

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

OCTOBER 9, 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

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, Deputy Executive Director
Ms. Elizabeth Burton, Chief Investment Officer
Ms. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Retirement Benefits Manager
Mr. Howard Hodel, Investment Officer – Risk Management
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Tami Ikegami-Stuart, Systems Analyst
Mr. Liang-Han (Kevin) Yu, Systems Analyst
Mr. Bradford Holt, Systems Analyst
Ms. Lori Kim, Secretary
Ms. Dale Kanae, Board Secretary
Ms. Wanda Kugiya, Recording Secretary

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Ms. Mary Bates, Pension Consulting Alliance, LLC

Public present: Mr. Robert Nishimoto, Senate Committee on Ways and Means

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.

(Mr. Karl Kaneshiro was present for only Chapter 91 proceedings. Ms. Tami Ikegami-Stuart, Mr. Bradford Holt, 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 9:22 a.m.

APPROVAL OF MINUTES - SEPTEMBER 10, 2018

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, the Investment Committee approved the minutes of September 10, 2018 meeting, as circulated.

SUMMARY OF OCTOBER 2018 INVESTMENT OFFICE ACTIVITIES

Mr. Howard Hodel, Investment Officer–Risk Management, presented an oral and written Investment Office activities report. Mr. Hodel noted that four investment themes are continuing to play out during September:

- While the U.S. trade dispute with Canada was settled at the end of September, there was no real progress on the dispute with China, although there has so far been no tangible impacts on U.S. economic growth or inflation; the result on equity markets is that U.S. large cap equities have outperformed international equities, particularly emerging markets equities, and small cap U.S. stocks have outperformed large cap U.S. stocks.
- Monetary tightening by the U.S. Fed is continuing with the third 25 bp increase in the Fed Funds rate occurring in September 2018 and the Fed signaling its intention to raise rates again in December; three to four 25 bp hikes are expected in 2019; the Fed's roll off of its balance sheet is proceeding in a slow and steady fashion that is not having a meaningful impact on the economy or liquidity; overseas, the European Central Bank started tapering its bond purchases while the Bank of England has been increasing rates, but is indicating its willingness to provide whatever monetary accommodations are necessary in the U.K. should there be a hard landing to Brexit.
- A return to the low end of the historically normal equity volatility level, but with intermittent periods of heightened volatility.
- Robust economic growth in the U.S. from the one-time boost from income tax cuts propelling corporate earnings to 20 plus percent year-over-year increases, a 48 year-low in unemployment, and three to four percent economic growth; the economic expansion overseas has been uneven and is beginning to stall.

The interplay of the four themes pushed U.S. equities to all-time highs in September, while the U.S. Treasury yield curve rose by 10 bps and steepened by 10 bps. Concerns remain about the impact of the trade dispute between the U.S. and China, and the outcome of the Brexit negotiations.

(Mr. Scott Nishimoto arrived at the meeting at 9:28 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:

Stabilized Growth

- Heitman continues to carefully build up the portfolio. Two major grocery anchors moving into two different mainland properties. They continue to pursue a self-storage joint venture for ERS.
- City Financial Tower (CFT) discussions continue and going well with a potential tenant for 2-full floors and a partial floor. Leasing broker negotiating lease terms and tenant improvements
- Invesco continues toward an orderly liquidation. Two assets remain to be sold by the end of 2018 or early 2019. The Commercial Mortgage Income Fund has about \$13 million funded out of ERS's \$100 million commitment.
- Robeco has notified ERS staff that the firm will outsource its administration and parts of its operation activities to J.P. Morgan Bank. There will be no business impact to the ERS.

Private Growth

- The robust fundraising environment saw many top-quality managers come to market and helped ERS achieve its annual pacing target by July 2018. ERS closed on 18 funds totaling \$753.3 million in commitments (\$593.3 million for private equity and \$160 million for non-core real estate).

Crisis Risk Offset (CRO)

- Mr. Hodel noted that all crisis risk indicators were GREEN during the month and that the quarter-end rebalance was suspended due to no manager being materially outside its target allocations.

Real Return

- Townsend/Aon and PCA are sourcing potential infrastructure and agriculture opportunities.

Opportunities

- Ka'anapali: Staff targeting an update for the Ad Hoc Committee in December and a potential Board meeting to follow in January 2019. Lowe will cover milestones reached and updated options on next steps.

Risk Monitoring

- Mr. Hodel noted that equity market volatility as measured by the VIX was subdued and the portfolio's realized volatility was only 4.4% during September. Portfolio positioning remained largely unchanged from the previous month.

(Ms. Donna Curry arrived at the meeting at 9:46 a.m.)

RFP/RFI/EOI

- Global Custody Services & Securities Lending Request for Expression of Interest (EOI) is in contract negotiation phase.
- The Diversified Liquid Corporate Credit manager recommendation will be presented at the Board meeting.
- Crisis Risk Offset Systematic Trend Following mandate and Alternative Return Capture mandate update will be presented at the Board meeting.
- An Implementation Overlay update will be presented at the Board meeting.
- Glass Lewis for Proxy Voting Services began voting proxies according to direction from the ERS staff as of the beginning of October.

Staff Training

- Mr. Hodel noted that four staff and one ERS Trustee attended a one-day Leadership Workshop in Honolulu during the first week of October organized by the Chartered Financial Analyst (CFA) Society Hawaii featuring a trainer from the Royal Academy of Dramatic Art in London, U.K. The training was very worthwhile.

**ORGANIZATIONAL CHANGES AT
THE EMPLOYEES' RETIREMENT
SYSTEM INVESTMENT MANAGERS**

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

- Aspect Capital (Crisis Risk Offset – Systematic Trend Following)
- General Atlantic, LLC (Private Growth – Private Equity)

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

**LIST OF INVESTMENT STAFF
MEETINGS WITH INVESTMENT
MANAGERS, POTENTIAL
MANAGERS AND OTHER SERVICE
PROVIDERS – THIRD QUARTER
2018**

Trustees discussed the relative benefit, if any, of this meeting log. It was determined to continue to track investment manager meetings; however, the list will be eliminated from the Investment Committee activities report.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the Investment Committee meeting at 9:50 a.m.

**REDACTED
SIGNATURE**

Howard Hodel
Chief Investment Officer – Risk Management

HH/wk