

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

JANUARY 13, 2020

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

Trustees present: Mr. Vincent Barfield, 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. 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
Ms. Mika Malone, Meketa Investment Group
Mr. Neil Rue, Meketa Investment Group

Public present: None

CALL TO ORDER

A quorum being present (Chair Barfield and Trustees Hirai, Kane, Ley, Machida, Rauckhorst and Yap), Chair Barfield called the Investment Committee meeting to order at 9:13 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 9:14 a.m. and announced that the meeting would reconvene after the Chapter 91 proceedings.

RECONVENE

A quorum being present (Chair Barfield and Trustees Hirai, Kane, Ley, Machida, Rauckhorst and Yap), Chair Barfield called the Investment Committee meeting to order at 9:41 a.m.

APPROVAL OF MINUTES
- NOVEMBER 12, 2019

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

SUMMARY OF JANUARY 2020
INVESTMENT OFFICE ACTIVITIES:

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

For the month of January:

December's equity markets looked like an extension of October and November as global equities were up slightly over 4 percent during the month, volatility remained subdued and positive news was received regarding:

1. An announced January 15, 2020 probable signing of a Phase One trade agreement between the U.S. and China with a Phase Two deal on the horizon for later this year,
2. A resounding election win for Boris Johnson and the Conservatives in the U.K., all but guaranteeing that the U.K. will move forward with the Brexit process at the end of January 2020,
3. Encouraging economic news indicating that the recent global slowdown in economic growth and corporate earnings growth has bottomed out and is modestly strengthening. Several U.S. and developed equity market indices hit all-time highs again in December. The U.S. labor market remains very strong, while Democrats in the U.S. House of Representatives impeached President Trump but have not yet submitted Articles of Impeachment to the U.S. Senate, 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.

This past December in New York, CIO Burton received the CIO Innovation Award for plans under \$20 billion.

CIO Burton mentioned that the YTD performance is positive and is above the 7% target

For the 2020 Investment Summit, CIO Burton flew to Maui and did due diligence on prospective hotel properties. A decision is in the making.

In addition, CIO Burton is working on IPS along with Meketa as well as the semi-annual reviews of each team member to confirm that everyone is on target.

Furthermore, CIO Burton will focus on quality by diversifying our approach to generating income with new strategies. Those new strategies will be brought to the Board in future meetings.

[End of CIO Report]

Investment Officer, Howard Hodel mentioned CRO rebalanced on December 2, 2019 as Graham exceeded its allocation by more than 10% (relative) in late November. 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 commodities (increasing exposure).

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 Officer, Ian Wetzel had nothing in addition to the activities report.

Investment Specialist, Andrew Chen, explained the VIX decreased to an average of 13.8% (closing between 12.1% and 16%) for the month, well below the long-term historical median level of 17%, while U.S. large cap equities returned approximately 2.7% in December.

Daily tracking of the ERS portfolio performance during December indicated an annualized volatility of 2.8%, 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 Machida, and unanimously carried, the Investment Committee entered Executive Session at 9:52 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 – DECEMBER 9, 2019

Approval of Executive Session Minutes – December 9, 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 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