



**Minutes of the Open Session of the  
Investment Committee of the  
El Camino Hospital Board of Directors  
Wednesday, December 14, 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**

**Carlos Bohorquez, Chief Financial Officer**  
**Michael Walsh, Controller**  
**Pierre Zamorano, Managing Partner, Veloz Partners**  
**Kevin Novak, Senior Consultant, NEPC**  
**Sam Austin, Partner NEPC**  
**Samreen Salehi, Executive Assistant II**

<b>Agenda Item</b>	<b>Comments/Discussion</b>	<b>Approvals/ Action</b>
<b>1. CALL TO ORDER</b>	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.	
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Chair Nelson asked if any Committee members had a conflict of interest with any of the items on the agenda. No conflicts were reported.	
<b>3. PUBLIC COMMUNICATION</b>	There were no comments from the public.	
<b>4. CONSENT CALENDAR</b>	<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><b>Motion:</b> To approve the consent calendar: (a) Minutes of the Open Session of the Investment Committee Meeting on (08/29/2022) (b) Minutes of the Open Session of the Special Investment Committee Meeting (10/03/2022) and for information; (c) Article(s) of Interest, (d) FY2023 Pacing Plan</p> <p><b>Movant:</b> Conover  <b>Second:</b> Boone  <b>Ayes:</b> Boone, Conover, Fung, Nelson, Zoglin  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> None  <b>Recused:</b> None</p>	<b>Consent Calendar Approved</b>
<b>5. REPORT ON BOARD ACTIONS</b>	John Zoglin, Board Member discussed the Report on Board Actions as further detailed in the materials. Carlos Bohorquez, Chief Financial Officer announced the reappointment of Dr. George Ting and Dr. Peter Fung to the Hospital Board of Directors and as District Board Members they took their oath on December 5, 2022 for four-year terms.	
<b>6. CFO REPORT OUT</b>	Carlos Bohorquez, Chief Financial Officer presented the Operational and Financial Results as of October 31, 2022, and highlighted the following:	

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(a) YTD FY2023 Operating / Financial Results (as of 10/31/2022)	<ul style="list-style-type: none"> <li>• ADC (Average Daily Census) has experienced significant year-over-year increase attributed to RVS, covid and early onset of the flu.</li> <li>• OP procedural cases unfavorable to budget, which is the result of lower than expected covid vaccinations and testing.</li> <li>• Net days in A/R are higher than budget, Mr. Bohorquez stated we are in discussion with two large payors regarding some claims issues such as underpayment and delay of payment.</li> <li>• Despite workforce challenges, YTD operating performance is still consistent with budget, but the rest of the fiscal year will be challenging as workforce and inflation pressures continue to increase.</li> <li>• DCOH (days cash on hand) which is a measure of liquidity, are unfavorable to budget by 82 days and unfavorable to the same period last year by 103 days. This is attributed to unfavorable performance of the investment portfolio, full recoup of the Medicare advanced payment at the end of fiscal year 2022 and continued investment in major capital projects across the organization.</li> </ul>	
<b>7. ROTATING TOPICS:</b> (a) Capital Markets Review and Portfolio Performance	<p>Kevin Novak, Senior Consultant NEPC, and Sam Austin, partner NEPC presented the Capital Markets Review and Portfolio Performance and highlighted the following as further detailed in the materials:</p> <p><u>Capital Markets Review</u></p> <ul style="list-style-type: none"> <li>• Mr. Novak stated 2022 has been a tough year with various macro events driving markets. Most notable has been the focus on the Fed and its messaging/actions. This has led to a historic set of circumstances where there's been no place to hide with both equities and fixed income selling off:             <ul style="list-style-type: none"> <li>○ Within equities, it hasn't necessarily matter where you've been invested. In aggregate, global equity markets were down ~7% in Q3 and over 25% through September 30<sup>th</sup>. A couple of themes that have permeated through equity markets this year:                 <ul style="list-style-type: none"> <li>▪ 1) Value continuing to outperform Growth by a meaningful amount. That was true amid the drawdown through September, and that dynamic has held true in Q4 with markets on the upswing.</li> <li>▪ 2) From a geographical perspective, the US has held up better than non-US markets this year, in part due to the strength of the U.S. Dollar.</li> </ul> </li> </ul> </li> <li>• <b><u>Inflation:</u></b> <ul style="list-style-type: none"> <li>○ We have seen steady ticks lower in the CPI print. On December 13<sup>th</sup>, CPI came in at 7.1%, vs. 7.7% last month vs. 9.1% at the peak in June.</li> </ul> </li> <li>• <b><u>Rates:</u></b> <ul style="list-style-type: none"> <li>○ For the first time in a while, we saw rate expectations come down slightly from October to November. And that follows the message from Powell eluding to the likelihood of smaller rate increases going forward.</li> <li>○ While rate increases have been a headwind for fixed-income markets, we now find ourselves in an environment with healthy bond yields for investors.</li> </ul> </li> <li>• <b><u>Q4 Update:</u></b> <ul style="list-style-type: none"> <li>○ So far in Q4, we have seen a rebound in capital markets. From September 30<sup>th</sup> through December 9<sup>th</sup>:</li> </ul> </li> </ul>	

