

MINUTES OF THE INVESTMENT COMMITTEE OF THE
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII

AUGUST 13, 2018

CITY FINANCIAL TOWER
201 MERCHANT STREET, SUITE 1200
HONOLULU, HAWAII 96813

Trustees present: Mr. Vincent Barfield, Chair
Dr. Catherine Chan, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Ms. Laurel Johnston
Mr. Emmit Kane
Dr. Genevieve Ley
Mr. Wesley Machida
Mr. Jerome Rauckhorst

Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General
Ms. Elmira Tsang, Deputy Attorney General
Ms. Jodi Yi, Deputy Attorney General

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoe Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Howard Hodel, Acting Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. Ian Wetzell, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Heather Bell, Retirement Claims Examiner
Ms. Nenita Morales, Retirement Claims Examiner
Mr. Carl Silva, Retirement Claims Examiner
Ms. Lori Kim, Secretary
Ms. Dale Kanae, Board Secretary
Ms. Wanda Kugiya, Recording Secretary

Staff excused: Mr. Andrew Chen, Investment Specialist

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Ms. Mary Bates, Pension Consulting Alliance, LLC
Mr. Colin Bebee, Pension Consulting Alliance, LLC
Mr. Chae Hong, Townsend Group, an Aon Company
Mr. Joe Newton, Gabriel, Roeder, Smith & Company (GRS)

Public present: None

CALL TO ORDER/QUORUM	A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Ferguson-Miyamoto, Johnston, Kane, Ley, Machida, and Rauckhorst), Chair Barfield called the Investment Committee meeting to order at 9:02 a.m.
PUBLIC COMMENT PERIOD	Chair Barfield called for public comment. There were no members of the public present to offer comment.
RECESS	Chair Barfield called for a recess and announced that the meeting would reconvene after the Chapter 91 proceedings. (Ms. Heather Bell, Ms. Nenita Morales, and Mr. Carl Silva were present for only Chapter 91 proceedings.)
RECONVENE	A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Ferguson-Miyamoto, Johnston, Ley, Machida, and Rauckhorst), Chair Barfield reconvened the meeting at 10:42 a.m.
APPROVAL OF MINUTES - JULY 9, 2018	On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Investment Committee approved the minutes of July 9, 2018 meeting, as circulated.
AUGUST 2018 INVESTMENT OFFICE ACTIVITIES	Mr. Hodel, Acting Chief Investment Officer, presented an oral and written Investment Office activities report for August 2018. Mr. Hodel noted that the global equity markets advanced over the month of July with relatively low volatility, reaching or nearing new highs, but still reactive to trade war concerns and political issues. The U.S. economy experienced robust economic growth of 4.1% in the second quarter as unemployment dropped to 3.9%, boosted by tax reductions. U.S. monetary policy on the other hand continues to be contractionary as the Fed stays on its course of four 25 basis point hikes in 2018 and four more in 2019. Overseas economic data also began to improve after some disappointments in the first half of the year. The U.S. Treasury yield curve shifted up 12 basis points during July, while the non-U.S. central banks appeared to be slowly on the move toward tighter monetary policies. (Trustee Kane joined the meeting at 10:44 a.m.)
	Messrs. Anthony Goo, Investment Officer-Liquid Markets; and Aaron Au, Investment Officer-Illiquid Markets; presented highlights on the following risk classes and components:
	<p><u>Traditional Growth</u></p> <ul style="list-style-type: none"> • Mr. Goo reported that staff will be making a recommendation to terminate FIAM, LLC and hire Wasatch Advisors, Inc. for the Global Active Equity (small cap) mandate due to key investment team changes at FIAM.
	(Mr. Joe Newton arrived at the meeting at 10:47 a.m.)

Stabilized Growth

- Heitman, had no significant update since the July 25th Special BOT meeting. They continue to carefully build up the portfolio after recent sales activity.
- City Financial Tower (CFT), had a material update that occurred after closing of the agenda. A potential tenant that may take 2 full floors; CFT would then be fully occupied. A Letter of Intent has been executed and Heitman is working through the details. Any discussion of confidential information should be conducted in executive session.
- Invesco continues to work toward an orderly liquidation for the remaining 3 assets. No significant update since the July 25th Special BOT meeting.
- Diversified Liquid Corporate Credit Request for Information (RFI): ERS staff and PCA presented four finalists for the Diversified Liquid Corporate Credit Manager Search. Staff and PCA will conduct on-site due diligence in August.

Private Growth

- For the period beginning January 1, 2018 through July 30, staff and its consultants (Hamilton Lane and Townsend/Aon) have closed, or are in the process of closing 18 funds totaling \$753.3 million in commitments. Both private equity and non-core real estate have achieved their targeted pacing commitments for calendar 2018.

(Ms. Donna Curry arrived at the meeting at 10:51 a.m.)

Crisis Risk Offset (CRO)

Mr. Hodel presented the second quarter 2018 CRO quarterly report. He made the following points:

- CRO rebalanced in mid-May owing to a manager allocation appreciating beyond the rebalance threshold.
- Alternative Return Capture (ARC) had strong performance while Systematic Trend Following (STF) suffered during May primarily due to losses from Italian and US rates, resulting in slightly negative performance overall for the quarter.
- All CRO status indicators were GREEN through the quarter, while Ryan Labs Defensive Risk Premia indicator triggered on resulting in higher duration for a short period of time.
- CRO reduced the overall portfolio volatility from 6.6% to 5.9% annualized during the quarter.
- For the quarter, CRO has been long equity, fixed income commodities and since late April, long the U.S. dollar.

Risk Management

Mr. Hodel presented the second quarter 2018 risk management report. He made the following points:

- Portfolio risk levels are appropriate and consistent with policy and market conditions.
- Growth risk still accounts for over 95% of projected portfolio risk, as other risks slightly offset growth risk or were muted.

- Portfolio beta to global equities was about 0.55 measured over the past 36 months, down from 0.7 prior to the portfolio restructuring which diversified the risk factors in the portfolio.
- Risk adjusted returns remained strong both absolutely and relative to policy over the past 36 months.
- PCA's Sentiment indicator turned GRAY mid-quarter while valuations remain high for real estate, private equity and U.S. public equity, indicating the potential for a market correction or crisis if one of the many macro risks causes a flight from risk assets.

Opportunities

- Nothing substantive to report since the July 25th special board meeting. Any discussion of confidential information should be conducted in executive session.

RFP/RFI/EOI

- The Global Custody Services & Securities Lending Request for Expression of Interest (EOI) is proceeding with a decision expected by the end of August.
- The contract with the new Proxy Voting Service provider is nearly complete.
- Staff will provide updates on the Diversified Liquid Corporate Credit RFI and the CRO ARC and STF RFI's in the Executive Session of the Board meeting; both are proceeding on schedule.

MANAGER ORGANIZATIONAL CHANGES

Mr. Hodel presented a "receive and file" memorandum on the following organizational changes:

- Quantitative Management Associates, LLC (QMA) (Traditional Growth – Global Small Cap)

Staff does not believe that the management changes will have any adverse impact on the investment of ERS's assets.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the meeting at 11:07 a.m.

REDACTED SIGNATURE

Howard Hodel
Acting Chief Investment Officer

HH/wk