

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
February 9, 2016

TRUSTEES PRESENT

Mr. Wesley Machida, Chairperson
Ms. Celeste Nip, Vice Chairperson
Ms. Linda Currivan Musto

Mr. James Nishimoto (left at 11:10 a.m.)
Ms. Julia Zeghmi

TRUSTEES ABSENT

Mr. Roderick Becker

ATTORNEY

Mr. Kyle Chang, Deputy Attorney General

EUTF STAFF

Ms. Derek Mizuno, Administrator
Ms. Donna Tonaki, Assistant Administrator (TA)
Ms. Debra Pfeffer
Mr. Colin Bebee, Consultant
Mr. Neil Rue, Consultant

Mr. Tad Ferguson, Consultant
Ms. Christy Fields, Consultant
Mr. Dennis Jensen, Investment Manager
Mr. Chris Tessin, Investment Manager

OTHERS PRESENT

None

I. Call to Order

The meeting of the Investment Committee was called to order at 9:00 a.m. by Chairperson Wesley Machida in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Conference Room, City Financial Tower, Honolulu, Hawaii, on Tuesday, February 9, 2016.

II. Approval of Minutes – November 13, 2015

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

MOTION was made and seconded to approve the minutes of November 13, 2015, as presented. (Currivan Musto/Nishimoto) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-3)

III. Executive Session

MOTION was made and seconded for the Investment Committee to move into Executive Session at 9:02 a.m. (Nip/Zeghmi) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-3)

Executive Session adjourned at 9:25 a.m.

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

Mr. Mizuno reported that the core fixed income and TIPS strategies were moved from the Vanguard Total Bond Market Index Fund (mutual fund) and the BlackRock Inflation-Protected Bond Fund (mutual fund), respectively, to the BlackRock US Debt Index Fund B (commingled fund) and the BlackRock US Inflation-Linked Bond Fund B (commingled fund), respectively, the week of January 11, 2016 as previously approved by the Board. Mr. Mizuno noted that these changes along with previous and upcoming changes to the investment vehicles of the OPEB Trust fund will result in estimated annual savings in management fees of approximately 8 basis points (\$800,000 based on \$1 billion in assets).

Mr. Mizuno presented the revised investment policy guidelines to account for these changes in the core fixed income and TIPS strategies.

MOTION was made and seconded to recommend to the Board approval of the revised investment policy guidelines to account for the replacement of the Vanguard Total Bond Market Index Fund (mutual fund) and the BlackRock Inflation-Protected Bond Fund (mutual fund) with the BlackRock US Debt Index Fund B (commingled fund) and the BlackRock US Inflation-Linked Bond Fund B (commingled fund), respectively. (Zeghmi/Currivan Musto) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-3)

V. Update – AB REIT Passive Separate Account (AB Due Diligence Site Visit)

Mr. Bebee of Pension Consulting Alliance (PCA) reported on his site visit on January 20, 2016 at the AB offices regarding the US REIT passive mandate. PCA continues to believe that AB is fully capable of managing assets on behalf of the EUTF. Mr. Mizuno reported that staff is working with AB on executing a contract.

VI. Pension Consulting Alliance

A. December 31, 2015 Performance Report Including Excess Reserves

Mr. Bebee and Mr. Rue of PCA highlighted significant points in the December 31, 2015 Performance Report. The OPEB Trust fund finished the quarter at \$1.0 billion, a 3.3% gain (net of fees) for the quarter which was slightly under the policy benchmark gain of 3.4%. Since inception (June 30, 2011), the EUTF portfolio has returned 6.9% (net of fees) versus the policy benchmark return of 6.7% with similar risk over the past 3 years and with all asset classes, excluding the Microcap managers (January 1, 2015 inception date), performing within 40 basis points of their respective benchmarks. As of December 31, 2015, all asset classes were within 70 basis points of the policy target allocations. All asset classes were within the guidelines prescribed in the Statement of Investment Policy and Guidelines dated August 2015.

Mr. Bebee reported that the EUTF excess reserve portfolio finished the quarter at \$172.5 million. During the quarter, the portfolio lost -0.3% which slightly

outperformed the Barclay's 1-5 Year Corporate Index benchmark loss of -0.4%. Since inception (September 30, 2013), the EUTF excess reserve portfolio return of 1.7% is slightly under the Barclay's 1-5 Year Corporate Index benchmark return of 1.8%.

B. Excess Reserve Portfolio Asset Allocation

Mr. Bebee discussed the possibility of separating the \$172.5 million excess reserve portfolio asset allocation into two sub-portfolios – short term (\$100.5 million) and long term (\$62 million) sub-portfolios. Mr. Bebee presented conservative, moderate and aggressive options for the long term sub-portfolio with the short term sub-portfolio remaining in the Vanguard Short Corporate Bond Index Fund. To the extent possible, the long term strategies would be invested in the same investment vehicles as the OPEB Trust fund.

MOTION was made and seconded to recommend to the Board establishment of the proposed structure for the excess reserve portfolio. (Nishimoto/Zeghmi) The motion failed. (Employer Trustees-2 YES-Machida, Nishimoto/Employee-Beneficiary Trustees-1 YES-Zeghmi and 2 NO-Currivan Musto and Nip)

C. Private Equity/Private Real Estate Education

Mr. Ferguson and Ms. Fields of PCA presented information on private equity and private real estate, respectively.

VII. Acuitas – Annual Presentation

Chris Tessin, CIO/Portfolio Manager, and Dennis Jensen, Director of Research, of Acuitas briefed the Committee on performance of the Acuitas actively managed microcap strategy with a market value of \$44.9 million as of December 31, 2015. The strategy was funded in December 2014. Mr. Tessin and Mr. Jensen provided information on Acuitas, the microcap strategy, the fund of funds structure, and performance of the three underlying managers.

[Trustee Nishimoto left at 11:10 a.m.]

VIII. Future Agenda Items Discussion and Next Meeting Dates

A. 2016 Schedule - Wednesday, May 11, 2016 (OPEB Trust Strategic Allocation Review); and Tuesday, August 9, 2016 both 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 11:35 a.m. (Nip/Currivan Musto) The motion passed unanimously. (Employer Trustee-1/Employee-Beneficiary Trustees-3)

Respectfully submitted,

/s/

Wesley Machida, Chairperson

APPROVED on May 11, 2016.

Documents Distributed:

1. Update – BlackRock Core Fixed Income and TIPS Commingled Funds (2 pages)
2. Statement of Investment Policy and Guidelines – Update (21 pages)
3. AB – Due Diligence Site Visit (7 pages)
4. Hawaii Employer-Union Health Benefits Trust Fund Quarterly Report 4Q 2015. (64 pages)
5. Excess Reserve Portfolio Design: Short-term and Long-term Sub-portfolios (6 pages)
6. Private Equity Strategic Class Discussion (29 pages)
7. Private Real Estate Strategic Class Discussion (23 pages)
8. Acuitas – Annual Presentation (37 pages)