I. CALL TO ORDER
The meeting of the Investment Committee was called to order at 9:02 a.m. by Vice Chairperson Dean Hirata in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Conference Room, City Financial Tower, Honolulu, Hawaii, on Friday, May 17, 2013.

II. Election of Chair
A. Chairperson
Trustee Celeste Nip nominated Trustee Dean Hirata for Chairperson.

MOTION was made to close nomination. (Nip/Currivan Musto). The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-2)

B. Vice-Chairperson
Trustee Dean Hirata nominated Trustee Celeste Nip for Vice-Chairperson.

MOTION was made to close nomination. (Hirata/Currivan Musto). The motion passed unanimously (Employer Trustees-1/Employee-Beneficiary Trustees-2).
III. REPORTS
A. Pension Consulting Alliance (PCA).

1. March 2013 Performance Update
   Overview by Ms. Kay Ceserani and Mr. Colin Beebe from PCA (see written report). [Trustee Fuddy arrived at 9:15 a.m.] Discussion held by Trustees, staff and investment consultants that EUTF had good performance over the last 7 quarters which was up 9.7%. EUTF is currently invested in 5 different classes or mutual funds. 4 are passively managed and 1 is an active fund. Discussion held by Trustees, staff and investment consultant regarding why the actively managed fund Black Rock under performed. PCA will take a look at this fund and come back with an analysis at the next meeting.

2. PCA Report of Recommended Tasks for Next 12 Months (see written report).
   Overview by Ms. Ceserani of list of assignments and tasks. The next meeting will have one other education piece on fixed income and evaluation of TIPS manager. Towards the end of the year, PCA will look at covered calls and complete the asset allocation review. Discussion was held by Trustees, staff and investment consultants on whether other Board members would be able to attend the education meeting. Ms. Yahiro will check with the AG’s office.

Training: Risk versus Return Trade-Off (Recap of current portfolio structure over time and how the portfolio may be structured in the future); and Discussion of Roles of Assets/Strategic Classes (see written reports). Overview by Ms. Ceserani regarding Training: Risk versus Return Trade-Off (recap of current portfolio structure over time and how the portfolio may be structured in the future). Ms. Ceserani explained that the goal of this presentation is to provide an understanding of how risk and reward work together in simplistic terms. The more risk you take the higher return you’re expected to get. An active manager is someone that is taking active bets so they are going to structure in a way that is different than the market and has high fees. A passive manager is just buying the market. Analysis found that active management only paid off in less efficient markets. Ms. Ceserani gave a brief history of EUTF’s portfolio. EUTF’s prior consultant Mercer had adopted proposed policy 45% risk type assets and 55% stable. PCA took over in 2011 and made a few modifications in EUTF’s portfolio shifting the policy to a 50%-50% mix; producing a slightly more risk oriented profile. After a more formal review at the end of 2011, and in order to get to the 7% long-term target return, the Investment Committee determined EUTF needed to take on additional risk and shifted the portfolio to 65% risk -35% stable mix. Under the current structure EUTF has made $39 million dollars. Overview by Ms. Ceserani regarding discussion of roles of assets/strategic classes.

Ms. Ceserani gave basic definitions of each class EUTF is in: Domestic equity ownership in publicly traded U.S. companies to add incremental return to portfolio, International Equity ownership in publicly traded companies
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headquartered outside the U.S. and has 3 different components the developed piece, Emerging market and Frontier market which is really small and the riskiest. Domestic fixed incomes are loans in U.S. companies, government entities, banks, and insurance companies. EUTF is also invested in public real estate which is a company that’s trying to provide income in real estate such as apartments, offices, etc. and they have to distribute 90% of the taxable income back to the investors. Overview by Mr. Beebe regarding covered calls. Covered call option is when you own a long stock position and sell the call and collect the fee. It does best in a flat to moderately rising market. Discussion was held by Trustees, staff and investment consultants regarding International Equity. Emerging markets make up 25% of international markets the rest of it being developed markets. EUTF has international equity in our portfolio. PCA stance hasn’t changed and believe the EUTF should have international equity as part of our portfolio. At this time, PCA is not recommending adding an allocation to Frontier Markets. Ms. Ceserani will do an update at the next meeting on active vs. passive and a formal asset allocation review will be presented at the November meeting.

No comments or questions from the public.

IV. NEW BUSINESS
A. Investing Excess Reserves
Ms. Yahiro reported that at a couple of the last board meetings there was discussion and questions on if we were investing any of our reserves. Ms. Yahiro asked PCA if we can invest our reserves with the way the current investment policies are written and if not what we need to do to change that. Ms. Ceserani stated that she didn’t have all the information needed yet but a cursory review shows that there is a very brief statement in the investment policy that does address operating assets so feels that its covered. PCA would move forward to make a recommendation for investment. Discussion was held by Trustees, staff and investment consultants on what the amount of excess reserve is to invest. Ms. Tonaki estimated the amount to be about $20-30 million to invest but would need to look further. The money is now earning interest in the state investment pool. This item will be further discussed at the next investment committee meeting.

Overview by Ms. Yahiro regarding HB 546. She informed the committee that it did pass. She is bringing it to the committee’s attention because the main part of the bill is to set up a task force in Department of Budget & Finance (B&F) to examine the OPEB liability. There is a section in the bill that has appropriated out of general revenues $500,000 in the first year and $500,000 in the second year for the B&F to conduct a study and develop an implementation plan to have both the EUTF and the Employees’ Retirement System (ERS) jointly share investment information and services. It may end up that our money is combined together for investment purposes. It’s not clear in this bill who will be spearheading it.
B. EUTF’s Set Calendar for Future Meetings
Discussion was held by Trustees, staff and investment consultants on future meetings. Ms. Yahiro recommended that the Investment Committee meet quarterly for 2 hours on the second Tuesday of the months that PCA meets with ERS since they will already be in Hawaii. The proposed dates and times are:
August 13, 2013, 1:00 p.m.
November 12, 2013, 1:00 p.m.
February 11, 2014, 1:00 p.m.
May 13, 2014, 1:00 p.m.

C. Future Training Topics
This item was covered in 2. PCA Report of Recommended Tasks for Next 12 Months

V. ADJOURNMENT
MOTION was made for the Investment Committee to adjourn the meeting at 10:56 a.m. (Fuddy/Currivan Musto). The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-2)

Respectfully submitted,

/s/

Dean Hirata, Chairperson

APPROVED on August 13, 2013.

DOCUMENTS DISTRIBUTED:
3. Risk vs. Reward Trade-off by PCA dated May 2013. (14 pages)
4. Strategic Class Discussion by PCA dated May 2013. (63 pages)