

STATE OF HAWAII
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, June 22, 2016 9:30 a.m.

ATTENDANCE:

TRUSTEE COLETTE MACHADO, CHAIR
TRUSTEE HAUNANI APOLIONA, VICE-CHAIR
TRUSTEE LEI AHU ISA
TRUSTEE ROWENA AKANA
TRUSTEE DAN AHUNA
TRUSTEE PETER APO
TRUSTEE CARMEN HULU LINDSEY

ADMINISTRATION STAFF:

KAMANA'OPONO CRABBE, CEO
LISA VICTOR, COO
HAWLEY IONA, CFO
ERNIE KIMOTO
ALBERT TIBERI
MOMILANI LAZO
RAYMOND MATSUURA
DYLAN ZHENG
RAINA GUSHIKEN
MEHANA HIND
KARLEN ONEHA
DERRICK KAUANOE
KARLEN ONEHA
GARRETT KAMEMOTO
LORNA LOEBL

EXCUSED:

TRUSTEE ROBERT LINDSEY
TRUSTEE JOHN WAIHEE

BOT STAFF:

CLAUDINE CALPITO
DAYNA PA
U'ILANI TANIGAWA
LIANA PANG
LAURENE KALUAU-KEALOHA
DAVIS PRICE
KAUIKEAOLANI WAILEHUA
LEHUA ITOKAZU
KAMA HOPKINS
LADY GARRETT
HAROLD NEDD

GUESTS:

SONYA PARK, SSgA
GLENN EZARD, Segal Rogerscasey
IAIN JONES, Pantheon
EVAN CORLEY, Pantheon
RODNEY LEE, SPIRE
KIMBERLY LAU, SPIRE
KELII MAKEKAU

I. CALL TO ORDER

Chair Machado – Called the meeting of the Committee on Resource Management to order on Wednesday, June 22, 2016 at 9:38 a.m. For the record, there were two excused absence from Trustee Robert Lindsey and Trustee John Waihe'e.

Trustee	Present	Excused	Comments
TRUSTEE LEI AHU ISA	X		
TRUSTEE DAN AHUNA	X		

TRUSTEE ROWENA	AKANA	X		
TRUSTEE PETER	APO	X		
TRUSTEE HAUNANI	APOLIONA	X		
TRUSTEE HULU	LINDSEY	X		
TRUSTEE ROBERT	LINDSEY		X	
TRUSTEE JOHN	WAIHE'E		X	
CHAIR COLETTE	MACHADO	X		
TOTAL		7	2	

At the Call to Order, there are seven (7) Trustees that are Present.

Chair Machado - Sought a motion for a 72-hour waiver for item IV. D. RM #16-04 Approval of Funds from OHA's FY 2016 Fiscal Reserve Authorizations for OHA's FY 2017 Estimated Fringe Benefit Deficit.

Note: The issue was brought to the RM committee's attention by Trustee Apo's aide that page 2 was missing. Each office this morning has received page 2.

Trustee Ahuna – Moved to approve a 72-hour waiver for item IV. D. RM #16-04.

Trustee Apoliona – Seconded the motion.

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

Trustee Ahuna MOVED, SECONDED by Trustee Apoliona to approve.							
Resource Management approved 72-hour waiver at 9:39 a.m.							
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT
LEI	AHU ISA			X			
DAN	AHUNA	X		X			
ROWENA	AKANA			X			
PETER	APO			X			
HAUNANI	APOLIONA		X	X			
HULU	LINDSEY			X			
ROBERT	LINDSEY						X
JOHN	WAIHE'E						X
CHAIR COLETTE	MACHADO			X			
TOTAL VOTE COUNT				7	0	0	2
MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED							
Motion passed with seven (7) YES votes, none (0) NO vote, none (0) abstentions and two (2) excused.							

II. APPROVAL OF MINUTES

A. April 27, 2016

Chair Machado – Sought a motion to approve the RM committee minutes from April 27, 2016 as presented.

Trustee Ahuna – Moved to approve the RM Committee minutes of April 27, 2016.

Trustee Apo – Seconded the motion.

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

Trustee Ahuna MOVED, SECONDED by Trustee Apo to approve.							
Resource Management April 27, 2016 minutes is approved at 9:41 a.m.							
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT
LEI	AHU ISA			X			
DAN	AHUNA	X		X			
ROWENA	AKANA					X	
PETER	APO		X	X			
HAUNANI	APOLIONA			X			
HULU	LINDSEY			X			
ROBERT	LINDSEY						X
JOHN	WAIHE'E						X
CHAIR COLETTE	MACHADO			X			
TOTAL VOTE COUNT				6	0	1	2
MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED							
Motion passed with six (6) YES votes, none (0) NO vote, one (1) abstention and two (2) excused.							

III. COMMUNITY CONCERNS*

None

Chair Machado – Turned this portion over to Ka Pouhana Crabbe for introduction.

IV. NEW BUSINESS

Ka Pouhana Crabbe – For the 1st Qtr. 2016 performance review of our Fund Managers, I'd like to call up Investment Manager Ray Matsuura who will do the introductions. Our first presentation is with Sonya Park from State Street Global Advisors (SSgA) for overview.

Ray Matsuura – Sonya Park has been with us for 5 years as a client representative for SSgA.

Ka Pouhana Crabbe – In your folders you should have an Economic Outlook for 2016.

Ray Matsuura – SSgA manages our HDI funds as well as our ELA funds, it's about \$34 million in total between the two funds. She'll give us the economic outlook and review the performance. The ELI and the HDLA and the HDI are both index funds. There not actively managed. I'll turn it over to Sonya.

A. Native Hawaiian Trustee Fund 1st Quarter 2016 Performance Review with SSgA.

(For details, refer to material distributed: OHA Board Report First Quarter 2016 dated June 22, 2016 and Economic Outlook For 2016 by Sonya Park dated June 22, 2016)

Sonya Park – Thank you for having me here today to give you our outlook for the 2nd half of 2016. Go to page 3. When I was here in October, our view on 2016 and 2017 were that we still expected it to be a low return environment, slow growth and we don't expect those things to change. We think to set things are going to be the same for the rest of this year and end at 2017 and 2016 will represent the 5th year of low average growth globally and 2017 will be the 6th consecutive year. Some things that are being looked at are sort of what the emerging markets are doing as well as what the Geo Political intentions look like.

Page 4, just to give you a sense of where the growth is, our expected growth for 2016 is right about 3% globally and then slightly higher in 2017. If you see that light brown line, that's the historical growth for the Global Economy at 3.7%, we've been below average for quite some time and we don't expect it to pick up in the foreseeable future.

Page 5, with the Fed, there was an exception when I was here in October we felt that were going to be several rate hikes about 25 bps throughout 2016, that's actually now being reduced down to the possibility of .01% happening between now and the end of the year, although we think the probability of the Fed increasing the rates is very low. And so that in itself is what's driving our views in terms of slow growth particularly in the US.

Page 6, one of the things I mentioned earlier was around what the emerging markets are going to be doing and historically in maybe three to four years ago, we we're looking at China to have 7% + growth rate that has since been adjusted, we're now looking at with 6.8% in 2015 actually coming down to 6.0% growth in China in 2016. So, we still think that the rate of growth could potentially be slower but 6.0%

Page 7, so just to show you what our forecast are for the emerging markets economy as you can see in 2016 we're expecting 3.5 - 4.0% and then for 2017 at 4.0% which is below the historical growth rates we've seen since 2010 and it has continues to come down.

Page 8, so focusing in on the US, we think that the US growth rates going to be 2.2% in 2016 and 2017 which is a very low growth rate expected, as I mentioned that the Fed, we don't expect them to be increasing rates possibly one more time and before the end of this year, but then again the probability of that being very low. Just comments briefly on the US, so what we're seeing in terms of the economic data is that it's very mixed. When you think about consumer spending that has been better, but we have also seen weakness in corporate spending, so because corporate returns have been lower than expected, the capital spending has been negative, so we think that if the capital spending continues to be negative for corporate America that we think that can ultimately impact jobs. When you look at the employment numbers from May, they we're very disappointing. One thing that we're not clear about is whether that's just a blimp on the radar screens, which we need to, see what happens in the coming months.

