APPROVED ON
03/09/16

STATE OF HAWAIʻI
OFFICE OF HAWAIIAN AFFAIRS
560 No. Nimitz Highway, Suite 200
Honolulu, HI 96817

Minutes of the Office of Hawaiian Affairs Committee on Resource Management
Wednesday, January 13, 2016 9:30 a.m.

ATTENDANCE:
TRUSTEE COLETTE MACHADO, CHAIR
TRUSTEE LEI AHU ISA
TRUSTEE ROWENA AKANA
TRUSTEE DAN AHUNA
TRUSTEE PETER APO
TRUSTEE ROBERT LINDSEY
TRUSTEE JOHN WAIHEE

EXCUSED:
TRUSTEE HAUNANI APOLIONA, VICE-CHAIR
TRUSTEE CARMEN HULU LINDSEY

ADMINISTRATION STAFF:
KAMANAʻOPONO CRABBE, CEO
LISA VICTOR, COO
RAYMOND MATSUURA
DYLAN ZHENG
MOMILANI LAZO
KARLEN ONEHA

BOT STAFF:
LIANA PANG
CLAUDINE CALPITO
DAYNA PA
UʻILANI TANIGAWA
LOUISE YEE-HOY
LAURENE KALUAU-KEALOHA
LADY GARRETT
KAUIKEALOLANI WAILEHUA
DAVIS PRICE
MELISSA WENNIHAN

GUESTS:
RODNEY LEE, SPIRE
KIMBERLY LAU, SPIRE
DARREN SMITH, JPM
ZACH PAGE, JPM
JOHN SPEER, JPM
JOHN DIPALO, GOLDMAN SACHS
STEVE LANZO, COMMONFUND
RALPH MONEY, COMMONFUND
TOM SNAYD, COMMONFUND (Dial-In)

OTHERS PRESENT:
KELII MAKEKAU

I. CALL TO ORDER

Chair Colette Machado – ***We will begin but this is not an official meeting because we lack quorum.*** So, I'd like to call Kelii Makekau who asked to address the Board.

Kelii Makekau – It was a year ago, you folks started the purchasing acquisition of lands and so forth. Bishop Museum announced they're going to sell some prime real estate, unfortunately on the Big Island. I'm glad that Uncle Bob is here, because that's your island. Are there any plans that OHA might be looking at to purchase that considering that the foreign investors are looking at that now. At least one Denver base is looking at it, but there an agriculture firm. I was hoping with the Legislative package out and so forth, I know you folks tapped for funds, but I would like to at least know if that's something possible to consider or in the works.

Chair Machado – Any questions for Kelii Makekau.

Trustee Ahuna – I am not familiar with Waipiʻo Valley, but I'm sure were going to get a recommendation and then follow up on this.

Ka Pouhana Crabbe – We had preliminary meetings with Bishop Museum Executives regarding their whole organizational situation. They did want to inform us that they were in the process of evaluating their lands in Waipiʻo and expressed the cultural significance of those lands and the potential of not just OHA but they were looking at other Hawaiian institutions for consideration of potentially preserving those lands as through a land acquisition. We had a couple of meeting to understand where they were coming from; three years ago they were still in the process of evaluating the land. They did a full comprehensive archeological report.

From what I understand they put it out to RFP, so were going through the process. Last year the Board did take a position that we would not consider any lands, especially Legacy or Conservation lands. Unless that it come with funding, however, in this case, it really is something that the Board could consider given the cultural significance of it. The establishment of the heiau out there, Hiʻilawe Falls, there is also known cultural significance of the former Aliʻi rulers presence there in Waipiʻo Valley which probably would be paramount into the consideration of preserving of those lands. Bishop Museum has about half to maybe a little bit more than three quarters of the valley; the other half belongs to Kamehameha Schools. Kamehameha Schools for a number of years has supported the production of the mahi'ai farmers and kalo. However, it has been challenging for them because of the influx of tourists coming in and no controls on that, so it's been difficult to manage. The kalo farmers currently have been generational families that have lived there and they want to continue their presence in kalo farming. Majority of the Bishop Museum land can be used for reproduction of kalo farms, but a majority of it is really conservation land.

Chair Machado – Thanked Kamanaʻo.

Trustee Waiheʻe - Arrived at 10:11 a.m.

Chair Machado – Officially called to order the meeting of the Committee on Resource Management on Wednesday, January 13, 2016 at 10:12 a.m. There were two excused absences from Trustees Haunani Apoliona and Hulu Lindsey. Called for the roll call.

Trustee		Present	Excused	Comments
TRUSTEE LEI	**AHU ISA**	**X**		
TRUSTEE DAN	**AHUNA**	**X**		
TRUSTEE ROWENA	**AKANA**	**Not present at time of roll call.**		
TRUSTEE PETER	**APO**	**Not present at time of roll call.**		
TRUSTEE HAUNANI	**APOLIONA**		**X**	
TRUSTEE HULU	**LINDSEY**		**X**	

TRUSTEE ROBERT	**LINDSEY**	**X**		
TRUSTEE JOHN	**WAIHE'E**	**X**		
CHAIR COLETTE	**MACHADO**	**X**		
TOTAL		**5**	**4**	
At the Call to Order, there are Five (5) Trustees that are Present.				

II. APPROVAL OF MINUTES

Chair Machado – Asked for a motion to approve the Resource Management minutes for November 18, 2015 and December 16, 2015.

Trustee Ahuna – Moved to approve the Resource Management minutes for November 18, 2015 and December 16, 2015 as presented.

Trustee Ahu Isa – Seconded the motion.

Chair Machado – Asked for discussion on the minutes. Hearing none, called for the vote.

Trustee Ahuna MOVED, SECONDED by Trustee Ahu Isa to approve.

Motion to approve the Resource Management minutes from November 18, 2015 and December 16, 2015.

TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT
LEI	**AHU ISA**		**X**	**X**			
DAN	**AHUNA**	**X**		**X**			
ROWENA	**AKANA**			**Not present at time of vote.**			
PETER	**APO**			**Not present at time of vote.**			
HAUNANI	**APOLIONA**						**X**
HULU	**LINDSEY**						**X**
ROBERT	**LINDSEY**			**X**			
JOHN	**WAIHE`E**			**X**			
CHAIR COLETTE	**MACHADO**			**X**			
	TOTAL VOTE COUNT			**5**	**0**	**0**	**4**

MOTION: [ ] UNANIMOUS [X] PASSED [ ] DEFERRED [ ] FAILED

Motion passed with five (5) YES votes, none (0) NO vote, no (0) abstentions and four (4) excused.

III. COMMUNITY CONCERNS*

Kelii Makekau – Spoke at 10:06 a.m. before the official meeting convened. Add one last note for an internal matter. I've asked in the past to check with your IT people, I was up at 2:00 a.m. this morning. Your RM schedule had no listing of today's meeting. Is thankful he is on the list for paper notifications (mail outs). Several times there have been flaws, and then everyone calls me thinking there is a stealth meeting going on.

Chair Machado – Looked for our Lisa Victor, COO if she heard the request.

Trustee Robert Lindsey – Mentioned I can have Harold Nedd follow up.

