

**Minutes of the Open Session of the
 Investment Committee Meeting of the
 El Camino Hospital Board
 Monday, March 6, 2017
 El Camino Hospital, Conference Room A
 2500 Grant Road, Mountain View, California**

Members Present

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

Members Absent
Members Excused

A quorum was present at the El Camino Hospital Investment Committee on the 6th day of March, 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 Committee Chair John Zoglin at 5:30 p.m. Silent roll call was taken.	<i>None</i>
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Chair Zoglin asked if any Committee member or anyone in the audience believes that a Committee member may have a conflict of interest on any of the items on the agenda. No conflict of interest was reported.	<i>None</i>
3. PUBLIC COMMUNICATION	Chair Zoglin asked if there was any public communication to present. None were noted.	<i>None</i>
4. CONSENT CALENDAR ITEMS	<p>Chair Zoglin asked if any Committee member wished to remove any items from the consent calendar for discussion.</p> <p><u>Motion:</u> To approve the consent calendar (Open Minutes of the November 14, 2016 Investment Committee Meeting and Open Minutes of the January 30, 2017 Joint Finance and Investment Committee).</p> <p><u>Movant:</u> Kalbach</p> <p><u>Second:</u> Davis</p> <p><u>Ayes:</u> Boone, Conover, Nelson, Davis, Kalbach, and Zoglin.</p> <p><u>Abstentions:</u> None</p> <p><u>Absent:</u> None</p> <p><u>Excused:</u> None</p> <p><u>Recused:</u> None</p>	<i>The Open Minutes of the November 14, 2016 Investment Committee Meeting and the Open Minutes of the January 30, 2017 Joint Finance and Investment Committee were approved.</i>
5. REPORT ON BOARD ACTIONS	Chair Zoglin briefly reviewed the Board Report as further detailed in the packet and briefly reported on the current CEO search with the 1 st round of interviews to	<i>None</i>

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	<p>occur at the beginning of April with hopes to secure a candidate by June. Chair Zoglin further reviewed the upcoming Strategic Planning Process asked the Committee if there were any questions or concerns. None were noted.</p>	
<p>6. EL CAMINO HOSPITAL FINANCIAL PERFORMANCE</p>	<p>Iftikhar Hussain, Chief Financial Officer, reviewed the Hospital’s current financial performance with the Committee. Mr. Hussain detailed the inpatient volume, outpatient volume, operating income, and budget variance to include:</p> <ul style="list-style-type: none"> • January inpatient discharges exceed budget and PY same period; YTD discharge budget gap is narrowed to 1.4%. • The late flu season is the main reason for jump in General Medicine discharges. • Other services show a modest increase in case volume including Orthopedics and Urology cases. • Overall YTD outpatient volume is 2.6% below budget but higher than PY. • Operating Income was ahead of budget by \$5.0M for the month and \$33.4M YTD. The main contributing factors to a strong financial in January include: \$3.8M lower operating expense due to better productivity helped by high volume, and better mix of surgical and outpatient cases. • LG posted a net loss of \$1.1M for January due to higher Medicare mix in both IP and OP and lower in PPO cases. • January’s revenue included a \$2.2M loss for BPSI program. This loss covers 3 years. • This partially offset by the \$814K Medi-Cal managed care supplemental payment. • Net AR increase in January due to slowdown in cash payments during the holidays. • Total cash on hand is at all-time high of 408 days in Jan. <p>Mr. Hussain asked the Committee for feedback and a brief discussion ensued.</p> <p><i>*Item of discussion: Are we prepared for continued decreased reimbursement due to Medicare, Payor mix, etc.? Pavilion will partner with our efforts and provide modeling capabilities by stress testing our financial metrics and analysis of how different asset allocation will influence those metrics.</i></p>	<p><i>None</i></p>

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<p>7. INVESTMENT COMMITTEE SCORECARD AND PERFORMANCE REVIEW</p>	<p>Antonio DiCosola, Pavilion Advisory Group, reviewed the Investment Committee Score, Fourth Quarter Performance, and Manager Performance as further detailed in the submitted materials to include the following:</p> <p>a. Scorecard: Mr. DiCosola reported that the Investment performance for the Surplus Cash portfolio lagged the benchmark by 30 bps for the quarter with a flat return. The portfolio has performed in-line with the benchmark since inception (Nov. 1, 2012) with a return of +4.6% annualized. The assets within the Surplus Cash account ended the quarter at \$801.9 million, significantly higher than the beginning of the quarter due an increase in cash from operations. With significant capital expenditures in the fiscal year 2017 plan the projected balance at fiscal year-end is much lower at \$657.2 million. The Cash Balance Plan's performance lagged its benchmark for the quarter by 80 basis points with a return of -0.2%, but has outperformed its benchmark since inception. The since inception annualized return stands at +7.0%, 40 basis points ahead of its benchmark per year. The assets within the Cash Balance Plan ended the quarter at \$227.9 million. The budgeted amount for fiscal year 2017 is \$220.6 million. The 403(b) balance has risen substantially and now stands at \$362.4 million, an increase of \$5.3 million, or 1.5% over the September 30, 2016 value.</p> <p>b. Surplus Cash: Mr. DiCosola noted that the Surplus Cash portfolio returned +0.0% for the quarter, underperforming the benchmark return of +0.3%. Over the trailing one year period, the portfolio returned +5.2%, lagging the benchmark return by 40 basis points (bps). He further reported that during the quarter, manager results detracted from performance, while the Plan's asset allocation positioning relative to its benchmark had a negligible impact on relative returns. The Large Cap Equity and International Equity composites trailed their respective benchmarks. Notable detractors included Large-Cap Growth manager Sands (-7.4%) and International manager Walter Scott (-5.0%), which trailed their benchmarks by 840 bps and 370 bps, respectively. The Market Duration Fixed Income and Hedge Fund composites positively impacted performance, outperforming</p>	

