

**Minutes of the Open Session of the  
Investment Committee of the Board of Directors  
Monday, August 13, 2018  
El Camino Hospital, 2500 Grant Road, Mountain View, California  
Conference Room A**

---

**Members Present**

John Conover  
Jeffrey Davis, Chair  
Gary Kalbach  
Brooks Nelson

**Members Absent**

Nicola Boone

**Members Excused**

A quorum was present at the El Camino Hospital Investment Committee on Monday, August 13, 2018 meeting.

| Agenda Item  | Comments/Discussion  | Approvals/Action  |
|--|--|---|
| <b>1. CALL TO ORDER/<br/>ROLL CALL</b>                       | The open session meeting of the Investment Committee of El Camino Hospital (the "Committee") was called to order at 5:30pm by Chair Mr. Jeff Davis. Ms. Boone was absent. All other Committee members were present.  | <i>None</i>   |
| <b>2. POTENTIAL CONFLICT<br/>OF INTEREST<br/>DISCLOSURES</b> | 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>   |
| <b>3. PUBLIC<br/>COMMUNICATION</b>                           | Chair Davis asked if there was any public communication to present. None were noted.   | <i>None</i>   |
| <b>4. CONSENT CALENDAR<br/>ITEMS</b>                         | <p>Chair Davis asked if any Committee member wished to remove any items from the consent calendar for discussion. None were noted.</p> <p><b><u>Motion:</u></b> To approve the consent calendar Open Minutes of the May 14, 2018 Investment Committee Meeting.</p> <p><b><u>Movant:</u></b> Kalbach<br/> <b><u>Second:</u></b> Nelson<br/> <b><u>Ayes:</u></b> Conover, Davis, Kalbach, Nelson<br/> <b><u>Abstentions:</u></b> None<br/> <b><u>Absent:</u></b> Boone<br/> <b><u>Excused:</u></b> None<br/> <b><u>Recused:</u></b> None</p> | <i>The Open Minutes of the May 14, 2018 Investment Committee Meeting were approved.</i> |
| <b>5. REPORT ON BOARD<br/>ACTIONS</b>                        | Chair Davis briefly reviewed the Report on Board Actions as further detailed in the packet. He stated our Capital FY 19 operating and capital budget was approved by ECH Board. Lastly, El Camino Hospital increased the Community Benefit spending.   |   |

| Agenda Item  | Comments/Discussion   | Approvals/Action |
|--|---|------------------|
| <p><b>6. ROTATING TOPICS: CAPITAL MARKETS REVIEW &amp; PORTFOLIO PERFORMANCE. TACTICAL ASSET ALLOCATION &amp; INVESTMENT PACING PLAN</b></p> | <p>Antonio DiCosola and Chris Kuhlman, Pavilion Advisory Group, presented a summary to the Investment Committee on Capital Markets, Portfolio Performance, Tactical Asset Allocation Positioning &amp; Market Outlook and lastly Investment Pacing Forecast.</p> <p>Mr. DiCosola stated the key themes during the quarter were economic growth divergences and asymmetrical exposure to trade conflicts. Global growth remains robust, but regional divergences have widened and weighed on equity market performance for several economies. Within the U.S., strong fundamentals helped drive second quarter and calendar year equity earnings expectations higher. This strength should continue to support risk assets near-term despite rising uncertainty. Global growth remains above trend, supported by easy financial conditions, subdued inflation and consumer strength. The synchronized growth experienced in 2017, however, has broken down and regional risks have expanded. In 2018, bolstered by growth as well as tax cuts, S&amp;P 500 Index earnings are expected to climb approximately 20%. While earnings growth is expected to slow to 10% in 2019, this represents a return to long-run sustainable trends, rather than a deteriorating economy. In developed markets outside the U.S., fundamentals broadly remain intact, but growth has slowed. Emerging markets (“EM”) continue to benefit from positive secular trends, such as a growing middle class. Current conditions are being further supported by easing credit access of financial institutions in the U.S. and globally.</p> <p>Mr. DiCosola, Pavilion Advisory Group, reviewed the Investment Committee Scorecard and Portfolio Performance as further detailed in the submitted materials to include the following:</p> <ol style="list-style-type: none"> <li> <p><b>Scorecard:</b></p> <p>Mr. Kuhlman reported investment performance for the second quarter, noting the Surplus Cash Portfolio was up 1.3% vs. 0.8% for its benchmark. The Cash Balance Plan return was 2.0% vs. 1.0% for the benchmark. Most of the active equity managers outperformed their respective benchmarks. Performance continues to be strong. For the fiscal year ended June 30, 2018, the Surplus Cash returned 6.9% while the Cash Balance Plan returned 8.9%. The Surplus Cash excluding District/ Debt Reserve ended the quarter with a balance of \$942.9 million, while the Cash Balance Plan was \$264.4 million.</p> </li> <li> <p><b>Surplus Cash:</b></p> <p>Mr. Kuhlman noted that the Surplus Cash Portfolio returned +1.3% for the quarter, outperforming its benchmark by 50 bps. Over the trailing one year period, the Portfolio returned +6.9%, outpacing the benchmark by approximately 110 bps. Relative outperformance during the quarter was driven by favorable manager results, particularly within the Domestic Equity Composite, which outperformed its benchmarks by 150 bps. Notable outperformers included large cap managers Touchstone Sands Large Cap Growth (+10.4%) and Barrow Hanley Large Cap Value (+5.0%), which outperformed their benchmarks by 460 and 380 bps, respectively. Small cap growth manager, Conestoga (+10.0%), outperformed its benchmark by 280 bps.</p> </li> </ol> |                  |



