

SAN BRUNO

Community Foundation

Investment Committee

Tim Ross, *Chair* • Anthony Clifford, Mark Hayes, Frank Hedley, and Georganne Perkins, *Members*
Leslie Hatamiya, *Executive Director*

AGENDA

SAN BRUNO COMMUNITY FOUNDATION

Special Meeting of the Investment Committee

**August 23, 2017
4:30 p.m.**

Meeting Location:

San Bruno City Hall, 567 El Camino Real, Room 101, San Bruno

In compliance with the Americans with Disabilities Act, individuals requiring reasonable accommodations or appropriate alternative formats for notices, agendas, and records for this meeting should notify us 48 hours prior to meeting. Please call the City Clerk's Office at 650-616-7058.

- 1. Call to Order**
- 2. Roll Call**
- 3. Approval of Minutes:** May 17, 2017, Regular Investment Committee Meeting
- 4. Executive Director's Report**
- 5. Conduct of Business**
 - a. Receive Report from Sand Hill Global Advisors, LLC (SHGA) regarding SHGA's Investment Outlook and SBCF's Investment Portfolio Performance
- 6. Public Comment:** Individuals are allowed three minutes, groups in attendance, five minutes. If you are unable to remain at the meeting, contact the President to request that the Board consider your comments earlier. It is the Board's policy to refer matters raised in this forum to staff for research and/or action where appropriate. The Brown Act prohibits the Board from discussing or acting upon any matter not agendized pursuant to State Law.
- 7. Committee Member Comments**
- 8. Adjourn**

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Investment Committee

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MINUTES

SAN BRUNO COMMUNITY FOUNDATION

Regular Meeting of the Investment Committee

May 17, 2017
4:30 p.m.

Meeting Location:

San Bruno City Hall, 567 El Camino Real, Room 101, San Bruno

- 1. Call to Order:** Committee Chair Tim Ross called the meeting to order at 4:33 p.m.
- 2. Roll Call:** Committee Members Ross, Clifford, Hayes, and Hedley, present; Perkins excused.
- 3. Approval of Minutes:** February 15, 2017, Regular Investment Committee Meeting: Committee Member Clifford asked to have the second paragraph under Item 6 deleted from the minutes, as he recalled that that exchange occurred after the meeting had ended. Committee Member Hedley moved to approve the minutes of the February 15, 2017, Regular Meeting, as amended, seconded by Committee Member Clifford, passed unanimously.

4. Conduct of Business

- a. Adopt Resolution Canceling August 16, 2017, Regular Meeting of the Investment Committee and Scheduling a Special Meeting on August 23, 2017

Committee Member Hayes moved to adopt the resolution canceling the August 16, 2017, regular meeting of the Investment Committee and scheduling a special meeting on August 23, 2017, seconded by Committee Member Clifford, passed unanimously.

- b. Receive Report from Sand Hill Global Advisors, LLC (SHGA) regarding SHGA's Investment Outlook and SBCF's Investment Portfolio Performance

SHGA CEO Brian Dombkowski and Senior Wealth Manager Kristin Sun represented SHGA at the meeting.

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Mr. Dombkowski gave an overview of the firm's investment outlook, describing the current stage of the economic cycle as mid-to-late cycle. He gave a summary of the firm's current economic forecast for the second quarter of 2017, commenting on economic growth, interest rates, the employment market, corporate earnings, international developed markets, emerging markets, inflation, commodity markets, valuation, and the housing market.

Mr. Dombkowski then reviewed the Foundation's Investment Dashboard for the first quarter of 2017, including March 31, 2017, balances of \$16,300,189 for the Quasi-Endowment, \$54,595,232 for the Strategic Pool, and \$922,016 for the Liquidity Pool. He reported that in the first quarter, SHGA reduced the Foundation's interest rate exposure.

Mr. Dombkowski also reviewed performance data of underlying funds in the Foundation's Quasi-Endowment, Strategic, and Liquidity pools.

- c. Conduct Annual Review of SBCF's Investment Policy Statement and Investment Operating Plan and Adopt Resolution Recommending to the SBCF Board of Directors an Amendment to the Quasi-Endowment Payout for Fiscal Year 2017-2018 in the Investment Operating Plan

Executive Director Hatamiya explained that under the Foundation's Investment Policy Statement, the Investment Committee is tasked to review the Investment Policy Statement, which is the high-level policy document governing the Foundation's investment practices, and the Investment Operating Plan, which is the more detailed operating agreement between the Foundation and SHGA, annually. Ms. Sun stated that SHGA is not recommending any changes to either document at this time.

