

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
August 16, 2016

TRUSTEES PRESENT

Mr. Wesley Machida, Chairperson

Mr. Roderick Becker

Mr. James Nishimoto

Ms. Julia Sanchez

TRUSTEES ABSENT

Ms. Celeste Nip, Vice Chairperson

Ms. Linda Currivan Musto

ATTORNEY

Mr. Kyle Chang, Deputy Attorney General

EUTF STAFF

Mr. Derek Mizuno, Administrator

Ms. Maria Quartero

Mr. Kuan Yuan

Mr. Colin Bebee, Consultant

Mr. Tad Fergusson, Consultant

Ms. Christy Fields, Consultant

I. Call to Order

The meeting of the Investment Committee was called to order at 1:00 p.m. by Chairperson Wesley Machida in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Conference Room, City Financial Tower, 201 Merchant Street, Honolulu, Hawaii, on Tuesday, August 16, 2016.

II. Approval of Minutes – July 12, 2016

The Investment Committee reviewed the draft minutes of July 12, 2016.

MOTION was made and seconded to approve the minutes of July 12, 2016, as presented. (Sanchez/Becker) The motion passed unanimously. (Employer Trustees-3/ Employee-Beneficiary Trustees-1)

III. Pension Consulting Alliance (PCA)

A. Private Equity Investment Policy Statement

Mr. Fergusson of PCA summarized and the Investment Committee discussed the proposed policy and guidelines for the Private Equity asset class. The Investment Policy Statement provides an overview of the asset class and its objective, investment approaches and parameters, responsibilities and delegations of involved parties, investment requirements, and monitoring and reporting requirements.

MOTION was made and seconded to recommend to the Board approval of the Private Equity Investment Policy Statement as recommended by PCA and as amended to add co-investment structures and an option to request General Partner presentation of potential investments. (Nishimoto/Becker) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-1)

B. Private Real Estate Investment Policy Statement

Ms. Fields of PCA summarized and the Investment Committee discussed the proposed policy and guidelines for the Private Real Estate asset class. The Investment Policy Statement provides an overview of the asset class and its objective, investment approaches and parameters, responsibilities and delegations of involved parties, investment requirements, and monitoring and reporting requirements.

MOTION was made and seconded to recommend to the Board approval of the Private Real Estate Investment Policy Statement as recommended by PCA and as amended to request General Partner presentation of potential investments. (Becker/Nishimoto)
The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-1)

C. June 30, 2016 Performance Report Including Excess Reserves

Mr. Bebee of PCA highlighted significant points in the June 30, 2016 Performance Report. The OPEB Trust fund finished the quarter at \$1.2 billion, a 2.6% gain (net of fees) for the quarter which was equal to the policy benchmark gain. Since inception (June 30, 2011), the EUTF portfolio has returned 7.1% (net of fees) versus the policy benchmark return of 7.0% with slightly lower risk over the past 3 and 5 years and with all asset classes, excluding the Microcap managers (January 1, 2015 inception date), performing within 50 basis points of their respective benchmarks. As of June 30, 2016, all asset classes, excluding cash, were within 90 basis points of the policy target allocations and were within the guidelines prescribed in the Statement of Investment Policy and Guidelines dated June 2016. Cash was 10 basis points higher than the policy maximum of 2% due to recent contributions at quarter end.

Mr. Bebee reported that the EUTF excess reserve portfolio finished the quarter at \$140.8 million. During the quarter, the portfolio gained 1.3%, slightly under the Barclay's 1-5 Year Corporate Index benchmark return of 1.4%. Since inception (September 30, 2013), the EUTF excess reserve portfolio return of 2.5% is slightly under the Barclay's 1-5 Year Corporate Index benchmark return of 2.6%.

D. Long Term Treasury Investment Manager Recommendation

Mr. Bebee summarized and the Investment Committee discussed the search results for an US Long Term Treasury manager. The search process entailed PCA's issuance of a Request for Information, preliminary review, benchmark assessment, manager track record review, and fee analysis. Through the search process thirteen respondents were narrowed down to two qualified finalists.

The Investment Committee decided to recommend Ryan Labs Asset Management (Ryan Labs) for the following reasons:

- 1) Ryan Labs offers a separate account structure versus the other finalist's commingled fund structure. The separate account structure is more advantageous because the EUTF would have custody of the securities, guidelines could be placed on the investment manager, transition to a new

manager could be managed more efficiently, and we would likely earn more securities lending income.

- 2) Ryan Labs offers an active management component that could increase returns.

MOTION was made and seconded to approve the selection of Ryan Labs Asset Management as the US Long Term Treasury Manager, subject to contract negotiation. (Becker/Sanchez) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-1)

IV. Executive Session

MOTION was made and seconded for the Investment Committee to move into Executive Session at 2:25 p.m. (Nishimoto/Sanchez) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-1)

Executive Session adjourned at 5:37 p.m.

In Executive Session the Investment Committee approved:

1. The July 12, 2016 Executive Session minutes.

V. Future Agenda Items Discussion and Possible Meeting Dates

Mr. Mizuno discussed future meeting dates, times and agenda items. It was mentioned that the September 13th meeting will be canceled to allow more time to complete the systematic trend following finalist recommendations. The September 13th agenda items will be combined with and discussed at the October 4th meeting.

VI. Adjournment

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 5:38 p.m. (Nishimoto/Becker) The motion passed unanimously. (Employer Trustees-3/ Employee-Beneficiary Trustee-1)

Respectfully submitted,

/s/

Wesley Machida, Chairperson

APPROVED on October 4, 2016.

Documents Distributed:

1. Draft July 12, 2016 minutes.
2. Memorandum to Investment Committee regarding guidelines dated 8/16/16.
3. Private Equity Investment Policy and Guidelines.
4. Real Estate Investment Policy and Guidelines.
5. Hawaii Employer-Union Health Benefits Trust Fund Quarterly Report 2Q 2016.

6. Memorandum to EUTF from PCA regarding U.S. Long Treasury Manager Search Update dated 8/9/16.
7. Future Agenda Items Discussion and Possible Meeting Dates.