

**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
September 21, 2017
10:00am**

ATTENDANCE:

Trustee Dan Ahuna

Trustee Rowena Akana (arrived at 1:05pm)

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

Alvin Akee

Jonathan Ching

Kama Hopkins

Kauikeaolani Wailehua

Lady Garrett

'Olu Campbell

Paul Harleman

Maxwell Mukai

Lehua Itokazu

Liana Pang

Lopaka Baptiste

Makana Chai

Melissa Wennihan

Miles Nishijima

GUESTS:

Leila Kealoha

Peter Young

I. CALL TO ORDER

Committee Chair Hulu Lindsey – Calls the Committee on Resource Management to order at 10:03am, noting for the record the following Trustees present:

		Present	Excused	Comments
TRUSTEE LEI	AHU ISA	X		
TRUSTEE DAN	AHUNA		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	
CHAIRPERSON HULU	LINDSEY	X		
TOTAL		5	4	
At the Call to Order, there are five (5) Trustees present.				

II. APPROVAL OF MINUTES

Trustee John Waihe'e, IV moves to approve the minutes dated June 7, 2017, June 28, 2017, July 26, 2017, and August 23, 2017. Trustee Robert Lindsey seconds the motion.						
	1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEI	AHU ISA	X	X			
TRUSTEE DAN	AHUNA					X
TRUSTEE ROWENA	AKANA		X			
TRUSTEE KELI'I	AKINA		X			
TRUSTEE PETER	APO					X
TRUSTEE ROBERT	LINDSEY					X
TRUSTEE COLETTE	MACHADO	X	X			
TRUSTEE JOHN	WAIHE'E					X
CHAIRPERSON HULU	LINDSEY		X			
TOTAL VOTE COUNT			5			4
MOTION: <input type="checkbox"/> UNANIMOUS <input checked="" type="checkbox"/> PASSED <input type="checkbox"/> DEFERRED <input type="checkbox"/> FAILED						

Motion passes with five (5) YES votes and four (4) EXCUSED vote.

III. PUBLIC TESTIMONY

Chair H. Lindsey calls for public testimony.

Germaine Meyers greets the board. She is in support of the audit update that will be provided at the meeting, and hopes procurement will complete the hiring process in a timely fashion.

IV. NEW BUSINESS

C. Audit Update

Chair H. Lindsey changes the order of New Business and has Trustee Akina provide updates on the Audit.

Trustee Akina explains that this audit is different from the State Audit. He states that the OHA audit is unique because it is designed and commissioned by the Board of Trustees (BOT). He explains that it calls for an independent auditor to look at fraud, waste, and abuse for the last five years, examining every contract of \$100,000 or more, and examine a sample of smaller contracts. He confirms that a Statement of Qualifications (SOQ) was posted June 2017, and the process that has been taken place thus far has complied with all procurement laws. He explains that there was an initial August deadline, but was extended to Sept. 15, 2017, due to low initial response. He states that there were two applications. Moving forward, he states that a review committee will evaluate their qualifications, if approved; the applicants will be judged by a selection committee to take a careful look and be scored based off of criteria that the selection committee will come up with. He affirms that this is an objective process. He addresses that the role of administration in this process will be one of no substance, and have no say in the final selection of the firm. The last thing he explains is the negotiation of the contract with the selected firm, and it is his hope that contract negotiation can begin in November. He projects that the audit could be completed in spring or summer of 2018.

Trustee Akana asks if the requirement of the applicants of having an office here on Oahu was edited out of the original SOQ.

Chair H. Lindsey confirms that the edit was made from the original solicitation.

Trustee Akana asks if there were three applicants.

Trustee Akina confirms that the number of applicants was two.

A. NHTF performance 2nd quarter review – Ray Matsuura and Glenn Ezard

Chair H. Lindsey chair now turns the time over to COO Victor.

COO Victor calls on Raymond Matsuura.

Raymond Matsuura says his presentation will outline the 2nd quarter as well as the Fiscal Year (FY) performance. He says that there will be a new performance book reporting style for which Glenn will go over with the Trustees, from State Street to Segal Marco, which will save over \$100,000/year.

He refers to page 5, (to obtain a copy of this performance book, it can be requested from the Records Management Specialist). He mentions that Page 4 is the quarterly review. He explains further that the year-to-date chart says that we started the year with \$337,863,691. He says they have had a net market growth of \$18,472,269. He says withdrawals were \$6M and paid management fees of \$1.5M, which resulted to a total of \$354.8M. He says that in 2016 the ending market value was \$334.2M, where the value has increased by \$20M over the year. He says that this was a good year. He says that at the end of July there was a total market value of \$361.6M with a return in July of \$1.92M.

Trustee Akina asks what percentage of the portfolio is the \$20M in growth.

Raymond Matsuura says that it is about a return rate of 11.43%, and the net return would be about 7.5%.

