

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Investment Committee Meeting
Monday, May 20, 2024

TRUSTEES PRESENT

Mr. Christian Fern, Chairperson (excused at 10:26 a.m.) Ms. Maureen Wakuzawa
Mr. Robert Yu, Vice-Chairperson (excused at 11:20 a.m.) Mr. James Wataru
Mr. Wesley Machida (via video conference) Mr. Ryan Yamane (via video conference, excused at 11:20 a.m.)
Ms. Sabrina Nasir (via video conference)

TRUSTEES ABSENT

Ms. Jacqueline Ferguson-Miyamoto

ATTORNEY

Mr. Michael Chambrella, Deputy Attorney General

EUTF STAFF

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

CONSULTANTS (via video conference, unless otherwise noted)

Ms. Catherine Beard, Callan LLC Mr. Inwoo Hwang, Meketa Investment Group
Mr. Colin Bebee, Meketa Investment Group (in person) Mr. Pete Keliuotis, Callan LLC
Mr. Daniel Brown, Callan LLC Ms. Jan Mende, Callan LLC
Mr. Jonathan Camp, Meketa Investment Group Ms. Stephanie Sorg, Meketa Investment Group (in person)
Mr. Tad Fergusson, Meketa Investment Group (in person)

OTHERS PRESENT (via video conference)

Joe Ebisa, With Intelligence

I. CALL TO ORDER

The meeting of the Investment Committee was called to order at 9:00 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, May 20, 2024.

II. REVIEW OF MINUTES – MARCH 5, 2024

The Investment Committee reviewed the draft minutes of March 5, 2024.

MOTION was made and seconded to approve the minutes of March 5, 2024, as circulated. (Wataru/Yu) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-3)

III. EXECUTIVE SESSION

MOTION was made and seconded to move into Executive Session at 9:03 a.m. (Wataru/Yu) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-3)

The regular meeting reconvened at 10:25 a.m.

Chairperson Fern reported that the following occurred during Executive Session:

- Approved a recommendation to the Board to commit funds to a private real assets fund, subject to contract negotiations.
- Approved a recommendation to the Board to commit funds to a private credit fund, subject to contract negotiations.
- Discussed a private equity co-investment.

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- Reviewed and discussed the March 5, 2024 Executive Session Minutes.

MOTION was made and seconded to approve the Executive Session minutes of March 5, 2024, as circulated. (Wataru/Yu) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-3)

Chairperson Fern was excused from the meeting at 10:26 a.m. and Vice-Chairperson Robert Yu assumed the role of chairperson.

IV. NEW BUSINESS

A. Quarterly Performance Report – Q1 2024

Ms. Stephanie Sorg and Mr. Colin Bebee of Meketa Investment Group (Meketa) highlighted significant points in the Q1 Performance Report. The OPEB Trust finished the quarter at \$7.6 billion, gaining 3.7% and 10.3% for the quarter and 1-year, respectively (net of fees), underperforming the policy benchmark of 4.1% and 11.5%, respectively. Underperformance during both periods was primarily attributed to short-term benchmarking challenges within the Private Equity and Private Credit asset classes. Since inception (June 23, 2011), the portfolio has returned 7.3% (net of fees) versus the policy benchmark return of 7.3%.

During the quarter, all public managers with the exception of Northern Trust (Non-US Public Equity), SLC (Long Treasuries), Nephila (Reinsurance), and Pillar (Reinsurance) performed in line with or above their benchmarks. Northern Trust and SLC are passive/enhanced index strategies, so they have closely tracked the benchmark over longer periods. Nephila and Pillar produced solid absolute results during the quarter but underperformed the benchmark due to differences in how premium revenue is recognized. Nephila and Pillar recognize premium revenue based on the timing/probability of events, so are more weighted towards summer months, while the benchmark recognized premium revenue more linearly.

Ms. Sorg and Mr. Bebee reported that the EUTF Trust Fund finished the quarter at \$573.3 million, up 4.5% and 10.7% for the quarter and 1-year, respectively (net of fees). Since inception (October 1, 2013), the portfolio has returned 3.8% (net of fees).

During Meketa's presentation, the Committee, Meketa, and EUTF staff discussed how hypothetical actuarial rate changes and the upcoming presidential election may potentially impact EUTF's asset allocation.

B. Quarterly Private Equity Report and Annual Portfolio Review – Q4 2023

Mr. Tad Fergusson of Meketa highlighted significant points in the Private Equity Annual Performance Review. Since reporting for private market investments is lagged by one quarter, the report covers performance through fourth-quarter 2023. At the end of the quarter, Private Equity reported a market value of \$735.2 million (10.2% of the OPEB Trust), with a since inception return of 14.7% (net of fees), outperforming the asset class benchmark of 7.2%.