I will turn to Page 16, so when looking at the euro zone countries. I think everyone here is aware that there's a vote tomorrow on whether the UK is going to stay in or go out of the European Union. I can tell you that our trader said last week, all indications we're that they're was going to be an exit and then over the weekend that changed, the markets are indicating that they're going to stay. It's unclear on which side it's going to happen, it keeps bouncing around. But that's clearly one of the critical things that people are looking at as far as the euro zone is concerned. We expect the growth to be only about 1.6% for the euro zone in 2016 and 2017.

Page 18, this is showing you just the historical euro zone GDP Growth and then what our forecast looks like and as you can see it's like relatively flat since 2015.

Page 26, in this case for you folks to view, if the UK should leave, our view that it's going to restore parliamentary sovereignty, so that the UK is no longer bound.

Page 30, this is our view in terms of if they were to leave, the EU will lose its second largest economy, it's going to lose its influence of global matters. The influence of Germany and France will increase and there could be other referendums that could be called out elsewhere in the EU. And then for the UK itself, we think it's likely the end of David Cameron's career there. It's going to trigger an referendum on the Scottish independence, it could cause financial firms to relocate from London potentially and so again either one of these is going to have a different effect. I know from a market standpoint in speaking with my trading team, if the UK were to leave their views that we're going to experience increased volatility for the foreseeable future in the equity markets, if they were to stay, they think that's already been priced in to where the markets are. We may see a slight pop, but they think it will sort of be status quo as you go.

Page 32, these are some of the points I highlighted earlier as far as what we're looking at for the rest of the year for 2016; I'm not going to read through each one. But again its three key themes, its Low Rates, Low Growth and all eyes on seeing what the emerging market are going to do as well.

Page 33, this is our own internal market regime indicator sort of seem where the markets are, and right now, our model showing that we're in a higher risk environment, certainly that could and probably will change after tomorrow.

Last page 53, so based on where all our models are right now in a high risk environment, we are in a very defensive position as far our view on total portfolios and so you can see what the over and underweights are across the different asset classes for our model portfolio. And the one thing to notice, we've actually increased our target for gold to 3% from 1%.

Those are my formal comments and I'm happy to answer any questions.

Trustee Ahu Isa - Every morning I listen to Berg and at night I watch the Asian market. The guy said this morning it's mostly politics that's driving our market. Whether it's Trump or like whether the vote comes in as or whoever our new President is going to be too.

Sonya Park – Correct.

Trustee Ahu Isa – We watch everyday up and down, up and down. I agree with you the high risk volatility right here even with the credit rating and the interest rates are low, that the higher the risk the, that's why I hate to rely only on the market to bring in our revenue. You know the investments in our market. I think I talked to our CEO Ka Pouhana about that. We have to look at other things that we can invest in, like HEMP the medical marijuana.

Trustee Apo – Do you have any advice to the State of Hawaii with the arrival of Chinese and their checkbooks?

Sonya Park – Advice from what perspective?

Trustee Apo – Their preferences are there any upsides, downsides of specifically Chinese investments in terms of the model that they're setting around the world.

Sonya Park – No, I don't have any insight into what is sort of their spending patterns are specifically in the US. We're looking at it more from a country standpoint.

Trustee Apo - We went through a cycle with the Japanese here and did not end up good.

Trustee Ahu Isa – As a broker for Hilton Grand Vacations we watched that and the type of tourists coming in or people buying our properties. A lot of Chinese are now entering the market; they have cash and don't want to leave it in China. The Japanese they love Hawaii, which was our main clientele until Korea and China started coming in. This is from a Tourism Hospitality perspective.

Chair Machado – Any other questions

B. Native Hawaiian Trust Fund 1st Quarter 2016 Performance Review with Pantheon

Raymond Matsuura - Up next we have Pantheon Iain Jones and Evan Corley. Iain Jones is our new investment client contact and was not here at our last meeting. Pantheon manages nine private equity funds for us; we have forty seven million in commitments to them and twenty one million in market value right now. So let me introduce you to Iain and Evan.

(For details, refer to material distributed: Pantheon Prepared for Office of Hawaiian Affairs – June 22, 2016. Confidential – For the exclusive use of recipient.)

Iain Jones - Madam Chair and the Board, thank you for having us here, it's a pleasure for Evan and I to present. Neither Evan nor I have been in front of you thus far, I think it's worth giving you a little background. I've been at Pantheon four years, I used to be in the London office and I'm a British National myself. I have been working with Ray on the OHA accounts since he joined. Evan can provide you with his background.

Evan Corley - I'm a principal on our investment team and I'm also head of Natural Resources for the firm and been with Pantheon for twelve years and I focus on everything across the full gamut of private equity and real asset opportunities for Pantheon.

Iain Jones – We have prepared an agenda here which we plan to run through and please stop us if you have any questions along the way. So, looking at slide 2, we're going to start with a quick overview of the firm for those who know less of who Pantheon are and OHA's commitments with us. Evan will provide you on an update and on a little bit of background on some of the companies in your program and also your private equity markets are today and where they have been recently.

Slide 4, Pantheon has been investing in private assets for 30 years and what does that mean? It means, the private equity and real assets and infrastructure as Ray mentioned in the introduction, you have investments with us in nine private equity funds and one infrastructure fund and you really have back many of our products which when you look at this timeline here stand from our first Asia European and US investments in 1983

through our second year of investments in 1988. We have a long history of programs that you have invested with us. Today, we have \$33 billion of assets under management; we manage on behalf of 383 clients. And that money is invested by a team of 69 investment professionals.

Slide 5, we often talk about how we're a global firm and I think this slide hits to that. We have six officers and throughout the world as well as local presence in places like Chicago and throughout the continent Europe. Our international investment committee on the left hand side, they approve every investment we make on behalf of OHA and looking from top to bottom, Chris, is based in Hong Kong, Susan in San Francisco, Dennis in Chicago and Helen and Adie in London. We can be sure that we got that local knowledge for these programs that we're managing on behalf of you and each of the regents. That wraps presentation on our international committee.

Slide 6, I just wanted to flag this slide to you and mention the 380 clients we manage money for across a variety of types and I think it's important to OHA where we can enlarge and sophisticate a client base and that they demand a lot from a manager and they demand things in areas in such as environments and social governments, diversity, reporting and transparency when it comes to fees. And these are all areas which I think that to different degrees clients than our client base focus on. And I wanted to flag them as areas as we're doing a lot of work in at the moment. We we're the first signatory of the UN principles of responsible investments. We recently released a diversities statistics for us as an organization we also work with a number of underlying managers and a number of investors on how we can implement diversity and impact programs, so just so your aware we have a number of clients that surely share the same issues that you do and some of the same considerations.

Slide 7, we're very proud of what we do. I'll move on to the next.

Slide 9, these are OHA's fund commitments for Pantheon, so there are 10 funds in total. These are ordered by Vintage, the age of the fund in which you've committed, the older the vintage, typically, the more mature those investments will be. Evan will talk about that in the investments they move through the maturity profile. But generally as you can see, the older the funds the more contributions are drawn from OHA and the higher the distributions are hopefully and that's money we've invested in companies. Those companies have gone through the value creation life cycle of being exited and then that money is flowing back through to Pantheon and ultimately through to OHA. So this provides you with a line by line breakdown the primary private equity strategies, you have two investments in our European funds of funds, where we actually going to investing in European managers who are buying predominantly European companies. You have two in our US funds of funds. Same concept, US manages US companies and one in emerging Asia. You have three investments in our secondary funds which pursue sort of a wider way of strategies, but most simplistic by more interest in funds that have already matured so you're buying slightly more matured private equity assets and access to those companies and providing liquidity for those investors that may have invested in the early part of the fund. A co-investment fund, you're investing directly in companies alongside our underlying managers. You've also got an infrastructure so an infrastructure fund investment there as well, which was the peak of two of the 2013 Vintage.

Evan Corley – Slide 11, this is a little bit of a review of what we are seeing in the private equity market today. I was quite interested in the State Street presentation earlier; I think many of the themes discussed actually flow through and are being reflected in what we are seeing on the private equity side over the course of 2015 and into 2016. I might just start on the chart on the lower left handed corner which I think is really the crux of how I would think about the private equity market today and what we are seeing and that's really on "pricing". As a result of low yields and easy monetary policy and a lot of areas there is quite a bit of money sitting on the

sidelines looking for high quality businesses in which it can invest and the result of that is really rising asset prices. And we've seen that playing through on the private equity side, again I mention in 2015 and into 2016. One it has slowed active investment activity and some of the more traditional areas like buyout investments where pricing has gotten very high or at least higher and then separately and more importantly it's really lead to an increase in distributions as our GP's that we work with have harvested their portfolios selling high quality businesses where they can achieve premium pricing on the assets and that's lead to tremendously good distribution flow. More broadly at Pantheon and you'll see a little bit and we'll talk about that shortly and go into the OHA portfolio.

