

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

MARCH 11, 2019

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

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

Trustee absent: Mr. Vincent Barfield, Chair

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  
Mr. Aaron Au, Investment Officer – Illiquid Markets  
Mr. Andrew Chen, Investment Specialist  
Mr. Anthony Goo, Investment Officer – Liquid Markets  
Mr. Howard Hodel, Investment Officer – Risk Management  
Mr. Ian Wetzal, Investment Officer  
Ms. Gerri Konishi, Member Home Loan Assistant  
Ms. Dale Kanae, Board Secretary (Recording Secretary)  
Ms. Lori Kim, Secretary

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

CALL TO ORDER/QUORUM A quorum being present (Vice Chair Chan, and Trustees Becker, Ferguson-Miyamoto, Kane, Ley, Machida, and Rauckhorst), Vice Chair Chan called the Investment Committee (Committee) meeting to order at 9:00 a.m.

PUBLIC COMMENT PERIOD Vice Chair Chan called for public comment. There were no public present, therefore no public comments.

RECESS Vice Chair Chan called for a recess at 9:01 a.m. and announced that the meeting would reconvene after the Chapter 91 proceedings.

RECONVENE A quorum being present (Vice Chair Chan, and Trustees Becker, Ferguson-Miyamoto, Kane, Ley, Machida, and Rauckhorst), Vice Chair Chan reconvened the meeting at 9:07 a.m.

## APPROVAL OF MINUTES

- FEBRUARY 11, 2019

On a motion made by Trustee Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Investment Committee approved the minutes of the February 11, 2019, meeting, with a correction that Vice Chair Chan adjourned the meeting.

## SUMMARY OF MARCH 2019 INVESTMENT OFFICE ACTIVITIES

Chief Investment Officer (CIO), Elizabeth Burton, commented that she will interject throughout the reports on the markets and portfolio.

Investment Officer – Risk Management (IO-RM), Howard Hodel, briefly presented the market overview for February, noting that the markets largely ignored geopolitical issues and their impact on future economic and corporate revenue and earnings growth, as global equity markets rose nearly 3%. The four major market themes of 2018 – strong U.S. corporate earnings and economic growth from fiscal stimulus, the Fed’s monetary tightening via rate hikes and balance sheet roll-off, the trade sanctions between the U.S. and China, and periodic elevated market volatility – continued to play out in February, but this time with all four themes losing strength, resulting in a subdued “risk-on” sentiment elevating the capital markets. In the U.S., Congress and the Administration reached a budget compromise in early February to avoid another partial Federal government shutdown, but partisan politics continue to be the area of focus. Dovish comments from Fed officials in late January and February also contributed to the favorable February capital markets, leaving the U.S. Treasury yield curve about 15 bps higher for the month and virtually flat out to five years at a yield close to 2.5%.

Outside the U.S. the trade sanctions impasse between the U.S. and China persisted while February saw little progress on the Brexit deadlock as U.K. Prime Minister Theresa May works to gather the votes necessary to pass the withdrawal agreement the U.K. and European Union underwrote through the House of Commons on March 12<sup>th</sup>. Whether or not the deal is ultimately approved, the U.K. will leave the E.U. on March 29, 2019.

CIO Burton reported that the senior investment officers had a 5-year anniversary. She also reported that she was the key note speaker at the Hawaii Venture Capital Association. CIO Burton gave an overview of her CIO Report as follows:

### **CIO Report**

Investment Staff meets weekly to scrutinize the efficiency of the portfolio in the light of late-cycle dynamics. Since October Staff roles have shifted and increased. New roles were outlined in the report and it was noted that additional resources are required not only for succession planning but to maintain sufficient and responsible back-up coverage. This quarter has been focused on housekeeping and administrative issues as Staff have been working on manager contracts/amendments, onboarding new managers, investment policies, the CAFR, Holomua, the Summit, quarterly reporting, and human resources. Staff looks forward to additional resources in the future to focus the team on investments.

## **PORTFOLIO**

Investment Officer-Liquid Markets (IO-LM) Anthony Goo, Investment Officer-Illiquid Markets (IO-IM), Aaron Au, and Investment Officer (IO), Ian Wetzel presented highlights on the following risk classes and components:

### **BROAD GROWTH**

#### **Stabilized Growth**

- Core Real Estate Separate Account Manager. Progress continued in consolidating from two separate account managers to one. The remaining separate account manager continues to manage existing properties and is looking for additional opportunities. Staff has been dialoguing with manager recently and plans in-person meeting in April for a full portfolio review.
- Former Core Real Estate Separate Account continues toward an orderly liquidation. One asset remains which is targeted to be sold by mid-2019.
- City Financial Tower Building. Buildout for tenant improvements is progressing satisfactorily. There is nothing new to report. Any discussion of confidential information should be conducted in executive session.
- Contract negotiations with AQR, Geode and HPS are ongoing and progressing.
- Funds will be redeemed from Global Options-based managers to fund CRO and Overlay.
- Staff and PCA are conducting conference calls with credit managers for the Opportunities class. Staff plans to conduct onsite visits to the finalists in April.

#### **Private Growth**

- Private Equity. Staff seeks to initiate alpha generating opportunities in international private equity based on insights gained in the recent ERS roundtable event with top officials of Blackrock. Staff's preliminary research seems to validate Blackrock's statement that China intends to be a leader in 5G technology. Staff will also assess other growth opportunity areas such as international trade and the Belt and Road initiative. Staff seeks to conduct on-site due diligence on investment managers capable of executing investments related to these theses.

