

**STATE OF HAWAI'I
OFFICE OF HAWAIIAN AFFAIRS
560 N. Nimitz Hwy, Suite 200
HONOLULU, HI 96817**

**Minutes of the Office of Hawaiian Affairs Committee on Resource Management
June 28, 2017
10:00am**

ATTENDANCE:

Trustee Dan Ahuna
Trustee Rowena Akana
Trustee Keli'i Akina
Trustee Peter Apo
Trustee Carmen Hulu Lindsey

Trustee Robert K. Lindsey, Jr.
Trustee John Waihe'e, IV
Trustee Leina'ala Ahu Isa

STAFF PRESENT:

Kamana'opono Crabbe, CEO
Lisa Victor, COO
David Laeha, CFO
Davis Price
Dylan Zheng
Karlen Oneha
Alvin Akee
Lady Garrett
Paul Harleman

Lehua Itokazu
Liana Pang
Makana Chai
Maria Calderon
Melissa Wennihan
Miles Nishijima
Momilani Lazo
Raymond Matsuura

GUESTS:

Glenn Ezard
Zack Page
Darren Smith

I. CALL TO ORDER

Committee Chair Hulu Lindsey – Calls the Committee on Resource Management to order at 10:02pm, noting for the record the following Trustees are present:

		Present	Excused	Comments
TRUSTEE LEI	AHU ISA			Arrived at 10:10am
TRUSTEE DAN	AHUNA			Arrived at 10:35am
TRUSTEE ROWENA	AKANA			Arrived at 10:10am
TRUSTEE KELI'I	AKINA	X		
TRUSTEE PETER	APO	X		
TRUSTEE ROBERT	LINDSEY	X		
TRUSTEE COLETTE	MACHADO	X		
TRUSTEE JOHN	WAIHE'E	X		
CHAIRPERSON HULU	LINDSEY	X		
TOTAL				

At the Call to Order, there are six (6) Trustees present, and zero (0) excused.

II. PUBLIC TESTIMONY

None.

III. NEW BUSINESS

CEO Crabbe announces that JP Morgan (JPM) will present the 1st quarter investment portfolio updates, where Raymond Matsuura and Glenn Ezard will assist.

Raymond Matsuura introduces consultant Glenn Ezard from Segal Marcos, where he will provide the 1st quarter performance, followed by JPM's performance presentation, then the proposal of the asset allocation and benchmarks.

[Note here the change in agenda order]

B. Glenn Ezard – Update

Glenn Ezard says that he will point out the highlights of the presentation. He refers to Page 4, of the executive summary with an overview of what happened during the 1st quarter. (Please refer to the handout entitled, State Street Investment Analytics, Office of Hawaiian Affairs Board Report First Quarter 2017, which can be obtained through the OHA Records Management Specialist) He goes on to explain that global markets are up in the quarter, where there were nice returns in both equities and bonds, despite the movement

of higher rates from the Federal Reserve. He explains that when rates go up it would normally harm interest rate markets where bond yields increase, causing prices to fall, and it is an indication that the economy is going slow. He says that it is different this time because they are “unwinding extraordinary policies” where the market is reacting in stride. He says that in terms of the portfolio, the transition from the Goldman Sachs Active Strategies to the passive strategies with State Street has been completed. He reminds the BOT that Goldman Sachs had been underperforming and they were not achieving the benchmark index which moved them to the passive strategy with State Street, which significantly reduced fees.

He refers to Page 5, which includes the update on the market value of the portfolio, from \$351.3M at the end of the quarter, which he considered to be a nice increase of capital gains and income of more than \$14M in the quarter. He says that since inception, he notes that the market growth is significantly more than the original asset base that has supported significant withdrawals over time. He says that despite withdrawing \$224M and a fair amount of fees paid since inception, the assets are still at around \$100M over this period.

He refers to Page 6, which includes a more detailed breakdown on the fees. He points out the lack of fees since the change in Goldman Sachs, on the traditional asset side. He also points out the fees paid to State Street, which are lower.

He refers to Page 8, which outlines the growth and assets over time, where in March 2003, growth of the portfolio can be evaluated. He says that despite withdrawals over time, there has been growth in assets, and the market value of the portfolio over time outpaces the amount contributed over time, which is indicated by a red line.

He says that although the net return is under the benchmark, on Page 9, returns can be evaluated for the portfolio of the most recent years, which have been generally in line with the policy benchmarks in most periods of the last 7 years. He notes the underperformance in prior years that has caused a lag.

