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Committee on Asset and Resource Management

Trustee Rowena Akana, *Chair*

Trustee John D. Waihe'e, IV, *Vice-Chair*

*Members*

Trustee Lei Ahu-Isa

Trustee Dan Ahuna

Trustee Peter Apo

Trustee S. Haunani Apoliona

Trustee Carmen Hulu Lindsey

Trustee Robert K. Lindsey, Jr.

Trustee Colette Y. Machado

**STATE OF HAWAII**  
**OFFICE OF HAWAIIAN AFFAIRS**  
560 N. NIMITZ HIGHWAY, SUITE 200  
HONOLULU, HAWAII 96817

LIEUTENANT GOVERNOR'S  
OFFICE

**MEETING OF THE COMMITTEE ON ASSET AND RESOURCE MANAGEMENT (ARM)**

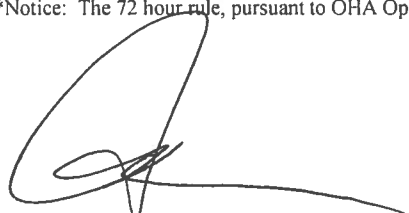
**DATE:** Tuesday, February 17, 2015  
**TIME:** 10:00 a.m.  
**PLACE:** OHA Board Room, Suite 200  
560 N. Nimitz Hwy.  
Honolulu, HI 96817

**AGENDA**

- I. Call to Order
- II. Community Concerns / Beneficiary Comments\*
- III. Approval of Minutes
  - A. January 27, 2015
- IV. New Business\*\*
  - A. Action Item ARM #15-02 NHTF Approved Advisors & Non-Marketable Asset Providers List Revisions
  - B. Native Hawaiian Trust Fund 3<sup>rd</sup> Quarter 2014 Performance Review with JP Morgan
  - C. Native Hawaiian Trust Fund 3<sup>rd</sup> Quarter 2014 Performance Review with Goldman Sachs
  - D. Native Hawaiian Trust Fund 3<sup>rd</sup> Quarter 2014 Performance Review with Commonfund
  - E. Native Hawaiian Trust Fund 3<sup>rd</sup> Quarter 2014 Total Portfolio Performance Review
- V. Announcements
- VI. Adjournment

\*Notice: Persons wishing to testify are requested to submit 10 copies of their testimony to the CEO at 560 N. Nimitz Hwy., Honolulu, HI 96817 or fax to 594-1868 48 hours prior to the scheduled meeting. Oral testimony shall be limited to five minutes.

\*\*Notice: The 72 hour rule, pursuant to OHA Operations Guide, may be waived for distribution of new committee materials.

  
Trustee Rowena Akana, Chair  
Committee on Asset and Resource Management

2/10/15  
Date

Office of Hawaiian Affairs  
560 No. Nimitz Highway, Suite 200  
Honolulu, HI 96817

Committee on Asset & Resource Management

MINUTES OF MEETING OF FEBRUARY 17, 2015

**TRUSTEES PRESENT:**

TRUSTEE ROWENA AKANA, CHAIR ARM COMMITTEE  
TRUSTEE JOHN WAIHE'E, IV, VICE CHAIR ARM COMMITTEE  
TRUSTEE LEI AHU ISA  
TRUSTEE DAN AHUNA  
TRUSTEE HAUNANI APOLIONA  
TRUSTEE CARMEN HULU LINDSEY (Arrived 10:07 a.m.)  
TRUSTEE ROBERT LINDSEY

**TRUSTEES EXCUSED:**

TRUSTEE PETER APO  
TRUSTEE COLETTE MACHADO

**BOT STAFF:**

ANI PANG  
CLAUDINE CALPITO  
KAUI WAILEHUA  
LOUISE YEE-HOY  
REYNOLD FREITAS

BETHANN AHSING  
DAVIS PRICE  
LADY GARRETT  
NATHAN TAKEUCHI

**ADMINISTRATIVE STAFF:**

KAMANA'OPONO CRABBE, CEO  
DEIRDRA ALO, AS

DAVID OKAMOTO, INVT

**GUESTS:**

DARREN SMITH, JP MORGAN  
JOHN DIPALO, GOLDMAN SACHS  
TOM SNAYD, COMMONFUND (TELECONFERENCE)  
DANA MOREAU, COMMONFUND (TELECONFERENCE)

ZACHARY PAGE, JP MORGAN  
STEVE LANZO, COMMONFUND

**I. CALL TO ORDER**

**Chair Akana** called the meeting to order at 10:05 a.m. Trustees present are Ahu Isa, Ahuna, Akana, Apoliona, Robert Lindsey, and Waihe'e constituting a quorum of six (6) Trustees.

