



**MINUTES OF THE JANUARY 19, 2022 MEETING OF THE
PETALUMA HEALTH CARE DISTRICT BOARD OF DIRECTORS**

1) CALL TO ORDER

Director Hempel called the meeting to order at 5:00 PM via Zoom virtual meeting.

PRESENT (VIDEO CONFERENCE CALL)

Gabriella Ambrosi, Director

Brian Dufour, Director

Elece Hempel, Director

Crista Nelson, Director

Jeffrey Tobias, MD, Director, joined at 5:05 PM.

STAFF PRESENT (VIDEO CONFERENCE CALL)

Ramona Faith, CEO, PHCD

Andrew Koblick, Controller, PHCD

Benjamin Spierings, Community Health Program Manager, PHCD

ADDITIONAL GUESTS PRESENT:

Darian Harris, CEO, Petaluma Valley and Healdsburg Hospitals

Jonathan Spees, Consultant, Marine Street Consulting, LLC

Carlos Oblites, Sr. Financial Advisor, Chandler Investments

CALL FOR CONFLICT

Director Hempel called for conflict. There were none.

1) MISSION AND VISION

Director Ambrosi read the mission and vision of the Petaluma Health Care District.

The mission of the Petaluma Health Care District is to improve the health and well-being of our community through leadership, advocacy, support, partnerships, and education.

The Petaluma Health Care District envisions a healthy community and equitable access to health and wellness services for all.

2) CONSENT CALENDAR

A MOTION was made by Director Ambrosi and seconded by Director Nelson to approve the January 19, 2022 Agenda, November 17, 2021 Board Meeting Minutes, and Financial Statements for October 31, 2021 and November 30, 2021.

**Director Ambrosi Y ; Director Dufour Y ; Director Hempel Y ; Director Nelson Y ; Director Tobias Y .
The motion was passed by a vote of 5 ayes, 0 noes.**

3) PUBLIC COMMENTS ON NON-AGENIZED ITEMS

There were none.

4) BOARD COMMENTS

Director Ambrosi read Chapters 15 and 16 of 52 Ways to a Better Board. Chapter 15 addresses organizational culture, and chapter 16 addresses proper motives for serving on a board, namely a strong inclination to public service.

Director Tobias gave a brief update on the Petaluma Valley Hospital Community Board. PVH Community Board finalized committee membership and policy for both hospital boards (Healdsburg and PVH) at their December 2021 meeting. Director Tobias shared that they also discussed strategy and financials, deferring to Darian Harris’s upcoming presentation on the same topic. In subsequent meetings, Director Tobias said the Board discussed policy implementation for each hospital.

5) PETALUMA VALLEY HOSPITAL UPDATE: OPERATIONS AND CAPITAL INVESTMENT UPDATE

Darian Harris, Petaluma Valley and Healdsburg Hospitals’ CEO, gave his quarterly update on operations and capital investment at PVH since the sale; including strategic priorities, equipment investments and COVID’s impact on operational strategy. Part of “extraordinary caregiver engagement” per PVH’s strategic priorities is addressing the nation-wide trend of healthcare worker burnout. Director Tobias mentioned that Petaluma Valley and Healdsburg Hospitals have a new Chief Medical Officer, Dr. Rajesh Ranadive. Dr. Ranadive is a local practitioner who has been in Petaluma for many years.

Director Tobias also asked how much of the \$2.6 million in capital investments was requested versus how much of it was approved. Mr. Harris responded that everything included in his presentation has been approved.¹

Director Tobias continued, asking whether all staff had switched to wearing N95 masks. Mr. Harris responded that in clinical areas where staff encounter patients all staff are wearing N95 masks.

Mr. Harris left the meeting at 5:45 p.m.

6) FINANCIAL SUSTAINABILITY

December 2021, January 2022 Finance Committee Meeting Minutes and Business Development Update

Mr. Koblick introduced Mr. Spees to update the Board on the December and January Finance Committee meetings. Mr. Spees reported that after he and Ms. Faith met with Providence regarding the hospice lease, Providence requested a 90 day extension to familiarize themselves with the local real estate market. Mr. Spees expressed optimism as to the possibility of an eventual deal.²

Mr. Spees discussed an investment opportunity for the district: the purchase and lease of residential properties through a program called Living Unlimited (LU hereafter). LU connects disabled individuals and their families with housing resources. The family purchase an interest in an LLC which owns rental properties. This interest entitles them to rent a room for their child for as long as the child may need it.

The program is funded through rents, originating with SSI and SSDI payments to the disabled individuals themselves. Regional Centers of California also provides funding. The Finance Committee discussed

¹ See attachment 1: “Quarterly Hospital Update to PHCD Board”
² See attachment 2: “Holdover Hospice Lease”

possibly engaging in this model by providing capital for building or purchasing the rental property, with a possible ROI for the District between 5-7%. LU's leadership has offered to make a presentation to the Finance Committee as well as the full Board.

Directors Ambrosi and Tobias asked about the parameters for PHCD's participation, namely the manner of the District's involvement and relative advantages of purchasing property versus constructing it from scratch. Mr. Spees responded that there are several avenues for participation, including purchasing property, constructing it from scratch, or utilizing an existing property. Mr. Spees continued, saying that new construction may be more cost effective than updating old structures to current regulation.

Director Hempel suggested that Jonathan look into the Tiny House Model for this project. She claims it is possibly more cost-effective.