IV. NEW BUSINESS**

Chair Machado – I'll call upon KP, who will probably direct it to Ray and he'll begin with the presentation JPMorgan followed by Goldman Sachs followed by Commonfund.

Ka Pouhana Crabbe – Thank you Chair Machado, I would like to call upon OHA's Investment Manager Ray Matsuura. As we go through this quarterly report and given that we've been working with SPIRE the financial consultants for the Board, perhaps we can engage in a robust discussion about the performance of each of the funds. The reason I say that is because as we move into the next 6 months to develop the Fiscal Sustainability Plan, were looking at every area for us to make significant improvement in Land, Commercial Properties, improving on changes to be more efficient with our budget and in investments. Also, how we can make improvements in terms of our performance. Ray will be attending the Commonfund to do due diligence, and so we have talked about setting new goals and priorities of how we can improve on the current status profile, where we are at to even how we can really set concrete steps to achieve higher performance. Maybe Ray you should share that before we have the money managers present.

Ray Matsuura – We issued an RFP for an Investment Consultant. OHA has not had an Investment consultant for over a year. Howard Hodel was the last on back in September of 2014. Hopefully we will have some good candidates and will vet those. From there, that's where we will take our first steps to evaluating the whole portfolio, just not managing pieces of it, but managing the whole broader scope of where we stand among our managers. Hopefully we will get that done by the 4th Fiscal Qtr., probably in May. From there we have a better idea how we want to approach it for the long term. With us today we have Darren Smith our Service Manager and Zach Page and John Speer, who are both Sector Strategists.

(For details, refer to material distributed: State Street Global Services – State Street Investment Analytics – Office of Hawaiian Affairs Board Report Third Quarter 2016 Meeting Dates: January 13, 2016)

Darren Smith – Aloha Trustees, Happy New Year! We have a third person at the table today, and that is John Speer, he is the Lead Portfolio Manager for the Traditional Assets at JP Morgan.

Zack Page - The 3rd Qtr. was highly volatile markets at pretty significant draw down beginning in August that also continued in September. We did see a relief rally in the 4th Qtr. of October, but the markets continued to be volatile through today. We just were looking at some numbers for markets that had sold off once again, after a bounce back over the last two days. There have been many topics in the news, the initial draw down in August, was contributed to slow down in manufacturing and general growth in China a slowdown in other emerging economies. Oil has been in the headlines since the beginning and end of 2014, but the beginning of last year. The US dollar has appreciated to a significant degree much higher or at least much faster than anticipated, given the diversion and policy rates. Also, there has been broad major monetary policy shifts within the 3rd Qtr. for many market participants were waiting for the Feds to raise rates and contributing to some of that volatility. There are two big questions I think will be driving markets that came to the forefront during the 3rd Qtr. One is the Growth diversions between Developed Markets and Emerging Markets. Emerging Markets make up almost 45% of Global GDP. There's been some weakness within Emerging Markets ammoniating primarily from China. There have also been spillover effects in other emerging market economies. A strong US dollar, slowdown in commodity prices, also impact emerging markets. On the other hand Develop Market economies, primarily the US, but also Europe and Japan have showed some stabilization and very strong growth. This is not the 4% growth that the Feds had anticipated in 2014, however it has been stable. Europe has come out of a recession; the Japanese policies of financial reform monetary stimulus as well as financial reform monetary stimulus have started to pick up. So, over the next year, we are going to keep an eye on which one of those force is stronger, to strengthen developed markets versus weakness in emerging markets. But that came to a head in the 3rd Qtr. and really was the catalyst for a lot of this volatility.

The other theme that we've been spending a lot of time discussing is the Divergence in Monetary Policy. We saw the Feds raise rates during the 4th Qtr. within Emerging Markets, the largest emerging market economy China. We're seeing the people's Bank of China has gone through many stimulants of measures lowering the reserve weight requirements and lowering rates. So those are the broad themes. They did drive a lot of the volatility.

One page 2 – We have Global Market Performance for that 3rd Qtr. of 2015. Just to orient everyone at the bottom of the page, we have a graph of Global Market Performance for all the major Markets. The blue bar is the three month return ending 930, so for the 3rd Qtr. the purple bar is the year to date number, so the nine month trailing return. There's three areas I want to highlight, on the left hand side of the page, you have equity market returns, there almost down across the board which is small positive returns out of US REIT's for the Qtr. But equity markets got hit hard. Concern about the growth in China, strong US dollar, commodity prices reflecting what potentially was a slowdown in global demand causing anxiety amongst the Investor population and a slowdown in Equity Markets. In the middle of the page on the right side, you can see that emerging market equities were -17.9%, this is where most of the concern about global markets is. We have been underweight emerging markets in your portfolio in particular within Equities, so a portfolio on a relative basis has outperformed, but this type of volatility is something that we expect to see over the next 12 - 18 months, so it is a topic that we will continue to talk about and keep an eye on.

Ka Pouhana Crabbe – Which emerging markets do you folks manage?

Zach Page – We invest across emerging markets. In general there are four regions to be considering; there is East Asia/China, South America/Latin America, Russia and Eastern Europe. There are also some African countries that we do have exposure to but their very small for the portfolio. It's those broad three regions, Latin America, Eastern Asia, Europe/Russia.

Trustee Ahuna – China is kind of sluggish right now?

Zach Page – China is very sluggish right now. Chinese growth is still in the order of 7%, but that said when you're coming down from 10% growth, it's not necessarily the level of growth but the change in that level. It is impacting markets.

Ka Pouhana Crabbe - Is the distribution fair across or you have one more that their investing in than another?

Zach Page – Our starting point is the Market Cap, so we will weight it by market cap, and then make active tilts within the portfolio and our tilts have been away from commodity producing countries. Away from countries we think have large current account deficits and going to be hurt from a stronger US dollar. We've been overweight towards the Eastern/European countries that should benefit from a stronger and able to provide many of the manufacturing to the European economy. So with that I just want to highlight a couple themes.

Page 5 – This is a zoom in on China. I want to touch on China in slowdown. Left hand side of page we have a China real GDP contribution, we have broken up their total GDP and at the top of the bar, you'll see their growth in GDP year after year. In 2008 it was 9.6, in 2009 it was 9.2. We then break it down to what's driving GDP? There's one Investment, Consumption and Net Exports. You can see it's slowing down from levels on the order of 9-10 but is still in the 7% range. To give you a point of reference US is growing at a 2-3%, we'd be thrilled with 2+ growths within the US in 2016. On the order of magnitude, China's growing on the multiples of US which are coming down from 10% levels. So that slowdown is impacting investors. Investors are concerned about how the Chinese authorities handle that. Now there is an organic transition happening within the Chinese economy. You can see that much of the growth was driven by investment; investments by Chinese Private Companies and also by Chinese Government. So in 2009, 8.1% of GDP was driven by investment within China. But now transitioning to a country that is more serviced oriented like the US which is more consumption driven and you can see that the black bar is making up increasingly larger part of total GDP growth. How China handles that transition is going to be a key thing to watch. If they make a successful transition, we suspect that China will have below 10% growth but will have stable growth on the order of 6-7%. It is that transition that is the key focal point right now. In terms of the authorities on the right hand side of page, we just want to highlight some of the policy tools that they have. We have China's foreign exchange reserve, this is what they have on their balance sheet that they can spend to stimulate the economy. It has come down that they do have assets on reserve to spend.