IO-RM Hodel and IO-LM Goo, summarized and updated the Committee on the following:

### **CRISIS RISK OFFSET (CRO)**

CRO class currently consists of nine managers: Four Alternative Return Capture (ARC) managers, four Systematic Trend Following (STF) managers and one Treasury Duration Capture (TDC) manager. ARC and STF components had positive performance while TDC had negative performance in line with higher U.S. Treasury rates. CRO at month-end remained long fixed income, equities, the U.S. dollar, and short commodities. Three managers will be added to the CRO program, as two managers leave the program, at the end of March.

## **PRINCIPAL PROTECTION**

### **U.S. Mandates**

### **Global Mandates**

IO Wetzel reported the following:

## **REAL RETURN**

Real Return strategic allocation target continues to increase towards long-term level. Portfolio is currently underweight vs. strategic allocation targets and a priority going forward will be to increase real return allocation closer to strategic allocation targets.

### **Liquid Real Return**

- Policy has an allocation placeholder for GILS and Commodities. GILS mandate is currently funded and is comprised of a passive strategy. Commodities mandate is not currently funded; investment opportunities will be explored in the future.

### **Illiquid Real Return**

- Policy has an allocation placeholder for Timber, Agriculture, and Infrastructure. Timber mandate is currently populated (long time separate account). Agriculture mandate is not currently populated and plans to be explored in the future. Infrastructure mandate is currently populated with one fund, and additional opportunities will be explored. Of note, portfolio also contains two other Infrastructure funds that reside in Private Growth (not Real Return) due to their higher risk/return characteristics.
- Aon/Townsend and PCA are capable of sourcing potential infrastructure and agriculture opportunities.

IO-IM Au reported the following:

## **OPPORTUNITIES**

### **Kaanapali**

- Staff will discuss Kaanapali in executive session.

IO-RM Hodel summarized and updated the Committee on the following:

## **RISK REPORT**

### **Risk Monitoring**

- Staff is continuing to monitor potential, significant macro risks in each of the three major economic regions of the world, any of which could trigger another market correction.

## **POLICY**

### **Investment Policy & Procedures Manual**

- Staff is proposing changes to the phase-ins of the strategic risk class allocations, Crisis Risk Offset policy revisions, and a new Portfolio Implementation Overlay policy.

**OPERATIONAL**  
**RFP/FRI/EOI**

- An RFI Crisis Risk Offset Systematic Trend Following mandate and Alternative Return Capture mandate recommendations will be presented at today's Board meeting. Implementation of the changes are expected at the end of March.
- An RFI was issued for the portfolio Implementation Overlay and Currency Hedging mandates. The Board approved the staff's manager recommendations and contracting is proceeding with an implementation estimated in April.
- An RFI was issued for an Active Global Mid-Large Cap manager and responses are being evaluated.

Following the presentation of the report, all public in attendance left the meeting.

ENTER EXECUTIVE  
SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Investment Committee entered into Executive Session at 9:31 a.m.

EXECUTIVE SESSION

- Pursuant to HRS § 88-27.5(a)(1), and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, and if appropriate, to make a decision on investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under Chapter 92F, including information and records that are proprietary information or confidential business information, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to investment manager organizational changes.
- Pursuant to HRS § 88-27.5(a)(1) and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, and if appropriate, to make a decision on investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under Chapter 92F, including information and records that are proprietary information or confidential business information, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to the Employees' Retirement System general consultant; appropriate action.
- Pursuant to HRS § 88-27.5(a)(1), and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, and if appropriate, to make a decision on investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under Chapter 92F, including information and records that are proprietary information or confidential business information, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to a private investment.

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1), and HRS § 92-5(a)(4), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, AND IF APPROPRIATE, TO MAKE A DECISION ON INVESTMENTS OR PROSPECTIVE INVESTMENTS BY THE SYSTEM THAT REQUIRE THE CONSIDERATION OF INFORMATION OR RECORDS THAT ARE EXEMPT FROM DISCLOSURE UNDER CHAPTER 92F, INCLUDING INFORMATION AND RECORDS THAT ARE PROPRIETARY INFORMATION OR CONFIDENTIAL BUSINESS INFORMATION, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES WITH RESPECT TO INVESTMENT MANAGER ORGANIZATIONAL CHANGES

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1) AND HRS § 92-5(a)(4), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, AND IF APPROPRIATE, TO MAKE A DECISION ON INVESTMENTS OR PROSPECTIVE INVESTMENTS BY THE SYSTEM THAT REQUIRE THE CONSIDERATION OF INFORMATION OR RECORDS THAT ARE EXEMPT FROM DISCLOSURE UNDER CHAPTER 92F, INCLUDING INFORMATION AND RECORDS THAT ARE PROPRIETARY INFORMATION OR CONFIDENTIAL BUSINESS INFORMATION, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES WITH RESPECT TO THE EMPLOYEES' RETIREMENT SYSTEM GENERAL CONSULTANT; APPROPRIATE ACTION

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1), AND HRS § 92-5(a)(4), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, AND IF APPROPRIATE, TO MAKE A DECISION ON INVESTMENTS OR PROSPECTIVE INVESTMENTS BY THE SYSTEM THAT REQUIRE THE CONSIDERATION OF INFORMATION OR RECORDS THAT ARE EXEMPT FROM DISCLOSURE UNDER CHAPTER 92F, INCLUDING INFORMATION AND RECORDS THAT ARE PROPRIETARY INFORMATION OR CONFIDENTIAL BUSINESS INFORMATION, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES WITH RESPECT TO A PRIVATE INVESTMENT

APPROVAL OF EXECUTIVE SESSION MINUTES  
- FEBRUARY 11, 2019

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Investment Committee exited Executive Session at 9:42 a.m.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Vice Chair Chan adjourned the Investment Committee meeting at 9:42 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer

ETB/dkik