

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Monday, August 15, 2022

TRUSTEES PRESENT

Mr. Christian Fern, Chairperson (via video conference) Mr. Wesley Machida (via video conference)
Mr. Robert Yu, Vice-Chairperson Ms. Celeste Nip (via video conference)
Ms. Jacqueline Ferguson-Miyamoto (via video conference) Mr. James Wataru

TRUSTEES ABSENT

Mr. Roderick Becker Mr. Damien Elefante

ATTORNEY (via video conference)

Mr. Michael Chambrella, Deputy Attorney General

EUTF STAFF

Mr. Derek Mizuno, Administrator (via video conference) Ms. Desiree Yamauchi
Mr. Kuan Yuan, Chief Investment Officer Mr. Brett Tatsuno

CONSULTANTS

Mr. Colin Bebee, Meketa Investment Group Mr. Pete Keliuotis, Callan LLC
Ms. Kay Ceserani, Meketa Investment Group (via video conference) Ms. Christine Mays, Callan LLC (via video conference)
Mr. Tad Fergusson, Meketa Investment Group Ms. Jan Mende, Callan LLC
Mr. Avery Robinson, Callan LLC

OTHERS PRESENT (via video conference)

Mr. Joe Ebisa, With Intelligence Anonymous Attendee

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) Board Room, City Financial Tower, 201 Merchant Street, Suite 1700, Honolulu, Hawaii, on Monday, August 15, 2022.

II. MINUTES – JUNE 14, 2022

The Investment Committee reviewed the draft minutes of June 14, 2022.

MOTION was made and seconded to approve the minutes of June 14, 2022, as circulated. (Ferguson-Miyamoto/Wataru) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-4)

III. PERFORMANCE REPORTS

A. Quarterly Performance Report – Q2 2022

Mr. Colin Bebee of Meketa Investment Group (Meketa) highlighted significant points in the June 30, 2022 Performance Report. The OPEB Trust Fund portfolio finished the quarter at \$5.8 billion, declining by 4.8% and 1.8% (net of fees) for the quarter and fiscal year, respectively, outperforming the policy benchmark of -6.8% and -3.5%, respectively. Since inception (June 23, 2011), the portfolio has returned 7.4% (net of fees) versus the policy benchmark return of 7.1%.

During the quarter, all public market managers with the exception of Gateway (Global Options), BlackRock (Inflation-Linked Bonds), and Kepos (Alternative Risk Premia) performed in line with or above their benchmarks. Gateway underperformed due to having a more diversified mix of option strikes and maturities compared to the benchmark. BlackRock slightly trailed its benchmark in Q2 but has closely tracked it over longer time periods. Kepos' performance was impacted by exposure to the value factor across asset classes and the momentum factor within bonds. Lombard Odier (Alternative Risk Premia) remains on Watch Status effective January 1, 2022; otherwise,

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Investment Committee Meeting

August 15, 2022 Minutes

Page 2

there are no concerns with any other managers at this time. As of June 30, 2022, all asset classes were within the allocation guideline ranges prescribed in the Investment Policy Statement.

Mr. Bebee reported that the EUTF Trust Fund portfolio finished the quarter at \$419.8 million, down 2.8% and 5.1% for the quarter and fiscal year (net of fees), respectively. Since inception (October 1, 2013), the portfolio has returned 3.1% (net of fees).

B. Quarterly Private Equity Report – Q1 2022

Mr. Tad Fergusson of Meketa highlighted significant points in the Quarterly Private Equity Report. Since reporting for private market investments is lagged by one quarter, the report covers the first-quarter 2022. At the end of the quarter, Private Equity reported a market value of \$503.3 million, with a since inception internal rate of return of 32.9% (net of fees), outperforming the asset class benchmark of 18.4%.

C. Quarterly Private Credit Report – Q1 2022 & Program Review

Mr. Pete Keliuotis of Callan LLC (Callan) highlighted significant points in the Quarterly Private Credit Report. Since reporting for private market investments is lagged by one quarter, the report covers first-quarter 2022. At the end of the quarter, Private Credit reported a market value of \$280.2 million with a since inception internal rate of return of 13.0% (net of fees), outperforming the asset class benchmark of 7.2%.

As EUTF's newly hired Private Credit consultant, Mr. Keliuotis also presented a program review and assessment. The program is broadly diversified across Core (mainly corporate loans), Opportunistic (distressed or flexible mandates), and Niche (non-corporate or non-traditional collateral loans) strategies. Core and Niche allocations are yield-oriented strategies and make up roughly two-thirds of the program, in alignment with EUTF's investment policy. Only one manager is underperforming expectations: HPS, where slow initial deployment has dragged down returns. Callan recommends that upcoming commitments are focused on further diversifying Direct Lending (Core) and Specialty Finance (Niche) allocations, favoring managers with strong workout capabilities.

