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

MARCH 22, 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)	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. 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)	Ms. Lindsay Saienni, Financial Investment News

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 Eighteenth Supplementary Proclamation related to the COVID-19 Emergency dated February 19, 2021, 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
FEBRUARY 22, 2021

On a motion made by Trustee Machida, seconded by Vice Chair Chan and unanimously carried, the Investment Committee approved the minutes of the February 22, 2021 meeting as presented.

PRESENTATIONS

- ERS DIVERSIFYING STRATEGIES UPDATE
- FRM: PLATFORM MANAGER ROLE
- ERS STAFF: INVESTMENT PROCESS REVIEW
- ERS STAFF: FY2021-FY2023 PLAN & STATUS TO DATE

Deputy Chief Investment Officer ("DCIO") Howard Hodel described the presentation is a combination of Mr. Jens Foehrenbach, CIO of FRM and himself presenting the role and processes FRM goes through as a platform manager and the expanded duties that were included in their contract that was executed in September 2020. DCIO Hodel will also provide another update on the implementation of the Diversifying Strategies plan that he presented to the Board at the August 2020 Investment Committee meeting. DCIO Hodel introduced Mr. Jens Foehrenbach. The following is a summary of the FRM Mandate Overview presentation:

Mr. Foehrenbach explained FRM has been managing accounts for 22 years and has been in a partnership with ERS covering the initial services for the last four years or so.

Pre-mandate expansion, FRM had the following responsibilities:

- Risk Due Diligence – perform operational and investment risk due diligence.
- Ongoing Risk Monitoring – set and monitor risk guidelines for each Separately Managed Account (SMA and provide key metrics, analyses, and insights to ERS staff.
- Portfolio Management & Rebalancing – design and monitoring of rebalance guidelines and implement rebalance sub/red trade decisions.
- Reporting – custom investment performance and reporting of daily, weekly, monthly, quarterly, and annual reports.
- Education – design and implement annual training programs for ERS staff, utilizing in-house experts to provide education on topics mutually agreed with ERS. One recent example is asset allocation group available to staff to discuss views of inflation.
- Platform Management – Launch and structure each Separately Managed Account (SMA) and establish and manage the trading related infrastructure for each SMA while providing operational oversight of each SMA.

Additional Services after mandate expansion:

- Manager Sourcing – provide peer groups and short lists of potential managers as well as propose managers for further evaluation prior to commencing due diligence.
- Investment Due Diligence – Perform investment due diligence on existing CRO managers and each newly selected manager; furthermore, all investments will be reviewed for approval by the FRM Investment Committee ('IC').
- Ongoing Fund Monitoring – Provide ongoing investment monitoring; in addition to the risk monitoring done under the previous mandate. FRM IC may recommend ERS staff redeem funds if they no longer fulfill the original investment thesis.

- Portfolio Construction – Perform portfolio analysis looking at portfolio risk contributions, historical replays, correlation stability, and factor exposures to ensure that managers and weightings are suitable for the mandate.

FRM's Key Mandate Progress under direction of ERS Staff

- Launched 15 SMAs, two commingled funds & wound down three SMAs
- Converted one SMA to a custody account
- Initiated both weekly operational as well as bi-weekly investment team meetings with ERS Staff
- Conducted two Crisis Risk Committee fire drills
- Conducted statistical analysis to support decision making for manager selection and redemptions throughout the portfolio's life
- Created a portfolio analysis template
- Created bespoke annual and quarterly board reporting for CRO & DS Class

FRM's investment process is rigorous and controlled, encouraging innovation within a rigorous framework. The components include:

- Manager sourcing
- Due diligence
- Formal approval
- Portfolio construction
- Risk management & monitoring

Chair Barfield asked to spend more time on Slide 2 which summarizes FRM's original duties as CRO platform manager and the expanded duties as Diversifying Strategies platform manager, particularly as to whether FRM is serving ERS as a consultant versus performing these duties in support of ERS staff making decisions. He added that the Board hires consultants to make manager recommendations and they are also fiduciaries to us. Chair Barfield asked Mr. Foehrenbach if FRM is playing that role in this space.

Mr. Foehrenbach responded that they are not a consultant in that sense since they still serve in a non-discretionary role and do not make manager recommendations, but currently are, and have been since being hired as the CRO platform manager, a fiduciary to ERS. They now provide additional research services in the four categories listed on slide 2. FRM supports manager sourcing for ERS including access to our team research experts and 800+ manager databases divided into peer groups covering all diversifying strategies mandates. They provide investment due diligence of finalist managers and ERS staff has the full independent viewpoint from an expert staff. Every manager or fund that due diligence is done on for ERS now goes through the same process that any other fund or manager that FRM would invest in for our discretionary accounts goes through.

