

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

DECEMBER 9, 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
Dr. Genevieve Ley
Mr. Wesley Machida
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. 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
Ms. Diana Gomes, 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, Vice Chair Chan and Trustees Ferguson-Miyamoto, Ley, Machida, and Rauckhorst), Chair Barfield called the Investment Committee meeting to order at 9:01 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 9:02 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, Ley, Machida, and Rauckhorst), Chair Barfield called the Investment Committee meeting to order at 10:04 a.m.

APPROVAL OF MINUTES
- NOVEMBER 12, 2019

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

SUMMARY OF DECEMBER 2019
INVESTMENT OFFICE ACTIVITIES:

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

For the month of December:

November's equity markets looked like an extension of October as global equities were up about 2.6 percent, volatility remained subdued and the markets remained optimistic about the prospects for:

1. A resolution, or at least a ceasefire, to the extended U.S. – China trade dispute.
2. A favorable Brexit outcome at the end of January.
3. A “soft landing” to the global slowdown in economic growth and corporate earnings growth. Several U.S. and developed market indices hit all-time highs and several other equity benchmarks made multi-year highs. The U.S. labor market remains very strong, while democrats in the U.S. House of Representatives move forward with impeachment proceedings against President Trump, clouding the domestic economic and political landscape.

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 is working on the implementation aspect of the asset liability study. There are no major issues just working on decisions along with Staff and Meketa since everyone wants to be on the same page and not rush it.

Also, CIO Burton is working on revisions to the investment policy statement which will go to investment team for review/comments as well as the consultant and then update the Board of Trustees at January's meeting.

A redefinition of investment team's organizational chart is taking place to better define the team's individual roles and responsibilities in advance of both the compensation study and the new asset classes being added to the portfolio. The team will begin working on their job descriptions and after mid-year reviews, which will happen by the end of January.

CIO Burton is in discussion with the Executive Director regarding prefunding.

[End of CIO Report]

Investment Officer, Anthony Goo, returned from a business trip in Europe and Boston. On-site due diligence is complete, and he will have recommendations at the January Board of Trustees meeting.

Investment Officer, Aaron Au, stated the Calendar 2019 pacing plan for private equity commitments hit its target for the year with about \$620 million in commitments. This is at the lower end of the \$600- to 700-million range because of current loftiness in private markets.

Investment Officer, Ian Wetzel mentioned the Calendar 2019 pacing plan for non-core real estate commitments hit its target with five real estate funds for 2019 and currently one fund for Calendar 2020.

Investment Officer, Howard Hodel said 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), and the U.S. dollar (decreasing exposure), while the slightly short commodities position switched to slightly long. The largest CRO exposures are long fixed income, long U.S. dollar and most recently, long equities. 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 November were modestly favorable for macro and trend strategies and modestly unfavorable for alternative risk premia and duration strategies.

Investment Specialist, Andrew Chen, explained the VIX decreased to an average of 12.5% (closing between 11.5% and 13.3%) for the month, well below the long-term historical median level of 17.3%, while U.S. large cap equities returned approximately 3.7% in November. Concerns over slower corporate earnings and economic growth, exacerbated by trade disputes between the U.S. and China, negatively impacted the global capital markets so far, this fiscal year.

Daily tracking of the ERS portfolio performance during November indicated an annualized volatility of 4.8%, 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 Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Investment Committee entered Executive Session at 10:24 a.m.

EXECUTIVE SESSION

APPROVAL OF EXECUTIVE
SESSION MINUTES – NOVEMBER
12, 2019

Approval of Executive Session Minutes – November 12, 2019

EXIT EXECUTIVE SESSION

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

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer

EB/dlg