

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

FEBRUARY 22, 2021

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

Committee Member	Mr. Vincent Barfield, Chair
Trustees present: (via teleconference)	Dr. Catherine Chan, Vice Chair Mr. Emmit Kane Mr. Wesley Machida
Visiting Trustees present: (via teleconference)	Mr. Craig Hirai 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. Andrew Chen, Investment Specialist Ms. Gerri Konishi, Member Home Loan Assistant Ms. Lori Kim, Secretary Ms. Diana Gomes, Secretary
Staff excused:	Mr. Ian Wetzel, Investment Officer
Public present: (via teleconference)	None

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 9:01 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 Seventeenth 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
JANUARY 25, 2021

On a motion made by Trustee Machida, seconded by Vice Chair Chan and unanimously carried, the Investment Committee approved the minutes of the December 25, 2021 meeting as presented.

NEW BUSINESS

- GOLDMAN SACHS
CHINA A-SHARES

IO Goo introduced the presentation given by Goldman Sachs on China A-Shares. China's economy is expanding, and this opportunity will diversify the portfolio from a geographic standpoint. The representative was Ms. Xiangrong Jin, head of portfolio strategy for Asia Pacific. The following is a summary of the presentation:

China A-Shares:

- China is an important part of the global economy
- ERS can gain exposure to China equity through A-Shares
- Represents the second largest equity market
- A young capital market and the fastest growing
- Domestic market with sustainable growth
- Heavily under-owned
 - Foreigners only own 4%
 - U.S. only own 1%
- Weight in global indices is increasing
- Provides exposure to some of the following areas:
 - Energy
 - Technology
 - Health care
 - Real estate
 - Consumer staples
- Inclusion of China equity could benefit ERS' portfolio by:
 - Provide diversification benefits
 - Improve the risk and return profile
 - Boost longer return.

Three key investment opportunities:

- Consolidation of "Old Economy" Sectors:
 - Emergence of competitive national brands
 - Weaker, less efficient players will be squeezed out
 - Mature, well-run & dominant companies will take over
- Collaboration between Online & Offline Economies
 - Blend of online-offline business models improve service sector productivity
 - Lockdowns have quickened the use of technology
 - Highlighted the importance of a digital strategy
- Corporate Innovation Driving & Technological "Catch-up"
 - Enhance domestic capabilities to capture market share
 - Reduce reliance on global supply chain
- China has really evolved with lots of opportunities
- China has grown by 3x and will double in the future
- Online presence is excelling
- China luxury market has grown & will be the largest by 2025
- China will overtake the U.S. market.

CIO Burton confirmed for Trustees that many peer funds are invested in China A-Shares. She thanked Goldman Sachs for an excellent presentation.

PRESENTATIONS

- MEKETA INVESTMENT GROUP
4TH QUARTER PERFORMANCE
REPORT

Mr. Colin Bebee touched on a few new points which arose since the Board of Trustees' meeting held on February 8, 2021.

ERS' portfolio:

- Generated a 9.0% quarterly return
- Increased by \$1.5 billion in the 4th quarter
- Outperformed the policy benchmark over the most recent quarter by 1.9%
- Broad Growth class & its underlying segments outperformed their benchmarks & contributed to the relative performance over the most recent quarter
- Private Growth outperformed its benchmark during the most recent quarter
- Portfolio performance is in line with expectations
- Mr. Bebee commended the staff on the strong manager selection within the Broad Growth portfolio and recent hires within Diversifying Strategies; in particular, Aequim and Monashee, have been adding value to the ERS' portfolio.

- HAMILTON LANE
PRIVATE EQUITY PROGRAM
UPDATE

Mr. Paul Yett covered items which occurred since the Board of Trustees' meeting held on February 8, 2021.

