

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Tuesday, February 12, 2019

TRUSTEES PRESENT

Mr. Christian Fern, Chairperson	Mr. Damien Elefante
Mr. Roderick Becker (excused at 9:30 a.m.)	Ms. Laurel Johnston
Ms. Linda Currivan Musto	

TRUSTEES ABSENT

Ms. Celeste Nip, Vice Chairperson

EUTF STAFF AND CONSULTANTS

Mr. Derek Mizuno, Administrator	Ms. Mary Bates, Consultant
Ms. Donna Tonaki, Assistant Administrator	Mr. Colin Bebee, Consultant
Ms. Maria Quartero	Mr. Tad Fergusson, Consultant
Mr. Kuan Yuan	

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, February 12, 2019.

II. APPROVAL OF MINUTES – November 15, 2018

The Investment Committee reviewed the draft minutes of November 15, 2018.

MOTION was made and seconded to approve the minutes of November 15, 2018 as circulated. (Elefante/Becker) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-2)

III. EXECUTIVE SESSION

MOTION was made and seconded to move into Executive Session at 9:01 a.m. (Currivan Musto/Elefante) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-2)

The meeting reconvened at 10:21 a.m.

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

1. The November 15, 2018 Executive Session minutes.
2. A recommendation to the Board regarding investment consulting contracts.
3. A recommendation to the Board to commit funds to a private credit fund, subject to contract negotiation.

IV. PENSION CONSULTANT ALLIANCE (PCA)

A. Private Credit Education

Mr. Colin Bebee and Ms. Mary Bates of PCA presented education information on the Private Credit contingent fund structure.

B. Alternative Risk Premia Strategy Benchmark

Mr. Bebee presented a memorandum dated February 4, 2019 recommending a benchmark for the Alternative Risk Premia asset class and managers. The benchmark reflects the expected return of the strategy.

MOTION was made and seconded to recommend to the Board approval of the Alternative Risk Premia strategy benchmark for the managers and the asset class. (Elefante/Currivan Musto) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

C. December 31, 2018 Strategic Performance Report Including Excess Funds

Mr. Bebee highlighted significant points in the December 31, 2018 Performance Report. The OPEB Trust fund finished the quarter at \$2.72 billion and returned -7.7% (net of fees) for the quarter, below the policy benchmark of -7.4%. Since inception (June 23, 2011), the EUTF portfolio has returned 6.1% (net of fees) versus the policy benchmark return of 6.1%, 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 BlackRock (TIPS), AlphaSimplex (Systematic Trend Following), Mount Lucas (Systematic Trend Following), and Kepos (Alternative Risk Premia) performed in line or above their benchmarks. BlackRock underperformed due duration position. AlphaSimplex and Mount Lucas underperformed primarily due to variance in trading rules from the benchmark. Kepos underperformed primarily due to momentum across asset classes. There is no concern with these managers at this time. As of December 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 \$211.6 million. During the quarter, the portfolio returned -2.2% (net of fees). Since inception (October 1, 2013), the portfolio returned 2.1% (net of fees).

D. Quarterly Real Estate Report – Q3 2018

Mr. Gabe Ayoroa of PCA joined the meeting via conference call and highlighted significant points in the Quarterly Real Estate Report. Since reporting for private market investments is lagged by one quarter, the report covers third-quarter 2018. During the quarter Private Real Estate returned 1.9% (net of fees), in line with the asset class benchmark gain of 1.9%.

Mr. Ayoroa was excused from the meeting.

E. Quarterly Private Equity Report – Q3 2018

Mr. Tad Fergusson of PCA highlighted significant points in the Quarterly Private Equity Report for the third-quarter 2018. Since reporting for private market investments is lagged by one quarter, the report covers third-quarter 2018. Through the third quarter, there was only \$10 million in invested funds.

F. Private Equity Investment Plan Update

Mr. Tad Ferguson presented a memorandum dated February 12, 2019 updating the Private Equity program. To date, \$361 million has been committed of which only \$17 million has been invested. PCA recommends maintaining the current pace of \$150 million (up to \$200 million) in commitments per year, targeting \$50 million per commitment, equating to about two to four partnerships per year.

V. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

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

VI. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 11:14 a.m. (Currivan Musto/Johnston) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

Respectfully submitted,

/s/

Christian Fern, Chairperson

APPROVED on April 16, 2019.

Documents Distributed:

1. Draft November 15, 2018 Investment Committee minutes.
2. Educational Overview: Private Credit-Contingent Funds by PCA dated February 2019.
3. Memorandum to the EUTF from PCA Regarding Benchmark Recommendation for Alternative Risk Premia Managers and Asset Class dated 2/4/19.
4. EUTF Quarterly Report – Q4 2018 by PCA.
5. EUTF Quarterly Real Estate Report – Q3 2018 by PCA.
6. EUTF Quarterly Private Equity Report – Q3 2018 by PCA.
7. Memorandum to the EUTF from PCA Regarding 2019 EUTF Private Equity Investment Plan Update dated 2/12/19.