Slide 12, OHA's portfolio in Agregate and what I will say is over the course of the year we've had and really over the life cycle, we've started to establish a great portfolio. Iain mentioned that it's starting to become into maturity and you're starting to see some of that take place in the portfolio, but there are also a number of newer commitments which are built in value and driving portfolio growth. All in all I think we would expect and anticipate continuing to see this portfolio grow in value over the coming years on behalf of your organization.

Slide 13, is a little more granular as transpired over the last year and what I really want to emphasize and it gets to my beginning points is that what we've really seen over the course of the 2015 and the new 2016 is a significant rant and distribution activity. So over the course of the year, you've seen \$5.4 million distributed relative to a \$24 million portfolio value at the beginning of 2014 and I think based on what we are seeing today and what we've started to see into the tail end of Q2 and Q3, we should continue to see a high level of distribution activity in the portfolio over the next year.

Slide 14, this is just another summary point of what we're saying. The biggest thing I would like to emphasize is we're drawing capital and that capital is still going into new businesses but more importantly we're seeing quite a bit of portfolio harvesting that reflects the maturity of the portfolio and the environment we're in today.

Slide 15, is a snap shot of the portfolios, this is where the capital has been deployed and I may just summarize a couple of things. Firstly, this is very much a global portfolio and is centered on the more mature private equity markets on a global basis which are North America and Europe, but we do have exposure to Asia as well. This is diversified across strategy and stage of the businesses in which we are investing. The greatest proportion is going to be buyout transactions, this is the acquisition of existing mature businesses, but then there is quite a bit of Venture and Growth which adds Alpha to the portfolio and gives the overall portfolio a little bit of juice and then it's complimented by the co-investments activity, this is reference earlier where we are investing alongside our GP's and businesses. The benefits of co-investments is it mitigates the fee load because we don't tend to pay fees on co-investment transactions and finally Secondary's, is where we are acquiring interests in existing private equity funds that have been deployed in the benefit of the secondary deal flow it allows and helps mitigate the J curve and the fee load associated with the overall program and adds early realizations as you complete secondary's. Finally, this is a portfolio that has been substantial deployed between 2005 and 2008 and but of course there are newer investments made in 2012, 2013, 2014, 2015 which are going to be newer and those are in the portfolio building and value phase.

Slide 16, Tangible examples of what is in the portfolio today and what is some of the larger businesses are. Starting at the upper left hand corner which is Uber, I think we all know what Uber is, we've seen it. That company Jeld Wen is the largest window and door manufacturer in the US and globally at this point. This was acquired by one of the buyout managers we work with. In 2009, in the heart of the financial crisis and that's a business that has really benefited from resurgence and the economic environment and residential housing starts and home pricing. I'll finish with Netflix another great technology business; we've had a history of investing

in Netflix as one of our growth equity portfolio managers and long story short, it's been a tremendous ride the entire time, we've experienced a significant amount of gains as a result, it keeps reinventing itself and driving value through to the portfolio to our investors.

Iain Jones – We've really focused on what is in the program and reporting as of Q4 in 2015. The next session is intended to look a little bit forward and make some projections about why we think the program as a whole will be and what you can expect to see.

Slide 18, takes a look at the program you have today over the next five years and can see to the impact of the self-liquidating nature of the companies in these particular program as the portfolio matures. Again hitting on some of the points mentioned earlier, you can see we can expect over the next five years to return just over \$20 million to OHA from this program. By the end of 2017 to within the next 18 months we expect your investments to be 90% called with almost the entire remainder to be done with the three years afterwards. So I think this gives you a sense of maturity of the program and what we expect to see in terms of returning the capital back to you that you have invested in some of our 2004, 2007 Vintage funds.

Final slide 19, is just another set of graphic graphs over the next ten years. So you can see that net asset value which is the purple line decreased over time and without any further reinvestment in any private equity with Pantheon. So, with that I wanted to stop there and be cautious of time and see if anyone has questions.

Ray Matsuura – You mentioned you expect the acceleration of harvesting distributions going forward. How much of the business cycle weighs in on that or do you sort of, I would think that we're at the tail end of an economic boom or whatever it's doing. Do you kind of say well we expect it the next three years to go into a recession, so you maybe accelerate your programs or do you kind of ride it out?

Evan Corley – That's a great question. I think that the answer is two-fold. One, from a capital draw of perspective, we influence how we are deploying capital over the course of the evaluation of our environment in terms of how we are sending it back to GP's to actively invest and we are slowing down our commitment pace on the primary investment side but also on the co-investment side in particular and then more importantly we are seeing our GP's exercise some level of discipline given the pricing environment we are in. From the distribution side which is really the more important component, we see this period of time lasting several years now, we anticipate that we're going to stay in an environment where there's inflated asset pricing, but what that means and how that will materialize itself is at the GP level, they will continue to be harvesting and probably maintaining a similar distribution pace for the coming years but more importantly we are actively selling some of our portfolio positions to take advantage of the higher valuation environment and really the strength of the secondary market today. So we've done a couple of strips where we basically sell a piece of our private equity portfolio on the secondary market and realize that those proceeds which I think takes advantage of all of what we are saying.

Trustee Ahu Isa – I am listening to what you said and need to look at companies like Microsoft and what they did with Linked-In. We see China putting in factories there and because it is a private equity thing, it's hard for them to predict. I'm sure you have people out there globally what companies are trying to do sometimes things like Microsoft sometimes just pops up. Because Linked-In, the COO was very emotional when he said he couldn't believe that nobody leaked that out, that there stock was like \$61 in one day. I was shocked that nobody said anything and he was appreciative of his staff, and it's because of the volatility of it, that it's very difficult.

Evan Corley – I think that's a very good point and why maintaining a level of diversification across a number of types of private equity assets important so our buyout portfolio which is really the core part of the private

equity universe will be the most susceptible to periods of increased pricing but more importantly and we've hit on this with slide 15 a little bit, but you have a really nice growth equity component to your portfolio and those are less susceptible to expensive pricing environments and those are the businesses that are very much in their growth phase. So we're seeing tremendous growth in the number of those businesses like Uber, Spotify and some of the other venture oriented businesses that we have exposure to.

Chair Machado – Do you have any more questions? Do you folks have any other clients in Hawaii outside of OHA?

Iain Jones – You are our only client in Hawaii.

Chair Machado – I can tell, because you folks still come with white shirts.

Ray Matsuura – I forgot to give them the memo on that.

Iain Jones – We are going to buy our shirts right now.

Ka Pouhana Crabbe – Slide 18, with regards to the estimated calls and estimated distributions. In Sonya Park's analysis regarding the global possible of UK's, we won't know of the decisions, even with those political factors, your projections for the estimated distributions, will that still hold for the five year projection.

Iain Jones - I think clearly that these are susceptible to things to happen and in both the political and economic environment. We review these cash flow models on a quarterly basis, so this is something that we will update and produce on a quarterly basis. It's based on our experience really of monitoring our programs over 30 years and on the usual life expectancy of the companies within those programs and when we start to see capital back. But, we can absolutely build in sensitivity now since this is just one simplified model which effectively uses the assumptions that we've built over 30 years. To your point, we actually have a three person research team with PH.D's who are doing lots of work at the moment on building cash models that will take into effect for economic and political factors.

Raymond Matsuura – Our next guest is Glenn Ezard, he is our new Investment Consultant from Los Angeles. Glenn has been in the business almost as long as I have with JPMorgan. When I was at Tattersaul Advisory Group on the mainland, we dealt with Rogerscasey for a number of accounts. They are a well-respected firm from the mainland. So without any delay.

C. Native Hawaiian Trust Fund 1st Quarter Review with Investment Consultant

(For details, refer to material distributed: Segal Rogerscasey OHA Native Hawaiian Trust Fund by Glenn Ezard dated June 22, 2016)

Trustee Akana – Madam Chair, could we introduce him again, who does he represent.

