in earnings growth, profit margins in the U.S. have rebounded while international equity profit margins have yet to achieve pre-crisis levels.
- The structural shift in the economy is evident in the growth of profit margins over time. Profit margins are not static; a multitude of factors can drive regime shifts in the overall equilibrium level suggesting that this is not necessarily a mean reverting series.
- While the decrease in cash flow yields may appear dramatic, current levels do not suggest that valuations are overstretched in the current low interest rate, low volatility environment. Equities likely will continue to compensate investors for risk; however, upside tailwinds have diminished.

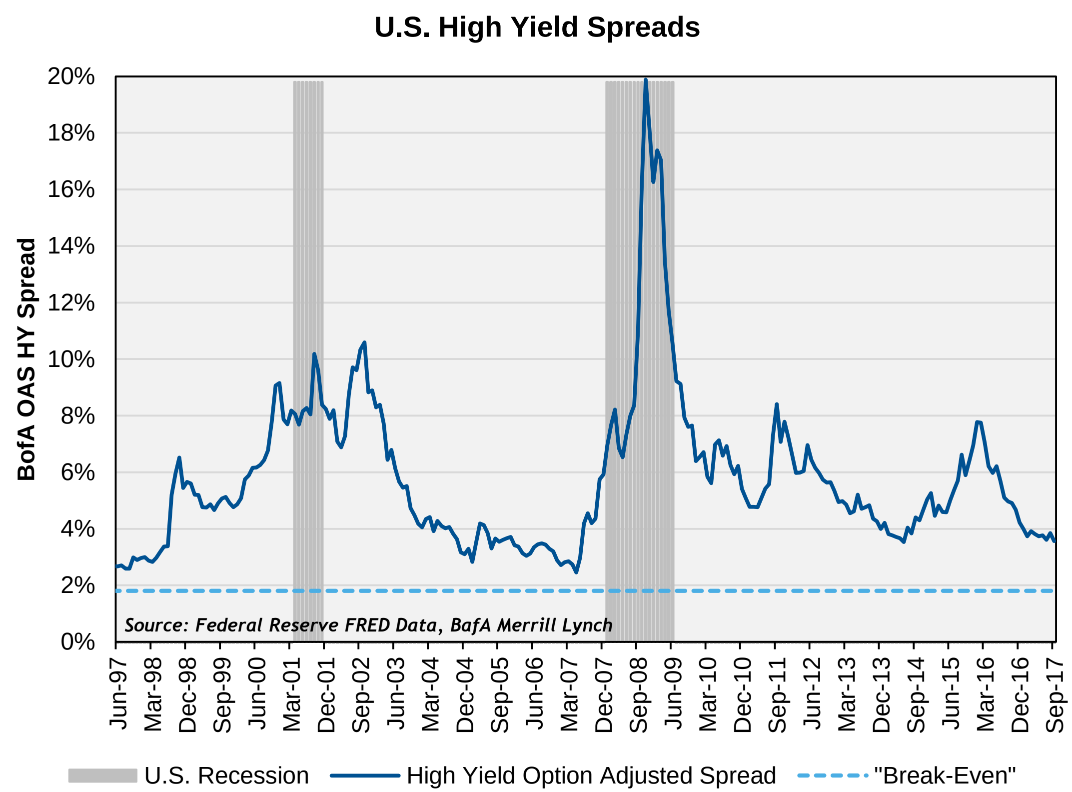
Free Cash Flow Yields



[1] Tobin's Q compares current prices to the replacement value. The estimate is uses values from the Federal Reserves Z.1 Financial Accounts release and compares Nonfinancial corporate business; corporate equities; relative to Nonfinancial Corporate Business; Net Worth.

Valuations: Credit

- The total return to corporate debt holders typically is the sum of the yield earned and any spread compression.
- Upside is limited relative to equity holders. Debt holders essentially are short a put option on the firm's assets, as they do not capture any return if the equity increases in value.
- In non-recessionary environments, high yield defaults occur at a rate of about 3% annually with an approximate 40% recovery rate. As a result, today, high yield bond investors have an expected loss of 1.8%[1]. This is the breakeven (B.E.) level reflected in the chart at the right.
- In theory, if an investor were to receive the B.E. plus some volatility/liquidity premium, they should be indifferent between the riskless and risky asset.
- Factors driving credit spreads (the "put option premium"): default rates (currently low), leverage, equity values
  (how far out of the money is the option), interest rates and volatility.
- Analysis carried out using these factors (multiple regression) suggests current levels are fair.
- While input values are not static, there is no obvious catalyst for change in the near-term.



[1] Expected loss is estimated as the non-recoverable portion given a default multiplied by the estimated default rate. Recovery Rate = 40%, Estimated Defaults 3%, so ((1-.40) x .03 = 1.8%)
Source: Moody's & Duetsche Bank Research Konzept October 2017

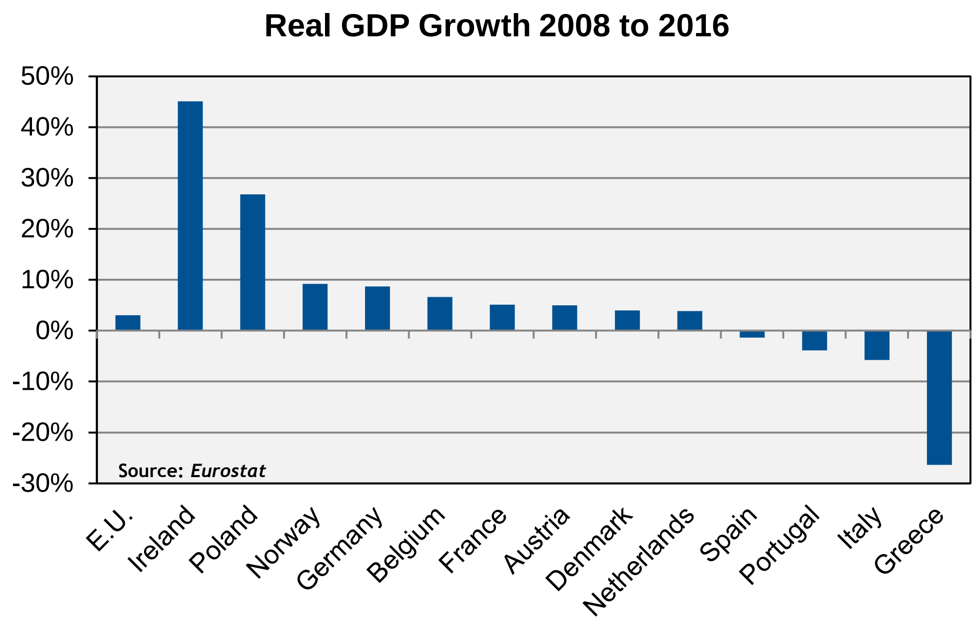
Risks Remain: Normalizing Policy Too Quickly

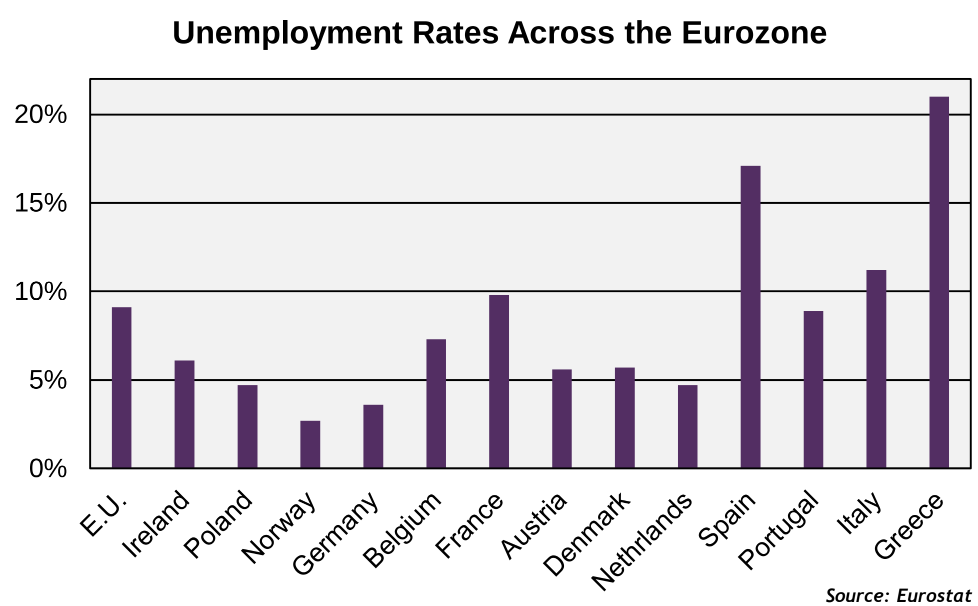
What will Europe do?

- In April and July of 2011, fearful of inflation, the E.C.B. raised rates only to reverse course in December of that year. Once again the E.C.B. faces the challenge of a policy shift – when and how they should begin the process of normalizing rates.
- The E.C.B. faces something of a Gordian knot in that the recovery has been uneven with some countries, most notably in the south, still languishing with incomes below pre-crisis levels and high unemployment rates.
- Moving too soon risks not only stalling the recovery but also catalyzing simmering populist movements destabilizing the E.U. – witness the events in Spain.

What will the Fed do?

- During the September meeting, Federal Reserve officials (Fed) changed little – they held the Fed Funds rate held steady while announcing that balance sheet reduction (reversal of QE) would begin in October at a very gradual pace. But changes were very telling.
  - The projection for core inflation decreased, suggesting it will remain below the 2% target until 2020
  - The median projected neutral Fed funds rate declined from 3.0% to 2.8%
- These changes appear to be in conflict with further near-term rate increases. Fed guidance and meeting minutes, however, suggest a December rate increase is imminent, with at least three more increases next year likely (our base case).
- The bottom line is that there is no consensus among policy makers, with minutes suggesting decisions are the result of compromise rather than clarity.
- Making matters more challenging is the prospect for very near-term turnover in Fed leadership. While some Fed chair candidates represent traditional schools of thought (i.e., keep interest rates low), others appear inclined to raise rates at a faster pace, adding to uncertainty on the future path of policy.

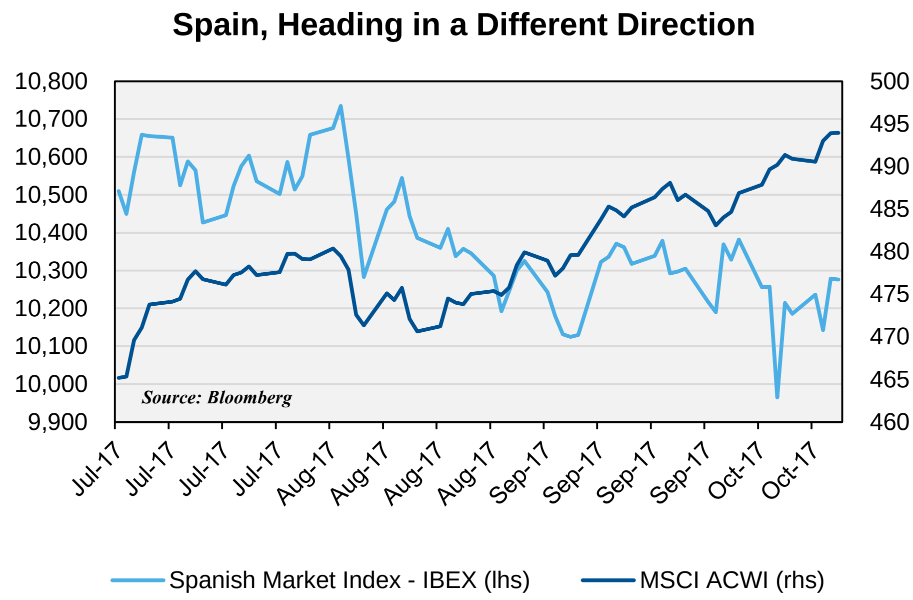


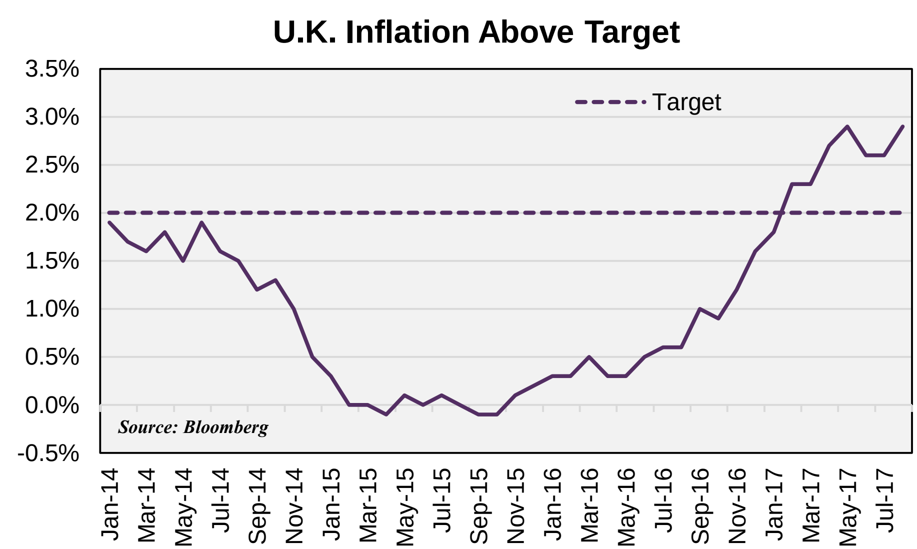


Risks Remain: Geopolitical Challenges

While fundamentals are currently strong, challenges exist that may undermine confidence and possibly disrupt fundamentals. Potential events that can create significant economic uncertainty and materially curtail business activity and capital investment include:

- **German election outcome**
  The German election outcome likely will force Angela Merkel to form a more conservative, less pro-Euro, coalition government. This may thwart Merkel and French President Macron's efforts to pursue EU strengthening changes. Additionally it reduces the likelihood of a permanent Greek debt restructuring, a challenge that could prove destabilizing.
- **Spain, a mirror of Europe**
  Unrest in Spain resulting from the Catalonian independence movement represents a challenge for Spain, but also reflects a rise in populism throughout Europe and much of the world. The movement reflects the lack of a willingness of Europe's faster growing segments to support slower moving segments, possibly the biggest challenge facing the EU.
- **U.K. meets the hard realities of Brexit**
  The lack of a consensus plan among U.K. leaders has stalled Brexit negotiations increasing the likelihood of a "hard" Brexit. Combined with above target inflation and a potential consumer debt crisis, the macro environment appears risky.