He moves on to Page 16, where he focuses on the most recent time period of the 1st Quarter, where the return has been up 4% over the fiscal year (FY) to date of 8.4%. He says that both returns exceed the benchmarks during that time period. He examines the equities, and points out the strong returns in global equities with the portfolio of 7% over the most recent three months ending in March. He explains that over the FY to date a return of 16% is strong. He points out that these are somewhat outsized returns, and should not be expected moving forward. He says that this provided a good balance since the election, which reduced corporate taxes and a fiscal stimulus from the presidential administration, which increase equity markets. He is uncertain of how long this will last, due to the fact that the tax reform hasn't been implemented yet in order to make profitability better for companies, which can effect valuations. He says that it was overall a good period.

He refers to Page 17 and talks about the global credit portfolio which is a segment that has much weaker returns, given that the Federal Reserve has raised rates over the past year. He says these aren't bad results, considering a the sharp downturn of last year's 4th quarter and have recovered a bit of 1.4% over the FY to date of 1.7%, where both returns

are under the benchmark, which didn't get relatively good returns out of the fixed income. He says that it has been a challenging time for fixed income overall. He points out that the real asset return is 1.7% for the quarter and -2.1% for the FY to date. He says this is because the commodities that came under pressure were negative as inflationary pressures seem to ease up during this time period and while the portfolio did lag the benchmark during the most recent quarter. He looks at the absolute return or the hedge fund strategies which is known as the low volatility marketable alternatives. He says that those returns were 0.55% and 0.6% for the quarter and 2.3% for the FY to date, where it has been trailing the benchmark with modest returns. He points out that these are not meant to be strong returns like equities, but these returns should be higher. He says that they will keep their eye on it because it has been lagging with the benchmark since the beginning.

Trustee Akina refers to the hedge fund allocation, where he understand that OHA is searching for a provider, and wants Glenn to comment on that allocation strategy and what are the updates that he is able to provide.

Glenn Ezard says that you can find that on Page 22 where they are underweight right now. He explains that when there was a restriction of the portfolio with Common Fund, he expects to see better returns moving forward due to the changes, for which he will monitor. He says that on Page 22, the overall portfolio is underweight at 6.8%, which is near the bottom of the range of 6.4%, and they are targeting 12.8%. He says they have an RFP posted for the hedge fund manager, where there has been some strong interest.

Raymond Matsuura comments that by the end of the July all the RFPs will be submitted to give them a better idea of how many applicants have submitted a proposal.

Trustee Akana asks Raymond Matsuura if the Trustees know who have submitted applications, and will they be able to review who they are.

Raymond Matsuura responds that they will have the top 2 or 3 managers come in before the board to give a presentation of who they are and what they do.

Trustee Akana expresses her gratitude.

Glenn Ezard wraps up on Page 22, highlighting that the non-marketable equity is above the policy maximum, but it includes some marketable assets that are accounted for under the non-marketable equity. He says this is a hedge for capital calls and serves as a holding place. He says the rest of the portfolio is in alignment with ranges and targets, for which Raymond Matstuura will speak more about.

Trustee Akina refers to Page 23, asking about long term performance with respect to the peer group, where he points out that OHA is still below the 50th percentile, and why that is and what it means.

Raymond Matsuura explains that the concerns he had initially is that he does not know who the peer group is and he thinks that they are going to try and move to Marcos to do the performance measuring, to get a better idea of who the peer group is. He says that State Street will not tell OHA who the peer group is because it is confidential, where they measure private equity returns, which are time-weighted returns, and traditional assets.

Trustee Akina clarifies that this is a question of how accurate the peer group is.

Raymond Matsuura says that the benchmark is lower than the peer group, which may indicate that the benchmark is incorrect.

Trustee Akina asks if he has informally made comparisons to organizations like OHA.

Raymond Matsuura says that he has not, but knows that HEIRS is doing well, but that is billions of dollars, and NHTF is a relatively young fund, and hasn't obtained the sophistication of HEIRS, but they are working on it.

Trustee Apo asks how benchmarks are set.

Raymond Matsuura says that it is subjective in many ways. He says that the S&P 500 and the Lehman Aggregate were common benchmarks, but people have been customizing benchmarks, where he prefers to avoid due to the fact that OHA is making the benchmark decisions, where the consultants should make those decisions. He says that benchmarks should be broad.

Trustee Apo asks is there an industry standard?

Raymond Matsuura says there are industry standards like the S&P 500 and ACWI.

Trustee Apo asks if that is in our formula of calculating and setting our benchmarks.

