

# SAN BRUNO

## Community Foundation

*Investment Committee*

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

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### AGENDA

#### SAN BRUNO COMMUNITY FOUNDATION

#### Regular Meeting of the Investment Committee

**August 21, 2019**

**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 20, 2019, Special 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 agendaized pursuant to State Law.
- 7. Committee Member Comments**
- 8. Adjourn**

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### MINUTES

#### SAN BRUNO COMMUNITY FOUNDATION

#### Special Meeting of the Investment Committee

**May 20, 2019**

**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 4:32 p.m.
- 2. Roll Call:** Committee Members Ross, Hayes, Hedley, and Perkins, present. Committee Member Clifford, excused.
- 3. Public Comment:** None.
- 4. Approval of Minutes:** February 13, 2019, Special Investment Committee Meeting: Committee Member Hedley moved to approve the minutes of the February 13, 2019, Special Meeting, seconded by Committee Member Hayes, passed unanimously.
- 5. Executive Director's Report**

Executive Director Hatamiya gave an update on the Foundation, first reporting on the Foundation's recent program highlights:

- **Crestmoor Scholarship:** The Foundation received 68 applications by the March 6 deadline, and the Selection Panel selected nine Crestmoor Scholars, who will be honored at the June 5 Board meeting and scholarship reception.
- **Community Grants Fund:** The fourth iteration of the Community Grants Fund will launch at the beginning of July, with a September 25 grant application deadline. The budget will include \$200,000 in grants to be awarded in December.

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- Strategic Grants
  - Recreation and Aquatics Center: The City is currently in the second phase of the project, the schematic design and construction documents phase. The City hired a firm (Griffin Structures) to provide project management and construction management services through the duration of the project. The Board approved a grant to cover these expenses, and the City and Foundation recently executed a grant agreement for an amount not to exceed \$1,079,000. The Board received a thorough update on the schematic design in March. Plans call for a two-story facility that includes a gymnasium, cardio/weight room, a group exercise room, classrooms of various sizes, a year-round indoor pool, locker rooms, and other support features. City staff discussed the challenges in finding the appropriate balance between program elements envisioned by the community and the projected costs of building and operating the facility. The City has divided the planning into two parts: (1) the base project and (2) enhancements if the money can be secured. Enhancements include an outdoor pool, community hall, enhanced lobby, and indoor walking track. The City is looking for other funding sources to cover the enhancements.
  - First Responder Effectiveness Strategic Initiative: A year ago, the Board approved a \$160,723 strategic grant to the City for three first responder projects: police mindfulness training, emergency shelter supplies, critical facilities site assessments. The San Bruno Police and Fire Chiefs reported on the significant progress made on these projects at the March 6 Board meeting. Google and employees from Google and YouTube have donated approximately \$300,000 to the First Responder Initiative. The City would like to use the funds on a mobile command vehicle with new emergency operations center communications technology.
  - Community Day 2019: SBCF is again supporting Community Day with a \$30,000 grant and helping the City secure additional sponsorships. Community Day is scheduled for the afternoon of Sunday, June 2, in San Bruno City Park.
  - Music Education Strategic Initiative: The initiative is nearing the end of the second of three years. The San Bruno Education Foundation and the Capuchino High School Alumni Association are working on fundraising plans so they can continue the music education programs once SBCF funding sunsets. The initiative just received a significant honor, the Partners in Educational Excellence Award from the Association of California School Administrators (ACSA) Region 5.
  - Off-Cycle Grant Process: The Board approved a process by which the executive director can approve small grants (up to \$10,000) that otherwise meet the requirements of the Community Grants Fund but cannot wait for the next grant cycle. The Board approved one grant for \$5,000 to the San Mateo Historical Society for its public education efforts related to the 250<sup>th</sup> anniversary of the European discovery of the San Francisco Bay from Sweeney Ridge in San Bruno, particularly the filming of a half-hour “OpenRoad with Doug McConnell” show on NBC Bay Area that aired in April.

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Ms. Hatamiya also reported that three Board members will retire from the Board at the end of this year as a result of term limits. The San Bruno City Council has the appointment authority but asked the Foundation Board to solicit applications and provide a recommendation. The Board directed the Ad Hoc Committee on Board Development to lead this effort. The Committee set up an application process, received applications, and is in the process of doing its due diligence on the applicants. The Committee will make a recommendation to the full Board of the top three to recommend in June to the City Council for appointment.

