

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

APRIL 8, 2019

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
Mr. Emmit Kane
Dr. Genevieve Ley
Mr. Wesley Machida
Mr. Jerome Rauckhorst

Trustee absent: Mr. Roderick Becker

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. Anthony Goo, Investment Officer – Liquid Markets
Mr. Howard Hodel, Investment Officer – Risk Management
Mr. Ian Wetzel, Investment Officer
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Dale Kehau Kanae, Board Secretary (Recording Secretary)
Ms. Lori Kim, Secretary

Guests present: Mr. Colin Bebee, Meketa Investment Group
Mr. Ryan Lobdell, Meketa Investment Group

CALL TO ORDER/QUORUM A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Ferguson-Miyamoto, Kane, Ley, Machida, and Rauckhorst), Chair Barfield called the Investment Committee (Committee) meeting to order at 8:01 a.m.

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

RECESS Chair Barfield called for a recess at 8:01 a.m. and announced that the meeting would reconvene after the Chapter 91 proceedings.

RECONVENE A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Ferguson-Miyamoto, Kane, Ley, Machida, and Rauckhorst), Chair Barfield reconvened the meeting at 8:03 a.m.

APPROVAL OF MINUTES
– March 11, 2019

On a motion made by Trustee Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Investment Committee approved the minutes of the March 11, 2019, meeting as presented.

SUMMARY OF APRIL 2019
INVESTMENT OFFICE ACTIVITIES:

- MARKET OVERVIEW
- CURRENT STATUS OF ACTIVITIES OF THE INVESTMENT OFFICE

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

Investment Officer – Risk Management, Howard Hodel, briefly presented the market overview for March, 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 about 1.5%, finishing a very strong quarter for risk assets. Three of the four major market themes of 2018 – strong U.S. corporate earnings and economic growth from fiscal stimulus, the trade sanctions between the U.S. and China, and periodic elevated market volatility – continued to play out in March, while the fourth theme – the Fed’s rate tightening – has ended, as Fed policy has shifted to neutral/accommodative with the Fed announcing no more plans to increase interest rates during 2019. The dovish Fed announcements coupled with the other three themes losing strength resulted in a subdued “risk-on” sentiment elevating the capital markets during the month and depressing long U.S. Treasury yields by about 30 bps, leaving the curve virtually flat out to ten years at a yield close to 2.4%.

Outside the U.S. the trade sanctions impasse between the U.S. and China persisted, while March saw a lot of activity, but little progress on the Brexit deadlock as U.K. Prime Minister Theresa May works to gather the votes in the House of Commons necessary to pass an acceptable withdrawal agreement between the U.K. and European Union (E.U.). Mrs. May now has until April 12th to either obtain a longer extension from the E.U. or leave the E.U. without a withdrawal agreement.

CIO Burton gave an overview of her CIO Report as follows:

CIO Report

Investment Staff continues to meet weekly to discuss the portfolio as a team. We are excited that the new Bloomberg Anywhere terminals will expedite and streamline more of our analysis and more efficiently incorporate market information. The last few months there has been a lot of emphasis on the flattening of the U.S. yield curve, with the 3-month T-Bill / 10-year treasury spread inverting at the end of March. The 10-year is now back to above the shorter-term T-bill, but the markets are still weighing whether that was a clear indicator of an impending recession.

CIO Burton discussed the Monthly Dashboard Report that included: Staff Value Over Passive (Portfolio Growth Compounded); Staff Value Manager Selection Alpha; Estimated \$MM Outperformance Over Benchmark; Private Equity Fund Quartiles as of 9/30/18; Private Markets – Real Estate Value Add as of 9/30/18, Time-Weighted; Staff Manager Fees, Consultant, and Systems Savings - \$MM (excludes consultant aggregation discounts). IO-RM Hodel discussed the last graph on the Dashboard Report: HIERS Cumulative Excess Return (%) Since Adopting a Risk-Based Allocation Methodology.

The remainder of the report was a receive and file.

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

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Ley, and unanimously carried, the Investment Committee entered into Executive Session at 8:28 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 Strategic Plan of an Investment Officer.
- 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 Investment 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 STRATEGIC PLAN OF AN INVESTMENT OFFICER

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 INVESTMENT 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

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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 Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Investment Committee exited Executive Session at 8:49 a.m.

SUMMARY OF APRIL 2019
INVESTMENT OFFICE ACTIVITIES:

- LIQUIDITY AND CASH
FLOW OVERVIEW

Investment Officer – Risk Management, Howard Hodel, presented and discussed the “HIERS Projected Cash Flows – May 2019 to April 2020 (Millions of Dollars)” to the Committee.

ADJOURNMENT

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

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer

ETB/dkik