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Asset Class Outlooks

	Near-Term View	LT Return*	Qualitative Assessment
US Large Cap Equity	+	7.2%	▪ 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. ▪ 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 growth continues to improve. ▪ Within the U.S., large cap provides exposure to improving international growth while limiting geographic risks. Small cap provides more exposure to potentially positive U.S. policy changes; although small companies tend to have less global revenue exposure and current valuations likely limit upside potential. ▪ 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 the longer-term.
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%	▪ 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. ▪ 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 from currency moves. ▪ 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. ▪ While we view high yield more positively than investment grade corporates, traditional equity exposure remains our preferred source of equity risk.
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%	▪ Opportunities exist for nimble, specialized multi-strategy and diversifying strategies.
Real Assets – Commodities	~	5.4%	▪ 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. ▪ Strategies with income and some sensitivity to inflation, however, offer opportunities. ▪ 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.
Real Assets – Real Estate	~	6.4%	
Real Assets – Infrastructure	+	6.3%	

Represents 2017 PAG Asset Allocation Assumptions published in January 2017

Asset Class Diversification
Surplus Cash Investment Program Structure
As of September 30, 2017

Manager	Asset Class/Type	Total Assets ($, mil.)	Percent of Total	Target Allocation	Weighting Relative to Target	Target Range
Large-Cap Domestic Equity		**$178.4**	**21.4%**	**20.0%**	**+ 1.4%**	**20-30%**
Vanguard S&P 500 Index	Large-Cap Index	$111.4	13.4%	10.0%	+ 3.4%	
Sands	Large-Cap Growth	$ 33.2	4.0%	5.0%	- 1.0%	
Barrow Hanley	Large-Cap Value	$ 33.8	4.1%	5.0%	- 0.9%	
Small-Cap Domestic Equity		**$ 40.8**	**4.9%**	**5.0%**	**- 0.1%**	
Conestoga	Small-Cap Growth	$ 20.3	2.4%	2.5%	- 0.1%	
Wellington	Small-Cap Value	$ 20.5	2.5%	2.5%	- 0.0%	
International Equity		**$131.9**	**15.8%**	**15.0%**	**+ 0.8%**	**10-20%**
Walter Scott	Developed and Emerging	$ 54.6	6.5%			
Harbor	Developed and Emerging	$ 50.8	6.1%			
Harding Loevner	Emerging	$ 26.5	3.2%			
Short-Duration Fixed Income		**$100.5**	**12.1%**	**10.0%**	**+ 2.1%**	**8-12%**
Barrow Hanley	Short Duration	$ 83.8	10.0%			
Cash	Money Market	$ 16.8	2.0%			
Market-Duration Fixed Income		**$247.0**	**29.6%**	**30.0%**	**- 0.4%**	**25-35%**
Dodge & Cox	Market Duration	$124.1	14.9%	15.0%	- 0.1%	
MetWest	Market Duration	$122.8	14.7%	15.0%	- 0.3%	
Alternatives		**$135.3**	**16.2%**	**20.0%**	**- 3.8%**	**17-23%**
Oaktree RE Opps VI	Real Estate	$ 12.1	1.4%			
Walton Street RE VII	Real Estate	$ 10.6	1.3%			
Walton Street RE VIII	Real Estate	$ 3.5	0.4%			
Direct Hedge Fund Composite	Hedge Fund	$109.1	13.1%			
Total (X District)		**$834.0**	**100.0%**			
District Assets - Barrow Hanley	Short Duration	$ 25.9				
Debt Reserves - Ponder	Short Duration	$262.2				
Total Surplus Cash		**$1,122.1**				

*Totals may not add due to rounding.

Asset Class Diversification

Cash Balance Plan Investment Program Structure

As of September 30, 2017

Manager	Asset Class/Type	Total Assets ($, mil.)	Percent of Total	Target Allocation	Weighting Relative to Target	Target Range
Large-Cap Domestic Equity		**$ 71.8**	**28.7%**	**27.0%**	**+ 1.7%**	**27-37%**
Vanguard S&P 500 Index	Large-Cap Index	$ 36.9	14.7%	13.5%	+ 1.2%	
Sands	Large-Cap Growth	$ 17.8	7.1%	6.8%	+ 0.3%	
Barrow Hanley	Large-Cap Value	$ 17.2	6.8%	6.8%	+ 0.0%	
Small-Cap Domestic Equity		**$ 13.9**	**5.5%**	**5.0%**	**+ 0.5%**	
Conestoga	Small-Cap Growth	$ 6.9	2.8%	2.5%	+ 0.3%	
Wellington	Small-Cap Value	$ 6.9	2.8%	2.5%	+ 0.3%	
International Equity		**$ 47.2**	**18.8%**	**18.0%**	**+ 0.8%**	**15-21%**
Walter Scott	Developed and Emerging	$ 20.9	8.3%			
Harbor	Developed and Emerging	$ 19.6	7.8%			
Harding Loevner	Emerging Markets	$ 6.8	2.7%			
Short-Duration Fixed Income		**$ 8.5**	**3.4%**	**5.0%**	**- 1.6%**	**0-8%**
Barrow Hanley	Short Duration	$ 7.1	2.8%			
Cash	Money Market	$ 1.4	0.6%			
Market-Duration Fixed Income		**$ 62.1**	**24.8%**	**25.0%**	**- 0.2%**	**20-30%**
Dodge & Cox	Market Duration	$ 31.1	12.4%	12.5%	- 0.1%	
MetWest	Market Duration	$ 31.0	12.4%	12.5%	- 0.1%	
Alternatives		**$ 47.1**	**18.8%**	**20.0%**	**- 1.2%**	**17-23%**
Lighthouse	HFOF	$ 16.0	6.4%			
Pointer	HFOF	$ 14.8	5.9%			
Oaktree RE Opps VI	Real Estate	$ 7.2	2.9%			
Walton Street RE VII	Real Estate	$ 6.4	2.5%			
Walton Street RE VIII	Real Estate	$ 2.7	1.1%			
Total		**$250.6**	**100.0%**			

*Totals may not add due to rounding.

Surplus Cash Equity Portfolio Characteristics

Surplus Cash Equity Composite vs. MSCI AC World IMI

As of September 30, 2017

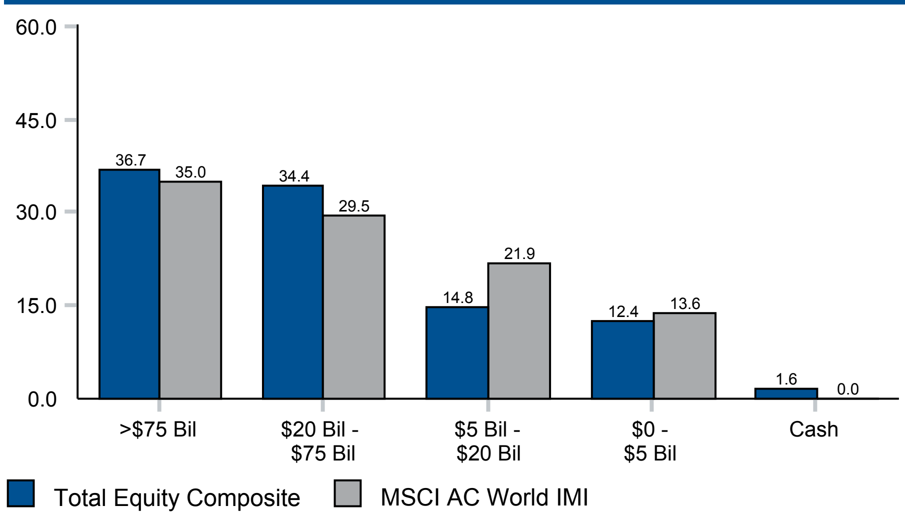
Portfolio Characteristics

	Portfolio	Benchmark
Wtd. Avg. Mkt. Cap ($M)	108,573	102,588
Median Mkt. Cap ($M)	16,631	1,694
Price/Earnings ratio	23.5	19.1
Price/Book ratio	3.3	2.7
5 Yr. EPS Growth Rate (%)	9.7	9.3
Current Yield (%)	1.9	2.4
Debt to Equity	1.0	1.3
Number of Stocks	825	8,603
Beta (5 Years, Monthly)	0.95	1.00
Consistency (5 Years, Monthly)	53.33	1.00
Sharpe Ratio (5 Years, Monthly)	1.20	1.09
Information Ratio (5 Years, Monthly)	0.34	-
Up Market Capture (5 Years, Monthly)	98.56	-
Down Market Capture (5 Years, Monthly)	88.37	-

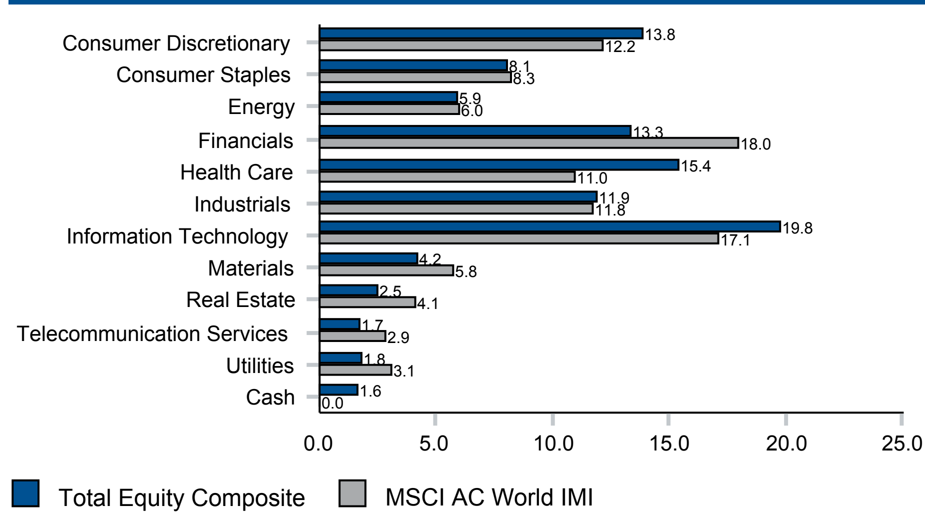
Top Ten Equity Holdings

	Portfolio Weight (%)	Benchmark Weight (%)	Active Weight (%)	Quarterly Return (%)
Facebook Inc	1.3	0.8	0.5	13.2
Alibaba Group Holding Ltd	1.2	0.4	0.8	22.6
Apple Inc	1.2	1.6	-0.4	7.4
Amazon.com Inc	1.1	0.8	0.3	-0.7
Microsoft Corp	1.1	1.1	0.0	8.6
Visa Inc	1.1	0.4	0.7	12.4
Las Vegas Sands Corp	0.9	0.1	0.8	1.6
Alphabet Inc	0.9	0.6	0.3	4.7
JPMorgan Chase & Co	0.8	0.7	0.1	5.1
Johnson & Johnson	0.8	0.7	0.1	-1.1
% of Portfolio	10.4	7.2	3.2	

Distribution of Market Capitalization (%)



Sector Weights (%)