Ms. Hatamiya also reported that transfers from the Quasi-Endowment and Strategic Pool accounts to the Liquidity Pool have taken place as scheduled, but that she will request that the Board decline to implement the one remaining transfer from the Strategic Pool to the Liquidity Pool of \$3 million, as cash needs for the current fiscal year have decreased by about \$3 million due to delays in the Recreation and Aquatics Center Project.

Finally, she reminded the Committee of its 2019 meeting schedule: August 21 and November 20.

### **6. Conduct of Business**

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

SHGA Chief Executive Officer Brian Dombkowski, Senior Wealth Manager Kristin Sun, and Chief Investment Officer Brenda Vingiello represented SHGA at the meeting.

Mr. Dombkowski gave an overview of the firm's investment outlook, describing the current stage of the economic cycle as late cycle. He gave a summary of the firm's current economic forecast for the second quarter of 2019, commenting on economic growth, interest rates, the employment market, corporate earnings, international developed markets, emerging markets, inflation, commodity markets, valuation, and the housing market.

Ms. Vingiello then reviewed the Foundation's Investment Dashboard for the first quarter of 2019, including March 31, 2019, balances of \$17,632,371 for the Quasi-Endowment, \$45,735,542 for the Strategic Pool, and \$11,151,236 for the Liquidity Pool (total of \$74,519,150 in all three accounts). She reported that in the first quarter, SHGA reduced the Foundation's global equity and insurance-linked securities exposure, in favor of short-duration bonds.

- b. Adopt Resolution Recommending to the SBCF Board of Directors the Quasi-Endowment Payout Rate for Fiscal Year 2019-2020

Ms. Hatamiya reminded the Committee that under the Investment Policy Statement, the Quasi-Endowment payout rate is to be determined annually by the Board. She said that the City Attorney has advised that as amended, the Quasi-Endowment payout provision in the Investment Operating Plan

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does not need to be amended each year, and the Board – with guidance from the Investment Committee – can simply pass a resolution each year setting the next fiscal year’s Quasi-Endowment payout rate.

Ms. Hatamiya reported that the past two years the Committee recommended and the Board approved a Quasi-Endowment payout rate sufficient to meet the cash flow needs for the Crestmoor Scholarship and the Community Grants Fund for the upcoming fiscal year. She noted that in preparing the fiscal year 2019-2020 budget, she determined that the cash flow needs for the Crestmoor Scholarship and Community Grants Fund in the upcoming fiscal year are estimated at \$317,500 and that, with the average of the past 12 quarter-ending Quasi-Endowment values available from inception to today (Q2 2016 to Q1 2019) being \$16,711,034, a payout rate of 1.90% would result in a Quasi-Endowment payout of \$317,510, just \$10 above the estimated cash needs of \$317,500.

After discussion, the Committee decided to follow the past practice of recommending to the Board a Quasi-Endowment payout rate sufficient to meet the cash flow needs for the Crestmoor Scholarship and the Community Grants Fund for the upcoming fiscal year. This practice is consistent with the original long-term vision for the Quasi-Endowment – to fund those two programs plus support costs on an ongoing basis – and allows for some continued growth of the Quasi-Endowment, while the Foundation still has the Strategic funds to help support operational expenses. Strategic funds would cover cash needs for all strategic grants plus all support costs.

Committee Member Perkins moved to adopt the resolution recommending to the SBCF Board of Directors a Quasi-Endowment payout rate of 1.90% for fiscal year 2019-2020 (resulting in a payout of \$317,510), seconded by Committee Member Hayes, approved unanimously.

c. Discuss and Provide Direction Regarding Future Cash Flow Strategies Related to Funding of Recreation and Aquatics Center Project

Based on an updated timeline of the estimated expenditures through the duration of the Recreation and Aquatics Center project, Chair Ross led a discussion regarding the Foundation’s cash flow needs over the next several years and possible recommendations to the Board regarding cash flow management of the Strategic Pool to meet the Foundation’s cash flow needs with regard to the RAC project, other strategic grants, and its operating expenses. The Committee weighed the desire to keep the funds needed for the Recreation and Aquatics Center project in the Strategic Pool account so that those funds continue to have the potential to reap positive investment returns against the potential risk of experiencing a significant decline in value of the Strategic Pool due to investment volatility.