At the bottom of the page they have their monetary policy tools, their interest rate level as well as the reserve requirements. The requirements are they make banks hold on their balance sheets, they lower that requirement, banks lend more and that stimulates the economy. Their interest rate is just below about 10%, it has come down and they have room to stimulate their economy. They do have the policy tools at their disposal.

The US Economy between Developing Markets and Emerging Markets, the two focal points we have been looking at is China as well as on the Emerging Markets side then the US Development Market side

Page 7 - We graphed cyclical sectors within the US. On the left hand side is light vehicle sales, cars, manufacturing and trade inventories. Real Capital goods orders on the right side. You can see is that on each of these graphs, the trend is picking up in the long term average. Consumers are starting to buy cars. Lower gas prices are finally playing through as a stimulant impact. Housing starts are continuing to recover. Our strategist and a lot of economists struggle to understand why the housing market was so slow to heal. From a corporate perspective or business perspective, inventories and real capital goods orders, this is companies making capital investment in their business that has exceeded the long term average. So companies are investing in growth. These are positive signs for the US economy. Now, what can undo that, we talked about the Fed rate hike, that's something that's going to be a headwind on the US and frankly the global economy.

Page 8 – I just wanted to graph the historical impact of rate increases. Across page, we have three different Fed rate hike cycles. So, the left side is the rate hike cycle from February 1994 - March 1995. In the middle of page, we have the same rate hike cycle 1999 – 2000. And right hand side, we have 2004 - 2006. The top graphs, with green bar chart, that's what the SMP did during that rate hike cycle, at the bottom is what the ten year US Treasury yield did. The point that we want to stress is that the Fed funds rate hike can be a headwind towards markets but does not mean that markets turn over. We think that this Fed rate hike cycle markets performed much more in line with how they did in 2004 - 2006 Fed rate hike cycle on right hand side of page. So you can see that equity markets were volatile, however, they did trend upwards delivering positive returns for investors. Bottom page you'll see this during that cycle, the US Treasury yield moved sideways. Before I close or just pause for questions before jumping into the portfolio. What are the risks in the portfolio? What are the risks in the economy?

Page 11 – What we've graphed here is the draw down from peak for the SMP500 since 1926. And we've graphed ten recessions that we have seen since then. We think that a recession in the US economy is the biggest risk to the portfolio both within the US equities and the balance of portfolios will have an impact on the rest of the world. So, what are the chances that the portfolio does turn over? Why is a recession the biggest hit? We've talked about commodities, inflation, an aggressive Fed. What we want to look at here is what causes that drawdown in global markets? You can see in some of those corrections, there was an aggressive Fed, there may be extreme evaluations that you saw during a tech crisis. There was a commodity price hike in the 1970's. What is uniformed across almost all of them was that there was also a recession that accompanied it. In eight out of ten of them there was a recession. That's why we think a recession is the most important point to focus. The business cycle right now we see at the middle stages, we don't think there is an extreme risk of equity markets turning over. We do believe there is going to be volatility and particular evaluations are about fair value. With that said, we don't think that the business cycle is going to turn over into a recession, so we think that the positioning of the portfolio and the risk you're taking is appropriate.

Trustee Ahuna – You know in your projections and the times and the dates. What is an NBER cycle date? What is that?

Zach Page – NBER is the source of it. They are the official source of the business cycle, so when the economy starts growing to when it slows down and starts growing again. They would consider that a full business cycle.

Trustee Ahuna – Okay, because you were comparing the recession of the past, up to today, it looks pretty good. I just wanted to know how you folks approach those dates.

Zach Page – They will take when the economy started growing and had consecutive quarters of GDP growth to when it slowed down and then it has to pick up again for a business cycle to start over.

Ray Matsuura – Given the weakness in the market since the beginning of the year, we're down 6% and you'll here on TV, people will say that this signals that we're going to have a weak year. It's apparently that you don't feel the same way.

Zach Page – I think there is certainly prudent to be cautious and be aware of the risks. One of the headlines that a lot of people have been talking about which perhaps to what you're alluding to is that there is an aphorism that how January goes so goes the market. And there actually was some research that came out of Credit Suisse and we took a look at that. In about 76% of years in the market, if how January goes, the market goes. So if it's up during January, it will be up for the rest of the year. Excuse me, 66% of the cases, with that said, it's much more often that when the markets up in January, the market will be up for the year. That is 76% of the time. When the market is down in January, only 44% of years of that market is down for the year. While 2/3 of the time the market for the year does mirror the market for January, it's much more often the case if during January the market is up. Price is certainly an input into our thinking and what our evaluations are. What investors are doing? What are they reacting to, is something to keep an eye on.

Trustee Akana – (inaudible) January has not been a good month (inaudible).

Zach Page – Unfortunately today it sold off. The last two days, I think it sold today. Part of this is that the market is processing a lot of events. So there is an expectation and a lot of this is oil. Overall, it does seem that the market is following oil, and there is an expectation that within the next week, the Iranian production could come on line, meaning the treaty negotiated by the Obama Administration and the Iranians could be put into effect in the next week. And so there was some news that came out this morning that Iranian production would go on line in the next week and that did rive oil to below $30 a barrel and the market has been following the oil price for some time, since the end of the year. That was some of the new that came out today. And oil is something to focus on with any asset, with any financial asset. There are two things that drive prices and the actual returns and also the supply and demand dynamics. With commodities there is no cash flow so it's really a supply and demand story. So for oil, people get concerned that the slow down or the drop in oil price is indicative or signals a slowdown in global economic activity. People are not buying oil because they're not going use it or produce things. The other side of the coin is there is an oversupply and with the huge Shell revolution there has been an oversupply of energy also OPEC is breaking up, the Saudi's are trying to drive out a lot of the US Shell producers so that they can still make a profit on their margin of barrel of oil. There has been an oversupply of energy in oil in particular which has driven down the prices well. We think it's a bit of both and think that the prices are far below what it should be at given the level of global growth we expect for the next year.

Trustee Ahu-Isa - It's a really complicated issue, I mean you presented it well. But there is a lot more things going on with the oil. Like liquefied gas, everybody's looking at the production there and Congress lifting the ban. That is going to affect the strong dollar. I'm looking at the market right now and it is down 3.42, but gold is going up. Do you think we should stay in equities?

Zach Page – Yes. It's important to pay attention to short term movements in the market. There is information there and fundamental data, economic data or just events such as policy changes. That said, we do think that the Trustees and the OHA Trust will benefit over the long term horizon. It is times like this where hopefully we as managers prove our medal by trying to minimize on the downside so that you're prepared to make gains on the upside. So if it important not to panic and make major changes within the portfolio. One of the themes that we'll talk about, we as managers want to be making significant allocation changes when we think there are opportunities there, but we also want to be humble in the face of uncertain times. And that's when we will take low tracking error and low tracking relative to the benchmark and wait for those moments. We don't' think it's a time to sell equities, but it is a time to be cautious.

