MUNROE REGIONAL HEALTH SYSTEM
MARION COUNTY HOSPITAL DISTRICT

Investment Committee Meeting Minutes
January 24th, 2017
Richard Bianculli, Chairman

Call to Order
Rich Bianculli called the January 24th, 2017 regular meeting of the Munroe Regional Health System and Marion County Hospital District Investment Committees to order at 9:01 a.m.

Committee Members Present
Rich Bianculli, Sam McConnell, David Cope, Larry Strack, Randy Klein, Curt Bromund

District Attorneys Present
None

Others Present on Phone
Tom Kaczmarek- Massey Quick

Others Present
Dolly Dockham, Debbie Cooper, Massey Quick, Suntrust, Goldman Sachs, Brad Rogers

Approval of MRHS/MCHD Previous Minutes

- December 13th, 2016 Investment Committee Meeting

A **Motion** was made by Sam McConnell to accept the Minutes of December 13th, 2016 as presented. The **Motion** was seconded by Larry Strack . The motion passed unanimously.

New Business
MUNROE REGIONAL HEALTH SYSTEM
None

MARION COUNTY HOSPITAL DISTRICT
Investment Reports
Rich reported investments were up $1.8M in December and down $546K for the quarter, but are up $2M so far for January.

The Investors were present for their quarterly updates:

Massey Quick – Chris Moore, Tom Morr and Justin Berman – Chris Moore commented on the changes in global markets during the fourth quarter. Fixed income and equity markets had opposite reactions to the election of Donald Trump. Implied volatility of the S&P 500 declined significantly and markets steadily rallied through the end of the year. The Federal Reserve met in December and hiked rates for the first time in 2016. Massey Quick expects two to three more interest hikes in 2017, increasing the key interest rate of 0.25% to a range of 0.50% to 0.75%. The unemployment rate finished the year at 4.7%, the lowest point since 2007. This unemployment number was likely a major factor in the decision to increase rates in December. While they remain positive on equities, high returns will be harder to achieve in the short to intermediate term as risk assets reprice to even lower global risk free rates. Traditional fixed income also offers muted return expectations as rates remain low and reduced liquidity weighs on bond markets.

Massey Quick believes that the evolution of capital markets has created a variety of challenges for liquid alternatives (hedge funds) to generate outsized returns. Hedge funds will be an important component to reducing overall portfolio-level volatility for investors. Massey Quick believes that illiquid investments are less affected by the turbulence that exists within public markets and will be able to generate significant alpha over time. Massey has added one new illiquid manager to the portfolio in the past quarter, Portfolio Advisors Secondary Fund III LP. Portfolio Advisors creates a diversified portfolio of alternative investments by purchasing existing Limited Partnership investments from private investors. By purchasing these investments at a discount to their face value, Portfolio Advisors anticipates to generate a 15-20% IRR over the life of the vehicle. There is a question regarding if we should be using an offshore American bank or an onshore account. Joe Hanratty, Curt Bromund and Massey will get together on a teleconference to discuss illiquids and offshore investments to determine whether an offshore fund can be utilized in the portfolio.

The discussion then turned to the use of the strategic benchmark and updates to the IPS. On page 10 of the IPS the word Alternatives is spelt wrong and needs to be updated. On page 11, the asset class "Other Fixed Income" needs to be removed along with the corresponding benchmark. The word "Illiquid Funds" should be changed to "Alternatives". Advisors should then use these indices along with their targets to calculate the return for the strategic benchmark. The illiquid benchmarks will carry a zero value until the numbers are updated later in the year. All three advisors and the committee approved this discussion.

Suntrust – Melanie Cianciotto – Performance for the quarter was -1.04%, trailing the benchmark by 55 basis points. 1 year was right in line, up 4.7 Fixed income returns were -2.05%, negative absolute but ahead of the Barclays Aggregate benchmark which was down -2.98%. Their core fixed income position in Western Asset Management performed well and the decision to have an allocation to short-term defensive with DFA also helped overall relative performance. International equities were down in line with the market. Midcap domestic equities were in line with the market and up 3.21%. Total large cap equities were hurt by the performance of Federated Strategic Value during the quarter. The Federated fund gave back some of its very large gains for the year when investor sentiment shifted away from defensive, high dividend yielding stocks that were in favor during 2015 and much of 2016.

SunTrust is leaning bullish in U.S. equities – but valuation, economic and geopolitical risks remain. They continue to favor U.S. equities over international equities are looking for high single digit returns for US equities in 2017. Valuations are stretched, BUT, earnings are turning positive for the first time in 6 quarters, consumer remains healthy, interest rates (while rising) remain accommodative and tax reform, deregulation and fiscal stimulus all serve as tailwinds. They are looking for GDP growth to be between 2-2.5% for 2017 with the prospects of that estimate being revised upward. Headwinds remain for international developed and emerging markets. Commodities have moved up recently largely due to the rebound in energy, BUT, commodities remain in a multi-year, cyclical downtrend.

Goldman Sachs – Jamie Gilbert, Amal Alibair – The portfolio is up 4.3% for the year. The bull market continued in 2016 with the S&P 500 gaining 12%. The Trump presidential victory boosted trends that were already in place for US Equity returns in 2016. As the year progressed, they saw a notable turn around in sales and earnings fundamentals of US companies in 2H 2016. S&P earnings increased during Q3 2016 after 5 consecutive quarters of declines. The strength of the USD was a significant drag on international returns. For the first time in several years, the USD did not appreciate against all major currencies. Most of the USD advances occurred after the US election as the market digested a Trump presidency and higher rates. The US Equity is the best performer.

After losing more than half its value in the span of 2 years, the S&P GSCI broke its downward trend with an 11% gain in 2016, its first double digit return since 2009. The rebound in oil prices was a key contributor. The S&P has returned 300%. They expect a 1% return for cash and similar returns but with more potential downside risk from high-quality fixed income, driven by our view that the Federal Reserve will raise interest rates two or three times in 2017. Also expect low single-digit returns from US equities in 2017 and mid-single-digit returns from non-US developed markets. They also expect volatility to continue. Modest single-digit returns are also expected for a moderate-risk, well-diversified portfolio given current equity valuations and the level of interest rates.

Investors left at @ 10:01 a.m.

Old Business
None.

The Investment Report has been accepted as is and will be presented at the January 30th, 2017 Board meeting for approval.

Public Comment
None

Adjournment
There being no further business, Rich Bianculli adjourned the meeting 10:10 a.m.

Rich Bianculli, Chairman