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	<p>their benchmarks by 100 bps and 190 bps, respectively.</p> <ul style="list-style-type: none"> • Pavilion recommended no changes to the traditional asset manager lineup at this time. <p>c. Cash Balance Plan: The Cash Balance Plan returned -0.2% for the quarter, underperforming its benchmark by 90 basis points (bps). Over the trailing one year period, the Plan returned +4.8%, lagging the benchmark by approximately 160 bps. Mr. DiCosola noted that the underperformance during the quarter was driven by poor manager results, as the Large Cap Equity and International Equity composites trailed their respective benchmarks, while the Small Cap Equity and Market Duration Fixed Income composites outperformed. Notable detractors included Large Cap Growth manager Sands (-7.4%) and International manager Walter Scott (-5.0%), which trailed their benchmarks by 840 bps and 370 bps, respectively. The hedge fund-of-funds composite also weighed down results, returning +0.6% versus +0.9 for the benchmark.</p> <ul style="list-style-type: none"> • Pavilion recommended no changes to the traditional asset manager lineup at this time. <p>d. Hedge Fund: The Hedge Fund Portfolio returned +2.8% during the fourth quarter, outperforming the HFRI Fund of Funds Composite Index by 190 basis points. The Portfolio's four strategies delivered positive absolute returns, with two of the four strategies (Credit and Macro) performing substantially better than their underlying benchmarks.</p> <ul style="list-style-type: none"> • Pavilion recommended redeeming from four hedge funds in the Portfolio: Brevan Howard Multi-Strategy Fund Limited, Luxor Capital Partners Offshore, Ltd., Pine River Fund Ltd., and Fir Tree International Value Fund (USTE), L.P. Pavilion also recommended reinvesting the proceeds into higher conviction strategies: Credit and Macro. <p>Mr. DiCosola further discussed an overview of liquidity with the Committee. He noted that our liquidity is very strong and that there is ample liquidity in the portfolio. He highlighted the fixed management fees of 60 basis points for surplus cash with some incentives fees included. Mr. DiCosola noted that due to negative press</p>	

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	<p>on hedge funds, managers are coming down on fees. Mr. DiCosola further reported on the fees per fund as further detailed in the packet.</p> <p>Mr. DiCosola asked the Committee for feedback and a brief discussion ensued. The Committee asked that future reporting begin with the scorecard and performance vs. benchmark reports.</p>	
<p>8. 403b REVIEW</p>	<p>Brian Montanez, Multnomah Group, reported to the Committee that on a quarterly basis, Multnomah Group reviews the 403(b) Plan’s investments in accordance with the Plan’s Investment Policy Statement and reports their findings to the Hospital’s Retirement Plan Administration Committee (RPAC). Below is a summary of 2016 Multnomah Group and RPAC actions.</p> <ol style="list-style-type: none"> 1. Fund Actions: As no funds were recommended for removal, nor did the RPAC choose to add any new funds, there were no fund actions for 2016. 2. Watch List/Recommend Removal: Multnomah Group placed the T. Rowe Price Equity Income Fund on Watch List in March of 2015. This decision was based on a pending manager change as well as the fund's recent underperformance. T. Rowe Price announced that longtime Portfolio Manager Brian Rogers would step down in October 2015 and be replaced by John Linehan, another long-tenured T. Rowe Price portfolio manager. The fund’s performance had significantly lagged the peer group and its large cap value benchmark over the course of 2014 and into 2015 largely due to its investment thesis being out of favor with the markets during this period. Over the course of 2015 and 2016, the RPAC kept a close watch on this fund, considered replacing the fund with an alternate fund. After evaluating the effects of the markets and the new portfolio manager, the Committee chose to keep this fund, which finished the 2016 year in the top 13th percentile, outperforming the peer universe by 4.47% and the index by 1.94%. 3. Plan Fee Benchmarking: Annually, Multnomah Group conducts a fee benchmarking study for the administration and recordkeeping services provided to the Plan. Multnomah Group creates a Peer Range for fees for Plans of similar size and demographics. The Peer Range is an estimate of the total cost of plan services available in today's 	<p>None</p>

