

# SAN BRUNO

## Community Foundation

*Investment Committee*

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

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### AGENDA

#### SAN BRUNO COMMUNITY FOUNDATION

#### Special Meeting of the Investment Committee

**August 17, 2016**

**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. Introductions**

- a. Committee Members
- b. Sand Hill Global Advisors, LLC (SHGA)

**4. Conduct of Business**

- a. Adopt Resolution Establishing the Schedule of Regular Meetings of the Investment Committee of the San Bruno Community Foundation
- b. Receive Report from SHGA regarding SBCF's Investment Portfolio Structure, SHGA's Investment Outlook, and SBCF's Investment Performance
- c. Discuss Planning for Future Investment Committee Business and Meetings

**5. 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.

**6. Adjourn**

# SAN BRUNO

## Community Foundation

### Memorandum

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**DATE:** August 12, 2016

**TO:** Investment Committee, San Bruno Community Foundation

**FROM:** Leslie Hatamiya, Executive Director

**SUBJECT:** August 17, 2016, Investment Committee Special Meeting

The Investment Committee of the San Bruno Community Foundation will have its first meeting at 4:30 p.m. on Wednesday, August 17, 2016, at San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno.

#### 1. Introductions

As this will be the Committee's first meeting, the agenda will include introductions of both Committee members (SBCF Treasurer Ben Cohn, Committee Chair; SBCF Vice President Frank Hedley; and community members Anthony Clifford, Dr. Mark Hayes, and Georganne Perkins) and Sand Hill Global Advisors, LLC (SHGA), the Palo Alto-based investment firm that serves as the Foundation's investment adviser.

The Foundation's Board of Directors selected SHGA in March 2016 after issuing a request for proposals for investment management services, receiving 17 proposals from interested investment firms, and conducting an extensive review and evaluation of the proposals. The Board's Ad Hoc Committee on Investment Strategy, which conducted the review process, recommended SHGA to the Board as offering the best overall fit for the Foundation's long-term investment needs, including service, cost, independence, and understanding of the Foundation's unique situation. Representing SHGA at the Committee meeting will be CEO Brian Dombkowski and Wealth Manager Kristin Sun, who will give a brief overview of the firm and its investment philosophy.

We ask each Committee member to be prepared to give a very brief (one-minute) introduction of him/herself, including any relevant experience and his/her interest in serving on the Committee.

#### 2. Resolution Establishing the Schedule of Regular Meetings of the Investment Committee of the San Bruno Community Foundation

The first business item on the agenda will be a resolution establishing the Committee's regular meeting schedule. Under the attached resolution, the Committee will meet quarterly and hold its regular meetings on the third Wednesday of the middle month of each quarter of the fiscal year (August, November, February, and May) at 4:30

# SAN BRUNO

## Community Foundation

### Memorandum

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p.m. at San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno. I recommend that the Committee adopt the attached resolution establishing the regular meeting schedule.

### **3. Report from Sand Hill Global Advisors Regarding SBCF's Investment Portfolio Structure, SHGA's Investment Outlook, and SBCF's Investment Performance**

Mr. Dombkowski and Ms. Sun will give a three-part presentation to the Committee that will cover (a) the Foundation's investment portfolio structure, (b) SHGA's investment outlook, and (c) the performance thus far of the Foundation's investment portfolio.

#### **a. SBCF's Investment Portfolio Structure**

Particularly for the non-Director community members serving on the Committee, I provide a summary of the Board's actions leading up to the establishment of the Foundation's investment portfolio as background for this presentation:

- In November 2015, the Board approved setting aside \$15 million of the restitution funds the City received from PG&E as a quasi-endowment following a long-term investment strategy, with the remaining balance of the restitution funds (approximated at \$54 million) to be used to fund programs, including strategic capital grants for community facilities, and operations over the next 7-10 years.
- In April 2016, the Board and then the San Bruno City Council, as required by the Foundation's Bylaws, approved the Foundation's Investment Policy Statement as the high-level policy document governing the Foundation's investment practices.
- Also in April, the Board authorized the establishment of three brokerage accounts (for the Quasi-Endowment, Strategic, and Liquidity Pools) with Fidelity Investments; designated Treasurer Ben Cohn, President Nancy Kraus, and Executive Director Leslie Hatamiya to serve as SBCF's authorized signatories on the Fidelity accounts; established requirements related to the transfer of funds from the Fidelity accounts to the Foundation's operating bank accounts; and passed a resolution formally requesting the San Bruno City Council to authorize transfer of the remaining balance of the restitution funds to the Foundation.
- In April, the City Council also approved transfer of the balance of the restitution funds (at the time approximately \$69.7 million) from the City to the Foundation.
- In May 2016, the Board approved the Investment Operating Plan between the Foundation and SHGA, which follows the principles outlined in the Investment Policy Statement and provides detailed instructions to SHGA regarding ongoing

# SAN BRUNO

## Community Foundation

### Memorandum

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management of the three pools of money, including specific asset allocation targets and ranges, as well as guidelines regarding payout and withdrawals.