| Agenda Item | Comments/Discussion   | Approvals/Action |
|-------------|---|------------------|
|             | <p>3. <b>Cash Balance Plan:</b><br/> Mr. Kuhlman further reported that the Cash Balance Plan returned +2.0% for the quarter, outperforming its benchmark by 100 bps. Over the trailing one year period, the Plan returned +8.9%, outpacing the benchmark by approximately 180 bps. Relative outperformance during the quarter was driven by favorable manager results, particularly within the Domestic and International Equity Composites, which outperformed their benchmarks by 220 and 110 bps, respectively. Notable outperformers included large cap managers Touchstone Sands Large Cap Growth (+10.4%) and Barrow Hanley Large Cap Value (+5.1%), which outperformed their benchmarks by 460 and 390 bps, respectively. Small cap growth manager, Conestoga (+10.0%), outperformed its benchmark by 280 bps. Within the Alternatives composite, hedge fund-of-funds manager Pointer Offshore outpaced the HFRI Fund of Funds Composite by 200 bps.</p> <p>4. <b>Hedge Funds:</b><br/> The Surplus Cash Direct Hedge Fund Portfolio returned +0.7% during the second quarter, outperforming the HFRI Fund of Funds Composite Index by 0.3%. Each of the Portfolio's four strategies delivered positive absolute returns. Relative Value (+2.0%) and Credit (+1.8%) delivered strong gains while Macro (+0.2%) and Equity (+0.1%) made a small contribution. The Macro and Relative Value composites outperformed their reference indices by +0.3%, and +1.1% while Credit and Equity underperformed their reference indices by -0.9% and -0.8%, respectively.</p> <p>Chair Davis asked how much of recent economic growth and market performance could be attributed to tax cuts. Mr. DiCosola explained it certainly has helped drive earnings growth, while Mr. Kuhlman stated the onetime benefit from repatriation of cash has strengthened the US dollar.</p> <p>Chair Davis noted that the recent growth of the hospital's excess cash and investment portfolio has become a political issue. Mr. Hussain stated there are two factors: we're growing and beating our targets because volume is growing and physician/patients want to be within our community. Mr. Kalbach added Dan Woods, CEO and himself was interviewed by the Town Cryer on the extraordinary profits for 2018. We stated it was a great year; however we're investing, to increase and maintain quality with the excess funds by investing in buildings and community programs. It should be a great article to explain our political issue on the hospital performance.</p> <p>Pavilion recommended the Surplus Cash Direct Hedge Fund Portfolio make a new investment of \$10 million in the Carlson Black Diamond Arbitrage Fund. Carlson's event driven team has worked together for 10+ years over many market cycles. Throughout the Fund's long track record, it has exhibited low beta to traditional equity and credit markets and notably has not experienced a calendar year with negative performance, to date. Pavilion believes the Fund is a good candidate for investors looking for a merger arbitrage/special situations fund with very low market correlation run by a seasoned investment team and</p> |                  |

