

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Wednesday, May 9, 2018

TRUSTEES PRESENT

Mr. Roderick Becker, Chairperson
Ms. Celeste Nip, Vice Chairperson

Ms. Linda Currivan Musto
Mr. Christian Fern

TRUSTEES ABSENT

Dr. Virginia Pressler

ATTORNEY

Mr. Michael Chambrella, 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. Gabe Ayoroa, Consultant
Mr. Tad Ferguson, Consultant
Mr. Chris Tessin, Acuitas
Mr. Dennis Jensen, Acuitas

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 9:03 a.m. by Trustee Roderick Becker, 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, May 9, 2018.

II. APPROVAL OF MINUTES – March 16, 2018

The Investment Committee reviewed the draft minutes of March 16, 2018.

MOTION was made and seconded to approve the minutes of March 16, 2018 as circulated. (Currivan Musto/Nip) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3)

III. EXECUTIVE SESSION

MOTION was made and seconded for the Investment Committee to move into Executive Session at 9:05 a.m. (Nip/Currivan Musto) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3)

The meeting reconvened at 9:23 a.m.

In Executive Session the Investment Committee approved the March 16, 2018 Executive Session minutes.

IV. PENSION CONSULTING ALLIANCE (PCA)

A. March 31, 2018 Strategic Performance Report Including Excess Funds

Mr. Colin Bebee of PCA highlighted significant points in the March 31, 2018 Performance Report. The OPEB Trust fund finished the quarter at \$2.27 billion and returned -1.9% (net of fees) for the quarter, in line with the policy benchmark gain of -1.9%. 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 Microcap (January 1, 2015 inception date), performed within 30 basis points of their respective benchmarks since inception. During the quarter all managers with the exception of Acuitas (Microcap), AQR (Global Options) and Geode (Global Options) performed in line or above their benchmarks. Acuitas's underperformance was primarily due to stock selection. AQR and Geode underperformed slightly primarily due to the imperfect benchmark for the global options strategy. There is no concern with these managers at this time. As of March 31, 2018, 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 Funds portfolio finished the quarter at \$212.9 million. During the quarter, the portfolio returned -0.7% (net of fees). Since inception (October 1, 2013), the portfolio returned 2.5% (net of fees).

B. Quarterly Real Estate Report – Q1 2018

Mr. Yuan noted that there is a correction to the agenda that the Quarterly Real Estate Report is for Q4 2017.

Mr. Gabe Ayoroa of PCA presented the quarterly report for Private Real Estate. Since reporting for private market investments are lagged by one quarter, the report covers fourth-quarter 2017. During the quarter Private Real Estate performed in line with the asset class benchmark.

C. Evolving Policy Plan Update

Mr. Bebee presented a memorandum dated May 1, 2018 on the 2018 Strategic Allocation Evolving Policy Plan. The Evolving Policy Plan lays out an implementation plan for the long-term strategic allocation approved at the April 5, 2018 Board meeting. For the OPEB Trust the plan consists of four transition stages to reach the long-term strategic allocation with an expected completion date of July 1, 2022. For the Excess Funds the plan consists of one transition stage with an expected completion date of April 1, 2019.

MOTION was made and seconded to recommend to the Board approval of the updated Evolving Policy Plan. (Nip/Curri van Musto) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3)

D. Private Equity Investment Plan and Program Update

Mr. Tad Ferguson presented a memorandum dated May 9, 2018 updating the Private Equity program. To date, \$217 million has been committed of which only \$7.5 million has been invested. The current allocation level is below initial targets due to faster than projected portfolio growth combined with slower than expected capital calls. To maintain the program's transition to the long-term allocation target, PCA recommends increasing 1) the annual commitment target for 2020 to \$150 million from \$125 million, and 2) the number of potential commitments per year up to four from three. Lastly, non-core real estate investments will be included in the Private Equity program when appropriate.

- E. Real Estate Investment Plan and Program Update
Mr. Gabe Ayoroa presented a memorandum dated May 9, 2018 with an update to the Private Real Estate program. To date, \$238 million has been committed to three managers, with \$154 million already invested. The remaining \$84 million is expected to be deployed by the end of the year.
- V. Acuitas – Microcap Presentation
Mr. Chris Tessin and Mr. Dennis Jensen of Acuitas presented an update on the microcap strategy. As of March 31, 2018 the strategy is valued at \$199 million, managed in a fund of funds structure by four underlying managers. The strategy has outperformed its benchmark since inception.
- VI. Responsible Investing Discussion
Mr. Yuan presented a memorandum dated May 4, 2018 on the topic of responsible investing.
- VII. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES
Mr. Yuan reported that the next meeting will be scheduled in early July, the exact date to be determined.
- VIII. ADJOURNMENT
MOTION was made and seconded for the Investment Committee to adjourn the meeting at 11:07 a.m. (Nip/Currivan Musto) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3)

Respectfully submitted,

/s/

Roderick Becker, Chairperson

APPROVED on July 2, 2018.

Documents Distributed:

1. Draft March 16, 2018 Investment Committee minutes.
2. EUTF Quarterly Report – Q1 2018 as of March 31, 2018.
3. EUTF Quarterly Real Estate Report – 4Q 2017 as of March 31, 2018.
4. Memorandum to the EUTF from PCA Regarding 2018 Strategic Allocation Review – Evolving Policy Plan dated May 1, 2018.
5. Memorandum to the EUTF from PCA Regarding 2018 EUTF Private Equity Investment Plan Update dated May 9, 2018.
6. Memorandum to the EUTF from PCA Regarding 2018 EUTF Private Core Real Estate Investment Plan Update dated May 9, 2018.
7. EUTF Acuitas Investments, May 2018.
8. Memorandum to the EUTF Investment Committee from Investment Officer Regarding Responsible Investing dated May 4, 2018.