

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

OCTOBER 13, 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. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
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

Guests present: Mr. Colin Bebee, Meketa Investment Group, Inc.
(via teleconference) Ms. Mika Malone, Meketa Investment Group, Inc.
Mr. Neil Rue, Meketa Investment Group, Inc.
Mr. Chae Hong, Aon Hewitt Investment Consulting, Inc.
Mr. Eric Perlyn, Blackstone
Mr. Christopher Mazza, Blackstone
Mr. Min Htoo, Blackstone

Public present: Riley Fujisaki, House Finance staff
(via teleconference) Albert Vargas, Public

CALL TO ORDER

A quorum being present (Chair Barfield and Trustees Kane, Ley, Machida, and Rauckhorst), Chair Barfield called the Investment Committee meeting to order at 9:02 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 Machida, seconded by Trustee Ley and unanimously carried, the Investment Committee meeting continued.

[Trustee Yap joined the meeting]

PUBLIC COMMENT PERIOD

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

APPROVAL OF MINUTES SEPTEMBER 14, 2020

On a motion made by Trustee Machida seconded by Trustee Ley and unanimously carried, the Investment Committee approved the minutes of the September 14, 2020 meeting as presented.

PRESENTATIONS

- Blackstone Co-Investments

IO Hodel introduced the first presentation given by Blackstone on co-investments. The representatives were Mr. Eric Perlyn, Mr. Christopher Mazza, and Mr. Min Htoo. The following is a summary of the presentation:

What are co-investments?

- Allows LPs to participate in trades alongside managers
- Tool to diversify & deploy capital more resourcefully
- Popularity has increased with global institutional investors

Why co-investing?

- Opportunity to build and/or expand internal investment underwriting capabilities
- Reduce overall program fees & expenses
- Concentrated in attractive risk-reward opportunities
- Enhanced transparency

Best practices of co-investing:

- Real time portfolio
- Active monitoring
- Creative structuring
- Willingness to invest
- React nimbly
- Diligence of operational, legal, regulatory & reputational deal aspects

Benefits of co-investing:

- Defined investment goals
- Customized capabilities
- Knowledge transfer
- Stronger partnership

- FRM Liquid Defensive Strategies

IO Hodel introduced the second presentation given by FRM on Liquid Defensive Strategies. The representative was Samantha Rosenstock. The following is a summary of the presentation:

Three approaches:

- Safe Haven
- Passive Strategies
- Liquid Defensive (Risk Mitigating Strategies)

Key characteristics:

- Convexity – The degree a strategy outperforms traditional assets during a stress market and drawdown
- Reliability – The probability a strategy exhibits positive performance when traditional assets show weakness
- Carry – Expected return during normal conditions

Some Traditional Tail Hedge strategies:

- Customized drawdown needing to be protected
- Direct equity hedge with no basis risk
- Structured with a “spend” budget

Long Volatility strategy characteristics:

- Varying degrees of convexity
- Larger alpha component
- Less costly than pure tail hedge strategies

[Trustee Hirai joined the meeting]

SUMMARY OF SEPTEMBER 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 September:

IO Hodel reported that global equity markets drew down due to concerns around the U.S. election outcome, potential lack of another fiscal stimulus package pre-election, delays in approving, or ineffective. Covid vaccine and further government lockdowns as a result of localized Covid outbreaks. This year the U.S. Treasury yield curve has fallen by about 90 bps, and is currently sloping gradually up from about 10 bps for the three-month to 1.46% for the 30-year.

Globally, the value of stimulus programs exceeds \$10 trillion as developed countries, in particular, intervene in their capital markets to support their financial systems, by providing aid to businesses, incentives to support job retention, and additional benefits to workers who have lost their jobs.

CIO Burton gave an overview of her report as follows:

CIO Report

CIO Burton mentioned that the past few weeks she managed 30 meetings in eight days, mostly virtual, but also one in-person, on the East Coast doing due diligence work. A visit that went very well. At the moment, she is focusing on discretionary macros which is CIO Burton’s specialty.

Consensus from conferences are that there will not be another stimulus package before the election. The stimulus package is likely to occur no matter who wins the election, it is more that the amount is in question depending on who becomes President.

CIO Burton feels that local elections are probably more significant since that will determine what is happening in the overall economy versus the Presidential election, making it harder to predict the markets. After the election, the market may have a short-term, knee-jerk reaction and then rebound before developing a more long-term view depending on who gets into office.

[End of CIO Report]

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. Also participated in the Limited Partner Advisory Committee (LPAC) annual meeting participation, GP consent requests, etc.) and evaluate new prospective investments to build out the real asset portfolio.

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). The long-term target allocation to core real estate increased considerably through new commitments. Calendar 2021 pacing plan is a \$150 million target (\$110M-\$190M 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 in the coming months.

IO Wetzel addressed a question from one of the trustees on whether the recent west coast wildfires significantly impacted our timber investments. IO Wetzel noted he has been in contact with our timber manager on the subject. There have been no major direct impacts to our timber properties (fires have not directly burned any of our properties) and any potential valuation impacts on our assets (from the fires) are expected to be minimal. The fires have resulted in some indirect impacts to the broader timber markets/prices/operations (& operations of our timber assets), which IO Wetzel elaborated on, however those are expected to be relatively temporary/short-term in nature.

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. One new investment is

expected to close soon with three potential investments in the pipeline in preliminary stages of due diligence.

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 Au also reported that preliminary figures for June 2020 indicates that private equity performance has begun to recover.

IO Howard Hodel reported the Crisis Risk Indicators were green in September. The current allocation to the Treasury/Agency portfolio is underweight, while trend managers are overweight. The DS liquid portfolio has been negatively correlated to the rest of the ERS portfolio, which has reduced the volatility of the total ERS portfolio, while adding value so far this calendar year. The capital markets in September were favorable for duration, risk premia and systematic macro strategies, but unfavorable for trend.

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 10 new managers over the next 12 months.

Investment Specialist Chen explained the VIX averaged 27.6% (closing between 25.6% and 33.6%) for the month. The current level is above the long-term historical median level of 17.3%. The S&P 500 index returned 3.8% in September as the economy continues to recover.

Daily tracking of the ERS portfolio performance during September indicated an annualized volatility of 10.6%, above the average annualized volatility of 8.7% 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 10:23 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 – SEPTEMBER 14, 2020

On a motion made by Trustee Machida, seconded by Trustee Yap, and unanimously carried, the Investment Committee approved the minutes of the September 14, 2020, meeting as presented.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Ley, and unanimously carried, the Investment Committee exited Executive Session at 10:35 a.m.

[Vice Chair Chan joined the meeting]

MEETING ADJOURNED

On a motion made by Trustee Yap, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the meeting at 10:36 a.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer
EB/dlg