Mr. Spees said that if the Board would like to move forward and learn more, we should schedule a presentation at a future board meeting. Director Hempel brings up the properties that PHCD already owns as a potential option for use as part of Living Unlimited's program.

Director Nelson mentioned that the program seems well tailored to the target population, in terms of creating access to housing that may otherwise not exist for members thereof.

Mr. Spees moved on to address the District's Lynch Creek Property. He recalled that the Board's discussions had gravitated toward the idea of a behavioral health facility on that parcel. Darian Harris has created a team to explore this path forward with the District. Providence and other providers have expressed their support for the establishment of such a facility in Petaluma, and planning for construction and development could begin this spring.

Mr. Spees also spoke with Pedro Toledo at the Petaluma Health Center (PHC) regarding their interest in developing a new geriatric care facility. The Health Center would be interested in exploring Lynch Creek as a possible home for this facility, as would PHCD. The Lynch Creek Parcel is not PHC's best option, but a deal may be possible anyway. Mr. Spees added that the District could also return to the assisted living providers it had begun to explore previously, though he recalled that the Board seemed less interested in this path forward due to an excess supply of assisted living beds in the area. Director Nelson confirmed this surplus of beds, and made a point to distinguish "assisted living" from "affordable housing for seniors," as the former does not fit the definition of "affordable" in Sonoma County at this time. Mr. Spees responded that "affordable" housing was also an option for the parcel, even if it would not generate returns as soon as the other options. Mr. Spees added he has been approached by multiple brokers seeking to purchase the parcel. He said the District does not need the money right away and has multiple paths forward, so the District has tended to decline.

Investment Program Review

Mr. Koblick introduced Carlos Oblites, Sr. Portfolio Strategist at Chandler Asset Management, to give an update regarding the District's portfolio activity, as well as describing the parameters of socially responsible investment as it pertains to the District. Mr. Oblites began with an explanation of the relationship between inflation, historically low interest rates, and the District's portfolio. In summary, the District's investments will appear to lose value while their ROI grows; any apparent losses due to rising interest rates will not be realized unless the District sells assets off too soon. Mr. Koblick informed Board members that the portfolio will show negative returns due to the division between "realized" and "unrealized" gains from each investment.³

³ See attachment 3: "Considerations for Including Social Responsibility into Your Investment Program"

Ms. Faith thanked Mr. Oblites for his work. She described the amount of funds the District had given Chandler to invest, and the remaining amount of funds the District had kept, and how best to adjust that proportion as the district seeks to purchase new assets or develop existing ones.

The Board discussed possible impacts of forthcoming Federal Reserve actions on the District's portfolio, and Ms. Faith asked how much of its remaining funds should be invested as the District seeks to purchase new assets or develop existing ones. Mr. Oblites encouraged the District to invest their remaining assets slowly, summarizing this way: "if [the District] needs the cash, don't move it."

Socially Responsible Investing

Mr. Oblites described the parameters defined with PHCD regarding socially responsible investing. He discussed the competing incentives associated with this selection process; excluding some industries may reduce the potential yield of the District's investments. State law outlines a fiduciary duty for public entities that choose to invest. An SRI/ESG policy should be "implementable" and verifiable.

Ms. Faith then shared the draft language for the Board's consideration. She explained that this is an example, and that the Board would have a chance to modify and ratify any eventual additions to the Investment Policy. Directors. Ambrosi, Nelson, and Tobias discussed possible additions to the paragraph, including cannabis companies.

Director Nelson asked about the definition of "significant portion." What percentage constitutes a significant portion?

Mr. Oblites replied that it is the Board's prerogative to define those terms as it sees fit.

Director Hempel requests that the Board give the matter thought so that they are ready to vote on draft language at the next board meeting.

Mr. Spees and Mr. Oblites left the meeting at 7:15 pm.

7) APPOINTMENT OF PHCD BOARD OFFICERS AND PETALUMA HEALTH FOUNDATION OFFICERS

Recommended Slate of Officers for PHCD Board of Directors

Ms. Faith described the standard process for appointing officers to each Board. She proposed the following slate for PHCD Board officers. Director Nelson serving as President; Director Hempel serving as Vice President; Director Tobias serving as Treasurer; Director Ambrosi serving as Secretary and Director Dufour serving as Director-at-Large. Ms. Faith noted that the only change in the officer slate is the switch between Directors Nelson and Hempel.

A MOTION was made by Director Tobias and seconded by Director Dufour to approve the slate of PHCD Board Officers as recommended by Ms. Faith.

Director Ambrosi Y ; Director Dufour Y ; Director Hempel Y ; Director Nelson Y ; Director Tobias Y .

The motion was passed by a vote of 5 ayes, 0 noes.

Recommended Slate of Officers for the Petaluma Health Foundation Board of Directors

Ms. Faith then presented her recommendations for the Petaluma Health Foundation Board Officers. She recommended Director Hempel serving as President, Director Dufour serving as Treasurer/VP, and Director Ambrosi serving as Secretary.

A MOTION was made by Director Ambrosi and seconded by Director Nelson to approve the slate of Petaluma Health Foundation Board Officers as recommended by Ms. Faith.

Director Ambrosi Y ; Director Dufour Y ; Director Hempel Y ; Director Nelson Y ; Director Tobias Y .
The motion was passed unanimously by a vote of 5 ayes, 0 noes.

Ms. Faith noted that the first Petaluma Health Foundation Board meeting will be held in February. The Foundation Board meeting and the District Board meeting will be held back-to-back. Director Hempel added that the Brown Act requires the District to post a hard start time for the District Board meetings, so any PHF business would not be allowed to run past that time.

