

**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  
October 4, 2017  
9:30am**

**ATTENDANCE:**

Trustee Rowena Akana  
Trustee Keli'i Akina  
Trustee Carmen Hulu Lindsey

Trustee Colette Machado  
Trustee John Waihe'e, IV

**STAFF PRESENT:**

Kamana'opono Crabbe, CEO  
Albert Tiberi  
Alvin Akee  
David Laeha, CFO  
Dylan Zheng  
Lehua Itokazu  
Paul Harleman  
Maxwell Mukai

Liana Pang  
Lisa Victor, COO  
Melissa Wennihan  
Miles Nishijima  
Momilani Nishijima  
Raymond Matsuura

**GUESTS:**

Germaine Meyers  
Glenn Ezard  
Ellen Blix  
Tim Yates

**A. Portfolio and Performance Update – Common Fund**

**Chair H. Lindsey** explains that without quorum, the presentation can begin and the official meeting will commence when quorum is achieved. She gives the floor to CEO Crabbe.

**CEO Crabbe** presents the Investment Manager, Raymond Matsuura, to discuss the portfolio and performance update by Common Fund (CF).

**Raymond Matsuura** explains that Ellen Blix is the Relationship Manager and Tim Yates is the Managing Director for the Strategic Solutions Group for CF. He explains that Tim is new but will take the presentations going forward. He explains that Ellen will go over the fiduciary responsibility presentation. He goes in to detail of CF's role as the alternatives manager, where their mandate was in private equity, hedge funds, and hedging strategies. He explains that the new asset allocations and benchmarks dissolved the need for hedging strategies, and rolled the funds in to a more traditional management of equity, credit, and real asset funds. He says they will manage about \$20 million (M) in this said style.

**Ellen Blix** introduces herself and Tim Yates.

**Tim Yates** discusses the view on the markets and the hedge fund portfolio. He states that the equity markets return for this calendar year of about 20%. He states that the yield on the Barclays aggregate is about 2.6%. He says that they have neutralized their geographic position in their global equity portfolio. He goes in to further detail on equity markets, hedge funds, other parts of the portfolio, and management of those funds.

**Trustee Akina** asks for a description on the strategies that are being used for the CF portion of the portfolio.

**Tim Yates** answers that it is most applicable to the global equity fund.

**I. CALL TO ORDER**

**Committee Chair Hulu Lindsey** – Calls the Committee on Resource Management to order at 10:35 am, noting for the record that the following Trustees are present:

		<b>Present</b>	<b>Excused</b>	<b>Comments</b>
TRUSTEE LEI	<b>AHU ISA</b>		<b>X</b>	
TRUSTEE DAN	<b>AHUNA</b>		<b>X</b>	
TRUSTEE ROWENA	<b>AKANA</b>	<b>X</b>		
TRUSTEE KELI'I	<b>AKINA</b>	<b>X</b>		
TRUSTEE PETER	<b>APO</b>		<b>X</b>	
TRUSTEE ROBERT	<b>LINDSEY</b>		<b>X</b>	
TRUSTEE COLETTE	<b>MACHADO</b>	<b>X</b>		
TRUSTEE JOHN	<b>WAIHE'E</b>	<b>X</b>		
CHAIRPERSON HULU	<b>LINDSEY</b>	<b>X</b>		

<b>TOTAL</b>	<b>5</b>	<b>4</b>	
At the Call to Order, there are five (5) Trustees present.			

**II. PUBLIC TESTIMONY**

None.

**III. EXECUTIVE SESSION**

**Chair H. Lindsey** defers this section; items III. A. and III. B. of the agenda.

**IV. NEW BUSINESS**

**A. Portfolio and Performance Update – Common Fund (Continued)**

**Tim Yates** resumes his answer with regard to active vs. passive management per Trustee Akina’s question. He mentions that although passive management has outperformed active management, it is not a good long-term solution.

