

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

JUNE 10, 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  
Mr. Robert Yu

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. Ian Wetzel, Investment Officer  
Ms. Gerri Konishi, Member Home Loan Assistant  
Ms. Dale Kanae, Board Secretary  
Ms. Lori Kim, Secretary  
Ms. Diana Gomes, Recording Secretary

Guests present: Mr. Neil Rue, Meketa Investment Group  
Mr. Mary Bates, Meketa Investment Group  
Mr. Chae Hong, Aon Hewitt Investment Consulting, Inc.  
Mr. Michael McMenomy, CBRE Global Investors  
Mr. Robert Perry, CBRE Global Investors

Public present: None

CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Ferguson-Miyamoto, Kane, Ley, Machida, Rauckhorst and Yu), Chair Barfield called the Investment Committee meeting to order at 9:04 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 9:04 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, Rauckhorst and Yu), Chair Barfield reconvened the meeting at 9:16 a.m.

## NEW BUSINESS

### PORTFOLIO IMPLEMENTATION OVERLAY

Overlay mandate is used to:

- Securitize static un-invested cash, which averages about 2% of assets (cash creates significant drag – cash is not part of the strategic IPS policy portfolio)
- Securitize cash raised during manager transitions
- Raise cash from managers less frequently by funding overlay with 6 months of cash needs and allowing to deplete, then reloading with cash
- Efficiently and cheaply rebalance the portfolio back towards targets (not currently utilized)

Parametric manages the account daily and adjusts futures exposures to changing cash levels – only Treasury and global equity futures are utilized.

- Account opened on May 21, 2019 and funded with \$30 million on May 23, 2019; initial position was \$275 million notional -- \$183 million equity futures and \$92 million Treasury futures
- On May 31, 2019 the Overlay account received an additional \$150 million from UBS option-writing and \$50 million from TOBAM low volatility equity
- On June 3, 2019, HPS credit portfolio received \$100 million from the Overlay account
- Cash securitization is 59% global equity futures and 41% US Treasury futures
- Active equity manager cash securitization is 100% global equity futures
- Combined equity/Treasury exposure is currently about 2/3 – 1/3.
- May 23-June 5, 2019 Overlay PnL is \$2.5 million.

## APPROVAL OF MINUTES

- May 14, 2019

On a motion made by Trustee Ley, seconded by Trustee Chan and unanimously carried, the Investment Committee approved the minutes of the May 14, 2019, meeting as presented.

## SUMMARY OF MAY 2019 INVESTMENT OFFICE ACTIVITIES:

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

Chief Investment Officer (CIO), Elizabeth Burton, briefly presented the market overview for the month of May stating that the S&P 500 did poorly for the month. Treasury yields dropped. The economy is growing moderately.

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. Bloomberg Anywhere is enabling staff to more efficiently access market information. Staff will undergo security overview training associated with Bloomberg and State IT security.

On-going political climate affected the market. In May, this year's second-best day for stocks occurred. Within the Crisis Risk Offset portfolio the shorter-term trading strategies that were able to react more quickly fared better. The long bond exposure performed as expected.

CIO Burton will be traveling to Chicago and San Francisco in June for due diligence meetings. CIO Burton's on-site visit with Meketa Investment Group went well and was very productive. In June, CIO Burton will conduct on-site visit with Aon in Chicago.

Investment Specialist, Andrew Chen, attended the Blackrock Academy in London, England for training. His team won the case study competition at an all-night event.

Summer interns, Connor Barfield and Daniel Yamashita, will assist the Investment Officers on various projects for the next several weeks.

RFI Process. The investment team discussed with Executive Director, Thom Williams and the Investment Committee about adding another method of manager sourcing separately from the RFI process for certain mandates, similar to other state plans.

The investment team will proactively source and monitor managers across the investment spectrum and employ a detailed, disciplined evaluation and selection process consistent with an RFI, but more proactive than reactive.

CIO Burton will work with the Attorney General's office to confirm that this does not violate state procurement laws and report back to the Board.

Mr. Au reviewed the investment Pacing Plan with Aon and Hamilton Lane is progressing and should reach target by year's end between \$600M-\$700M.

Mr. Wetzel mentioned non-core real estate pacing is on target to reach plan. \$230M is target for the year with the range of \$150M-\$300M. There were three funds meetings approved over in the past three months (50M each) and another fund (\$50M) meeting is scheduled for June 10, 2019.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Trustee Chan, and unanimously carried, the Investment Committee entered Executive Session at 9:52 a.m.

EXECUTIVE SESSION

- 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.

APPROVAL OF EXECUTIVE  
SESSION MINUTES – MAY 10, 2019

- Approval of Executive Session Minutes – May 10, 2019

EXIT EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Chan, and unanimously carried, the Investment Committee exited Executive Session at 9:54 a.m.

MEETING ADJOURNED

On a motion made by Trustee Rauckhorst, seconded by Trustee Chan, and unanimously carried, Chair Barfield adjourned the meeting at 9:54 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer

EB/dlg