8) ADMINISTRATIVE REPORTS

Presidential Report

Director Hempel had nothing to share for the Presidential Report.

CEO Report

Ms. Faith asked if there were any questions based on the CEO report that was submitted and there were none.

Ms. Faith informed the board that the Blue Zones contract has been signed. There is a meeting scheduled with Tony Buettner, his PR team and Studio PR the week of January 24th to better understand the process before the community assessment kickoff in March. Ms. Faith shared that she has been communicating with Sonoma County leadership about the Blue Zones project in hopes to engage, coordinate and align efforts with the recent Portrait of Sonoma Report findings where applicable.⁴

Ms. Faith addressed the outstanding hospice lease and shared the letter that went to Providence in her written report. She relayed that Providence does in fact want to remain in the space.

Next, Ms. Faith raised the issue of zoned elections for the district. Marin Healthcare District is moving toward zoned elections, in which the jurisdiction is divided into zones and each zone elects a director to the Board. She shared that many healthcare districts are being fined for not doing so, and that she will be speaking with the District's counsel to decide how to move forward. She will bring this back to the Board to inform and discuss.

Director Hempel said that the City of Petaluma had already been approached by an outside lawyer and began the districting process because of that. She said that the District Board should know more about the eventual Council districts by April.

Director Nelson expressed support for the districting requirement, suggesting it was better to avoid a situation in which all Board members lived in the wealthy part of town. Ms. Faith added that enacting zoned elections for PHCD will likely increase diversity on the Board.

Director Nelson asked about what happens once certain members are disqualified, and the Board has vacancies. Ms. Faith and Director Ambrosi responded that the Board would need to go to the community to identify potential appointees pending a new election.

District News / Articles / Ads

⁴ See attachment 2: "Holdover Hospice Lease"

Ms. Faith also highlighted the California Special District Association’s educational content. She encouraged the Board to look at the Association’s website to see if there is anything that could be of use or interest to the Board. She noted that CSDA advocated for the \$100M Special District COVID 19 relief fund, of which PHCD received \$398,000 to offset COVID’s impact on operations and to reinvest in our community.

Director Nelson asked about how the District will be determining how to use these funds. Ms. Faith replied that she would address the question in the next agenda item.

Ms. Faith continued discussing new funds coming to the District and outlined the ARPA funding opportunity, She, Director Hempel and Mr. Spierings attended a meeting hosted by Sonoma County regarding ARPA funding and process for applying for funds. The goal is to collaborate with other CBOs and approach the funding request as a collaborative effort. Many smaller CBOs don’t have the capacity to apply for and manage grants.

Ms. Faith went on to mention the state’s budget surplus and the possible funding streams that could come from proposed bills at the state level.

Ms. Faith shared that three employees of the District are currently out with COVID-19. She described the District’s efforts to mitigate spread among staff.

9) PHCD 2022 COMMUNITY GRANT AWARDS

Recommended Grant Funding Allocation Increase for 2022

Ms. Faith stated that she believes the District needs to re-think its grant making process due to the complexities of the needs in the community and the available funding that exists for many organizations to mitigate COVID-19. She recommends that the District consider funding areas of need within our strategic priorities that are not funded by other means.

She shared that the last direction she had from the Board was to roll out the District’s community grant giving program, which usually occurs in February. Ms. Faith suggested we pause and have more discussion and gather more information before offering grants this year. The District, due to the \$397K received from the state to help offset the impact of COVID-19, has the ability to offer larger grants and have a greater impact.

Director Tobias suggested that these monies could serve to balance the District’s budget, but that it is even more favorable to increase the District’s spending on community projects. Director Dufour asked about the potential impact of a strategic funding delay on the smaller organizations that rely on our funding. Ms. Faith responded, confirming Director Dufour’s concern that a delay in funding could impact some of the smaller community partners. She also added that after two years of relative absence from the community, it’s important to return to the funding domain with a large offering. Director Dufour would like to begin on the smaller funding projects sooner in order to avoid the negative impact of a delay, while formulating a larger funding project for release later in the year.

10) INFORMATIONAL ITEMS

Upcoming Events

Ms. Faith shared that the Ad Hoc Committee for the City of Petaluma has ended, and that the city has issued a report with the committee’s findings. The City will move forward exploring alternative models of police oversight, following the recommendations of the report.

Ms. Faith also shared the release date for the updated Portrait of Sonoma, due to come out on January 24th, 2022.

Director Hempel added that the Petaluma Community Relations Council is holding a conversation with the SAFE team. The Chief of Police and Deputy Chief of Police will be in attendance, as well as other community stakeholders.

Ms. Faith told the Board about the Feb. 27th Free Youth and Young Adult Heart Screening event. She described the efforts taken by the District, the Via Heart Project, and Santa Rosa Junior College to comply with county regulations regarding COVID-19 safety. Ms. Faith highlighted the strong performance of staff members Tami Bender and Benjamin Spierings, who have executed this project well after 5 years in the making.

11) ANNOUNCEMENT OF CLOSED SESSION ITEMS

Government Code §54957.6 Closed Session regarding employee matters.

12) PUBLIC COMMENTS ON CLOSED SESSION ITEMS

There were none.

13) ADJOURN TO CLOSED SESSION

President Hempel Adjourned the meeting into Closed Session at 8:15 pm.

