

Minutes of the Open Session of the
Investment Committee of the Board of Directors
Monday, November 12, 2018
El Camino Hospital, 2500 Grant Road, Mountain View, California
Conference Room A

Members Present

Nicola Boone
 Jeffrey Davis, Chair
 Gary Kalbach
 Brooks Nelson

Members Absent

John Conover

Members Excused

A quorum was present at the El Camino Hospital Investment Committee on Monday, November 12, 2018 meeting.

Agenda Item	Comments/Discussion	Approvals/Action
1. CALL TO ORDER/ ROLL CALL	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. Mr. Conover was absent. All other Committee members were present.	<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 August 13, 2018 Investment Committee meeting</p> <p><u>Movant:</u> Boone <u>Second:</u> Nelson <u>Ayes:</u> Boone, Davis, Kalbach, Nelson <u>Abstentions:</u> None <u>Absent:</u> Conover <u>Excused:</u> None <u>Recused:</u> None</p>	<i>The Open Minutes of the August 13, 2018 Investment Committee Meeting were approved.</i>
5. REPORT ON BOARD ACTIONS	Chair Davis briefly reviewed the Report on Board Actions as further detailed in the packet.	<i>information</i>

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<p>6. ROTATING TOPICS: CAPITAL MARKETS REVIEW & PORTFOLIO PERFORMANCE. TACTICAL ASSET ALLOCATION POSITIONING & MARKET OUTLOOK</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, Market Outlook and lastly Investment Pacing Forecast.</p> <p>Mr. Kuhlman stated that global economic growth, though slowing, continued expanding at an above-trend pace providing support for risk assets. Risks around trade policies served to restrain markets; however. U.S. GDP growth is expected to be close to 3% in the third quarter, supported by robust consumer spending. Strength in corporate earnings is expected to persist with growth of +19% projected in the third quarter. While international economic growth has slowed since the start of the year, recent data are more constructive and suggest a leveling to slight increase in growth.</p> <p>Trade tensions swayed between conflict and resolution during the quarter. The U.S. added tariffs on \$200 billion of Chinese goods with discussions expected to resume soon. Negotiations with Canada and Mexico on a trilateral trade deal moved toward conclusion by the end of September.</p> <p>U.S. equities generated strong gains during the quarter, with large cap outperforming small cap and growth outperforming value. Developed international equities were positive, but trailed the U.S., while emerging markets equities were down on the quarter. Fixed income was broadly flat or negative during the quarter as the Fed once again raised rates in September. Despite higher Treasury rates, most spread sectors were able to generate positive returns, driven by demand for risk assets.</p> <p>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"> <p>Scorecard:</p> <p>Mr. Kuhlman reported investment performance for the third quarter. The Surplus Cash portfolio ended with a market value of \$995M and returned 2.3% vs. 2.0% for its benchmark. The Cash Balance Plan ended with a market value of \$275M and returned 2.8% vs. 2.5% for the benchmark.</p> <p>Surplus Cash:</p> <p>Mr. Kuhlman noted that the Surplus Cash Portfolio returned +2.3% for the quarter, outperforming its benchmark by 30 bps. Over the trailing one year period, the Portfolio returned +6.5%, outpacing the benchmark by approximately 150 bps.</p> <p>Relative outperformance during the quarter was driven by favorable manager results, particularly within the Domestic Equity and Alternatives Composites, which</p> 	