During Meketa's presentation, the Committee, Meketa, and EUTF staff discussed the impact of the Hong Kong/China conflict on private equity investing in Asia.

C. Quarterly Private Real Assets Report – Q4 2023

This report was included for informational purposes and was not discussed at the meeting.

D. Quarterly Private Credit Report – Q4 2023

This report was included for informational purposes and was not discussed at the meeting.

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E. OPEB Asset-Liability Study Part 2

Mr. Bebee and Mr. Jonathan Camp of Meketa presented the final step of the OPEB Asset-Liability (A/L) study, which seeks to establish a new long-term strategic asset allocation policy for the OPEB Trust. The capital market assumptions for each asset class presented during the March 2024 Investment Committee meeting were used in an iterative modeling process to arrive at a set of three portfolio options, each representing varying levels of risk and return. Unlike past asset allocation studies, this process also integrated OPEB's liabilities (projected future benefit payments) and their effect on projected funded status and portfolio volatility.

Option A represents a more conservative risk posture with the same expected return as the Current Policy, but slightly lower risk characteristics (standard deviation and expected max drawdown). Option B has a higher expected return than the Current Policy with a moderate increase in risk. Option C has the highest expected return and risk characteristics of the three options. Options A and B would require smaller changes to the underlying asset class targets relative to Option C that would entail a more meaningful increase to global equity. Option B was recommended by Meketa and EUTF staff.

During Meketa's presentation, Trustee Yu announced that he needed to leave the meeting.

MOTION was made and seconded to elect a Chairperson Pro Tem to preside over the remainder of the meeting. (Wataru/Wakuzawa) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-2)

Trustee Yu asked for nominations for Chairperson Pro Tem.

MOTION was made and seconded to elect Trustee James Wataru to serve as Chairperson Pro Tem. (Machida/Yamane) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-2)

Trustees Yu and Yamane were excused from the meeting at 11:20 a.m.

Meketa continued their presentation and emphasized that the ability of employers to fully fund their required contributions remains the primary determinant of funding ratio success. However, lower contribution levels (e.g., 50% and 75%) do not materially alter what would be the optimal asset allocation. After the new long-term policy portfolio is selected, Meketa and EUTF staff will develop an evolving policy plan to help guide the transition which will be presented at the next Investment Committee meeting in August.

After Meketa's presentation, the Committee, Meketa, and EUTF staff discussed the differences between Options B and C in terms of risk, return, and target asset class composition. Due to its higher risk characteristics, Option C would perform worse than Option B in negative market environments but does have a higher expected long-term return.

MOTION was made and seconded for the Investment Committee to recommend to the Board approval of the proposed long-term strategic allocation Option C for the EUTF OPEB Trust. (Machida/Wakuzawa) Trustee Wataru noted his preference to defer to staff and Meketa's recommendation of Option B. The motion failed. (Employer Trustees-2 YES Machida, Nasir/Employee-Beneficiary Trustees-1 YES Wakuzawa, 1 NO Wataru)

The Committee, Meketa, and EUTF staff further discussed the differences between Options B and C. Trustees noted that they would also agree to Option B.

MOTION was made and seconded for the Investment Committee to recommend to the Board

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approval of the proposed long-term strategic allocation Option B for the EUTF OPEB Trust. (Machida/Wakuzawa) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

V. FUTURE AGENDA ITEMS DISCUSSION AND POSSIBLE MEETING DATES

Mr. David Okamoto reported that the next Investment Committee meeting is scheduled for Tuesday, August 20, 2024.

VI. ADJOURNMENT

MOTION was made and seconded for the Investment Committee to adjourn the meeting at 11:51 a.m. (Wakuzawa/Machida) The motion passed unanimously. (Employer Trustees-2/Employee-Beneficiary Trustees-2)

APPROVED on August 20, 2024.

Documents Distributed:

1. Draft March 5, 2024 Investment Committee Minutes. (4 pages)
2. EUTF, Q1 2024 Quarterly Report, prepared by Meketa Investment Group, dated May 20, 2024. (108 pages)
3. EUTF, Private Equity Q4 2023 Quarterly Report, prepared by Meketa Investment Group, dated May 20, 2024. (20 pages)
4. EUTF, Real Assets 4Q 2023 Quarterly Performance Review, prepared by Callan LLC, dated May 20, 2024. (26 pages)
5. EUTF, 4Q 2023 Private Credit Portfolio Review, prepared by Callan LLC, dated May 20, 2024. (21 pages)
6. EUTF Asset-Liability Study Part 2, prepared by Meketa Investment Group, dated May 20, 2024. (43 pages)