

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
August 13, 2013

TRUSTEES PRESENT

Mr. Dean Hirata, Chairperson
Ms. Celeste Nip, Vice Chairperson

Ms. Linda Currivan Musto
Ms. Loretta Fuddy

TRUSTEES ABSENT: None

ATTORNEY

Mr. Kyle Chang, Deputy Attorney General

EUTF STAFF

Ms. Sandra Yahiro, Acting Administrator
Ms. Donna Tonaki, Assistant Administrator (TA)
Ms. Debbie Pfeffer
Mr. Bert Nishihara

Mr. Neil Rue, PCA Consultant
Ms. Kay Ceserani, PCA Consultant

I. Call to Order

The meeting of the Investment Committee was called to order at 1:04 p.m. by Chairperson Dean Hirata in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Conference Room, City Financial Tower, Honolulu, Hawaii, on Tuesday, August 13, 2013.

II. Approval of Minutes -May 17, 2013

MOTION was made for the Investment Committee to approve the minutes of May 17, 2013. (Fuddy/Nip) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

III. Report

A. Pension Consulting Alliance (PCA)

1. June 30, 2013 Performance Report

Overview by Ms. Kay Ceserani from PCA of EUTF's quarterly report. EUTF finished the quarter with \$313.2 million slightly lower than last quarter by about \$5 million dollars. Since the initial funding of the assets on June 23, 2011, when the account moved from 100% cash to a diversified portfolio, it increased by \$34 million dollars. EUTF's portfolio underperformed the medium public fund for the quarter by 1.5% due to large allocation in REITS and TIPS. The markets have been pretty volatile over the last quarter.

2. Investing Excess Reserves

Overview by Ms. Kay Ceserani regarding potential investment strategies for EUTF's excess reserve assets currently held in Bank of Hawaii's Commercial Deposit Management Center in an effort to generate higher yields. PCA

recommends investing \$35 million in the passively managed Vanguard short term corporate bond index fund. This fund seeks to track the performance of the Barclays U.S. 1-5 year corporate bond index, while providing the EUTF with the necessary liquidity to draw funds when necessary. It is considered a short-term high quality corporate bond mutual fund.

MOTION was made to recommend to the Board to invest \$35 million in Vanguard short term corporate bond index fund. (Fuddy/Nip) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

Discussion held by Trustees, staff, and investment consultant regarding amending the EUTF's current Statement of Investment Policy and Guidelines to make changes to allow the investing of excess reserves.

MOTION was made to recommend to the Board to amend the Statement of Investment Policy and Guidelines. (Currivan Musto/Fuddy) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

3. Active Versus Passive Discussion

Overview by Ms. Kay Ceserani explaining the differences of and advantages and disadvantages between active vs. passive management styles. Mr. Rue explained that \$500 million is the scale that EUTF should be at for active management due to the higher fees. PCA will make a recommendation at the time they feel it would be appropriate for EUTF to go with active management. PCA will do an asset allocation review at the November meeting.

4. Review of TIPS Manager – BlackRock

Overview by Mr. Neil Rue regarding BlackRock's performance. BlackRock is the largest money manager in the world and is a well run organization that is producing good results for EUTF. PCA recommends staying with BlackRock.

5. Fixed Income Discussion Presentation

Overview by Mr. Neil Rue. He discussed potential investment options to consider during the asset allocation review in November, which includes doing nothing; reallocating away from fixed income; reducing the duration of the fixed income portfolio; or altering fixed income portfolio.

IV. ADJOURNMENT

MOTION was made for the Investment Committee to adjourn the meeting at 2:47 p.m. (Fuddy/Curriivan Musto). The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-2)

Respectfully submitted,

/s/

Dean Hirata, Chairperson

APPROVED on November 12, 2013.

DOCUMENTS DISTRIBUTED:

1. Hawaii Employer-Union Health Benefits Trust Fund Quarterly Report Executive Summary by PCA June 2013. (51 pages)
2. Memorandum to EUTF from PCA Regarding Excess Reserves dated 8/5/13. (25 pages)
3. Active vs. Passive Discussion - 2013 by PCA dated August 2013. (32 pages)
4. Memorandum to EUTF from PCA Regarding TIPS Review dated 8/5/13. (11 pages)
5. Fixed Income Discussion by PCA August 2013. (53 pages)