

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Wednesday, August 30, 2017

TRUSTEES PRESENT

Ms. Celeste Nip, Vice Chairperson
Mr. James Nishimoto

Mr. Gordon Murakami
Dr. Virginia Pressler

TRUSTEES ABSENT

Mr. Roderick Becker, Chairperson

Ms. Linda Currivan Musto

ATTORNEY

Ms. Jodi Yi, Deputy Attorney General

EUTF STAFF AND CONSULTANTS

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
Mr. Gabe Aroyo, Consultant (via phone)
Ms. Christy Fields, Consultant (via phone)

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 12:32 p.m. by Trustee Celeste Nip, Vice Chairperson, in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board Room, City Financial Tower, 201 Merchant Street, Suite 1700, Honolulu, Hawaii, on Wednesday, August 30, 2017.

II. APPROVAL OF MINUTES

A. June 26, 2017

The Investment Committee reviewed the draft minutes of June 26, 2017.

MOTION was made and seconded to approve the minutes of June 26, 2017 as circulated. (Murakami/Pressler) The motion passed unanimously. (Employer Trustees-2/ Employee-Beneficiary Trustees-2)

III. PRIVATE EQUITY INVESTMENT PLAN UPDATE

Mr. Tad Fergusson and Mr. Ahman Dirks of Pension Consulting Alliance presented a memorandum dated August 30, 2017, updating the EUTF's Private Equity Investment Plan. Private equity investment activities to date include \$117 million of commitments made to two managers, and no capital deployment. Taking into account the investment activities and recent portfolio growth, PCA recommends increasing the commitment pacing target for 2018 from \$125 million to \$150 million (up to \$200 million), 2019 from \$100 million to \$150 million (up to \$200 million), and thereafter from \$100 million to \$125 million (up to \$150 million). The target number of commitments of two to three partnerships per year and average size of about \$50 million (\$40 to \$80 million range) per partnership will remain unchanged.

IV. EXECUTIVE SESSION

MOTION was made and seconded for the Investment Committee to move into Executive Session at 12:39 p.m. (Pressler/Murakami) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

The meeting reconvened at 1:46 p.m.

In Executive Session the Investment Committee approved:

1. The June 26, 2017 Executive Session minutes.
2. A recommendation to the Board to commit to an investment manager, subject to contract negotiation, for the Private Equity strategy.
3. A recommendation to the Board to extend the custodian contract.

V. PENSION CONSULTING ALLIANCE (PCA)

A. June 30, 2017 Performance Report Including Excess Reserves

Mr. Colin Bebee of PCA highlighted significant points in the June 30, 2017 Performance Report. The OPEB Trust fund finished the quarter at \$1.78 billion, returned 2.7% (net of fees) for the quarter, above the policy benchmark gain of 2.5%. Since inception (June 23, 2011), the EUTF portfolio has returned 7.5% (net of fees) versus the policy benchmark return of 7.4%, 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 or above their benchmarks. Granite underperformed its benchmark by -0.9% for the quarter, and remains on Watch Status. PCA will conduct an onsite due diligence review in the third quarter and recommend possible actions during the fourth quarter. As of June 30, 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 \$169.7 million. During the quarter, the portfolio returned 1.5% (net of fees). Since inception (October 1, 2013), the portfolio return of 2.5% (net of fees).

B. Total Portfolio Benchmark Update

Mr. Bebee presented a memorandum dated August 24, 2017 recommending updates to the Total Portfolio Benchmark. The proposed updates are to align the benchmark to recent portfolio changes that are part of the transition toward the long term target.

MOTION was made and seconded to recommend to the Board approval of revisions to the Total Portfolio Benchmark (Murakami/Pressler) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

C. Total Portfolio Expected Return Update – 2017

Mr. Bebee presented a memorandum dated August 14, 2017 discussing the updated expected return and volatility measures of EUTF's long term policy allocation incorporating the 2017 Capital Market Assumptions (CMA). Compared to the prior year, the 2017 CMA reflected lower return and higher risk expectations for most investment strategies. As a result, the expected return of EUTF's long term policy allocation decreased marginally while expected volatility increased marginally. Despite the changes, PCA believe that the portfolio is still well structured to achieve its 7% return objective over the long run. A comprehensive asset-liability study will be conducted at the end of the calendar year to incorporate the 2017 actuarial study results. Results of the new asset-liability study will be presented to the Committee early next year.

D. Private Real Estate Investment Plan Update

Mr. Gabe Ayoroa and Ms. Christy Fields of PCA joined via phone and presented a memorandum dated August 30, 2017, updating the EUTF's Private Real Estate Investment Plan. Private real estate investment activities to date include \$170 million in total commitments made to three managers, of which one managers has deployed \$60 million. To maintain target exposure and account for growth of the total portfolio, additional commitments need to be made and PCA recommends committing an additional \$68 million to the existing funds to maintain current weighting.

Trustee Pressler was excused at 2:22 p.m.

MOTION was made and seconded for the Investment Committee to recommend to the Board commitment of an additional \$68 million to the three existing Private Real Estate managers, \$35 million to ASB Allegiance, \$16.5 million to Morgan Stanley Prime, and \$16.5 million to Heitman (Nishimoto/Murakami) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-2)

VI. INVESTMENT MANAGER DUE DILIGENCE PLAN

Mr. Kuan Yuan presented a memorandum dated August 14, 2017 discussing planned due diligence activities as part of the ongoing monitoring of investment managers. Activities for the remainder of calendar year 2017 include three scheduled onsite visits by PCA towards the end of the third quarter.

VII. MANAGER IMPLEMENTATION UPDATE

Mr. Yuan presented a memorandum dated August 14, 2017 summarizing the status of investment manager implementation projects. Since the last Committee meeting, there was one capital call by a private real estate manager, one private equity commitment was accepted, and contract negotiations with transition managers have started.

VIII. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

Mr. Yuan reported that the next meeting will be scheduled for either October 17, 2017 or November 14, 2017.

IX. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 2:33 p.m. (Nishimoto/Murakami) The motion passed unanimously. (Employer Trustees-1/ Employee-Beneficiary Trustee-2)

Respectfully submitted,

/s/

Celeste Nip, Vice-Chairperson

APPROVED on November 21, 2017.

Documents Distributed:

1. Draft June 26, 2017 minutes.
2. Memorandum to EUTF from PCA regarding 2017 EUTF Private Equity Investment Plan Update dated August 30, 2017.
3. Q2 2017 EUTF Quarterly Report by PCA as of June 30, 2017.
4. Memorandum to EUTF from PCA regarding Total Portfolio Benchmark Update dated August 24, 2017.
5. Memorandum to EUTF from PCA regarding Total Portfolio Expected Return Update – 2017 dated August 14, 2017.
6. Memorandum to EUTF from PCA regarding 2017 Real Estate Investment Plan Update dated August 30, 2017.
7. Memorandum to the Investment Committee from EUTF Investment Officer regarding Due Diligence Plan for Existing Investment Managers dated August 14, 2017.
8. Memorandum to the Investment Committee from EUTF Investment Officer regarding Manager Implementation Status Update dated August 14, 2017.