PAVILION

Cash Balance Plan Equity Portfolio Characteristics

Cash Balance Plan Equity Composite vs. MSCI AC World IMI

As of September 30, 2017

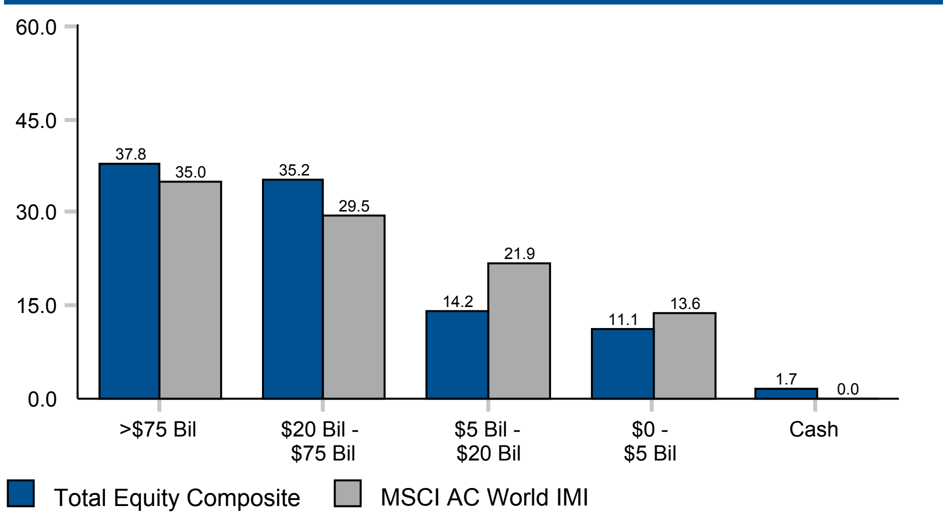
Portfolio Characteristics

	Portfolio	Benchmark
Wtd. Avg. Mkt. Cap ($M)	111,825	102,588
Median Mkt. Cap ($M)	16,631	1,694
Price/Earnings ratio	24.0	19.1
Price/Book ratio	3.4	2.7
5 Yr. EPS Growth Rate (%)	10.1	9.3
Current Yield (%)	1.9	2.4
Debt to Equity	1.0	1.3
Number of Stocks	825	8,603
Beta (5 Years, Monthly)	0.96	1.00
Consistency (5 Years, Monthly)	51.67	1.00
Sharpe Ratio (5 Years, Monthly)	1.14	1.09
Information Ratio (5 Years, Monthly)	0.14	-
Up Market Capture (5 Years, Monthly)	98.84	-
Down Market Capture (5 Years, Monthly)	94.37	-

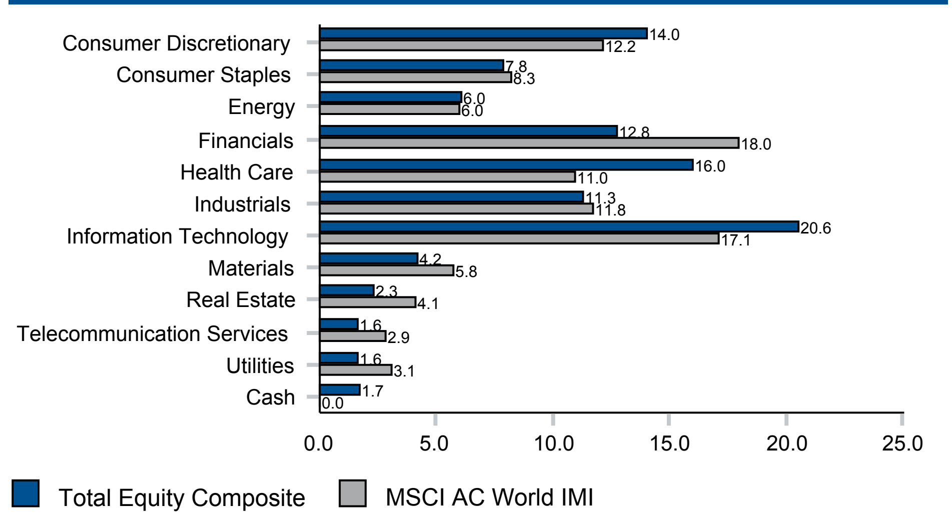
Top Ten Equity Holdings

	Portfolio Weight (%)	Benchmark Weight (%)	Active Weight (%)	Quarterly Return (%)
Facebook Inc	1.5	0.8	0.7	13.2
Alibaba Group Holding Ltd	1.5	0.4	1.1	22.6
Visa Inc	1.3	0.4	0.9	12.4
Amazon.com Inc	1.2	0.8	0.4	-0.7
Microsoft Corp	1.0	1.1	-0.1	8.6
Apple Inc	1.0	1.6	-0.6	7.4
Alphabet Inc	1.0	0.6	0.4	4.7
Las Vegas Sands Corp	1.0	0.1	0.9	1.6
Salesforce.com Inc.	0.9	0.1	0.8	7.9
JPMorgan Chase & Co	0.8	0.7	0.1	5.1
% of Portfolio	11.2	6.6	4.6	

Distribution of Market Capitalization (%)



Sector Weights (%)



PAVILION

Surplus Cash Equity Portfolio - Country/Region Allocation

Surplus Cash Equity Composite vs. MSCI AC World IMI

As of September 30, 2017

	Total Equity Composite	MSCI AC World IMI
Australia	0.5	2.3
Hong Kong	3.2	2.4
Japan	5.1	8.1
New Zealand	0.0	0.1
Singapore	0.1	0.7
Pacific	**9.0**	**13.5**
Austria	0.1	0.1
Belgium	0.3	0.4
Finland	0.3	0.4
France	4.2	3.1
Germany	2.0	3.1
Ireland	1.2	1.0
Italy	0.2	0.8
Netherlands	0.8	1.3
Portugal	0.0	0.1
Spain	0.6	1.1
EMU	**9.6**	**11.5**
Denmark	1.3	0.6
Norway	0.1	0.3
Sweden	0.6	1.1
Switzerland	3.3	2.8
United Kingdom	5.1	6.6
Europe ex EMU	**10.4**	**11.5**
Canada	0.7	3.3
United States	59.9	49.9
Israel	0.2	0.2
Middle East	**0.2**	**0.2**
Developed Markets	**89.9**	**89.9**

	Total Equity Composite	MSCI AC World IMI
Brazil	0.6	0.8
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
EM Latin America	**2.1**	**1.4**
China	2.2	1.8
India	0.5	1.0
Indonesia	0.2	0.3
Korea	0.8	1.7
Malaysia	0.0	0.3
Philippines	0.0	0.1
Taiwan	0.8	1.4
Thailand	0.1	0.3
EM Asia	**4.6**	**6.9**
Czech Republic	0.1	0.0
Egypt	0.0	0.0
Greece	0.0	0.0
Hungary	0.1	0.0
Poland	0.1	0.1
Qatar	0.0	0.1
Russia	0.4	0.4
South Africa	0.4	0.7
Turkey	0.1	0.1
United Arab Emirates	0.2	0.1
EM Europe + Middle East + Africa	**1.4**	**1.6**
Emerging Markets	**8.1**	**10.0**
Frontier Markets	**0.1**	**0.0**
Cash	1.6	0.0
Other	0.3	0.1
Total	**100.0**	**100.0**

Cash Balance Plan Equity Portfolio - Country/Region Allocation

Cash Balance Plan Equity Composite vs. MSCI AC World IMI

As of September 30, 2017

	Total Equity Composite	MSCI AC World IMI
Australia	0.5	2.3
Hong Kong	2.8	2.4
Japan	5.2	8.1
New Zealand	0.0	0.1
Singapore	0.1	0.7
Pacific	**8.7**	**13.5**
Austria	0.1	0.1
Belgium	0.3	0.4
Finland	0.3	0.4
France	4.2	3.1
Germany	2.0	3.1
Ireland	1.3	1.0
Italy	0.2	0.8
Netherlands	0.8	1.3
Portugal	0.0	0.1
Spain	0.6	1.1
EMU	**9.8**	**11.5**
Denmark	1.3	0.6
Norway	0.1	0.3
Sweden	0.6	1.1
Switzerland	3.3	2.8
United Kingdom	5.2	6.6
Europe ex EMU	**10.5**	**11.5**
Canada	0.7	3.3
United States	61.4	49.9
Israel	0.2	0.2
Middle East	**0.2**	**0.2**
Developed Markets	**91.3**	**89.9**

	Total Equity Composite	MSCI AC World IMI
Brazil	0.4	0.8
Cayman Islands	0.0	0.0
Chile	0.1	0.1
Colombia	0.8	0.0
Mexico	0.5	0.4
Peru	0.0	0.0
Virgin Islands	0.0	0.0
EM Latin America	**1.7**	**1.4**
China	2.4	1.8
India	0.4	1.0
Indonesia	0.1	0.3
Korea	0.5	1.7
Malaysia	0.0	0.3
Philippines	0.0	0.1
Taiwan	0.5	1.4
Thailand	0.1	0.3
EM Asia	**4.0**	**6.9**
Czech Republic	0.1	0.0
Egypt	0.0	0.0
Greece	0.0	0.0
Hungary	0.1	0.0
Poland	0.1	0.1
Qatar	0.0	0.1
Russia	0.2	0.4
South Africa	0.3	0.7
Turkey	0.1	0.1
United Arab Emirates	0.1	0.1
EM Europe + Middle East + Africa	**1.0**	**1.6**
Emerging Markets	**6.7**	**10.0**
Frontier Markets	**0.1**	**0.0**
Cash	1.7	0.0
Other	0.2	0.1
Total	**100.0**	**100.0**

Surplus Cash Fixed Income Portfolio Characteristics

Surplus Cash Fixed Income Composite vs. Total Fixed Income Benchmark - Surplus

As of September 30, 2017

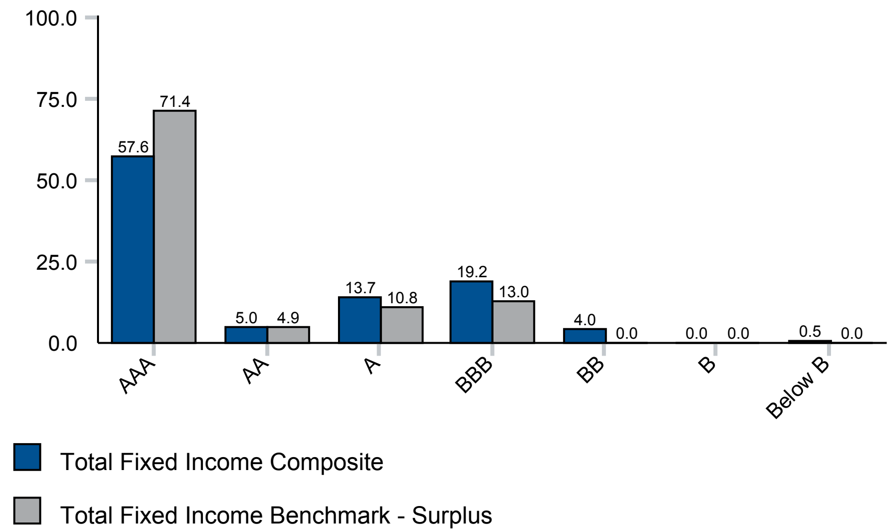
Portfolio Characteristics

	Portfolio	Benchmark
Effective Duration	4.2	4.7
Avg. Maturity	6.4	6.6
Avg. Quality	AA	AA+
Yield To Maturity (%)	2.7	2.8

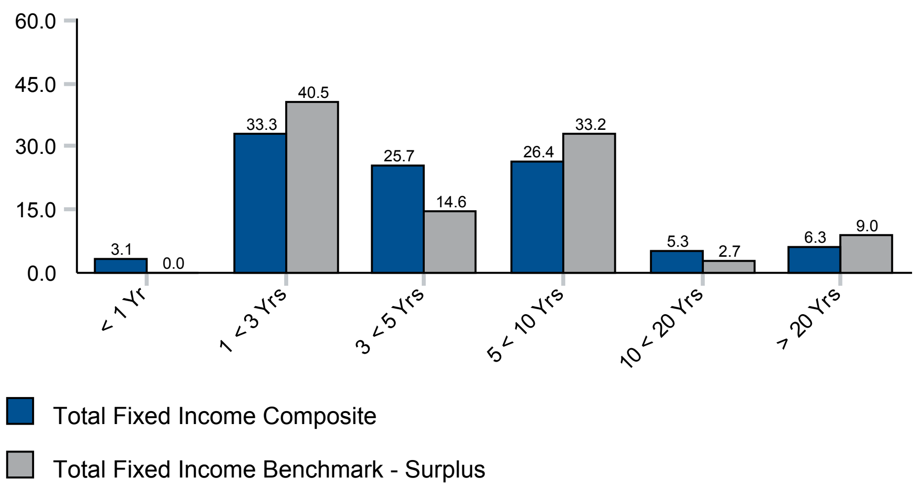
Risk Characteristics - 5 Years

	Consistency	Sharpe Ratio	Information Ratio	Up Market Capture	Dov Marl Capt
Total Fixed Income Composite	56.7	1.1	0.4	91.4	68
Total Fixed Income Benchmark - Surplus	0.0	0.8	N/A	100.0	10(

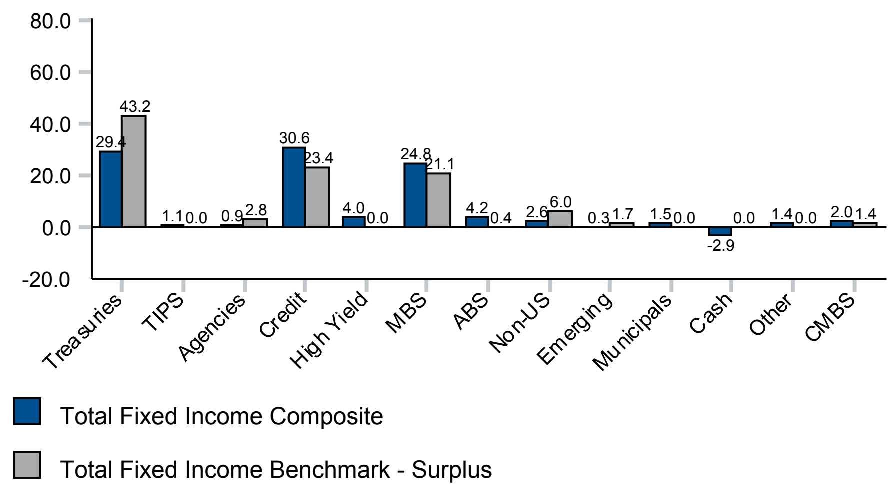
Credit Quality Distribution (%)