Trustee Akana – (inaudible). The market we knew already last year that (inaudible). We should watch it very carefully (inaudible). I'm not suggesting we don't invest in equities. In the long run we took a deep dive in the last couple of quarters (inaudible).

Zach Page – I think that is a fair point. I think that's something to Ray's opening regarding some of the work with the consultant that he is looking to do. And were happy to make sure we have the right time horizon, and the right risk level that the Board is comfortable with.

Chair Machado – Thanked Zach for his market summary. We will move on to John Speer and Darren Smith.

Darren Smith – Jumped right into the portfolio on page 32. Given the constraint of time, on page 30 we have our executive summary. Quick bullet points, I've given you the review. I will leave John to do Asset Class performance and importantly there are no portfolio manager turnovers during the quarter. On page 32, you have the portfolio summary by dollar. At the beginning of the quarter, portfolio was at $108.4 million, market returns were negative as noted of $7.1 million. Small additions and withdrawals and fees, the ending market value is $101.6 million. This was a difficult quarter. Since inception performance has been strong. With a accumulative return of 29.85% and an annual wise return of 6.3% relative to the benchmark of 4.9%. John, perhaps you can touch on some of the managers within the portfolio and then we can respond to any questions on page 36.

John Speer – The 3rd Qtr. was a lot of volatility, I would say from a portfolio level and a performance, it was one where our short term position of being underweight and emerging markets. The higher volatility and the more uncertainty were a little more of a headwind for the individual strategies we invest in. I will walk you to a couple of notable ones where they did have some specific headwinds in terms of investing. In their individual markets but on the overall we have a tactical position such as a deposit side, that's a headwind, comes out to about 7 bps. And as Zach mentioned preserving capital on the way down throughout our position, one of the things we think about and we weigh when you start thinking about markets going forward perspective. I would say a couple of strategies that had a little bit of headwind for the quarter. If you look at about midway down the page, the JPM Global Equities and JPM Disciplined Equity (six lines down), so within there, these are two US Large Cap based strategies and they rely on what we call our discount model. It's a model that's driven by the underlying asset or analyst's expectation on individual equity that's in the market especially when it comes to the SMP 500. One of the headwinds they face for this particular quarter is that the ranking, what they will rank their best ideas as being a number one topic core tile. And the worst ideas (worst stocks) so what happen the fifth core tile outperformed the top core tile (stocks with the lease value). This typically happens when one evaluation is not working in markets and we call that dividend discount spread. Basically it widens, so it got larger. Typically when this happens, it's fueled by short term market volatility and when evaluations are not working. But what we find on a going forward basis is that this is generally something that means reverting, so in the medium term it tends to be more of a tail wind for the strategy going forward. So these two strategies although performing quite significantly for the quarter, we expect some of that to reverse over the next couple of quarters going forward. In the JPM International Equity fund is another develop market manager that manages developed equities outside the US. It had a little bit of head wind because they were at a pro cyclical tilt in their portfolio and had exposure to EM emerging markets to the stocks that they own and caused them to be behind their benchmark and have a negative contribution to the portfolio.

Zach Page – We will pause on equities there. I do want to make sure we close on the Emerging Markets Debt Fund unless anyone has any questions.

John Speer – If you look at the Global Credit side that Zach had alluded to, I think you had a lot of head winds from a total return perspective in the high yield strategy and the local currency strategy. On the high yield side you had spreads winding out reacting to market volatility, so that's going to be a headwind to performance of that asset class. Also, you had emerging markets local debt where we had a strong dollar throughout the quarter. That's obviously had to be coming from somewhere else. So it is having that exposure to emerging market currencies where they underperformed versus the dollar was a headwind to asset class on the whole. You'll see it was down almost 10.5% for the quarter, that's one of those drivers right there. One thing we look at tactfully to position around and under weighing those asset classes and yet there are going to be headwinds in the near term. I would say though as a portfolio, not to focus too much on the current quarter because some of that stuff you don't want to be chasing performance too much. If you look at the longer term since inception numbers, I'd say that the two that we were rely on to generate returns in your portfolios, security selection through the managers and short term and asset allocation, both contributing to our outperformance versus the benchmark. That's something that structured going forward in our outlook for the managers and the process in general. That would be something that we see to benefit your portfolio in the longer term. Highlights portfolio had a negative absolute return, we certainly do not want to see that quarter over quarter but in volatiles market it will happen. Two asset classes were underweight relative to the benchmark which added value there. That's where we came out about flat.

Chair Machado – Exited at 10:49 a.m.

Trustee Apo – Any questions?

Darren Smith – There are couple of investments that's outside of the traditional portfolio that we've discussed the last time as well. The three listed are on page 37.

Raymond Matsuura – Next up on the agenda is John DiPalo with Goldman Sachs.

Chair Machado – Returned at 10:53 a.m.

John DiPalo – I'll do similar to what JPM did outside of the economic update is go through the portfolio for 3rd Qtr. Let's start on page 48. JPM did a great job talking about the 3rd Qtr. markets, so obviously global markets were volatile across the board. On the equity side in particular in August, it hit hard which drove the line share of the quarterly underperformance. Emerging markets had the worse losses for asset classes. International Develop Equities also had a weak performance which was driven the down turn with the emerging markets. The traditional Asset Class Attributions year-to-date, OHA portfolio returned -5.36% in absolute basis, but outperformed benchmark by 33 bps. For the 3rd Qtr. the portfolio returned -7.05%, but outperformed the benchmark by 28 bps. There was a nice rebound in 4th Qtr. which we will present to you in the next time around. The 4th Qtr. on a preliminary basis was up just over 3% bringing the fiscal year-to-date to -2%. As we look at the individual Asset Class buckets, Global Equity was -8.67% of absolute but outperformed by 92 bps. The Emerging Market Equities was the weakest performers, if you noticed with JPM's Global Performance markets at. On the Global Credit side, this asset class was -3.24% and underperformed its benchmark of 112 bps, this was mainly driven by high yield and emerging market debt. The corporate credit side was outperformed. Global Real Estates -1.5% absolute return outperformed by 13 bps. We noted that last time as coming in to the 3rd Qtr, would be transitioned to our building block funds. Possible risk obviously macroeconomic policy as we see both Japan and the euro continue their easing. China's slowdown is another concern that could impact portfolios as that continues and also changes in the global equity markets. The beta of the overall portfolio is .87 to MSCI World. So, this is very in line with the benchmark.

Trustee Ahuna – Exited at 10:54 a.m.

