

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

AUGUST 12, 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. Neal Miyahira
Mr. Jerome Rauckhorst

Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General
Ms. Elmira Tsang, Deputy Attorney General
Mr. Clayton Zane, 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
Mr. Andrew Chen, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Dale Kanae, Board Secretary
Ms. Lori Kim, Secretary
Ms. Diana Gomes, Recording Secretary

Guests present: Mr. Russell Munn, Broadshore Capital Partners
Ms. Elaine Phillis, Broadshore Capital Partners
Mr. Paul Yett, Hamilton Lane Advisors, LLC
Mr. Jens Foehrenbach, Man FRM
Mr. Colin Bebee, Meketa Investment Group
Mr. Neil Rue, Meketa Investment Group
Mr. Chae Hong, Aon Hewitt Investment Consulting, Inc.

Public present: None

CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Ferguson-Miyamoto, Kane, Ley, Machida, Miyahira 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 at 9:01 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, Miyahira and Rauckhorst), Chair Barfield reconvened the meeting at 10:22 a.m.

NEW BUSINESS

INTEREST RATES FOR ADVANCE
PAYMENT TO ERS FROM STATE &
COUNTIES

Interest rates for advance payment to ERS from State & Counties will be a set rate to be determined by Bank of New York (BNY).

On a motion made by Trustee Machida, seconded by Trustee Ley and unanimously carried, the Investment Committee approved the interest rate proposal as presented.

APPROVAL OF MINUTES
- JULY 8, 2019

On a motion made by Trustee Chan, seconded by Trustee Kane and unanimously carried, the Investment Committee approved the minutes of the July 8, 2019, meeting as presented.

PRESENTATIONS

- CRISIS RISK OFFSET
ANNUAL REVIEW

The Meketa Crisis Risk Offset Annual Review was presented by Neil Rue of Meketa Investment Group, Inc. Meketa provides overall assistance and key support to ERS staff general consulting services to the Board of Trustees.

- Crisis Risk Offset (CRO) performed well for this calendar year through June 30, 2019 and has done well since its inception in June 2017. CRO is on the mark and performing as planned.
- At the end of March, alternative return capture was restructured and fee negotiations for systematic trend managers by Howard Hodel resulted in nearly cutting fees in half.
- Moving forward, the investment team has proposed a redesign the structure of the portfolio by supplementing with additional diversification strategies beginning within six months, particularly. Creating with more skill-based strategies to complement the CRO versus a beta-based or market-based strategy.

Meketa's and the investment team recommendations are:

- Consider adding implement new strategies within six months.
- Combine Principal Protection and Long Duration portfolios.

- CRISIS RISK OFFSET 2ND ANNUAL REVIEW

- Refine investment policy to establish Diversifying Strategies class that include CRO and Principal Protection plus other relevant strategies.
- Migrate Long Duration component from FRM platform and combine with Principal protection.
- Staff and Meketa will develop implementation plan to incorporate new strategies.
- Monitor value of CRO approach and its role/size within the overall portfolio.

The Crisis Risk Offset 2nd Annual Review was presented by Jens Fohrenbach of Man FRM.

- Performance evaluation was from April 2018 and June 2019.
- No risk or operational issues.
- A capital increase of \$355 million occurred of additional capital in March 2019.
- Relocations among of managers took place, two managers were removed and three were added.
- Average management fee rate was down 42 basis points across the entire platform: current run-rate fee is significantly below the previous year's level.
- Rebalancing took place due to managers meeting their threshold as well as regular quarterly rebalancings.
- CRO outperformed the benchmark.
- Managers delivered within their expected ranges of ex ante risk.
- FRM works closely with ERS staff on a continuous basis to do due diligence on managers, picking strategies, etc.

SUMMARY OF JULY 2019
INVESTMENT OFFICE ACTIVITIES:

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

- July's global equities were calm due to uncertainty about the prospects for a U.S. such as the China trade dispute resolution, the extent and magnitude of the global slowdown in economic growth, corporate earnings growth, and the timing, as well as magnitude and effectiveness of Central Bank interventions to stimulate their respective economies.
- U.S equities rose about 1.5% with the VIX averaging just 13%, while international equities (measured in U.S. dollars) dropped by a similar amount as the U.S. dollar appreciated, creating opportunities for long/short macro and trend strategies to make money.
- On July 31, 2019, the Fed cut the Fed Funds rate by 25 bps, as expected, triggering a 1.1% decline in the S&P 500 index. The Fed also ended the balance sheet roll-off two months earlier than originally planned.
- The long end of the U.S. Treasury yield curve was essentially unchanged during the month, the middle increased about 10 bps and the very front end dropped about 10 bps, creating a nearly flat yield curve out to 10 years. The ten-year Treasury finished the month at

2.02%, up 2 bps in July but down 67 bps since the end of 2018, with the 20-year yield at 2.31% and the 30-year yield at 2.53%.

Chief Investment Officer (CIO), Elizabeth Burton, briefly presented the market overview for the month of July.

CIO Burton gave an overview of her report as follows:

CIO Report

Investment staff continues to meet weekly to discuss the investment portfolio as a team.

Cambridge came to Hawai'i for a teach in with staff and other local LPs. Approximately 20 people attended the event. Another teach in is scheduled for Thursday, September 12 with Insurance Security Linkon reinsurance strategies at our offices. Looking into doing quarterly teach ins with various organizations. These events provide an interest for us and gives the opportunity to help connect with community. A list of educational conferences for the Board of Trustees to attend is posted on Boardworks.

Andrew Chen is working on the Summit Survey. The questionnaire should be emailed shortly via Survey Monkey and includes thoughts on content and suggestions regarding the recent summit.

CIO Burton mentioned several qualified applicants applied for the Investment Officer – Credit Markets position. The advertisement will close on August 16, 2019 and interviews to follow shortly thereafter.

Connor Barfield and Daniel Yamashita completed their summer internship and returned to the mainland. Their assistance on various projects was greatly appreciated by the Investment Officers.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Chan, seconded by Trustee Machida, and unanimously carried, the Investment Committee entered Executive Session at 11:37 a.m.

EXECUTIVE SESSION

Approval of Executive Session Minutes – July 8, 2019

APPROVAL OF EXECUTIVE SESSION MINUTES – JULY 8, 2019

On a motion made by Trustee Machida, seconded by Trustee Chan, and unanimously carried, the Investment Committee exited Executive Session at 11:38 a.m.

EXIT EXECUTIVE SESSION

MEETING ADJOURNED

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Chan, and unanimously carried, Chair Barfield adjourned the meeting at 11:38 a.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer

EB/dlg