Raymond Matsuura says that there are customized benchmarks as well, but he is proposing to align with the standard benchmarks. He points out at the end of May of the second quarter; they are up 10.66% for the FY to date. He says that this month should be around 11% FY to date, which is quite a recovery from the last two FY where they did not experience any gains. Although it is going well this year, it is merely making up for the previous two years. He says that they are going in the right direction and working to beat the benchmarks and establishing better benchmarks.

CEO Crabbe summarizes that in 2013, the financial consultant's benchmarks moved OHA to a much more active management portfolio, but still the fund was coming up short. He says that with Glenn Ezard, they reevaluated the benchmarks and will move everything to a more consolidated framework with a passive investing strategy, which will shift the portfolio a bit, but they are still involved with how those benchmarks are projected and achieved.

Raymond Matsuura follows up saying that they had made them too complex and they will get back to the basics moving forward.

Trustee Akina thanks CEO Crabbe and says that although the portfolio has shifted to a passive management strategy, he is eager, in terms of the hedge fund manager, to see how they can develop alpha. He says that during the budgeting process, he realizes how important it is to increase the revenues of OHA. He concludes that he agrees with the combination of passive management and the hedge fund.

Raymond Matsuura says that in addition to hedge fund managers, they have private equity managers, which he will go in to more detail with JPM present. He said that last month

he was notified of the AIRRO – 2 Fund which is the Asian Infrastructure and Related Resource Opportunity Fund where they are going to stop making investments. He says JPM felt that there were no suitable investments for the fund. He said that this came as no surprise because OHA made a commitment of \$5M in July 2014 and that October 2014 JPM invested \$900M in an Indian coal fire generating power plant, and they have not made an investment since then. He said that this is a \$469M fund for which they were being charged fees. He repeats that they stopped the fund because there were no investment opportunities that met their policies, and JPM can explain why that happened. He says that although we lost money in the fund, it is still a viable project where they are going to rebate half of the fees that were paid, which is about \$125,000, and they will not charge fees going forward. He says that they will only take maintenance capital for the project, which is still very viable in India, which is a strong and vibrant economy. He invites Darren Smith the Relationship Manager and Zack Page the Portfolio Manager, to speak on AIRRO – 2 and the outlook and performance of JPM.

Trustee Akina thanks Raymond Matsuura and Glenn Ezard. He commends them for the simplification of the benchmarks which helps, due to confusion of the historical changes of the benchmarks.

Raymond Matsuura says while the market changes, so should the benchmarks.

A. JPM 1st Quarter Update

Darren Smith explains that they discontinued the investment period for AIRRO – 2. He says that the AIRRO – 1 product is ongoing, which is roughly a \$6.5B infrastructure organization where they will continue. He says that with AIRRO – 2, they found that after the first investment, the market is oversaturated with investors. He says that the market investors are over paying, for which they are not willing to do for JPM investors, which is why they closed that investment down on May 1. He reaffirms that they will return some of the fees that were paid on committed capital, and they won't be charging fees for further management. He says that in essence, JPM is anticipating that with the existing power generation facility, they are hoping to exit this in 2018 or 2019. He says that from now until then they will continue to improve the business so that it is a viable investment for someone else to purchase and have a return on that sale.

Glenn Ezard asks if JPM will continue to receive an incentive fee.

Darren Smith says that he will check back with his team for he does not know at this moment.

Glenn Ezard asks if Darren Smith recalls the hurdle rate on return of the fund.

Darren Smith says that he does not. He says that he will set up a call with the Asia Structure team to answer any questions that Glenn or Raymond should have.

Zack Page discusses the economic market outlook from a US and global perspective. What they think, is that the current conditions will persist; risks and references to the portfolio, and the impact on asset prices. He says in general, politics were the headlines going in to the election of Donald Trump, while there was solid economic activity taking place in the US and globally. He says that after there was a dramatic drop in the S&P 500 expressing potential concern over what the presidential administration will do, which took place

within hours, the S&P 500 rallied and stabilized. They said that the outlook on the presidency would be reflationary, with higher growth in the US of 3%, and a boost in manufacturing which would help emerging market counterparts and create global recovery. He says that currently the reflationary trade of infrastructure spending, tax relief, and regulatory reform has faded in the markets, but JPM still believes that they see data backing up the facts that the economy is still stable as it was previously. He says that he is trying to look through the headlines on the politics and understand other things that are happening. He says that the key points are the tax policy front outcomes and the budget negotiations, which he feels will not have a dramatic impact on the next 12 months on markets.

