HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Tuesday, February 9, 2021

TRUSTEES PRESENT
Mr. Christian Fern, Chairperson (via video conference)  Mr. Damien Elefante (entered at 10:59 a.m. via video conference)
Ms. Celeste Nip, Vice-Chairperson (via video conference, excused at 11:42 a.m.)  Ms. Laurel Johnston (via video conference)
Ms. Jacqueline Ferguson-Miyamoto (via video conference)

TRUSTEES ABSENT
Mr. Roderick Becker

ATTORNEY
Mr. Michael Chambrella, Deputy Attorney General (via video conference)

EUTF STAFF
Mr. Derek Mizuno, Administrator  Mr. Kuan Yuan
Ms. Desiree Yamauchi  Mr. Dylan Zheng

CONSULTANTS (via video conference)
Ms. Mary Bates  Mr. Peter King
Mr. Colin Bebee  Mr. Ryan Lobdell
Mr. Tad Fergusson  Ms. Karen Reeves
Ms. Christy Fields

I. CALL TO ORDER
The meeting of the Investment Committee was called to order at 9:01 a.m. by Trustee Christian Fern, Chairperson, in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Conference Room, City Financial Tower, 201 Merchant Street, Suite 1700, Honolulu, Hawaii, on Tuesday, February 9, 2021.

II. MINUTES – NOVEMBER 17, 2020
The Investment Committee reviewed the draft minutes of November 17, 2020.

MOTION was made and seconded to approve the minutes of November 17, 2020, as circulated. (Ferguson-Miyamoto/Johnston) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3)

III. EXECUTIVE SESSION
MOTION was made and seconded to move into Executive Session at 9:04 a.m. (Ferguson-Miyamoto/Johnston) The motion was passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3)

The regular meeting reconvened at 10:32 a.m.

IV. MEKETA INVESTMENT GROUP
A. December 31, 2020 Strategic Performance Report Including Excess Funds
Mr. Colin Bebee from Meketa Investment Group (Meketa) highlighted significant points in the December 31, 2020 Performance Report. The OPEB Trust Fund finished the quarter at $4.32 billion and gained 10.2% (net of fees) for the quarter, underperforming the policy benchmark of 10.4%. Since inception (June 23, 2011), the EUTF portfolio has returned 7.7% (net of fees) versus the policy benchmark return of 7.6%.
During the quarter all public market managers with the exception of Geode (Global Options), AlphaSimplex (Systematic Trend Following), Mt. Lucas (Systematic Trend Following), Kepos (Alternative Risk Premia), Lombard Odier (Alternative Risk Premia), Nephila (Reinsurance), and Pillar (Reinsurance) performed in line or above their benchmarks. Geode, Kepos and Lombard Odier underperformed primarily due to imperfect benchmarks. AlphaSimplex and Mt. Lucas underperformed primarily due to variance in trading rules from the benchmark. Nephila and Pillar underperformed primarily due to a high number of small loss events. There are no concerns with these managers at this time. As of December 31, 2020, 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 $268.5 million up 3.9% for the quarter (net of fees). Since inception (October 1, 2013), the portfolio returned 4.2% (net of fees).

B. Quarterly Private Equity & Private Credit Report – Q3 2020

Mr. Tad Fergusson from Meketa highlighted significant points in the Quarterly Private Equity and Private Credit Reports, respectively. Since reporting for private market investments is lagged by one quarter, the report covers the third-quarter 2020. At the end of the quarter, Private Equity and Private Credit reported market values of $162.2 million and $135.0 million, respectively, with since inception IRRs of 12.8% and 13.8% (both net of fees), respectively.

Trustee Damien Elefante entered the meeting at 10:59 a.m.

C. Quarterly Real Estate Report – Q3 2020

Ms. Karen Reeves from Meketa 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 2020. At the end of the quarter, Private Real Estate reported a market value of $358.8 million with a quarterly return of 0.7% (net of fees), outperforming the asset class benchmark of 0.3%.