The Committee declined to make any recommendation regarding additional transfers from the Strategic Pool to the Liquidity Pool. Treasurer Ross suggested looking at the cash needs for the project for the next 18 months. The proposed FY 2019-2020 budget calls for the transfers needed to cover cash needs in that year, and the \$10 million set aside in FY 2018-2019 year covers the following nine months of projected expenses for the RAC project. Staff is also expecting better budget and timing information

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from the City and its new project manager, Griffin Structures, over the summer, and the Committee can consider any new information at its next meeting in August.

The Committee agreed that staff should bring any updates in the cash flow timeline for the Recreation and Aquatics Center project to each quarterly Committee meeting for discussion.

d. Conduct Annual Review of SBCF's Investment Policy Statement and Investment Operating Plan

The Committee also conducted its annual review of the Foundation's Investment Policy Statement and Investment Operating Plan. Ms. Hatamiya reported to the Committee that she specifically looked at one primary issue related to the item above regarding management of Strategic Pool funds as a possible candidate for amendment – that is, changes to the Strategic Pool's asset allocation now that the Foundation has made an initial grant to the City for the Recreation and Aquatics Center conceptual design phase and planning for the construction project is underway – but decided not to recommend any Strategic Pool asset allocation adjustments. After discussion, the Committee declined to recommend any changes to the Investment Policy Statement or Investment Operating Plan.

**7. Committee Member Comments:** None.

**8. Adjourn:** Committee Member Hayes moved to adjourn the meeting at 5:39 p.m., seconded by Committee Member Hedley, approved unanimously.

Respectfully submitted for approval at the Regular Investment Committee Meeting of August 21, 2019, by Investment Committee Chair Tim Ross.

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Tim Ross, Investment Committee Chair

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### Memorandum

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**DATE:** August 16, 2019

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

**FROM:** Leslie Hatamiya, Executive Director

**SUBJECT:** August 21, 2019, Investment Committee Special Meeting

The Investment Committee of the San Bruno Community Foundation will hold a regular meeting at 4:30 p.m. on Wednesday, August 21, 2019, at San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno.

#### **1. Executive Director's Report**

At each meeting, I 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 21 meeting include:

- Program highlights, including an update on the Community Grants Fund, the Crestmoor Neighborhood Memorial Scholarship program, and updates on strategic grant initiatives, including the design of the new recreation and aquatics center
- Approval by the SBCF Board of Directors and the San Bruno City Council of the Foundation's FY2019-2020 budget
- Schedule of transfers from the Quasi-Endowment and Strategic Pool accounts to the Liquidity Pool account for FY2019-2020 to cover the Foundation's cash needs through June 30, 2020, consistent with the FY2019-2020 budget passed by the Foundation Board in June (\$317,510 from the Quasi-Endowment and \$4,781,214 from the Strategic Pool)
- A reminder of upcoming 2019 Investment Committee meetings: November 20 at 4:30 p.m. at San Bruno City Hall

#### **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

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### Memorandum

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will cover (a) SHGA's investment outlook, and (b) the performance of the Foundation's investment portfolio.

#### 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 2019, 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 2019. The SHGA team will walk the Committee through the attached Investment Dashboard for June 30, 2019, 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 4, 2019, Board meeting.

The Foundation has not received updated information from the City on the cash flow timeline for the recreation and aquatics center project. As a result, a discussion of future cash flow strategies related to funding the recreation and aquatics center project has not been placed on the agenda for this meeting.

#### Attachments:

1. SBCF Investment Dashboard, as of June 30, 2019

# The San Bruno Community Foundation Investment Dashboard

As of June 30, 2019

## Current Outlook:

**Economic Environment:** GDP in the U.S. grew at a strong average rate of 3.2% over the four trailing quarters ending in Q1 of this year. We expect growth to ease over the balance of this year, and we saw evidence of this during Q2, as tax-related stimulus has been replaced by growing trade tensions, a strong U.S. dollar and slowing global growth. Central banks have become more accommodative and, in July, the U.S. Federal Reserve lowered interest rates for the first time since 2008 as a result of stubbornly low inflation and softening global growth. In anticipation of this rate cut, interest rates declined during the quarter and, by the end of the quarter, bond markets were pricing in three rate cuts over the subsequent twelve months. In our view, this is too pessimistic as lower rates should cause financial conditions to loosen further and stimulate the U.S. economy. While some measures of economic growth, particularly those with exposure to the manufacturing sector, and thus global trade, have begun softening, the overall economy appears to be poised for a year of more average GDP growth - likely in the 2% range. Lower interest rates, a strong labor market and the significant equity market recovery that was experienced during the first half of this year should support continued economic growth.