He refers to Page 5 and the year-over-year growth of the GDP of the US economy, where the long light blue dash is the long-term growth rate which is an average of 2.8%. (Please refer to the handout entitled, Economic, which can be obtained through the OHA Records Management Specialist) He says that the current expansion since 2008 is about 2.1%. He says that their view is that for the next 12 months JPM will expect to see a 2% trend-like growth, which is above the capacity of about 1.5%. He says that it will be above capacity of a slowly expanding economy. He says that on the right hand side of this page, there are the components of GDP, which is consumer spending and government spending at 17.5%. He says that government spending is one area that JPM will monitor in the Trump administration, where they say they will do a lot of infrastructure spending and see if whether or not it will happen.

He refers to Page 6 where it compares the current vs. long-term drivers of economic growth. He says that in an economy, labor and productivity are the fundamental economic drivers of baseline capacity for growth. He points out that on the top left of the page there is information on growth on the working age population for the US economy. This has been consistently coming down, but is going to be increasing at a rate of .3% from 2017 to 2026, which is an extreme head wind on overall growth for the US economy. He now refers to the bottom left of that page and points out the growth of private sector capital stocks, which is how much the private sector is investing in their business, and it has been slowly trending downward. He is saying that the overall trend-like growth is below its average. He believes the trend is below and they are above the trend. He comments that the US economy is on solid but not great footing.

He now refers to Page 11 where it will show data on emerging markets. He says that emerging markets have been a point of concern for JPM for the past five years. He refers to the left side of this page where JPM has charted the growth in emerging markets vs. developed markets with month growth expectations. He says that JPM invests in emerging markets due to the higher rate of growth and return that is expected relative to developed markets like US, Europe, and Japan, despite risks, market volatility, and geopolitical concerns. He says that for the last five years the gap of growth between developed markets and emerging markets is closing. He points out that because of this, investing in emerging markets didn't pay as well, because they were comparable with developed markets. He says that at the end of the chart, you can see that now the emerging market growth is out pacing the developed markets. He says that because of this they are going to position the portfolio and have more weight for emerging markets. He points out that on the right hand side of this page, JPM has charted across the overall

increased earning of three major emerging market regions: Asia, EMEA, and Latin America. He says that the US has solid economic footing where they have been overweight for the past five years, where they point out it is still a solid place to take risks, but they have diversified the equity in emerging markets.

Trustee Akana comments that with the recent recess when congress did not pass the health care bill, it looks like they are cutting millions of dollars out of the budget for infrastructure. She thinks that it will not happen and that she is looking at the tax cuts, which is where the money is going to go.

Zack Page affirms that was the concern he was alluding to earlier, where 17.5% of the US economy is driven by government spending. He says that if in the budget they cut taxes and spending, it will be a head wind on all overall growth in the US. He says that the economic theory is that if his administration cuts taxes it would induce spending within the private sector, and boost growth. He says that there is a balance to this, and cannot be done too dramatically. He explains for example in the Clinton Administration, he had raised taxes with very solid growth, where the Bush administration cut taxes and while there was firm growth, it ultimately led the US into a recession and increased our budget deficit. He validates the question of Trustee Akana with regard to the current political climate in Washington DC. He says that from observing the legislature, healthcare is the bottleneck and if this doesn't get through then everything else is on hold. He says that congress needs to pass a budget and the debt ceiling, and then tax reform can happen, which might not take place till maybe 2018 or later.

Trustee Apo asks why is there a dilemma to either cut taxes or not to increase spending, which seems to be an argument every election period between the two ideologies, and why it is a mystery.

Zack Page says that he is not allowed to talk about politics.

[Laughter ensues]

Zack Page continues to guess that in general, the two schools of thought on how capital can best be used, conservatively where the private sector does better with the funds for the community, but then the other side where common goods and needs cannot be met without the federal government.

Trustee Apo says that after being a country this long, doesn't the data inform as to which ideology is best?

Zack page says that Reaganomics is the side of economics that would completely cut taxes to boost growth through the private sector. He says that the data on this did not work. He says that each administration is working based off of the work done by the predecessor.

Trustee Ahu Isa says "I agree with you on the emerging markets. We should still be in there. It is just a matter of economics because we fiscal and monetary policies, so you never know the President has control over one, and the Federal Reserve. So I just watch what the Federal Reserve, what Yellen is going to do. Especially with low unemployment, how far down can you go with the interest rate. And then the housing market, cause I deal with that."

