

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

JANUARY 25, 2021

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

Committee Member
Trustees present:
(via teleconference)

Mr. Vincent Barfield, Chair
Dr. Catherine Chan, Vice Chair
Mr. Emmit Kane
Mr. Wesley Machida

Visiting Trustees
present:
(via teleconference)

Dr. Genevieve Ley
Mr. Bennett Yap

Attorneys present:
(via teleconference)

Mr. Ivan Torigoe, Deputy Attorney General

Staff present:
(City Financial Tower)

Mr. Thomas Williams, Executive Director
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. Lori Kim, Secretary
Ms. Diana Gomes, Secretary

Public present:
(via teleconference)

Maja Ben Saed, Fundmap

CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Chan and Trustees Kane and Machida), Chair Barfield called the Investment Committee meeting to order at 9:05 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 Sixteenth Supplementary Proclamation related to the COVID-19 Emergency dated December 16, 2020, in order to implement social distancing measures." On a motion made by Trustee Machida, seconded by Vice Chair Chan 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
DECEMBER 14, 2020

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

PRESENTATION

- FRM Global Macro Strategies Education Session

IO Hodel introduced the presentation given by FRM on Global Macro Strategies. The representative was Ms. Samantha Rosenstock, Head of Research. The following is a summary of the presentation:

Types of Global Macro Strategies:

- Primary Strategies
 - Currency Strategies
 - Interest Rate Strategies
- Secondary Strategies
 - Equity Strategies
 - Commodity Strategies
 - Credit Strategies
 - Volatility Strategies

Global Macro Managers make trading decision based on:

- Economic Analysis
- Geopolitical Factors
 - Interest Rates
 - Currency exchange rates
 - Trade flows
 - Political events
 - International relations
- National, regional, and global focus
- Profit from broad asset class moves
- Focus on top down systematic risks in markets

Global Macro strategies have:

- Lower Sharpe profile
- Exhibit protective return characteristics
- Low correlation and beta

SUMMARY OF DECEMBER 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 December:

IO Hodel reported that the global equity markets rose about 5% in December due to positive news about the deployment of effective COVID-19 vaccines, near resolution of the U.S. election outcome, a negotiated Brexit outcome and approval of another U.S. stimulus package. For the 2020 calendar year, Treasury yields fell by 75 bps, sloping gradually up from about 9 bps for the three-month Treasury bill to 1.65% for the 30-year.

U.S. large cap equities hit new highs and were up 4 percent in December, 70 percent since the market low on March 23, 2020 and

about 18 percent since the beginning of 2020, while U.S. small cap equities rallied nearly 9 percent in December.

The market value of ERS' portfolio is about 19.6 billion.

CIO Burton gave an overview of her report as follows:

CIO Report

CIO Burton acknowledged DCIO Hodel's first meeting after his promotion as the new Deputy Chief Investment Officer.

CIO Burton continues to work with staff and Meketa on the IPS to add the changes approved by the Board and format for online. The completed document will be posted to the ERS website.

The team will be devoting more time to exploring international equities to diversify the growth portfolio. IO Goo is reviewing opportunities in India as well as China.

CIO Burton mentioned that the staff is working on an internal training manual as requested by the internal auditors.

CIO Burton reiterated concerns around potential inflation in the future. She continues to work with DCIO Hodel to build out the diversifying strategies portfolio.

CIO Burton made an appearance the previous week on CNBC's Squawk Box to discuss investment opportunities post-Covid.

[End of CIO Report]

IO Wetzel mentioned that staff continues monitoring existing managers, attend virtual annual meetings and evaluate new prospective investments to build out the real asset portfolio.

ERS committed \$550 million to the manager's separate account with an additional \$50 million to the manager's core real estate debt fund (\$600M in total commitments to manager). Calendar 2021 pacing plan for core real estate commitments is a \$150 million target (\$110M-\$190M range).

Calendar 2020 pacing plan for non-core real estate commitments was \$130 million target (\$100M-\$150M range). Commitments were on track with the plan. Total commitments of \$140 M (3 funds) were approved for calendar 2020. Calendar 2021 pacing plan for non-core real estate commitments is a \$100 million target (\$70M-\$130M range).