- In May, the Board also authorized the preliminary distribution of the restitution funds, upon receipt in the Foundation's Fidelity Liquidity Pool account, to the three pools, as follows:
  - \$15 million to the Quasi-Endowment Pool
  - \$2 million (as a placeholder for the 2016-2017 budget) to remain in the Liquidity Pool
  - The remaining balance to the Strategic Pool
- Later in May, the City transferred the restitution funds in kind to its own Fidelity account, followed by a further transfer to the Foundation's Liquidity account. Following the Board's direction, the Sand Hill team distributed the funds to the three Fidelity accounts on May 24, as follows:
  - Quasi-Endowment Pool: \$15,000,000.00
  - Strategic Pool: \$52,642,134.06
  - Liquidity Pool: \$2,000,000.00
- In early June, the Board approved an adjustment in the distribution of the funds in the Liquidity Pool account and the Strategic Pool account so that the remaining balance, at the time of the adjustment, in the Liquidity Pool account was equal to total expenses in the Foundation's 2016-2017 budget as passed by the Board (\$1,345,290) and that any excess funds above that amount were transferred to the Strategic Pool account.
- In June, SHGA did a final sweep of the City's Fidelity account totaling \$204,441, which included several small interest payments owed to the Foundation and the proceeds of the sale of one CD that Fidelity was not able to transfer in kind; those funds were transferred to the Strategic Pool Account.

At the August 17 meeting, the SHGA team will give a brief overview of the three investment pools, including the risk tolerance, time horizon, objectives, and payout targets for each pool. The attached one-pager entitled "SBCF's Asset Allocation" provides a summary overview of the investment portfolio structure.

#### b. 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 2016, including the firm's

# SAN BRUNO

## Community Foundation

### Memorandum

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perspective on economic growth, interest rates, employment market, corporate earnings, international market, housing market, inflation, and commodity markets.

#### c. SBCF's Investment Performance

The final part of SHGA's presentation will review the performance of the Foundation's investment portfolio thus far. Performance data is limited since the Foundation has had possession of the funds in the three pools only since late May. The SHGA team will walk the Committee through the attached Investment Dashboard for June 30, 2016, 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.

#### **4. Planning for Future Investment Committee Business and Meetings**

The final agenda item will allow the Committee to discuss its plans for future meetings and activities, including topics the Committee would like to discuss and hear about from SHGA and ideas for SHGA's annual presentation to the Board of Directors in September.

#### Attachments:

1. Resolution Establishing the Schedule of Regular Meetings of the Investment Committee of the San Bruno Community Foundation
2. SHGA Outline of SBCF's Asset Allocation
3. SBCF Investment Dashboard, as of June 30, 2016

**INVESTMENT COMMITTEE OF THE SAN BRUNO COMMUNITY FOUNDATION  
RESOLUTION NO. 2016-1**

**RESOLUTION ESTABLISHING THE SCHEDULE OF REGULAR MEETINGS OF THE  
INVESTMENT COMMITTEE OF THE SAN BRUNO COMMUNITY FOUNDATION**

**WHEREAS**, in June 2016 the Board of Directors of the San Bruno Community Foundation created the Foundation's Investment Committee, an advisory body charged with providing guidance to the Board on all aspects of the investment management process; and

**WHEREAS**, all regular public meetings, and any special meetings that may be necessary from time to time, of the Investment Committee will be noticed and conducted in accordance with State law;

**NOW, THEREFORE, BE IT RESOLVED** by the Investment Committee that the Investment Committee will holding its regular meetings on the third Wednesday of the middle month of each quarter of the fiscal year (August, November, February, and May) at 4:30 p.m. at San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno, California.

Dated: August 17, 2016

ATTEST:

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Ben Cohn, Committee Chair

I, Ben Cohn, Secretary, do hereby certify that the foregoing Resolution No. 2016-1 was duly and regularly passed and adopted by the Investment Committee of the San Bruno Community Foundation on this 17<sup>th</sup> day of August, 2016, by the following vote:

AYES:      Committee members:

NOES:      Committee members:

ABSENT:   Committee members:



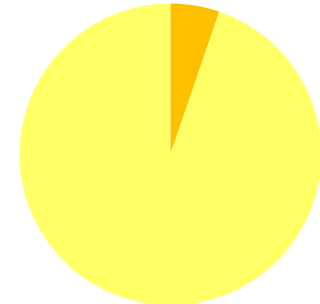
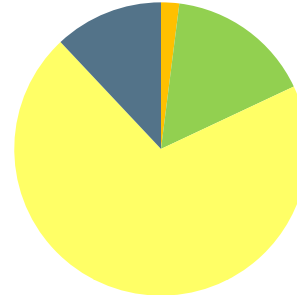
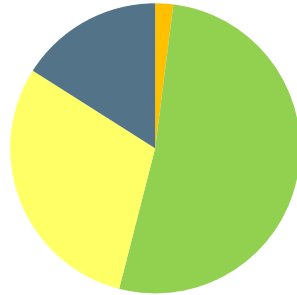
# SBCF's Asset Allocation