Maturity Distribution (%)



Sector Distribution (%)



Cash Balance Plan Fixed Income Portfolio Characteristics

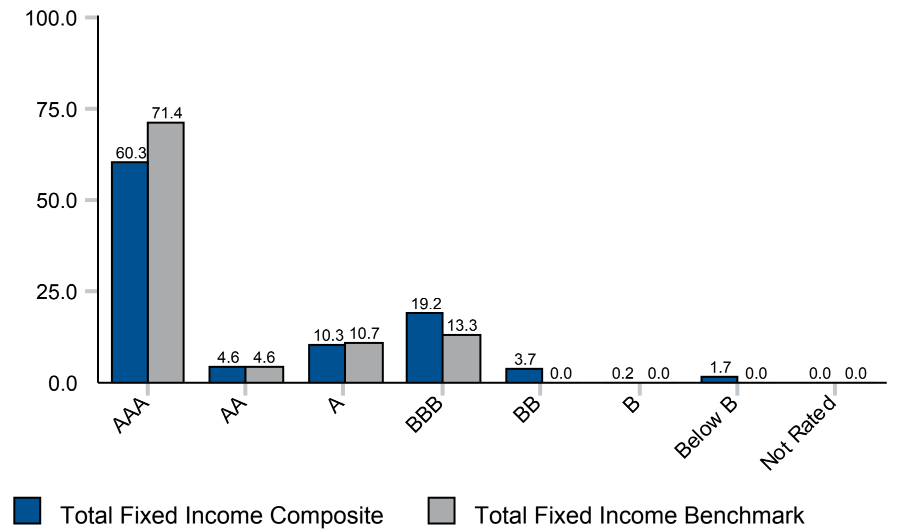
Cash Balance Plan Fixed Income Composite vs. Total Fixed Income Benchmark

As of September 30, 2017

Portfolio Characteristics

	Portfolio	Benchmark
Effective Duration	4.6	4.1
Avg. Maturity	7.0	6.7
Avg. Quality	AA	AA+
Yield To Maturity (%)	2.7	2.4

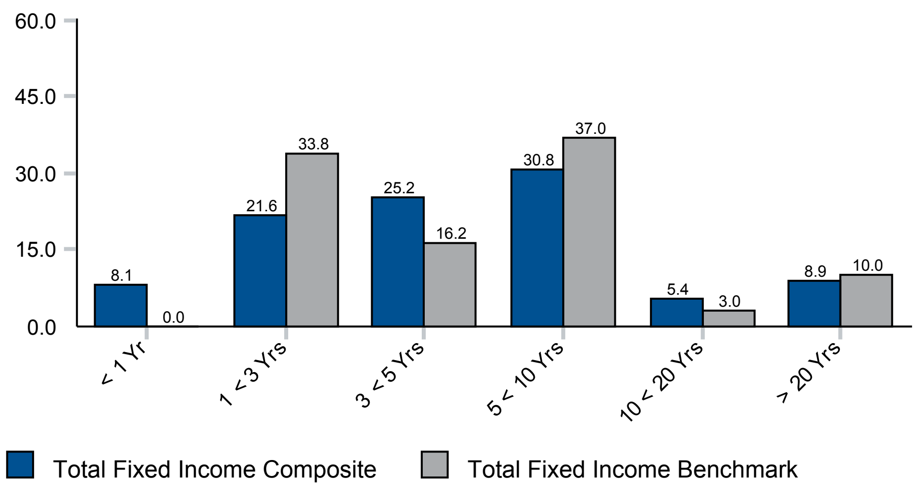
Credit Quality Distribution (%)



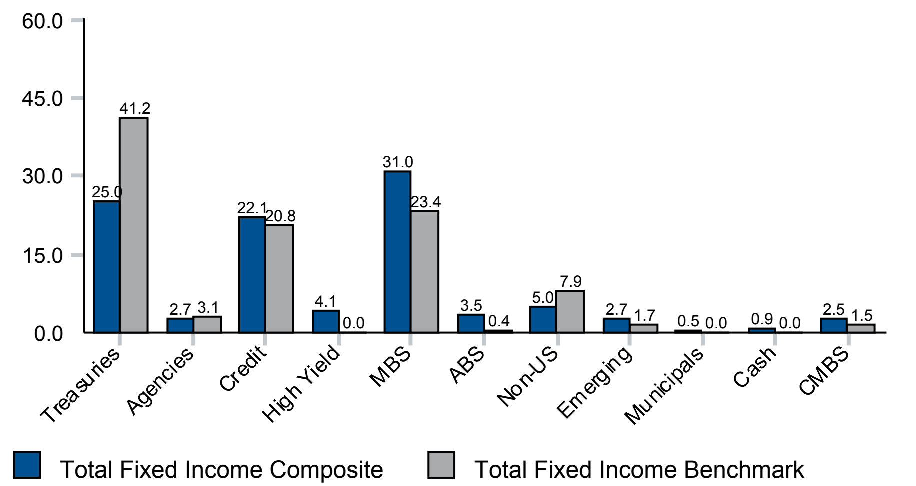
Risk Characteristics - 5 Years

	Consistency	Sharpe Ratio	Information Ratio	Up Market Capture	Down Market Capture
Total Fixed Income Composite	63.3	1.1	0.8	103.1	74.7
Total Fixed Income Benchmark	0.0	0.7	N/A	100.0	100.0

Maturity Distribution (%)



Sector Distribution (%)



Direct Hedge Fund Portfolio

Surplus Cash Hedge Fund Portfolio Executive Summary

Portfolio Update - Third Quarter 2017

The Hedge Fund Portfolio returned +2.6% during the third quarter, outperforming the HFRI Fund of Funds Composite Index by +0.3%. Each of the Portfolio's four strategies delivered positive absolute returns, with the Relative Value, Credit, and Macro strategies outperforming their respective underlying reference index (by +3.4%, +1.1% and +0.8%, respectively). The Equity Long/Short strategy performed in line with its underlying reference index (+3.6%).

Strategy	Q3 Absolute Performance	12-month Absolute Performance	Strategy Commentary	Manager Performance Q3 Contributors/Detractors		
Equity Long / Short	+	+	The equity long/short managers generally performed well during the quarter, with technology, financial and consumer discretionary positions driving performance within portfolios. The Japan-focused fund, *Indus*, delivered the strongest returns, while U.S. generalist, *Bloom Tree*, detracted slightly.	+	Indus	+8.0%
				+	CapeView 2x	+6.2%
				+	Tiger Eye	+4.5%
				-	Bloom Tree	-0.3%
Credit	+	+	Credit strategies delivered positive returns for the quarter. *York*'s performance rose on successful positions in oil and natural gas companies. Despite muted credit markets, including subdued default activity and stable spreads, opportunities within the distressed space continue to appear attractive.	+	York	+4.7%
				+	DK	+2.0%
				-		
Macro	+	-	Low market volatility and a lack of macro trends in developed markets continued to limit opportunities for discretionary macro managers; however, *Moore* managed to perform well on the back of successful trading in developed fixed income markets.	+	*Brevan Howard**	+2.5%
				+	Moore	+1.1%
				-	BP Transtrend	-0.5%
				-	Stone Milliner	-0.1%
Relative Value	+	+	Positive performance for *BlackRock 32* was driven largely by the fund's global small cap and emerging markets sleeves.	+	BlackRock 32	+4.4%
				+	*Fir Tree**	+2.4%
				+	*Pine River**	+1.5%
				-		

** Redemption in progress*

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

Fund	Strategy	Redemption details	Redemption Status	Redemption Proceeds
Brevan Howard Multi-Strategy Fund Limited	Macro	Redemption submitted starting on March 31, 2017. Takes four quarters to get out (25% investor level gate).	In progress	*The second of four cash flows ($1.6 million) arrived in July 2017.*
Luxor Capital Partners Offshore, Ltd.	Equity	Redemption submitted for June 30, 2017.	In progress	*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.*
Pine River Fund Ltd.	Relative Value	Redemption submitted starting on December 31, 2016. Takes four quarters to get out (25% investor level gate).	In progress	*Pine River has suspended redemptions and is currently liquidating the Pine River fund. A distribution was received in January, April, August, and October and another is expected in November.*
Fir Tree International Value Fund (USTE), L.P.	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	*Proceeds for the first investment tranche ($4.5 million) were received in May 2017.*
Marathon Special Opportunity Fund Ltd.	Credit	Redemption submitted for June 30, 2017.	In progress	*Proceeds of $5.1 million received in August 2017. Remaining proceeds held back until completion of annual audit in early 2018.*
ESG Cross Border Equity Offshore Fund, Ltd.	Equity	Redemption submitted for June 30, 2017.	In progress	*Proceeds ($3.8 million) received in July 2017. Remaining proceeds held back until completion of annual audit in early 2018.*

The proceeds were reinvested in the following funds:

Fund	Strategy	Subscription Amount	Notes
August 1, 2017			
Chatham Asset High Yield Offshore Fund	Credit *(New position)*	$9.2 million	New allocation.
Emso Saguaro Fund	Macro *(New position)*	$10.2 million	New allocation.
Marshall Wace Eureka Fund	Equity *(New position)*	$9.2 million	New allocation.
November 1, 2017			
Renaissance Technologies RIDGE	Relative Value *(New position)*	$9.0 million	New allocation.
Bloom Tree Offshore Fund	Equity	$2.0 million	Increase to existing allocation.
Indus Japan Fund	Equity	$2.0 million	Increase to existing allocation.
Tiger Eye Fund	Equity	$2.2 million	Increase to existing allocation.

<u>Recommendations or Action Items</u>

Pavilion recommends reinvesting upcoming proceeds from the above redemptions into higher conviction **Equity** 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 September 30, 2017

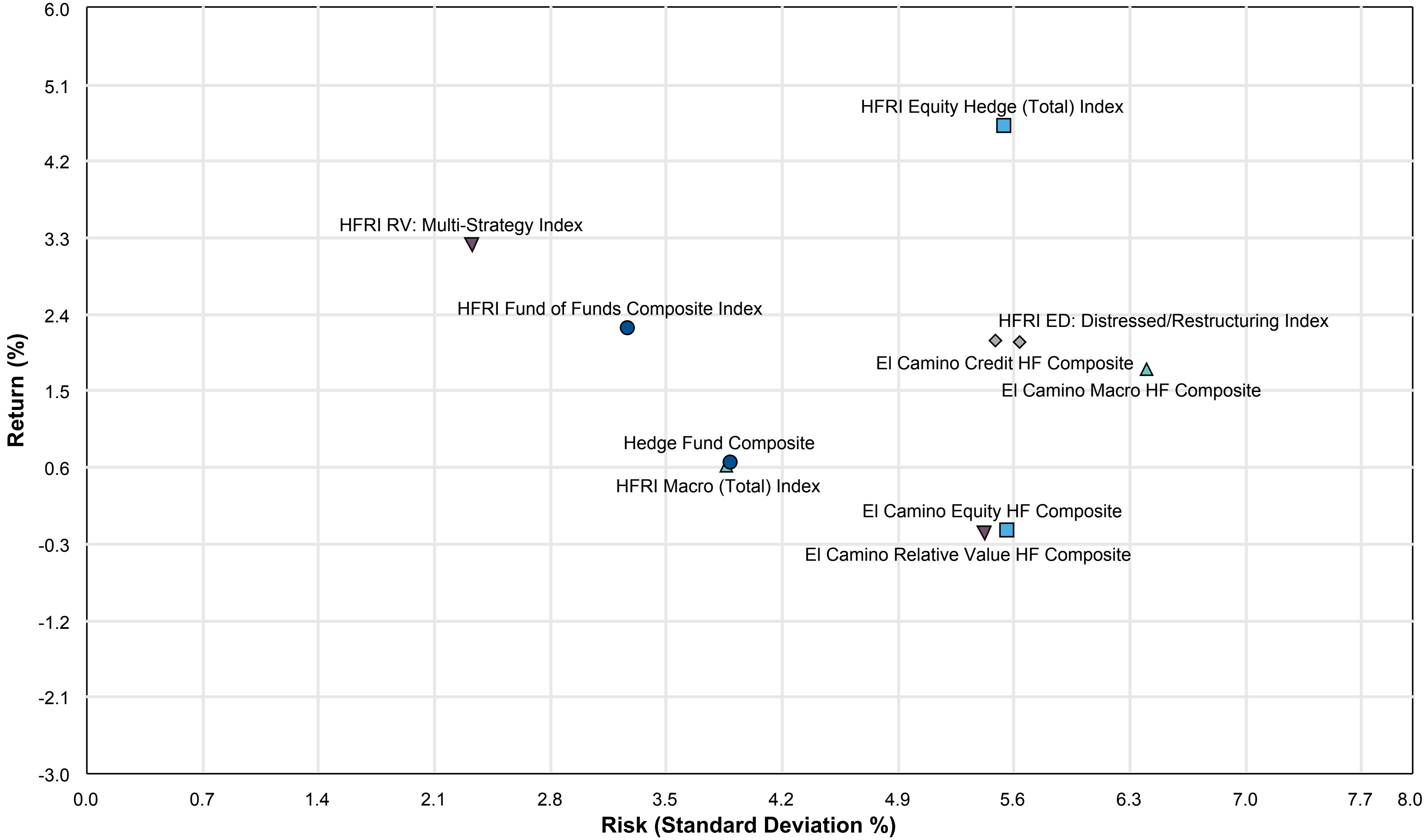
	Allocation		Performance(%)						
	Market Value ($)	%	Quarter	Year To Date	Fiscal YTD	1 Year	3 Years	Since Invested	Inception Period
Hedge Fund Composite	**109,097,373**	**100.0**	**2.6**	**3.8**	**2.6**	**6.7**	**0.7**	**2.5**	**4y 5m**
HFRI Fund of Funds Composite Index			2.3	5.6	2.3	6.5	2.2	3.1	
El Camino HF Composite Benchmark			1.9	5.2	1.9	7.1	3.1	3.8	
Equity HF Composite	**36,234,489**	**33.2**	**3.6**	**7.8**	**3.6**	**9.0**	**-0.1**	**2.0**	**4y 5m**
HFRI Equity Hedge (Total) Index			3.6	9.7	3.6	11.0	4.6	5.5	
Credit HF Composite	**30,045,232**	**27.5**	**2.8**	**6.5**	**2.8**	**13.3**	**2.1**	**5.5**	**4y 5m**
HFRI ED: Distressed/Restructuring Index			1.4	4.5	1.4	10.4	2.1	3.7	
Macro HF Composite	**34,412,233**	**31.5**	**1.2**	**-3.8**	**1.2**	**-0.6**	**1.7**	**1.3**	**4y 5m**
HFRI Macro (Total) Index			0.6	-0.2	0.6	-0.8	0.6	0.6	
Relative Value HF Composite	**8,405,419**	**7.7**	**3.7**	**4.2**	**3.7**	**5.2**	**-0.2**	**2.0**	**4y 5m**
HFRI RV: Multi-Strategy Index			0.5	2.8	0.5	4.5	3.2	3.6	