Ms. Hatamiya said that she reviewed the asset allocation provisions in the documents, in light of the recent development that the Foundation is likely to make a \$50 million grant, which would come from the Strategic Pool, to the City of San Bruno to fund a new recreation center/pool facility. She said she ultimately decided not to recommend a change to the asset allocation, as the timeline for payment of the grant funds is yet to be determined, as the three investment pools were structured so that as funds are needed they can be shifted from the Strategic Pool to the Liquidity Pool, which has a more conservative risk tolerance and higher liquidity requirement, and as the Investment Operating Plan provides SHGA with asset allocation ranges that allow SHGA to make reasonable and sufficient adjustments to the Strategic Pool to accommodate any determined payment schedule.

She then proposed that the Committee recommend to the Board amending the Quasi-Endowment payout rate for 2017-2018, which the Investment Operating Plan currently has set at 3%. She explained that she is in the process of developing the Foundation's 2017-2018 budget and determining the Foundation's cash needs for the fiscal year (approximately \$1.23 million for direct program disbursements and \$379,000 for support costs). She presented the Committee with the following question: Should the Foundation use the full 3% Quasi-Endowment payout rate as set forth in the Investment Operating Plan, or whether a lower rate would be more appropriate, in order to allow the Quasi-Endowment to continue to grow while

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the Foundation still has funds in the Strategic Pool to cover expenses? She presented three options for the Committee to consider: (1) keep the Investment Operating Plan as is, with a 3% Quasi-Endowment payout; (2) lower the Quasi-Endowment payout to 2.25%, which covers the \$350,000 cash flow needs for the Crestmoor Scholarship and the Community Grants Fund (originally proposed as 1.98% and \$310,000 but adjusted when Ms. Hatamiya stated that an additional \$40,000 would be needed to fund the 2018 Crestmoor Scholarships); or (3) lower the Quasi-Endowment payout to 0% and fund all 2017-2018 cash needs from the Strategic Pool.

The Committee discussed the various options and weighed the benefits of relying more heavily on the Strategic Pool and using a smaller amount of Quasi-Endowment payout in the next year, allowing the Quasi-Endowment the potential to grow and therefore provide a larger base for the long-term funding of the Foundation, against the corresponding result that a smaller Quasi-Endowment payout would leave fewer funds in the Strategic Pool available for additional strategic grantmaking the Board may want to do in the next few years.

The Committee also discussed whether the Investment Operating Plan should provide a Quasi-Endowment payout rate for 2018-2019, or whether that rate should be determined when the Foundation has more information about the recreation center/pool project and more clarity as to its cash-flow needs that year. Committee members agreed that it would be prudent to defer that question to next year's review.

Moreover, the Committee discussed whether the specific language in the Investment Operating Plan setting forth the payout schedule from the Quasi-Endowment Pool to the Liquidity Pool (one-twelfth of the annual payout amount per month) is appropriate. Committee members expressed a desire to give the Executive Director and Treasurer more discretion to move the funds depending on the timing of cash-flow needs and a desire to keep funds in the Quasi-Endowment account for as long as possible.

Executive Director Hatamiya explained that to adopt the second option, the prepared resolution needs to be amended to substitute 2.25% for 1.98% as the Quasi-Endowment payout rate for 2017-2018. Chair Ross also proposed amending the last sentence of the resolution's proposed amendment to the Investment Operating Plan so that the prepared language ("One-twelfth (1/12) of the annual payout amount will be withdrawn from the Quasi-Endowment and deposited in the Liquidity Pool on a monthly basis") is deleted and replaced with the following, to mirror the Investment Operating Plan language for transfers from the Strategic Pool to the Liquidity Pool: "Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis."

Committee Member Hedley moved to adopt the resolution recommending to the SBCF Board of Directors an amendment to the Quasi-Endowment payout for fiscal year 2017-2018 in the Investment Operating Plan, as amended to include both amendments listed in the preceding paragraph, seconded by Committee Member Clifford, passed unanimously.

5. Public Comment: None.

6. Committee Member Comments: None.

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7. Adjourn: Committee Member Hayes moved to adjourn the meeting at 5:59 p.m., seconded by Committee Member Clifford, approved unanimously.

