

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

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

Members Absent
Members Excused

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.	<i>None</i>
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.	<i>None</i>
3. PUBLIC COMMUNICATION	Chair Davis asked if there was any public communication to present. None were noted.	<i>None</i>
4. CONSENT CALENDAR ITEMS	<p>Chair Davis asked if any Committee member wished to remove any items from the consent calendar for discussion. None were noted.</p> <p><u>Motion:</u> To approve the consent calendar (Open Minutes of the May 8, 2017 Investment Committee Meeting.</p> <p><u>Movant:</u> Kalbach <u>Second:</u> Nelson <u>Ayes:</u> Boone, Davis, Nelson, Conover, Kalbach, and Zoglin. <u>Abstentions:</u> None <u>Absent:</u> None <u>Excused:</u> None <u>Recused:</u> None</p>	<i>The Open Minutes of the May 8, 2017 Investment Committee Meeting were approved.</i>
5. REPORT ON BOARD ACTIONS	<p>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.</p> <p><i>Action</i> – 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.</p>	<i>None</i>

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6. WORKFLOW AND PAVILION PACING	<p>Antonio DiCosola, Pavilion Advisory Group, explained the intent of the changes to the Pacing Plan for FY18:</p> <ol style="list-style-type: none"> 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. <p>Mr. DiCosola asked the Committee for feedback and a brief discussion ensued. There was a general consensus with the proposed Pacing Plan.</p>	
7. INVESTMENT GOALS UPDATE	<p>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.</p> <p>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.</p> <p>Movant: Kalbach Second: Nelson Ayes: Boone, Conover, Davis, Kalbach, Nelson, and Zoglin. Abstentions: None Absent: None Excused: None Recused: None</p>	<p><i>A motion for recommendation to the board to approve the revised Committee Goals.</i></p>
8. INVESTMENT COMMITTEE SCORECARD AND PERFORMANCE REVIEW	<p>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:</p> <p>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 by 10 bps per year since inception (Nov. 1, 2012) with a return of +5.4% annualized. The assets within the Surplus Cash account ended the quarter at \$901.7 million, significantly higher than the beginning of the quarter due to strong investment performance. With significant capital expenditures in the fiscal year 2017 plan the projected balance at the fiscal year end is much lower at \$657.2 million.</p> <p>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</p>	

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	<p>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.</p> <p>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.</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: 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.</p> <ul style="list-style-type: none"> • Pavilion recommended no changes to the traditional asset manager lineup at this time. <p>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).</p>	

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	<p>Mr. DiCosola asked the Committee for feedback and a brief discussion ensued. There was a general consensus with the proposed Scorecard and Performance Review.</p>	
<p>9. COMMITTEE EDUCATION: HEDGE FUND TRENDS AND ASSET ALLOCATION</p>	<p>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.</p> <p>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.</p> <p>Mr. DiCosola discussed the rationale for Hedge Fund Investing, Hedge fund strategy definitions, and further detailed the Surplus Cash fund portfolio performance.</p> <p>Mr. DiCosola stated Pavilion will continue to enhance the Surplus Cash hedge fund portfolio through:</p> <ol style="list-style-type: none"> 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. <p>Mr. DiCosola asked the Committee for feedback and a brief discussion ensued.</p>	

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

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



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