

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

SEPTEMBER 10, 2018

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

Trustees present: Mr. Vincent Barfield, Chair
Dr. Catherine Chan, Vice Chair
Mr. Emmit Kane
Dr. Genevieve Ley
Mr. Wesley Machida
Mr. Jerome Rauckhorst

Trustees excused: Ms. Jackie Ferguson-Miyamoto
Ms. Laurel Johnston

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. Kanoë Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Retirement Benefits Manager
Mr. Howard Hodel, Acting Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzell, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Tami Ikegami-Stuart, Information Technology Specialist
Mr. Yu (Kevin) Liang-Han, Systems Analyst
Mr. Tom Tsuha, Information Technology Specialist
Ms. Lori Kim, Secretary
Ms. Dale Kanae, Board Secretary
Ms. Wanda Kugiya, Recording Secretary

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Mr. Colin Bebee, Pension Consulting Alliance, LLC
Mr. Paul Yett, Hamilton Lane Advisors, LLC

Public present: None

CALL TO ORDER/QUORUM

A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Kane, Ley, and Rauckhorst), Chair Barfield called the Investment Committee meeting to order at 9:00 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. Tom Tsuha and Mr. Kevin Yu were not present after the recess.)

RECONVENE
A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Johnston, Ley, Machida, and Rauckhorst), Chair Barfield reconvened the meeting at 9:49 a.m.

(Mr. Paul Yett from Hamilton Lane arrived at the meeting.)

APPROVAL OF MINUTES
- AUGUST 13, 2018
On a motion made by Trustee Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Investment Committee approved the minutes of August 13, 2018 meeting, as circulated.

SUMMARY OF SEPTEMBER 2018
INVESTMENT OFFICE ACTIVITIES
Mr. Howard Hodel, Acting Chief Investment Officer, presented an oral and written Investment Office activities report. Mr. Hodel noted that the biggest concern for the capital markets is the impact of trade issues. The focal point is the U.S. – China trade dispute, which has resulted in international equities, particularly emerging markets equities, significantly underperforming U.S. equities. Within U.S. equities, small caps have performed better than large caps, which are more globally exposed. These trade tensions have not slowed U.S. growth in any tangible way with the only negative being depressed investor sentiment.

Higher U.S. interest rates this year have not materially dampened economic growth as the Fed stays on its well-publicized course of hiking the Fed Funds rate by 25 bps four times in 2018 and up to an additional four times in 2019. During August, robust economic growth in the U.S. pushed U.S. equity valuations to new highs as the economy continued to approach full capacity, while the U.S. Treasury yield curve flattened by 10 bps.

(Ms. Tami Ikegami-Stuart returned to the meeting.)

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

Traditional Growth

- Staff is working with general consultant, Pension Consulting Alliance, LLC (PCA), on drafting a Request for Information (RFI) for the Global Mid/large Cap Active mandate to be issued in late October.

Stabilized Growth

- Heitman is pursuing an acquisition of self-storage assets diversified across the U.S. Mainland. This will be structured as a joint venture with a known industrial operator.
- City Financial Tower (CFT). Heitman and property management are still negotiating with a potential lessee that will take 2 full floors. Letter of Intent (LOI) executed, build-out being negotiated.
- UBS experienced an overdraft of \$29,279.19 in July due to a collateral processing issue. The overdraft was corrected with principal and interest credited back to the account.

Private Growth

- For the period beginning January 1, 2018 through August 31, staff and its consultants (Hamilton Lane and Townsend/Aon) closed on 18 funds totaling over \$753 million in commitments. Both private equity and real estate have achieved their targeted pacing commitments for 2018.

Crisis Risk Offset (CRO)

- Mr. Hodel presented a summary of CRO positioning and performance for August noting that all three components posted positive results leading to a 3 percent return for CRO. All Crisis Risk Indicators remained GREEN and CRO remained long equities, fixed income and the U.S. dollar, but the long commodity position switched to short mid-month. Both ex-ante and ex-post volatility were about 8 percent during August, and were positioned at the bottom of the expected range of 8% to 18%.

Principal Protection

- Nothing to report.

Real Return

- Staff conducted an on-site due diligence of BlackRock's Global Inflation-Linked Securities (GILS) passive investment management team and operations in early September and will be submitting a Receive and File report before year-end.
- Aon/Townsend and PCA continue to review potential infrastructure opportunities.

Opportunities

- Ka'anapali: Next update to the Ad Hoc Committee is planned for November/December, with an update to the Board shortly thereafter. The impact of key milestones will be discussed.

Risk Management

- Mr. Hodel presented the risk summary noting that realized volatility of the ERS portfolio had dropped back to about 4 percent during August, reflecting the capital market's complacency about the trade disputes and various other macro risks around the globe.

Investment Policy & Procedures Manual

- Nothing to report.

Sudan Investment Policy

- Nothing to report.

Watch Status

- ERS will maintain Aon Townsend on watch status until the integration with Townsend is completed. Integration is about 80% completed. To date, there are no concerns regarding delivery or quality of service.

(Ms. Donna Curry arrived at the meeting at 10:06 a.m.)

RFP/RFI/EOI

- The selection of the Global Custody Services & Securities Lending provider will be presented at the September Board meeting.
- The manager recommendation for the Global Equity-Oriented Options-Based mandate will be presented at the September Board meeting.
- The contracting with Glass Lewis for Proxy Voting Services has been completed and proxy voting is in the process of being transitioned to the ERS staff from ERS managers.
- The Diversified Liquid Corporate Credit manager recommendation will be presented at the October Board meeting.
- An update on the Crisis Risk Offset Systematic Trend Following mandate and Alternative Return Capture mandate will be presented at the September Board meeting.
- PCA issued an RFI for Portfolio Implementation Overlay and currency hedging mandates at the end of August with responses due at the end of September.

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

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

- AlphaSimplex Group, LLC (AlphaSimplex) (Crisis Risk Offset – Systematic Trend Following)

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 Kane, and unanimously carried, Chair Barfield adjourned the meeting at 10:09 a.m.

**REDACTED
SIGNATURE**

Howard Hodel
Acting Chief Investment Officer

HH/wk