

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

NOVEMBER 12, 2019

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

Trustees present: Dr. Catherine Chan, Vice Chair
Mr. Emmit Kane
Dr. Genevieve Ley
Mr. Wesley Machida
Mr. Jerome Rauckhorst

Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General
Ms. Elmira Tsang, 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. David Okamoto, Investment Officer - Credit
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

Guests present: Mr. Colin Bebee, Meketa Investment Group
Mr. Neil Rue, Meketa Investment Group
Mr. Chae Hong, Aon Hewitt Investment Consulting, Inc.
Mr. Paul Yett, Hamilton Lane

Public present: None

CALL TO ORDER A quorum being present (Vice Chair Chan and Trustees Kane, Ley, Machida, and Rauckhorst), Vice Chair Chan called the Investment Committee meeting to order at 9:01 a.m.

PUBLIC COMMENT PERIOD Vice Chair Chan called for public comment. There were no members of the public present to offer comment.

RECESS Vice Chair Chan called for a recess at 9:02 a.m. and announced that the meeting would reconvene after the Chapter 91 proceedings.

RECONVENE

A quorum being present (Vice Chair Chan and Trustees Kane, Ley, Machida, and Rauckhorst), Vice Chair Chan called the Investment Committee meeting to order at 9:58 a.m.

APPROVAL OF MINUTES
- OCTOBER 15, 2019

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst and unanimously carried, the Investment Committee approved the minutes of the October 15, 2019, meeting as presented.

SUMMARY OF NOVEMBER 2019
INVESTMENT OFFICE ACTIVITIES:

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

For the month of November:

Global equities were up nearly 3 percent as volatility remained subdued.

Investment Officer, Howard Hodel described the investment environment as “risk on..”

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 introduced David Okamoto, the new Investment Officer – Credit, to the Board of Trustee and attendees. Investment Officer, Okamoto will maintain the credit portfolio and report to Investment Officer, Anthony Goo.

CIO Burton attended the Annual Invesco Client Conference to learn more about Invesco’s strategies that we are invested in, to conduct due diligence, to engage with other investors and participate in the CIO panel discussion covering topics relating to global real estate as well as global markets including Asia and Europe platforms which ERS’ portfolio is invested in. In addition, CIO Burton also met with prospective managers while attending the conference.

CIO Burton also traveled to Chicago to attend the Chicago Booth Annual Investment Management Conference where students from Booth, Northwestern and MIT were in attendance with the intent of establishing a pipeline to acquire future interns.

CIO Burton delivered the results of the Trustee survey of the 2019 Investment Summit.

[End of CIO Report]

Investment Officer, Howard Hodel, stated the \$2.6 billion CRO class currently consists of ten managers: four Alternative Return Capture (ARC) managers, five Systematic Trend Following (STF) managers and one Treasury Duration Capture (TDC) manager. All Crisis Risk Indicators remained green during the month. CRO at month-end

remained long fixed income (stable exposure), equities (increasing exposure), the U.S. dollar (decreasing exposure), and short commodities (decreasing exposure). The largest CRO exposures are long fixed income and long U.S. dollar. CRO has been negatively or only slightly positively correlated to the rest of the ERS portfolio, which has reduced the volatility of the total ERS portfolio, while adding value so far during the 2020 fiscal year. The capital markets in October were unfavorable for trend and macro strategies, neutral for duration strategies, and positive for alternative risk premia strategies.

Investment Specialist, Andrew Chen, explained the VIX decreased to an average of 15.7% (closing between 12.7% and 20.6%) for the month, below the long-term historical median level of 17.3%. The concerns over slower corporate earnings and economic growth, exacerbated by trade disputes between the U.S. and China, negatively impacted the global capital markets in this fiscal year.

Daily tracking of the ERS portfolio performance during October indicated an annualized volatility of 4.9%, below the level experienced between Brexit in June 2016 and January 2018.

Staff is continuing to monitor potential, significant macro risks in each of the three major economic regions of the world, any of which could trigger another market correction.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst, and unanimously carried, the Investment Committee entered Executive Session at 10:08 a.m.

EXECUTIVE SESSION

APPROVAL OF EXECUTIVE
SESSION MINUTES – OCTOBER 15,
2019

Approval of Executive Session Minutes – October 15, 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 10:10 a.m.

MEETING ADJOURNED

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, Vice Chair Chan adjourned the meeting at 10:10 a.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer

EB/dlg