**Trustee Akina** says that this is an intelligent approach with regard to management fees not aligning with benchmarks.

**Raymond Matsuura** mentions that the hedge funds that are more concentrated, it still is a multi-strategy, and he is searching for a new hedge fund manager with a single strategy.

**CEO Crabbe** asks Raymond Matsuura to share about the benchmarks that were realigned.

**Raymond Matsuura** explains that CF will be on the same benchmarks as JP Morgan (JPM).

**Trustee Akana** asks if the market will be more volatile with the current President.

**Tim Yates** responds that volatility has been low. He explains that earnings drive the market ultimately, not political events.

**Trustee Akana** follows up with another question regarding the Senate passing a bill that allows for tax credits for middle class families.

**Tim Yates** responds by saying that the effects of that effort in the government will be impossible to predict. He says that they will continue to analyze small and large cap companies to influence their investment strategies.

**Trustee Akana** asks if the government is still giving tax credits to companies that are investing in impoverished areas to increase economic growth.

**Tim Yates** says that is still in place and is evidenced in the market. He continues to speak more on the performance of the global equity fund, which is outperforming the global benchmark.

## **B. Investment Management Fiduciary Duty Trustee Training**

**Ellen Blix** takes over to begin the training about governance best practices and what it means to be a fiduciary. She outlines the definition of fiduciary duty as someone who is trusted with the responsibility of the assets or affairs of others. She further explains that it is the duty of care, loyalty, and responsibility or obedience.

**Tim Yates** explains that the duty of care is defined as to act reasonably and as a prudent person would.

**Ellen Blix** explains that the duty of loyalty is defined as undivided allegiance to the institution when making decisions affecting the organization.

**Tim Yates** weighs in on the concept of avoiding conflict of interest. He then explains the duty of responsibility defined as faithful and responsible to the organization and its mission as is expressed in the organization's bylaws.

**Trustee Akana** seeks confirmation that fiduciary duties apply to everyone at the organization.

**Ellen Blix** replies that is correct.

**Raymond Matsuura** asks where ethics training plays into this.

**Tim Yates** explains that most of the ethical issues come down to conflict of interest, which falls under the duty of loyalty.

**Raymond Matsuura** says further that the ethical issues are harder to analyze for they are subjective.

**Ellen Blix** says that it falls under the duty of loyalty, and those situations should be analyzed at the Board level.

**Chair H. Lindsey** points out that OHA has State ethics training, where a workshop will be held by the ethics commission, for all state employees, and required for all elected officials.

**Trustee Waihee** asks that the state ethics rules might be different from trustee ethics.

**CEO Crabbe** comments that this addresses individual duty of care, loyalty, and responsibility of the Board and executives of the organization.

**Tim Yates** points out that there are different layers of ethics that must be upheld. He points out that their presentation shows who is responsible for what at OHA. It outlines that it is the

Board's duty to ensure their policies protect the organization and that the policies can be relied on. He touches briefly on the Bernie Madoff case with regard to his crime of a 50 billion Ponzi scheme.

**Raymond Matsuura** says that this information comes at a good time due to the fact that the Board is in need of hiring a new hedge fund manager. He says that he is working with procurement to have someone hired.

**Ellen Blix** says that the Board has the ultimate responsibility for the organization, and it is important for them to understand their duties. She recommends that these responsibilities be reviewed annually.

**CEO Crabbe** points out that corporate counsel acts as a risk manager currently.

**Chair H. Lindsey** asks who is the actual risk manager?

**CEO Crabbe** says they are in transition.

**Raymond Matsuura** says that Glenn Ezard at Segal Marco in this case for financial matters is the risk manager as the consultant.

**Tim Yates** points out that CF has a risk management team, which reports directly to the President and Board. He then goes on to talk about the Bernie Madoff case. He explains out the key point of colluding at the high level with regard to investments. He briefly outlines that Madoff simply raised more money to pay off returns of the old money, resulting in a Ponzi Scheme.