John DiPalo – If we look at the growth in the market. Beginning of the market for the Qtr. started at $117,660,656. The market took away about -$5,821,233 of that. We had a little over $1,026,923 in contributions into the portfolio. And about -$6.8 million was distributed or distributions from some of the private equities or withdrawals from rebalancing of the portfolio. Just over -$260,000 if fees. This brings the ending market value to $105.8 million. The Asset Classes on slide 57, you'll note at the top the total GSAM advisory that includes the non-marketable and the traditional asset classes were -5.4% versus the benchmark of 6.08% so up 64 bps. The GSAM Traditional Assets -7.05% versus the benchmark of -7.3%. The GSAM Global Equities although down on absolute basis it outperformed by 92 bps to the benchmark. The big drivers here as JPM mentioned looking at a lot of the asset classes, we had Small Cap fund -10.8% which underperformed Large Cap which was -5.6% and the big hit was really around the Emerging Market Equities at -15.32% for Parametric and -15.69% for T Rowe. These managers did do well against their respective benchmarks which was -17.9%. Managers did a nice job at mitigating some of the losses seen in the benchmark. For Global Credit only -3.24% this did underperform the benchmark by 112 bps. And that was mainly driven by the exposures to the Emerging Market Debt manager and the high yield managers. Before I go into the Real Estate, I mentioned the building blocks. The 4th Qtr. review will have it shown on here and be more evident. There is three building blocks funds that co-mingle funds that the Investment team is utilizing. Two on the equity side that's split 50% passive and 50% active, so the underlying managers there within our Global Fund are going to be passive managers and our Global Equity Fund is going to be active managers. And there is one multi manager Non-Core Fixed Income Fund where we will be moving in the non-traditional fixed income high-yield emerging debt and both local and your bank loans funds will be moved into that. You'll see next Qtr. a number of these line items will be removed and you'll have single line items for those multi manager funds. What this is really doing is providing a co-mingled vehicle of funds, it's giving the managers access to various asset classes which they will be doing by single line items, it's giving you liquidity about 95% of the underlying managers are daily liquidities. There is an up cost saving around $50,000, the team is still able to implement their strategic asset allocation views by investing strategically among the underlying managers. It's giving access to managers that maybe you wouldn't have been able to go in directly. You are now co-mingled with other investors, so there are things that will be positive on that front where you may be getting some fee breaks. We will go into more detail in the 4th Qtr. Page 58, GSAM Global Real Assets was -1.50% versus the benchmark of -1.63% so up about 13 bps. The next grouping is the Non-Traditional Assets 3.83% versus 1.14% a return of 270 bps outperformance, helping mitigate the underperformance of traditional assets. The Alternatives, some noteworthy items are PEP 2004 that was a $9.9 million investment; it has distributed already the $11.4 million with a market value remaining of $3.3 million. PEP 2005 that's fully called right now a $1.3 million of the $2 million was distributed. PEP's IX and X are just about fully called and then Vintage Fund VI is actually the best performing fund in here, I will call out that it has a net IAR of 21%. PEP Asia about 85% has been called. Vintage V about 80% called 90% of that has been distributed. PEM Growth which is one of the newer alternatives. The Credit side for the Alternatives, the MEZZ V about 75% has been called there with 115% distributed back already. Real Estate credit 80% has been called and Broad Street Credit is the newest investment as of September 2015 which closed last July with $1.9 billion and 10% has been called already and made seven investments. Page 59, lists the Actual Weightings of our allocations on Global Equity, Global Credit and Global Real Estate and are in line with the policy targets. Are there any questions?

Darren Smith – We have Steve Lanzo and Ralph Money from Commonfund.

Chair Machado – While everyone is getting situated, called for a short recess to get Tom Snayd on a conference call.

Recessed at 11:05 a.m.

Reconvened at 11:07 a.m.

Steve Lanzo – Tom Snayd who has joined me here before will give you an update on your four portfolios with Commonfund and then my colleague Ralph Money who is a member of our Private Capital team at Commonfund. He will spend some time on the private commitments you've made with Commonfund on what are eight partnerships and give you some color on how those partnerships are progressing.

Tom Snayd – Page 80. The performance has been quite good. On a Net fee basis, we have been projecting on the downside by the quarter. In your case in one year the policy benchmark by 90 bps, 50 bps and 170 bps respectably. The Three Year numbers all deposit with outperformance of about 80 bps, we still however slightly trailed since inception (last four on the far right of page). Page 76. The change in Market value as of 9:30 a.m. was about $72.6 million down from $75 million. The Hedge fund portfolio aka Low Volatility Market Portfolio can be found on page 74. Summarizing, what helped, what hurt, what appealed as well as risk and opportunities that we see going forward. After the 3rd Qtr. Hedge funds mixed during the volatile quarter. Macro and CTA and relative strategies were a negative much like the equity market. Hedge fund declined for the fourth consecutive month in September lead by equity and credit sensitive debt driven strategies. On the other hand diversifying global strategies with CTA's produced positive performance per quarter also benefiting from short exposures to commodities and crude oil. In spite the negative performance of September in recent months, Hedge funds can change to expand the outperformance of global equities and financial market volatility increase in equity decline accelerated throughout the quarter. If we look at the total Low Volatility portfolio that would returned -2.37% for the 3rd Qtr. It underperformed the benchmark return of -2.19%. The calendar year the portfolio underperformed the benchmark by close to 150 bps. There are two components, one being the commodities allocation and secondly in the Hedge. The commodities in general were down close to 15% for the quarter. The commodities fund has been taken out of this portfolio and proceeds were reallocated back with the Hedge funds. Second part of the portfolio is labeled CF Absolute Return on the performance sheet. The total hedge portfolio was -53 bps on a quarter which included two fund allocations. The first is a diversified company which represents 25% of the total portfolio. What they are is global macro funds that manage different asset classes at different points of times such as equities, fixed income and finally commodities. The other portfolio is invested in relative value which is really a low market called Global Absolute Alpha. The total hedge fund allocations mentioned 53 bps per quarter underperforming our cash flow benchmark.

Steve Lazo – Pick up with page 75.

Tom Snayd – Page 75. The third quarter relative performance was strong with Non-Marketable Equity Hedge Portfolios returning 7% outperforming the benchmark by 94 bps. The total portfolio did well for year-to-date -4% while the benchmark was down over -5%. We've also added additional European strategy to the Global Equity portfolio and focusing on Northern European companies. The Real Assets portfolio and the Marketable Real Asset portfolio is -11.48% for the 3 Qtr. underperforming -11.01% returns for the benchmark. In over with the Public Natural Resources, as the Asset Class sold off over 23% underweight commodities coupled with activities which were 3% with additives. Also since inception, performance still remains relatively strong as well as the performance benchmark of 50 bps. The final performance of the Credit portfolio that underperformed for the quarter returning -5.36% was underperforming the benchmark by 46 bps. Primary drive in the underperformance was the allocation to the short duration high yield fund which was down -6.5% the higher allocation had two energy stocks, which is obviously felt some pressure over the last few quarters. Just a quick update on how we positioned going forward, we recently held our point of view meeting with all our investment professionals here at Commonfund and we came out with thoughts about the market going forward. So projections as well as how were training some of our positions. Economic cycle with quality and leverage and strong cash flows. We've increased our allocations from long to short equities to reduce allocation to credit. We started to increase our allocations to non-dollar equities and over with regions that demonstrate the ability to generate sustained flow. We maintain a capital overweight over Japan and the US with an underweight emerging markets and Europe. They came down in the last quarter, however focusing more on the Northern/European exporters. We have reduced our duration of fixed income and increased our weight to coupon mortgages within a fixed income book, within Real Assets this is probably one of our bigger underweight commodities as well as debt. What we're seeing today is clean energy and resources challenging the global structure and earning issued both in EM/China and heightens the protocol lists and a large impact across the capital market.

Trustee Akana – What does he mean by coupon mortgages?

Steve Lazo – How we go at the managers focused on coupon mortgages, so we're looking for some level of income stream coming from that strategy.