14) ADJOURN TO OPEN SESSION

Director Hempel adjourned the meeting back to open session at 8:45pm

The board unanimously approved the annual 3% salary adjustment based on CEO performance review. Future reviews will be conducted January of each year and any adjustments related to the performance review will be effective at that time. In order to eliminate any confusion in the future, employee reviews and compensation reviews will be done every January. In order to address the 2021 review and delay in compensation cover October 1, 2021 to January 18, 2022 there will be a onetime payment to cover the lag in compensation review. This action sets in place the elimination of retroactive salary compensation.

15) PLUS/DELTA

16) ADJOURN

Director Hempel adjourned the meeting at 8:50 PM.

Submitted by Director Gabriella Ambrosi, Secretary PHCD
Tucker Pinochi, Board Clerk PHCD

Quarterly Hospital Update

to Petaluma Healthcare District Board

Darian Harris, MHA

Chief Executive Officer
Petaluma Valley & Healdsburg Hospitals

1.12.2022

Reflection

Happy New Year Everyone!

Remember, being
happy doesn't mean
you have it all.
It simply means
you're thankful for
all you have.

unknown | @Projecthappiness_org

Healdsburg and Petaluma Valley Hospitals Strategic Priorities

Extraordinary
Caregiver Engagement

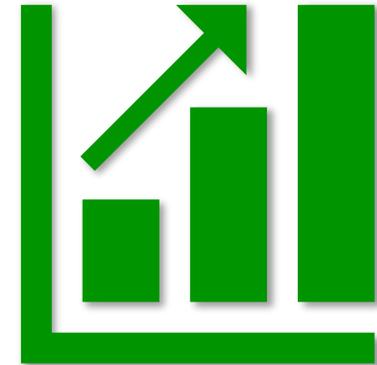


(Joy, Fulfillment, and Empowerment)

Exceptional Care
Experience



Operational
Excellence



Petaluma Valley Hospital | Key Updates / Programmatic Efforts



Operational Excellence

Petaluma Valley Hospital

Quality

- Completed High Reliability Diagnostic Assessment PVH
- **Goal: 0 Preventable Patient Harm**

Access/Capacity

- Emergency Department providing great access despite pandemic surge challenges and psychiatric/mental health crisis holds
- Continue to provide surgical access given robust and enhanced safety measures

Growth

- Expanding GI / Endoscopy Availability in Q1 2022
- Elevating surgical capabilities with New Stryker Surgical Towers (improved patient outcomes)



Extraordinary Caregiver Engagement

Petaluma Valley Hospital

General Update

- >20 Caregiver Engagement, Resilience, and Wellness Events Executed between (Oct – Dec)

CES Participation at PVH:

- #2 in region
- Highly Sustainably Engaged: +7% shift in midpoint vs. 2020

Workforce Recruitment & Retention:

- Hired >35 Nurses since June/July
- ↓64% in 90-day Turnover since May '21



Exceptional Care Experience

Petaluma Valley Hospital

General Update

- Hiring new Patient Experience Manager (support PVH/HH)
- Implemented new food service vendor with expanded menu and supports local business



COVID Response Efforts

- Omicron Variant
- Community Impact
- Healthcare Workforce Impact
- State / County

Achievement Spotlight (12.2021)