## **II. COMMUNITY CONCERNS / BENEFICIARY COMMENTS**

**Trustee Ahu Isa** congratulated Trustee Haunani Apoliona for being honored as one of Hawaii's Living Treasures.

## **III. APPROVAL OF MINUTES**

**Moved by Trustee Ahuna, second by Trustee Waihe'e** to approve the committee minutes of January 27, 2015. Hearing no objection, motion passed.

## **IV. NEW BUSINESS**

### **A. Action Item ARM #15-02 NHTF Approved Advisors & Non-Marketable Asset Providers List Revisions**

**Chair Akana** said John, please make the motion.

**Trustee Waihe'e** said Madame Chair, I move to approve the Native Hawaiian Trust Fund Approved Advisors & Non-Marketable Asset Providers List as described in Attachment "A" (Approved Advisors List) and add SSARIS Advisors LLC ("SSARIS") as an approved Manager of the Enhanced Liquidity Account.

**Trustee Ahuna** said second.

**Chair Akana** said all right, David, could you explain what this action item means?

**David Okamoto** said sure, in 2012 we created what we call the Approved Advisor's List & Non-Marketable Asset Providers list and the idea is to document who are the companies that the Board has hired to manage the specific parts of the portfolio. So the reason for the revision now is one of the sub-managers called SSARIS used to be a subsidiary of the SSGA who's been approved for the past five years. A couple months ago we got word from them that they're going to split off. So they're no longer going to be a subsidiary. So since they're going to be out on their own, we have to kind of get them re-approved as a stand-alone manager. That's just the whole idea of the revision. They're out on their own so therefore we have to have them approved as a standalone. The good thing is that it's the same people, same strategy, process is the same. The only thing difference is the ownership and actually they're now going to be owned one hundred percent by senior management and the employees of the company. We actually feel that find of increases the alignment of interests, but between OHA and SSARIS.

**Chair Akana** said David, how much of our portfolio do they manage?

**David Okamoto** said one percent.

**Chair Akana** said and that equates to?

**David Okamoto** said that about three million or so.

**Chair Akana** said so it's a small amount?

**David Okamoto** said yes, it's a small piece.

**Chair Akana** said and what is that investment in primarily?

**David Okamoto** said so what it is, the actual fund, they run this multi-strategy program and where it sits is the enhanced liquidity account and that's money that we kind of keep for our operational spending, and what this fund does is supposed to provide what we call an absolute returns, so kind of like a real steady kind of return. They way it does that it uses kind of a mix of two different strategies, what are called convergent and divergent strategies. Convergent strategies are meant for kind of like when markets are normal and then divergent strategies, those are meant for kind of when markets kind of get a bit more irrational and what they do is they weight them fifty-fifty because you don't always kind of know when markets are going to be rational, when they're going to be irrational and they can change kind of very quickly. So the idea is they have these two things, you combine them together into one fund and the idea is to get a kind of steady kind of rate of return.

**Trustee Ahu Isa** said they're considered more of a balanced thing? It's not just set conservative? They balance everything?

**David Okamoto** said yeah I guess you can say that. It invests in a lot of different things, so stocks, bonds, commodities, currencies and then what it does is they use these kind of different trading strategies in order to kind of get a steady return.

**Trustee Ahu Isa** said is there a reason why they split off?

**David Okamoto** said it's mostly regulation. So SSGA, they themselves are subsidiaries of State Street Bank. Because of their size, what's called a "sifi" or a systemically important financial institution, so you know you've heard the term "too big to fail," right, so it's one of those. Because of their size you have more increased regulation and there's this other kind of new regulation, it's called the "Volcker Rule" that's saying that Big Banks, they're limited to the amount what they can kind of invest in or what their subsidiaries can be involved in, or if they are involved in, they're subject to much more regulation, what are called "Capital Requirements" and all those things. So the idea was, you know, we'll be better off as two separate companies. They kind of both agreed, so that's the reason for the split.

