

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
August 11, 2015

TRUSTEES PRESENT

Mr. Wesley Machida, Chairperson
Ms. Celeste Nip, Vice Chairperson

Ms. Linda Currivan Musto (arrived 8:35 a.m.)
Ms. Julia Zeghmi

TRUSTEES ABSENT

Mr. Roderick Becker

Mr. James Nishimoto

EUTF STAFF

Ms. Sandi Yahiro, Administrator
Mr. Derek Mizuno, Assistant Administrator
Ms. Debra Pfeffer

Ms. Donna Tonaki
Mr. Colin Bebee, Consultant
Mr. Neil Rue, Consultant

OTHERS PRESENT

Nohealani Tak

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 8:30 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 Tuesday, August 11, 2015.

II. APPROVAL OF MINUTES – May 13, 2015

The Investment Committee reviewed the draft minutes of May 13, 2015.

MOTION was made and seconded to approve the minutes of May 13, 2015. (Zeghmi/Machida) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-2)

[Trustee Currivan Musto arrived at 8:35 a.m.]

III. Election of a Chairperson

Nominations to fill the vacant chairperson position were taken.

MOTION was made and seconded to nominate Mr. Wesley Machida as chairperson. (Nip/Zeghmi) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)

IV. Investment Officer Position Update

Mr. Derek Mizuno informed the committee that the staff is working with Department of Budget & Finance, Human Resources personnel to create the EUTF's Investment Officer position. Pension Consulting Alliance (PCA) and Vijoy Chattergy, Chief Investment Officer for the Employees' Retirement System of the State of Hawaii, are also assisting

in the process. Recruitment is likely to occur in September or October 2015 for a January 2016 start date.

- V. Update on Transition to Northern Trust for Custodial and Securities Lending Services
Mr. Mizuno reported that the assets custodied by Bank of Hawaii were smoothly transitioned to Northern Trust on July 1, 2015. EUTF, Northern Trust and PCA are continuing to work on executing the securities lending agreement.

VI. Pension Consulting Alliance

A. June 30, 2015 Performance Report

Mr. Colin Bebee of PCA highlighted significant points in the June 30, 2015 Performance Report. The EUTF portfolio finished the quarter at \$759,353,739, a -1.6% loss for the quarter which was equal to the policy benchmark return. Since inception (June 30, 2011), the EUTF portfolio has returned 8.3% versus the policy benchmark return of 8.1% with similar risk over the past 3 years and with all funds, excluding the Microcap managers (January 1, 2015 inception date), performing within 20 basis points of their respective benchmarks. As of June 30, 2015, all allocations, excluding REITs, were within 30 basis points of the policy target allocations. REITs were underweight by 1%. Subsequent to quarter-end, the portfolio was rebalanced to the policy target allocations in July. All classes were within the guidelines prescribed in the Statement of Investment Policy and Guidelines dated November 2014. During the quarter, the Vanguard Total Stock Market Index Fund and the Vanguard Total International Stock Index Fund were replaced with the NT Russell 3000 Index Equity Strategy and the NT ACWI-ex US Index Equity Strategy, respectively, as previously approved by the Board.

Mr. Bebee reported that the EUTF excess reserve portfolio finished the quarter at \$137,240,661. During the quarter, the portfolio lost -0.2% which equaled the Barclay's 1-5 Year Corporate Index benchmark return. Since inception (September 30, 2013), the EUTF excess reserve portfolio return of 2.1% is slightly under the Barclay's 1-5 Year Corporate Index benchmark return of 2.2%. Mr. Mizuno reported that the majority of the \$495,858 in cash and equivalents were recently used to purchase more units of the Vanguard Short Corporate Bond Index Fund.

B. Revised Investment Policy Guidelines for Northern Trust U.S. and International Equity Funds

Mr. Mizuno reported that the investment policy guidelines were revised to account for the replacement of the Vanguard Total Stock Market Index Fund and the Vanguard Total International Stock Index Fund with the NT Russell 3000 Index Equity Strategy and the NT ACWI-ex US Index Equity Strategy, respectively, and to change the associated benchmarks.

MOTION was made and seconded to recommend to the Board approval of the revised investment policy guidelines to replace the Vanguard Total Stock Market Index Fund and the Vanguard Total International Stock Index Fund with the NT

Russell 3000 Index Equity Strategy and the NT ACWI-ex US Index Equity Strategy, respectively, and to change the associated benchmarks. (Nip/Zeghmi) The motion passed unanimously. (Employer Trustee-1 /Employee-Beneficiary Trustees-3)

C. Passive Fund Recommendations – REIT and Core Fixed Income

Mr. Bebee presented PCA's recommendation for the passive REIT and core fixed income strategies as a follow up on the May 13, 2015 Investment Committee meeting. Based on their review of published eVestment Alliance data, PCA recommended continuing with the Vanguard REIT Index Fund because of the competitive fees. However, PCA pointed out that a short request for information process could be conducted to inquire about more competitive proposals. The Investment Committee instructed PCA to conduct such a process to test the market for presentation at the next Investment Committee meeting.

PCA presented its analysis regarding the core fixed income strategy. PCA had requested information from five prominent passive fixed income managers – BlackRock, Mellon, Northern Trust, State Street and Vanguard. PCA recommended the BlackRock passive fund because of the proposed lowest fees (0-2 basis points) and the second lowest tracking error (11 basis points) to the Barclays U.S. Aggregate Bond Index (EUTF's current benchmark).

MOTION was made and seconded to recommend to the Board replacement of the Vanguard Total Bond Market Index Fund with the BlackRock U.S. Debt Index Fund for the EUTF's passively managed U.S. fixed income strategy that tracks the Barclays U.S. Aggregate Bond Index. (Currivan Musto/Zeghmi) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)

D. 2015 Strategic Allocation Update

Mr. Bebee reported that the current allocation of the OPEB Trust has an expected return of 7.0% which matches the assumed long term rate of return with an estimated annual standard deviation of 10.8%. PCA will present education to the Investment Committee regarding potential new strategic classes at the November 2015 Investment Committee meeting. A new Strategic Allocation Review will be presenting to the Investment Committee at the February 2016 Investment Committee meeting.

E. Education Presentation on Risk Premiums and Strategic Allocation

Mr. Bebee presented the educational materials.

F. Education Presentation on Securities Lending

Mr. Bebee presented the educational materials.

VII. FUTURE AGENDA ITEMS DISCUSSION AND NEXT MEETING DATE

A. Friday, November 13, 2015 at 9:00 a.m. for a regular quarterly meeting

B. Tuesday, February 9, 2016; Wednesday, May 11, 2016; and Tuesday, August 9, 2016 all at 9:00 a.m. for regular quarterly meetings

VIII. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 10:00 a.m. (Currivan Musto/Zeghmi) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)

Respectfully submitted,

/s/

Wesley Machida, Chairperson

APPROVED on November 13, 2015.

Documents Distributed:

1. Hawaii Employer-Union Health Benefits Trust Fund Quarterly Report 2Q 2015. (63 pages)
2. Statement of Investment Policy and Guidelines – Update (24 pages)
3. Passive Fund Recommendations – REIT and Core Fixed Income (5 pages)
4. 2015 Strategic Allocation Update (4 pages)
5. Risk Premiums and Strategic Allocation (17 pages)
6. Securities Lending – Educational Session (8 pages)