| Agenda Item   | Comments/Discussion  | Approvals/Action          |
|---|--|---------------------------|
|   | <p>where the firm's principal and employees have significant (10%) capital invested alongside external investors.</p> <p>Pavilion Advisory asked the Committee for feedback and a brief discussion ensued. There was a general consensus with the recommendation.</p> <p>Mr. Kuhlman presented an updated pacing analysis for the Surplus Cash and Cash Balance Plan real estate allocations. The Surplus Cash real estate allocation is currently at 2.8%, which is below the 5% target. The Surplus Cash has historically committed roughly \$10 million to \$15 million per fund, but this has not been done on a consistent basis from year to year. Pavilion recommended making a \$20 million commitment in 2018 in order to maintain a 5% allocation. Pavilion recommended this commitment be allocated to Angelo Gordon Reality Value Fund X, L.P., a private fund which will make value-add and opportunistic real estate investments primarily in the United States and will be diversified by property type.</p> <p>Pavilion Advisory asked the Committee for feedback and a brief discussion ensued regarding the illiquid nature of the recommended investment. There was a general consensus with the recommendation.</p> <p>The Cash Balance Plan real estate allocation is currently above its target allocation. The pacing analysis determined that no allocation is necessary in 2018 to maintain the target. Going forward, Pavilion and El Camino will review the pacing strategy for both portfolios annually.</p> |                           |
| <p><b>7. EDUCATIONAL GOAL: INVESTING STRATEGY IN VOLATILE MARKETS</b></p> | <p>Pavilion Advisory Group briefly reviewed the materials in the packet on Investing in Volatile Markets. The presentation included Pavilion's Market Outlook and Asset Class Considerations, noting that markets are shifting and volatility is expected to increase going forward. The presentation also reviewed Surplus Cash Portfolio allocation and positioning, noting that the portfolio is highly liquid and well diversified. Overall, Pavilion believes the portfolio is positioned to withstand periods of market duress.</p> <p>Mr. Nelson asked if Pavilion has completed any research on ETF liquidity. Mr. Kuhlman stated he was unsure, but will check to see if Pavilion had released a white paper or done any work on the subject.</p> <p><i>Mr. Nelson is interested in receiving the white paper if it exists.</i></p>   | <p><i>information</i></p> |

| Agenda Item                                     | Comments/Discussion   | Approvals/Action  |
|---|---|---|
| <b>8. ADJOURN TO CLOSE SESSION</b>              | <p><b><u>Motion:</u></b> To adjourn to close session at 7:07 pm.</p> <p><b><u>Movant:</u></b> Kalbach<br/> <b><u>Second:</u></b> Nelson<br/> <b><u>Ayes:</u></b> Conover, Davis, Kalbach, Nelson<br/> <b><u>Abstentions:</u></b> None<br/> <b><u>Absent:</u></b> Boone<br/> <b><u>Excused:</u></b> None<br/> <b><u>Recused:</u></b> None</p>  | <i>A motion to adjourn to the Investment Committee meeting at 7:07 pm was approved.</i> |
| <b>9. AGENDA ITEM 12 RECONVENE OPEN SESSION</b> | <p><i>Agenda Item 10 was conducted in closed session.</i></p> <p>Chair Davis reported that the Closed Minutes of the May 14, 2018 were approved. Ms. Boone was absent. All other Committee members were present.</p> <p>Chair Davis requested to the Committee &amp; Pavilion Advisory Group, to change the February Investment Committee meeting date. The Committee (Conover, Davis, Kalbach and Nelson), and Pavilion Advisory Group unanimously agreed to move the meeting, to February 25<sup>th</sup> 2019. Nicola Boone was not present.</p> |   |
| <b>10. AGENDA ITEM 13 ADJOURMENT</b>            | <p><b><u>Motion:</u></b> To adjourn the Investment Committee meeting at 7:10 pm.</p> <p><b><u>Movant:</u></b> Nelson<br/> <b><u>Second:</u></b> Conover<br/> <b><u>Ayes:</u></b> Conover, Davis, Kalbach, Nelson<br/> <b><u>Abstentions:</u></b> None<br/> <b><u>Absent:</u></b> Boone<br/> <b><u>Excused:</u></b> None<br/> <b><u>Recused:</u></b> None</p>  | <i>A motion to adjourn to the Investment Committee meeting at 7:10 pm was approved.</i> |

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

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