

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
Minutes of the Investment Committee Meeting  
November 13, 2015

TRUSTEES PRESENT

Ms. Linda Currivan Musto  
Mr. James Nishimoto

Ms. Julia Zeghmi

TRUSTEES ABSENT

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

Mr. Roderick Becker

EUTF STAFF

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

Mr. Colin Bebee, Consultant  
Ms. Kay Ceserani, Consultant  
Mr. Jeffrey Hoo, Investment Manager  
Mr. Douglas Morse, Investment Manager

OTHERS PRESENT

None

I. Call to Order

The meeting of the Investment Committee was called to order at 9:05 a.m. by Julia Zeghmi, who served as Chairperson, in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Conference Room, City Financial Tower, Honolulu, Hawaii, on Friday, November 13, 2015.

II. Approval of Minutes – August 11, 2015

The Investment Committee reviewed the draft minutes of August 11, 2015. The draft minutes are amended on line 76 to change “loss” to “lost”.

MOTION was made and seconded to approve the minutes of August 11, 2015, as amended. (Currivan Musto/Nishimoto) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-2)

III. Investment Officer Position Update

Mr. Derek Mizuno reported that internal and external job postings will be made concurrently beginning next week for the investment officer position. Pension Consulting Alliance (PCA), and Vijoy Chattergy, Chief Investment Officer for the Employees’ Retirement System of the State of Hawaii, are assisting in the process. The goal is a start date in January 2016.

IV. Update – BlackRock TIPS and Core Fixed Income Commingled Funds

Mr. Mizuno reported that the Deputy Attorney General, PCA and BlackRock have reviewed the draft contract that covers both commingled funds. There are a few minor

items to resolve. The goal is to execute the contract and fund the new commingled funds before December 31, 2015.

V. Excess Reserve Portfolio Asset Allocation

Mr. Mizuno reported that PCA will be reviewing the asset allocation for the excess reserve portfolio upon further instruction from staff in regards to the funds available for short term (Board established reserves) and long term investment (funds in excess of the Board established reserves).

VI. Pension Consulting Alliance

A. September 30, 2015 Performance Report

Ms. Kay Ceserani of PCA highlighted significant points in the September 30, 2015 Performance Report. The EUTF portfolio finished the quarter at \$979,333,507, a -5.1% loss for the quarter which was slightly under the policy benchmark loss of -5.0%. Since inception (June 30, 2011), the EUTF portfolio has returned 6.5% versus the policy benchmark return of 6.3% with similar risk over the past 3 years and with all funds, excluding the Microcap managers (January 1, 2015 inception date), performing within 40 basis points of their respective benchmarks. As of September 30, 2015, all allocations were within 80 basis points of the policy target allocations. All classes were within the guidelines prescribed in the Statement of Investment Policy and Guidelines dated August 2015.

Ms. Ceserani reported that the EUTF excess reserve portfolio finished the quarter at \$138,025,339. During the quarter, the portfolio returned 0.6% 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%. Ms. Ceserani reported that the negative cash balance of \$208,850 is an accounting error that PCA is working with the custodian, Northern Trust, to correct.

B. Passive Fund Recommendations – REIT and Core Fixed Income

Mr. Bebee presented its investment manager analysis regarding the passive REIT strategy. After obtaining proposals from eight prominent passive REIT providers (AB, BlackRock, DFA, Geode, Northern Trust, Rhumblin, State Street and Vanguard), PCA recommended a separate account managed by AB (formally known as AllianceBernstein) because of the proposed lowest fees (estimated 4-5 basis points) and the third lowest tracking error (8 basis points) to an established REIT index (Dow Jones U.S. Select REIT Index). Additionally, AB is willing to manage the separate account to track the current REIT benchmark, the MSCI REIT Index, which would facilitate an in kind transition from the current Vanguard REIT Index Fund thereby minimizing transition costs.

MOTION was made and seconded to recommend to the Board replacement of the Vanguard REIT Index Fund (mutual fund) with a separate account managed by AB (formerly known as AllianceBernstein) for the EUTF's passively managed REIT

strategy that tracks the MSCI U.S. REIT Index. (Currivan Musto/Nishimoto) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-2)

C. Private Real Estate Primer

Mr. Bebee presented the educational materials.

VII. Granite Investment Partners – Annual Presentation

Jeffrey Hoo, Lead Portfolio Manager, and Douglas Morse, Principal, of Granite Investment Partners (Granite) briefed the Committee on performance of the Granite actively managed microcap strategy with a market value of \$41.3 million as of September 30, 2015. The strategy was funded in December 2014. Mr. Hoo provided information on Granite, the microcap strategy, the Granite investment evaluation process, and top contributors to and detractors from performance.

VIII. Future Agenda Items Discussion and Next Meeting Dates

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

IX. Adjournment

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 10:40 a.m. (Currivan Musto/Nishimoto) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-2)

Respectfully submitted,

/s/

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Wesley Machida, Chairperson

APPROVED on February 9, 2016.

Documents Distributed:

1. Hawaii Employer-Union Health Benefits Trust Fund Quarterly Report 3Q 2015. (64 pages)
2. Excess Reserve Portfolio Asset Allocation (2 pages)
3. REIT Manager Search Update (16 pages)
4. Private Real Estate Primer (11 pages)
5. Granite Investment Partners – Annual Presentation (21 pages)