

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

SEPTEMBER 14, 2020

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

Trustees present: Mr. Vincent Barfield, Chair
(via teleconference) 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
(via teleconference) Ms. Elmira Tsang, Deputy Attorney General
Ms. Diane Wong, Deputy Attorney General

Staff present: Mr. Thomas Williams, Executive Director
(City Financial Tower) Ms. Kanoe Margol, Deputy Executive Director
Ms. Elizabeth Burton, Chief Investment Officer
Mr. Howard Hodel, Investment Officer – Risk Management
Mr. David Okamoto, Investment Officer – Credit
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

Staff present: Mr. Aaron Au, Investment Officer – Illiquid Markets
(via teleconference) Mr. Anthony Goo, Investment Officer – Liquid Markets

Guests present: Mr. Colin Bebee, Meketa Investment Group, Inc.
(via teleconference) Mr. Neil Rue, Meketa Investment Group, Inc.
Mr. Chae Hong, Aon Hewitt Investment Consulting, Inc.
Mr. Jack Dowd, Aon Hewitt Investment Consulting, Inc.
Mr. Richard Ferguson, Aon Hewitt Investment Consulting, Inc.

Public present: Lindsay Saienni, Financial Investment News
(via teleconference) Riley Fujisaki, House Finance staff
Dane Wicker, WAM staff
Andreas Moon, Public

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 10:25 a.m. Chair Barfield read the following statement, “Motion to hold meeting without any

members of the public physically present and allowing Trustees and members of the public to participate by teleconference or other remote meeting technology, pursuant to the Governor of the State of Hawaii's Twelfth Proclamation related to the COVID-19 Emergency dated August 20, 2020, in order to implement social distancing measures." On a motion made by Trustee Rauckhorst, seconded by Trustee Ley and unanimously carried, the Investment Committee meeting continued.

PUBLIC COMMENT PERIOD

Chair Barfield called for public comment. There was no public comment.

APPROVAL OF MINUTES AUGUST 10, 2020

On a motion made by Trustee Rauckhorst, seconded by Trustee Yap and unanimously carried, the Investment Committee approved the minutes of the August 10, 2020 meeting as presented.

SUMMARY OF AUGUST 2020 INVESTMENT OFFICE ACTIVITIES:

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

Investment Officer ("IO") Howard Hodel and Chief Investment Officer ("CIO") Elizabeth Burton presented an update on the market. IO Hodel presented market information for the month of August:

IO Hodel reported that it was more of the same for capital markets during the month of August, especially for the equity markets. Global equity's return was over 6%, and the US was up as well as with the strongest August since 1984. Most of the equity sectors have recovered with the notable exception of transportation, hospitality and energy. Realized volatility is down to pre-Covid level, while implied volatility is still elevated at 126%. Long treasury rate in up 30 bps in August but are down YTD 90 bps since the beginning of the year. Globally, economies are recovering except for the equity sectors mentioned. Relations between the U.S. and China are still tense. Brexit negotiations resumed on September 7 and legislation was introduced in the U.K. but with much uncertainty about the outcome. In August, the Fed changed its policy from targeting inflation at 2 percent per year to achieving inflation that averages 2 percent over time.

CIO Burton gave an overview of her report as follows:

CIO Report

CIO Burton mentioned that the investment team has been busy the last several months with investment-related research as well as responding to significant increases in FOIA and legislative requests.

There is an urgency to diversify the ERS' portfolio and allocate to new diversifying strategies funds. CIO Burton expects this year's November Presidential election to produce high levels of volatility. Some diversifying strategies being considered for the portfolio are:

- Options strategies in the overlay.
- Tail risk strategies.
- Uncorrelated return streams, e.g. reinsurance.
- Macro strategies – DM and EM
- The housing market which is doing well

CIO Burton spoke on CNBC's Squawk Box in August about the market in general with focus on striving to be a liquidity provider, opportunities

in convertibles, and searching for alpha as returns to beta should be lower.