**Market Environment:** Two themes had a significant impact on financial markets during the second quarter - the US-China trade war and the Federal Reserve's signal that a rate cut could be forthcoming. Equity markets corrected in May when trade talks appeared to break-down only to recover as the prospect of a rate cut became more likely. The end result was a continuation of the stock market rally that began in January as U.S. large cap, small cap and international equities generated a positive return. Meanwhile the yield curve flattened further, and inverted for the second time this year, which caused longer duration bonds to outperform. Commodities were down slightly and REITs rose but at a pace that trailed the broader equity market.

**Portfolio Response:** As growth assets continued to rally, we reduced some exposure in favor of vehicles that have the potential to participate in further market gains but are likely to be more defensive during a market correction. Following a significant positive return, we exited a position in emerging market bonds in favor of a more diversified, less volatile, vehicle. Within equity, we exited a mid-cap ETF in favor of a long/short equity fund.

Performance	Quasi-Endowment Pool			Custom Blended			
	Benchmark	+ / -	Strategic Pool	Benchmark	+ / -	Strategic Pool	
Quarterly	Q2 2019	2.77%	3.13%	-0.36%	2.41%	3.00%	-0.59%
	Q1 2019	8.68%	8.83%	-0.15%	4.39%	4.89%	-0.50%
	Q4 2018	-8.49%	-7.44%	-1.05%	-2.17%	-1.34%	-0.83%
	Q3 2018	2.34%	2.75%	-0.41%	0.84%	0.90%	-0.06%
Calendar	1 Year	4.58%	6.78%	-2.20%	5.46%	7.56%	-2.10%
	ITD	7.45%	8.03%	-0.58%	3.53%	4.11%	-0.58%

Portfolio Action	Increased	Decreased	Growth/Capital Preservation
Q2 2019	Rotated Into Less Volatile Assets		61/39
	Diversified Bonds Long/Short Equity	Emerging Market Bonds Mid Cap Stocks	
Q1 2019	Reduced Equity Into Strength		63/37
	Short Duration Bonds Small Cap Equity	Global Equity Regional Banks Insurance Linked Securities	
Q4 2018	Taking Advantage of Market Correction		65/35
	Large Cap Equity EM Local Currency Debt	U.S. Corporate Bonds	

Asset Allocation	Quasi-Endowment Pool	30-Jun-19	Strategic Target	Strategic Pool	30-Jun-19	Strategic Target
Large Cap Equity	\$5,462,921	30%	30%	\$4,517,780	10%	9%
SMID Cap Equity	\$1,786,883	10%	9%	\$1,357,826	3%	3%
International/EM Equity	\$2,875,955	16%	13%	\$2,857,162	6%	4%
Fixed Income	\$5,573,209	31%	30%	\$33,194,538	71%	70%
Real Assets	\$851,884	5%	8%	\$995,224	2%	4%
Market Neutral	\$1,049,537	6%	8%	\$3,303,898	7%	8%
Cash	\$391,787	2%	2%	\$607,466	1%	2%
<b>Total</b>	<b>\$17,992,176</b>	<b>100%</b>	<b>100%</b>	<b>\$46,833,894</b>	<b>100%</b>	<b>100%</b>

Balances	Quasi-Endowment	Strategic	Liquidity	Total
Q2 2019	\$17,992,176	\$46,833,894	\$10,600,536	\$75,426,606
Q1 2019	\$17,632,371	\$45,735,542	\$11,151,236	\$74,519,150
Q4 2018	\$16,224,500	\$44,158,867	\$11,130,680	\$71,514,047
Q3 2018	\$17,915,777	\$45,137,066	\$11,120,166	\$74,173,009

Illiquidity as of 6/30/2019	< 1 Yr	1-3 Yrs	> 3 Yr	Total
Quasi-Endowment Pool	0.00%	0.00%	0.00%	0.00%

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.	✓

