

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

APRIL 14, 2020

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

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

Trustees absent: Mr. Craig Hirai

Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General (Skype)
Ms. Elmira Tsang, Deputy Attorney General (Skype)
Mr. Clayton Zane, Deputy Attorney General (Skype)

Staff present: Mr. Thomas Williams, Executive Director (In person)
Ms. Kanoë Margol, Deputy Executive Director (In person)
Ms. Elizabeth Burton, Chief Investment Officer (In person)
Mr. Aaron Au, Investment Officer – Illiquid Markets (Skype)
Mr. Anthony Goo, Investment Officer – Liquid Markets (Skype)
Mr. David Okamoto, Investment Officer – Credit (Skype)
Mr. Howard Hodel, Investment Officer – Risk Management (Skype)
Mr. Ian Wetzel, Investment Officer – (Skype)
Mr. Andrew Chen, Investment Specialist (Skype)
Ms. Gerri Konishi, Member Home Loan Assistant (In person)
Ms. Dale Kanae, Board Secretary (In person)
Ms. Lori Kim, Secretary (In person)
Ms. Diana Gomes, Secretary (In person)

Guests present: Mr. Colin Bebee, Meketa Investment Group, Inc. (Skype)
Ms. Mika Malone, Meketa Investment Group, Inc. (Skype)
Mr. Neil Rue, Meketa Investment Group, Inc. (Skype)

Public present: None

CALL TO ORDER A quorum being present (Chair Barfield, Vice Chair Chan and Trustees Kane, Ley, Machida, Rauckhorst and Yap), Chair Barfield called the Investment Committee meeting to order at 9:27 a.m.

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

RECESS

No recess was taken, Chapter 91 proceedings was moved to the latter part of the Board of Trustees meeting.

RECONVENE

Chair Barfield continued the Investment Committee meeting.

APPROVAL OF MINUTES
MARCH 9, 2020

On a motion made by Trustee Machida, seconded by Trustee Yap and unanimously carried, the Investment Committee approved the minutes of the March 9, 2020 meeting as presented with changes mentioned by Trustee Chan of listing absent Trustees and inclusion of Investment Officer Ian Wetzel.

SUMMARY OF APRIL 2020
INVESTMENT OFFICE ACTIVITIES:

- MARKET OVERVIEW
- CURRENT STATUS OF ACTIVITIES OF THE INVESTMENT OFFICE
- CREDIT PORTFOLIO UPDATE

Investment Officer (“IO”) Howard Hodel and Chief Investment Officer (“CIO”) Elizabeth Burton presented an update on the market explaining how the pandemic has affected all sectors. IO Hodel presented the market information for the month of March:

March was not a good month for economic news. The Coronavirus pandemic led to a rapid decline in the S&P 500 Index (-35% in four weeks) before rebounding at the end of March to finish -22% down from the peak. S&P 500 monthly volatility was the highest-ever on record, surpassing the Crash of 1929. Effected by governments around the world curtailing economic activity, the U.S. equity market, as well as the global equity indexes, ended their longest bull market in history. The economic slowdown and increasing unemployment will result in a severe global recession during the coming quarters, with uncertainty on how quickly economies, companies and jobs will recover.

Other highlights for the month include:

1. Besides the U.S. Fed action to reduce short term interest rates to near zero, the U.S. government took fiscal policy actions passing \$2 trillion relief and economic stimulus package. Various central banks overseas continue to intervene in their capital markets to support and stimulate their economies.
2. The U.S. treasury market is one area that did well. U.S. treasury yield curve fell to a very low level by month-end, sloping gradually up from 5 bps to 23 bps at the front end to 70 bps for the ten-year and 1.35% for the 30-year.
3. The market expects the Fed to keep rates at historic lows far into the future.

CIO Burton gave an overview of her report as follows:

CIO Report

CIO Burton mentioned the team is currently working remotely per the Governor's stay-at-home order; nevertheless, there is constant communication. Regular team meetings, discussions with managers as well as educational training is still taking place.

The team is continuing to proactively monitor risks and has been surveying managers regarding the coronavirus effects, in addition to speaking with managers about opportunities to invest locally in Hawaii.

CIO Burton recommended capitalizing on opportunities in the market during this time. Furthermore, she stated that ERS' portfolio is performing as expected.

Investment Officer, Howard Hodel is coordinating an educational training on insurance strategies. Details to be announced at a future date.

