

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

MAY 14, 2019

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

Trustees present: Mr. Vincent Barfield, Chair  
Dr. Catherine Chan, Vice Chair  
Mr. Emmitt Kane  
Dr. Genevieve Ley  
Mr. Wesley Machida  
Mr. Robert Yu

Trustees excused: Ms. Jackie Ferguson-Miyamoto  
Mr. Jerome Rauckhorst

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. Andrew Chen, Investment Specialist  
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. Colin Bebee, Meketa Investment Group  
Mr. Chae Hong, Aon Hewitt Investment Consulting, Inc.  
Mr. Paul Yett, Hamilton Lane Advisors, LLC.  
Mr. Andrew Fenet, Blackstone Real Estate Partners

Public present: None

CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Kane, Ley, Machida, and Yu), Chair Barfield called the Investment Committee meeting to order at 9:11 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 9:11 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 Kane, Ley, Machida and Yu), Chair Barfield reconvened the meeting at 9:13 a.m.

APPROVAL OF MINUTES

- April 08, 2019

On a motion made by Trustee Ley, seconded by Trustee Chan and unanimously carried, the Investment Committee approved the minutes of the April 8, 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, briefly presented the market overview for the month of April stating that April was a good month for markets in general, almost 4% increase on the S&P 500. Local bonds were slightly positive.

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.

CIO Burton attended the Milken Institute Global Conference, April 28-May 1, 2019 in Beverly Hills, CA. The conference brought together leading minds in business, technology, government, media, philanthropy, healthcare and entertainment. Conference highlights included discussions around market and portfolio vulnerability and what it may mean for the institutional investor's portfolio. Also, discussed was how financial institutions will keep up with technology with an anticipated 50% increase of cloud usage by banks during the next 12 months.

CIO Burton also provided an explanation of the differences among a recession, a correction and a crash in the markets.

**Recession** is not imminent. The U.S. economy is slowing, but not declining and recession is not the baseline. A recession is an economic slowdown defined as two consecutive quarters of negative economic growth as measured by Gross Domestic Product (GDP). CIO Burton believes that a recession is not imminent. The U.S. economy is slowing, but not declining. A recession is not the baseline expectation.

A **correction** is a decline of 10% or greater in the price of a security, asset or a financial market. While damaging in the short term, a correction can be healthy, adjusting overvalued asset prices and providing buying opportunities. On average it happens once a year. Not to be confused with a bear market.

A **crash** is a sudden dramatic drop in stock prices across a significant

cross section of the stock market specific sector of the market or across the entire stock market (e.g. Crash of 1929 and Black Monday).

Investment Specialist, Andrew Chen, reported on first quarter 2019 Crisis Risk Offset Report (CRO) and first quarter 2019 Risk Dashboard Report.

#### **FIRST QUARTER 2019 CRISIS RISK OFFSET REPORT**

- In March, ERS contributed \$355M to the CRO portfolio plus added new managers Lombard Odier, ARP and Mt. Lucas to the crisis risk offset (CRO) portfolio as well as rebalanced all the CRO managers to new target weights.
- CRO net performance was 4.19% with a gross performance of 4.35% outperforming the benchmark by 0.09%.
- All STF managers except for Crabel were positive for the quarter, with Aspect leading within the component. No manager changes are expected for the immediate future.
- CRO suffered losses in January; but, recovered at the beginning of February and posting in March posted one of the best months for performance since establishment
- Effective January 4, CRO managers were rebalanced to target allocations.
- CRO's sizeable long US dollar vs. foreign currency positioning decreased during the quarter decreased due to two periods for exposure reduction in the first two weeks and last two weeks of the quarter.
- Systematic Trend Following (STF) & Alternative Return Capture (ARC) risk (volatility) decreased during the quarter, while Treasury Duration Capture (TDC) was stable during most of the quarter.

#### **FIRST QUARTER 2019 RISK DASHBOARD REPORT**

- Three key points for the ERS portfolio:
  - Risk Levels are consistent with policy and market conditions
  - CRO dampened portfolio volatility from 5.5% to 4.2% during the quarter.
  - Risk-Adjusted Returns remained strong with an attractive Sharpe Ratio (1.4), information ratio of (0.9) and annualized excess return (1.32%) over the past three years.
- All risk measure levels are appropriate with exception of projected growth risk within expectations.
- Key total fund exposures versus policy include:
  - Overweight US, underweight emerging market
  - Overweight US, underweight China
  - Overweight USD & JPY for currency
- Portfolio volatility (measured using daily data) declined by 50% from the previous quarter, reflecting much calmer market conditions.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Trustee Chan, and unanimously carried, the Investment Committee entered Executive Session at 9:30 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.
- 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 decisions 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 relating to the Employees' Retirement System's Principal Protection Class- Global mandate.

APPROVAL OF EXECUTIVE SESSION MINUTES – APRIL 8, 2019

- Approval of Executive Session Minutes – April 8, 2019
- Trustee Machida left the room at 10:10 a.m.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Trustee Chan, and unanimously carried, the Investment Committee exited Executive Session at 10:16 a.m.

MEETING ADJOURNED

On a motion made by Trustee Ley, seconded by Trustee Chan, and unanimously carried, Chair Barfield adjourned the meeting at 10:16 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer

EB/dlg