Ray Matsuura – Segal Rogerscasey.

Trustee Akana – Is this a new manager?

Ray Matsuura – He is the Investment Consultant.

Trustee Akana – We just hired an Investment Consultat?

Chair Machado – Since Ray came on they have been looking for an Investment Consultant.

Ray Matsuura – We have the RFP issued in December and process went through.

Trustee Akana – I know all about that process. I'm shocked; we'll discuss this at another time. He is not the person selected. I'm shocked that we went through this process again.

Ray Matsuura – I think that you're aware that the process we went through last was

Trustee Akana – There was nothing flawed about that process.

Ray Matsuura – It was totally flawed.

Trustee Akana – Well, we are going to take it up at the Ethics Commission.

Chair Machado – Okay, Ray we're going to move forward, because it's done already.

Trustee Ahuna left the table at 10:22 a.m.

Glenn Ezard – Maybe just a little background, since this is my first meeting that I'm attending. Segal Rogerscasey Investment Consultants, we are non-discretionary investment advisors opposed to what you just heard from State Street, they have discretion over the assets as well as Pantheon. We have over \$300 billion in assets under advisement and operate throughout North America. I'm responsible for the Western part of North America and cover that area and also have five other clients here in Hawaii. I've been coming to Hawaii for somewhere in the range of 10 years. I have been personally with Segal Rogerscasey for 13 years now in the Los Angeles office. There are additional information and some organizational charts in the back and not necessarily go through all of that, but to the extent there maybe questions regarding your organization and what we do and how we do it. I think there is some explanatory information in the back. Because this is the first time in and in speaking with Ray, he asked me to make some general and high level observations on the portfolio and with any new assignment. Actually, turn to the next page 1. Just a couple of quick observations, we always like to take a look at the Asset Allocation as it relates to the targets, the policy and anytime there is any sort of significant variance, we like to look at that very quickly, as you can see everything is pretty much in line with where it's supposed to be, there is some slight variances from Target, but everything is within the range, so there are no concerns there of any kind. The allocations are broken out here across different segments but as we'll discuss in a minute, they are sent out as mandates to the individual investment managers to a manager of manager program and we will talk more about that in a minute. Piecing it all back together into the asset allocation targets you can see the ranges and where everything is and the variances and such, nothing really as I said terribly noteworthy there.

Trustee Ahuna returned at 10:24 a.m.

Glenn Ezard - Turn to page, just in the context on the fee analysis, and I only have a few slides and certainly feel free to interrupt me at any time if you have any questions about anything. This is based on December's market values and I think that the context of what we heard from State Street as well as comments from Pantheon on the low return environment we're facing, fees are becoming increasingly important in terms of maintaining that spend policy of 5% and so if you look across here looking at the breakout. What we did is we tried to break it out as much as we could across liquid and non-liquid assets to the private equity portfolio. Pantheon for example, all the non-liquid assets, these are private equity investments that you really can't

control the cost on. The liquid assets are traditional assets, so it's Global Equities, Global Bonds and we've also included the under the relatively liquid, the low volatility strategy. The Commonfund has three in 6 months in liquidity in the two underlying funds under that strategy. So it is fairly liquid, we didn't have a clean break out there, so we couldn't put that in. It is noteworthy that Goldman Sachs has a somewhat different assignment under the traditional or liquid assets; they have an advisory fee where they assemble a portfolio of stocks, bonds and other assets and real assets of all kinds and they use underlying sub-advisors for those investments, that's the liquid assets portfolio that they collect an advisory fee to make those selections and manage that process. There also investments in private equity and again those are pretty much baked in and there isn't much that can be done to address those fees. But as you look across to the right in particular and you follow it down to the right hand corner the expense ratio on investments about 1.28 % is a bit high and I think that in the context of the current environment of returns being somewhat low and muted going forward. You can think of this as being that you're going to need at least 6.5% gross return in order to meet that 5% spend policy and so if we can't see returns go up because interest rates are low and value relations when stock are already relatively high, then one area we can focus on to maintain a sustained spend policy to 5% without drawing down the assets to much is the fees. And by breaking it down in this fashion, hope to make clear that the area of focus. The next page as we go along.

Trustee Hulu Lindsey – I was just wondering why our Commonfund total fees are so high versus the average annual market value.

Glenn Ezard – That's a good question, much of that is driven by the low volatility strategy, a hedge fund strategy which has a somewhat higher fee than some of the others categories especially within traditional assets.

Ray Matsuura – Commonfund was not hired to manage traditional global assets like Goldman Sachs and JPMorgan. So their managing a hedge fund which is typically 2% in fees.

Ka Pouhana Crabbe – Just a comment Chair and Trustees. When Ray came aboard, the reason why we're sharing this is because each of our fund managers have benchmarks and we had been evaluating it since over time, now that we've instituted the benchmarks, we're looking at areas where we can sort of improve in terms of active management for you as a board and how they are doing and we have been talking to the different fund managers about the fees and what's a good arrangement and at the same time having oversight of the fund on those performances and how it relates to our 5% spending policy which you said 6.5%.

Glenn Ezard – Exactly, you can really think of it to the extent of the fees can be brought down in anyway, that is also a return on investment that you free up. The idea is to maintain a constant spend policy that you can keep going in perpetuity and so the way to do that is to manage those expenses against the expected return. The breakout is really given to you as a way to think about as we start going more into deeply and a granular level of that we won't talk about today. But just to let you know as we look through this, it's really those liquid assets that we would be focused on while we think we can gain in the best advantage in terms of managing the fees going forward. As far as performance, I don't necessarily want to go through each of these pages; I think if you take a look at it, there are some general observations, if you just go forward to the next page. I'll roll through this really quickly, you can see JPMorgan's returns here and all we did is we took the returns as of March, that we received from State Street and lined them up against the benchmarks. You'll get these reports, but there often buried down in pages and difficult and not always on the same page. You can see that there generally ahead but not by a lot. In many cases you're not materially differentiated from being an index funds or passive management. If you go to the next page, I highlighted a couple of places where the underperformances is a bit more noteworthy and it's really just for all of us to sort of look at and think about

where the weaknesses are within the individual mandates to each of them. There are couple of places with Goldman Sachs where they are significantly under and areas we want to focus in is to improve going forward, you can see that going back to the inception of March 2003 that they have come in under the benchmarks. The benchmarks will be another topic of discussion that we can address as another date. This may look a little busy and confusing, but when you pull out the Commonfund returns here, it's important to keep in mind that many of these individual lines here are set up as hedge accounts against commitments to private equity, so there relatively small, they are generally asset classes and often there are some overlap in areas in the portfolio, we have very similar investments. The bulk of the portfolio is really in the hedge strategy, it's the low volatility marketable alternative there. You'll see the Absolute Return, both of them underperforming, these are relatively high fees and I think that for the most part it's been a different environment. Many hedge funds had trouble gaining returns and a lot of that driven by the low overall absolute return and then when the fees are high, you set yourself for a relatively high hurdle and it becomes difficult to stay in line with the benchmark. Other areas of weakness are noted as well and again we don't need to go through each and every one of them, but wanted to highlight them. Next page 6, you can see the returns here for Pantheon, certainly some improvement, you can see those returns there going back and have a good deal of history here. You can see a return there that you have through March of better than 7% through inception. It's helped somewhat, I know that the returns in equities have been challenging over these number of years and so it's been a better environment in the last couple of years. Again, I'm rolling quickly so forgive me for that. Turn to next page 7, and I'll note this, just to put an underline under the comments we just received from Pantheon. This is a listing of all the private equity investments and again there listed as you saw from Pantheon in terms of Vintage year, the comments that Pantheon made regarding the relative maturity portfolio are very similar for the overall portfolio and I will point out a couple of numbers here. At the bottom, there is a column that is listed as PIC (paid into committed capital), so you have roughly 61% in, so you've contributed more than half, this is relatively mature portfolio, you can see how much has been distributed back to 35%, there's still a fair amount of in terms of and then you put that together with the residual amount and come up with that overall multiples. You've had distributions back to DPI that need that distributed to paid in committed and then the market value, when you add all those up and you get a multiple of 1.25% for every dollar that's been invested, you have a value realized and realized combined of \$1.25, so a good outcome over the years, certainly a little bit more mature and that was the comment I wanted to get out and that's what we're looking at going forward in terms of managing those distributions come back. You don't want to find yourself in a position where you need to very quickly put money in at what maybe a less than advantageous time of committing capital and rather just keep it flowing through.