Respectfully submitted for approval at the Special Investment Committee Meeting of August 23, 2017, by Investment Committee Chair Tim Ross.

Tim Ross, Investment Committee Chair

SAN BRUNO

Community Foundation

Memorandum

DATE: August 18, 2017

TO: Investment Committee, San Bruno Community Foundation

FROM: Leslie Hatamiya, Executive Director

SUBJECT: August 23, 2017, Investment Committee Special Meeting

The Investment Committee of the San Bruno Community Foundation will hold a special meeting at 4:30 p.m. on Wednesday, August 23, 2017, at San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno.

1. Executive Director's Report

A new item we are adding to this meeting's agenda is an Executive Director's Report. At each meeting, I will report on any follow-up items from the last Committee meeting as well as provide updates on the Foundation's programs and operations.

Key items I will report on at the August 23 meeting include:

- Execution of the amendment to the Investment Operating Agreement, which the Committee discussed and recommended to the Foundation Board of Directors
- Program highlights, including awarding the 2017 Crestmoor Neighborhood Memorial Scholarships (totaling \$12,000 to eight students), the launch of the second cycle of the Community Grants Fund, and discussions with the City of San Bruno regarding a new recreation center and swimming pool facility
- Schedule of transfers from the Quasi-Endowment and Strategic Pool accounts to the Liquidity Pool account to cover the Foundation's cash needs through June 30, 2018, consistent with the FY2017-2018 budget passed by the Foundation Board in June (\$352,921 from the Quasi-Endowment and \$1,071,914 from the Strategic Pool)

2. Report from Sand Hill Global Advisors (SHGA) Regarding SHGA's Investment Outlook and SBCF's Investment Performance

Representing SHGA at the Committee meeting will be CEO Brian Dombkowski and Senior Wealth Manager Kristin Sun. The SHGA team will give a presentation to the Committee that will cover (a) SHGA's investment outlook and (b) the performance of the Foundation's investment portfolio.

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Memorandum

a. SHGA's Investment Outlook

In this portion of the presentation, the SHGA team will provide an overview of SHGA's current economic forecast, particularly for the third quarter of 2017, including the firm's perspective on economic growth, interest rates, employment market, corporate earnings, international market, housing market, inflation, and commodity markets.

b. SBCF's Investment Performance

The second part of SHGA's presentation will review the performance of the Foundation's investment portfolio for the second quarter of 2017 (final quarter of the fiscal year). The SHGA team will walk the Committee through the attached Investment Dashboard for June 30, 2017, a one-page summary of the Foundation's portfolio. At the meeting, the SHGA team will also provide more detailed and up-to-date information about the Foundation's investment holdings, including performance data of underlying funds.

The SHGA team will also briefly preview the firm's annual report to the Foundation's Board of Directors, which Mr. Dombkowski will make at the September 6, 2017, Board meeting.

Attachments:

1. SBCF Investment Dashboard, as of June 30, 2017

The San Bruno Community Foundation Investment Dashboard

As of June 30, 2017

Current Outlook:

Economic Environment: During the second quarter, global economic growth continued to firm up for the third quarter in a row, supporting our view that this economic expansion is likely to persist. While U.S. first quarter GDP was soft at +1.2%, we expect growth to rebound throughout the remainder of the year, culminating in a 2-2.5% growth rate for the full year. Leading economic indicators suggest the economy may accelerate above trend over the next six months as a recovery in business spending, a jump in factory orders, a strong job market, rising consumer confidence and relatively low borrowing costs propel growth forward. Despite getting off to a shaky start, GOP pro-growth policies may come to fruition later this year and could serve to support economic growth in 2018. It is our view that growth could persist for several more years, particularly if the Federal Reserve continues to take a measured approach to tightening monetary policy. Globally, first quarter corporate earnings growth exceeded expectations and this trend is likely to continue into the second quarter and full year. Recent headline inflation has been disappointing, partially as a result of transitory factors, and has contributed to a flattening of the yield curve. We expect inflation numbers to improve as the year progresses and anticipate a modest steepening of the yield curve. As global demand for oil continues to rise and a lack of spending on mega-projects begins to impact supply, we expect oil prices to rise from current depressed levels. The current environment should be supportive of financial market appreciation as the point of maximum political risk is behind us, corporate earnings growth is poised to deliver above average growth for the next several quarters and the global economy is continuing to heal.

