



Employees' Retirement System
of the State of Hawaii

Why ERS diversifies its investments

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By the ERS Investments Staff

The first half of calendar year 2020 is a good example of why we diversify.

In the first quarter of 2020, the U.S. stock market (equities) fell over 20 percent in 22 days and over 30 percent in 30 days – both the fastest declines in history. It was the worst first quarter in history. In contrast, the second quarter was one of the best second quarters. Many of you, our active members and retirees, have voiced concerns over whether your retirement benefits are secure during this period of severe economic swings and volatility.

To answer your primary concern: Yes, your ERS benefits are secure and your promised benefits are safe.

Despite a challenging market in the short term, our portfolio has maintained its value and, in fact, posted positive results for fiscal-year end 2020. We structured the portfolio specifically to weather adverse shocks and are pleased that this strategy – remaining conservative – has paid off. We lost less than half of what peers lost in the first quarter. This is important because also unlike peers we were; (1) Not in a position of forced liquidation of assets; and (2) We did not have to take on as much risk as peers to recoup losses in the second quarter. ERS's diversified investment portfolio is focused on the long term and designed to navigate smoothly through some rough economic waters by keeping a steady eye on the horizon.

The following are responses to some frequently asked questions:

1. Should we be concerned about the current economic outlook?

While near-term movements in the markets are unpredictable, our long-term outlook remains positive. Our goal is to achieve a 7.0 percent return over the long-term.

Through June 2020 we are still above our 7.0 percent return target (7.6 percent). As illustrated through this recent turmoil, our portfolio has maintained value.

2. What is the ERS doing to keep my benefits safe?

Our investment staff is effectively managing market volatility, limiting our downside and identifying new opportunities. Market dislocations, while painful, represent tremendous buying opportunities. The ERS's diversified investment portfolio preserves our capital in a crisis; we maintain the assets of the System by having a balanced, thoughtful allocation of assets and superior manager selection.

3. Is the pension fund going to run out of money to pay benefits?

No, the ERS will not run out of funds to pay retirement benefits to its current retirees and active members. The ERS investment fund is constructed to modify and adjust over time. Last year, the ERS paid out \$1.4 billion in retirement benefits. Those benefits assist in stabilizing our state economy by providing our State and County pensioners and beneficiaries with a reliable source of income. Recent market declines have not impacted our ability to pay benefits.

4. Will the ERS update us on the status of our pension fund as this economic crisis develops?

Yes, there will be updates in our quarterly Holomua newsletter (publications are on our website at <https://ers.ehawaii.gov/resources/all-publications#Newsletter>), news articles in the *Honolulu Star-Advertiser*, and updated information on our ERS website ers.ehawaii.gov under "Investments." Please refer to the following: <https://ers.ehawaii.gov/investments/performance>.