Raymond Matsuura - The ultimate goal is to have this portion of the portfolio self-funding, so it wouldn't be taken away from the traditional assets.

Chair Machado – Ray, if we find our money managers significantly under our benchmarks? What would be our next steps we would be engaging in?

Raymond Matsuura – Perfect introduction into our next page.

Glenn Ezard - This is sort of a roadmap as you would say regarding how do address this, I think it's important to walk through the initial steps and think about portfolio structures. Your question really falls to the second row called Portfolio. The first row, is to think the manager to manager structure, how well that's working. In discussion with Ray, we work with other clients who have that. But I think in some ways it can limit your degree of transparency you have into the portfolio, it's harder for the Trustees to see exactly where the strengths and weaknesses are and that's something to consider. I think that it's very important that you've heard over and over about the low return expectations going forward to manage down those fees. That's the

easiest way to get back the hurdle; I can't over emphasize how important that can be for you in this environment. This is sort of the big picture analysis that we would want to do first and included in that, would be sort of the next step. But then underneath that once a decision is made about the manager to manager structure, that's the way that you want to go, going forward, it limits some of your ability to do some of the things that are noted in the second row. We can still address them in some fashion, but asset allocation review would be the next. If you were to move away from the manager to manager structure, it gets a little easier to address some of these areas. But thinking about returns using our capital markets modeling process, we can give you estimated returns going forward for various structures of the portfolio and come to some agreement as to what you're looking for in terms of expected return and how to achieve those returns and then also in that context, think about the benchmarks that you're using. Over the year's managers mandates have expanded and grown, they've added different asset classes; they may have a 10% allocation to an emerging market debt of 35 to develop in all of this that have come on over the years and they feel an incentive to hold investments in those asset classes even though they may not have a great deal of confidence in those asset classes by streamlining the benchmarks making them a bit broader and leave the discretion to them. If they make a wrong decision, it's on them, it shows up in their performance, we talk about it and we decide whether or not it's something we can get passed or if it demonstrates poor judgment that we think we can't get passed, then we talk about making a change, but the important thing is rather than giving them very detailed granular benchmarks we give them a little broader discretion over that and allow them to make the decisions, they're the ones in the markets. The other items under portfolio structures are related to the liquid hedge accounts, as I noted before, there is some overlap there you have exposures very similar in other parts of the portfolio, their relatively small and they haven't performed terribly well. It may make sense to rethink that in the context of the overall portfolio; especially the private equity portfolio is relatively mature to the degree that it's a self-funding and not really in need of these accounts in the same way that you may have been years back. I also note the low volatility strategy; the mandate is a bit unclear to us. I had some initial discussions with Commonfund, we'd like to explore that a little further and see what the role is in the portfolio there and think about that in terms of portfolio structuring, again that would come under asset allocation review.

Ka Pouhana Crabbe – Could you comment like if a certain fund is not performing well and we've brought this up? When do we or the Board get involved in terms of intervening or concerned it terms of evaluating that particular manager's performance. Because that is part of active management we try to strive for.

Glenn Ezard – That's a very good question, it's always a difficult one to address in any given meeting, but the way we look at it is we look at it relative to a benchmark, a passive marker to whether we would do well in a passive strategy as opposed to active, not all of them are as well constructed as others, but we look at benchmark first and agree that there under performing and we may know certain things about that investment manager that tells us we expect to underperform at certain environments, if that's what's happening, then we're less concerned, if it's something we don't expect, if it's a manager that seems to be addressing the market in a way that we haven't seen in the pass, we get a little more concerned, because they've made some significant change in their philosophy or process and we can tell that as well as looking at a second marker and how they're doing relative to their peers. If it's somebody who out of 120 large cap growth equity managers, typically it's better than the average, you know better than the median and the top half we suddenly find them in the bottom half and again is a red flag for us and at that point, we will bring it to your attention, this is underperformance, if there's been a change in your organization or a change in the process, we tend to have a lot less confidence and may recommend to change that. Generally that's how we operate and we would give you some alternatives to consider for that role for within the portfolio.

Ka Pouhana Crabbe – Currently the fund manager has that discretion, but moving forward we would like to have greater input into the performance.

Ray Matsuura – Exactly, the IPS currently mandates a manager, manager approach, but it does give us an option to pick advisors to specific roles within the portfolio.

Trustee Hulu Lindsey – So Madam Chair, I think in answer to your question. Our experts are supposed to make recommendations to us when changes should be made. Because you folks are on top of it for us and we don't know what's happening on an everyday occurrence in the market. I would be just as lost as you and of course with professionals like them, we would expect them to come to us and tell us this is not working. Don't tell us to late though.

Chair Machado – I look at you as one officer taking care of our money. It is maintaining our standards that we've agreed to on our portfolio and assuring our organization reaped the maximum that we need to operate.

Trustee Apo – What I appreciate about this is the investment world is a whole different language. I love this report; I don't have to learn to speak Wall Street, to understand what you're talking about.

Trustee Ahuna – And I wanted to say thank you to because it speaks to the gaps and this is how we can manage ourselves. I just wanted to comment on two words, we constantly hear it. Does this correlate with fees to, when you say active and passive managers. An active manager correlates to a higher fee than a passive manager.

Glenn Ezard – Yes, again we're looking for low hanging fruit here. And there are certain asset classes.

Chair Machado – How you know about the low hanging fruit?

Glenn Ezard – I grew up in Amish country in Pennsylvania and we use that term as well. The easiest way to reduce your fees, is to look at passive management with managers who have difficulties exceeding the benchmark and there are certain asset classes like Large Cap Equities that can be very difficult, their highly liquid, a great information flow and so passive management can really help to drive down those fees and again you are right, I keep repeating that to us that's the easiest way to get over that hurdle and I like the path of least resistance.

You can see the types of things; I have already addressed a number of these in terms of the marketable and non-marketable portfolio looking at low cost passive strategies. In the non-marketable portfolio we're really considering different factors here, it is a function of liquidity and cash flow analysis and then also the review of the current market structure against the economy. So, there was a great question earlier, should we be thinking about the business cycle, how does that affect where you want to invest in private markets, all of these things will be considered and I think it would be very helpful as a group that everyone come together and look at that and think about it and have an understanding of expectation going forward.

Trustee Apoliona – After this introduction, we get into the next steps which is let's get down to the nitty gritty. So, Ray you have to navigate that and make sure

Glenn Ezard – We've already been talking with Ray quite a bit.

Trustee Apoliona – Yes, that's good, but I'm anxious for that part.

Ray Matsuura – I think the first step is we'll be clarifying some of the IPS questions in the Investment Policy Statement. We have to get that done and we've earmarked what we want to do and Glenn with Segal Rogerscasey gives us the choices. What our alternatives are that we have and I think Segal Rogerscasey provides a lot of that.

Glenn Ezard – The next few pages, you can see how we're structured and the different groups that we would bring and certainly if you have any questions about that, but yes, the next steps are to bring in some of the folks you see on the org charts to assist with identifying where we can make some improvements.

Ray Matsuura – I want you to stay at the table Glenn, we're going right into the overview. I won't talk to much about the performance but to sort of highlight what we have been discussing. As you can see in terms of our Flow Chart Asset Allocation analysis, it hasn't changed much from last quarter, the only thing we got rid of is State Street and we've been in the process to doing that, but their finally gone from our portfolio line up.

The second page is something I wanted to stress though, it's pretty busy but Dr. Crabbe asked me to do to maybe help identify what Glenn and I are also looking at, in terms of our managers and what Dylan and I've done is that we've taken each of our managers and broken them down by sectors and the top of the table we have Goldman Sachs, JP Morgan, Commonfund and the ACWI All Country IMI benchmark. We're trying to get them identified by breaking them out from their usual presentation and breaking them out by equities, credit and fixed income and sort of identifying if any of the managers are particularly strong or weak in the area. As you can see over the last three years towards the right hand side of the page upon an annualize basis, just looking at the top Goldman Sachs, JP Morgan and Commonfund, it's kind of mixed and none of them really have done well versus the ACWI benchmark and what we've included on the right hand side are the fees that we pay to have which is about \$1.3 million a year for a pretty mediocre performance. So it is a great argument for passive management. As a matter of fact, Sonya gave me this spider of ETF's, just to give you an idea, an ACWI IMI ETF net expense ratio is 25 bps. So, 25 bps versus \$50 million is \$125,000 a year versus \$1 million. As Glenn said, we could save a lot and have basically the same performances that we've gotten over the last three years. That's something we're going to look closely at, I think our intention is not to go totally passive, but I think to have like a core passive amount and having the tilt with some managers that we can identify, that we feel are going to add value in all these areas. And it goes for the credit side and the real asset side to find a passive side. In some areas like maybe credit market where you need to have some expertise and maybe some more active management to credit side to find value.

