

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
May 18, 2017

TRUSTEES PRESENT

Mr. Roderick Becker
Ms. Linda Currivan Musto

Mr. Gordon Murakami
Dr. Virginia Pressler

TRUSTEES ABSENT

Ms. Celeste Nip, Vice Chairperson
Mr. James Nishimoto

ATTORNEY

Ms. Jodi Yi, Deputy Attorney General

EUTF STAFF

Mr. Derek Mizuno, Administrator
Ms. Donna Tonaki, Assistant Administrator
Ms. Maria Quartero

Mr. Colin Bebee, Consultant
Mr. Kuan Yuan

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 9:01 a.m. by Trustee Roderick Becker, 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 Thursday, May 18, 2017.

II. ELECTION OF CHAIR

A call for nomination was made for the vacant Investment Committee Chair. Trustee Roderick Becker was nominated.

MOTION was made and seconded to appoint Trustee Roderick Becker as Chairperson of the Investment Committee. (Pressler/Murakami) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-2)

III. APPROVAL OF MINUTES

A. March 14, 2017

The Investment Committee reviewed the draft minutes of March 14, 2017.

MOTION was made and seconded to approve the minutes of March 14, 2017 as circulated. (Murakami/Currivan Musto) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-2)

IV. PENSION CONSULTING ALLIANCE (PCA)

A. March 31, 2017 Performance Report Including Excess Reserves

Mr. Colin Bebee of PCA highlighted significant points in the March 31, 2017 Performance Report. The OPEB Trust fund finished the quarter at \$1.73 billion, returned 3.4% (net of fees) for the quarter which was slightly above the policy

benchmark gain of 3.3%. Since inception (June 23, 2011), the EUTF portfolio has returned 7.4% (net of fees) versus the policy benchmark return of 7.3%, 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 40 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. Granite underperformed its benchmark by -2.6% for the quarter. As of March 31, 2017, 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 \$152.2 million. At the beginning of February, EUTF staff implemented the updated allocation as previously approved by the Board, introducing long term investments into the portfolio. During the quarter, the EUTF excess reserve portfolio returned 1.5% (net of fees). Since inception (October 1, 2013), the portfolio return of 2.3% (net of fees).

B. Manager Watch Status – Granite U.S. Micro Cap

Mr. Bebee presented a memorandum dated May 12, 2017 informing the Investment Committee that microcap manager, Granite, has been placed on Watch Status effective April 1, 2017 for performance reasons. As of March 31, 2017 Granite violated its short-term watch criteria threshold. Granite's performance will continue to be closely monitored over the remainder of the second quarter, which includes monthly calls with the head and key members of the portfolio management team. If no significant improvement is evident, EUTF staff and/or consultant shall conduct an onsite due diligence review in the third quarter upon the Board's approval and recommend possible actions for the fourth quarter.

C. Statement of Investment Policy & Guidelines Update

Mr. Bebee presented a memorandum dated May 12, 2017 discussing recommended updates to the Statement of Investment Policy & Guidelines. The proposed updates include capturing recent portfolio changes, incorporating high-level onsite due diligence procedures, and cleaning up various items/verbiage to improve applicability and descriptions. A discussion ensued on the frequency of routine due diligence and involvement of consultant. The proposed due diligence procedure was then revised for the Investment Committee/Board to approve.

MOTION was made and seconded to recommend to the Board approval of revisions to the Investment Policy and Guidelines, as recommended by PCA and EUTF staff, and as revised. (Pressler/Currivan Musto) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-2)

D. Transition Management Providers Recommendation

Mr. Bebee presented a memorandum dated May 12, 2017 summarizing the search and recommendation for transition management program service providers. It was

proposed at the March Investment Committee meeting that EUTF retain a bench of transition service providers in preparation for possible future actions. Subsequently, PCA issued a Request for Information questionnaire (RFI) and twelve responses were received. The top five firms (Citi, BlackRock, Macquarie, Northern Trust, and Russell) all possess the appropriate level of expertise. They ranked closely with each other and differentiated themselves from the remaining responses. PCA and staff recommends retaining the five providers subject to contract negotiations. After the contracts are in place the five providers will place bids and be selected on an individual project basis.

MOTION was made and seconded to recommend to the Board approval to retain Citi, BlackRock, Macquarie, Northern Trust, and Russell to provide transition management program services, subject to contract negotiations, as recommended by PCA and EUTF staff. (Murakami/Currivan Musto) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-2)

V. Pension Bridge Conference Report

Mr. Yuan presented a memorandum dated May 18, 2017 summarizing notes from the Pension Bridge institutional investment conference.

VI. Manager Implementation Update

Mr. Yuan presented a memorandum dated May 18, 2017 summarizing the status of investment manager implementation projects that were recently approved by the Board. Three private market commitments have been executed since the last update in March.

VII. Future Agenda Items Discussion and Possible Meeting Dates

Mr. Yuan reported that the next meeting is scheduled for June 26, 2017 at 8:30 a.m. to discuss the RFP for the investment consultant.

VIII. Adjournment

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 10:14 a.m. (Pressler/Currivan Musto) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustee-2)

Respectfully submitted,

/s/

Roderick Becker, Chairperson

APPROVED on June 26, 2017.

Documents Distributed:

1. Draft March 14, 2017 minutes.
2. Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Quarterly Report Q1 2017.

3. Memorandum to EUTF from PCA regarding Granite Investment Partners (“Granite”) – Watch Recommendation dated May 12, 2017.
4. Draft EUTF Statement of Investment Policy and Guidelines.
5. Memorandum to EUTF from PCA regarding Transition Management Provider – RFI Process Review and Recommendation dated May 12, 2017.
6. Memorandum to Investment Committee from EUTF Investment Officer regarding Pension Bridge Conference Report dated May 18, 2017.
7. Memorandum to Investment Committee from EUTF Investment Officer regarding Manager Implementation Status Update dated May 18, 2017.