Infrastructure and agriculture components are underweight so a priority going forward is to build new commitments in these areas. Total infrastructure commitments of \$200 million (2 funds) were approved for calendar 2020. Additional real assets funds are in the due diligence pipeline for the coming months.

Investment Officer Aaron Au reported staff, legal counsel and managers have closed on 11 private equity commitments for a total of \$563.8 million which is within the \$550-\$650 million range for 2020. This includes upsizing three prior commitments by \$10.0 million each.

Staff continues to track the financial markets' current economic uncertainty and its effects on the private equity portfolio. There is continued improvement as November's performance, was 7.90% versus 6.11% for its benchmark (preliminary and unaudited).

DCIO Howard Hodel reported the Crisis Risk Indicators were green in December. The DS liquid portfolio has been negatively or slightly positively correlated to the rest of the ERS portfolio, which has reduced the volatility of the total ERS portfolio, while adding value this calendar year. The capital markets in December were favorable for trend and relative value strategies, but unfavorable for duration, systematic macro and alternative risk premia strategies.

Staff is in the process of conducting due diligence on discretionary global macro, relative value/arbitrage, defensive (long volatility/tailing hedging), multi-strategy, and systematic completion managers, consistent with the approved asset liability study, and plans to onboard up to 10 new managers by the end of 2021. Staff is in the process of consolidating the global inflation-linked securities account into a combined U.S. long Treasury and Treasury inflation-linked securities account. Staff terminated an alternative risk premia manager during December and has nearly completed the liquidation of instruments in the portfolio.

One of the TALF managers returned the drawn capital and terminated its TALF vehicle at the end of December and the other manager is planning to close its fund and return investor capital in early 2021. The cash continues to be securitized in the Overlay account.

Staff onboarded a co-investment manager at the beginning of January and is conducting due diligence on other co-investment and niche markets strategies.

Investment Specialist Chen explained the VIX averaged 22.4% (closing between 20.7% and 25.2%) for the month. The current level is above the long-term historical average level of 19.5%. The S&P 500 index returned 3.8% in December, while the ERS's Active Traditional Equity returned 4.9%.

Daily tracking of the ERS portfolio performance during December indicated an annualized volatility of 8%, below the average annualized volatility of 8.8% over the past three years.

Staff continues monitoring potential, significant macro risks in each of the major economic regions of the world, any of which could trigger another market correction.

CIO Burton explained that during December the IEIC approved transitioning the Blackrock Global Inflation-Linked Securities portfolio

2019-2020 DERIVATIVES
EXPOSURE MEMO – RECEIVE AND
FILE

to a U.S. Treasury Inflation-Protected Securities portfolio managed by SLC Management within their current long duration Treasury portfolio and two of the systematic trend following managers (Diversifying Strategies – Liquid Defensive). The transition is expected to be completed in early January.

Mr. Bebee from Meketa explained that the 2019-2020 Derivatives Exposure Memo is an annual standing memo that assures managers' use of derivatives comply and is a requirement per ERS' investment policies and procedures that require review on an annual basis.

ENTER EXECUTIVE SESSION

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.

On a motion made by Trustee Machida, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee entered Executive Session at 10:15 a.m.

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(A)(1) AND (3), 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 HRS CHAPTER 92F, INCLUDING INFORMATION AND RECORDS THAT ARE PROPRIETARY INFORMATION OR CONFIDENTIAL BUSINESS INFORMATION; OR TO DELIBERATE CONCERNING THE AUTHORITY OF PERSONS DESIGNATED BY THE BOARD TO NEGOTIATE INVESTMENTS OR THE SALE OF PROPERTY HELD BY OR FOR THE BENEFIT OF THE SYSTEM, OR DURING THE CONDUCT OF SUCH NEGOTIATIONS; 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 A PRIVATE INVESTMENT; APPROPRIATE ACTION.

APPROVAL OF EXECUTIVE SESSION MINUTES – DECEMBER 13, 2020

On a motion made by Trustee Machida, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee approved the Executive Session minutes of the December 13, 2020, meeting as presented.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee exited Executive Session at 10:46 a.m.

MEETING ADJOURNED

On a motion made by Trustee Machida, seconded by Vice Chair Chan, and unanimously carried, Chair Barfield adjourned the meeting at 10:47 a.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer
EB/dlg