

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Wednesday, November 16, 2022

TRUSTEES PRESENT

Mr. Christian Fern, Chairperson (joined at 9:53 a.m., via video conference)	Ms. Jacqueline Ferguson-Miyamoto (via video conference, excused at 11:10 a.m.)
Mr. Robert Yu, Vice-Chairperson	Mr. Wesley Machida (via video conference)
Mr. Roderick Becker (via video conference)	Ms. Celeste Nip (via video conference)
Mr. Damien Elefante (joined at 9:26 a.m. via video conference, excused at 11:11 a.m.)	Mr. James Wataru

ATTORNEY (via video conference)

Mr. Michael Chambrella, Deputy Attorney General

EUTF STAFF

Mr. Derek Mizuno, Administrator	Mr. Joao Marco Maffini
Mr. Kuan Yuan, Chief Investment Officer	Mr. Brett Tatsuno
Ms. Desiree Yamauchi	

CONSULTANTS (via video conference)

Ms. Catherine Beard, Callan LLC	Mr. Inwoo Hwang, Meketa Investment Group
Mr. Colin Bebee, Meketa Investment Group	Mr. Pete Keliuotis, Callan LLC
Mr. Tad Fergusson, Meketa Investment Group	Ms. Jan Mende, Callan LLC

OTHERS PRESENT (via video conference)

Mr. Kevin Balaod, With Intelligence	Mr. James Baratta, MandateWire
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I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 9:00 a.m. by Trustee Robert Yu, Vice-Chairperson, in the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board Room, City Financial Tower, 201 Merchant Street, Suite 1700, Honolulu, Hawaii, on Wednesday, November 16, 2022.

II. REVIEW OF MINUTES – OCTOBER 19, 2022

The Investment Committee reviewed the draft minutes of October 19, 2022.

MOTION was made and seconded to approve the minutes of October 19, 2022, as circulated. (Wataru/Machida) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-3)

III. EXECUTIVE SESSION

MOTION was made and seconded to move into Executive Session at 9:03 a.m. (Wataru/Machida) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-3)

Trustees Elefante and Fern entered the meeting during Executive Session, at 9:26 a.m. and 9:53 a.m., respectively

The regular meeting reconvened at 10:00 a.m.

Chairperson Fern reported that in Executive Session the Committee approved:

- A recommendation to the Board to commit funds to a private credit fund, subject to contract negotiation.
- The Executive Session Minutes of October 19, 2022.

IV. PERFORMANCE REPORTS

A. Quarterly Performance Report – Q3 2022

Mr. Colin Bebee of Meketa Investment Group (Meketa) highlighted significant points in the Q3 Performance Report. The OPEB Trust Fund portfolio finished the quarter at \$5.7 billion and declined -3.6% (net of fees) for the quarter and fiscal year, underperforming the policy benchmark of -3.1%. Since inception (June 23, 2011), the portfolio has returned 6.9% (net of fees) versus the policy benchmark return of 6.7%.

During the quarter, all public managers with the exception of Acuitas (Micro Cap), Gateway (Global Options), AlphaSimplex (Trend Following), Mount Lucas (Trend Following), BlackRock (Inflation-Linked Bonds), Pillar (Reinsurance), and Nephila (Reinsurance) performed in line with or above their benchmarks. Acuitas underperformance was generally driven by the portfolio's lack of low quality and unprofitable stocks which led the benchmark's performance during Q3. Gateway underperformed due to having a more diversified mix of option strikes and maturities compared to the benchmark. AlphaSimplex and Mount Lucas underperformed relative to the benchmark due to slight variances in their rules versus the benchmark's rules. BlackRock slightly trailed its benchmark in Q3 but has closely tracked it over a longer time period. Pillar and Nephila underperformed due to losses from Hurricane Ian, the fourth strongest landfall event in Florida history.

Mr. Bebee reported that the EUTF Trust Fund portfolio finished the quarter at \$460.3 million, down -1.7% for the quarter and fiscal year (net of fees). Since inception (October 1, 2013), the portfolio has returned 2.9% (net of fees).

B. Quarterly Private Equity Report – Q2 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 second-quarter 2022. At the end of the quarter, Private Equity reported a market value of \$527.6 million, with a since inception internal rate of return of 27.3% (net of fees), outperforming the asset class benchmark of 3.6%.

After the presentation, the Committee, Meketa, and EUTF staff discussed the lagged nature of private equity reporting.

C. Quarterly Private Credit Report – Q2 2022

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 second-quarter of 2022. At the end of the quarter, Private Credit reported a market value of \$320.3 million with a since inception internal rate of return of 10.1% (net of fees), outperforming the asset class benchmark of 3.3%.