V. INVESTMENT OFFICE

A. ESG Update

Mr. Kuan Yuan presented an update on the EUTF’s environmental, social, and corporate governance (ESG) and responsible investing efforts. Over the years EUTF has made efforts to invest responsibly, which include adopting investing principles from the Principles for Responsible Investment organization (PRI) into the Investment Policy and Guidelines (IPS), and reviewing investment managers’ role in responsible investing whenever such considerations are applicable. Today, all of EUTF’s managers in applicable asset classes have adopted formal ESG policies. EUTF staff also discussed key industry developments in adoption, passive investing, and reporting. Lastly, EUTF staff discussed two recent legislative bills (SB801 and HB1205) on responsible investing. The bills consist of two parts, the first addressing policy setting and the second establishing reporting requirements. EUTF’s current policy meets the proposed policy requirement. However, the proposed reporting requirement is very onerous, involving confidential business information and is beyond EUTF’s current resource capacity.

B. Investment Policy Update

Mr. Yuan provided an update on the revision of the Statement of Investment Policy and Guidelines (IPS). After the Board’s adoption of the new strategic asset allocation at the October 2020 meeting, EUTF staff and Meketa went through a comprehensive overhaul and revamp of the IPS. This revision incorporates the CFA Institute’s institutional IPS framework. Key changes include streamlining the document and addition of Process, Investment Beliefs and Philosophy, and Risk Tolerance and Management sections.
MOTION was made and seconded to recommend to the Board approval of the updated Investment Policy Statement (Johnston/Ferguson-Miyamoto) The motion was passed unanimously.
(Employer Trustees-2/Employee-Beneficiary Trustees-3)

C. Global Options Transition Update
Mr. Yuan presented an update on the Global Options manager transition. At the November 2020 meeting, the Board approved transitioning all assets from AQR (one of two Global Options managers) to Geode (the second manager). The plan was to transition two equal sized tranches, the first at the end of November and the second at the end of December, to minimize gaps in market exposure. The transition was executed as planned and transition objectives were met.

D. Investment Office Strategic Plan
Mr. Yuan presented a strategic update that is a continuation of last year’s discussion on the purpose, resource levels, and potential initiatives of the Investment Office. Over recent years investment activities have shifted from a consultant driven model to a joint model with EUTF staff. What division of activities makes the most sense going forward will depend on the strategic focus the Board wants to pursue. A self-evaluation shows that the EUTF’s greatest strengths are our rare liquidity profile and minimal legacy issues such as unnecessary complexity. We have the unique opportunity to develop a competitive advantage around investing through illiquid strategies and EUTF staff recommend focusing on the private markets (i.e., private equity, private credit, and real assets). The next steps will be for EUTF staff and Meketa to conduct a liquidity study and develop co-investment guidelines and process.

Trustee Celeste Nip was excused from the meeting at 11:42 a.m.

EXECUTIVE SESSION
Executive Session reconvened at 11:51 a.m.

The regular meeting reconvened at 11:56 a.m.

VI. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES
Mr. Yuan reported that EUTF staff will poll the Committee members for a meeting date in March.

VII. ADJOURNMENT
MOTION was made and seconded for the Investment Committee to adjourn the meeting at 11:58 a.m. (Ferguson-Miyamoto/Johnston) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

Respectfully submitted,

/s/

Christian Fern, Chairperson

APPROVED on March 16, 2021.

Documents Distributed:
1. Draft November 17, 2020 Investment Committee Minutes. (4 pages)
2. EUTF Q4 2020 Quarterly Report, dated February 9, 2021. (107 pages)
5. Memorandum to the Investment Committee from the EUTF Investment Officer Regarding ESG and Responsible Investing Update, dated February 2, 2021 (2 pages)
6. Memorandum to the Investment Committee from the EUTF Investment Officer Regarding Investment Policy Update, dated February 3, 2020 (47 pages)
7. Memorandum to the Investment Committee from the EUTF Investment Officer Regarding Global Options Transition Update, dated January 26, 2020 (1 page)
8. EUTF Investment Office Strategic Plan, dated February 9, 2021. (23 pages)