

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
Minutes of the Investment Committee Meeting  
Thursday, November 15, 2018

TRUSTEES PRESENT

Mr. Christian Fern, Chairperson

Ms. Celeste Nip, Vice Chairperson (excused at 12:07 PM)

Mr. Roderick Becker

Mr. Damien Elefante

Ms. Laurel Johnston

TRUSTEES ABSENT

Ms. Linda Currivan Musto

EUTF STAFF AND CONSULTANTS

Mr. Derek Mizuno, Administrator

Ms. Amy Cheung

Mr. Kuan Yuan

Mr. Gabe Ayoroa, Consultant

Ms. Mary Bates, Consultant

Mr. Colin Bebee, Consultant

Mr. Tad Fergusson, Consultant

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 9:02 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 Thursday, November 15, 2018.

II. APPROVAL OF MINUTES – August 14, 2018

The Investment Committee reviewed the draft minutes of August 14, 2018.

MOTION was made and seconded to approve the minutes of August 14, 2018 as circulated. (Nip/Elefante) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-2)

III. PRIVATE CREDIT IMPLEMENTATION PLAN

Ms. Mary Bates of Pension Consulting Alliance (PCA) presented the implementation plan for Private Credit outlining two alternatives. The first prioritizes speed of implementation and aims to reach the 6% target by August 2019 using a fund-of-one (a customized fund formed just for one investor). The second approach takes a more measured pace to reach the target by 2021 primarily using private-equity like drawdown funds. Considering that we are late in the credit cycle, PCA recommends the second alternative since the more measured pace has the benefit of vintage year diversification and provides the flexibility to pursue opportunistic strategies. The plan is to commit approximately \$100 million per year for the next three years and revisit progress in later part of 2019.

The Committee is comfortable with the drawdown funds approach as recommended by PCA and EUTF staff.

IV. EXECUTIVE SESSION

MOTION was made and seconded to move into Executive Session at 9:31 a.m. (Nip/Johnston) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-2)

The meeting reconvened at 11:52 a.m.

Chairperson Fern reported that the Investment Committee approved the following in Executive Session:

1. The August 14, 2018 Executive Session minutes.
2. A recommendation to the Board to commit funds to a private credit fund, subject to contract negotiation.
3. A recommendation to the Board to commit funds to a private equity fund, subject to contract negotiation.
4. A recommendation to the Board to commit funds to a private real estate fund, subject to contract negotiation.

V. PENSION CONSULTANT ALLIANCE (PCA)

A. September 30, 2018 Strategic Performance Report Including Excess Funds

Mr. Bebee highlighted significant points in the September 30, 2018 Performance Report. The OPEB Trust fund finished the quarter at \$2.79 billion and returned 1.7% (net of fees) for the quarter, slightly below the policy benchmark of 1.8%. 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 public market managers with the exception of Acuitas (Microcap) and AlphaSimplex (Systematic Trend Following) performed in line or above their benchmarks. Acuitas underperformed primarily due to stock selection. AlphaSimplex underperformed primarily due to trend reversals. There is no concern with these managers at this time. As of September 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 \$221.5 million. During the quarter, the portfolio returned 1.3% (net of fees). Since inception (October 1, 2013), the portfolio returned 2.6% (net of fees).

B. Quarterly Real Estate Report – Q2 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 second-quarter 2018. During the quarter Private Real Estate returned 1.8% (net of fees), in line with the asset class benchmark gain of 1.8%.

C. Quarterly Private Equity Report – Q2 2018

Mr. Tad Fergusson of PCA presented the first quarterly report for Private Equity. Since reporting for private market investments are lagged by one quarter, the report covers second-quarter 2018. Through the second quarter 2018, there was only \$7.5 million in invested funds.

Trustee Nip was excused at 12:07 p.m.

VI. INVESTMENT UPDATE

Mr. Yuan presented a memorandum dated November 15, 2018 summarizing progress of ongoing investment implementation activities.

VII. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

Mr. Kuan Yuan reported that staff will poll the Committee members for a mid-February 2019 meeting date.

VIII. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 12:23 a.m. (Elefante/Johnston) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-1)

Respectfully submitted,

/s/

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Christian Fern, Chairperson

APPROVED on February 12, 2019.

Documents Distributed:

1. Draft August 14, 2018 Investment Committee minutes.
2. PCA 2018/2019 Private Credit Implementation Plan presentation, November 2018.
3. EUTF Quarterly Report – Q3 2018 by PCA.
4. EUTF Quarterly Real Estate Report – 2Q 2018 by PCA.
5. EUTF Quarterly Private Equity Report – 2Q 2018 by PCA.
6. Memorandum from Investment Officer to Investment Committee regarding Investment Update dated 11/15/18.