Tom Snayd - It is more of a yield play, it's a tactical play where we are looking for some yield and last minute general verity that we've invested in late paid dividends to date. In the OHA portfolio it is part of our review and so is the larger fixed income right now. It's really an opportune of a strategy meant to #1 diversify the portfolio and #2 as a yield enhancer.

Trustee Akana - Second part of the question is, are you buying mortgages or mortgage companies?

Steve Lazo – We would invest in managers in our fixed income side who specialize in residential mortgages or commercial mortgages where it would have more of a higher degree of income associated with that strategy. We're not out ourselves purchasing those mortgages, but were hiring managers who specialize in that sector of the fixed income markets.

Trustee Akana – I see, because you see this all the time, if you have a mortgage yourself. You see that a mortgage can be sold to different entities. So you're saying this is what we're doing with our portfolio that a manager is buying these kinds of investments.

Steve Lazo – They are and also obviously diligently the underlying holders of those mortgages and their credit worthiness to deliver and pay down those mortgages over time. So your right, I wouldn't want to paint that sector with all the same brush in terms of you can invest it different tranches, different pools within the mortgage sector and we leave that to our managers to diligence the underlying holders of those mortgages. But yes, it is a strategy that we incorporate. If there are no more questions, I'd like to in the remaining ten minutes or so to be able to segue to the Private Market side and introduce my colleague Ralph Money to lead us through that discussion.

(For details, refer to material distributed: Office of Hawaiian Affairs Private Capital Investment Update By Ralph Monay, Managing Director, Commonfund Capital, Inc.)

Ralph Money – You are invested in nine of our Private Partnerships over the last four plus years. That is a good amount of time, but the average company in the OHA portfolio today is barely two years old, so it's young. So we haven't yet come to the point to wire a lot of cash back to the treasurer's office (not a personal account), but on behalf of OHA wiring cash back. We tend to see that when the average company is a bit over three years, so we're about a year away from hitting that. So it's a young portfolio, but I can say it's off to a very good start. Go to page 8. If you think about it's a young portfolio, on a one-year-basis, point-to-point return on the internal rate-of-return north of 28% that of fees since our inception of working together as a partnership since inception about 19% net of fees and a nice premium over the public markets since previous presenters, so it's working for OHA. I'd like it to work a bit more when it gets a bit older when we have some cash coming back to the organization. That's what our goal is going forward, off to a good start and it's young. We keep a close eye on two things in your portfolio it is #1 internationally we're watching for is exchange rates, the strong US dollar versus the euro or the pounds, sterling has impacted valuations within your two international private equity commitments. And #2 we're watching particularly in your natural resources portfolio is what's going on in commodity prices. Good news for OHA is that the two natural resources funds you're invested in Fund 9 & Fund 10 are young. So two things, the companies we have today in the portfolio and it's not many in Fund 9, most of those underlying managers have hedged the forward production through forward contract at between $80 - $90 a barrel of oil. Today's energy markets just closed north of $30 a barrel, so what that gives our portfolio companies are breathing room for the next couple years to work the companies, manage costs, reposition, maybe make some acquisitions. In the uncalled capital that we have which is a significant amount will be put into the market place at low commodity prices taking opportunistic advantage of the structural dislocation going on in the energy markets. So, if you leave here this morning thinking about yes, the numbers are good, yes to a good start, it's a young portfolio, we're watching a couple of things, but we're also taking advantage of some opportunities as well. That would be my portfolio headlines of where your portfolio is with Commonfund. Discussed specific examples to illustrate our point-of-view of how we're investing. And what I chose to do this morning in consultation with staff leaders is not pick but look at companies you own in your portfolio, not just through our underlying private equity managers but examples of companies that we really like and have an additional co-investment alongside the manager.

Page 13, take a look at iParadigms, the younger Trustees, certain managers on my right are about to squirm that this technology did not exist when they were in college or grad school. iParadigm is based in Oakland is a company backed by our manager insight Private Equity Co-investor partners and what iParadigm does is sells to high schools, colleges and universities a program called turnitin, it promotes originality in student writing. Let's say Steve Lazo submitted a paper, iParadigm will scan it, make sure that he didn't lift a paragraph from an old girlfriend or another student or someone on his hockey team or etc. So across thousands of campuses they can make sure that things are properly cited and it promotes originality, it literally on a thousand schools of higher education and it's not overly special for the schools, but it's helpful for the professors and teachers, just to make sure that its original thinking and improved of writing. It has cut the incident of plagiarism down by 38%, incredible, good ethics, a thoughtful business model, you own it through Insight, which is one of our managers but we also have a small piece as a co-investment alongside them. As an example of a company you own, at least three people in the room utilize products by a company called Beachbody. For those who travel and stay in hotels, you will see their commercials called Insanity, Extreme, P90X, so they are marketing fitness training programs through CD's, incredible cash, positive in terms of what they do to making the world a bit more healthy. So, we own that through one of our managers LNK Partners in their portfolio and we are on of their co-investors alongside that to add some performance to the portfolio. The third example in the US, one I like is B&W is an organic baby arugula and lettuce type company based in Florida. It's one of the largest producers of organic greens, it was a family company, the owner was moving on and his family did not want to take over ownership, they teamed up with a private equity manager to take it to the next level of growth and excellence and share that theme. It has been profitable for our investors and for the family. These are the types of silicon investments we'll include selectively in our portfolios. OHA owns these companies through these funds and through our investments.

Page 15, there is a pork producer in the United Kingdom called Karro Food Group we have their logo on this page. What they do is they have cutting edge technology of pork production and how they raise, process the pigs and the quality of what they feed them is now an industry leader. That is a co-investment alongside our manager Endless based in UK. They're point of view is that they find problematic but fixable companies on the cheap and invest in them. So we own it through our fund investment with Endless and we have additional one off direct commitment alongside. The sports fans might know a company called Infront Sports & Media, they do sports marketing outside of the US including the big football/soccer franchise network is one of their companies they promote around the world which was recently sold to a China based sports promoter and that cash has been returned. OHA's benefited from that in part through our Seventh International Private Equity fund.

Page 16, on the Venture Capital side one of the co-investments we have in our Emerging Market Fund is called Arrail Dental. Think about China, huge population, huge growing middle class that have a thirst for quality health care. In a sub theme with health care is dental care, so Arrail Dental has put together a series of high quality dental clinics in large cities in China where folks who are in middle class instead of going to a dental clinic where they often would pull a wrong teeth or two. Would now go to a quality provider same types of GE x-ray equipment, centralized billing for the patients, so the local doctors are tempted to do something on the side. My colleague Jaira Lee was a patient there before we teamed up with two of our managers to make that co-investment that was part of our diligence if looking into that. OHA owns that through two managers Clyde Perking and Ji Ming, but we own it as a co-investment beside them. So thoughtful work with our dedicated team does opportunistically teaming up with the right sponsor, the right manager alongside. In the Venture Portfolios, we have a distinct bias of working with managers on so called Early Stage Venture Capital that means getting into the company as opposed to Late Stage Venture. We own through our managers 71% of the so called unicorns, these are the private companies with evaluations of a billion dollars or more.