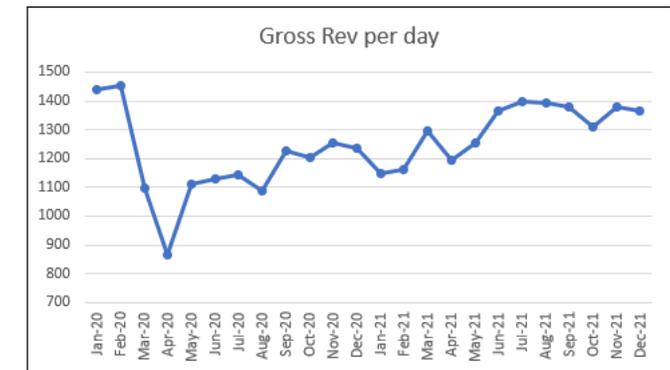
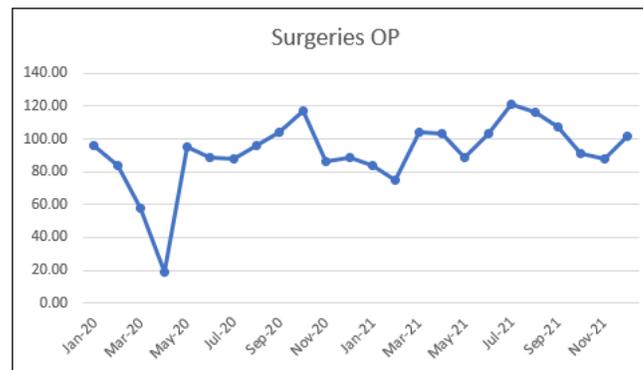
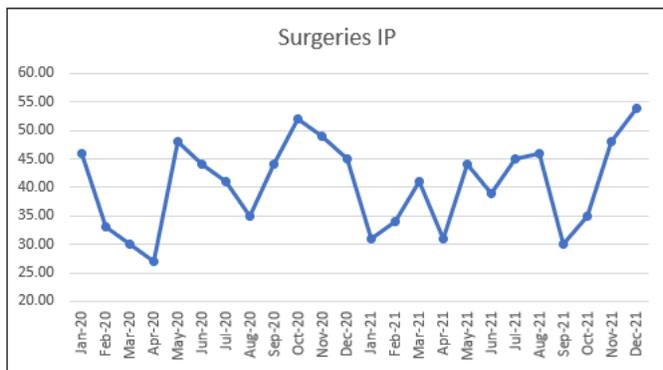
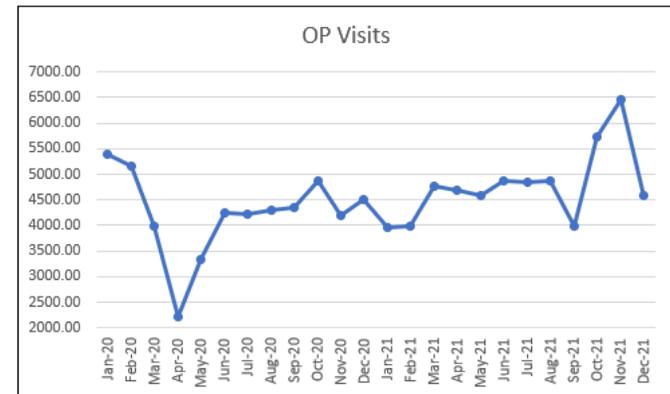
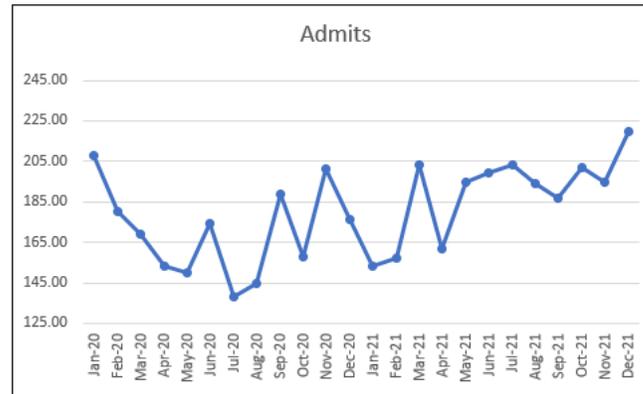
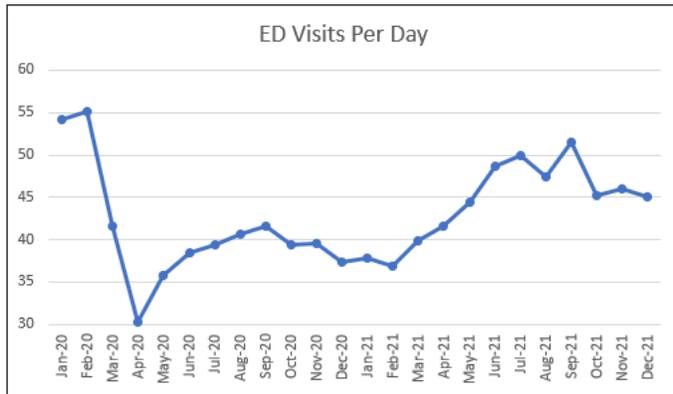
Petaluma Valley Hospital

Providence

Significant Accomplishments

- #2 in the Region in Caregiver Engagement Participation
- CES Survey: Senior Leadership improved 13%* vs 2020
- AHA Stroke Care Gold Plus Recognition
- AHA Diabetes Type II Honor Roll designation
- Leapfrog "A" Rating 2021 Fall – Patient Safety
- RN Management Recruitment: New Family Birthing Center Manager, 2 New House Supervisors, and New RN Educator

Petaluma Valley Hospital Financial Status



Petaluma Valley Hospital Capital Investments

Reminder:

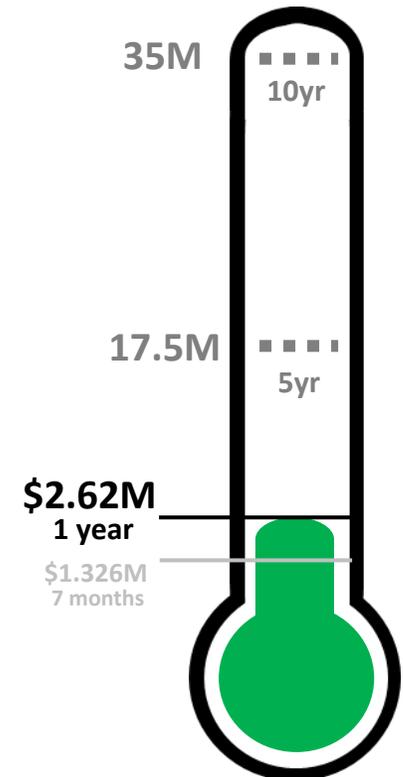
- Invest \$35M over 1st 10 years
- Invest at least half (\$17.5M) in first 5 years

