

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
December 13, 2016

TRUSTEES PRESENT

Mr. Wesley Machida, Chairperson
Mr. Roderick Becker

Mr. Gordon Murakami

TRUSTEES ABSENT

Ms. Celeste Nip, Vice Chairperson

Mr. James Nishimoto

ATTORNEY

Mr. Kyle Chang, Deputy Attorney General

EUTF STAFF

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

Mr. Colin Bebee, Consultant
Mr. Ahman Dirks, Consultant
Mr. Tad Fergusson, Consultant

I. Call to Order

The meeting of the Investment Committee was called to order at 1:01 p.m. by Chairperson Wesley Machida in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board Room, City Financial Tower, 201 Merchant Street, Honolulu, Hawaii, on Tuesday, December 13, 2016.

Mr. Derek Mizuno requested an amendment to the agenda to move agenda item IV. Executive Session, B. Private Equity Manager Introduction and Manager Presentation to the beginning of agenda.

MOTION was made to amend agenda to move agenda item IV. Executive Session, B. Private Equity Manager Introduction and Manager Presentation to the beginning of agenda. (Murakami/Becker) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-1)

IV. Executive Session

MOTION was made and seconded for the Investment Committee to move into Executive Session at 1:02 p.m. (Murakami/Becker) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-1)

The meeting reconvened at 2:25 p.m.

In Executive Session the Investment Committee approved:

1. A recommendation to the Board to commit up to \$75 million to an investment manager, subject to contract negotiation, for the Private Equity strategy

II. Approval of Minutes – November 15, 2016

The Investment Committee reviewed the draft minutes of November 15, 2016.

MOTION was made and seconded to approve the minutes of November 15, 2016, as presented. (Murakami/Becker) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-1)

III. Pension Consulting Alliance (PCA)

A. Geode Capital Management, LLC

Mr. Bebee of PCA presented a memo dated November 28, 2016 summarizing the onsite due diligence visit at Geode Capital Management, LLC (Geode) for the Global Options mandate. No concerns arose from the visit and PCA reaffirmed its initial recommendation to contract with Geode.

B. Manager Implementation Update

Mr. Bebee provided a status update on the implementation of investment managers that were recently approved by the Board. Ryan Labs (U.S. Long Treasury) was implemented in early November 2016 (\$73 million). Geode (Global Options) was implemented in early December 2016 (\$45 million). AQR (Global Options) is in the contracting phase with target implementation in early January 2017 (\$70 million).

C. Evolving Policy Plan Update

Mr. Bebee presented a memo dated December 2, 2016 proposing revisions to the existing Evolving Policy Plan (Board approved on August 12, 2016) to provide additional flexibility in transitioning the OPEB portfolio to its long-term strategic policy allocation. The changes proposed are to:

- Remove the date from each transition stage (except for the final stage),
- Modify verbiage to provide more flexibility to accommodate operational matters.

The memo also proposed updates to the EUTF Custom Total Portfolio Benchmark to capture changes due to the addition of the new strategies.

MOTION was made and seconded to recommend to the Board approval of the updated Evolving Policy Plan. (Murakami/Becker) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-1)

D. Statement of Investment Policy and Guidelines Update

Mr. Bebee presented a memo dated December 6, 2016 proposing approval of investment manager guidelines for the three newly selected separate account managers (Ryan Labs, Geode, and AQR). The guidelines outline various objectives and restrictions that managers are contractually required to comply with in implementing their strategies. The guidelines have been reviewed and accepted by the investment managers.

MOTION was made and seconded to recommend to the Board approval of the investment manager guidelines for Ryan Labs, Geode, and AQR as recommended by PCA and EUTF staff. (Becker/Murakami) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-1)

E. Excess Reserve Portfolio Asset Allocation

Mr. Bebee presented a memo dated November 8, 2016 on the excess reserve portfolio asset allocation. At the October 4, 2016 meeting the Investment Committee requested that PCA and staff present long-term investment options for the excess reserve portfolio. PCA and EUTF staff proposed a long-term investment allocation as a component of the excess reserve that includes return-oriented strategies currently being utilized by the OPEB Trust (52.5% passive U.S. equity/47.5% passive international equity). As of September 30, 2016, the amount available for long-term investment is estimated at \$27.7 million.

MOTION was made and seconded to recommend to the Board approval of a revised asset allocation for the Excess Reserve portfolio as recommended by PCA and EUTF staff. (Becker/Murakami) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-1)

IV. Executive Session (continued)

The meeting recessed at 2:54 p.m.

Executive Session adjourned at 3:21 p.m.

In Executive Session the Investment Committee approved:

1. The November 15, 2016 Executive Session minutes.
2. A recommendation to the Board to approve the Investment Consulting Services Request for Proposal (RFP) subject to certain amendments.

V. Future Agenda Items Discussion and Possible Meeting Dates

Mr. Yuan reported that the next meeting is scheduled for January 10th at 1:00 p.m. The meeting agenda will include investment policy update and implementation of private market strategies.

VI. Adjournment

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 3:22 p.m. (Murakami/Becker) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustee-1)

Respectfully submitted,

/s/

Wesley Machida, Chairperson

APPROVED on March 14, 2017.

Documents Distributed:

1. Draft November 13, 2016 minutes.
2. Memorandum to EUTF from PCA regarding Geode Capital Management, LLC – Due Diligence Review dated November 28, 2016.
3. Memorandum to EUTF from PCA regarding Evolving Policy Plan Update dated December 2, 2016.
4. Memorandum to EUTF from PCA regarding Investment Policy Statement Updates – New Manager Guidelines dated December 6, 2016.
5. Memorandum to EUTF from PCA regarding Excess Reserve Portfolio Design dated November 8, 2016.