



**Minutes of the Open Session of the
Investment Committee of the
El Camino Hospital Board of Directors
Monday, August 29, 2022
El Camino Hospital, 2500 Grant Road, Mountain View, California**

Members Present

Brooks Nelson, Chair
Nicki Boone
John Conover
Peter Fung, MD
John Zoglin

Members Absent

**via teleconference

Staff/ Guest Present

Dan Woods, Chief Executive Officer
Carlos Bohorquez, Chief Financial Officer
Michael Walsh, Controller
Pierre Zamorano, Managing Partner, Veloz Partners
Kevin Novak, Senior Consultant, NEPC
Jesse Pricer, CFA, Principle, Senior Consultant, NEPC
Samreen Salehi, Executive Assistant II

Agenda Item	Comments/Discussion	Approvals/ Action
1. CALL TO ORDER	The open session meeting of the Investment Committee of the El Camino Hospital Board of Directors (the "Committee") was called to order at 5:30 pm by Chair Brooks Nelson. A verbal roll call was taken. All members were present at roll call and participated in person. A quorum was present pursuant to State of California Executive Orders N-25-20 dated March 12, 2020, and N-29-20 dated March 18, 2020.	
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Chair Nelson asked if any Committee members had a conflict of interest with any of the items on the agenda. No conflicts were reported.	
3. PUBLIC COMMUNICATION	There were no comments from the public.	
4. CONSENT CALENDAR	<p>Chair Nelson asked if any Committee member wished to remove any items from the consent calendar for discussion. No items were pulled from the consent calendar.</p> <p>Motion: To approve the consent calendar: (a) Minutes of the Open Session of the Investment Committee Meeting on (06/07/2022) (b) and for information; (b) Article of Interest, (c) FY2022 Pacing Plan</p> <p>Movant: Conover Second: Fung Ayes: Boone, Conover, Fung, Nelson, Zoglin Noes: None Abstentions: None Absent: None Recused: None</p>	Consent Calendar Approved
5. REPORT ON BOARD ACTIONS	<p>John Zoglin discussed the report on Board Actions as further detailed in the materials. Dan Woods, Chief Executive Officer announced three new Executives during the last board meeting in June:</p> <p>Meenesh Bhimani, MD, Chief Operating Officer Omar Chughtai, Chief Growth Officer Deanna Dudley, Chief Human Resources Officer</p>	

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<p>6. CFO REPORT OUT</p> <p>(a) Pre-Audit Fiscal Year End 2022 Financial Results</p>	<p>Carlos Bohorquez, Chief Financial Officer presented the Financial Overview: Pre-Audit FY2022 results as of June 30th and highlighted the following:</p> <ul style="list-style-type: none"> • FYE 2022 operating margin is \$195.1M compared to the budget of \$79.7M. • Operating expenses are 4.2% unfavorable to budget which was mainly driven by <ul style="list-style-type: none"> ○ Higher than budgeted volumes ○ COVID-related expenses ○ Workforce shortages • When adjusted for volume levels, operating expenses per CMI adjusted discharge is 9.9% favorable to budget. This demonstrates effective management of variable expenses and the impact of initiatives implemented mitigate the impact of inflation and workforce shortages. • Year-over-year net income is \$284.3M lower than the same period last year, which is primarily driven by unrealized losses on the investment portfolio. • Mr. Bohorquez stated negative performance in non-operating revenue (investment income) resulted in lower than expected liquidity of 290 days cash on hand versus a budget of 325 days. 	
<p>7. ROTATING TOPICS:</p>	<p>Kevin Novak, Senior Consultant NEPC and Jesse Pricer, CFA, Principle, Senior Consultant, NEPC presented the following rotating topics:</p> <p>1) Capital Markets Review and Portfolio Performance</p> <p>2) Tactical Asset Allocation Positioning and Market Outlook</p> <p><u>Markets Review</u></p> <ul style="list-style-type: none"> • Equities had a very volatile and challenging second quarter down -16% and -20% year to date. However there's been sharp rebound in the equity market since the end of June, with equities rallying back over 12% through August 2022. <ul style="list-style-type: none"> ○ Within equities, value outperformed growth YTD thru June and international markets outperformed the U.S., however, this has somewhat reversed course in Q3. ○ The bigger story this year is in interest rates and the fixed-income market. As we have all witnessed, the Fed has aggressively increased its target lending rate by +2.25% since March of this year to slow down the pace of inflation, which is the highest we have witnessed in over 40 years. We haven't seen such aggressive action taken by the Fed since the mid-1990s. <ul style="list-style-type: none"> ▪ Interest rates across the yield spectrum have risen significantly as well. The 10-year Treasury yield ended June at nearly 3%, 1.5% higher than it started the year. Fixed income, as measured by the Bloomberg Aggregate bond index, was down -4.7% for the 2Q and -10.3% ○ Real assets were down on the quarter, -5.7% but still up significantly on the year at +18.4%. 	