Capital Investment to Date

Hospital	Department	Item	Request Date	PVH Amount
Petaluma	Various	Copier Refresh	5/24/21	\$ 60,993
Petaluma	Facilities	Water Heater	6/23/21	\$ 49,828
Petaluma	Lab	Chemistry Project Architect Assessment	6/23/21	\$ 98,000
Petaluma	Lab	PVH Lab Connectivity	6/23/21	\$ 16,242
Petaluma	FBC	SIMS Doll	6/23/21	\$ 11,227
Petaluma	ICU	Non-Invasive Cardiac output monitoring Device	7/29/21	\$ 26,188
Petaluma	CT	New CT and Installation project scope cost	6/28/21	\$ 80,000
Petaluma	ER / Nursing	15 LifePak 20 E Defibrillators	10/5/21	\$ 175,134
Petaluma	Surgery	Zeiss Microscope	8/30/21	\$ 175,258
Petaluma	Surgery	Stryker Towers	9/30/21	\$ 576,798
Petaluma	FBC	GE Fetal Monitor	10/21/21	\$ 34,369
Petaluma	ER / Nursing	Starys Extra Deep Supply Cabinet	10/21/21	\$ 19,300
Petaluma	FBC	Transport Monitor	10/21/21	\$ 10,720
Petaluma	Radiology	Portable Detector for Xrays	10/1/21	\$ 38,143
Petaluma	Surgery	Ultrasound Machine	10/29/21	\$ 59,538
Petaluma	Imaging	Portable X Ray Machine	11/4/21	\$ 169,180
Petaluma	ICU	Glidescope Core	11/14/21	\$ 16,972
Epic	Hospital	EPIC Implementation (PVH)	1/1/21	\$1M - \$1.1M

Est Total: \$1.3M - \$1.6M

Est Total: \$3.0M - \$3.2M



Thank you for your time today and your ongoing support for Petaluma Valley Hospital!

ED MD w/ EPIC Support



ED Registration w/ EPIC Support



EPIC Command Center Team



Monste Rounding w/ FBC Team



Med/Surg Team w/ EPIC Support



FBC/OB RNs Ready and Waiting



Kristina & Kurt Ready for Rounds



Debbie Huddling with her RT Team

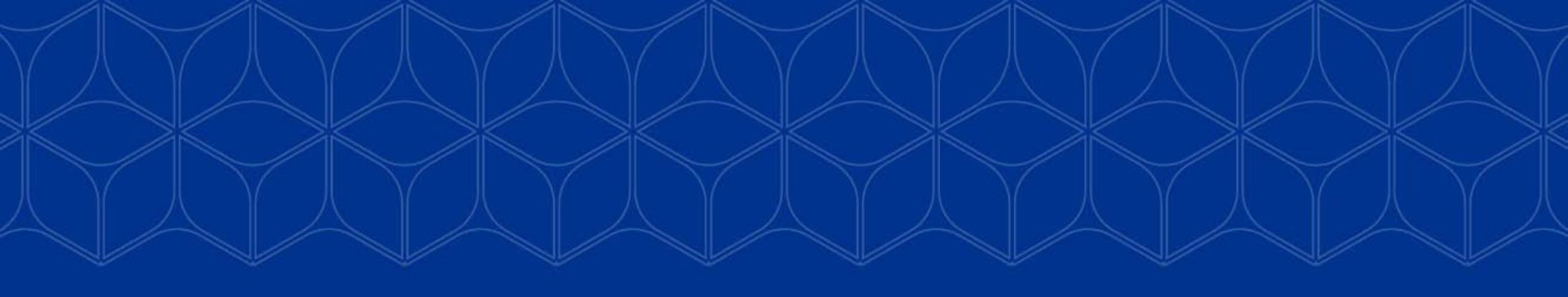


Kathleen making sure surgeons and OR staff are supported



Andrew supporting the ED/ICU Caregivers





Appendix

Attachment 2



December 20, 2021

Teresa Peterson
Interim Regional Director, Real Estate Strategy
PSJH Northern California

Re: Holdover Hospice Lease

Dear Ms. Peterson,

Petaluma Health Care District, a political subdivision of the State of California (“Lessor”), and St. Joseph Home Care Network, a California nonprofit public benefit corporation (“Lessee”), entered into that certain Commercial Single-Tenant Lease - Net Agreement dated as of January 23, 2017 (“Lease”) for that certain land and improvements located at 416 Payran Street, Petaluma, California (the “Premises”).

The Lease term is scheduled to expire January 19, 2022. Lessee desires to enter into this letter amendment (“Letter Amendment”) to the Lease to document the terms upon which Lessee shall continue to rent and possess the Premises past the expiration date as a holdover tenant while Lessor and Lessee discuss whether Lessee will enter into an extension of the Lease or a new lease. Based upon the above and the mutual understandings of the parties set forth herein, the parties agree:

1. Base Rent during the holdover period shall be 110% of the Base Rent immediately preceding the holdover period, or \$9,919.83 per month, commencing January 20, 2022. Base Rent shall be payable on the first day of each month. Lessee shall pay \$13,758.76 as Base Rent on or before February 1, 2022 which shall represent Base Rent from January 20, 2022 through February 28, 2022.

2. Either party may terminate the Lease and the holdover period at any time after April 30, 2022 by providing ninety (90) days’ written notice of termination after that date to the other party.

3. Except as otherwise stated in this Letter Amendment, (a) all initially capitalized terms in this Letter Amendment will have the respective defined meanings stated in the Lease, and (b) the terms and provisions of this Letter Amendment will be considered to be effective as of the date hereof.

4. Except as modified herein, the terms and conditions of the Lease, including all monetary and other obligations of Lessee thereunder, shall remain unmodified and continue in full force and effect, and are hereby ratified and confirmed. In the event of any conflict between the terms and conditions of the Lease and this Letter Agreement, the terms and conditions of this Letter shall prevail.

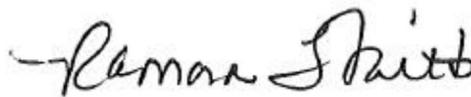
5. Each party hereto and the persons signing below warrant that the person signing below on such party's behalf is authorized to do so and to bind such party to the terms of this Letter Amendment.