ERS' portfolio:

- Well diversified and performed as expected
- From a geographical standpoint:
 - North America shows to be a good area to focus on
 - Europe, with its very good growth characteristics, is another good focal point
- From an industry standpoint:
 - IT is the area to focus on; ¼ of the portfolio is already invested in this area
 - Another strong area is healthcare. Both healthcare and IT have been the biggest growth strategies during the pandemic
 - Consumer discretionary was hit the hardest during the pandemic. Portfolio has only 9% which is great.
- Where do we go from here?
 - Possibly consider travel and leisure since people will get back to traveling and booking trips
 - There is a lot of interest in the private markets
 - Growth equity is another area

- TOWNSEND GROUP AN AON
COMPANY
3RD QUARTER 2020 REAL
ESTATE PERFORMANCE
REVIEW

Mr. Chae Hong covered items which developed since the Board of Trustees' meeting held on February 8, 2021.

- Overall, the portfolio performed well
- The total portfolio generated a 7.9% net IRR
- Property type diversification:
 - Potential uptick in industrial properties

- Some risks being monitored:
 - Office space is unpredictable with work at home concept
 - Retail with the increase of online shopping
 - Senior housing has slowed down due to Covid
- Highlight renewable energy
- Timber – No change to report; however, there has been a huge increase in home construction which is one of the main drivers of timber
- Looking into Asia and focusing on Europe

SUMMARY OF JANUARY 2021
INVESTMENT OFFICE ACTIVITIES:

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

Deputy Chief Investment Officer (“DCIO”) Howard Hodel and Chief Investment Officer (“CIO”) Elizabeth Burton presented an update on the market. DCIO Hodel presented market information for the month of January:

DCIO Hodel reported that the global equity markets ended down slightly in in January after hitting new highs on January 21 due to positive news about the deployment of effective COVID-19 vaccines, the resolution of the U.S. election, and approval of another U.S. stimulus package. The Treasury yields rose with the 10-year yield increasing by 15 bps and the 30-year increasing by 22 bps, sloping gradually up from about 7 bps for the three-month Treasury bill to 1.87% for the 30-year.

U.S. large cap equities were down 1.0% after hitting new highs, while the NASDAQ was up about 1.4% and U.S. small caps rose over 6% during January.

In currencies, the U.S. dollar was up 0.7% for the month, benefiting from rising U.S. Treasury yields, the stimulus package, and the rise in demand for safe haven investments. In commodities, markets had mixed results with gold selling off and energy and grains continuing their rally due to lower inventory and higher expected demand.

The market value of ERS’ portfolio is about 19.8 billion.

CIO Burton gave an overview of her report as follows:

CIO Report

CIO Burton reported that the Investment team is working with Accounting in creating an easier exchange of information flow. The exchange of information will assist with and improve the creation of portfolio setup.

CIO Burton announced the IPS updates have been updated on the ERS website. New version consists of 140 pages. The old version is archived on the website. She thanked Meketa for all the formatting and reviewing the document.

Given the recent news focus on SPACs, CIO Burton gave an introduction to and explanation of Special Purpose Acquisition Vehicles. If there is an interest she will follow up with a more in-depth review.

[End of CIO Report]

DCIO Hodel stated that staff reduced Global Mid/Large Cap by 2.3% in the first week of February with the proceeds transferred to BOT Discretionary. Staff continues to monitor the existing portfolio and research and evaluate potential new strategies.

A long-only convertible securities strategy was approved by the Internal Executive Investment Committee (IEIC) and will be funded in Q1.

IO Au reported on IO Wetzel's behalf. 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.

CIO Burton added that two funds were approved in IIC meeting for real estate. Both new funds were approved internally consistent with the governance policy.

Investment Officer Aaron Au reported staff, legal counsel and managers have closed on two growth equity commitments for a total of \$93.0 million which is within the \$550-\$650 million range for 2021. These funds have managers with proven track records and in the private equity market, manager with proven track records have shown resiliency in the current pandemic economy.

Staff continues to track the financial markets' current economic uncertainty and its effects on the private equity portfolio. There is continued resilience as December's performance, was 10.17% versus 8.55% for its benchmark (preliminary and unaudited).

