

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
Minutes of the Investment Committee Meeting  
March 14, 2017

TRUSTEES PRESENT

Mr. Roderick Becker (arrived 8:33 a.m.)

Mr. James Nishimoto

Mr. Gordon Murakami

TRUSTEES ABSENT

Ms. Celeste Nip, Vice Chairperson

ATTORNEY

Mr. Kyle Chang, Deputy Attorney General

EUTF STAFF

Mr. Derek Mizuno, Administrator

Mr. Colin Bebee, Consultant

Ms. Donna Tonaki, Assistant Administrator

Ms. Kay Ceserani, Consultant

Ms. Maria Quartero

Mr. Tad Fergusson, Consultant

Mr. Kuan Yuan

Ms. Christy Fields, Consultant

I. Call to Order

The meeting of the Investment Committee was called to order at 8:31 a.m. by Trustee Gordon Murakami, who acted as Chairperson, in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board Room, City Financial Tower, 201 Merchant Street, Honolulu, Hawaii, on Tuesday, March 14, 2017.

II. Election of Chair

The election of a Chair for the Investment Committee was deferred.

III. Approval of Minutes – December 13, 2016

The Investment Committee reviewed the draft minutes of December 13, 2016.

MOTION was made and seconded to approve the minutes of December 13, 2016, as circulated. (Nishimoto/Murakami) The motion passed unanimously. (Employer Trustees-1/ Employee-Beneficiary Trustees-1)

IV. Executive Session

MOTION was made and seconded for the Investment Committee to move into Executive Session at 8:33 a.m. (Murakami/Nishimoto) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-1)

Trustee Becker arrived at 8:33 a.m.

The meeting reconvened at 10:36 a.m.

In Executive Session the Investment Committee approved:

1. The December 13, 2016 Executive Session minutes.
2. A recommendation to the Board to commit to an investment manager, subject to contract negotiation, for the Private Real Estate strategy.
3. A recommendation to the Board to commit to an investment manager, subject to contract negotiation, for the Private Equity strategy.
4. A recommendation to the Board to extend the custodian contract.

V. Pension Consulting Alliance (PCA)

A. December 31, 2016 Performance Report Including Excess Reserves

Mr. Colin Bebee of PCA highlighted significant points in the December 31, 2016 Performance Report. The OPEB Trust fund finished the quarter at \$1.67 billion, returned -0.1% (net of fees) for the quarter which was slightly under the policy benchmark gain of 0.1%. Since inception (June 23, 2011), the EUTF portfolio has returned 7.1% (net of fees) versus the policy benchmark return of 7.0%, and over the past three years and since inception the portfolio exhibited slightly lower volatility than the policy benchmark. Additionally, all asset classes, excluding the Microcap (January 1, 2015 inception date), performed within 50 basis points of their respective benchmarks since inception. During the quarter all managers with the exception of Granite (microcap) performed in line to their benchmarks. While Granite has not triggered the manager watch criteria, its performance is under review. Additional information regarding Granite will be presented at the next Committee meeting. As of December 31, 2016, all asset classes were within the allocation guideline ranges prescribed in the Statement of Investment Policy and Guidelines.

Mr. Bebee reported that the EUTF excess reserves portfolio finished the quarter at \$140.2 million. During the quarter, the portfolio returned -0.9% (net of fees), in line with the Barclay's 1-5 Year Corporate Index benchmark return of -0.8%. Since inception (October 1, 2013), the EUTF excess reserve portfolio return of 2.0% is also in line with the Barclay's 1-5 Year Corporate Index benchmark return of 2.1%.

B. Crisis Risk Offset Article

Mr. Bebee presented a memorandum dated February 17, 2017 rebutting a February 13, 2017 article published on Institutional Investor magazine's website criticizing PCA's Crisis Risk Offset strategic class (CRO). EUTF's Diversifying Strategies is similar to the CRO, and its purpose is to offset equity-related market declines.

C. 2017 EUTF Strategic Investment Agenda

Mr. Bebee presented a memorandum dated December 30, 2016 summarizing a list of proposed investment projects for 2017 to continue the implementation of the long-term strategic allocation and prepare the OPEB portfolio for the next phase of portfolio maturation and growth.

D. Excess Reserve Portfolio Asset Allocation - Update

Mr. Bebee presented a memorandum dated March 3, 2017 reviewing the most recent Excess Reserves Portfolio allocation. The Board approved an updated allocation on

December 20, 2016 for the Excess Reserves Portfolio, and the updated allocation is to be reviewed annually and when the long-term investment portion exceeds 20% of the aggregate Excess Reserves Portfolio. The updated allocation was implemented on February 1, 2017 and a subsequent addition of funds on March 1, 2017 led to the long-term investment portion to marginally exceed the 20% threshold (20.9%). After reviewing the situation, PCA recommends no changes to the Excess Reserve Portfolio at this time.

E. PCA and CalPERS Relationship

Mr. Tad Ferguson of PCA presented a memorandum and press release dated March 7, 2017 discussing recent developments in PCA's Private Equity (PE) consulting relationship with CalPERS. Mike Moy's retirement has no impact on EUTF since he is not part of the EUTF's PE consulting team.

A memorandum dated March 13, 2017 was also presented summarizing a lawsuit filed by a former investment manager of CalPERS against PCA and Mike Moy relating to their role as PE consultant. PCA believes there is no merit to the case as a similar lawsuit filed against CalPERS was dismissed.

VI. Manager Implementation Update

Mr. Yuan presented a memorandum summarizing status of investment manager implementation projects that were recently approved by the Board. All five public market managers have been implemented, two private market commitments have been accepted, and one private market commitment is in process of being completed.

VII. Future Agenda Items Discussion and Possible Meeting Dates

Mr. Yuan reported that the next meeting is targeted for April 18<sup>th</sup> at 8:30 a.m. The meeting agenda will include an update on the request for proposal for investment consulting services.

VIII. Adjournment

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 11:32 a.m. (Nishimoto/Murakami) The motion passed unanimously. (Employer Trustees-1/ Employee-Beneficiary Trustee-1)

Respectfully submitted,

/s/

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Gordon Murakami, Trustee

APPROVED on May 18, 2017.

Documents Distributed:

1. Draft December 13, 2016 minutes.
2. Hawaii Employer-Union Health Benefits Trust Fund Quarterly Report Q4 2016.
3. Memorandum to EUTF from PCA regarding Recent Criticism of the Crisis Risk Offset (CRO) Strategic Class dated February 17, 2017.
4. Memorandum to EUTF from PCA regarding 2017 EUTF Strategic Investment Agenda (“Game Plan”) Evolving Policy Plan Update dated December 30, 2016.
5. Memorandum to EUTF from PCA regarding Excess Reserve Portfolio Allocation – Update dated March 3, 2017.
6. Memorandum to EUTF from PCA regarding PCA and CalPers dated March 7, 2017.
7. Press Release from PCA regarding Michael Moy to Retire from PCA dated March 7, 2017.
8. Memorandum to EUTF from PCA regarding Cesar Baez v. Pension Consulting Alliance, Inc. (PCA) and Michael Moy (Moy) dated March 13, 2017.
9. Memorandum to Investment Committee from Investment Officer regarding Manager Implementation Status Update dated March 14, 2017.