6. This Letter Amendment may be executed in one (1) or more counterparts, and all of the counterparts shall constitute but one (1) and the same agreement, notwithstanding that all parties hereto are not signatory to the same original counterpart. The parties acknowledge that signature on this Letter Amendment delivered by facsimile or by emailed "pdf" version shall be sufficient to bind the delivering party.

If you agree with the above, please signify your acceptance and agreement to these terms by signing in the appropriate signature space below.

Petaluma Health Care District

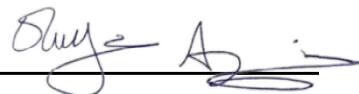
By:



Ramona Faith, Chief Executive Officer

Acknowledged and agreed:

St. Joseph Home Care Network

By:  _____

Title: Secretary

Attachment 3

DECEMBER 8, 2021

CONSIDERATIONS FOR INCLUDING SOCIAL RESPONSIBILITY INTO YOUR INVESTMENT PROGRAM

AN OVERVIEW OF ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) AND SOCIALLY RESPONSIBLE INVESTING (SRI) CONCEPTS

FOR EDUCATIONAL PURPOSES ONLY. PLEASE SEE DISCLOSURES ATTACHED. NOT FOR FURTHER DISTRIBUTION.



Carlos Oblites
Senior Portfolio Strategist



SOCIALLY RESPONSIBLE INVESTING (SRI) VS. ENVIRONMENTAL, SOCIAL, GOVERNANCE INVESTING (ESG)

- *SRI and ESG are often confused as both consider the broader social and environmental implications of an investment.*

SOCIALLY RESPONSIBLE INVESTING (SRI) VS. ENVIRONMENTAL, SOCIAL, GOVERNANCE INVESTING (ESG)

- **SRI - VALUES ALIGNED INVESTING**
 - *Primarily uses an **exclusionary** screening process to align portfolios with investors moral and ethical values.*

- **ESG - VALUE (PERFORMANCE) BASED INVESTING**
 - *Primarily uses an **inclusive** evaluation process.*
 1. *The primary objective is to mitigate ESG risks and achieve higher returns.*
 2. *ESG rating systems are imperfect as many factors are based upon a subjective opinion.*
 3. *ESG research breaks down the three metrics of Environmental, Social and Governance. The research outcome is typically reflected in a score or rating.*

SAMPLE ESG CONSIDERATIONS

Environmental	Social Issues	Governance
Climate change & carbon emissions	Customer satisfaction	Board composition
Air & water pollution	Data protection & privacy	Audit committee structure
Biodiversity	Gender & diversity	Bribery & corruption
Deforestation	Employee engagement	Executive compensation
Energy efficiency	Community relations	Lobbying
Waste management	Human rights	Political contributions
Water scarcity	Labor standards	Whistleblower schemes

METHODS FOR IMPLEMENTING SRI AND ESG STRATEGIES

1. Exclusionary screening (SRI - oldest method)

- *Exclusionary screening refers to avoiding securities of companies or countries on the basis of traditional moral values (e.g., products or services involving alcohol, tobacco, firearms or gambling) and standards and norms (e.g., those pertaining to human rights and environmental protection).*

2. ESG Integration and Positive (Inclusive) Screening

- *Incorporates ESG Data in conjunction with traditional financial/credit analysis with the goal of mitigating ESG risks and increasing returns. Best-in-class selection refers to preferring companies with better or improving ESG performance relative to sector peers. Over the long-term, companies that score well on ESG issues are often more efficient with lower environmental costs—for example, a lower electricity or water bill.*



ESG STRATEGIES CONTINUED

1. *Impact investing*

- *Impact investing refers to investing with the disclosed intention to generate and measure social and environmental benefits alongside a financial return. Project specific investing is a common characteristic of Impact Investing.*

2. *Thematic investing*

- *Thematic investing refers to investing that is based on trends, such as social, industrial, and demographic trends. A number of investment themes are based on ESG issues, including clean tech, green real estate, sustainable forestry, agriculture, education, and health.*

ESG RESEARCH AND EXTERNAL DATA PROVIDERS

1. *ESG research requires a lot of work and presents a steep learning curve. It requires in-depth research into industries and companies to understand which factors are most relevant among the hundreds of KPIs.*
2. *Investors employ a variety of analytical approaches and typically use multiple data sources.*
3. *There is not a standardized approach to the calculation, analysis or outcome of ESG metrics.*
4. *Partial list of external ESG research providers to supplement in-house research staff:*
 - a. *Bloomberg*
 - b. *Creditsights ESG*
 - c. *Sustainalytics*
 - d. *CDP (Carbon Disclosure Project)*
 - e. *MSCI*
 - f. *Oekom*
 - g. *RepRisk*
 - h. *RiskMetrics*

INTEGRATING ESG INTO FIXED-INCOME INVESTING

- 1. In fixed-income investing, ESG issues are mostly about risk. ESG issues in fixed-income considers how issues such as carbon emissions, labor relations and corruption might affect issuers' creditworthiness*
- 2. There's need for more comprehensive analysis that includes the "extra" financial factors, such as ESG key performance indicators (KPIs)*
- 3. Poor management of ESG factors can contribute to defaults, price volatility, credit rating downgrades, and widening credit default swap (CDS) spreads*