He refers to Page 6. He notes the listing of fees paid, which is a total of \$1.5M. He points out that this is about \$600,000 less than it was a year ago. He says that to offset that they need to hire a hedge fund manager.

He refers to Page 9, where it outlines the performance of the year and since inception. He says that for the last 3 months there has been a 2.8% return in the second quarter, versus a benchmark of 3.4%. He says that in every case they are lagging behind their benchmarks, where the new benchmarks will begin Oct. 1, 2017. There has been a 6.8% return year-to-date, and 11.4% for the fiscal year.

He refers to Page 16, where it outlines the total asset performance of 11.43% on a net fee basis, versus 11.65% for the benchmark. He notes that total global equities had a 20.97% increase. With this great return, he mentions that cash and fixed income dragged this performance down. He mentions that Common Fund (CF) didn't perform well.

He refers to the bottom of Page 17. He says that the low marketable alternatives, which is OHA's hedge fund, where \$17M was taken away at the end of the year, but resulted in negative return of -0.01% net of fee. He says this is disappointing. He says that they are going to change CF's mandate to be in more alignment with JP Morgan (JPM). This will result in two active managers and one passive manager. He mentions that with the new performance book, it will help monitor all of the managers.

Trustee Akina wants to know of the funds that CF manages how much of it is passive.

Raymond Matsuura says, “None.” He finishes by saying he would like to have more traditional equities in the portfolio. He says they are positioned defensively. He turns over the time to Glenn Ezard.

Trustee Ahu Isa says that her broker says she should look in to ETF’s. She asks how we can protect the portfolio with all the external financial factors happening at the Federal Reserve.

Raymond Matsuura says that they have been expecting higher interest rates for a long time, and the quantitative easing initiative in 2009, the idea was the Federal Reserve was going to flush the economy with cash. He says that the total will be \$4.2T which will take years.

Glenn Ezard confirms that it will take years. He says that compounding the bonds at a higher yield in the long term will be beneficial. He says that for the past decade it has been good for borrowers. He points out that the resignation of Stanley Fischer of the Federal Reserve has affected the market, as well as the speculation of the removal of Janet Yellen.

B. Segal Marco performance reporting transition from SSGA

Glen Ezard refers to Tab 1 of Page 4. He says that the adjustments made in the performance reporting are difficult to interpret and should make the information clearer. He says that it will give the Board a better sense of the information and will increase transparency and efficiency. He says that in this report that the numbers in parentheses represent the peer ranking. He says that as an example the JPM Emerging Economy Select Fund has been performing well, where it began in March 2008, where the return has been an annualized amount of \$1.6M, which exceeds the benchmark. He mentions this benchmark is a passive investment benchmark. He points out they are also in the top 35% of the peer group. The peer ranking helps give the Board information on performance as well as the benchmark. This comparison is done for each of the funds, and they can see any areas of weakness, where currently there are none with JPM. He points out that it is important that they show you long term performance to get a more accurate understanding, as well as the investments they choose to fund, like global equity vs. US equity. He says that this allows Glenn and Ray to discuss with the investors on their performance and strategy decisions. Glenn explains that for State Street, while they are indexed, he wants to make sure that they achieve a fair return compared to their peer group. He explains again that having both the benchmark and the peer group comparison makes for better management, monitoring, and decision making. He explains that the summary page is one that look at on a monthly basis with Ray and Dylan Zheng, where findings would be included in the quarterly report.

He refers now to Page 12, Tab 2, where it discusses the non-marketable investment portfolio. He discusses CF private equity vehicles for which OHA has investments. He outlines how he analyze individual funds. He explains that there is a difference between

private equity and public market investments and what equates to successful strategy. For example, for equity investments he looks at the time weighted returns, which means they give to an investment manager like JPM, and invest money over time, and each month they get a return with an annualized return over time. He says that the relationship with CF and private equity is different, because the fund committed to invest of \$5M since 2013, about half has been drawn down. This amount is the total contribution. He explains that the timing to draw down on investments is important, and is measured with an internal rate of return (IRR) analysis. This IRR measures private equity with the net present value of the cash flows over time with the current value of the portfolio. He mentions that each fund has a summary page with all the information on the type and performance of the fund. He explains that he also uses the Total Value of Paid In (TVPI) and the Public Market Equivalent (PME) which are measurements on the fund's performance. All the information on the performance of the investments will be aggregated together, but it will speak to the performance of each fund at a specific level to inform better investment decisions. He says that these analytics will allow him to identify gaps in the portfolio, or areas to focus on more. The information from this will influence strategy moving forward. He says that the drawback is that this information could be too much, but he says that it is his job to figure out what is most important to bring to the board.

Raymond Matsuura says that currently they are looking at the IRR and TVPI of private equity markets. These are indicators of relative performance. He says that the PME will make it equivalent to traditional stocks and products. He says that they need to look at two different markets of private market returns (inaudible).