Zack Page says the chart on Page 7 speaks to information on the Federal Reserve. He explains that one concern the impact on equity and bond markets is if the Federal Reserve raises the rates. He says that on this page they have charted the last five cycles where the Federal Reserve has raised rates in the areas indicated in grey. He says that they have listed the number of times the Federal Reserve have raised rates and the period of time it took. He says that the blue bar is the Federal funds rate, which is the short-term rate that the Federal Reserve targets. He says that the rates are at an all-time low. He says that although rates have been rising over 16 months, there have only been three hikes. He says that in prior cycles they have done six hikes in 11 months or seven hikes in 12 months, which means that now is certainly slower. He says that because it is slower, it should bode well for risk assets because there won't be as much of a shock. He calls everyone's attention to the table located at the bottom of this page, on the right hand side, you can see the average of the past five cycles. He says that it shows what happened with interest rates, as well as the S&P 500. He says sometimes equities can rise despite the increase in rates, for which they will keep an eye on the Federal Reserve, and how their impact will effect and translate in to asset prices.

Trustee Ahu Isa says, "Because I deal with housing, it's kind of scary that, it's almost coming like 2005, you know, where the prices kept going up over value, crazy because they think the rates are going to go up and people are just paying whatever. It is just scary. We are at a frontier almost."

Zack Page responds that it would be good to put a governor on it to slow things down a bit.

Trustee Akana says, "The correlation on Page 8, at the bottom, the correlation of government bonds; US Treasury bonds, German bond yields. Do you ever invest in German Bonds? Are they better in American Bonds?"

Zack Page replies no to both questions from Trustee Akana, because they rarely invest in foreign currency bonds. He says that as a US investor there is too much risk and subjectivity to foreign currencies. He says that currencies fluctuate too much and can swamp returns. He says that German bunds are negative or very low yielding assets compared to US treasury bonds.

Trustee Akana asks, "What is the difference in the rate of the USD vs. the Euro?"

Zack Page replies that on Page 10, it shows the comparison of other major currencies. He says that there was a huge appreciation of the dollar in 2015 and 2016, which there was an expectation that the Federal Reserve was going to begin raising rates and the dollar rallied. He says that more recently, it has been more neutral, and even with the Euro. He says that in 2015 if one were to be invested in German Bunds, they would have bought it with a Euro and at the end of the year one would get their coupon back and sell the bund. He says that with a 5% return that year, but the Euro depreciated 10% to the dollar, one would lose money. He says this is why we do not invest in foreign currency bonds.

Glenn Ezard says that the European Central Bank is somewhat behind the Federal Reserve in adjusting their policies. He says that there are much easier policies suppressing the interest rates, and yields on the bonds are lower. He says that the policies can change which is why it is good to have JPM monitoring changes and adjust the portfolio.

Trustee Akana says, “Canada is not part of the Euro, correct?”

Zach Page says that is correct. He follows up saying that is all on economic and market outlook and moves on to discuss the portfolio.

He refers to Page 32, which has a summary that says the portfolio has outperformed by 40 basis points for the quarter and 101 basis points for the year. He says that the underperformance of 160 points is a mistake on this slide, and reaffirms that there have been solid returns for the quarter and the year. He says that for the quarter they have outperformed the benchmark by .61% and for the year it has been a percent net of fees.

He refers to Page 34 where there is a high level summary in dollar terms. He says that quarter to date the portfolio gained \$6M on a beginning asset value of \$104M. He says that after fees, the ending market value at the end of the first quarter was at \$110.5M. He says that since inception, there is an initial investment of \$95.2M. He says that the portfolio has delivered growth of \$46.8M. He says that if you take out additions, withdrawals, and fees you can see the ending market value. He summarizes that overall there have been solid returns of the portfolio since inception of \$46M and allowing for withdrawals after additions of \$47.3M.

He refers to Page 37, they have charted the portfolio performance as of March 31 relative to the benchmark, where one can see outperformance overall time periods. He updates the BOT that through May, the portfolio is up 7.7% vs. the benchmark of 7.09%, all net of fee figures.

He refers to Page 38, where there is more detail on the portfolio where one can see the returns on the top, second, and third lines. They are focusing on the traditional asset portfolio, where the trailing three months was 5.85% vs. the benchmark of 5.543%. He says that the FY to date is 11.35 and 9.88% and the one year number of 13.11% and 11.92%. He says most recently the emerging markets, trailing 3-month period, and strong active management from US Large Cap Corp Plus, small cap growth which had a strong 4th quarter last year, has driven the strong returns. He says that the small cap companies benefitted the most due to the exuberance of the post-Trump election, where there was an expectation that there was going to be regulatory relief and tax reform. He says that within the credit and fixed-income portfolio, US high yield has been the strongest performer.

Trustee Akana says that she likes to see great returns.

Zack Page closes with saying thank you for the opportunity to work with OHA.