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	<ul style="list-style-type: none"> ○ The dollar strengthened significantly versus most developed market currencies this year in response to the Fed’s aggressive policy response in raising short-term rates. ○ Turning to economics, the estimate for real US GDP was -0.9% for 2Q (later revised to -0.6%), which follows a decline of -1.6% in Q1 putting the US in a technical recession for the first time since the outbreak of Covid in the first half of 2020 (which was short-lived) and the financial crisis on 08’-09’ before that. ○ Consumer prices were up +9.1% for the 12 months ending June 30th. The most significant contributor to that increase was energy, +41.6% year-over-year. The last time energy increased over 40% in 12 months was in April of 1980. <p><u>Reserve Cash Performance</u></p> <ul style="list-style-type: none"> ● The El Camino Health (ECH) Surplus – Reserve Cash portfolio returned -8.1% for the quarter and -11.2% for the trailing 12 months. The portfolio’s longer-term marks: <ul style="list-style-type: none"> ○ 3 years + 3.0% ○ 5 years + 3.9% ○ 10 years +4.5% ● Relative to the primary benchmark (PBM) the portfolio performed in-line for the quarter (-0.1%) and underperformed by -1.4% for the trailing year. <ul style="list-style-type: none"> ○ Quarterly highlights <ul style="list-style-type: none"> ▪ The portfolio was negatively impacted by active management within the market duration fixed income allocation. However, this was mostly offset by the outperformance coming from the international/EM equity allocation, a partial reversal from last quarter’s underperformance in the category. <ul style="list-style-type: none"> ● International Equities - Causeway International Value -9.2% (+5.3% relative vs. MSCI EAFE). ● Market Duration Fixed Income - MetWest Total Return Fixed Income -5.7% (-1.0% relative vs. Blmbg US Agg. Index) ○ Annual highlights <ul style="list-style-type: none"> ▪ Over the past 12 months, the underperformance has been driven by underperforming domestic and international/EM equity managers. <ul style="list-style-type: none"> ● Domestic Equities - Touchstone Sands - 50.1% (-31.3% relative vs. Russell 1000 Growth) ● International Equities - Dreyfus, down – 21.7% (-2.3% relative – MSCI AC Wrld Ex US) ● Emerging Markets - Harding Lovener – 33.9% (-8.6% relative—MSCI EM Index) ● An allocation to alternatives has been a favorable diversifier for the trailing 12 months, preserving capital (+2.6%) while mainstream stocks and bonds sold off. 	

