

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
May 14, 2014

TRUSTEES PRESENT

Mr. Dean Hirata, Chairperson

Ms. Celeste Nip, Vice Chairperson

Ms. Barbara Krieg

Ms. Linda Currivan Musto

Ms. Julia Zeghmi

TRUSTEES ABSENT

Ms. Maria Zielinski

ATTORNEY

Mr. Kyle Chang, Deputy Attorney General

EUTF STAFF

Mr. Derek Mizuno, Assistant Administrator

Ms. Debbie Pfeffer

Mr. Neil Rue, PCA Consultant

Mr. Colin Bebee, PCA Consultant

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 9:05 a.m. by Chairperson Dean Hirata in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Conference Room, City Financial Tower, Honolulu, Hawaii, on Wednesday, May 14, 2014.

II. APPROVAL OF MINUTES – FEBRUARY 11, 2014

MOTION was made for the Investment Committee to approve the minutes of February 11, 2014. (Krieg/Currivan Musto) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-3)

III. REPORTS

A. Pension Consulting Alliance (PCA)

1. March 31, 2014 Performance Report

Mr. Bebee highlighted the March 31, 2014 Performance Report. EUTF finished the quarter at \$358,946,285, a 3.2% return for the quarter which was slightly below the policy benchmark (3.4%). Since inception (June 30, 2011), the EUTF is ahead of the policy benchmark by 40 basis points and all funds have either matched or performed in line with their respective benchmarks. As of March 31, 2014, all allocations are within 1.5% of the target asset allocation and within the ranges prescribed in the Statement of Investment Policy and Guidelines dated August 2013.

2. March 31, 2014 Excess Reserves Performance Report

Mr. Bebee highlighted the March 31, 2014 Excess Reserve Performance Report. EUTF finished the quarter at \$35,396,678, a 0.9% return for the quarter which was slightly above the policy benchmark (0.8%). Since

inception (September 30, 2013), EUTF is below the policy benchmark by 10 basis points.

3. Discussion on Investment of Additional Reserves

Mr. Mizuno reported that staff has provided information on average cash balances for the past year. However, additional information must be provided to PCA regarding the time horizon of these additional reserves. Staff plans to present options to the board at the June 18, 2014 board meeting.

4. Form ADV Part 2A

Mr. Bebee noted that Form ADV Part 2A dated March 2014 was provided for information.

5. Study in Accordance with Act 268, SLH 2013

Mr. Mizuno reported that Act 268, SLH 2013 included a provision to have a study conducted regarding the feasibility of combining the investment functions of the EUTF and the Employees' Retirement System of the State of Hawaii (ERS). This report is due by August 2014 and is being conducted by PCA under its contract with EUTF. Fees will be reimbursed by the Department of Budget & Finance.

Mr. Mizuno also reported that while he was reviewing HRS 87A-24, he noticed that the EUTF's permitted investments are slightly different from the ERS, specifically covered calls and commodities are not EUTF permissible investments.

6. International Equity Change

Mr. Bebee presented PCA's recommendation to move the EUTF's international equity allocation from the Vanguard FTSE All-World ex-US Index (VFWSX) to the Vanguard Total International Stock Index (VTSNX). Both funds are passive funds, have fees of 12 basis points and have similar returns over the past three years, but the Vanguard Total International Stock Index Fund provides greater exposure (15%) to international small cap equities versus the Vanguard FTSE All-World ex-US Index Fund (7%). This fund was originally not recommended in June 2011 because of its limited track record, fund inception was in late 2010.

MOTION was made for the Investment Committee to approve PCA's recommendation to change the international equity fund from the Vanguard FTSE All-World ex-US Index to the Vanguard Total International Stock Index. (Krieg/Nip) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-3)

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7. Covered Call Search Update Memo

Mr. Bebee reported that since covered calls are not a EUTF permissible investment, the implementation of the three new asset classes – covered calls, commodities and microcap – should be rearranged. Microcap would be the first asset strategy to be implemented since it is a EUTF permissible investment while EUTF seeks amendment to HRS 87A. PCA will prepare and issue a Request For Information next week and prepare a recommendation for finalists along with the revised phase in of the three new asset strategies at a committee meeting in late July, early August 2014 with finalist interviews at the next quarterly investment committee meeting in August 2014.

IV. ADJOURNMENT

MOTION was made for the Investment Committee to adjourn the meeting at 9:46 a.m. (Nip/Krieg) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-3)

Respectfully submitted,

/s/

Dean Hirata, Chairperson

APPROVED on July 28, 2014.

DOCUMENTS DISTRIBUTED:

1. Draft Investment Committee Minutes of February 11, 2014. (2 pages)
2. Hawaii Employer-Union Health Benefits Trust Fund Quarterly Report Executive Summary by PCA March 2014. (54 pages)
3. PCA Form ADV Part 2A (8 pages)
4. International Equity Fund Change Recommendation (3 pages)
5. Covered Call Manager Search – Finalist Recommendations (17 pages)