Market Environment: Both domestic and international equity markets continued to appreciate during the quarter. Fixed income yields declined following another Federal Reserve rate hike, leading to a flattening of the yield curve. Commodities were the only asset class that generated a negative return during the period as oil prices softened in response to rising inventories. The end result was a quarter where all asset classes, with the exception of commodities, generated a positive return.

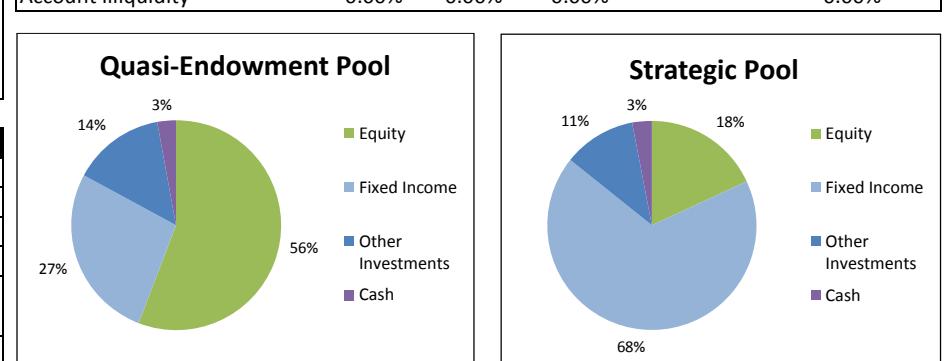
Portfolio Response: Following the first stage of French election, we eliminated the European equity underweight that was originally established in the months leading up to BREXIT. We felt this was an opportune time to increase exposure as Europe's economy has begun to heal, corporate earnings are in the early stages of a recovery and valuation is very attractive relative to other parts of the world.

Performance	Quasi-Endowment Pool			Custom Blended		
	Benchmark	+ / -	Strategic Pool	Benchmark	+ / -	
Quarterly	Q2 2017	2.03%	2.45%	-0.42%	1.32%	1.72% -0.40%
Calendar	Q1 2017	3.58%	3.46%	0.12%	1.67%	1.65% 0.02%
Calendar	ITD	10.02%	10.01%	0.01%	2.99%	2.92% 0.07%

Quasi-Endowment Portfolio Action	Increased		Decreased		Growth/Capital Preservation
	May 2017	Eliminating European Equity Underweight	Feb 2017	Reducing Interest Rate Exposure	62/38
	European Equity	Domestic Large Cap Equity			
			Large Cap Value Stocks	Large Cap Growth Stocks	
			Floating Rate Bank Loans	Long Duration Fixed Income	

Asset Allocation	Quasi-Endowment Pool	30-Jun-17	Strategic Target	Strategic Pool	30-Jun-17	Strategic Target	Balances		Total
							Quasi-Endowment	Strategic	
Large Cap Equity	\$5,184,846	31%	30%	\$5,214,502	9%	9%			
SMID Cap Equity	\$1,567,925	9%	9%	\$1,354,505	2%	3%			
International/EM Equity	\$2,521,764	15%	13%	\$3,427,096	6%	4%			
Fixed Income	\$4,498,880	27%	30%	\$37,408,140	68%	70%			
Real Assets	\$1,113,419	7%	8%	\$1,285,212	2%	2%			
Market Neutral	\$1,250,082	8%	8%	\$4,927,437	9%	10%			
Cash	\$481,168	3%	2%	\$1,662,466	3%	2%			
Total	\$16,618,083	100%	100%	\$55,279,359	100%	100%			

Balances	Quasi-Endowment	Strategic	Liquidity	Total	
				1-Year	3-Year
Q2 2017	\$16,618,083	\$55,279,359	\$88,489	\$71,985,931	
Q1 2017	\$16,300,189	\$54,595,232	\$922,016	\$71,817,437	



Governance Checklist		OK
Asset allocation within target range: All weights are in compliance.		✓
No Direct investments in any equity or debt securities of Pacific Gas & Electric.		✓
No individual equity securities (stocks) will be held in any Direct Account.		✓
No below investment grade allocation > 5% of portfolio value.		✓
With the exception of U.S. government securities, no more than 5% at cost of the portfolio may be invested in the securities of a single issuer.		✓
Quasi-Endowment Pool can maintain up to 10% illiquidity.		✓