You can take a look at this and see that none of the managers are doing particularly well, so I think this is a good time to have Glenn bring it on in terms like we're losing the manager and we may rebound.

Chair Machado – When we terminated the company from Tacoma, took forever to remove them.

Ray Matsuura - Russell consultants. We've been talking to Goldman Sachs and they know they've been underperforming. Glenn and I have had various meetings with them and I think that's one of the reasons they have gone to this building block strategy last quarter, maybe to buy some time. But I don't think that we're at that point, we need to make some changes.

Ka Pouhana Crabbe – Just a follow up, these discussions are very consistent and parallel with the sustainability plan, that this strategy not only has to move forward but, the totality of the comprehensiveness of looking at the total fiscal stability in the future and current.

Chair Machado – That's right.

Trustee Apoliona – Every single piece is related.

Chair Machado – Anything else Ray?

Ray Matsuura – Just to move along, the asset allocation has not changed and we've done the marginal return over time and have just updated it.

Chair Machado – The only thing I would recommend is that we try to meet more regularly than instead of quarterly.

Ray Matsuura – Yes, we've talked several times.

Chair Machado – I mean to meet more with the Trustees, so he can address any inquiries.

Ray Matsuura – I think today we just wanted to make an introduction and the ear of the board and to know that we're ready to make some changes.

Trustee Ahu Isa - How can we take some of this money and invest it in companies that are doing research in hemp? How can OHA get involved in stuff like that?

Ray Matsuura – I just don't think we have the resources for that. Look at the ERS, they have a lot of money and they have to hire specialize advisors for special situation projects.

Trustee Ahu Isa – In the future this is the way the Federal government is going to go, with hemp production. In China there is a big market for this. This is research working with another university. We can talk later.

Ray Matsuura – I think it is expensive for OHA to do, because we're not that big of a fund and the expertise required to do that and then we'll only have a 1% allocation less than that because of the risk of it, that the return would have been tremendous in order for it to have an impact on the portfolio, so given the cost.

Trustee Ahu Isa – Could we vet something like that in the future, I can talk to you.

Ray Matsuura – We hire our private equity mangers who look at opportunities and things like that not necessarily Pantheon.

Chair Machado – Okay, we have other Trustees, we will start from Trustee Apo down to Trustee Akana.

Trustee Apo – I think the tightrope we walk in trying to manage ourselves is that we're not stockholder driven, we're mission driven. So when we allocate resources and what she's talking about is direct investments. It's good to send money to New York but there are things I think from a mission standpoint we need to be doing in investing in our own people. And some of that requires risk and not fear failure but, obviously in the long run, our primary fiduciary duty is to protect the integrity of the fund itself, so it's a very tricky navigation that requires tremendous leadership and walking the line. So, that's the hardest message to get across when people read what we do with our money. Because a lot of stuff we do is risky, so trying to figure out a way as Trustee Ahu Isa points out to be able to pick and choose local investments that move us forward either as a people or as a culture that may have much higher risk than a standard investment strategies is some tough decisions, but I think we'll get there.

Trustee Akana – I agree with Trustee Apo, we have to look at investments, direct investments as well and he's right we're mission driven and we have to set aside a portion of our portfolio for that. I know we have a little bit and don't know the percentages for the Direct Investments.

Raymond Matsuura – It was limited to \$25 million, but it is based on the asset value of the portfolio. So, right now we have no excess money because it's tied with the bank loan for the building here.

Trustee Akana - The whole \$25 million is committed to this building?

Raymond Matsuura – Well, because of the market value of the portfolio is lower, we don't have the full \$25 million to commit to HDI, and so it's down to like \$20 million. That's the maximum we have available.

Trustee Akana – This rings to this committee Colette. We need to be looking as a board on getting a loan to take over the finance of this building and use the \$25 million for the Direct Investment. We've been in stocks for a long time and we have to look at other things and other ways to make money. I just don't see this as the panacea for all things and when the stock market goes we lose a lot of money. I would rather lose money on something on home here that we're investing in and we have a stake in rather than throwing away money on the stock markets. I really want the Trustees to really think about this Direct Investment and how we can watch our own money grow.

Trustee Hulu Lindsey – I just want to ask Ka Pouhana when we refinanced this building, what portion of the HDI the bank withheld, because at one time they were taking all of it, but I know we made such a big deal about it, so you worked out some kind of financial difference. What is the amount that is held as collateral?

Hawley Iona – So, the original as you stated Trustee was the \$21.7 million which was the purchase price, so it's down to \$11.7 now. But we also have the line of credit that was used to build out our offices and spaces, that is also collateralized

Trustee Hulu Lindsey – And that's \$7 million.

Hawley Iona - \$6.5 plus the \$11.3.

Trustee Hulu Lindsey – So, we're being held with like \$18 million approximately.

Hawley Iona – Correct, for the collateral obligation.

Trustee Hulu Lindsey – For this building, that is really high.

Chair Machado – At the next RM committee, we will provide current updates on Hawaii Direct Investment and the status of our building. We have not revisited it for about six months.

Trustee Akana – We need to, because the discussion should be centered around if there holding \$18 million of our money as collateral. What kind of loan is that, we don't need that kind of loan? We can go to First Hawaiian Bank and get a loan, come on, if we were going to use our own money, we could have bought the building. Don't make any sense.

Trustee Ahu Isa – I just found out yesterday that OHA can issue bonds. How come we couldn't ask the Legislature for a Special Purpose Revenue Bond (SPRB), just like HPU, St. Louis, Maryknoll, they all asked for SPRB bond. The banks, why did we go to Bank of Hawaii and collateralize this, you could have paid a bond like a Capital Improvement Plan (CIP).

Chair Machado – We had a good interest rate in the beginning. I'm not sure how all that changed, we had a recourse loan with the Bank of Hawaii, I think the percentage was under 3%, I forget what it was.

Trustee Ahu Isa – SPRB bond is how we built the Convention Center, we always use SPRB bonds. Look at HPU, instead of fixing the dorms, they went and bought Aloha Tower Marketplace. Now they cannot pay back and want to sell back Hawaii Loa campus, I know because I used to work for them. Why does OHA

have to use this building? Why don't we get a SPRB bond? We get income from it, we get revenue and we get rent, that we can pay back the bank. The State guarantees a SPRB bond.

Trustee Akana – This is a very bad loan.

Ka Pouhana Crabbe – Rodney is here for another matter before the Board, but as part of our fiscal sustainability plan, all what you're talking about will be considered. Even the possibility and potential of refinancing Na Lama Kukui and be in phases because we have to take a look at currently what fundamentals that we need to take care of, there is a balloon payments that we have to make out.

Chair Machado – We will take it up at another meeting Kamana'o, okay, because I don't want this to divert from our main purpose which is the two actions that we will be doing.

Ka Pouhana Crabbe – That is correct.

Chair Machado – Is there anything else to be addressed to Glenn and Ray? If not, you're dismissed. I'd like to call to the table Rodney, we're going to begin on Agenda item IV. D. which is Action Item RM #16-04 and he is going to do a power point presentation relating to authorizing Fiscal Reserve funding for the Estimated Fringe Benefit Deficit. Trustee Akana called me and had some concerns, but I wanted Rodney to give us the bigger overview and then we'll go into executive session to have a larger discussion on the privileges, immunities and liabilities related to this particular concern on the Estimated Fringe Benefit Deficit.

Rodney Lee – I have Kim Lau with me also. What I'm going to present to you is the findings/data that we have gathered from State Budget and Finance and we're here to just alert the board on something we'll be watching and also be calculating in the fiscal sustainability effort within this fringe benefit increase as a great topic of concern.