**Chair Akana** said David, this fund is relatively liquid so the turn around, if we needed the money would be quick, right?

**David Okamoto** said yeah, and actually in a couple months they actually said they'll be offering a kind of new version of this fund on kind of the same strategy, which will actually be more liquid and the fees will actually go down. So once that becomes available, the idea is to shift into that new fund.

**Chair Akana** said when that happens, would it be a good idea to look at the policy again to see if maybe more of the portfolio would be put into this fund, considering that we're looking at the reserve fund being at three million and then adding to that cost of living, say every year you would put something as the cost of living goes up you would have three million plus, yada yada, three million plus, yada yada, and then added to that you'd have this liquidity fund that you could draw from should you need it.

**David Okamoto** said yeah, so right now the target for the enhanced liquidity account, that is kind of set in the investment policy, and we were planning to bring back the policy again and following the kind of the adoption of the real estate policy, once that gets approved, obviously that has implications for the investment policy so at that time, you know we could kind of look at what's the optimal allocation for this enhanced liquidity account and do we want to increase that percentage, decrease that percentage and then what that would be composed of? So ,yeah, I think that's fair.

**Chair Akana** said okay, and other questions? If not, thank you very much David.

**Trustee Apoliona** said call for the vote please.

**Chair Akana** said roll call vote.

TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT
LEI	AHU ISA			X			
DAN	AHUNA		2	X			
PETER	APO						EXCUSED
HAUNANI	APOLIONA			X			
HULU	LINDSEY			X			
ROBERT	LINDSEY			X			
COLETTE	MACHADO						EXCUSED
JOHN	WAIHEE	1		X			
CHAIR ROWENA	AKANA			X			
TOTAL VOTE COUNT				7	0	0	2
MOTION: <input checked="" type="checkbox"/> UNANIMOUS <input type="checkbox"/> PASSED <input type="checkbox"/> DEFERRED <input type="checkbox"/> FAILED							
Motion passes with seven (7) YES votes, two (2) excused.							

#### B. Native Hawaiian Trust Fund 3<sup>rd</sup> Quarter 2014 Performance Review with JP Morgan

**David Okamoto** said so we have Darren Smith and Zach Page from JP Morgan. So what they'll start with, they'll do a very brief overview just of what did the general economy look like in third quarter. They'll go into third quarter results and because it's already February, they do have preliminary fourth quarter results for you so they can kind of take a look at what did the fourth quarter look like and then how did we finish out the year.

**Darren Smith** said and then I'll finish up when Zach is done just to give you an update on the committed capital on the two non-traditional, alternative products that you've invested in and I just want to start by saying happy New Year. It's been the first time we've been out here to see you since then. So with that we know you have three managers to get through today so Zach's got the floor.

**Zachary Page** went over pages 2, 7, 8, 9 and 10 of the Market Summary section of the February 17, 2015 OHA Board Report.

**Trustee Ahu Isa** said I'm following Greece and what's going on there. Right now, if they don't agree to, is it Germany, Merkel?

**Zachary Page** said yes.

**Trustee Ahu Isa** said offering them, if they don't go along with it, what happens to the Euro? They're tied into the Euro, right?

**Zachary Page** said correct, so that's the question to ask and nobody knows. Nobody has exited the Euro area, so it's unclear how that will impact the value of the Euro. Right now, the dollar, which is one of the major benchmarks for the Euro, is strengthening and the Euro has weakened. That has actually been a positive for most major European based companies in that their currency has been devalued, it enhances their ability to export goods, but if Greece exits, that could cause some major uncertainty. People won't know how to react to that, so we're watching it closely. What has been notable is that the volatility in what we look at are the spreads or the cost of borrowing, so the credit quality. We measure one credit quality, has not spread out so people are not completely over reacting. It seems like there's a more measured approach, both for market participants as well as those at the negotiating table

**Trustee Ahu Isa** said thanks. It confirms what I've been thinking. Thank you, Chair.

**Chair Akana** said what is the current ratio, dollar to Euro, right now?

**Zachary Page** said I don't know that, but I can absolutely find out for you. I think that the Euro is still about 120 to 140 to the dollar. One Euro still buys more than one dollar.