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	<p>market. The range is calculated based on the average account balance of the plan and the number of participants with a plan balance. The Multnomah Group utilized a range of price sources, including existing clients' pricing, vendor responses to recent comparative searches, and discussions with vendors regarding their current pricing structures. As of June 30, 2016, the 403(b) Plan pays \$92.00 per participant which equates to 0.10% for Plan services. This fee is at the bottom of the peer range, determined by Multnomah Group, of 0.10% and 0.15% and is considered reasonable for services received.</p> <p>4. Share Class Fees: Annually, Multnomah Group works with the Plan's record-keeper to review the share class expenses of all investment options currently available to the Plans to ensure the lowest net fees are being utilized. Understanding that the Plans pay for recordkeeping and administrative services through the revenue sharing paid by the investments, all investments are invested in the lowest share class available to the Plans at this time that meets the agreed compensation requirements.</p> <p>5. Recommendation: The RPAC and Multnomah Group are satisfied with the quality and diversity of the investments available in the Plan as well as the fees incurred.</p> <p>Mr. Montanez asked the Committee for questions or feedback and discussion ensued. Discussion included governance of the RPAC committee and Investment Committee oversight. It was determined that the Investment Committee would prefer more detail in the quarterly report, and that the Committee should review the charter in order to address governance and oversight of RPAC.</p> <p><i>*Committee Members requested further detail of this agenda item, and charter review to be presented at the 5/8/17 Investment Committee meeting.</i></p>	
<p>9. FY18 COMMITTEE GOALS</p>	<p>Iftikhar Hussain, Chief Financial Officer, submitted the following proposed FY18 Goals to the Committee for discussion:</p> <ol style="list-style-type: none"> 1. Review performance of consultant recommendations of managers and asset allocations. 	<p>None</p>

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	<p>2. Educate Board and Committee: Hedge Fund trends and allocation review</p> <p>3. Review/revise Executive Dashboard.</p> <p>4. Meet with the Finance Committee to help align investment philosophy with capital and cash flow needs.</p> <p>Mr. Hussain asked the Committee for questions or feedback and discussion ensued regarding the pacing of the goals.</p> <p>The recommended pacing of goals was as follows:</p> <ol style="list-style-type: none"> 1. Goal 1 – In-depth 5 year review of performance of consultant recommendations of managers and asset allocations (i.e. passive vs. active, performance vs. benchmark, private equity, increase passive allocation); Pace for the February (Q1) Investment meeting. 2. Goal 2 - Education: Pace for Q1 for Committee & Q3 for Board. Chair Zoglin further noted the education opportunities available for the committee members. 3. Goal 3 - Executive dashboard; Pace for reporting at the May meeting <p><i>*The Committee requested that further discussion on the FY18 Committee Goals, Pacing Plan, and 5 Year Review be itemized for the 5/8/17 committee meeting.</i></p>	
<p>10. ADJOURN TO CLOSED SESSION</p>	<p><u>Motion:</u> To adjourn to closed session at 7:18pm.</p> <p><u>Movant:</u> Kalbach</p> <p><u>Second:</u> Boone</p> <p><u>Ayes:</u> Boone, Conover, Nelson, Davis, Kalbach, and Zoglin.</p> <p><u>Abstentions:</u> None</p> <p><u>Absent:</u> None</p> <p><u>Excused:</u> None</p> <p><u>Recused:</u> None</p>	<p><i>A motion to adjourn to closed session at 7:18 p.m. was approved.</i></p>
<p>11. AGENDA ITEM 13 RECONVENE OPEN SESSION/ REPORT OUT</p>	<p><i>Agenda Items 10 through 12 were conducted in closed session.</i></p> <p>Chair Zoglin reported that the Closed Minutes of the November 14th, 2016 Investment Committee were approved, and updated the Committee on the upcoming meetings.</p> <p><i>*Chair Zoglin requested that we add Benchmark Discussion to agenda.</i></p>	<p><i>None</i></p>
<p>12. AGENDA ITEM 14 ADJOURNMENT</p>	<p><u>Motion:</u> To adjourn the Investment Committee meeting at 7:21pm.</p>	<p><i>A motion to adjourn to the Investment</i></p>

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	<p><u>Movant:</u> Boone <u>Second:</u> Davis <u>Ayes:</u> Boone, Conover, Nelson, Davis, Kalbach, and Zoglin. <u>Abstentions:</u> None <u>Absent:</u> None <u>Excused:</u> None <u>Recused:</u> None</p>	<p><i>Committee meeting at 7:21 pm was approved.</i></p>

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



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