I think we're in good shape with OHA's Private Portfolio with us, off to a good start. Likely would like to come back in a later meeting and talk about the next steps and building out the portfolio to take advantage of the next private cycle.

Trustee Apo - Do the Chinese universities participate as individual institutions and investments like Yale and Harvard? Is that modeled in China?

Ralph Money – Great question, so we've done some Trustee training in China with China based universities and foundations, the sizes of their endowment with maybe one exception are either in non-existence or quite small. They have an appetite to learn and are familiar with the endowment model that we've practiced since 1971 and like that. What is new on the horizon is fundraising, in donor development. We were at the University of Hawaii and they know how to do that, the private schools in Hawaii like Punahou and Kamehameha they tap into their alumni. That is a new enterprise and development in China, but they have alumni network today, folks who have come to the states and have gone back home with some wealth now support their alma maters that beyond government support. That's what their trying to build. I think we can be helpful, but they're not investing in our programs, they know about them, we've talked to them a lot. We have done Trustee education, they are on the brink of it and part of it is they understand the world now particularly with the younger alumni coming home and having careers in the states from building companies. A lot of the CEO's of our Chinese, Indian and Latin America based either went school here, worked here, friends and consultants here, investors and bankers taking that home, hiring people, building companies and now they share the wealth. Our model is as Americans is been "philanthropy", they volunteer part of their time and resources. That's what we try to advocate.

Steve Lazo – Thanked the Trustees for their time.

Chair Machado – Called on Ray Matsuura, prior to the meeting started, he suggested possible options for the committee to consider. Rather than you bringing you all in, we could probably do fast tracking and layout opportunities for only one or two managers come and spend more time talking and maybe even offering some understanding or training especially with Goldman Sachs on their block building.

Chair Machado – You should consider working with Ray. All of this high tech stuff in the private equity is wonderful, perhaps we should dedicate more time in the meeting to work with you and understand a little more in depth.

Ralph Money – Madam Chair, we're not shy of spending time and sharing our story if offered. If a deeper dive or it makes sense to the Trustees, we would be more than happy to do that.

Chair Machado – This is Ray's recommendation to me as the Chair. So we will work that out with each of you and try to schedule that throughout the next three months or quarter. Thanks Ray for the suggestion.

(For details, refer to material distributed: OHA 3Q Asset Allocation Prepared by Ray Matsuura)

Ray Matsuura – In our remaining time, I'd like to discuss the handout I developed with my associate Dylan Zheng. Basically these three pages are: The first page is what we showed you last quarter, how our managers are aligned with our strategy. So the first page, I will update you on the managers. Second page is our 3Q allocation and the Third page will be our benchmarks and sort of tie how our benchmarks are aligned with our overall strategy.

First page on left hand side, we have our Traditional Assets and our Asset Managers and Marketable Portfolio. I'd like to highlight the purple box (lower right hand corner) the Diversifying Strategies Hedge it's only 1.1% of the portfolio about $3.6 million. But in November, I recommended to Dr. Crabbe that we terminate this manager, they are a sub-advisor to State Street Global advisors, and they are called SSARIS which is State Street Absolute Return Investment Strategy; it's a hedge fund and was chosen to be a part of the Enhanced Liquidity Bucket. So it provided monthly liquidity, but as you can see on page 110 of the blue book, the performance has been really lacking especially given what they were telling us to do in the last quarter they returned -4.03% and one of their things is they're supposed to provide a positive absolute return and hedge against extreme volatility in the market So that is one of the reasons why they were sort of on our radar, the second reason more importantly is that in September, I noticed that Assets under management had declined by $10 million making us the second largest shareholder within the fund. After talking with them they told me there is only one other major shareholder in the fund about $7 million and that if they pulled out, my concern is that we would be the largest shareholder in Hedge fund and pretty scary in itself. So, I recommended that they provide monthly liquidity and brought it to the attention of Dr. Crabbe. That's why we decided to terminate the relationship. For the eighteen months we've had them as a manager, they've underperformed, they have an absolute return of -1.6%, and again I feel good about just getting our money back in a timely fashion.

Trustee Apo – Are they aware of our concern?

Raymond Matsuura – Yes, I have spoken to them a number of times back in November and December. When I found how large of a position we had in the fund and they were saying of course were going to grow it. During that time between we signed on in June of 2014, they were part of State Street Global advisors and during that time about November, the relationship had split. So to me there was no independent fund and I didn't feel confidence enough that they would be attracting enough assets, especially given the track record over a short period of time that we've had them.

Trustee Apo – I'm just thinking if someone is watching because we are streaming live.

Chair Machado – Thanked Ray for the courage and the extra eyes for watching over this.

Raymond Matsuura – I think it was just something that we had to act on. Let's go to page 2, I want to highlight the lower right hand corner, the Non-Marketable Equity position in the red part of the pie chart. As Ralph mentioned were in the early stages of a lot of our investments in Private Equity and what's happened is we have commitments out there and are in the process of funding those while the rest of the portfolio is either down or were flat. What happens is that allocation at 15.9% is above our target by about 3%. We've managed to reduce that allocation somewhat by rebalancing in December. But however, if the markets continue to be flat or down this year that portion committed to Private Equity is going to continue to be a bigger part of the overall Asset Strategy and it will go beyond our target. The Market when come December, we will have to re-evaluate how much we want to target for Private Equity. I just wanted to bring to your attention again, if we get increased distributions or fewer contributions or if the rest of our Traditional Assets improve then, this will be a non-event. On the page 3, OHA's Benchmark Summary, basically that date from page 28 from the blue book where we list all of our benchmarks. Top of the page we list our managers Goldman Sachs, JPMorgan they manage 55% of our Traditional Asset portfolio which is divided into stocks, bonds and real estate. In the blue sections is our Traditional Equities measured against the MSCI All Country World IMI Net is the Investible Market Index and comprised of developed markets such as Emerging Markets, Large MidCap and Small Cap Stocks and it covers about 99% of the Investible or Opportunistic set of the market. It is very well diversified. This ETF this just covers the Large and MidCap stocks and is called ACWI. Right hand side is another broad side index, it's the FTSC EPRA which it the European Public Real Estate Association as well as the North American Real Estate Association. So, it is basically a broad benchmark for the Global REIT market. Were 5.5% target for that area, the ticker for that would be FFR and so those are two broad benchmarks that are widely recognized in the ETF market.

The middle on is the one that I have a problem with that is a customized benchmark. It is devoted to Traditional Global Credit and it is 65% US Credit Barclays Index, 15% JPMorgan Government Bond Index Emerging Markets, 15% High Yield and 5% Emerging Markets Global Bond Index. The problem I have with this when we customize a benchmark, basically the investor is building into a bias. We're saying that we basically saying in the search for yield, that these particular areas of the market are going to do well. And you can argue that we have a Government Liquidity Fund and that kind of gives us a little bit of a balance in our fixed income. One of the problems when you do a customize indexes can be shown on page 25 in the blue book. You can see that among this chart here our IPS benchmark in red is for seven years is at the bottom of the tier group and for one year it's off the chart. And I think that shows the danger of customize benchmarks. Now granted this is probably saying maybe we're in the wrong tier group. I think that I have called the State Street that this is the index that we were once part of at one point, but now over the year since I believe on page 26, in 2011 we were in the Barclays Agg index. But since then we have changed that, historically we have been changing our benchmark every year. I think that is something we have to probably address that we are changing our benchmarks to much. Maybe what we should do with our managers is give them more flexibility the tying them to a benchmark. That is a discussion we can have moving forward. We should invest in higher yield that it can't come back and bite us in terms of where we should be on a globally type of market look.