DCIO Hodel commented that he is the ERS DS Manager, as specified in the IPS, and makes the recommendation. That role is also responsible for sourcing the manager and communicates to Meketa, Aksia, FRM, Elizabeth, peers, prime brokers, and DS managers to source managers when starting a search. He has about 100 managers in his database for various Diversifying Strategies. FRM is the most important fiduciary and most important resource in the process of manager selection. Their independent assessment of all the managers on short lists and producing a document that summarizes their view of each manager, giving an assessment from their viewpoint. FRM also has an IC and recommendations goes through their IC for approval, which provides another layer of oversight. The ERS Internal Investment Committee and Internal Executive Investment Committee must also approve manager recommendations.

Chair Barfield thanked Mr. Foehrenbach and DCIO Hodel for their explanation and continued by observing that he wants to compare FRM's role to the role of our consultants in real estate and private equity who make manager recommendations for ERS, which is not the same as we are seeing in this process.

DCIO Hodel responded that you are not getting exactly the same thing from FRM that you are getting in private markets, and he (DCIO) is serving in that recommendation role with Elizabeth and ERS staff through ERS' internal governance framework exercising their approval authority as established in the Board approved Governance Matrix.

CIO Burton observed that private equity and real estate are private markets with a timetable for fund investments that is a little bit different than hedge funds or marketable alternative investments which are primarily what Diversifying Strategies invests in. There is not going to be the same type of approval process because there isn't a set close date for diversifying strategies investments.

DCIO Hodel responded that ERS staff and Board retain discretion on the selection of the manager and the sizing consistent with the Governance Matrix. It is important that FRM does all three forms of due diligence for DS (investment, investment risk and operational) as consultants do for real estate and private equity/credit and FRM does now approve the manager at the FRM IC meeting as part of their diligence process. FRM was initially hired for their high score on hedge fund strategy and diligence expertise. So, they are providing a stamp of approval that the manager meets their standards of investment, but that does not constitute discretion or a recommendation for the ERS portfolio. It is also important that the diligence is conducted at ERS' request, whereas it is more typical than in real estate and private equity/credit that the consultant has a recommended list of funds it has approved for various clients as a group from which ERS can select as in real estate or that the consultant selects the fund for ERS as in private equity/credit. This is what Elizabeth was referring to. Also, under the original CRO framework, Meketa would provide a short list of managers from RFI responses that met minimum and preferred criteria, and that would pass their investment due diligence. From this list of approximately three times the number of managers needed for the mandate, ERS staff would conduct its own due diligence and make the manager recommendations to the Board. For DS today, Meketa is aware of the searches and recommendations through regular dialog and they meet with each of the finalists and provide feedback. It's a very open process and Meketa is invited to provide their input. The process is detailed and takes time to complete all the steps because it is ERS staff driven and the strategies implied are almost always bespoke with favorable fees and terms, unlike real estate and private equity/credit. ERS staff also has access to Aksia for research, sourcing and due diligence for DS managers/funds if necessary. The current disconnect is that Meketa has backed away from providing consulting services for the non-CRO portion of DS. This became apparent during the reinsurance manager and TALF manager searches during the first half of 2020. This prompted ERS to expand the contractual responsibilities with FRM in September 2020 to fill the void created by these new DS strategies that are in the IPS.

Chair Barfield responded that a role player is needed in DS and that's why FRM was picked to expand into Diversifying Strategies. We need to lockdown how to execute DS approvals so that everyone is comfortable with the process. We should save that discussion for executive session.

Mr. Foehrenbach continued by reviewing the accomplishments listed on slide 3 of his presentation noting the various FRM teams have an open and active dialog with ERS staff including weekly operational meetings and biweekly investment meetings as well as the daily, weekly, quarterly, monthly and annual reporting. The Crisis Risk Committee process works very smoothly. An example was during the crisis in March of last year. He moved on to Slide 4 which shows the pipeline for Diversifying Strategies. We also create a short list of managers for each search. It is a busy pipeline. The last slide shows our investment process which gives our best in class due diligence process for managers, including due diligence, formal approval and onboarding. There are no short cuts in the due diligence process that we provide to ERS. FRM has a very close relationship with ERS staff.

Mr. Rue responded that the relationship with FRM, ERS staff, and Meketa, and even going back to the PCA days when the class was originally constructed, has been highly collaborative and extremely useful, particularly to DCIO Hodel, who executed and implemented the class. He echoed Mr. Foehrenbach's comments about going through the ups and downs of the market. The class has performed as expected and the combined team has performed every required activity and seamlessly dealt with each issue. It has really been best practice managed. FRM is very transparent with us as a consultant. He agreed with saving the discussion of which fiduciary does what and what the Board IC is looking for in terms of monitoring for the executive session.