Bonds

Equities

Alternatives

Cash



## Quasi-Endowment Custom Balanced

*Funding Value:*

\$15,000,000

*Risk Tolerance:*

Moderately Conservative

*Time Horizon:*

Long-Term

*Cash Flows*

Up to 7% Per Year

*Objective(s):*

Capital Appreciation  
Capital Preservation

## Strategic Pool Custom Conservative

~ \$53,600,000

Conservative

Mid-Term

100% Over 7-10 Years

Capital Preservation  
Capital Appreciation

## Liquidity Pool Short-Term Cash & Fixed Income

\$1,345,290

Conservative

Short-Term

100% within 24 months

Capital Preservation



# The San Bruno Community Foundation Investment Dashboard

As of June 30, 2016

Current Outlook:	
<p><b>Economic Environment:</b> By most measures, U.S. economic growth picked up during the second quarter following a soft patch during late 2015 and early 2016. Estimates for 2016 GDP growth are now just under 2% as international uncertainty has become more heightened following Britain's vote to exit the E.U., commodity prices have rebounded off their lows yet remain very depressed relative to historical levels, and corporate earnings are under pressure as wage growth and a strong U.S. dollar weigh on profit margins. Meanwhile, the U.S. consumer is offsetting these slowing trends as a result of a strong employment market, wage growth and low oil prices. Additionally, the manufacturing sector appears to be recovering from its lows with the manufacturing ISM reading coming in above 50 for four months in a row. Trends outside of the manufacturing and energy sectors have been uneven and we are watching these closely given that, 7 years into this expansion, the risk of a contraction unfolding over the next couple of year is slowly beginning to rise. Central banks in Japan and Europe have made aggressive accommodative moves, pushing interest rates into negative territory. Meanwhile, the U.S. Federal Reserve has chosen to maintain low interest rates given slowing growth and global economic uncertainty. We expect the long end of the interest rate curve to remain low for an extended period of time given the global interest rate environment and relative attractiveness of U.S. Treasury's yield and safety.</p> <p><b>Market Environment:</b> Equity market volatility was more subdued when compared to the first quarter but was still quite present during the final week of the quarter when the "Brexit" vote was finalized. Domestic equity markets ended the quarter with a positive return while international equity markets were slightly negative. Commodities experienced a significant bounce as oil prices reacted to signs that supply may finally be poised to decline. Treasuries and REITs rallied following the Federal Reserve's decision to hold interest rates steady.</p> <p><b>Portfolio Response:</b> During the month of June, strategy implementation began for all three investment pools. A significant percentage of the growth allocation in the Quasi-Endowment Pool and Strategic Pool was invested during the equity market correction following Britain's decision to exit the European Union.</p>	

Asset Allocation	Quasi-Endowment Pool		Strategic Target	Strategic Pool		Strategic Target
	30-Jun-16	30-Jun-16		30-Jun-16	30-Jun-16	
Large Cap Equity	\$5,182,478	34%	30%	\$6,138,700	11%	9%
SMID Cap Equity	\$1,083,897	7%	9%	\$1,174,333	2%	3%
International/EM Equity	\$1,854,726	12%	13%	\$1,677,743	3%	4%
Fixed Income	\$4,258,290	28%	30%	\$36,738,982	68%	70%
Real Assets	\$826,404	5%	8%	\$1,664,513	3%	2%
Market Neutral	\$642,845	4%	8%	\$3,251,444	6%	10%
Cash	<u>\$1,363,652</u>	<u>9%</u>	<u>2%</u>	<u>\$3,308,017</u>	<u>6%</u>	<u>2%</u>
<b>Total</b>	<b>\$15,212,293</b>	<b>100%</b>	<b>100%</b>	<b>\$53,953,732</b>	<b>100%</b>	<b>100%</b>

Quasi-Endowment Pool		Growth/Capital Preservation	
Portfolio Action	Increased	Decreased	
Jun-16	Strategy Impementation		58/42
	Equity	Cash	
	Fixed Income		
	Other Investments		

Balances	Quasi-Endowment	Strategic	Liquidity	Total
Q2 2016	\$15,212,293	\$53,953,732	\$1,346,903	\$70,512,928

Quasi-Endowment Pool		Strategic Pool	
Performance	Benchmark	Performance	Benchmark
Jun-16	1.41%	0.90%	0.51%
	0.51%	0.69%	NA
	NA	NA	NA

Illiquidity as of 6/30/2016	1-Year	3-Year	Longer	Total
Account Illiquidity	0.00%	0.00%	0.00%	0.00%

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

Deployment Progress	Status
Quasi-Endowment Pool	Completed
Strategic Pool	Expected Completion Q3 2016
Liquidity Pool	Completed

