

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Thursday, May 18, 2023

TRUSTEES PRESENT

Mr. Christian Fern, Chairperson
Mr. Roderick Becker (via video conference)

Ms. Jacqueline Ferguson-Miyamoto
Ms. Maureen Wakuzawa

TRUSTEES ABSENT

Mr. Robert Yu, Vice-Chairperson
Mr. Wesley Machida

Mr. James Wataru

ATTORNEY

Mr. Michael Chambrella, Deputy Attorney General

EUTF STAFF

Mr. Derek Mizuno, Administrator
Mr. Kuan Yuan, Chief Investment Officer
Ms. Desiree Yamauchi

Mr. Joao Marco Maffini
Mr. Brett Tatsuno

CONSULTANTS (via video conference)

Ms. Catherine Beard, Callan LLC
Mr. Colin Bebee, Meketa Investment Group
Mr. Tad Fergusson, Meketa Investment Group

Mr. Pete Keliuotis, Callan LLC
Ms. Jan Mende, Callan LLC
Mr. Avery Robinson, Callan LLC

OTHERS PRESENT (via video conference)

Mr. John Kevin Balaod, With Intelligence
Mr. Michael Barela, Voya Investment Management

Mr. Nathan Paulsen, Voya Investment Management
Mr. Troy Tomita, Kaiser Permanente

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 Thursday, May 18, 2023.

II. REVIEW OF MINUTES – APRIL 3, 2023

The Investment Committee reviewed the draft minutes of April 3, 2023.

MOTION was made and seconded to approve the minutes of April 3, 2023, as circulated. (Ferguson-Miyamoto/Wakuzawa) 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 9:03 a.m. (Ferguson-Miyamoto/Wakuzawa) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3)

The Executive Session was recessed, and the regular meeting reconvened at 9:52 a.m.

Chairperson Fern reported that the following were approved in Executive Session:

- A recommendation to the Board to commit funds to a private credit fund, subject to contract negotiation.
- The Executive Session Minutes of April 3, 2023.

IV. PERFORMANCE REPORTS

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A. Quarterly Performance Report – Q1 2023

Mr. Colin Bebee of Meketa Investment Group (Meketa) highlighted significant points in the Q1 Performance Report. The OPEB Trust Fund portfolio finished the quarter at \$6.1 billion and gained 2.8% and 1.5% for the quarter and fiscal year (net of fees), respectively, underperforming the policy benchmark of 3.2% and 3.0%, respectively. Since inception (June 23, 2011), the portfolio has returned 7.1% (net of fees) versus the policy benchmark return of 6.9%.

During the quarter, all public managers with the exception of Geode (Global Options), Sun Life (Long Treasuries), AlphaSimplex (Trend Following), Lombard Odier (Alternative Risk Premia), Pillar (Reinsurance), and Nephila (Reinsurance) performed in line with or above their benchmarks. Geode underperformed due to having a more diversified mix of options compared to the benchmark, including local-currency, non-US index options. Sun Life slightly trailed its benchmark in Q1 but has closely tracked it over a longer time period. AlphaSimplex lagged its benchmark due to slight variances in their rules versus the index and was especially affected during the regional bank stress in March. Lombard Odier was terminated during the quarter. Pillar and Nephila produced solid absolute returns but underperformed the benchmark as publicly traded catastrophe bonds, which make up the bulk of the benchmark, strongly appreciated as yields declined. AlphaSimplex remains on Watch Status effective November 1, 2022 due to recent organization changes; otherwise, there are no concerns with any other managers at this time.

Mr. Bebee reported that the EUTF Trust Fund portfolio finished the quarter at \$478.9 million, up 2.0% and 2.1% 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 – Q4 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 fourth-quarter 2022. At the end of the quarter, Private Equity reported a market value of \$600.0 million, with a since inception internal rate of return of 19.3% (net of fees), outperforming the asset class benchmark of 3.7%.

C. Quarterly Private Credit Report – Q4 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 fourth-quarter 2022. At the end of the quarter, Private Credit reported a market value of \$390.7 million with a since inception internal rate of return of 8.1% (net of fees), outperforming the asset class benchmark of 5.2%.

D. Quarterly Real Assets Report – Q4 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 fourth-quarter 2022. At the end of the quarter, Real Assets reported a market value of \$618.3 million with a since inception return of 8.2% (net of fees), slightly outperforming the asset class benchmark of 7.9%.

V. NEW BUSINESS

A. Tail Risk Manager Guidelines

Mr. Bebee presented a memorandum recommending the investment guidelines for the separate account to be managed by LongTail Alpha, the Tail Risk Hedging manager selected by the Board in April. The guidelines include target annual premium spend, permitted asset types, monetization of gains, performance objectives and other parameters. The guidelines are aligned with industry standards as well as the approach that was previously communicated with the Investment Committee.