**Ellen Blix** says that it was the Jewish community that was victimized by Madoff. She explains that the mechanism by which investors became involved was very much Board driven. These Boards, although operating with good intentions, did not allow for the proper checks and balances to safeguard their institutions.

**Trustee Akana** explains that she studied trust law, and a trustee must be loyal to the trust and to no other individual, which is bound by law. She also explains how it relates to Sunshine Law.

**Ellen Blix** mentions that other institutions are subject to a degree of Sunshine Law.

**Tim Yates** makes the point that the policies for decision making must be very clear.

**Ellen Blix** goes in to more detail on other public institutions that must operate like OHA. She explains that another institution's Board was not in a position to be picking managers, as a way to diminish ambiguity of responsibility.

**CEO Crabbe** says that although we need to generate returns, the care of the Trust is more important and decision making should reflect that importance.

**Tim Yates** poses an example of the state university that has an endowment, where a group of students want to start a venture, and their board is tasked with determining if they should use endowment dollars to fund the students' new venture. He asks, "What is the university's board to do?" He says that the board should have voted that down, despite the fact that the money would go to a cause that support students. He mentions that from an endowment perspective, it is not within the scope of duties of the board to have lent that money to the students' new venture.

**Chair H. Lindsey** asks if CF does due diligence reviews for policy changes at OHA?

**Tim Yates** says yes, absolutely.

**Trustee Machado** brings up her concern of CF's under performance, and followed up with Raymond and Glenn to find out why.

**Raymond Matsuura** says that is the reason why they changed the benchmarks, as well as CF's role as an investment manager.

**Tim Yates** responds that yes, the board's concern is the performance of the portfolio.

**Trustee Akana** provides historical background of the investment portfolio and how it was managed.

**Raymond Matsuura** assures the board of the current structure and investment strategies, where they are meeting their targets.

**Trustee Machado** is happy that they were able to address the shortfall and that over time they will see the improvements.

**Trustee Akina** says that the presentation was good and wants to know how to apply this general information and apply it to OHA.

**Tim Yates** wants to be clear that it is not an opinion that drives decision making, but the fiduciary responsibility.

**Chair H. Lindsey** thanks them for their time and presentation.

## **V. COMMUNITY CONCERNS**

**Germaine Meyers** greets the Board. She wants to make sure that the Madoff case does not happen to her and her 'ohana. She explains that blind trust caused that problem to happen. She speaks about her concerns with the CNHA grant. She ends with, "E hana kākou."

## **VI. ANNOUNCEMENTS**

**Chair H. Lindsey** reminds the Board that the next RM Committee Meeting will be held on Oct. 11, 2017 at 10am.

**VII. ADJOURNMENT**

<b>Trustee John Waihe'e, IV moves to adjourn. Trustee Colette Machado seconds the motion.</b>						
	1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
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	X			
TRUSTEE JOHN WAIHE'E	X		X			
CHAIRPERSON HULU LINDSEY			X			
<b>TOTAL VOTE COUNT</b>			<b>5</b>			<b>4</b>
<b>MOTION:</b> [ ] UNANIMOUS [ x ] PASSED [ ] DEFERRED [ ] FAILED						
<b>Motion passes with five (5) YES votes and four (4) EXCUSED.</b>						

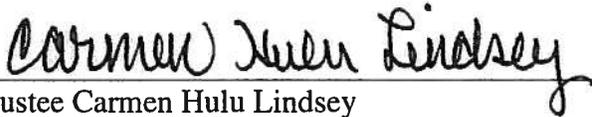
Respectfully Submitted,



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G. Maxwell Mukai  
Trustee Aide  
Committee on Resource Management

As approved by the Committee on Resource Management on 12/06/2017



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Trustee Carmen Hulu Lindsey  
Committee Chair  
Committee on Resource Management

ATTACHMENTS:

- Community Sign-In Sheet