

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

FEBRUARY 10, 2020

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

Trustees present: Mr. Vincent Barfield, Chair  
Dr. Catherine Chan, Vice Chair  
Mr. Craig Hirai  
Mr. Emmit Kane  
Dr. Genevieve Ley  
Mr. Wesley Machida  
Mr. Jerome Rauckhorst  
Mr. Bennett Yap

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. 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  
Ms. Mika Malone, Meketa Investment Group

Public present: None

CALL TO ORDER A quorum being present (Chair Barfield, Vice Chair Chan and Trustees Hirai, Kane, Ley, Machida, Rauckhorst and Yap), Chair Barfield called the Investment Committee meeting to order at 9:03 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 9:04 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 Hirai, Kane, Ley, Machida, Rauckhorst and Yap), Chair Barfield called the Investment Committee meeting to order at 9:20 a.m.

## APPROVAL OF MINUTES

- JANUARY 13, 2020

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst and unanimously carried, the Investment Committee approved the minutes of the January 13, 2020, meeting as presented.

## SUMMARY OF FEBRUARY 2020 INVESTMENT OFFICE ACTIVITIES:

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

For the month of February:

Global equity markets advanced to new highs during January before retreating sharply at month-end on concerns over the economic impact of the coronavirus outbreak centered in Wuhan, China and beginning to spread globally. The Chinese government extended the Chinese New Year closure of the Chinese equity market through the end of January due to the severity and spread of the coronavirus within China; on reopening, Chinese stocks dropped about 8%.

January was a good month for economic news:

1. The U.S. and China signed the Phase One trade agreement and negotiations for Phase Two are set to begin soon.
2. The U.S. Fed left interest rates unchanged at its January meeting and signaled no changes in monetary policy.
3. The U.K. formally left the European Union at month end, although details still need to be worked out.
4. The markets digested encouraging economic news around the globe indicating that the recent global slowdowns in economic growth and corporate earnings growth have bottomed out and are modestly strengthening.

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 noted that Investment Officer, Howard Hodel and Investment Specialist, Andrew Chen worked diligently together on reports for Executive Director, Thomas Williams that is required for the legislative session.

The team is working on responses for legislative bills. The Legislative Committee is aware of the progress.

CIO Burton announced the 2020 Investment Summit is on the island of

Maui from July 22-24. A hotel decision is being finalized between two options.

In addition, CIO Burton along with Gerri Konishi and Anthony Goo are developing a budget for the Summit which will be presented at the next Board of Trustees meeting in March.

Furthermore, CIO Burton is adjusting some of the internal reporting at the team level, which means that there may be some slowing of the number of funds coming before the committee as we add to our diligence process.

The team is continuing to proactively monitor risks related to macro events, such as politics and corona, and simulate regular shocks.

[End of CIO Report]

In Investment Officer, Ian Wetzel's absence, Investment Officer, Aaron Au stated progress continued in consolidating from two separate account managers to one in the core real estate portfolio. The remaining separate account manager continues to manage existing properties and continues to invest in and look for additional opportunities.

ERS staff is reviewing a potential \$50.0 million investment opportunity with a manager that focuses on enterprise systems and software for businesses. This would be the ERS' second commitment to this group, with the first commitment being done in 2018 for \$35.0 million.

Calendar 2020 pacing plan for non-core real estate commitments is a \$130 million target (\$100M-\$150M range). Actual commitments are expected to be on track with plan.

Investment Officer, Howard Hodel mentioned the \$2.6 billion CRO completed its quarterly rebalance on January 13, 2020. All Crisis Risk Indicators remained GREEN during the month. CRO at month-end remained long fixed income (increasing exposure), equities (static exposure), the U.S. dollar (decreasing exposure), and commodities (decreasing exposure). 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 January were favorable for all four of the main CRO strategies – trend, duration, alternative risk premia and systematic macro. The long-fixed income and U.S. dollar positions provided strong positive CRO performance for the month, while the long equity and commodity positions were partially offsetting.

Investment Officer, Anthony Goo had nothing in addition to the activities report.

Investment Officer, Aaron Au had nothing in addition to the activities report.

Investment Specialist, Andrew Chen, explained the VIX decreased to an average of 13.9% (closing between 12.1% and 18.8%) for the month, well below the long-term historical median level of 17%, while U.S. large cap equities declined -0.04% in January.

Daily tracking of the ERS portfolio performance during January indicated an annualized volatility of 7.3%, in line with the level experienced over the past three years.

Investment Specialist, Andrew Chen, and Investment Officer, Howard Hodel updated the potential impact of the coronavirus (COVID-19) outbreak on the ERS portfolio. Based on the historical SARS model as provided by FRM, staff estimates the impact ranges between -1% and -4%.

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 9:47 a.m.

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.

EXECUTIVE SESSION

APPROVAL OF EXECUTIVE  
SESSION MINUTES – JANUARY 13,  
2020

Approval of Executive Session Minutes – January 13, 2020.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, the Investment Committee exited Executive Session at 9:53 a.m.

MEETING ADJOURNED

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the meeting at 9:54 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer

EB/dlg