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	<ul style="list-style-type: none"> <li>▪ The S&amp;P was up ~10% this quarter, but still down ~16% YTD, which is slightly below non-US stocks, which are up 16% this quarter and down closer to 14% YTD.</li> <li>▪ On the fixed income side, core bonds are down 12% and high yield is down 10% YTD.</li> </ul> <ul style="list-style-type: none"> <li>• <b><u>NEPC Views:</u></b> <ul style="list-style-type: none"> <li>○ Inflation will continue to be a focal point for investors, given the combination of more entrenched inflation and concerns around a lack of global growth. These dynamics impact profit margins and equity results, which leads NEPC to remain cautious with the level of equity exposure in client portfolios. Many clients are sitting slightly underweight on their policy targets.</li> <li>○ More globally, there are other key items to keep in mind:               <ul style="list-style-type: none"> <li>▪ In Europe, there's still the Russia/Ukraine dynamic which has driven much of the energy volatility this year. This is likely to continue during the winter months as the gas supply draws down.</li> <li>▪ China's zero-COVID policy has had a significant impact on supply chains and consumer spending.</li> <li>▪ U.S. Dollar strength coming from Fed tightening will continue to have an impact on markets, much as they've done so far this year with non-US investments.</li> </ul> </li> </ul> </li> </ul> <p><b><u>ECH Performance Update</u></b></p> <ul style="list-style-type: none"> <li>• Reserve (Surplus) Cash Portfolio:       <ul style="list-style-type: none"> <li>○ Portfolio assets were \$1.28B as of September 30<sup>th</sup>, which is a significant drop from \$1.5B at the beginning of the year. Mr. Novak stated despite significant market movements this year, ECH isn't too far off from policy target allocations and is well within the current policy ranges. One area that stands out and aligns with NEPC's views is the underweight to equity targets.</li> <li>○ From an absolute performance perspective, the portfolio was down 3.8% in Q3 and down 16.1% YTD.           <ul style="list-style-type: none"> <li>▪ As is typically the case, the 35-40% in public equities drove performance on the downside this year but has driven ~75% of ECH returns over the past 10 years.</li> <li>▪ Fixed income strategies were also down roughly in line with markets (-12%) given ECH's core bond strategies are closely benchmarked to the Bloomberg Aggregate index.</li> <li>▪ A relatively bright spot this year has been hedge funds. As a group, they were down just 60bps YTD vs. the broader HF universe which was down 700bps.</li> </ul> </li> </ul> </li> <li>• Pension Portfolio:       <ul style="list-style-type: none"> <li>○ Pension assets were \$286M as of September 30<sup>th</sup>. The portfolio declined 4.5% in Q3 and is down 20% YTD.</li> <li>○ Similar performance themes play out in the Pension given the similarities in manager names. However, the big difference is the Pension's higher allocation to equities, which is closer to</li> </ul> </li> </ul>	