Trustee Akana - Perhaps this suggestion is a good one. Maybe in the workshops that we have with managers we can discuss what that formula should look like and how we can develop some of the criteria that would allow them to come to us to change when the market looks like it's changing. Because we know when the market is very volatile, it is going to be constantly changing. If in the next three months when meeting with these managers as part of the discussion we should be discussing this very thing and how we can change it.

Raymond Matsuura – There are bond managers that are on constraint and they can make those decisions of whether we should be in Emerging markets or not. It is not our decision; we don't want to make that investment decision for them.

Trustee Akana – To some extent we are supposed to make that decision based on the advice they give us. So whatever they tell us (inaudible).

Raymond Matsuura – This is more of my personal opinion of customizing. For the purpose, is because yields have been falling for so long that why we own treasuries. I'm just pointing out that this is the thing that could happen when you do that. It may not always be the right thing.

Trustee Akana – The other thing we need to look at Madam Chair ASAP is really look at revising the "spending policy" which is still at 5%, because as you can see, we lost a lot of money from this last quarter. That means our spending next year has to be less. We have to do something about that. So if our "spending policy" remains the same, we cannot spend more than we have. We need to fix it.

Ka Pouhana Crabbe – We concur and are currently working with SPIRE and that will be part of the recommendations for the Fiscal Sustainability Plan.

Raymond Matsuura – Having said about our Global Index or benchmark, I wouldn't change it now at this point and time. Because I feel the high yield shown some signs of recovery and has of course the emerging markets have come back and the oil comes back eventually. Again, I just wanted to highlight the dangers of customizing benchmarks.

Ka Pouhana Crabbe – Madam Chair, I just wanted to clarify, because you had shared that our benchmarks were changing, but when we adopted this plan, at the time with Howard, it was made recommended, I thought those benchmarks were fixed.

Raymond Matsuura – From what I can see, there is just some small tweaks, you can see that on page 26, which shows the benchmarks haven't changed from 3/1/2003 – 12/31/2008.

Ka Pouhana Crabbe – Historically yes. But the goal for when we originally adopted what we currently have in the benchmarks were fixed benchmarks in order for guidance for the managers.

Raymond Matsuura – Understand that were tweaking it as portfolio changes grows. I'm just saying for me, I plan on having a better measurement on relative performance. If benchmarks are changing that means strategies are changing. Then how can you say if this manager is doing better or worse because you're moving the target. My intention is to try to keep benchmarks as broad as they can be. And hopefully the managers are able to work within the mandate.

Ka Pouhana Crabbe – Trustees the reason I ask that question is because as were moving forward with the Fiscal Reserve Sustainability Plan is really doing in depth review or assessment and the Trust Fund is what we would have to sustain and then again try to achieve the intergenerational equity. As you mentioned it's those strategies in terms of where appropriately the funds will get the best bang for our investment. That is something that we would be looking very closely with Rodney.

Chair Machado – I have not authorized any more work for him, so if you call him he will not respond, and I've stopped him from doing any work with OHA. We have to find the money to continue his contract.

Ka Pouhana - The RM's Chair is the contract monitor.

Chair Machado - That's what I've said, so I've told him to stop work, he is here on his own time, he's not here on OHA's time.

Ka Pouhana – Well, we should address that very quickly.

Chair Machado – I have been with Hawley, it's not something that I take lightly. I am asking him to draw upon what administrative needs are with the sustainability plan along with the RM committee's highest priority to address. I have five areas we want to address. Trustee Akana, your issue is one of them, the "Spending Policy" is a high priority for us.

Trustee Apo – First of all the Annual Report was really good. The level of detail and it was articulated very well to understand. In our Spending Policy as it relates to draw down from the portfolio. What percentage of the $50 - $60 million in Operating actually comes from the portfolio?

Ka Pouhana – Hawley is not here to address that. It was a substantial amount that really goes for our Core Operating Budget.

Chair Machado – It exceeds $25 million.

Trustee Apo – So in approaching the reduction, because a .5% reduction is huge. And pay special attention to getting more revenue and other parts to our revenue production. Otherwise, I don't know how we can even continue operating with today, taking .5% off and be broke basically.

Ka Pouhana Crabbe – Four years ago, the intent really was to get Kaka'ako Makai to move forward with Public Land Trust revenue. We're actualizing that right now, but that won't come to fruition, because right now we're meeting with the Legislature. The Public Land Trust is gaining some attraction but we really need to be realistic that it won't unfold until the next three years, but as we're looking comprehensively, that's why the Native Hawaiian Trust Fund, if we can really take a dive into how we can maximize that investment while at the same time looking at these factors of reducing the Spending Policy and how that will influence the Core Operating Budget, but also project our future in terms of what the potential revenue for Kaka'ako Makai would bring. But that won't be till 2020 plus.

Chair Machado – Ray, I want to thank you for your summary that you provided for us those three pages. We appreciate all that you done, since you the newest person on the block. You have just come in and not sit back. I can recall when I was involved, we had to terminate Russell, one of our money managers and it wasn't very pleasant, they didn't want to be release in spite of all the information we had. Howard folks had a difficult time, so this may be a smaller player compared to Russell International, but it is not easy to release a money manager. Thanks for providing more in depth discussion with the RM committee.

Ray Matsuura – My pleasure, that's my job. I'll end it there. I just want to make a note. We are now looking at the Enhanced Liquidity Fund which is right now in the Barclay's US Government. US Government fund has a 30 year securities in there Treasury Securities, it's about seven year duration. It sits too long to be in a liquidity fund, but it's worked out, because rates are falling. Maybe, being in there for the wrong reasons is okay, but we're going to talk about. Dylan and I are talking about moving it to a Mortgage Back Securities Fund, shorter duration and higher yield. Good quality.

Chair Machado – We look forward to that.

Ray Matsuura – We look forward to the next meeting on March 23rd. We will be two quarters behind for the next meeting.

Trustee Akana – In regards to fees being charged. What is the difference between internal and external fees?

Ray Matsuura – Internal fees would be from Goldman Sachs or billing us directly. And then they have sub-managers like JPMorgan and Goldman Sachs or Commonfund, they have external managers and they charge us fees. They hire managers of the managers.

Trustee Akana – So they pass those fees unto us.

Chair Machado – Asked if there are any beneficiary concerns. No one replied.

V. BENEFICIARY CONCERNS*

None

VI. ANNOUNCEMENTS

None

VII. ADJOURNMENT

Chair Machado – Moved to adjourn the meeting and asks if everyone in favor say I. All in favor. Hearing no objections the meeting adjourned at 12:09 p.m.

Respectfully submitted,

Laurene Kaluau-Kealoha, Aide
Committee on Resource Management

Colette Y. Machado, Chair
Committee on Resource Management

Approved: RM Committee meeting March 9, 2016