ESG FIXED-INCOME STRATEGIES AND THE INVESTMENT PROCESS

1. *ESG investing is based on a combination of fundamental, relative-value analysis and ESG research.*
2. *The investment process begins with analyzing a company and then assessing creditworthiness and producing internal credit rating forecasts.*
 - a. *A credit analysis includes examining balance sheets, profit and loss statements, cash flows, and ratios.*
 - b. *Every bond is different, so it is important to assess instrument-specific risks by reading a bond's prospectus; understanding its covenants, seniority, and structure; considering liquidity issues; and reviewing related documentation.*
3. *The ESG analysis is done along with the company analysis to develop an understanding of ESG shortcomings and if the company is able and willing to address the issues, improve weak ESG Key Performance Indicators (KPIs), and resolve controversial issues.*
4. *For each issuer, ESG KPIs must be assessed for relevancy with regard to sector and industry. Investors should ask themselves how the relevant ESG KPIs will affect a company's earnings and future operating cash flows.*

SRI/ESG INVESTING - GETTING STARTED

- *Asking clarifying questions helps define what ESG investing means to the investor and where on the ESG spectrum is the best fit*
 - a. *What areas they want to have impact?*
 - b. *What do they care about?*
 - c. *Is there agreement on the values priorities?*
 - d. *How will they measure the results of ESG strategies?*
 - e. *Do they weigh values higher than returns?*
 - f. *Do they value returns, but want an ESG-friendly portfolio as well?*
 - g. *Do they want their investing to drive issues and change?*
 - h. *What are the agreed upon ESG filters for selecting approved issuers?*
 - i. *Are the filters exclusionary (negative) only or are they inclusionary (positive) or a combination of both?*

APPROACH TO BUILDING AN OPTIMAL ESG/ SRI INVESTMENT PROGRAM

■ *Initial Steps*



Ongoing Management

- *Clearly define the goals: Exclusionary, Ranking, or Combination*
- *Engage the Constituents*
- *Execute a clear plan via establish policy or annual directive*
- *Consistent review of a disciplined investment process with review of the following Factors*
 - *Impact on Total Return*
 - *Evolution of ESG/SRI understanding*
 - *Diversification of risk*
 - *Compliance with legal requirements, policies, and objectives*
 - *Generating market yield and return*

HOW TO DECIDE WHAT GETS INCLUDED/EXCLUDED?

- *Agencies must have a clear decision-making process*
 - *Governing board*
 - *Subcommittee (finance committee)*
 - *Treasurer*
- *Directives must be “implementable”*
- *Actions must be verifiable*

HOW DOES THIS IMPACT THE INVESTMENT POLICY

1. *ESG/SRI in Investment Policies: It's all in the language...*
 - a. *Strong-enough terms to provide guidance*
 - b. *Simple yet specific enough to provide enforceability*
 - c. *Flexible enough to ensure compliance with fiduciary duty*
2. *Actual Implementation*
 - a. *Investment policy language should address issues at high level*
 - b. *Actual implementation should be handled at functional level*
 - i. *Management directives*
 - ii. *Internal guidance documents*
 - iii. *Buy lists/exclusion lists*

SAMPLE SRI/ESG LANGUAGE

Example 1: – Investment Policy - ESG

- *In the event all general objectives mandated by state law and set forth in the Investment Policy above are met **and created equal**, investments in corporate securities and depository institutions will be evaluated for social and environmental concerns. **Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, or sexual orientation, as well as those entities that practice environmentally sound and fair labor practices.***

Example 2: Investment Policy ESG + SRI

- *In the event all general objectives mandated by state law are met and created equal, investments in corporate securities and depository institutions will be evaluated for social and environmental concerns. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, religion, or sexual orientation, as well as those entities that practice environmentally sound and fair labor practices. **Investments are prohibited in entities that receive a significant portion of their revenues from the manufacture of tobacco products, exploration of fossil fuels, firearms, or weapons not used in our national defense.***

SAMPLE SRI LANGUAGE -

Example 3: Inclusion in Objectives section of Investment Policy

- *Investments are to be made that will bear in mind the responsibility of city government to its citizens. Alternative investments, which enhance the quality of life, will be given full consideration. Investments, which serve to only enrich a few to the detriment of the people, will be strictly avoided. No investment is to be made in a company that receives more than 51% of gross revenues from the production or manufacture of cigarettes, alcohol, or gambling products, nor is any investment to be made in any company involved in the coal industry (defined as any company classified under Bloomberg Industry Classification Systems (BICS) code 131016). In addition, investing in XYZ securities, when XYZ is the issuer, will be prohibited at least until 2021*

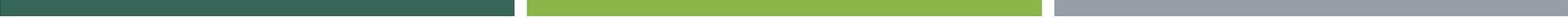
Example 4: Staff Report

- *The Town can make specific changes in how the investment adviser invests on the Town's behalf. We have collaborated with the investment adviser in reviewing their current list of approved names. As such, we have directed the investment adviser to specifically exclude the following names;_____. The proposed language change in the attached Investment Policy would specifically exclude these companies. It should be noted that the investment adviser considers ESG factors when analyzing their list of approved names for local agencies. Staff is further suggesting that the investment policy should specifically exclude any company involved in the coal industry (defined as any company classified under Bloomberg Industry Classification Systems (BICS) code 131016).*

COMPLYING WITH FIDUCIARY DUTY

- *Defining and Complying with Safety, Liquidity and Yield/Return (SLY) Objectives*
 - *Governing Laws*
 - *Investment Policy*
 - *Risk tolerances*
 - *Market, credit and liquidity risks*
 - *Cash flow needs*

- *Does SRI/ESG investing comply with the primary objectives of the investment program?*
- *How will SRI/ESG considerations impact the primary objectives?*



DISCLOSURES

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