

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Tuesday, May 14, 2019

TRUSTEES PRESENT

Mr. Christian Fern, Chairperson
Mr. Roderick Becker
Ms. Linda Currivan Musto

Mr. Damien Elefante
Ms. Laurel Johnston

TRUSTEES ABSENT

Ms. Celeste Nip, Vice Chairperson

EUTF STAFF AND CONSULTANTS

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

Mr. Colin Bebee, Consultant
Mr. Tad Fergusson, Consultant
Ms. Christy Field, Consultant

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 1:00 p.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, May 14, 2019.

II. APPROVAL OF MINUTES – April 16, 2019

The Investment Committee reviewed the draft minutes of April 16, 2019.

MOTION was made and seconded to approve the minutes of April 16, 2019 as circulated. (Currivan Musto/Becker) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-2)

Trustee Laurel Johnston entered the meeting at 1:01 p.m.

Trustee Damien Elefante entered the meeting at 1:03 p.m.

III. MEKETA INVESTMENT GROUP (Meketa)

A. March 31, 2019 Strategic Performance Report Including Excess Funds

Mr. Colin Bebee of Meketa highlighted significant points in the March 31, 2019 Performance Report. The OPEB Trust fund finished the quarter at \$2.98 billion and returned 8.2% (net of fees) for the quarter, above the policy benchmark of 7.8%. Since inception (June 23, 2011), the EUTF portfolio has returned 6.9% (net of fees) versus the policy benchmark return of 6.9%, and since inception the portfolio exhibited similar volatility with the policy benchmark. During the quarter all public market managers performed in line or above their benchmarks. As of March 31, 2019, 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 \$221.1 million. During the quarter, the portfolio returned 4.5% (net of fees). Since inception (October 1, 2013), the portfolio returned 2.8% (net of fees).

B. Quarterly Private Equity Report – Q4 2018

Mr. Tad Fergusson of Meketa highlighted significant points in the Quarterly Private Equity Report for the fourth-quarter 2018. Since reporting for private market investments is lagged by one quarter, the report covers fourth-quarter 2018. Through the fourth quarter, there was only \$14.6 million in invested funds.

C. Quarterly Real Estate Report – Q4 2018

Ms. Christy Field of Meketa highlighted significant points in the Quarterly Real Estate Report. Since reporting for private market investments is lagged by one quarter, the report covers fourth-quarter 2018. During the quarter Private Real Estate returned 1.3% (net of fees), slightly below the asset class benchmark return of 1.5% due to property selection and lower leverage. There are no concerns at this point.

D. Private Core Real Estate Investment Plan Update

Ms. Field presented a memorandum dated May 7, 2019 providing an update on EUTF's Private Real Estate program. A total of \$293 million has been committed and invested across three funds. This includes the initial round of commitments and subsequent additional commitments to keep pace with the overall portfolio growth. More recently Morgan Stanley Prime has been able to position its portfolio more defensively while also generating strong operating income. As a result, Meketa recommends committing additional funds to Prime. Meketa also plans to recommend a new core manager in a subsequent meeting to improve diversification.

MOTION was made and seconded to recommend to the Board commitment of additional \$40 million to Morgan Stanley Prime, for the Private Real Estate strategy. (Currivan Musto/Johnston) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-2)

E. Total Portfolio Expected Return Update

Mr. Bebee presented a memorandum dated May 14, 2019 discussing the updated expected return and volatility measures of EUTF's long-term policy allocation. The long-term policy allocation approved at the March 2018 Board meeting was initially estimated to have an annual expected return of 6.7% and volatility (risk) of 9.9%. When 2019 capital market assumptions were incorporated, the estimated annual expected return increased slightly to 6.9% with volatility unchanged. The change is primarily due to market pull back in late 2018, which resulted in marginally higher expected returns going forward for most asset classes. Meketa believes that the policy allocation is still well structured to achieve its 7% return objective over the long run. A comprehensive review of policy allocation and asset-liability study will be conducted early 2020.

F. Manager Watch Status Recommendation

Mr. Bebee presented a memorandum dated May 13, 2019 recommending placing AlphaSimplex on Watch status due to organizational changes. AlphaSimplex is one of two managers for the Systematic Trend Following strategy, managing approximately \$106 million at the end of the first quarter. On April 18, 2019 Meketa and EUTF staff were notified that Robert Sinnott, a senior portfolio manager, will be leaving the firm at the end of June. Since the strategy is managed through a team approach with other senior members of the firm, this departure should have no material impact in the near term. Meketa and EUTF staff will monitor the team construct, firm culture, and strategy enhancements over the next 12 to 18 months to ensure that there are no long term adverse impacts.

MOTION was made and seconded to recommend to the Board placing AlphaSimplex on Watch status effective May 1, 2019 due to organizational changes. (Currivan Musto/Johnston) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-2)

IV. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

Mr. Kuan Yuan reported that staff will poll the Committee members for an August meeting date.

V. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 1:47 p.m. (Johnston/Currivan Musto) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-2)

Respectfully submitted,

/s/

Christian Fern, Chairperson

APPROVED on August 20, 2019.

Documents Distributed:

1. Draft April 16, 2019 Investment Committee minutes.
2. EUTF Quarterly Report – Q1 2019 by Meketa.
3. EUTF Quarterly Private Equity Report – Q4 2018 by Meketa.
4. EUTF Quarterly Real Estate Report – Q4 2018 by Meketa.
5. Memorandum to the EUTF from Meketa Regarding 2019 Private Core Real Estate Investment Plan Update and Recommendation dated 5/7/19.
6. Memorandum to the EUTF from Meketa Regarding Total Portfolio Expected Return Update – 2019 dated 5/14/19.
7. Memorandum to the EUTF from Meketa Regarding AlphaSimplex Group (“AlphaSimplex”) – Watch Recommendation dated 5/13/19.