Raymond Mastuura says that they will go in to the proposal of the changing of asset allocation and benchmarks.

B. Presentation of Asset Allocation and Benchmarks

Raymond Mastuura says that he is following up to the discussion that took place on March 22, where Glenn presented to the committee the proposal to change the asset allocations and benchmarks. He says that hopefully next time this could be an Action Item to be passed through the committee. He goes on to explain that what is being proposed are the changes

in the investment policy statement, specifically, Section 5.1, which are benchmarks and asset allocations. (Please refer to the handout entitled, Office of Hawaiian Affairs – Benchmarks & Target Asset Allocation Proposal, which can be obtained through the OHA Records Management Specialist)

He refers to Page 2, which is the executive summary. He points out that they are trying to streamline OHA's asset class performance benchmarks. He says that this would eliminate over complex benchmarks. He says that they are proposing to have a single benchmark for each asset class. He points out that there is nothing wrong with the current benchmarks, but he feels that they are overly complex given the asset class. He says that the proposed way will be better to evaluate. He says that they also want to consolidate the private market investments under one category that would recognize the common liquidity risk. He says that right now they have private markets divided in to private equity, private credit, and private real assets. He explains that if the Board were to look at the underlying investments, they are not very discrete from one another, and they are all similar and overlap. He says that the liquidity risk low, where our investments are locked in till the end of the term, where there is no differentiation among the current private market categories. He then says that he wants to reduce the enhanced liquidity account and transfer the asset to global fixed income, which is currently 8%, which is the target allocation for the enhanced liquidity account of \$28M. He says that this is mostly cash and is more than enough to have on hand within the portfolio. He says that he wants to bring the 8% down to 3% which would be \$10M, where they can simply rebalance the portfolio twice a year. He says that the cash needs are round \$16M to \$18M per year. He says that with the passive funds they have overnight liquidity.

Trustee Akana asks, "How many passive funds do we have?"

Raymond Matsuura says that Goldman Sachs was roughly half of the traditional assets, or about \$92M, which can be divided in to S&P 500, ACWI US, Aggregate Index, and the State Street Real Assets fund. He says that this is proportional. He says that finally, he wants to consolidate the assets targets for Common Fund private equity, credit and real asset funds. He points out the aforementioned are hedging strategies that they had. He said that as they built the private market funds, the other funds should ideally go away because they are place holders. He says that they have served their purpose. He says that they will retain a couple of the funds to give them options for alternative investment managers. He says that they will use the benchmark against the ACWI Fund. He says that State Street is a passive fund manager, and JPM is an active fund manager. He says that Common Fund will be active but monitored, and if they perform well, they will get the asset allocation as time goes on. He says that having the flexibility of another active manager is good in the event something happens.

He refers to Page 3 where it outlines the 6 basic properties of the benchmarks. He says that they have discussed this with JPM and understand that the benchmarks are unambiguous and investable. He says that as an example, one benchmark is the Consumer Price Index (CPI), but CPI is not investable, and this needed to change and find an alternative. He says that they determined that the treasury protected securities (TPS) are the best surrogate for CPI, which is measurable. He says that all the benchmarks proposed are priced daily, liquid, appropriate, specified, and has the approval of JPM. He explains that the benchmarks have a nice balance where they can hopefully

be achieved and not set too high where more risk is needed. He points out that these proposals are risk neutral, and he is not trying to make these benchmarks more difficult to beat. He says that there is a possibility of getting lower returns if investors take on too much risk.

Trustee Akina says that he feels good about what is being proposed as a fiduciary, because they are using best practices. He says that this will allow the Trustees to easily evaluate what happens with the investments.

Raymond Matsuura says that he thinks this is a necessary move. He refers to Page 4 where it outlines the 12 asset classes that OHA has currently. He says that the first three are traditional assets, which are managed by JPM and State Street, which is the majority of OHA's assets. The fourth is OHA's low volatile alternatives, which is managed by Common Fund, and there is an RFP out for another manager. He says that 5-7 are the private markets of equity, credit, and real assets, which is a total of 19.2%. He says that 8-10 are the Common Fund hedging strategies, where it shows the target allocations and the benchmarks. He says that 11 is the Enhanced Liquidity Account of 8% target allocation and benchmark. He says that 12 are Hawaii Direct Investments of 5% target allocation, an investment of real assets.

He refers to Page 5, refers to all the changes that are being made. He says that 1. Traditional Global Equities is a 38.5% weight target allocation, which is benchmarked against the MSCI ACWI IMI. He says that the IMI differs from the ACWI and it includes small cap stocks. He says that over the long-term, having small cap stocks and ACWI will even out.