DCIO Howard Hodel reported the Crisis Risk Indicators were green in January. 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 January were favorable for defensive macro and relative value strategies, but unfavorable for trend, 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.

- DIVERSIFYING STRATEGIES
- LIQUID DEFENSIVE &
LIQUID DIVERSIFYING Q4
REVIEW

The value of the \$4.1 billion Diversifying Strategies (DS) liquid portfolio fell slightly during the month in a risk-on environment that lasted until the final three trading days of the month. The DS liquid portfolio's ex-ante and ex-post annualized volatility were stable at about 6% during the month.

DCIO Hodel summarized the Diversifying Strategies Review.

- Monashee and Aequim SMAs were launched in November and December
- ERS also invested in a commingled fund in November
- ARP was fully redeemed from the portfolio in December
- SLC invested in US TIPS in December funded with new capital
- Net performance was +0.51% and gross performance +0.79% vs. benchmark of 1.11%
- Crisis risk status indicators were green throughout the quarter

Investment Specialist Chen explained the VIX averaged 13.9% (closing between 12.1% and 18.8%) for the month. The current level is above the long-term historical average level of 19.1%. The S&P 500 index declined 1.1% in January, while the ERS's Active Traditional Equity declined 1.2%.

Daily tracking of the ERS portfolio performance during January indicated an annualized volatility of 8.2%, below the average annualized volatility of 9% 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.

- FOURTH QUARTER 2020
RISK REPORT

IS Chen summarized the 4th Quarter 2020 Risk Report.

- ERS Portfolio is tilted toward the US dollar and US equity markets
 - 84.6% of assets denominated in the US dollar
 - 83.75% of growth-oriented assets in US-based companies
 - 12.2% international growth-oriented assets in non-US developed companies
- Portfolio risk are appropriate and consistent with policy & market conditions
- Growth risk accounted for most of the projected portfolio risk
- Worsening US-China relations and a perceived challenge to the "One China" policy trigger US-China military tensions in the Taiwan Strait
- US-China relations are strained by Covid-19 crisis and ongoing trade and technology disputes

[Chair Barfield requested staff to include legends on all charts for better clarification.]

CIO Burton explained that during January the IEIC approved the staff recommendation to rebalance approximately two percent of the total ERS assets out of traditional equity and into a U.S. Treasury Inflation-Protected Securities portfolio managed by SLC Management (Diversifying Strategies-Liquid Defensive-Treasury/Agency Duration Capture.) The transition was completed in late January and early February.

The IEIC approved a \$150 million co-investment mandate to a Diversifying Strategies-Illiquid Diversifying-Idiosyncratic Return Capture manager consistent with the governance policy.

[Trustee Kane left the meeting.]

ENTER EXECUTIVE SESSION

EXECUTIVE SESSION

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 DIVERSIFYING STRATEGIES

On a motion made by Trustee Machida, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee entered Executive Session at 11:05 a.m.

INVESTMENT; APPROPRIATE
ACTION

[Trustee Kane returned to the meeting.]

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 DIVERSIFYING STRATEGIES INVESTMENT; APPROPRIATE ACTION.

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.

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 UPDATES ON STATUS OR ISSUES RELATED TO CONFIDENTIAL ERS INVESTMENT PORTFOLIO UPDATES REGARDING: PERFORMANCE, ALLOCATION CHANGES, AND CHANGES IN MANAGER ORGANIZATIONAL STRUCTURE, OWNERSHIP, PERSONNEL, STRATEGIES,

[Trustee Kane left the meeting.]

GUIDELINES, MANAGER
PIPELINES AND RISK LIMITS.

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 – JANUARY 25,
2021

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 January 25, 2021, 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 1:17 p.m.

MEETING ADJOURNED

On a motion made by Trustee Machida, seconded by Vice Chair Chan, and unanimously carried, Chair Barfield adjourned the meeting at 1:18 p.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer
EB/dlg