

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
Minutes of the Investment Committee Meeting  
Tuesday, August 14, 2018

TRUSTEES PRESENT

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

Ms. Linda Currivan Musto (arrived 9:26 am)  
Mr. Damien Elefante  
Ms. Laurel Johnston (arrived 9:01 am)

TRUSTEES ABSENT: None

EUTF STAFF AND CONSULTANTS

Mr. Derek Mizuno, Administrator  
Ms. Maria Quartero  
Ms. Amy Cheung  
Mr. Kuan Yuan

Mr. Gabe Ayoroa, Consultant  
Ms. Mary Bates, Consultant  
Mr. Colin Bebee, Consultant  
Mr. Tad Fergusson, Consultant  
Mr. Ethan Samson, Consultant

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 9:00 a.m. by Trustee Christian Fern, Chairperson, in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board Room, City Financial Tower, 201 Merchant Street, Suite 1700, Honolulu, Hawaii, on Tuesday, August 14, 2018.

II. APPROVAL OF MINUTES – July 10, 2018

The Investment Committee reviewed the draft minutes of July 10, 2018.

MOTION was made and seconded to approve the minutes of July 10, 2018 as circulated. (Nip/Elefante) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

III. EXECUTIVE SESSION

MOTION was made and seconded to move into Executive Session at 9:01 a.m. (Nip/Becker) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

The meeting reconvened at 10:04 a.m.

In Executive Session the Investment Committee approved:

1. The July 10, 2018 Executive Session minutes.
2. A recommendation to the Board to commit funds to a private equity fund, subject to contract negotiation.
3. A recommendation to the Board to select a global custody and securities lending provider.

IV. PENSION CONSULTANT ALLIANCE (PCA)

- A. Updated Statement of Investment Policy and Guidelines

Mr. Colin Bebee of PCA circulated the current version of the Statement of Investment Policy and Guidelines for information only.

B. June 30, 2018 Strategic Performance Report Including Excess Funds

Mr. Bebee highlighted significant points in the June 30, 2018 Performance Report. The OPEB Trust fund finished the quarter at \$2.37 billion and returned 2.5% (net of fees) for the quarter, exceeding the policy benchmark gain of 2.0%. 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 performed within 50 basis points of their respective benchmarks since inception. During the quarter all managers with the exception of Northern Trust (International Equity), AQR (Global Options) and Geode (Global Options) performed in line or above their benchmarks. Northern Trust underperformed slightly primarily due to its fair value pricing policy. AQR and Geode underperformed primarily due to the imperfect benchmark for the global options strategy. There is no concern with these managers at this time. As of June 30, 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 \$218.6 million. During the quarter, the portfolio returned 0.4% (net of fees). Since inception (October 1, 2013), the portfolio returned 2.5% (net of fees).

C. Quarterly Real Estate Report – Q1 2018

Mr. Gabe Ayoroa of PCA presented the quarterly report for Private Real Estate. Since reporting for private market investments is lagged by one quarter, the report covers first-quarter 2018. During the quarter Private Real Estate returned 1.9% (net of fees), slightly below the asset class benchmark gain of 2.0%. There is no concern with performance at this time.

D. Private Core Real Estate Investment Plan Update and Recommendation

Mr. Ayoroa presented a memorandum dated August 1, 2018 with an update to the Private Real Estate program. To date, \$238 million has been committed across three funds, of which \$221.5 million has been deployed. In order to keep pace with the overall portfolio growth additional commitments will need to be made. PCA recommends committing an additional \$55 million to Prime.

MOTION was made and seconded to recommend to the Board commitment of additional \$55 million to Morgan Stanley Prime, for the Private Real Estate strategy. (Nip/Currivan Musto) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-3)

E. Private Credit Program Guidelines

Ms. Mary Bates of PCA presented an update on the implementation of the Private Credit strategy and summarized and discussed the proposed policy and guidelines. The policy and guidelines define the investment objective, types of strategies, approaches and parameter, responsibility of various parties, and monitoring and reporting requirements.

MOTION was made and seconded to recommend to the Board approval of the Private Credit Investment Policy and Guidelines. (Currivan Musto/Nip) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-3)

V. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

Mr. Kuan Yuan reported that staff will poll the Committee members for a mid-November meeting date.

VI. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 10:59 a.m. (Nip/Currivan Musto) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-3)

Respectfully submitted,

/s/

---

Christian Fern, Chairperson

APPROVED on November 15, 2018.

Documents Distributed:

1. Draft July 10, 2018 Investment Committee minutes.
2. Memorandum to the EUTF from PCA regarding the Statement of Investment Policy and Guidelines – Updated Version dated August 3, 2018.
3. EUTF Quarterly Report – Q2 2018 as of June 30, 2018.
4. EUTF Quarterly Real Estate Report – 1Q 2018.
5. Memorandum to the EUTF from PCA regarding 2018 Private Core Real Estate Investment Plan Update and Recommendation dated August 1, 2018.
6. EUTF Private Credit Implementation Update by PCA, August 2018.
7. Draft – Private Credit Investment Policy and Guidelines.