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After the presentation, the Committee, Meketa, and EUTF staff discussed certain guidelines in more detail, including one that allows EUTF staff to approve up to 7.5 basis points of premium spend per quarter (0.30% annualized) to purchase the tail hedging options. This is above the 0.25% target allocation, but the guideline allows for flexibility to adapt to market conditions and essentially sets an upper bound on the allowable range of annual spending, much like the target allocation ranges that apply to all other EUTF asset classes.

MOTION was made and seconded to recommend to the Board approval of the investment guidelines for the Tail Risk manager. (Ferguson-Miyamoto/Wakuzawa) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3).

B. Manager Update – TIPS

Mr. Bebee presented a memorandum recommending that the EUTF transition from an active to a passive TIPS mandate. The current mandate is managed by BlackRock, who manages \$296 million in the OPEB Trust Fund as of March 31, 2023. The recommendation is driven by BlackRock's recent decision to modify investment guidelines of their active TIPS fund to include non-benchmark securities, as well as the lack of value from active management. The transition to a passive fund would also reduce management fees. After an analysis of passive management options that compared fund scale, fees, tracking error, and excess return, BlackRock is being recommended to manage the passive TIPS mandate as well.

MOTION was made and seconded to recommend to the Board replacement of the actively managed TIPS strategy with a passively managed strategy. (Ferguson-Miyamoto/Wakuzawa) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3).

C. Custodian Contract Extension

Mr. Kuan Yuan presented a memorandum recommending that Northern Trust (NT)'s final 2-year extension option be exercised, which would extend the custodian's contract through June 30, 2025. The recommendation is based on NT's responsiveness, flexibility, familiarity with staff, and NT has met the scope of all obligations outlined in the contract. Due to the significant uptick in services delivered to support EUTF's growth since the contract's initiation, there is a price increase of 10.5% and 9.5% for the two extension years, respectively. The increase is in line with the terms of the original contract and both EUTF staff and Meketa believe it is reasonable. In addition, even with the increase, EUTF's fee rate would still be well below market.

MOTION was made and seconded to recommend to the Board extension of the custodian contract with Northern Trust for two years, through June 30, 2025. (Ferguson-Miyamoto/Wakuzawa) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3).

D. Staffing Update

Mr. Yuan presented an Investment Office staffing update comparing current staffing ratios to peers and outlining future growth plans. Peer data suggests that plans typically have 1.0-1.5 FTEs for every billion dollars managed or one FTE per 10-15 investment managers. EUTF's current staffing level is below these measures but would be in line with the peer group once the recently approved EUTF budget which adds an investment officer is implemented. To stay within range, about one FTE should be added per year over the next 2-3 years. If EUTF is not successful in reaching the target staffing level, fall back plans to consider include discretionary consulting for select private market programs (not desirable) or outsourcing operations for certain activities like capital calls and statement data extraction.

After the presentation, the Committee and EUTF staff discussed the hiring process for new Investment Office positions.

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VI. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

Mr. Yuan reported that the next Investment Committee meeting is scheduled for Thursday, June 22, 2023 at 9:00 a.m.

III. EXECUTIVE SESSION (CONTINUED)

The Executive Session reconvened at 11:10 a.m.

The regular meeting reconvened at 11:15 a.m.

VII. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 11:16 a.m. (Ferguson-Miyamoto/Wakuzawa) The motion passed unanimously. (Employer Trustees-1/Employee-Beneficiary Trustees-3)

Respectfully submitted,

/s/

Christian Fern, Chairperson

APPROVED on June 22, 2023.

Documents Distributed:

1. Draft April 3, 2023 Investment Committee Minutes. (2 pages)
2. EUTF Q1 2023 Quarterly Report, prepared by Meketa Investment Group, dated May 18, 2023. (97 pages)
3. EUTF Private Equity Q4 2022 Quarterly Report, prepared by Meketa Investment Group, dated December 31, 2022. (16 pages)
4. EUTF Private Credit Portfolio Review, prepared by Callan LLC, dated May 18, 2023. (23 pages)
5. EUTF Real Assets Performance Report – 4Q 2022, prepared by Callan LLC, dated May 18, 2023. (21 pages)
6. Memorandum to EUTF from Meketa Investment Group, Inc. regarding Tail Risk Hedging – Investment Manager Guidelines, dated May 18, 2023. (3 pages)
7. Memorandum to EUTF from Meketa Investment Group, Inc. regarding BlackRock – TIPS Mandate Change, dated May 18, 2023. (4 pages)
8. Memorandum to Investment Committee from EUTF Chief Investment Officer regarding Custodian Contract Extension, dated May 8, 2023. (7 pages)
9. EUTF Investment Office Staffing Update, prepared by EUTF Staff, dated May 18, 2023. (7 pages)