**Chair Akana** said about twenty cents more?

**Zachary Page** said about, yes.

**Chair Akana** said that's considerably less than last year. Last year, a thousand dollars got you \$640 American.

**Zachary Page** said the two themes coming out of the 4<sup>th</sup> quarter were the strengthening dollar as well as the fall in oil prices. And those are two things that we've kept an eye on and they're backed on the portfolio. Right now, most global investors see the U.S. as one of the safe havens and one of the few areas that there is likely growth and the U.S. economy is at one of the later stages of its business cycle relative to other major economies and emerging economies. So there've been a lot of asset flows into the U.S. Strong demand for the U.S. dollar.

**David Okamoto** said so the current exchange rate is actually a \$1.15 per Euro. Not too long ago it was a \$1.35.

**Chair Akana** said thank goodness. It was cheaper to buy things in the U.S. than certainly buying anything in Europe for sure. I mean, you couldn't buy anything in Europe.

**Zachary Page** said so as the Euro devalues, that should be a stimulus for the European economy. Meaning people won't have to pay as much to buy the Euros that they then need to buy European goods.

**Zachary Page** went over pages 30, 32, 35, 38 of the JP Morgan section of the February 17, 2015 OHA Board Report, Third Quarter 2014, compiled by State Street Global Services.

**Kamana'opono Crabbe, Ka Pouhana/CEO** said you had mentioned in the previous slide that there was a two point seven under performance. Is that the total portfolio?

**Zachary Page** said that's JP Morgan's traditional assets portfolio.

**Kamana'opono Crabbe, Ka Pouhana/CEO** said so the emerging markets are separate?

**Zachary Page** said no, those are included. The non-marketable, private investments are not included.

**Kamana'opono Crabbe, Ka Pouhana/CEO** said that's helpful.

**Zachary Page** said I might close there. I'll be happy to take any questions after meeting offline. But as always we appreciate the time and the opportunity to work with OHA.

**Darren Smith** went over page 42 of the JP Morgan section of the February 17, 2015 OHA Board Report.

**Chair Akana** said how many times have we changed our policies or benchmarks?

**Zachary Page** said the one change, so there was the initial and then we updated it, or David and Howard updated it in January of 2013.

**David Okamoto** said they were originally hired in July 2011. And from July of 2011 to December of 2012 then [inaudible]

**Chair Akana** said what were those changes, those benchmarks?

**David Okamoto** went over page 48 of the JP Morgan section of the February 17, 2015 OHA Board Report.

**Chair Akana** said was it because REITs wasn't doing well?

**David Okamoto** said no, not necessarily. It's more of the outlook on fixed income [inaudible].

**Trustee Hulu Lindsey** said any forecast for the beginning of the next year?

**David Okamoto** said volatility.

**Zachary Page** said January was a tough month. The way that interest rates moved, they moved over the course of the month was the same distance they moved for the whole prior year. There's more volatility. That said, the U.S. economy and earnings that have been coming out in the 4<sup>th</sup> Quarter look strong, so we still think that the U.S. is going to have a strong year and a strong first quarter. It will be interesting to see how some of the weather, in particular the Northeast U.S. plays out in terms of economic activity, but we think the U.S. will be strong, the European Central Bank has followed through on their stimulus package and has at least met if not exceeded what market participants were expecting, which bodes well for asset prices there. So in terms of the U.S. and Europe we think they should be strong, strong asset returns, but that said, as David mentioned, there is some volatility. We're seeing right now what seems like a peace settlement in Ukraine, but you never know. As well as some of the turmoil in the Middle East and then also keeping an eye on Greece. A little politics there.

**Kamana'opono Crabbe, Ka Pouhana/CEO** said I'm just curious, President Obama recently visited India and tried to strengthen ties there in technologies and economic packages. What do you foresee that impact on the U.S. and going in that direction in terms of helping that particular country?

**Zachary Page** said it looks like in the long term it could likely help India quite a bit. Its impact on the U.S. is uncertain. If anything, from a geopolitical standpoint, regardless of capital markets and how it hits U.S. asset prices, having a trading partner and a counter balance to China in the region should promote more stability, but that said, I think this is part of the Obama administration's push to a broader relationship with all countries in Asia and that stability there should bode well. We want to have positive relations with both China and India and if they're both strong, I think it bodes well for global stability.

**Chair Akana** said I just have one final question. How do you see Cuba fitting into all of this do you see any bright lights heading that way with the doors opening now?

