

MEETING MATERIALS

San Francisco Health Service System Trust Fund – Update on Development of Investment Policy Statement

December 8, 2016



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Introduction and Timeline

- After initial discussions with the CFO of the San Francisco Health Service System (HSS) in May 2016 regarding the proposed project, Meketa Investment Group (Meketa) began contract negotiations with the City of San Francisco.
- In August, Meketa was formally approved as a qualified City Vendor and the agreement was signed, effective September 2016.
- At that time, Meketa began receiving the materials related to the project and interviewing key personnel.
- Meketa has prepared and delivered a draft version of the Investment Policy Statement, and plans to deliver the final version to the HSS CFO prior to the HSS Board Meeting scheduled for January 12, 2017.

Meetings and Interviews

- Per direction from the HSS CFO, Meketa has conferred with the following key personnel:
 - Kick-Off Meeting
 - Catherine Dodd, PhD, RN – Director, HSS
 - Randy Scott – President, HSS
 - Gregg Sass – Commissioner, HSS
 - Interviews
 - Pamela Levin – CFO, HSS
 - Ben Rosenfield, Controller, City and Country of San Francisco
 - Pauline Marx – Chief Assistant Treasurer, City and Country of San Francisco
 - Anil Kochhar – Actuary, Aon Hewitt

Materials Reviewed

- Key materials reviewed by Meketa:
 - HSS documents
 - Mission Statement
 - Board Governance Manual
 - Audited financial statements
 - Cash flow projections from HSS CFO
 - Presentation on Fiduciary Standard and Board Member Roles
 - Reserve Policies and Actuarial Recommendations (Contingency, IBNR, Stabilization)
 - San Francisco Treasurer & Tax Collector documents
 - Investment Policy Statement
 - Investment Program Presentation to the HSS Board
 - Monthly reporting
 - Presentation to the Treasury Oversight Committee

Materials Reviewed (continued)

- San Francisco Charter
 - Section 12.203 – establishment of the Health Service System Trust Fund
 - Section A8.429 – grants administration and investment of the Trust Fund to the Health Service Board. Also mentions “...all investments shall be of the character legal for insurance companies in California”, in reference to California Insurance Code sections 1170-1202 (per Health Service System).
- Other
 - California Insurance Code sections 1170-1202
 - California Government Code 53600

Key Findings

- The San Francisco Health Service System Trust Fund is subject to California Government Code section 53600 (per Health Service System). This code stipulates that the objectives of any person investing public funds is to:
 - Safeguard principal;
 - Meet liquidity needs; and
 - Achieve a return.
- California Government Code section 53600 also limits the types of permissible investments, to generally include only shorter term, high quality fixed income securities.
- Currently, the Trust Fund assets are invested in the City and County of San Francisco Treasurer's investment portfolio, which is also subject to California Government Code section 53600. Therefore, the Trust Fund assets are compliant with government regulations.
- The HSS Board has a fiduciary duty to periodically review and evaluate the appropriateness and the performance of the Treasurer's investment portfolio.

Key Findings (continued)

- There may be an opportunity to earn additional yield while still investing according to California Government Code section 53600 by investing assets outside of the City and County of San Francisco Treasurer's investment portfolio.
- However, evaluating the opportunity to earn additional yield would require an analysis of the potential increases in yield compared with the potential increased expenses and complexity involved in the hiring of outside investment managers and custody services.

Next Steps

- Evaluate liquidity needs.
- Compare yield/potential return of City and County of San Francisco Treasurer's investment portfolio to benchmarks and to alternative investment platforms.
- Compare cost of investing in the City and County of San Francisco Treasurer's investment portfolio with the cost of alternative investment platforms.
- Revise investment policy statement as needed.