D. Quarterly Real Assets Report – Q2 2022

Ms. Jan Mende 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 second-quarter of 2022. At the end of the quarter, Real Assets reported a market value of \$603.5 million with a since inception internal rate of return of 9.6% (net of fees), slightly underperforming the asset class benchmark of 9.7%.

V. NEW BUSINESS

A. Manager Watch Status Recommendation

Mr. Bebee presented a memorandum dated November 16, 2022 recommending placing AlphaSimplex on Watch Status due to organizational changes. AlphaSimplex is one of two

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managers for the Trend Following strategy, managing approximately \$352 million for OPEB and \$58 million for the EUTF Trust Fund at the end of September 30, 2022. On October 19, 2022, AlphaSimplex notified Meketa that it would be acquired by Virtus Partners, a publicly traded asset manager that operates a multi-boutique structure. AlphaSimplex is currently owned by Natixis, a French financial services firm. The transaction is expected to close near the end of the first quarter of 2023 upon which AlphaSimplex will be wholly owned by Virtus. Under the new ownership AlphaSimplex is expected to operate in a similar autonomous fashion as it does currently, where certain operations (e.g., marketing and back office) are partially or entirely handled by Natixis. Meketa and EUTF staff will continue to monitor AlphaSimplex over the course of the next 12-18 months.

MOTION was made and seconded to recommend to the Board approval placing AlphaSimplex on Watch Status effective November 1, 2022 for organizational reasons. (Machida/Ferguson-Miyamoto) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4).

B. Private Equity Pacing Update

Mr. Ferguson presented a pacing plan for Private Equity. Pacing for private markets is modeled after projections of existing investment deployment, performance, as well as market value growth. The result guides how much capital needs to be committed each year in order to reach and maintain strategic allocation targets. The study is performed annually to allow for timely calibrations. The updated commitment pace for Private Equity for 2023 is \$300 million across 3-5 partnerships, as well as up to \$75 million in co-investments across 3-5 partnerships. This is unchanged from 2022.

MOTION was made and seconded to recommend to the Board approval of the 2023 Private Equity Pacing Plan. (Machida/Ferguson-Miyamoto) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4).

C. Private Credit Pacing Update

Mr. Keliuotis presented a pacing plan for Private Credit. The updated commitment pace for Private Credit for 2023 is \$250 million across 2-4 partnerships, and represents a decrease of \$50 million from the 2022 target.

MOTION was made and seconded to recommend to the Board approval of the 2023 Private Credit Pacing Plan. (Machida/Ferguson-Miyamoto) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4).

Trustee Ferguson-Miyamoto was excused from the meeting at 11:10 a.m. and Trustee Elefante was excused at 11:11 a.m.

D. Real Assets Pacing Update

Ms. Mende presented a pacing plan for Real Assets. The updated commitment pace for Real Assets for 2023 is \$140 million across 2-3 partnerships, and represents a \$10 million increase from the 2022 target.

MOTION was made and seconded to recommend to the Board approval of the 2023 Real Assets Pacing Plan. (Machida/Yu) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-3).

VI. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

Mr. Kuan Yuan reported that EUTF staff will poll the Committee members for meeting dates in February 2023.

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VII. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 11:16 a.m. (Machida/Yu) The motion passed unanimously. (Employer Trustees-3/Employee-Beneficiary Trustees-3)

Respectfully submitted,

/s/

Christian Fern, Chairperson

APPROVED on February 28, 2023.

Documents Distributed:

1. Draft October 19, 2022 Investment Committee Minutes. (3 pages)
2. EUTF Q3 2022 Quarterly Report, prepared by Meketa Investment Group, dated November 16, 2022. (100 pages)
3. EUTF Private Equity Q2 2022 Quarterly Report, prepared by Meketa Investment Group, dated June 30, 2022. (16 pages)
4. EUTF Private Credit Portfolio Review, prepared by Callan LLC, dated November 10, 2022. (22 pages)
5. EUTF Real Assets Performance Report – Q2 2022, prepared by Callan LLC, dated November 16, 2022. (21 pages)
6. Memorandum to EUTF from Meketa Investment Group, Inc. regarding AlphaSimplex – Watch Recommendation, dated November 16, 2022. (4 pages)
7. EUTF 2023 Private Equity Investment Plan, prepared by Meketa Investment Group, dated November 2022. (6 pages)
8. EUTF Private Credit Pacing Review, prepared by Callan LLC, dated November 11, 2022. (6 pages)
9. EUTF Real Assets Pacing Study, prepared by Callan LLC, dated November 16, 2022. (8 pages)