So this is an over view page basically that outlines the unfunded pension liability the State is carrying at 2013, this is the original report and show you the progression thereafter. This is also data that covers up to 2015 that we had collected also from B&F.

(For details, refer to material distributed: SPIRE Accountants-Advisors OHA Fringe Benefit Increase / Pension Liability dated June 10, 2016 Draft for Internal Review Only)

What you can see is that the basic figures are there, you will see 66,000 active workers and 40,000 retirees. Right now this 2 - 1 ratio simply says for every two employees there are, they cover one single employee in retirement. There are 13,000 additional employees that are vested, that upon retirement and expect that to increase over time, the 1 - 1 ratio is actually going to get for every one employee; they will have to compensate for another retiree itself. This is significant only to say that this is the State's responsibility and see in the graph that's there that a total pension liability is increasing because of retirement rates. The State has taken precautionary measures and put in place new benefits for those who entered after 2006 have a reduced rate and each bargaining unit thereafter is reducing the benefit for those state workers itself. But you can see the plan that position is also increasing which is a good sign and the net pension liability is somewhat decreasing. This is due to the fact that the State is actively implementing since 2013 a payment plan; I think it's initially funded at a \$100 million, now funding at \$200 million expecting to go to the top of \$500 million per year to be able to meet this pension liability within and I think there hopes is initially 41 years, but looking at that being reduced to 36 years. This is the pension liability, so keep that as one factor.

The other factor, the most volatile factor I think is OPEB (Other Post-Employment Benefits), it's the most funded part of the liability that the State has, this actually is referring to mostly it's retiree health benefits and therefore after and you can see as the population of the State and the numbers are out there and it's pretty scary and the number of people that may retire from the state will actually put this in a pretty big steep rise, so this OPEB amount which OHA was just assessed for the first time this year is significant and it adds to the additional pension liability overall and we'll go over the incremental cost and how that impacts OHA.

What we've charted here is basically the OHA Fringe Benefit Assessment as given to OHA from the State itself and you can see I've outlined the OPEB numbers with a 0% for a number of years now assessed a 7.78%, you can see the pension accumulations going up .5% per year so far, but even more so other costs have gone up, the health fund is actually increasing, luckily retiree health insurance is decreasing, but OPEB is increasing so that's not good and when you look at the totals on the bottom, the composite rate, you can see that it's progressively going up and this is mainly due because of the pension accumulation, basically the liability itself. Normal organizations they have a separate facsimile where there is a 401 (k) or a IRA plan that they contribute to and there is a limited amount. Pensions are very different in the sense it is a covered benefit and the concern here is in the last year it has gone up basically 7% and that 7% is mostly contributed to the OPEB amounts. This is projected to continue as I said, the repayment plan is actually very aggressive, they have to do it because otherwise solve it. To continue the trend that's expectations from what we hear is that this rate could go up to 60%, just to put this in simpler terms, for every dollar you spend on salary, you spend 49.54% on salary. Average organizations, maybe non-profit is pretty low, it's probably in the 26 – 27% on a non-profit area. If you have to do it that way, the most aggressive even the highest benefit average corporations are probably at top at 45%, that means they give everything, you got child healthcare, you got the whole bag of chips. Looking at this, this is a concern as OHA tries to consider and looks at not only sustainable efforts but going backwards into operations and everything else, those will have to be considered, because the cost of bringing on employees is increasing because of the liability. The unique portion of this is I don't want to mistake this, I want to be careful as possible is every department is assessed the same rate, it is not like OHA's on its own, but there are only two entities that are actually having to pay this in cash from what I see, it's OHA and HHSC (Hawaii Health Systems Corporation) that's the hospitals. There are individual agencies, OHA is not alone. The problem is for those agencies covered under the State, the assessment goes into decreasing budget within the actual assessment is actually made at the Governors level under his budget. It's a budgetary (paperwork) thing.

Ka Pouhana Crabbe – We would assume the responsibility for making up the difference from our own employees. Correct.

Trustee Ahu Isa – I was on the State Board of Education when B&F did this, they wanted to separate out all, because they had the job of paying all this, they wanted to see actual expense per department. Do you know that Governor Lingle cut us \$30 million right off the top, that's why we had to go furlough the teachers, we wanted to try and negotiate, we said you either cut people or furlough and they chose to furlough? It's going to be a mean thing for OHA to do, we're going to have to cut positions and be lean and mean. Just warning you what DOE had to do?

Trustee Akana – This brings me to a question that's uncomfortable but really I understand that there were raises given to people in our office in administration this year and my concern is that first of all, raises should never be given unless it's brought to the board because it affects our budget, it affects now health benefits, fringe, everything. So anybody who's worked here for any number of years knows that, so any new employees that were hired and administration did not bring to the board to let us know that we were going to hire new people, I'm sorry but you know what if there in these figures, they got to be cut because only the

board can approve new hires, because we have to be able to pay for these people. And OHA has hired people at the top, I mean we got the crème da la crème, we got supervisors for supervisors for supervisors and so we really have to look at what we've done here, we've built a bureaucracy and we have to look at cutting positions. There is no question about it, we cannot afford this kind of stuff, it's absolutely critical.

Rodney Lee – Yes, I would say that that's an option and I'm being cautious because I've been studying it well enough to know right now this is a statutory requirement as part of the state. There are a number of moving parts within respect to this fringe benefit assessment mainly that there are some and hopefully they're in favor of OHA, is some reporting requirements the state has to correctly assess the amount that each agency is actually liable for. From what I understand even through the audit, OHA was not truly successful of getting that real amount from the state because even ERS doesn't have the calculation at this point. So right now ERS under GASBY 68 is required to express their liability but only express the total, not broken down by agency, not broken down by numbers, so if you think about even the percentage share, I did some rough calculations on a number of employees versus number of employees verses the state and looking up percentiles in contributions and what you have been doing. It kind of matches up but, the honest truth is OHA has a hiring path, so you have to basically go back at who was hired at when and what benefit value under what bargaining unit and then assess OHA the liability that is truly OHA. Right now it's a self-calculated rate and I think it's conservative but the safest thing to do, but I think going backwards also doing that. Also looking at the statute, in one case the part of the plan that was put into effect several years ago, didn't plan to assess the OPEB in the way they're addressing the OPEB now, so that's another point of contention in the sense to you pay the cost now. In addition to all of this is and not bring this to a realm of but also how does it recognition if it comes of an indigenous population going to affect the way OHA is then affected by this. If it is, we suspect under the tribal treaties act that OHA can be treated under the tribal treaties act which you may not be responsible for all of this, so there is moving parts, I don't know the answer, in the sense of how do we calculate the actual liability but also, how do we remove as much liability as possible that pays what OHA truly owes to the retirees, because that's not part of what we're trying to say, without having to pay in cash to the state share, it's a balancing act and understanding there are other moving parts with this sentiment that exist in the Legislature with respect to OHA and the risk itself, it is going to be something to consider.

Trustee Hulu Lindsey – This is out of control.

Rodney Lee – I'd like to also mention that we were also looking at this as a scenario on the sustainability plan is also a different structure in the sense of what is mandated under the statute that OHA covers under its budget verses what can OHA do independently outside of OHA under a different formation that could separate the cost.

Trustee Ahu Isa – I wouldn't want to do that, I like the state retirement plan.

Rodney Lee – It doesn't mean that a separation, but there are some things that are naturally not beneficial. And again this is not our decision; we don't have any conclusions at this point, but just to consider that and to provide you with that information.

So you can see here there are these big questions, you see the composite rate. The big questions are: Can OHA withstands increases and fringe benefits in the future? Are the costs of fringe benefits justified of the value of the benefits alone? What are OHA's options? What are OHA's statutory obligations? We're not saying to eliminate benefits, what I'm saying is what is fair, that's all I'm saying. Can OHA take that on?

What I've put on the page 6 are just considerations that we are looking at.

- Pension Accumulation of 17% is set by Act 163, SLH 2011 (HRS Section 88-122) so rate can't be changed.
- Retiree Health Insurance: Analyze whether the 8.07% is reasonable rate compared to shared costs in the Health Benefits.
- Other Post-Employment Benefits (OPEB): According to HRS 87A-43 it should have started fiscal year 2018-2019 but it was assessed already immediately this year from what we see.
- Employees Health Fund: Whether the 7.62% is reasonable compared to OHA's actual share of the cost, we don't know that either.
- Social Security: There's a ceiling that either exceeds the salary under \$118,500 which is the cap.
- Workers Compensation: Understanding what the rating is and whether the classification is actually too high for the jobs, hopefully that is and you can reduce it.