D. Quarterly Real Assets Report – Q1 2022 & Program Review

Ms. Jan Mende and Mr. Avery Robinson of Callan highlighted significant points in the Quarterly Real Assets Report. Since reporting for private market investments is lagged by one quarter, the report covers first-quarter 2022. At the end of the quarter, Private Real Assets reported a market value of \$526.2 million with a since inception return of 9.9% (net of fees), outperforming the asset class benchmark of 9.3%.

As EUTF's newly hired Real Assets consultant, Ms. Mende and Mr. Robinson also presented a program review and assessment. On an exposure basis (market value plus unfunded commitments), the real assets portfolio is 59% Core Real Estate, 21% Non-Core Real Estate, and 19% Infrastructure, in line with EUTF's investment policy. Callan has met with all managers, and none are on watch at present. EUTF's real estate portfolio is well-diversified by geography and property type, though it is overweight in alternative property sectors relative to the benchmark, particularly self-storage. The infrastructure sleeve is still in its early stages but is expected to be diversified by geography and sector as well. As the program develops, Callan recommends consideration of value-add real estate managers to diversify the portfolio's Non-Core exposure along with additional Infrastructure strategies.

During the performance report presentations, the Committee, Meketa, Callan, and EUTF staff also discussed Watch Status criteria, private market manager approaches, co-investments, and the potential impact of federally approved infrastructure funding.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Investment Committee Meeting

August 15, 2022 Minutes

Page 3

IV. NEW BUSINESS

A. Meketa Investment Group – 2022 Strategic Asset Allocation Study: Part 2

Mr. Bebee presented part two of the Strategic Allocation Study for the OPEB Trust. Part one was presented in June and reviewed the history of EUTF's prior allocation decisions, current financial status, and new strategies being considered. Part two involves development of risk/return assumptions for each asset class and using them in an iterative modeling process to arrive at a recommended allocation. The goal for the output is to combine the model's mathematical rigor with economic intuition and implementation reasonableness. The recommended allocation represents marginal improvements from the current allocation target, while maintaining a similar trajectory (recommended target: 7.5% expected return, 11.3% standard deviation, -37.5% expected max loss, 0.44 Sharpe ratio; current target: 7.6% expected return, 11.5% standard deviation, -41.0% expected max loss, 0.44 Sharpe ratio).

After the presentation, the Committee, Meketa, and EUTF staff discussed risk metrics and the allocation selection process.

MOTION was made and seconded to recommend to the Board approval of the proposed long-term strategic allocation for the OPEB Trust. (Yu/Wataru) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-4)

B. Investment Office Strategic Plan Update

Mr. Kuan Yuan presented the Investment Office's strategic plan, which included a recap of the prior plan from February 2021, current updates, and a look forward. The recommendation from last year's plan was to continue focusing on private market illiquid strategies. This aligns with EUTF's competitive advantages of uniquely strong liquidity and long-term horizon. Since the last plan, staff followed through with two main steps of prudently increasing the fund's private market allocation (addressed in the 2022 Strategic Study) and developing a co-investment program (Board approved in May 2022). Looking forward, EUTF staff will maintain a consistent focus on private markets while steadily growing and developing the investment team. The Investment Office is targeted to expand to at least five FTE by FY 2025 through both budget requests as well as reclassification of existing EUTF non-investment positions.

V. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

Mr. Yuan reported that EUTF staff will poll the Committee members for meeting dates in September.

VI. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 11:13 a.m. (Yu/Ferguson-Miyamoto) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-4)

Respectfully submitted,

/s/

Christian Fern, Chairperson

APPROVED on September 19, 2022.

Documents Distributed:

1. Draft June 14, 2022 Investment Committee Minutes. (3 pages)
2. EUTF Q2 2022 Quarterly Report, prepared by Meketa Investment Group, dated August 15, 2022. (100 pages)

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Investment Committee Meeting

August 15, 2022 Minutes

Page 4

3. EUTF Private Equity Q1 2022 Quarterly Report, prepared by Meketa Investment Group, dated March 31, 2022. (16 pages)
4. EUTF Private Credit Portfolio Review, prepared by Callan LLC, dated August 15, 2022. (28 pages)
5. EUTF Real Assets Performance Report – Q1 2022, prepared by Callan LLC, dated August 15, 2022. (27 pages)
6. EUTF 2022 Strategic Allocation Review: Part 2 of 2, prepared by Meketa Investment Group, dated August 2022. (59 pages)
7. EUTF Investment Office Strategic Plan Update, prepared by EUTF Staff, dated August 15, 2022. (15 pages)