**Zachary Page** said right now, I don't know that's going to have a major impact on financial markets or asset prices given the size of the economy there. It's relatively small compared to especially the U.S. but most other economies, but it will be interesting to watch how they transition. And it's certainly an opportunity for trade for the U.S. given that it's been dormant for so long. So right now it'll be interesting to watch, I don't know if it will have a huge impact on global economics, but we'll certainly, it's sort of a test balloon to watch as the country tries to re-enter global capital markets.

**Chair Akana** said it'll certainly be a safer country to do business with considering what's happening in the Middle East and other places in the world.

**Zachary Page** said absolutely, it's all relative.

**Chair Akana** said thank you.

**Zachary Page** said thank you.

**Darren Smith** said thank you very much.

### **C. Native Hawaiian Trust Fund 3<sup>rd</sup> Quarter 2014 Performance Review with Goldman Sachs**

**David Okamoto** said so up next we have John DiPalo from Goldman Sachs.

**John DiPalo** went over pages 50, 52, 54 and 62 of the Goldman Sachs section of the February 17, 2015 OHA Board Report.

**John DiPalo** said so lastly I'm just going to go quickly through some of the non-marketable equities, this is on slide 62, and I won't go through every single one, but I will just highlight that, so you'll look here and see that, so the Hedge Fund Portfolio II, this was liquidated and the remaining market value is due to the Lehman Brothers holdings so we're still trying to unwind those.

**Chair Akana** said how much longer to liquidate the rest of this?

**David Okamoto** said so we check up with them on this kind of thing {inaudible}, it's kind of hard to say, maybe about five years. A lot of it is kind of a trade off because it's illiquid, if I want my cash now, you could go out into the market and sell it, but you'd have to sell it at a real steep discount or if you're willing to be patient and wait a little while longer, you're more likely to get, you know {inaudible}.

**Chair Akana** said well David, how much do you estimate we've lost so far hanging on to this?

**David Okamoto** said I guess you mean from not having the money to put [inaudible].



**Chair Akana** said yes, how long has it been since we've tried to liquidate this fund?

**David Okamoto** said [inaudible] ...that was one last remaining piece [inaudible] ...as I said, kind of the idea is if you wanted all your cash, you could get it, but you could, you know [inaudible].

**Chair Akana** said well next report we should know?

**David Okamoto** said yes we give you an update every year.

**Chair Akana** said a once a year check?

**John DiPalo** said not a lot happens, often, but we do get some updates for the proceedings of the Lehman Brothers cases that are out there and what can be recovered.

**John DiPalo** continued to go over page 62 of the Goldman Sachs section of the February 17, 2015 OHA Board Report.

**Chair Akana** said you said Sea World?

**John DiPalo** said yes.

**Chair Akana** said it's national SeaWorld, right? Aren't they in trouble, Sea World? Aren't they facing a lot of lawsuits because of the whales killing the trainers and all that stuff?

**David Okamoto** said yes there was that thing where the trainer got killed and the documentary on CNN, "Blackfish" I think, but [inaudible].

**Trustee Ahu Isa** said I want to disclose that I work for Hilton and I watched Blackstone because we're doing a big project in Waikiki with them, February 11<sup>th</sup> a Ziff Brothers investment and Goldman Sachs money management unit entered into a partnership providing capital to hedge funds in Asia. And it talks about the big boys entering the market. Hundred million at least invested. This accounts for a swelling share of money invested in hedge funds. The reason I ask this is because it talks about the deals that focused on money which, this provides a gateway for institutional investors such as pension, endowments, and sovereignty wealth funds that accounts for a swelling amount invested in hedge funds. My own interests, if you knew anything about that hedge fund investment in Asia.

**John DiPalo** said I don't. I don't think it pertains to any of these investments, but I mean I could find out from the particular, there's a few hedge fund groups within Goldman, but yeah I can definitely find out. Sure.

**Trustee Ahu Isa** said thank you, because we're a sovereign wealth fund.

**John DiPalo** said if you guys are interested. Sure.

**Chair Akana** said question. Usually in the mornings I watch the money part of CNN as much as I can. Hedge funds seems to be a sore spot with a lot of people. Is hedge funds now looking like it's not a good thing to be investing in at this point or people are being more cautious about investing in hedge funds?

