I. CALL TO ORDER
The meeting of the Investment Committee was called to order at 9:01 a.m. by Vice Chairperson Celeste Nip in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Conference Room, City Financial Tower, Honolulu, Hawaii, on Wednesday, May 13, 2015.

II. APPROVAL OF MINUTES – February 10, 2015
The Investment Committee reviewed the draft minutes of February 10, 2015.

MOTION was made and seconded to approve the minutes of February 10, 2015 as amended. (Zeghmi/Currivan Musto) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)

III. Investment Officer Position Update
Ms. Sandi Yahiro informed the committee that the EUTF’s Investment Officer position was approved for the fiscal year 2016 budget. EUTF staff will work on preparing a position description and will recruit for the position.

IV. Pension Consulting Alliance (PCA)
A. March 31, 2015 Performance Report
Ms. Kay Ceserani of PCA highlighted significant points in the March 31, 2015 Performance Report. The EUTF portfolio finished the quarter at $728,499,430, a 2.7% return for the quarter which was 10 basis points under the policy benchmark return. Since inception (June 30, 2011), the EUTF portfolio has returned 9.4% versus
the policy benchmark of 9.2% with slightly less risk over the past 3 years and with all funds performing within 30 basis points of their respective benchmarks. As of March 31, 2015, all allocations were within 70 basis points of the target asset allocation and within the guidelines prescribed in the Statement of Investment Policy and Guidelines dated November 2014.

B. March 31, 2015 Excess Reserves Performance Report
Ms. Ceserani highlighted significant points in the March 31, 2015 Excess Reserve Performance Report. The EUTF excess reserve portfolio finished the quarter at $137,513,329. During the quarter, the portfolio returned 1.2% which equaled the Barclay’s 1-5 Year Corporate Index benchmark return. Since inception (September 30, 2013), the EUTF excess reserve portfolio return of 2.5% is slightly below the Barclay’s 1-5 Year Corporate Index benchmark return of 2.7%.

C. Evolving Portfolio Plan Update
Mr. Derek Mizuno reported that PCA will be updating the risk and return assumptions underlying the evolving portfolio plan previously approved by the Board as part of their annual update and will present the results at the next Investment Committee meeting.

D. Passive Equity Fund Recommendation
Mr. Colin Bebee presented PCA’s memo entitled Passive Equity Provider Review. PCA recommends moving from the passive U.S. (estimated cost of 4 basis points) and non-U.S. equity (12 basis points) Vanguard mutual funds to the Northern Trust commingled U.S. (3 basis points) and non-U.S. (8 basis points) equity funds because of lower fees with similar strategies, and to change the applicable benchmarks to match the benchmarks of the Northern Trust passive funds. The main difference in the strategies relates to the non-U.S. equity funds. The Vanguard non-U.S. equity fund includes an approximate 10% allocation to non-U.S. small caps while the Northern Trust non-U.S. equity fund does not include a non-U.S. small cap allocation. However, non-U.S. all cap funds have a 0.98 correlation to non-U.S. mid-large cap funds and the EUTF portfolio already has a tilt to small cap equities because of the 9% allocation to U.S. microcap equities.

MOTION was made and seconded to recommend to the Board replacement of the Vanguard Total Stock Market Index Fund and the Vanguard Total International Stock Index Fund with Northern Trust’s passive commingled funds for U.S. equities and non-U.S. equities prior to July 1, 2015 and to change the respective benchmarks from the MSCI Broad Market Index to the Russell 3000 Index and from the FTSE Global All Cap ex U.S. Index to the MSCI ACWI ex U.S. Index, respectively. (Zielinski/Zeghmi) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)
E. BlackRock Inflation Protected Bond Fund Recommendation

Mr. Bebee presented PCA’s memo entitled *BlackRock U.S. TIPS – Investment Vehicle Recommendation*. PCA recommends EUTF serving as the seed (initial) investor into a newly created commingled fund by BlackRock investing in U.S. inflation protected bonds. This commingled fund will provide the EUTF with significantly lower fees with the same strategy as the current BlackRock Inflation Projected Bond mutual fund. The estimated fees for the commingled fund of 16.1 basis points are less than half of the mutual fund estimated fees of 44 basis points but are slightly higher by 0.6 basis points than BlackRock’s separate account estimated fees for the same strategy. However, the account minimum for the separate account of $100 million is higher than the commingled fund’s account informal minimum of $60 million. PCA reported that the $100 million minimum would likely be breached in the future. The change will be made in the third quarter of 2015 once the commingled fund is established.

Additionally, PCA will review the remaining assets invested in passive mutual funds, REITs and Core Fixed Income, this year and will further evaluate this inflation protected bond allocation in 2016.

Mr. Mizuno reported that the changes in the vehicles for the passive equities and U.S. inflation protected bond, along with custodial and securities lending provider change, address the recommendations contained in Scenario 1 of the September 2014 Study of Potential EUTF/ERS Investment Consolidation.

MOTION was made and seconded to recommend to the Board replacement of the BlackRock Inflation Protected Bond mutual fund with the BlackRock Inflation Protected Bond commingled fund. (Zielinski/Currivan Musto) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)

V. EXECUTIVE SESSION

MOTION was made and seconded for the Investment Committee to move into Executive Session at 9:35 a.m. (Currivan Musto/Zielinski) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)

Executive Session adjourned at 9:40 a.m.

VI. FUTURE AGENDA ITEMS DISCUSSION AND NEXT MEETING DATE

A. Tuesday, August 11, 2015 at 9:00 a.m. for a regular quarterly meeting
B. Tuesday, November 10, 2015 at 9:00 a.m. for a regular quarterly meeting
VII. ADJOURNMENT
MOTION was made and seconded for the Investment Committee to adjourn the meeting at 9:45 a.m. (Currivan Musto/Zielinski) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)

Respectfully submitted,

/s/

Celeste Nip, Vice-Chairperson

APPROVED on August 11, 2015.

Documents Distributed:
1. Hawaii Employer-Union Health Benefits Trust Fund Quarterly Report 1Q 2015. (60 pages)
2. Passive Equity Provider Review. (11 pages)