

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

DECEMBER 10, 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. Elizabeth Burton, Chief Investment Officer  
Ms. Donna Curry, Program Specialist  
Mr. Karl Kaneshiro, Retirement Benefits Manager  
Mr. Aaron Au, Investment Officer – Illiquid Markets  
Mr. Anthony Goo, Investment Officer – Liquid Markets  
Mr. Howard Hodel, Investment Officer – Risk Management  
Mr. Andrew Chen, Investment Specialist  
Mr. Ian Wetzel, Investment Specialist  
Ms. Gerri Konishi, Member Home Loan Assistant  
Ms. Sandra Straub, Applications Supervisor  
Mr. Liang-Han (Kevin) Yu, Systems Analyst  
Ms. Lori Kim, Secretary  
Ms. Dale Kanae, Board Secretary  
Ms. Wanda Kugiya, Recording Secretary

Guests present: Mr. Colin Bebee, Pension Consulting Alliance, LLC (PCA)

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 9:05 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.

(Mr. Karl Kaneshiro, Ms. Sandra Straub and Mr. Kevin Yu were not present after the recess.)

## RECONVENE

A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Ferguson-Miyamoto, Johnston, Kane, Ley, Machida, and Rauckhorst), Chair Barfield reconvened the meeting at 9:20 a.m.

## APPROVAL OF MINUTES - NOVEMBER 13, 2018

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Investment Committee approved the minutes of November 13, 2018 meeting, as circulated.

## SUMMARY OF DECEMBER 2018 INVESTMENT OFFICE ACTIVITIES

Mr. Howard Hodel, Investment Officer – Risk Management, briefly presented the market overview for November, noting that geopolitical issues dominated the capital markets once again as global equity markets advanced one to two percent, after the eight percent correction in October. The U.S. midterm elections turned out as expected indicating a reduced chance of further fiscal stimulus to the economy. The trade impasse between China and the U.S. persisted while November saw progress on Brexit with U.K. and the European Union underwriting a withdrawal agreement, but passage in the House of Commons seems uncertain at best. The Fed remained on course for another 25 bp increase in the Fed Funds rate in December. Economic growth and corporate earnings in the U.S. remained robust, but the outlook for 2019 and beyond is beginning to look like a slowdown is coming. Diversification is important in this environment.

Ms. Elizabeth Burton, Chief Investment Officer (CIO), recapped the markets and anticipated Fed rates for next year. She explained that although the markets are now expecting fewer rate hikes in 2019 than previously anticipated, economic fundamentals remain solid in the medium-term. She said she does not anticipate a recession in the next 12 months.

Messrs. Anthony Goo, Investment Officer-Liquid Markets; and Aaron Au, Investment Officer-Illiquid Markets; presented highlights on the following risk classes and components:

### Stabilized Growth

- Heitman negotiations continue on a self-storage joint venture for ERS.
- City Financial Tower (CFT) leasing discussions continue and are going well with a potential tenant for two-full floors and a partial floor. The leasing broker is negotiating lease terms and tenant improvements, and lease signing is expected this or next week. Capital call is needed for necessary tenant improvements.
- Invesco continues toward an orderly liquidation as previously planned.

### Private Growth

- ERS is fully funded and committed for 2018.

- General Partners are looking at disclosures more intently.
- ERS is competing with other investors for allocation of top performing, high conviction funds.
- ERS is responding to Uniform Information Practices Act record requests.

#### Crisis Risk Offset (CRO)

- Mr. Hodel summarized CRO positioning and performance during the volatile November capital markets. CRO is positioned moderately risk-off with the portfolio short equity and commodities and long fixed income and the U.S. dollar. CRO was up about 30 bps in November with Alternative Return Capture and Treasury Duration Capture performing well in the volatile markets and Systematic Trend Following lagging.

(Ms. Donna Curry arrived at the meeting at 9:37 a.m.)

Trustee Chan asked who named the trend component of CRO “Systematic Trend Following.” Mr. Hodel replied that PCA named it and the terminology would be widely recognized by investment professionals as an appropriate description of the strategies.

Ms. Burton discussed the use of algorithms by systematic managers to identify and profit from trends.

#### Opportunities

- Ka’anapali: Staff is targeting an update for the Ad Hoc Committee in January 2019 to commence immediately after the Board’s meeting. There will be a presentation to the Board in February 2019.

#### Risk Monitoring

- Mr. Hodel noted that during November, the Chicago Board Options Exchange Volatility Index (VIX) was elevated, but not extreme and the intra-month volatility of the ERS portfolio was still low by historical standards at 5.4%. There are several geopolitical risks around the globe that the Staff is monitoring.

#### RFP/RFI/EOI

- Global Custody Services & Securities Lending Request for Expression of Interest (EOI) contract negotiations have been completed and the contracts are circulating for execution.
- Crisis Risk Offset Systematic Trend Following mandate and Alternative Return Capture mandate recommendations will be in January 2019.
- An Implementation Overlay update will be presented at the Board meeting.
- Active Global Mid-Large Cap manager deadline for responses is December 14, 2018.

ENTER EXECUTIVE  
SESSION

On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Investment Committee entered into Executive Session at 9:50 a.m.

- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions relating to investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under chapter 92F, including without limitation information and records that are proprietary information or confidential business or personnel information, with respect to investment manager organizational changes

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EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Investment Committee exited Executive Session at 9:54 a.m.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Barfield adjourned the Investment Committee meeting at 9:54 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer

ETB/wk