[End of CIO Report]

IO Goo reported the liquidation of a legacy credit manager was completed in August with the staff continuing to monitor the existing portfolio in addition to researching and evaluating potential new strategies.

An overdraft of \$1.4 million caused by an unsettled sell trade which led to a one-day lag was reported. The cash balance was covered on the following day. ERS' account will be reimbursed for the financial impact caused by this overdraft.

Investment Officer Ian Wetzel continues to monitor and oversee existing managers, search for new managers as well as reviewing updates on the COVID-19 situation. In addition, IO Wetzel stated that an updated real estate strategic/pacing plan for CY 2021 was approved at the August BOT meeting. The long-term target allocation to core real estate will result in new commitments for CY 2021 pacing plan with commitments of \$150 million target (\$110M-\$190M range).

Non-core real estate CY 2020 pacing plan commitments is a \$130 million target (\$100M-\$150M range) and on track with the plan. CY 2021 pacing plan commitments is a \$100 million target (\$70M-\$130M range).

Agriculture and Infrastructure components are underweight long-term strategic allocation targets and there is a priority to build out new commitments in these areas. An infrastructure fund recommendation will be presented at the September Board meeting.

Investment Officer Aaron Au said since January 2020, staff, legal counsel and Hamilton Lane (HL) have closed on seven private equity commitments for a total of \$310 million. While no new investments closed during the past month, there are four potential investments in the pipeline which are in preliminary stages of due diligence. Two were sourced by HL and two were sourced by staff.

These investments represent about \$150 to \$250 million of commitments. Given the recent economic slowdown, fund managers are slowing their fundraising efforts, opting instead to look at calendar year 2021 to come back to market.

IO Howard Hodel reported the Crisis Risk Indicators were green in August. The current allocation to the Treasury/Agency portfolio is underweight, while trend managers are overweight. The DS liquid portfolio at month-end remained long fixed income (decreasing exposure), commodities (decreasing exposure), equities (increasing exposure), and foreign currency (increasing exposure) which has been negatively correlated to the rest of the ERS portfolio, reducing the volatility of the total ERS portfolio, while adding value this calendar

year. The capital markets in August were unfavorable for all four CRO strategies (duration, trend, risk premia and systematic macro).

Staff is in the process of conducting due diligence on discretionary global macro, relative value/arbitrage, reinsurance, and defensive/tailing hedging, and arbitrage managers, consistent with the approved asset liability study, and plans to recommend seven to eleven new managers over the next 12 months. Staff is recommending the approval of two managers to the Board in September.

Investment Specialist Chen explained the VIX averaged 22.7% (closing between 26.4% and 21.4%) for the month. The current level is above the long-term historical median level of 17.3%. The S&P 500 index returned 7.4% in August as the economy continues to recover.

Daily tracking of the ERS portfolio performance during August indicated an annualized volatility of 4.3%, well below the average annualized volatility of 8.6% over the past three years.

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 Machida, seconded by Trustee Rauckhorst, and unanimously carried, the Investment Committee entered Executive Session at 10:48 a.m.

EXECUTIVE SESSION

EXECUTIVE SESSION, 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 INFORMATIONAL UPDATES ON INVESTMENT MANAGERS

REGARDING ORGANIZATIONAL
CHANGES, ADMINISTRATION, AND
INVESTMENT STRATEGY.

APPROVAL OF EXECUTIVE
SESSION MINUTES – AUGUST 10,
2020

On a motion made by Trustee Rauckhorst, seconded by Trustee Yap,
and unanimously carried, the Investment Committee approved the
minutes of the August 10, 2020, meeting as presented.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Trustee Yap, and
unanimously carried, the Investment Committee exited Executive
Session at 10:56 a.m.

MEETING ADJOURNED

On a motion made by Trustee Ley, seconded by Trustee Rauckhorst, and
unanimously carried, Chair Barfield adjourned the meeting at 10:57 a.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer
EB/dlg