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	<p>50% of assets. That positioning has driven a larger drawdown vs. Surplus Cash.</p> <ul style="list-style-type: none"> <li>• Closing Thought: double-digit returns are uncomfortable to see, but there are positive implications for forward-looking return expectations following a tough period of returns like 2022. At the beginning of the year, NEPC had modeled a forward-looking return for Surplus Cash in the low-4% range. Using NEPC’s 9/30 assumptions, the return assumption is approaching 6%. This reflects higher equity assumptions following the sell-off this year and much higher yields in fixed income.</li> </ul>	
<p><b>8. ADHOC COMMITTEE: COMMUNITY MEMBER RECRUITMENT</b></p>	<p>John Zoglin, Board Member and Ad Hoc Committee Member, and John Conover, Ad Hoc Committee Member highlighted the following actions completed by the Ad Hoc Recruitment Committee:</p> <p>Recruitment/Outreach:</p> <ul style="list-style-type: none"> <li>○ Print Ads:           <ul style="list-style-type: none"> <li>▪ Los Altos Town Crier</li> <li>▪ Palo Alto Weekly</li> <li>▪ SVCN (Silicon Valley Community Newspaper)</li> <li>▪ Silicon Valley Business Journal</li> </ul> </li> <li>○ Digital Ads:           <ul style="list-style-type: none"> <li>▪ LinkedIn</li> <li>▪ Banners in MV-Voice</li> </ul> </li> <li>○ Other Outreach:           <ul style="list-style-type: none"> <li>▪ Communication sent on behalf of Dan Woods, CEO to ECH Board of Directors</li> <li>▪ Communication sent to Foundation Board and CBAC</li> </ul> </li> </ul> <p>Application Deadline: December 9<sup>th</sup></p> <p>Applications Received (as of 12/7): Seven</p> <p>Next Steps:</p> <ul style="list-style-type: none"> <li>• Application Review / Finalist(s) Selection: Weeks of December 12<sup>th</sup> / 19<sup>th</sup></li> <li>• Finalist Interviews:           <ul style="list-style-type: none"> <li>▪ 1<sup>st</sup> Round Interviews with Ad Hoc Committee: Week of January 2<sup>nd</sup> (tentative)</li> <li>▪ 2<sup>nd</sup> Round Interviews with Investment Committee: Week of January 9<sup>th</sup> (tentative)</li> </ul> </li> <li>○ Recommendation &amp; IC Approval: February 13<sup>th</sup></li> <li>○ Recommendation &amp; Approval ECH Board: February 2023</li> <li>○ Notification of Candidates: February 2023</li> </ul>	
<p><b>9. EDUCATION TOPIC: IMPACTING INVESTING (DEI/ESG)</b></p>	<p>Kevin Novak, Senior Consultant NEPC and Sam Austin, partner NEPC presented the Education Topic and highlighted the following as further detailed in the materials:</p> <ul style="list-style-type: none"> <li>• Impact Investing:           <ul style="list-style-type: none"> <li>○ Impact Investing is a term NEPC uses to capture the broad spectrum of investing approaches that seek to achieve a financial return while balancing societal considerations.</li> </ul> </li> </ul>	

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	<ul style="list-style-type: none"> <li>○ Today’s Impact Investing landscape ranges from Negative Screening to Environmental, Social &amp; Governance (ESG) Integration to Thematic to Corporate Active Engagement.</li> <li>○ ESG integration is evident across the investment landscape, but the level of integration varies by strategy type (e.g. public equity = high, hedge funds = low).</li> <li>● Diversity, Equity and Inclusion:               <ul style="list-style-type: none"> <li>○ DEI includes: Inherent Diversity, Acquired Diversity, Equity, Inclusion.</li> <li>○ The financial industry is currently behind the curve on DEI relative to the U.S. population (e.g. female representation in the financial industry is well below the percentage of females in the U.S.)</li> <li>○ There are several, non-mutually exclusive pathways to integrating DEI into a portfolio, including:                   <ul style="list-style-type: none"> <li>▪ State and accommodate an open-door policy</li> <li>▪ Be intentional on including diverse managers in search process</li> <li>▪ Codify goal with investment policy statement</li> <li>▪ Create a diverse manager or emerging manager program</li> <li>▪ Explore more creative opportunities</li> </ul> </li> </ul> </li> </ul>	
<b>10. ADJOURN TO CLOSED SESSION</b>	<b>Motion:</b> To adjourn to closed session at 6:57 pm. <b>Movant:</b> Zoglin <b>Second:</b> Fung <b>Ayes:</b> Fung, Nelson, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> Boone, Conover <b>Recused:</b> None	<i>Adjourned to closed session at 6:57 pm</i>
<b>11. AGENDA ITEM 16: RECONVENE OPEN SESSION/REPORT OUT</b>	The open session reconvened at 7:41 pm. The Investment Committee approved the consent calendar which includes the Minutes of the Closed Session of the Investment Committee Meeting (08/29/2022) by a unanimous vote of all members present, except for Ms. Boone and Mr. Conover were absent as they had to leave the meeting by 6:30 pm. (Dr. Fung, Mr. Nelson, and Mr. Zoglin).	
<b>12. AGENDA ITEM 17: CLOSING COMMENTS</b>	There were no closing comments.	
<b>13. AGENDA ITEM 18: ADJOURNMENT</b>	<b>Motion:</b> To adjourn at 7:42 pm. <b>Movant:</b> Fung <b>Second:</b> Zoglin <b>Ayes:</b> Fung, Nelson, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> Boone, Conover <b>Recused:</b> None	<i>Meeting adjourned at 7:42 pm</i>

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

*Brooks Nelson*

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**Brooks Nelson**

Chair, Investment Committee

Prepared by: Samreen Salehi, Executive Assistant II Administrative Services