[End of CIO Report]

Investment Officer Aaron Au stated that ERS staff closed on two investment funds for a total of \$65.0 million, increasing the allocation to ERS' venture capital strategy allocation. Five other private equity investment opportunities are in the process with a total commitment up to \$95.0 million which is consistent with the strategic plan and the pacing plan. ERS is on course to achieve its target allocation of between \$550-\$650 million for calendar year 2020.

IO Au is also tracking the current economic stress placed on the private equity portfolio. Fund managers are surveying their portfolio companies to determine any short-term liquidity needs. Normally, portfolio companies with strong cash reserves, low debt and strong general partner support will withstand current economic conditions better than firms lacking such qualities. Investing in high quality foundation managers will help to get through the current economic crisis better than most other funds.

Investment Officer Anthony Goo said the transition is in progress to fund the two new global mid/large cap managers and rebalance the portfolio closer to its target weight. An initial cash allocation took place on March 23, 2020 with \$200 million transferred from the Global Fixed Income mandate and \$80 million from the Global Equity-oriented Options-based mandate to partially fund the new managers as well as increase allocations to existing managers. A Transition Manager was hired in March to complete the move of assets from the legacy equity managers to the new managers by April.

Investment Officer, Ian Wetzel explained that progress continues in consolidating two core real estate account managers to one. The account manager is overseeing existing properties as well as investing

in and searching for opportunities. By the end of 2020, the aim is \$550 million in commitments; furthermore, investing \$100 million unfunded commitments. ERS earmarked an additional \$50 million to the manager's core real estate debt fund, bringing total commitments to \$600 million.

The core real estate long-term strategic allocation target could potentially increase due to 2019 A/L study results (pending IPS changes). IO Wetzel and consultant will assess any potential increase and incorporate it into future real estate strategic/pacing plans.

IO Wetzel has been interacting with real estate managers while monitoring portfolio impacts from the Coronavirus (COVID-19) situation. He also had a quarterly portfolio review call with both the core real estate separate account manager and core real estate debt manager.

Investment Officer, Howard Hodel mentioned the \$2.5 billion CRO was rebalanced three times in March due to manager-specific underperformance or outperformance during extremely volatile market conditions resulting from volatility related to the spread of the Coronavirus (COVID-19). ERS Staff redeployed \$325 million from CRO during March, while still maintaining the strategic allocation to CRO.

Crisis Risk Indicators turned red early in the month and remained that way through the end of the month. Four risk indicators breached their thresholds. On March 13, 2020, a red signal triggered a meeting of the Crisis Risk Committee ("CRC") and a decision was made to withdraw capital from CRO and adjust manager allocations to take advantage of trends in various markets.

Investment Officer, David Okamoto, explained that the portfolio's contingent credit managers and the liquid manager had capital calls in March to make investments across various sectors of the credit markets that have sold-off in the recent downturn. The three managers collectively called \$212 million of capital during the month alongside \$455 million of commitments remaining.

Investment Officer, Ian Wetzel, explained the calendar 2020 pacing plan for non-core real estate commitments is a \$130 million target with actual commitments expected to be on track. IO Wetzel continues to work with consultants and managers to identify top real estate funds for recommendation to the Board.

Investment Officer, David Okamoto, gave a presentation on the credit markets and plans to further diversify the credit portfolio going forward. Listed below are highlights of his presentation:

- COVID-19 and oil price declines led to a steep sell-off in credit markets in March.

- Support from government stimulus programs and the Federal Reserve have brought assets back from their March lows.
- Sectors showing the most distress have been energy and leisure.
- The portfolio's liquid credit manager and contingent credit managers called capital and acquired assets at depressed prices during the March sell-off.
- Staff is evaluating potential future strategies to further diversify the portfolio including; residential mortgage, structured credit, and specialty finance.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Machida, and unanimously carried, the Investment Committee entered Executive Session at 10:29 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 – MARCH 9, 2020

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst and unanimously carried, the Investment Committee approved the minutes of the March 9, 2020, meeting as presented with changes mentioned by Trustee Chan of listing absent Trustees and inclusion of Investment Officer Ian Wetzel.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst, and unanimously carried, the Investment Committee exited Executive Session at 10:36 a.m.

MEETING ADJOURNED

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the meeting at 10:37 a.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer

EB/dlg