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 September 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 September 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
Total Portfolio								
Hedge Fund Composite	2.5	3.7	-9.5	4.9	-5.7	0.6	0.9	4y 5m
HFRI Fund of Funds Composite Index	3.1	3.3	-7.6	3.7	-4.2	0.9	1.3	
Equity Long/Short								
El Camino Equity HF Composite	2.0	5.1	-14.3	5.2	-8.1	0.4	0.5	4y 5m
HFRI Equity Hedge (Total) Index	5.5	5.4	-10.3	6.0	-6.3	1.0	1.5	
Credit								
El Camino Credit HF Composite	5.5	5.5	-18.5	7.0	-6.6	1.0	1.6	4y 5m
HFRI ED: Distressed/Restructuring Index	3.7	5.1	-17.5	7.4	-6.4	0.7	1.1	
Macro								
El Camino Macro HF Composite	1.3	6.1	-7.4	7.9	-4.8	0.2	0.3	4y 5m
HFRI Macro (Total) Index	0.6	3.7	-4.4	5.1	-3.5	0.1	0.2	
Relative Value								
El Camino Relative Value HF Composite	2.0	4.9	-13.8	5.3	-8.1	0.4	0.5	4y 5m
HFRI RV: Multi-Strategy Index	3.6	2.2	-4.2	2.9	-2.4	1.5	2.8	

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 September 30, 2017

Manager	Asset Class/Type	Total Assets ($, mil.)	Percent of Total	Target Allocation	Weighting Relative to Target
Equity Hedge Funds		**$ 36.2**	**33.2%**	**40.0%**	**- 6.8%**
ESG	Emerging Market Equity	$ 0.1	0.1%		
Luxor	Event Driven Equity	$ 1.4	1.3%		
CapeView 1x	European Equity	$ 6.0	5.5%		
CapeView 2x	European Equity	$ 3.4	3.1%		
Bloom Tree	Global Equity	$ 5.2	4.7%		
Marshall Wace Eureka	Global Equity	$ 9.3	8.5%		
Tiger Eye	US Equity	$ 4.9	4.5%		
Indus Japan	Japanese Equity	$ 5.9	5.4%		
Credit Hedge Funds		**$ 30.0**	**27.5%**	**20.0%**	**+ 7.5%**
Davidson Kempner	Distressed Credit	$ 10.1	9.2%		
York	Multi-Strategy Credit	$ 10.4	9.5%		
Marathon	Multi-Strategy Credit	$ 0.3	0.2%		
Chatham Asset	High Yield	$ 9.3	8.5%		
Macro Hedge Funds		**$ 34.4**	**31.5%**	**20.0%**	**+ 11.5%**
BP Transtrend	Systematic Macro	$ 9.3	8.6%		
Brevan Howard	Discretionary Macro	$ 3.2	2.9%		
Moore	Discretionary Macro	$ 6.4	5.8%		
Stone Milliner	Discretionary Macro	$ 5.1	4.7%		
EMSO Saguaro	Discretionary Macro	$ 10.4	9.5%		
Relative Value Hedge Funds		**$ 8.4**	**7.7%**	**20.0%**	**- 12.3%**
BlackRock 32 Capital	Quantitative Market Neutral	$ 5.7	5.3%		
Fir Tree	Multi-Strategy	$ 2.0	1.8%		
Pine River	Multi-Strategy	$ 0.7	0.6%		
Total Hedge Fund Portfolio		**$109.1**	**100.0%**		

*Totals may not add due to rounding.

Direct Hedge Fund Performance Summary

As of September 30, 2017

	Quarter	Year To Date	Fiscal YTD	1 Year	3 Years	5 Years	Since Invested	2016	2015	2014	2013	2012	2011	Inception Period
Total Portfolio														
Hedge Fund Composite	2.6	3.8	2.6	6.7	0.7	-	2.5	1.0	-1.6	2.2	-	-	-	4y 5m
HFRI Fund of Funds Composite Index	2.3	5.6	2.3	6.5	2.2	3.9	3.1	0.5	-0.3	3.4	9.0	4.8	-5.7	
El Camino HF Composite Benchmark	1.9	5.2	1.9	7.1	3.1	4.7	3.8	6.7	-2.1	2.2	9.9	6.6	-5.0	
Equity Long/Short														
Equity HF Composite	3.6	7.8	3.6	9.0	-0.1	-	2.0	-8.0	2.0	-0.4	-	-	-	4y 5m
HFRI Equity Hedge (Total) Index	3.6	9.7	3.6	11.0	4.6	6.3	5.5	5.5	-1.0	1.8	14.3	7.4	-8.4	
Bloom Tree Offshore Fund, Ltd.	-0.3	7.3	-0.3	11.6	3.4	4.3	4.1	-3.8	6.3	3.0	12.8	13.7	23.7	3y 6m
HFRI Equity Hedge (Total) Index	3.6	9.7	3.6	11.0	4.6	6.3	4.2	5.5	-1.0	1.8	14.3	7.4	-8.4	
CapeView Azri Fund Limited	2.9	4.6	2.9	5.1	2.5	4.8	3.6	-8.3	9.8	4.6	11.4	5.8	1.3	4y 3m
HFRI Equity Hedge (Total) Index	3.6	9.7	3.6	11.0	4.6	6.3	5.8	5.5	-1.0	1.8	14.3	7.4	-8.4	
CapeView Azri 2X Fund	6.2	9.4	6.2	10.7	5.5	10.2	7.6	-15.9	21.6	9.8	24.4	12.7	4.3	4y 3m
HFRI Equity Hedge (Total) Index	3.6	9.7	3.6	11.0	4.6	6.3	5.8	5.5	-1.0	1.8	14.3	7.4	-8.4	
Indus Japan Fund Ltd.	8.0	13.8	8.0	23.7	4.0	12.0	4.4	-7.5	1.8	6.3	45.0	8.1	-1.6	3y 10m
HFRI Equity Hedge (Total) Index	3.6	9.7	3.6	11.0	4.6	6.3	4.5	5.5	-1.0	1.8	14.3	7.4	-8.4	
Luxor Capital Partners Offshore, Ltd.	8.1	22.0	8.1	41.2	-1.9	2.8	1.0	8.0	-20.9	-8.4	16.1	1.7	-3.2	4y 5m
HFRI Equity Hedge (Total) Index	3.6	9.7	3.6	11.0	4.6	6.3	5.5	5.5	-1.0	1.8	14.3	7.4	-8.4	
Marshall Wace Eureka Fund Class B2	2.2	8.0	2.2	9.8	8.8	10.9	1.3	1.3	11.7	8.1	21.1	7.0	9.8	0y 2m
HFRI Equity Hedge (Total) Index	3.6	9.7	3.6	11.0	4.6	6.3	2.1	5.5	-1.0	1.8	14.3	7.4	-8.4	
Tiger Eye Fund, Ltd.	4.5	12.4	4.5	10.0	2.4	9.1	2.6	-5.0	-2.0	3.9	37.7	17.7	5.6	3y 6m
HFRI Equity Hedge (Total) Index	3.6	9.7	3.6	11.0	4.6	6.3	4.2	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. FromMay 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 September 30, 2017

	Quarter	Year To Date	Fiscal YTD	1 Year	3 Years	5 Years	Since Invested	2016	2015	2014	2013	2012	2011	Inception Period
Credit														
Credit HF Composite	2.8	6.5	2.8	13.3	2.1	-	5.5	14.7	-8.2	2.8	-	-	-	4y 5m
HFRI ED: Distressed/Restructuring Index	*1.4*	*4.5*	*1.4*	*10.4*	*2.1*	*5.3*	*3.7*	*15.1*	*-8.1*	*-1.4*	*14.0*	*10.1*	*-1.8*	
Chatham Asset High Yield Offshore Fund, Ltd	2.5	8.1	2.5	14.3	13.4	11.1	1.3	24.3	5.6	5.5	12.5	11.5	-6.0	0y 2m
HFRI ED: Distressed/Restructuring Index	1.4	4.5	1.4	10.4	2.1	5.3	0.6	15.1	-8.1	-1.4	14.0	10.1	-1.8	
DK Distressed Opportunities International (Cayman) Ltd.	2.0	7.4	2.0	13.2	5.3	9.3	8.0	21.4	-6.2	3.2	21.7	13.5	-2.4	4y 5m
HFRI ED: Distressed/Restructuring Index	1.4	4.5	1.4	10.4	2.1	5.3	3.7	15.1	-8.1	-1.4	14.0	10.1	-1.8	
York Credit Opportunities Unit Trust	4.7	9.5	4.7	15.7	-0.3	5.7	3.7	4.1	-7.9	3.4	15.6	18.9	-1.8	4y 5m
HFRI ED: Distressed/Restructuring Index	1.4	4.5	1.4	10.4	2.1	5.3	3.7	15.1	-8.1	-1.4	14.0	10.1	-1.8	
Macro														
Macro HF Composite	1.2	-3.8	1.2	-0.6	1.7	-	1.3	5.0	1.0	7.7	-	-	-	4y 5m
HFRI Macro (Total) Index	0.6	-0.2	0.6	-0.8	0.6	0.7	0.6	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
BP Transtrend Diversified Fund LLC	-0.5	-10.8	-0.5	-11.5	0.6	1.7	1.8	8.2	-1.1	18.9	0.6	1.2	-11.3	4y 5m
HFRI Macro (Total) Index	0.6	-0.2	0.6	-0.8	0.6	0.7	0.6	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
Brevan Howard Multi-Strategy Fund Limited	2.5	2.2	2.5	7.7	2.4	2.2	1.3	6.8	-1.9	1.8	0.8	5.3	6.0	4y 5m
HFRI Macro (Total) Index	0.6	-0.2	0.6	-0.8	0.6	0.7	0.6	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
EMSO Saguaro, Ltd.	2.7	7.1	2.7	7.0	7.5	7.2	2.0	10.2	6.2	2.6	2.7	17.1	-	0y 2m
HFRI Macro (Total) Index	0.6	-0.2	0.6	-0.8	0.6	0.7	-0.1	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
Moore Macro Managers Fund Ltd.	1.1	-1.3	1.1	3.3	1.4	5.3	1.8	0.0	3.1	5.4	13.4	8.9	-2.6	3y 6m
HFRI Macro (Total) Index	0.6	-0.2	0.6	-0.8	0.6	0.7	1.5	1.0	-1.3	5.6	-0.4	-0.1	-4.2	
Stone Milliner Macro Fund Inc.	-0.1	-3.5	-0.1	2.0	4.3	7.6	1.4	4.9	5.7	14.3	11.2	8.1	-1.6	2y 7m
HFRI Macro (Total) Index	0.6	-0.2	0.6	-0.8	0.6	0.7	-1.2	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. FromMay 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 September 30, 2017

