

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

SEPTEMBER 9, 2019

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

Trustees present: Mr. Vincent Barfield, Chair  
Ms. Jackie Ferguson-Miyamoto  
Dr. Genevieve Ley  
Mr. Wesley Machida  
Mr. Neal Miyahira

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

Public present: None

CALL TO ORDER A quorum being present (Chair Barfield and Trustees Ferguson-Miyamoto, Kane, Ley, Machida, and Miyahira), Chair Barfield called the Investment Committee meeting to order at 9:07 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 9:07 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, Ley, Machida, and Miyahira), Chair Barfield reconvened the meeting at 10:03 a.m.

## APPROVAL OF MINUTES

- AUGUST 12, 2019

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida and unanimously carried, the Investment Committee approved the minutes of the August 12, 2019, meeting as presented.

## SUMMARY OF SEPTEMBER 2019 INVESTMENT OFFICE ACTIVITIES:

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

Investment Officer Howard Hodel briefly presented the market overview highlighting the August 1 announcement by President Trump of additional tariffs which lead to China retaliating back with threats of imposing more US tariffs on US goods. The bond market rallied, the stock market dropped by 2%. CRO had a strong month, up by 6.5%. 10-year Treasury rates ended the month at 1.50%, down 52 basis points in August.

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.

Investment Specialist, 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 for your approval before distribution.

CIO Burton mentioned several qualified applicants applied for the Investment Officer – Credit Markets position. The first round of interviews should be completed in a couple of weeks.

Another education session will take place in our office with Nephila on Thursday, September 22, 2019 at 1:00 pm in Conference Room 12A.

Asset Liability Study – considering a new strategy for ERS in the CRO portfolio and exploring the possibility of adding into the portfolio.

CIO Burton is looking into another HITIP fund with a wide range of potential options available. We are currently running scenarios with them and will bring information to the Board in the coming months.

She is also working on a specialty real estate investment; macro and very ESG friendly with a strong ESG component and a beneficial opportunity for Hawai'i itself.

Investment Officer, Anthony Goo reported he is concluding the search for a mid/large cap manager fund and is now doing the due diligence on the finalists. A recommendation will be given to the Board in October or November.

He completed the contract with Geode and is planning to transfer assets to Geode this month and terminate Gateway's covered call strategy.

Investment Officer Aaron Au stated that private growth is on target to successfully reach the commitment pacing plan for 2019. Investments already include committed to diversifying the current portfolio by adding four private equity deals which have closed, two taking place, and about three more in the future. In addition, there are commitments to two venture capital funds and commitment to a distressed fund.

Investment Officer Howard Hodel explained that by the end of August CRO had a very good start to the fiscal year despite market fluctuations. The CRO portfolio is currently very defensive and should the rest of the ERS portfolio do well in the near future, then the CRO will not perform as well in this type of environment. CRO is currently very protective and has added value while significantly decreasing the volatility of the ERS's portfolio. It is doing its job.

A surprise CRO "fire drill", with all relevant parties of the Crisis Risk Committee involved, was called on short notice utilizing a "no-deal" Brexit scenario. The exercise tested the most extreme conditions and the Committee discussed courses of actions and reached a consensus approved by the chair.

Investment Officer Ian Wetzel stated that within stabilized growth the core real estate separate account managers were consolidated from two to one with the final assets sold from the liquidating separate account manager. The remaining existing manager recently identified three new properties to invest in and will continue to invest unfunded commitments over the coming years.

The non-core strategic pacing plan for 2020 was introduced to the Board at the Summit. It is anticipated that Staff will bring more non-core real estate recommendations to the Board in future meetings; one for the 2019 plan and another for the 2020 plan.

The Real Return Class is currently under-weight and staff and consultant are working on building an action plan to put in place for addressing the issue.

An Asset Liability study is currently taking place and will conclude by the end of the year. Once the results of the study are available, then recommendations can be made for real return investments.

Investment Officer Howard Hodel clarified that the overlay is working as anticipate -- basically a 60/40 securitization of the cash in the portfolio. The overlay has added positive values since its inception on May 23, 2019. In choppy markets, the overlay has done very well.

Investment Specialist Andrew Chen reported that VIX averaged 19% for the month, slightly above the historical level average of 17.5%. US

equity was down 1.8%. Total fund is flat or slightly positive due largely to the positive impact of CRO. Staff CRO is 6.4% fee returns continue to monitor the risk of the portfolio daily and the portfolio is performing as expected.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Investment Committee entered Executive Session at 10:20 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 investment manager organizational changes.

APPROVAL OF EXECUTIVE  
SESSION MINUTES – AUGUST 12,  
2019

Approval of Executive Session Minutes – August 12, 2019

EXIT EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Ley, and unanimously carried, the Investment Committee exited Executive Session at 10:25 a.m.

MEETING ADJOURNED

On a motion made by Trustee Ley, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the meeting at 10:25 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer

EB/dlg