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	<p>Managers who added the most value over the past 12 months were the Robeco Transtrend fun, a Marco HF, +37.5%, and Renaissance RIDGE, a relative value-based HF, +17.1%.</p> <p><u>Cash Balance Performance</u></p> <ul style="list-style-type: none"> • The ECH Cash Balance portfolio returned -10.0% for the quarter and -14.0% for the trailing 12 months. The portfolio’s longer-term marks: <ul style="list-style-type: none"> ○ 3 years +3.9% ○ 5 years +5.3% ○ 10 years +6.9% • Relative to the PBM the portfolio modestly underperformed its policy benchmark for the quarter, down -0.65%, and underperformed by -3.8% for the trailing year. <ul style="list-style-type: none"> ○ Quarterly highlights <ul style="list-style-type: none"> ▪ While the portfolio was negatively impacted by underweight to short-term fixed income, which outperformed other asset classes for the quarter, and some alternatives. This was partially offset by the outperformance coming from the international/EM equity allocation, a partial reversal from last quarter's underperformance in the category. <ul style="list-style-type: none"> • International Equities - Causeway International Value -9.2% (+5.3% relative vs. MSCI EAFE). • Alternatives – Hedge Fund of Funds – Pointer Offshore LTD – 9.5% for the quarter and – 19.4% YTD ending 6/30. ○ Annual highlights <ul style="list-style-type: none"> ▪ Over the past 12 months, the underperformance has been driven by underperforming domestic and international/EM equity managers. <ul style="list-style-type: none"> • Domestic Equities - Touchstone Sands - 50.1% (-31.3% relative vs. Russell 1000 Growth) • International Equities - Dreyfus, down – 21.7% (-2.3% relative – MSCI AC Wrld Ex US) • Emerging Markets - Harding Lovener – 33.9% (-8.6% relative—MSCI EM Index) • Note that the composition of the CB plan’s exposure to alternatives is much more concentrated than the Reserve Cash portfolio (although some are in fund of funds). It returned -3.9% in the quarter compared to the reserve cash portfolio’s return of -1.3%. 	
<p>8. 403 (b) INVESTMENT PERFORMANCE</p>	<p>Brian Montanez, Multnomah Group presented the annual report of the 403 (b) Investment performance and highlighted the following as further detailed in the materials:</p> <ul style="list-style-type: none"> • Effective October 1, 2020, Fidelity charges \$72 per unique participant with an account balance, annually. To meet this requirement Fidelity collects revenue generated from the investment menu. 	

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	<ul style="list-style-type: none"> Any excess revenue generated from the plan is deposited into a Revenue Credit Account to be returned to participants or used to pay allowable plan expenses. Multnomah Group has determined the Peer Group Range to be \$45.00 - \$80.00. All investments are categorized as “Satisfactory” by Multnomah Group's Investment Committee, and all investments score in the top half of Multnomah Group's Quantitative Score percentile ranking except for Northern Small Cap Value. Mr. Montanez stated Northern Small Cap Value has underperformed since June 2020 due to its quality bias and the market's favor for sales forecast and momentum securities. However, quality is now in favor and Northern is doing well again outperforming the benchmark by 4.59% for the one year. 	
<p>9. ADJOURN TO CLOSED SESSION</p>	<p>Motion: To adjourn to closed session at 6:48 pm. Movant: Zoglin Second: Boone Ayes: Boone, Conover, Fung, Nelson, Zoglin Noes: None Abstentions: None Absent: None Recused: None</p>	<p><i>Adjourned to closed session at 6:48 pm</i></p>
<p>10. AGENDA ITEM 15: RECONVENE OPEN SESSION/REPORT OUT</p>	<p>The open session reconvened at 7:42 pm. The Investment Committee approved the consent calendar which includes the Minutes of the Closed Session of the Investment Committee Meeting (06/07/2022) by a unanimous vote of all members present (Ms. Boone, Mr. Conover, Dr. Fung, Mr. Nelson, and Mr. Zoglin).</p>	
<p>11. AGENDA ITEM 16: CLOSING COMMENTS</p>	<p>There were no closing comments.</p>	
<p>12. AGENDA ITEM 17: ADJOURNMENT</p>	<p>Motion: To adjourn at 7:43 pm. Movant: Conover Second: Boone Ayes: Boone, Conover, Fung, Nelson, Zoglin Noes: None Abstentions: None Absent: None Recused: None</p>	<p><i>Meeting adjourned at 7:43 pm</i></p>

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

DocuSigned by:

Brooks Nelson

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Brooks Nelson
 Chair, Investment Committee

Prepared by: Samreen Salehi, Executive Assistant II Administrative Services