	Quarter	Year To Date	Fiscal YTD	1 Year	3 Years	5 Years	Since Invested	2016	2015	2014	2013	2012	2011	Inception Period
Relative Value														
Relative Value HF Composite	3.7	4.2	3.7	5.2	-0.2	-	2.0	-0.4	-4.0	1.6	-	-	-	4y 5m
HFRI RV: Multi-Strategy Index	0.5	2.8	0.5	4.5	3.2	4.7	3.6	6.4	0.7	3.4	7.9	8.2	-2.4	
(BlackRock) The 32 Capital Fund, Ltd.	4.4	7.5	4.4	6.0	0.4	2.0	3.8	-11.4	8.6	-0.3	7.1	8.9	21.1	1y 2m
HFRI EH: Equity Market Neutral Index	2.1	2.9	2.1	4.5	3.5	4.0	3.6	2.2	4.3	3.1	6.5	3.0	-2.1	
Fir Tree International Value Fund (USTE), L.P.	2.4	2.7	2.4	5.6	-1.9	2.7	0.5	0.9	-8.9	-2.1	17.2	16.9	2.4	4y 5m
HFRI RV: Multi-Strategy Index	0.5	2.8	0.5	4.5	3.2	4.7	3.6	6.4	0.7	3.4	7.9	8.2	-2.4	
Pine River Fund Ltd.	1.5	1.1	1.5	2.2	-0.2	3.5	0.3	0.6	-2.8	4.7	9.7	21.7	5.7	3y 6m
HFRI RV: Multi-Strategy Index	0.5	2.8	0.5	4.5	3.2	4.7	3.4	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. FromMay 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 September 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 September 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 September 30, 2017

Cash Balance Plan

Cash Balance Plan Total Benchmark
Beginning July 2017, the Cash Balance Plan Total Benchmark consists of 50% Total Equity Benchmark, 30% Total Fixed Income Benchmark, and 20% Alternatives Benchmark. From January 2013 to June 2017, the Cash Balance Plan Total Benchmark consisted 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 July 2017, the Cash Balance Plan Total Benchmark X Privates consists of 33.68% Domestic Equity Benchmark, 18.95% MSCI AC World ex USA Net, 26.31% Barclays Capital Aggregate, 5.27% Short Duration Fixed Income Benchmark, and 15.79% HFRI FOF Composite. From January 2013 to June 2017, the Cash Balance Plan Total Benchmark X Privates consisted of 33.68% Domestic Equity Benchmark, 18.95% MSCI AC World ex USA Net, 26.31% Barclays Capital Aggregate, 10.53% Short Duration Fixed Income Benchmark, and 10.53% HFRI FOF Composite. From November 2012 to December 2012, the Cash Balance Plan Total Benchmark X Privates consisted of 50% Total Equity Benchmark, 45% Total Fixed Income Benchmark, and 5% HFRI FOF Composite. From October 1990 to October 2012, the Cash Balance Plan Total Benchmark X Privates consisted of 60% Russell 1000 Value Index and 40% Barclays Capital Aggregate.

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 July 2017, the Total Fixed Income Benchmark consists of 83.3333% Barclays Capital Aggregate and 16.6667% Short Duration Fixed Income Benchmark. From January 2013 to June 2017, the Total Fixed Income Benchmark consisted 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 September 30, 2017

Key Performance Indicator	Definition / Explanation
Investment Performance	
Surplus cash balance (millions) Surplus cash return Cash balance plan balance (millions) Cash balance plan return 403(b) plan balance (millions)	Investment performance for the Surplus Cash portfolio was 10 bps behind the benchmark for the quarter with a +2.7% return. The portfolio has performed in-line with its benchmark since inception (Nov. 1, 2012) with a return of +5.7% annualized. The assets within the Surplus Cash account inclusive of debt reserves and balance sheet cash and excluding District, Foundation, and Concern ended the quarter at $1,158.5 million, significantly higher than the beginning of the quarter due to strong investment performance. The fiscal year 2018 plan has a projected balance at fiscal year end of $1,262.5 million. The Cash Balance Plan's performance lagged its benchmark by 10 bps for the quarter with a return of +3.2%, but has outperformed its benchmark since inception. The since inception annualized return stands at +8.2%, 60 basis points ahead of its benchmark per year. The assets within the Cash Balance Plan ended the quarter at $250.6 million. The expected amount for fiscal year 2018 is $257.1 million. The 403(b) balance has continued to rise and now stands at $411.2 million, an increase of $4.6 million or 1.1% over the June 30, 2017 value.
Risk vs. Return	
Surplus cash 3-year Sharpe ratio 3-year return 3-year standard deviation Cash balance 3-year Sharpe ratio 3-year return 3-year standard deviation	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. Sharpe ratio = (actual return - risk free rate) / standard deviation 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 modeling expectations and was in-line with its benchmark. Both accounts have demonstrated strong risk-adjusted returns since inception.
Asset Allocation	
Surplus cash absolute variances to target Cash balance 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. 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.
Manager Compliance	
Surplus cash manager flags Cash balance plan 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). 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 September 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

This report contains confidential and proprietary information and is intended for the exclusive use of the parties to whom it was provided. Facts and information provided in this report are believed to be accurate at the time of preparation. However, certain information in this document has been provided to Pavilion Advisory Group Inc. (Pavilion) by third parties and subject to change at any time and based on market conditions. Although we believe this information is reliable, we have not independently verified the information.

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.

EL CAMINO HOSPITAL
ADMINISTRATIVE POLICIES AND PROCEDURES

33.00 CASH BALANCE PENSION INVESTMENT AND ADMINISTRATION POLICY

A. **Coverage**:

All El Camino Hospital

B. **Reviewed/Revised**

5/90, 5/03, 03/05, 11/06, 5/07, 5/12, **6/13**

C. **Policy Summary**

This policy has been developed to provide a prudent framework for the management and oversight of the assets of the Cash Balance Pension plan (the "Plan"). The overall goal of the Plan's investment program is to achieve the highest possible investment return, and the resulting positive impact on asset values, funded status, contributions and benefits, without exceeding a prudent level of risk. The structure of the Plan's investment program was developed after evaluating the implications of increased investment return versus increased variability of return for a number of potential asset allocations with varying commitments to equity, fixed income, alternative and cash equivalent investments.

D. **Policy**

1. Objectives and Purpose

a. The policy will be to invest Plan assets in a diversified investment portfolio that targets capital appreciation without assuming undue risk to principal. The primary objectives of the retirement Plan shall be:

(1) The preservation of capital in real terms with a focus on meeting future benefit payments.

(2) Obtaining the maximum return within reasonable and acceptable levels of risk.

2. Delegation of Responsibility

a. Within the financial activities of the organization, it is necessary to provide a prudent framework for the regular supervision of the management of invested funds. A hospital board Investment Subcommittee (the "Committee") of the Finance Committee has been established to review and monitor investment performance of the Cash Balance Plan. The Committee bears primary responsibility as detailed in section 2.e. below for oversight of the independent Investment Consultant and the overall Plan investment program. In addition, a Retirement Plan Administrative Committee (the

"RPAC") administers the Hospital's pension plan including employee communication and education, eligibility, and distributions.

b. The members of the Investment Subcommittee are appointed by the hospital board of directors. The RPAC shall be composed of the Chief Financial Officer, Controller, Chief Human Resources Officer, Benefits Manager, and others appointed by the Chief Executive Officer,

c. Management ("Management") shall be defined as the Chief Executive Officer, Chief Financial Officer and Controller. The Plan Administrator ("Plan Administrator") shall be defined as any one of the following: Chief Executive Officer, Chief Financial Officer, Chief Human Resources Officer, Controller or Benefits Manager.

d. Those authorized to execute investment and financial transactions include the Chief Executive Officer, Chief Financial Officer, Controller, and investment advisor(s) approved by the Committee.

e. **Responsibilities of the board Investment Subcommittee**

(1) Establish and recommend revisions to the investment policy, as appropriate.

(2) Review compliance with policy.

(3) Determine 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 and evaluate the performance of investment managers through reports provided by the Investment Consultant no less frequently than annually.

f. **Responsibilities of Management**

(1) Select, contract with, and when appropriate, terminate investment managers who manage the investment programs' assets.

(2) Select, contract with, and when appropriate, terminate custodian banks/brokers that are responsible for the custody of the Plan's assets.

(3) Select, contract with, and when appropriate, terminate an investment consultant.

(4) Evaluate on a regular basis the investment performance objectives of each of the investment programs' investment managers.

(5) Provide each investment manager with specific investment objectives and guidelines consistent with overall objectives.

(6) Implement allocations across investment styles and investment managers that are consistent with this investment policy.

(7) Oversee the operational investment activities of the funds subject to this investment policy.

(8) Work with the independent, external Investment Consultant in developing and/or reviewing investment recommendations for presentation to the Committee and Board.

(9) Review the projected cash flow requirements of the Plan at least annually.

g. **Responsibilities of the Retirement Plan Administrative Committee**

(1) Review compliance testing. Receive annual compliance update from plan consultants. Engage and select legal advisers and consultants.

(2) Oversee processes used to determine employee eligibility, vesting, and benefits. Receive annual contribution report.

(3) Review annual budget regarding plan administrative and benefit costs. Review 403(b) fee policy annually. Recommend changes to policy. Ensure Hospital complies with Fee Disclosure regulations to participants.

(4) Purchase and maintain appropriate fidelity bond. Ensure that RPAC members sign fiduciary acknowledgment and conflict of interest forms annually.

(5) Review annual budgets including projected funding. Ensure that annual funding notices are sent to participants.

(6) Retain, evaluate, and remove record-keepers, non-investment advisers and consultants.

(7) Approve non-material plan changes related to administrative and regulatory changes. Review draft resolutions. Ensure implementation of plan document changes.

(8) Review human resources and administrative policies on retirement annually. Update and recommend policy changes based on input from investment committee, plan consultants, and regulatory changes.

(9) Each management member of the RPAC will be authorized to act as a

plan administrator to effectively administrate the plan. Such authority will be documented in writing by at least two members of the RPAC.

h. **Responsibilities of the independent Investment Consultant**

(1) Review the Plan's investment policies and objectives and suggest appropriate changes.

(2) Monitor long-term capital market trends and recommend appropriate asset allocation strategies to the Committee.

(3) Provide Management and the Committee with ongoing asset allocation, investment manager allocation recommendations, and total portfolio context.

(4) Provide assistance concerning the allocation of new contributions as well as periodic asset allocation rebalancing.

(5) On an annual basis, provide to the Plan's Investment Managers a list of securities that are prohibited by the Plan's investment policy under section 10.b.

(6) Recommend which investment management firms should receive increased or decreased allocations and, when warranted, recommend firms that should be dismissed.

(7) Research and recommend investment management firms and custodian(s) appropriate to implement the Plan's investment policies and objectives.

(8) Measure, evaluate, and report each investment manager's performance on a quarterly basis.

(9) Monitor adherence of each investment manager to its stated investment philosophy and style.

(10) Monitor each investment manager's adherence to the guidelines and investment policies contained in this Investment Policy and specific manager guidelines, if applicable.

(11) Maintain contact with and report to Management and the Committee on changes within each investment manager's organization including but not limited to investment professional turnover and ownership changes.

(12) Communicate promptly with Management and the Committee regarding significant changes in the Investment Consultant's ownership, organizational structure, and professional staffing.

(13) Communicate promptly to the Committee any financial arrangements between the Investment Consultant and money management firms.

i. **Responsibilities of the Custodian Bank as directed by a Plan Administrator**

(1) Provide complete and accurate accounting records and prompt monthly reports to reflect all transactions, cash flows, and assets held.

(2) Disburse and receive cash flows and investments as directed by investment managers to the extent of their authority or authorized by a Plan Administrator.

(3) Issue monthly reports of holdings and transactions priced in accordance with industry standards.

(4) Provide monthly reports showing individual asset holdings with sufficient descriptive detail to include units, unit price cost, market value, CUSIP number (where available) and any other information requested by the direction of a Plan Administrator . Principal cash transactions, including dividends, interest and principal payments received, deposits and withdrawals, securities purchased, sold, and matured, and fee payments will also be listed.

(5) Expeditiously transfer funds into and out of specified accounts.

(6) Promptly forward all proxy materials received to the appropriate investment manager or a Plan Administrator.

j. **Responsibilities of the Investment Managers**

(1) Manage the portfolio's assets with full discretion, in accordance with the investment objectives and guidelines stated in this Investment Policy and specific investment manager guidelines.

(2) Communicate promptly with Management and the Investment Consultant regarding all significant matters such as:

-- major changes in the investment manager's investment outlook and strategy,
-- shifts in portfolio construction (asset mix, sector emphasis, etc.),
-- changes in the investment manager's ownership, organizational structure, or professional staffing (additions and departures), and
-- other changes of a substantive nature.

(3) Comply with all laws and regulations that involve the Plan as they pertain to the investment manager's duties, functions, and responsibilities as a fiduciary.

(4) Vote the proxies on the securities held in the investment manager's portfolio in accordance with the manager's fiduciary duties and professional judgment.

(5) Provide Management and the Investment Consultant with monthly performance and organizational updates and other information as requested.

(6) Provide periodic presentations to the Committee and RPAC as requested.

3. <u>Reporting and Evaluation Process</u>:

a. The achievement of investment objectives will be reviewed by the Committee annually and recommended to the Board of Directors for approval. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of the investment policy.

b. The Investment Consultant will be responsible for reporting the status of investments to the Committee and Management no less frequently than annually.

c. On a quarterly basis, the Investment Consultant will provide a summary of the Plan's investment performance to the Committee and CFO. The following will be reviewed:

(1) The Plan's asset allocation relative to the target asset allocation.

(2) The total fund, segment and investment manager returns relative to the stated investment objectives.

(3) Other items pertaining to the Plan.

d. All major liability assumptions regarding workforce, benefit levels and actuarial assumptions will be subject to, at a minimum, an annual review by the RPAC. This review will focus on an analysis of major differences between the Plan's assumptions and actual experience.

e. Management will report the Plan's projected cash flow requirements to the Committee on an annual basis.

