

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

OCTOBER 15, 2019

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

Trustees present: Mr. Vincent Barfield, Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Emmit Kane
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. 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 and Trustees Ferguson-Miyamoto, Kane, 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 9:00 a.m. and announced that the meeting would reconvene after the Chapter 91 proceedings.

RECONVENE

A quorum being present (Chair Barfield and Trustees Ferguson-Miyamoto, Kane, Machida, Miyahira and Rauckhorst), Chair Barfield called the Investment Committee meeting to order at 9:01 a.m.

APPROVAL OF MINUTES
- SEPTEMBER 9, 2019

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst and unanimously carried, the Investment Committee approved the minutes of the September 9, 2019, meeting as presented.

SUMMARY OF OCTOBER 2019
INVESTMENT OFFICE ACTIVITIES:

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

For the month of September:

Global equities were up nearly 3 percent as volatility declined from recent levels.

The markets seemed to be complacent despite: (1) the extended U.S.–China trade dispute, (2) the probable exit of the United Kingdom from the European Union as the October 31 deadline approaches, and (3) the extent and magnitude of the global slowdown in economic growth and corporate earnings growth.

The U.S. labor market remained very strong with the unemployment rate dropping to 3.5%.

Various Central Banks intervened in their capital markets or stimulated their respective economies to avoid a recession. For example, the Fed cut rates and intervened to provide liquidity in the overnight repurchase agreement market, while the European Central Bank cut rates and announced a new round of bond purchases. Also, India slashed their corporate tax rate by nearly 30%.

Declining U.S. Treasury rates and the rising U.S. dollar took a pause during September. The long end of the U.S. Treasury yield curve rose 16-18 bps during the month while the short-end dropped by a significant (35 bps).

European capital depends on Brexit. Interest rates are extremely low due to a two-tier interest rate arrangement, one for banks and one for other depositors, it will be very costly for non-banks to hold cash in Europe.

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.

CIO Burton attended NASIO (State Public Pensions Conference) with CIOs and Deputy CIOs. It is a difficult time in the markets. Most of the attendees mentioned unattainable challenges with reaching their

assumed rates of return. No one felt comfortable achieving their target rate of return.

Common themes at the conference were 1) how to achieve the target rate of return in forward-looking markets, 2) legislative action potentially restricting ways to invest in best investments, 3) making social statements with pension fund assets, 4) difficulty of filling vacant positions with the processes in place.

CIO Burton also attended the Milken Asia Summit titled “Asia at the Crossroads.” Asia has market potential, especially in food, AI, and urbanization. Some public pension funds are opening offices in Asia or creating global partnerships. In addition, CIO Burton also met with prospective groups while attending the conference.

Ms. Burton also traveled in August to conduct due diligence on the mainland in a potential private equity investment. The investment was a staff-sourced, minority-owned business. The investment would be highly favorable for ESG. Hamilton Lane is assisting. Consultants are also conducting due diligence.

CIO Burton mentioned a selection was made for the Investment Officer – Credit Markets position. Pending criminal history check, the individual is due to start on November 12, 2019.

[End of CIO Report]

Investment Officer Ian Wetzel, explained that progress continued in consolidating from two separate account managers to one. The remaining manager continues to oversee existing properties, search for additional opportunities and in the process of buying three new assets.

Investment Officer Aaron Au stated that from January 1, 2019 to date, 12 private equity deals were closed. Three more funds are in various stages of legal or business review and negotiations by staff and legal counsel. ERS is on target to meet its pacing plan commitment for calendar year 2019.

Investment Officer Ian Wetzel, confirmed the pacing plan for non-core real estate commitments is on track for calendar year 2019. The calendar year 2020 pacing plan for non-core real estate commitments is on target and staff continues to work with consultant and managers to identify top real estate funds for recommendation to the Board. Working together alongside AON for the target number, it was AON’s recommendation for 2019 pacing with the general consultant recommending the range around it. For the 2020 pacing, AON recommended both the range and the target.

Investment Officer Howard Hodel explained that the CRO class consists of 10 managers [four Alternative Return Capture (ARC) managers, five Systematic Trend Following (STF) managers and one Treasury Duration

Capture (TDC) manager.] All Crisis Risk Indicators were green during the month.

Investment Officer Ian Wetzel clarified that the long-term Real Return strategic allocation target is 10%; however, the 2019 Asset/Liability (A/L) study results could change the target. The portfolio is currently underweight, and priority is to increase the real return allocation closer to targets. A strategic plan was created by staff and shared with the team as well as consultants for input. Staff along with consultants will implement the plan to build out the class.

Investment Officer Howard Hodel clarified that the overlay account managed by Parametric had \$600 million of notional exposure to securitize uninvested cash at the end of September. The Overlay target positions consisted of investments in equity futures and U.S. Treasury bond futures and has added positive value since inception on May 23, 2019.

For trustee education, CFA Hawai'i is hosting a Diversity & Inclusion Conference on October 16 & 17 at Bank of Hawai'i Conference Center.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst, and unanimously carried, the Investment Committee entered Executive Session at 9:20 a.m.

EXECUTIVE SESSION

APPROVAL OF EXECUTIVE SESSION MINUTES – SEPTEMBER 9, 2019

Approval of Executive Session Minutes – September 9, 2019

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Machida, and unanimously carried, the Investment Committee exited Executive Session at 9:21 a.m.

MEETING ADJOURNED

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the meeting at 9:21 a.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer

EB/dlg