Trustee Akana comments on small cap stocks. (Her inquiry is inaudible)

Zack Page replies that in the US small cap stocks have revenue that is below a certain threshold.

Glenn Ezard asks if Zack has some idea of rough market capitalization, like the size.

Zack Page replies that anything below \$100M will be considered small cap stocks and market cap. He says that one differentiates small cap, mid cap, and large cap is by market capitalization. As an example he says that Apple is the most valuable company in the US, with a certain amount which equals number of shares times the market value. He says that the S&P 500 represents the 500 largest stocks in the US. He says that the mid cap is below the S&P 500, and small cap is below that. He says that one can differentiate which ones are good and bad by using highest growing small cap stocks or purchase undervalued stocks. He says also that one could buy all kinds of stocks in the small cap range.

Glenn Ezard asks if they have research analysts that do nothing but to evaluate companies.

Zack Page says that they have 1,000 globally to do that work.

Trustee Akana asks what the allocation is for small cap.

Raymond Matsuura says that they are moving out of small cap, where the IMI has small cap.

Trustee Machado asks why they are proposing to delete items 4, 5, 6, 7, 9, and 10.

Raymond Matsuura explains the changes made to the following chart.

NHTF Proposed Changes

Asset Class Portfolio	Target Allocation	Benchmark	Asset Class Portfolio	Target Allocation	Benchmark
1. Traditional Global Equities	38.5% 40%	MSCI ACWI IMI	8. Equity Liquid Hedge	Included in Non-Marketable Equity Allocation	75% MSCI ACWI 40% MSCI World Local 15% 3-Month T-Bills +4% MSCI ACWI
2. Traditional Global Credit Fixed Income	11% 17%	65% US Credit 15% GBI-EM Debt 15% US High-Yield 5% EM Debt - Local Bloomberg US Aggregate	9. Credit-Liquid Hedge	Part of Non-Marketable Credit Allocation	Merrill Lynch High-Yield Master-II
3. Traditional Global Real Assets	5.5% 5%	FTSE EPRA/NAR-REIT Developed net US TIPS +3%	10. Real-Assets Liquid-Hedge	Part of Non-Marketable Real Assets Allocation	35% US TIPS 35% Global Large-Mid-Cap Resources 20% DJ US REIT 10% DJ US Commodity 10% DJ Brookfield Global Infrastructure
4. Low-Vol Marketable Alts Hedge Funds	12.8% 12%	3-Month T-Bills +4%	11. Enhanced Liquidity Account	8% 3%	50% T-Bills +4% 50% US Gov-Bond 1-3 Year Treasury
5. Non-Marketable Equity Private Equity	12.8% 18%	MSCI ACWI +3%	12. Hawaii Direct Investments	5%	35% US TIPS 35% Global Large-Mid-Cap Resources 20% DJ US REIT 10% DJ US Commodity 10% DJ Brookfield Global Infrastructure US TIPS +3%
6. Non-Marketable Credit	2-4%	Merrill Lynch High-Yield Master-II +1.5%			
7. Non-Marketable Opportunistic and Real Assets	4%	35% US TIPS 35% Global Large-Mid-Cap Resources 20% DJ US REIT 10% DJ US Commodity 10% DJ Brookfield Global Infrastructure			

► 5



The following are his comments and justifications to each of the 12 asset allocations listed in the chart above.

1. The 38.5% was changed to 40% in order to simplify the Target Allocation metric.
2. He says that the Bloomberg US Aggregate is an industry standard and instead of the customized index that included the US Credit, GBI EM Debt, US High Yield, and EM Debt Local. He says that this aggregate includes treasuries and mortgages, agencies, commercial mortgages. He says that it is broader, it is something that is recognizable. The target allocation is being raised to 17% from 11%, which comes from the enhanced liquidity account, which in effect has long term government bonds.
3. Traditional Global Real Assets' benchmark is being changed to US TIPS +3%. He says that this is more reflective of the asset allocation, which is the need for an inflation component as opposed to REIT exposure, which is a part of the S&P 500.
4. He is proposing to change the name of Low Vol Marketable Alts to Hedge Funds and reduce the asset allocation to 12% from 12.8% as a balancing mechanism.
5. He says that for Non Marketable Equity, Non Marketable Credit (6.), and Non Marketable Opportunistic and Real Assets (7.), will be consolidated and renamed Private Equity, where the benchmark will be MSCI ACWI +3. He says that this asset class, the investing firms do not have a benchmark, but rather they are focused on making as much money as possible. He says that sometimes private equity cannot be controlled.