**John DiPalo** said I mean, throughout the years of dealing with clients, I mean, there's different clients who perceive hedge funds in certain ways, not to say one hedge fund manager versus another is the appropriate investment for a particular client, but if you do due diligence on the hedge funds like a number of our groups

do, they are diversifying investments for clients. It's also a good source, depending on the diversity within, because there's different types of hedge fund investment sectors that you can do, so you want to make sure that you're in a well-diversified hedge fund, as well, to diversify your overall portfolio. It depends on what you're looking at. We feel that it's a good investment for portfolios to diversify.

**David Okamoto** said I would say that, I guess [inaudible] ...they can contribute to the story of hedge funds as probably [inaudible] ...a lot of kind of what John said so Hedge Funds have had. So there was one big story that came out about hedge Funds last year and that was CalPERS, the California Public Employees' Retirement System, \$300 billion pension plan decided to get out of Hedge Funds, so for them kind of what got lost in the details was the fact that it was just a one percent allocation in their portfolio. So they're trying to find \$3 billion worth of good Hedge Funds out there and for them it kind of makes sense, because if it's only going to be one percent of your portfolio, it's not going to move the needle, you know, up or down. And the other kind of big thing with Hedge Funds is, there's a lot of them out there, but there's probably very, very few who are actually any good. Out of averages and kind of like the indexes and [inaudible] always gets skewed with the 97% of them out there who are really any good and that's why we hire people like Commonfund to find the kind of top three percent. Few actually deliver good returns that diversify your portfolio that are worth the fees, because they are expensive. So that's why we have a good Hedge Fund portfolio because it is managed by a very experienced team, a very good team such as Commonfund.

**Chair Akana** said so David, are you saying that Commonfund does a better job at hedge fund managing than Goldman Sachs.

**David Okamoto** said I guess I would have to say that because in 2011 we selected Commonfund to do our Hedge Funds and we didn't select Goldman Sachs.

**Chair Akana** said thank you.

**David Okamoto** said but they still do a good job on the Traditional Asset Portfolio. They still do a good job with their Private Equity and Private Credit.

**Chair Akana** said okay, thanks.

**David Okamoto** said everyone has their strengths and weaknesses.

**John DiPalo** said well thank you. If there are any follow-ups just let us know.

**Chair Akana** said thank you.

#### **D. Native Hawaiian Trust Fund 3<sup>rd</sup> Quarter 2014 Performance Review with Commonfund**

**David Okamoto** said so we have Steve Lanzo from Commonfund and we've also got two people on the phone and he's going to dial them in right now.

**Tom Snayd** (via teleconference) went over page 73 of the Commonfund section of the February 17, 2015 OHA Board Report.

**Dana Moreau** (via teleconference) went over the Hedge Fund Portfolios and the amount of positioning and what helped and what hurt for the Third Quarter 2014 on pages 72 and 73 of the Commonfund section of the February 17, 2015 OHA Board Report.

**Tom Snayd** (via teleconference) went over pages 74 and 75 of the Commonfund section of the February 17, 2015 OHA Board Report.

**Dana Moreau** (via teleconference) went over page 75 of the Commonfund section of the February 17, 2015 OHA Board Report.

**Steve Lanzo** said very similar headlines that you heard this morning in terms of this notion of increased volatility. Emphasis on the U.S. versus Europe versus emerging. But doesn't mean there aren't opportunities as we just saw with being short some different securities in Europe or in places like India as well so again, so that's our role to monitor the managers across these programs, make changes to managers where we see fit and continue to work with David as it relates to positioning of the asset allocation within your policy targets and ranges. We thank the Trustees for your time and for the opportunity to continue to work with OHA.

**Chair Akana** said I just want the Trustees to look at the end of 2014, this is page 77. We had a minus seven point three so we didn't do well overall.

**David Okamoto** said Trustee Akana, if you wanted to go over the total portfolio, that's actually on page 5.

**Chair Akana** said yeah, I know, but when you look at inception to date, I mean that's a long time ago. I like to look at how we did during the year and how much we made and how much lost, how much we withdrew and what I see over time is that what we've done is we've withdrawn a lot of money from our portfolio and we need to stop doing that and try to live within our means and we see this in our reports. What's the sense of investing if we can't keep our money in our portfolio for a rainy day? So it's a trend that been on for a long time and we need to be cognizant of it and hopefully we begin now to watch the spending and when you look at the withdrawals that we've made, everything we've made, we spent.