These are ways to just think about these increments and consider it. I wanted to bring this to your attention because it is a significant adjustment to the budget, it is one of the reasons why we're here again talking about the fringe benefit increases.

Trustee Ahu Isa leaves the table at 11:21 a.m.

Chair Machado – The question that Trustee Hulu Lindsey had is there a deadline to comply?

Rodney Lee – It is already placed; you are already paying it out.

Trustee Hulu Lindsey – Why are there so many uncertainties then?

Rodney Lee – The uncertainties are based on the plan assumptions to you, it's like investments. One of the big assumptions is the ERS investments are going to earn 7.3%. If any reductions of earnings made up by the increase in payments into the plan is to offset the loss or the variance. The other part is the payments into the plan are designated by the state and that's statutory designated. We can't do anything about that, so they can make the adjustment. OHA received two adjustments in the last fiscal year, one in the fall November some time and the next one in March, so you can see that the adjustments come fast and we don't know how many adjustments, statutorily they can make the adjustment based on what they see the projections to be.

Trustee Hulu Lindsey – The adjustments are increases?

Rodney Lee – Mainly yes, you just heard from some of your money managers and also Ray, given the fact that there are some significant headwinds in the market and some challenges going forward, the expectations are greater and greater. As Trustee Akana has responded to my 7.3%, I am not an actual money manager, but I can tell you there are risks.

Trustee Akana – What is terrible about this is that we're putting money in here and these guys are investing it and their losing it. The more they lose on the stock market, the more they're going to demand of the divisions. It's bizarre.

Rodney Lee – And that's why I think I refrain from just going to the option of saying we have to cut, because it is a different problem that you outlined. We have no control over the investments that are made or how it is invested, that is the ERS efforts to do that to reach the 7.3% return. Any deficit or variance thereof is an assessment that goes past, that's the risk. The delta between what is earned and actually paid in is the risk of additional exposure and so it is for OHA to plan and to see to the degree they can take on this type of impact going forward and also to mitigate the risk of additional increases going forward. So it's more than just about

you cut, because it's just about reasonableness as an organization or as even a for profit venture, you would assess those risks and figure out how you could reassess and restructure it and this goes very deep in the sense that there are some broad questions that are there.

Chair Machado – Trustees, do you think you have had enough information in the public session with Rodney that we would be ready to move to take action or do we need to have further discussion in executive session because this decision will require six affirmative votes to approve.

Trustee Akana – Let's go into executive session.

V. EXECUTIVE SESSION

Chair Machado – Asked to move to recuse ourselves into executive session to discuss HRS §92-5 (a)(4) to discuss our in-house counsel relating to duties, privileges, immunities and liabilities regarding Action Item RM #16-04.

Trustee Akana – Motioned to resolve into executive session to approve executive session minutes of February 10, 2016 and March 9, 2016 and to consult with OHA Corporate Counsel Ernie Kimoto, Esq. on questions and issues pertaining to the Board of Trustees' powers, duties, privileges, immunities and liabilities regarding RM #16-04: Approval of Funds from OHA's FY 2016 Fiscal Reserve Authorizations for OHA's FY 2017 Estimated Fringe Benefit Deficit.

Trustee Hulu Lindsey – Seconded the motion.

Chair Machado – Asked for discussion. Hearing none, called for a vote.

Trustee Akana MOVED, SECONDED by Trustee Hulu Lindsey to approve.							
Motion approved to move into executive session is at 11:27 a.m.							
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT
LEI	AHU ISA			Not present at time of vote.			X
DAN	AHUNA			X			
ROWENA	AKANA	X		X			
PETER	APO			X			
HAUNANI	APOLIONA			X			
HULU	LINDSEY		X	X			
ROBERT	LINDSEY						X
JOHN	WAIHE'E						X
CHAIR COLETTE	MACHADO			X			
TOTAL VOTE COUNT				6	0	0	3
MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED							
Motion passed with six (6) YES votes, none (0) NO vote, none (0) abstention and three (3) excused.							

Meeting resolved into executive session at 11:27 a.m.

The meeting transitioned out of executive session and into open session at 11:51 a.m.

IV. NEW BUSINESS RESUMED BACK IN OPEN SESSION

D. RM #16-04: Approval of Funds from OHA’s FY 2016 Fiscal Reserve Authorizations for OHA’s FY 2017 Fringe Benefit Deficit

Chair Machado – Sought a motion to approve Action Item RM#16-04.

Trustee Apoliona - Motioned that the Committee on Resource Management approves and recommends to the Board of Trustees Action Item RM#16-04: to approve and authorize funding in the amount of \$803,746 from OHA’s FY2016 Fiscal Reserve Authorizations for OHA’s FY 2017 Estimated Fringe Benefit Deficit Action Item RM#16-04.

Hawley Iona – Mentioned that the amount should be \$803,764 and not \$803,746.

Trustee Apoliona – States the corrected amount of \$803,764.

Trustee Ahuna – Seconded the motion.

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

Trustee Apoliona MOVED, SECONDED by Trustee Ahuna.							
Action Item RM#16-04 is approved at 11:53 a.m. to approve and authorize funding in the amount of \$803,764 from OHA’s FY 2016 Fiscal Reserve Authorization for OHA’s estimated fringe benefit deficit.							
TRUSTEE		1	2	‘AE (YES)	A’OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT
LEI	AHU ISA			X			
DAN	AHUNA		X	X			
ROWENA	AKANA			X			
PETER	APO			X			
HAUNANI	APOLIONA	X		X			
HULU	LINDSEY			X			
ROBERT	LINDSEY						X
JOHN	WAIHE`E						X
CHAIR COLETTE	MACHADO			X			
TOTAL VOTE COUNT				7	0		2
MOTION: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED							
Motion passed with six (7) YES votes, none (0) NO vote, none (0) abstention and two (2) excused.							

E. RM #16-05: Presentation of Grant Proposals Received for FY 2016

Chair Machado – Sought a motion to approve Action Item RM# 16-05: Presentation of Grant Proposals Received for FY 2016 to deny the recommendation for funding in the Fiscal Reserve.

Trustee Apoliona - Motioned to approve Action Item RM#16-05.

Trustee Hulu Lindsey – Seconded the motion.

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

Trustee Apoliona MOVED, SECONDED by Trustee Hulu Lindsey.

Action Item RM#16-05 is approved at 11:55 a.m. to Due to severe fiscal constraints and current funding shortfalls, the Committee on Resource Management does not recommend funding awards* from OHA’s FY 2016 Fiscal Reserve Authorization for the following FY 2016 grant proposals: 1. \$100,000 for La’i ‘Ōpua 2020. 2. \$75,000 for Waimea Hawaiian Homesteaders’ Association. 3. \$15,000 for Lāna’i Culture and Heritage Center. *Total funding requested in 1 - 3 above amounts to \$190,000.

TRUSTEE		1	2	‘AE (YES)	A’OLE (NO)	KANALUA/ ABSTAIN	EXCUSED/ ABSENT
LEI	AHU ISA			X			
DAN	AHUNA			X			
ROWENA	AKANA			X			
PETER	APO			X			
HAUNANI	APOLIONA	X		X			
HULU	LINDSEY		X	X			
ROBERT	LINDSEY						X
JOHN	WAIHE`E						X
CHAIR COLETTE	MACHADO			X			
TOTAL VOTE COUNT				7	0	0	2

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

Motion passed with seven (7) YES votes, none (0) NO vote, none (0) abstention and two (2) excused.

VI. BENEFICIARY COMMENTS*

None

VII. ANNOUNCEMENTS

Chair Machado – BOT meeting scheduled on June 30, 2016.

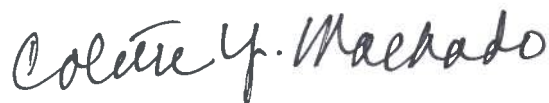
VIII. ADJOURNMENT

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 11:56 a.m.

Respectfully submitted,



Laurene Kaluau-Kealoha, Aide
Committee on Resource Management



Colette Y. Machado, Chair
Committee on Resource Management

Approved: RM Committee meeting July 27, 2016