6. Consolidated with 5.
7. Consolidated with 5.
8. He mentions that this asset class is Common Fund. He says that the current benchmarks are highly customized, but he proposes to change it to the MSCI ACWI benchmark. He says that if OHA decides to hire another fixed income manager it will be hard to use this benchmark, one that is used in the industry. He says the MSCI ACWI benchmark will correspond to global equity, which is already included in the private equity market.
9. Consolidated with 8.
10. Consolidated with 3.
11. He says that they will decrease the target allocation to 3% from 8%, and change the benchmark to 1-3 Year Treasury, which makes more sense with a short duration, high quality, and good liquidity. He says that the shorter duration is reducing the price risk of this category.
12. He proposes to use US TIPS +3% as the benchmark.

He says that overall they will reduce the asset classes from 12 to 8 or even 7, with 5 benchmarks. He says that this makes more sense, which is the first step. He says that markets change and OHA's needs might change, and benchmarks can change as well. He says that the proposed allocations and benchmarks are consistent with Segal Marcos recommendations.

CEO Crabbe states that in terms of the process of coming up with the proposals, there was dialogue and feedback from all the stakeholders.

Raymond Matsuura reiterates that they all came to agreement with these recommendations of target allocations and benchmarks. He says that this is a risk neutral proposal and helps make decision making easier for the BOT, and does not affect returns going forward.

He refers to Page 7 which has a summary of benchmarks, recommendations, and rationale.

He says that Page 8 and 9 are changes that will be made within the investment policy statement.

He says that Page 10 will have definitions of the terms.

Trustee Apo comments that because OHA is a mission-driven organization the Hawaii Direct Investments are the most interesting to him. He says that the return on investment is not always financial in an organization like OHA, like the returns from OHA grant programs. He says that over the years, grants programs were called investments, due to the non-financial returns, such as the investment in Hōkūle'a.

Raymond Matsuura says that it would be good to move those investments over to our land assets.

Trustee Apo says that for the non-financial return investments there should be benchmarks set.

Glenn Ezard says that there are the non-financial benefits as collateral from the Hawaii Direct Investments but it cannot be measured, and does not fit with the rest of the portfolio. He says that they are not looking for collateral benefits from the investments and they only

expect returns. He says that they took out a lot of categories and benchmarks, but they didn't move the discretion of JPM has over the asset categories. He says that the real thing they are trying to do is allow JPM to bring their resources in order to make better decisions, due to changing relationships. He reiterates that this is risk neutral and has not taken any abilities from JPM or lowering OHA's expectations.

CEO Crabbe says that based off today's presentation they are proposing thorough information on the revised benchmarks and allocations, that the BOT should consider a more formal action item to approve the information today.

Chair H. Lindsey said that it will be scheduled July 26 as an Action Item.

Trustee Akina shares his mahalo to the presenters. He mentions that the best practices of the investment staff empowers the fiduciaries to provide tools to carry out the work.

Chair H. Lindsey shares her mahalo as well to JPM and the concerted effort with the CFO and CEO in order to be all on the same page.

IV. COMMUNITY CONCERNS

None.

V. ANNOUNCEMENTS

Chair H. Lindsey announces that the RM meeting will be canceled the next week, and the next one will be held on July 26. She states the Joint BAE and RM meeting will follow immediately after adjournment.

VI. ADJOURNMENT

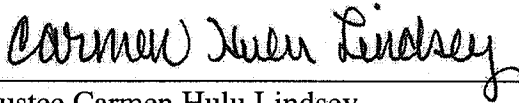
Trustee John Waihe'e, IV moves to adjourn. Trustee Dan Ahuna seconds the motion.						
	1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEI AHU ISA						
TRUSTEE DAN AHUNA		X	X			
TRUSTEE ROWENA AKANA			X			
TRUSTEE KELI'I AKINA			X			
TRUSTEE PETER APO			X			
TRUSTEE ROBERT LINDSEY			X			
TRUSTEE COLETTE MACHADO			X			
TRUSTEE JOHN WAIHE'E	X		X			
CHAIRPERSON HULU LINDSEY			X			
TOTAL VOTE COUNT			8			
MOTION: <input type="checkbox"/> UNANIMOUS <input checked="" type="checkbox"/> PASSED <input type="checkbox"/> DEFERRED <input type="checkbox"/> FAILED						
Motion passes with eight (8) YES votes and zero (0) EXCUSED vote.						

Respectfully Submitted,



G. Maxwell Mukai
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management on September 21, 2017.



Trustee Carmen Hulu Lindsey
Committee Chair
Committee on Resource Management