#### **E. Native Hawaiian Trust Fund 3<sup>rd</sup> Quarter 2014 Total Portfolio Performance Review**

**David Okamoto** went over pages 4, 5, and 12 of the Total Account section of the February 17, 2015 OHA Board Report.

**David Okamoto** went over a handout on the rates of return for the period ending December 31, 2014 provided by State Street Investment Analytics.

**Chair Akana** said the housing market looks like it's picking up and some years ago Fannie Mae and Freddie Mac, they were in some trouble, but now, I guess the government has fixed them and they're doing well, they're guaranteeing loans again. The housing market is picking up, even in areas like Florida and Las Vegas, so even though lending is tighter now to buy houses, the market is still going up, but the problem with the borrowing is that only people with money are able to buy and the middle income people are not able to purchase because of the lending qualifications so, how do you suppose the market is going to adjust or is there some kind of rainbow at the end of this crisis because we see it here and Hawaii of course is one of the most expensive places to live, but you see it all over America too and I don't know, maybe this is a question for these people who invest for us over there to answer but, certainly, is that an investment niche somewhere?

**David Okamoto** said there is what are called mortgage backed securities that you can buy that are, it falls under fixed income. A lot of people do invest in them. I would say the idea of a 30-year mortgage is something uniquely American and it is because of Fannie and Freddie, the two government sponsored

entities that kind of guarantee mortgages. For the question of, you know, some people are unable to get loans, I guess it's an interesting one because if you look at well, what caused the past crisis, I mean at its fundamental level, right, it was loaning money to people who probably shouldn't have gotten loans, subprime, you know, and then through various different mechanisms with the financial markets, their incentives get distorted and people take risks that they wouldn't necessarily have taken, but a lot of it does kind of come down to, if you're a bank, you have to have tough underwriting standards. If you give a \$400,000 loan to someone who only has a minimum wage job, that's not a sustainable business model. So it really is trying to balance getting credit to people who want it, but you don't want to be too loose in the sense that then, if one, the person goes bankrupt because they defaulted on their house and they can't pay their mortgage and then also then the banks kind of get hit or investors who are buying the securities kind of take a hit, then you have all these follow-on effects which essentially was the 2008-2009 financial crisis. So it's a real tough decision. I don't think I have the answer how do you exactly balance, how do you give people who kind of need money with maintaining underwriting standards and making sure that your banks are solid and that your financial system is solid and sustainable.

**Trustee Ahu Isa** said that's why because people can't get mortgages or the banks are just as tight with their funds, the rental markets going to up. Blackstone foresaw this and bought all those foreclosed properties in Vegas and Florida anticipating, especially with the double digit interest rates, it's going to happen.

**David Okamoto** said there certainly a lot of funds, a lot of companies have raised funds, but what they're doing is, they did right, they found, people who foreclosed on their houses kind of went in mass, in bulk and they're able to buy almost like whole developments and then, essentially, either rent it back to the people who used to have them or to new people. There does exist that kind of opportunity.

**Trustee Ahuna** said David, so if I don't know anything about these individual assets, would the Investment Policy be a good place to start to understand how to invest or how to work each individual stock. Can you talk about our Investment Policy, because I don't know about individual assets like, I would know Blackstone. How would I look at it as a Trustee? Knowing my role and understanding my role, I want to know about how do I know if this is a good investment or how do I know how much I'm willing to lose in this investment?

**David Okamoto** said so the best place to start, I would say, yeah is the IPS. The big role that is defined in the Investment Policy Statement for the Trustees is defining what is called the Strategic Asset Allocation. So what that is, that's the mix of assets that we're going to put in the portfolio. Right now it's 38% equity, 11% credit, 5 ½% REITS, 10% Hedge Funds, 2% Commodities, because that's the big decision that the Trustees make because that's what drives the risk and return of the portfolio. There's studies that have said it's 90% of what you get out of your portfolio is just getting that Asset Allocation decision correct. So the second one is then making sure you understand, at least at a high level, what each one of those things are, in that Asset Allocation. And you don't necessarily have to be an expert hedge fund manager, that's why we have Commonfund, you don't have to be an expert in picking stocks, that's why we have Goldman and JP Morgan, but the idea, the big thing to understand is what are the risk/return characteristics of each one of those. So knowing that equities have a higher rate of return, but also a higher risk than bonds and that hedge funds have a different return profile than bonds or stocks or private equity has its own set of different risks and returns than say public equity. So knowing that, I'd say that's kind of the big, kind of what you need to know at that level, is knowing the relative differences between them and then also what is their place in the portfolio. Right, so it's equities for growth, Hedge Funds are for protection, commodities are to protect us from inflation, so getting that understanding is the most important.