Glenn Ezard refers to the 3rd tab, which outlines the full report. He points out the quarterly highlights are on Page 19. He says that there is a full high level report of metrics in that portion of the report. He explains that this is a quarterly report that includes numbers on GDP, equity markets, bond markets, etc. He mentions that there are graphs and charts to explain the economy and capital markets, which is beneficial for clients to have access to. He explains that this report explains interest rates around the world and the factors that go in to influencing interest rates.

Raymond Matsuura explains that this interest information provides great context to explain the negative yields in the global Markets.

Glenn Ezard he explains that the areas on Page 42 would outline the information necessary for the Board's review, which is like a "quick snap shot," outlining asset allocation returns on an annualized basis and cash flows in the portfolio for the past several years. He says that Page 43 will have more detail of the asset allocations with regard to the current market value vs. the policy targets and any variance. He says that this type of performance reporting would allow the Board to see that there is a need for hedge fund

investments. He outlines on Page 44 the full list of investments. He says that Page 45 and 46 outline the investment performance vs. the benchmarks.

He refers to Page 53, which shows the Board information on risk and analytics vs. peers, which in the case of this example report, it outlines pension plans.

Raymond Matsuura explains that the good thing about this chart is that it helps explain who our peer group is. He hopes that this information will allow OHA to compare against peers who are similar to OHA in size and purpose.

Trustee Ahu Isa says, “How come OHA doesn’t buy land?”

Raymond Matsuura replies that is a question for Miles Nishijima.

Trustee Akina is happy that the benchmark issues has been fixed. He says that he is going to need guides and this new reporting will be more helpful. He wants to know if Segal Marco could provide a dashboard information service that explains the technical and narrative of what is happening in order for him to make better decisions.

Raymond Matsuura says that a summary sheet can be provided and a book of information that can be provided on line will be something they can do.

Trustee Akina says that he wants to know what is important for the fiduciary to know.

Raymond Matsuura says they can provide that information.

Trustee Machado says that she is interested in understanding how they can double check on those who are underperforming and whether or not they are getting the revenues that they deserve with the investments. She wants assurances that they can evaluate those who are underperforming early on and not after major market losses.

Glenn Ezard explains who founded the firm.

Raymond Matsuura explains that State Street was all numbers, and now Segal Marco will do more analytics, evaluations, and provide recommendations.

Trustee Akana asks if we are replacing State Street.

Raymond Matsuura replies only with regard to performance reporting, but they will still be OHA’s financial custodian. He explains that they have been charging a large amount for their reporting.

Glenn Ezard says that most of his clients use Segal Marco for performance review services.

[This meeting lost quorum at this time 10:58 am]

V. COMMUNITY CONCERNS

Germaine Meyers greets the Board. She seeks clarification on the numbers of Page 5 of the NHTF performance review.

Raymond Matsuura explains that the withdrawal is close to 5% each year or about \$16M per year, and says that we are keeping up with inflation.

CFO Laeha clarifies that the inception of the fund was well before 2003.

Raymond Matsuura thinks that this date is when Frank Russell was hired.

CFO Laeha clarifies also that the additions of \$24M, \$17.5M came in 2003 and \$9M later, which doesn't add up and he says that the number is incorrect.

Trustee Akana says that it is important to have the dates noted when additions were received. She says it will be helpful to understand where the funds come from.

Raymond Matsuura says he will include that information for the next report.

Germaine Meyers clarifies that the \$16M per year withdrawal is based off of the 5% spending policy limit.

Chair H. Lindsey confirms that it correct and sometimes they spend less than 5% percent from the Native Hawaiian Trust Fund.

Germaine Meyers follows up on with Trustee Ahuna on his response as the Ad Hoc committee chairperson for Maunakea. She wants the board to address the contradictions made by OHA.

Trustee Machado says that OHA's concern is with the management of the mountain and the file hasn't been filed yet.

Germaine Meyers testifies in support of OHA getting involved in the hemp industry for which she provided the Board information on. She says this in hopes that it can bring more money to OHA. She is also in favor of OHA remaining a state agency that has established rules and a set format. She clarifies that she wants the audit to be thorough and review contracts that may have started below \$100,000, but ended up being more than \$100,000 due to amendments.

Trustee Akina points out that the SOQ calls for an audit of all contracts above \$100,000 and a sample of smaller contracts.

Trustee Akana says that the State audit will be published and if there are any serious infractions found, she suggests that the SOQ audit delve deeper in to what is discovered.

Germaine Meyers states that the auditor will only audit and it is up to OHA to enforce any problems that they find and she hopes that the board takes on the responsibility to enforce. She ends with, “E hana kākou.”

VI. ANNOUNCEMENTS

None.

VII. ADJOURNMENT

The meeting lost quorum but discussion continued and ended at 11:21am 9/21/2017.

Respectfully Submitted,



G. Maxwell Mukai
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management on 10/11/17



Trustee Carmen Hulu Lindsey
Committee Chair
Committee on Resource Management

ATTACHMENTS:

- Community Sign-In Sheet