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	<p>outperformed their benchmarks by 50 and 70 bps, respectively. Notable outperformers included small cap growth manager Conestoga (+10.5%) and international growth manager Walter Scott (+3.0%), which outperformed their benchmarks by 500 and 230 bps, respectively.</p>	
	<p>3. Cash Balance Plan: Mr. Kuhlman further reported that the Cash Balance Plan returned +2.8% for the quarter, outperforming its benchmark by 30 bps. Over the trailing one year period, the Plan returned +8.6%, outpacing the benchmark by approximately 230 bps. Relative outperformance during the quarter was driven by both favorable manager results and asset allocation positioning. Manager results within the domestic small cap equity and international equity composites were the primary contributors to outperformance, as the domestic small cap equity and international equity composites outperformed their benchmarks by 360 and 40 bps, respectively. Notable outperformers included small cap growth manager Conestoga (+10.5%) and international growth manager Walter Scott (+3.0%), which outperformed their benchmarks by 500 and 230 bps, respectively.</p> <p>4. Hedge Funds: The Surplus Cash Hedge Fund Portfolio returned +1.4% during the third quarter, outperforming the HFRI Fund of Funds Composite Index by 1.1%. Each of the portfolio's four strategies delivered positive absolute returns. Equity Long / Short (+2.2%), Macro (+1.3%) and Relative Value (+1.1%) delivered strong gains while Credit (+0.7%) made a slightly smaller contribution. The Equity Long / Short, Macro and Relative Value composites outperformed their reference indices by +1.7%, +1.3% and +0.5%, respectively, while Credit lagged its reference index by 0.7%.</p> <p>In response to Mr. Kalbach's question: Mr. Harris stated we have historical cash outside the portfolio for 95 days since we pay construction contractors first then draw the money from the bond funds.</p> <p>In response to Ms. Boone's question: Mr. DiCosola stated the portfolio is highly liquid and can be accessed quickly if cash is required.</p> <p>In response to Ms. Boone question: Mr. DiCosola stated we have been rebalancing the portfolio in areas where there has been excessive growth.</p>	

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7. INVESTMENT POLICY REVIEW	<p>Antonio DiCosola and Chris Kuhlman, Pavilion Advisory Group, reviewed the Investment Policy Statement and highlighted a few clarifying issues they wanted to review with the Committee. Mr. DiCosola recommended two minor changes on page 7; section d(2) - add in the sentence "and diversified pools of direct hedge fund" and also add "No more that 15% of the hedge portfolio can be allocated to a single direct hedge fun at the time of purchase."</p> <p>It was noted that the permissible asset allocation ranges stated within the Policy do not allow much flexibility, particularly if Pavilion, management and the Committee felt it were prudent to move to a more defensive stance in the event of market distress. Following discussion, the Committee agreed to recommend expanding the permissible ranges for broad fixed income and short term fixed income.</p> <p><i>The Committee recommends the Board approve the following changes to the Surplus Cash portfolio asset class ranges: change the Broad Fixed Income range to 0% - 35% and Short Term Fixed Income range to 8% - 40%.</i></p> <p><i>Chair Davis recommends Pavilion Advisory Group work with management to develop a draft of the approved Investment Policy changes to be reviewed by the Committee.</i></p>	<p><i>The Committee recommends the Board approve, to change the ASSET CLASS - Broad Fix Income to become 0% - 35% and Short Term Fixed Income to become 8% - 40%.</i></p>
8. ADJOURN TO CLOSE SESSION	<p><u>Motion:</u> To adjourn to close session at 6:47 pm.</p> <p><u>Movant:</u> Kalbach <u>Second:</u> Nelson <u>Ayes:</u>, Boone, Davis, Kalbach, Nelson <u>Abstentions:</u> None <u>Absent:</u> Conover <u>Excused:</u> None <u>Recused:</u> None</p>	<p><i>A motion to adjourn to the Investment Committee meeting at 6:47 pm was approved.</i></p>
9. AGENDA ITEM 12 RECONVENE OPEN SESSION	<p><i>Agenda Item 10 was conducted in closed session.</i></p> <p>Chair Davis reported that the Closed Minutes of the August 13, 2018 were approved. Mr. Conover was absent. All other Committee members were present.</p>	
10. AGENDA ITEM 13 ADJOURMENT	<p><u>Motion:</u> To adjourn the Investment Committee meeting at 6:50 pm.</p> <p><u>Movant:</u> Kalbach <u>Second:</u> Nelson <u>Ayes:</u>, Boone, Davis, Kalbach, Nelson <u>Abstentions:</u> None <u>Absent:</u> Conover <u>Excused:</u> None <u>Recused:</u> None</p>	<p><i>A motion to adjourn to the Investment Committee meeting at 6:50 pm was approved.</i></p>

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



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