**Trustee Ahuna** said so that's the reason for diversification?

**David Okamoto** said exactly, right. It's always about not looking at an asset class or an asset in isolation, but what does it do to the total portfolio.

**Trustee Ahuna** said so for me, I need to know who is the advisors and who is the managers of this, right, to follow this.

**David Okamoto** said right, so in the case of traditional assets, so that's equity, credit and REITS, the advisors then are Goldman and JP Morgan and the underlying managers, the way that the portfolios are structured is, those decisions are delegated to them to make.

**Trustee Ahuna** said so in this Enhanced Liquidity Account, our new manager is SSARIS?

**David Okamoto** said so that one's a little different, because that one we essentially keep in house. So that one, in that instance, the Trustees approve the manager.

**Trustee Ahuna** said okay, so that would be the manager. The advisor would be the Administrative Team?

**David Okamoto** said essentially, yeah.

**Trustee Ahuna** said and then our HDI, the manager would be?

**David Okamoto** said the "advisor" would be OHA, who then selects either the underlying investments and right now, where the money is actually being held is with SSgA. So the Board approved them as well to basically, because we didn't, you know, have to actually put out money to buy this building, we have to park that money somewhere else, in the SSGA Real Asset Strategy Fund. So the Board was the one that selected SSgA.

**Trustee Ahuna** said so getting back to my questions, so those processes were voted by us?

**David Okamoto** said yes, it's all defined in the IPS.

**Chair Akana** said so David, in a couple of months, I think what would be beneficial and for some of us, even those of us who've sat around the table for a number of years, we will do an informational briefing for the Trustees again with our money managers and we'll have an educational briefing on how we invest our money, who the managers are, what is the allocation, and we'll have to look at our policies anyway on the revisions. So we'll plan that.

**David Okamoto** said yeah, I think we're thinking for probably sometime in April, I want to say mid-April. I've been just working with Nathan on kind of what would possibly work.

**Chair Akana** said I think later because we have legislature going on until the end of April. Trustees are involved in testifying and we've got a lot of things going on there so I want all of the Trustees to attend these meetings so we'll wait until after the legislative sessions are over.

**David Okamoto** said okay. Would you like them to come just to do results though, in April? And then have a policy workshop kind of thing maybe after?

**Chair Akana** said no I think we'll wait until May.

**David Okamoto** said okay, that's fine.

**Kamana'opono Crabbe, Ka Pouhana/CEO** said I think what Chair is asking, or, well maybe also Trustee Ahuna, is for each of the money managers, just as he explained, because I have it also here, what parts of our portfolio are they responsible for in terms of the investment, because that's related to the Asset Allocation and the index. The benchmarks.

**David Okamoto** said right.

**Chair Akana** said yeah, so we'll plan it with Nathan and after the legislature, sometime in May. Okay? Thank you everyone.

#### **V. ANNOUNCEMENTS**

There were no announcements.

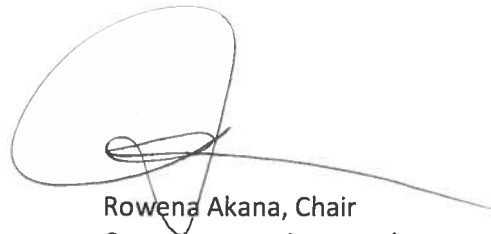
#### **VI. ADJOURNMENT**

**Moved by Trustee Hulu Lindsey, second by Trustee Waihe'e** to adjourn the meeting. Hearing no objections, the meeting adjourned at 11:52 a.m.

Respectfully submitted,



Nathan Takeuchi, Aide  
Committee on Asset and  
Resource Management



Rowena Akana, Chair  
Committee on Asset and  
Resource Management

Approved: ARM meeting on April 29, 2015.