4. <u>Review and/or Modification of Policy</u>:

The Committee as assisted by Management and the Investment Consultant will be responsible for reviewing and modifying investment guidelines as conditions warrant, subject to approval by the Board of Directors.

5. <u>Return and Risk Parameters</u>:

The Committee has established the following return and risk parameters that will guide the investment of the Plan assets.

a. The Committee will review the risk tolerance and asset allocation of the Plan within the context of the expected cash flow needs and benefit obligations of the Plan.

b. The Plan will be actively invested to achieve growth of capital through appreciation of securities held and through the accumulation and reinvestment of dividend and interest income.

c. The Plan will be strategically allocated among asset classes and investment styles in order to enhance investment returns and diversify correlating risk factors. This strategic allocation must at all times be within investment policy allocation ranges.

d. The Plan is to be sufficiently diversified in order to reduce volatility.

e. Diversification of assets may be achieved by:

-- allocating assets to multiple asset classes,
-- allocating assets among various investment styles, and
-- retaining multiple investment management firms with complementary investment philosophies, styles, and approaches.

f. The time horizon for evaluating total fund investment performance shall be long-term, which is understood generally to be ten-year periods. The time frame for evaluating the performance of investment managers generally will be rolling five-year periods.

6. <u>Target Asset Allocation</u>

a. The Target Asset Allocation represents the Plan's normal risk/reward orientation. This orientation has been determined by the Plan's ability to assume risk, the Plan's expected cash needs and the Committee’s risk preferences.

b. The Target Asset Allocation and individual asset class allocation ranges are outlined in the following table:

ASSET CLASS	ASSET ALLOCATION Neutral	Rebalancing Range
Domestic Equities	32%	27% to 37%
International Equities	18%	15% to 21%
Alternatives	20%	17% to 23%
Broad Fixed Income	25%	20% to 30%
Cash	5%	0% to 8%
Total Fund	100%	---

c. The Plan's allocations may be allowed to be outside of the Rebalancing Ranges specified above until the plan is rebalanced, which will take place at least quarterly, if necessary, and in the following circumstances on a temporary basis:

(1) The Plan is in the process of implementing new investments within asset classes specified above to which asset classes the Plan does not currently have exposure.

(2) The Plan experiences significant inflows or outflows over a short time frame or is expected to experience significant inflows or outflows over a specified time frame.

d. Investments within "Alternatives" may include the following investments:

(1) Open-ended and closed-ended real estate investment vehicles and core, value-added and opportunistic real estate investments.

(2) Hedge fund of funds strategies that are of institutional quality and are managed by highly skilled investment professionals with robust risk management and operational due diligence processes in place. The following contractual terms are required for hedge fund of funds investments:

A. Maximum lockup – 2 years

B. Minimum liquidity/redemption period – annually after initial lock-up

C. Frequency of valuation – monthly

7. Rebalancing Procedure

a. Plan assets will be monitored by Management to keep the asset allocation in line with the target asset allocations outlined in Section 6.

b. The Investment Consultant will provide rebalancing recommendations to Management and the Committee on a quarterly basis, at minimum.

c. In circumstances specified under section D.6.c. where Management and the Investment Consultant believe it to be necessary for the Plan's allocations to be temporarily outside of the Rebalancing Ranges, Management will provide a written recommendation to the Investment Subcommittee detailing the requested deviation from the Rebalancing Ranges and the reasons for the deviation.

8. <u>Investment Manager Selection</u>

a. As stated under Delegation of Responsibilities, Management appoints investment managers who will manage, acquire or dispose of the Plan assets. In selecting an investment manager, Management will use appropriate methods to exercise due diligence and to evaluate the appropriateness and merits of the investment manager. The Committee has delegated to the Investment Consultant the task of researching and recommending investment managers.

b. In investigating potential managers, the Investment Consultant must, at a minimum, use the following procedures:

(1) Identify a range of possible investment manager candidates.

(2) Obtain relevant information about the investment manager’s experience, qualifications and investment approach.

(3) Evaluate experience, qualifications and investment approach. Included in this evaluation will be an analysis of past performance, risk characteristics, and investment management fees.

(4) Document the selection process.

9. <u>Investment Objectives</u>

Investment objectives are necessary to properly measure and evaluate the success of the Plan's investment program.

Total return for the Plan's assets and the investment managers, is defined as interest and/or dividends plus (or minus) realized and unrealized capital gains (or losses) minus investment management fees.

a. The investment objectives of the Total Plan are as follows:

(1) Outperform the Composite Benchmark over rolling five-year periods.

A. The Composite Benchmark shall be composed of relevant indices combined in a proportion reflective of the underlying target asset allocation.

(2) Outperform the median of a composite fund manager universe over five-year periods.

b. The investment objectives of the Investment Managers are as follows:

(1) Outperform a passive, style-specific index over rolling five-year periods.

(2) Outperform the median of a style-specific peer group over rolling five-year periods if available.

(3) Assume a level of risk no greater than is appropriate for the investment manager's specific investment mandate.

10. <u>Investment Restrictions</u>

a. This section details the investment restrictions for separate account investment managers. In the case of pooled investment vehicles (mutual funds, commingled funds and limited partnerships), the investment guidelines and restrictions defined and detailed by the vehicle will apply. Management and the Investment Consultant are responsible for the review of such guidelines and restrictions prior to investment.

b. The purchase of the securities of companies described below is prohibited; however, as specified in section 10.a., this prohibition is waived in the case of pooled investment vehicles. For the purposes of this section, Investment Managers are expected to rely upon a list of companies engaged in such activities as provided by the Investment Consultant, who will provide such a list on a best efforts basis. In instances where companies that engage in the activities below are inadvertently purchased or held by an Investment Manager, the Investment Manager will divest of the security within 90 days of being made aware of the violation unless the Investment Manager receives a written exception to this section of the investment policy from the Investment Subcommittee.

(1) Companies whose major product is tobacco (greater than 50% of company revenues).

(2) Companies who engage in the manufacture of firearms that are illegal for sale to or possession by civilians in the state of California.

c. **Equity Manager Guidelines**

(1) The domestic and international equity segments may be diversified across a spectrum of market capitalizations by allowing investments in

small-, medium-, and large-capitalization stocks.

(2) Unless specified otherwise in writing, equity holdings should be readily marketable and diversified by issuer, industry, and sector.

(3) An individual security position may not exceed 10% of an equity manager's portfolio market value.

(4) Investments in money market instruments and bonds, as a surrogate for cash reserves, are allowed subject to a maximum of 10% of total allocation.

(5) Investments in options, futures and other derivatives are allowed only for hedging purposes or as a substitute for actual securities in cases where the derivative instrument is a more efficient means of gaining exposure to the underlying securities. Derivatives may not be used in a speculative manner or to leverage the portfolios.

d. **Fixed Income Manager Guidelines**

(1) Fixed income holdings should be readily marketable and diversified by issuer, sector, coupon and quality.

(2) No more than 5% of the Investment Manager's bond portfolio at the time of purchase shall be invested in the securities of any one issuer. There shall, however, be no such limit on U.S. Government securities, U.S. Agency securities, or government sponsored entities, U.S Agency mortgage backed securities, or other sovereign issues rated "AAA" or "Aaa".

(3) For managers benchmarked against the Barclays Capital U.S. Aggregate Bond Index, up to 20% of the portfolio's market value at the time of purchase may be invested in high yield debt. For split-rated securities, the higher rating will be used in determining compliance with these guidelines.

(4) For managers benchmarked against the Barclays Capital U.S. Aggregate Bond Index, emerging markets debt shall be limited to no more than 15% of the portfolio's market value at the time of purchase.

(5) For managers benchmarked against the Barclays Capital U.S. Aggregate Bond Index, exposure to non-U.S. dollar assets shall be limited to no more than 20% of the portfolio's market value at the time of purchase.

(6) The portfolio's weighted average effective duration determines a bond portfolio's sensitivity to interest rate changes. A manager's market value weighted effective duration, adjusted for expected life and call provision, cannot be more than +/- 30% of the benchmark's effective duration.

(7) Permissible Holdings include the following:

A. Debt securities issued or guaranteed by the United States or U.S. government sponsored entities (including U.S. Government sponsored Agency mortgage backed securities, and inflation linked bonds).

B. Non-agency and commercial mortgage-backed securities, including collateralized mortgage obligations and whole loans.

C. Corporate bonds, debentures and other forms of corporate debt obligations, including equipment trust certificates, Eurobonds, Insurance Surplus Notes, and Capital Securities.

D. Municipal securities (up to 20% of the portfolio).

E. Asset-backed securities.

F. Indexed notes, floaters, and other variable rate obligations.

G. 144A securities without registration rights (up to 20% of the portfolio).

H. Bank collective funds.

I. Certificates of deposit ("CD's") and other money market instruments from banks also issuing bankers acceptances and with current commercial paper ratings of at least A 1 (by Standard & Poor's) or P 1 (by Moody's Investors Service).

J. Mutual funds or commingled pools.

K. U.S. dollar-denominated sovereign, supranational, provincial, and municipal securities issued by foreign entities.

L. Non-U.S. dollar-denominated sovereign securities.

M. On a temporary basis, securities received in exchange offers or other similar situations (subject to approval by the Committee after notification by the investment manager of the receipt of such securities).

N. Hedging with futures contracts and options on futures contracts are permitted to offset price risks (which include interest rates, currency fluctuations and the general price level of certain financial markets) incidental to the portfolio's principal mandate. Transactions in futures contracts and options on futures contracts are restricted to those contracts that are substitutes for assets that the portfolio could own, and that are economically appropriate to the reduction of risks in the conduct/management of the portfolio. In no way will futures or options on futures be used to leverage the portfolio.

e. Exceptions to these restrictions may only be made upon prior approval of the Committee.

EL CAMINO HOSPITAL
ADMINISTRATIVE POLICIES AND PROCEDURES

16.00 SURPLUS CASH INVESTMENT POLICY

A. **Coverage**:

El Camino Hospital Surplus Cash

B. **Reviewed/Revised**

6/98, 11/00, 6/01, 9/02, 1/04, 3/05, 5/06, 06/09, 05/12, 06/13, 2/15

C. **Policy Summary**

It is the policy of the El Camino Hospital Board of Directors that cash funds of El Camino Hospital, El Camino Hospital Foundation, CONCERN: EAP, and other affiliates be prudently invested with a focus on preserving the liquidity and principal necessary to meet known and reasonably unforeseen operational and capital needs. Funds will be invested in a diversified portfolio that balances the need for liquidity with a long-term investment focus in order to improve investment returns and the organization's financial strength.

D. **Policy**

1. Objectives and Purpose

    a. The policy will be to invest the Surplus Cash assets in a diversified investment portfolio that targets capital appreciation without assuming undue risk to principal. The primary objectives of the overall Surplus Cash pool shall be (1) preservation of capital, (2) capital growth, (3) maintenance of liquidity, and (4) avoidance of inappropriate concentration of investments.

    b. The assets subject to this Investment Policy include the commingled funds of the Hospital, Foundation, CONCERN, and the El Camino Hospital Foundation Gift Annuity Fund.

    c. The El Camino Hospital Foundation Gift Annuity Fund is also managed according to the following restrictions: investments shall be managed in a diversified and prudent manner and in compliance with and subject to the criteria set forth under California Insurance Code Section (CICS) 1192.9, including Section 11521.2 to 11521.3.

2. Delegation of Responsibility

a. Within the financial activities of the organization, it is necessary to provide a prudent framework for the regular supervision of the management of invested funds. The Board of Directors ("the Board") has the overall fiduciary responsibility for the Surplus Cash assets. The Board shall appoint an Investment Committee ("the Committee") that bears primary responsibility as detailed in section 2.d. below for oversight of El Camino Hospital management ("Management"), the independent Investment Consultant, and the overall Surplus Cash investment program. The Board shall delegate the specific management of the Surplus Cash pool's investments to Management as detailed in section 2.e. below.

b. Management shall be defined as the Chief Executive Officer, the Chief Financial Officer, Controller, and Finance Director.

c. Those authorized to execute transactions include the Chief Executive Officer, Chief Financial Officer, Controller, and investment advisor(s) approved by Management.

d. **Responsibilities of the Investment Committee**

(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.

e. **Responsibilities of Management**

(1) Select, contract with, and when appropriate, terminate investment managers who manage the investment programs' assets.

(2) Evaluate the investment performance objectives of each of the investment programs' investment managers.

(3) Select, contract with, and when appropriate, terminate custodian banks/brokers that are responsible for the custody of the investment programs' assets.

(4) Select, contract with, and when appropriate, terminate an investment consultant.

(5) Provide each investment manager with specific investment objectives and guidelines consistent with overall objectives.

(6) Determine and implement allocations across investment styles and investment managers that are consistent with this investment policy.

(7) Oversee the operational investment activities of the funds subject to this investment policy and other operating procedures and policies of El Camino Hospital.

(8) Work with the independent, external Investment Consultant in developing and/or reviewing investment recommendations for presentation to the Committee and Board.

f. **Responsibilities of the independent Investment Consultant**

(1) Review the Surplus Cash pool’s investment policies and objectives and suggest appropriate changes.

(2) Monitor long-term capital market trends and recommend appropriate asset allocation strategies to Management and the Committee.

(3) Provide Management and the Committee with ongoing asset allocation, investment manager allocation recommendations, and total portfolio context.

(4) Provide assistance concerning the allocation of new contributions as well as periodic asset allocation rebalancing.

(5) On an annual basis, provide to the Surplus Cash pool’s Investment Managers a list of securities that are prohibited by the Surplus Cash pool’s investment policy under section 10.b.

(6) Recommend which investment management firms should receive increased or decreased allocations and, when warranted, recommend firms that should be dismissed.

(7) Research and recommend investment management firms and custodian(s) appropriate to implement the Surplus Cash pool’s investment policies and objectives.

(8) Measure, evaluate, and report each investment manager’s performance on a quarterly basis.

(9) Monitor adherence of each investment manager to its stated investment philosophy and style.

(10) Monitor each investment manager's adherence to the guidelines and investment policies contained in this Investment Policy and specific manager guidelines, if applicable.

(11) Maintain contact with and report to Management and the Committee on changes within each investment manager's organization including but not limited to investment professional turnover and ownership changes.

(12) Communicate promptly with the Management and the Committee regarding significant changes in the Investment Consultant's ownership, organizational structure, and professional staffing.

(13) Communicate promptly to the Committee any financial arrangements between the Investment Consultant and money management firms.

g. **Responsibilities of the Custodian Bank as directed by Management**

(1) Provide complete and accurate accounting records and prompt monthly reports to reflect all transactions, cash flows, and assets held.

(2) Disburse and receive cash flows and investments as directed by investment managers to the extent of their authority or by authorized Management.

(3) Issue monthly reports of holdings and transactions priced in accordance with industry standards.

(4) Provide monthly reports showing individual asset holdings with sufficient descriptive detail to include units, unit price cost, market value, CUSIP number (where available) and any other information requested by the direction of Management. Principal cash transactions, including dividends, interest and principal payments received, deposits and withdrawals, securities purchased, sold, and matured, and fee payments will also be listed.

(5) Expeditiously transfer funds into and out of specified accounts.

(6) Promptly forward all proxy materials received to the appropriate investment manager or Management.

h. **Responsibilities of the Investment Managers**

(1) Manage the portfolio's assets with full discretion, in accordance with the investment objectives and guidelines stated in this Investment Policy and specific investment manager guidelines.

(2) Communicate promptly with Management and the Investment Consultant regarding all significant matters such as:

-- major changes in the investment manager's investment outlook and strategy,
-- shifts in portfolio construction (asset mix, sector emphasis, etc.),
-- changes in the investment manager's ownership, organizational structure, or professional staffing (additions and departures), and
-- other changes of a substantive nature.

(3) Comply with all laws and regulations that involve the Surplus Cash pool as they pertain to the investment manager's duties, functions, and responsibilities as a fiduciary.

(4) Vote the proxies on the securities held in the investment manager's portfolio in accordance with the manager's fiduciary duties and professional judgment.

(5) Provide Management and the Investment Consultant with monthly performance and organizational updates and other information as requested.

(6) Provide periodic presentations to the Investment Committee as requested.

3. <u>Reporting and Evaluation Process</u>:

a. Management and the Investment Consultant will be responsible for reporting the status of investments to the Committee on a regular basis.

b. Annual reports by Management should include a complete listing of securities held and must be verified (audited) by the District's auditors.

c. On a quarterly basis, the Committee will evaluate investment performance. The following will be reviewed:

(1) The Surplus Cash pool's asset allocation relative to the target asset allocation.

(2) The total fund, segment and investment manager returns relative to the stated investment objectives.

(3) Other items pertaining to Surplus Cash pool.

(4) Management will provide minutes of each meeting to the Committee.

4. <u>Review and/or Modification of Policy</u>:

a The Committee as assisted by Management and the Investment Consultant will be responsible for reviewing and modifying investment guidelines as conditions warrant, subject to approval by the Board of Directors.

b A copy of this policy will be rendered to the Board of Directors annually.

5. Return and Risk Parameters:

The Committee has established the following return and risk parameters that will guide the investment of the Surplus Cash assets.

(1) The Committee will review the risk tolerance of the Surplus Cash pool's assets within the context of El Camino's long-term financial plan.

(2) The Surplus Cash pool will be actively invested to achieve growth of capital through appreciation of securities held and through the accumulation and reinvestment of dividend and interest income.

(3) The Surplus Cash pool will be strategically allocated among asset classes and investment styles in order to enhance investment returns and diversify correlating risk factors. This strategic allocation must at all times be within investment policy allocation ranges.

(4) The Surplus Cash pool is to be sufficiently diversified in order to reduce volatility.

(5) Diversification of assets may be achieved by:

-- allocating assets to multiple asset classes,
-- allocating assets among various investment styles, and
-- retaining multiple investment management firms with complementary investment philosophies, styles, and approaches.

(6) The time horizon for evaluating total fund investment performance shall be long-term. The time frame for evaluating the performance of investment managers generally will be rolling five-year periods.

6. Target Asset Allocation

a. The Target Asset Allocation represents the Surplus Cash pool's normal risk/reward orientation. This orientation has been determined by the Surplus Cash pool's ability to assume risk and the Committee's risk preferences.

b. The Target Asset Allocation and individual asset class allocation ranges are outlined in the following table:

	ASSET ALLOCATION	
ASSET CLASS	**Neutral**	**Range**
Domestic Equities	25%	20% to 30%
International Equities	15%	10% to 20%
Alternatives	20%	17% to 23%
Broad Fixed Income	30%	25% to 35%
Short Term Fixed Income	10%	8% to 12%
Total Fund	100%	---

c. The Plan's allocations may be allowed to be outside of the Rebalancing Ranges specified above until the Plan is rebalanced, which will take place at least quarterly, if necessary, and in the following circumstances on a temporary basis:

(1) The Plan is in the process of implementing new investments within asset classes specified above to which asset classes the Plan does not currently have exposure.

(2) The Plan experiences significant inflows or outflows over a short time frame or is expected to experience significant inflows or outflows over a specified time frame.

d. Investments within "Alternatives" may include the following investments:

(1) Open-ended and closed-ended real estate investment vehicles and core, value-added and opportunistic real estate investments.

(2) Hedge fund of funds strategies that are of institutional quality and are managed by highly skilled investment professionals with robust risk management and operational due diligence processes in place. The following contractual terms are required for hedge fund of funds investments:

A. Maximum lockup – 2 years

B. Minimum liquidity/redemption period – annually after initial lock-up

C. Frequency of valuation – monthly

7. Rebalancing Procedure

   a. Surplus Cash pool assets will be monitored by Management to keep the asset allocation in line with the target asset allocations outlined in Section 6.

   b. The Investment Consultant will provide rebalancing recommendations to Management and the Committee on a quarterly basis, at minimum.

   c. In circumstances specified under section D.6.c. where Management and the Investment Consultant believe it to be necessary for the Plan's allocations to be temporarily outside of the Rebalancing Ranges, Management will provide a written recommendation to the Investment Sub-Committee detailing the requested deviation from the Rebalancing Ranges and the reasons for the deviation.

8. Investment Manager Selection

   a. As stated under Delegation of Responsibilities, Management appoints investment managers who will manage, acquire or dispose of the Surplus Cash assets. In selecting an investment manager, Management will use appropriate methods to exercise due diligence and to evaluate the appropriateness and merits of the investment manager. Management has delegated to the Investment Consultant the task of researching and recommending investment managers.

   b. In investigating potential managers, the Investment Consultant must, at a minimum, use the following procedures:

      (1) Identify a range of possible investment manager candidates.

      (2) Obtain relevant information about the investment manager’s experience, qualifications and investment approach.

      (3) Evaluate experience, qualifications and investment approach. Included in this evaluation will be an analysis of past performance, risk characteristics, and investment management fees.

      (4) Document the selection process.

9. Investment Objectives

   Investment objectives are necessary to properly measure and evaluate the success of the Surplus Cash pool's investment program.

   Total return for the Surplus Cash pool's assets and the investment managers, is defined as interest and/or dividends plus (or minus) realized and unrealized capital gains (or losses) minus investment management fees.

   a. The investment objectives of the Total Surplus Cash Pool are as follows:

(1) Outperform the Composite Benchmark over rolling five-year periods.

A. The Composite Benchmark shall be composed of relevant indices combined in a proportion reflective of the underlying target asset allocation.

(2) Outperform the median of a composite fund manager universe over five-year periods.

b. The investment objectives of the Investment Managers are as follows:

(1) Outperform a passive, style-specific index over rolling five-year periods.

(2) Outperform the median of a style-specific peer group over rolling five-year periods if available.

(3) Assume a level of risk no greater than is appropriate for the investment manager's specific investment mandate.

10. <u>Investment Restrictions</u>

a. This section details the investment restrictions for separate account investment managers. In the case of pooled investment vehicles (mutual funds, commingled funds and limited partnerships), the investment guidelines and restrictions defined and detailed by the vehicle will apply. Management and the Investment Consultant are responsible for the review of such guidelines and restrictions prior to investment.

b. The purchase of the securities of companies described below is prohibited; however, as specified in section 10.a., this prohibition is waived in the case of pooled investment vehicles. For the purposes of this section, Investment Managers are expected to rely upon a list of companies engaged in such activities as provided by the Investment Consultant, who will provide such a list on a best efforts basis. In instances where companies that engage in the activities below are inadvertently purchased or held by an Investment Manager, the Investment Manager will divest of the security within 90 days of being made aware of the violation unless the Investment Manager receives a written exception to this section of the investment policy from the Investment Committee.

(1) Companies whose major product is tobacco (greater than 50% of company revenues).

(2) Companies who engage in the manufacture of firearms that are illegal for sale to or possession by civilians in the state of California.

c. **Equity Manager Guidelines**

(1) The domestic and international equity segments may be diversified across a spectrum of market capitalizations by allowing investments in small-, medium-, and large-capitalization stocks.

(2) Unless specified otherwise in writing, equity holdings should be readily marketable and diversified by issuer, industry, and sector.

(3) An individual security position may not exceed 10% of an equity manager's portfolio market value.

(4) Investments in money market instruments and bonds, as a surrogate for cash reserves, are allowed subject to a maximum of 10% of total allocation.

(5) Investments in options, futures and other derivatives are allowed only for hedging purposes or as a substitute for actual securities in cases where the derivative instrument is a more efficient means of gaining exposure to the underlying securities. Derivatives may not be used in a speculative manner or to leverage the portfolios.

d. **Fixed Income Manager Guidelines**

(1) Fixed income holdings should be readily marketable and diversified by issuer, sector, coupon and quality.

(2) No more than 5% of the Investment Manager's bond portfolio at the time of purchase shall be invested in the securities of any one issuer. There shall, however, be no such limit on U.S. Government securities, U.S. Agency securities, or government sponsored entities, U.S Agency mortgage backed securities, or other sovereign issues rated “AAA” or “Aaa”.

(3) For managers benchmarked against the Barclays Capital U.S. Aggregate Bond Index, the average credit quality of the fixed income portfolio shall be “A-” or higher. Up to 15% of the portfolio’s market value at the time of purchase may be invested in high yield debt. For split-rated securities, the higher rating will be used in determining compliance with these guidelines.

(4) For managers benchmarked against the Barclays Capital U.S. Aggregate Bond Index, emerging markets debt shall be limited to no more than 15% of the portfolio's market value at the time of purchase.

(5) For managers benchmarked against the Barclays Capital U.S. Aggregate Bond Index, exposure to non-U.S. dollar assets shall be limited to no more than 20% of the portfolio's market value at the time of purchase.

(6) The portfolio’s weighted average effective duration determines a bond portfolio’s sensitivity to interest rate changes. A manager’s market value weighted effective duration, adjusted for expected life and call provision, cannot be more than +/- 30% of the benchmark’s effective duration.

(7) Permissible Holdings include the following:

A. Debt securities issued or guaranteed by the United States or U.S. government sponsored entities (including U.S. Government sponsored Agency mortgage backed securities, and inflation linked bonds).

B. Non-agency and commercial mortgage-backed securities, including collateralized mortgage obligations and whole loans.

C. Corporate bonds, debentures and other forms of corporate debt obligations, including equipment trust certificates, Eurobonds, Insurance Surplus Notes, and Capital Securities.

D. Municipal securities (up to 20% of the portfolio).

E. Asset-backed securities.

F. Indexed notes, floaters, and other variable rate obligations.

G. 144A securities without registration rights (up to 20% of the portfolio).

H. Bank collective funds.

I. Certificates of deposit (“CD’s”) and other money market instruments from banks also issuing bankers acceptances and with current commercial paper ratings of at least A 1 (by Standard & Poor's) or P 1 (by Moody's Investors Service).

J. Mutual funds or commingled pools.

K. U.S. dollar-denominated sovereign, supranational, provincial, and municipal securities issued by foreign entities.

L. Non-U.S. dollar-denominated sovereign securities.

M. Hedging with futures contracts and options on futures contracts are permitted to offset price risks (which include interest rates, currency fluctuations and the general price level of certain financial markets) incidental to the portfolio’s principal mandate. Transactions in futures contracts and options on futures contracts are restricted to those contracts that are substitutes for assets that the portfolio could own, and that are economically appropriate to the reduction of risks in the conduct/management of the portfolio. In no way will futures or options on futures be used to leverage the portfolio.

(8) Exceptions to these restrictions may only be made upon prior approval of the Committee.