DCIO Hodel stated that he presented the Diversifying Strategies Plan originally to the Board of Trustees at the August 2020 Investment Committee meeting and this update follows the original format plus the addition of a summary of the current investment process. The role of the DS platform manager has expanded in two dimensions from the original role: 1) it adds investment due diligence and sourcing for managers to the original investment risk, operational due diligence and research/education responsibilities and 2) it expands the universe of strategies covered by FRM to all DS investments from the original CRO systematic strategies in line with the mandate change for DS that is specified in the IPS approved by the Board in December 2020. This includes various liquid and illiquid DS discretionary strategies.

The following is a summary of the ERS Diversifying Strategies Investment Process Review & Plan Update presentation:

DCIO Hodel mentioned that for the area for Diversifying Strategies the process consists of:

- Structure
  - Organization/Governance
  - Portfolio
- Process for Onboarding Managers
- Allocation Transition Plan
- Investment Philosophy
- Status of Initiatives

The Governance Structure consists of:

- Internal Executive Investment Committee (IEIC)
- Internal Investment Committee (IIC)
- General Consultant
- DS Platform Manager
- ERS Manager
- Chief Invest Officer & Crisis Risk Committee

Some of the DS Platform Manager duties consists of:

- Acting as fiduciary to ERS
- Establishing the account structure
- Establishing service provider relationships
- Measure market risk
- Enforce DS policies, procedures, limits and guidelines
- Rebalance liquid accounts
- Identify crisis situations
- Conduct due diligence
- Provide research

Portfolio Structure components are:

- Liquid defensive
- Liquid diversifying
- Illiquid diversifying

Trustee Machida asked if the IEIC could approve up to a total of $400 million for a new manager based on a $20 billion ERS portfolio. DCIO Hodel responded that the IEIC, via the governance matrix, has authority to approve up to $200 million or 1% of the portfolio initially for a new manager and then on reups can approve an additional $200 million without getting approval from the Board IC, based on authority of up to one percent of ERS assets initially for a manager and up to two percent of ERS assets for a manager including reups. The question is the length of the waiting period before the IEIC can approve the reup in capital. Our current procedure has a minimum six months, but the expectation is more likely that it would take about a year to be comfortable with that increase as a reup.

Chair Barfield commented that if we are contemplating adding capital within a reasonable amount of time, like six months to twelve months, we should consider the full allocation at the time of the initial approval.

CIO Burton responded that she agrees. All the new DS managers that have been approved so far have gone to the Board for approval before they were funded. We have been careful about that and asked for the additional amount up front and even reviewed the recommendations with Meketa out of an abundance of caution. We apologize if it came across differently.

DCIO Hodel added that the misimpression or misinterpretation was probably his fault because he asked for approval for a couple of managers at $300 million and wanted to start them above the 1.0% limit that IEIC can approve. The way the process was interpreted was IIC and IEIC would approve what they could and recommend an additional $100 million initially to the Board IC rather than taking the $300 million manager recommendation directly to the Board IC without the IIC/IEIC approvals. Most of the managers will start at $200 million initially, which is the minimum level to make separate accounts economical, but over at least 6 to 12 months expect to increase their allocations as we become comfortable with their performance.

Executive Director Williams commented that he didn’t think that anyone made any mistakes in addressing the process that DCIO Hodel described. He believes it is a process that is evolving, and we are learning together what the Investment Committee wants to see and what the process should look like. For example, defining what reups are and who has approval authority still needs clarification and transparency is necessary.

Chair Barfield responded that he hears what everyone is saying and wants to clarify that he is not suggesting that there was any effort to get around the rules, but wants to be really clear on the policy and procedures in this new space.

DCIO Hodel discussed the investment approval process with the IEIC, consisting of Thom and Elizabeth having the authority to approve new DS managers up to one percent of ERS assets and recommend to the Board IC, managers above this threshold. Prior to that, the IIC reviews all new manager allocations and makes recommendations to the IEIC for approval. Per the Governance Matrix, the same committees have the authority to approve manager reups after an appropriate time up to a total of two percent of ERS assets, after which Board IC approval is required.

A lengthy discussion followed with input from Committee members, CIO Burton, DCIO Hodel, and Mr. Rue, concluding that a final decision on interpreting the process and limits for manager allocations should be saved for the Executive Session. Important points included that reups for separate accounts and private market funds are different, that it is important to keep the DS implementation plan on track due to the overweight in growth risk that currently exists in the ERS portfolio, and that initial approvals should be based on the anticipated ultimate allocation for the a DS manager mandate and not the initial allocation.

DCIO Hodel described what the general consultant provides for DS and still oversees the Diversifying Strategies program as a whole and report to the Board quarterly and annually in August each year, as described in the IPS, which the Board approved in December, to provide their independent assessment. FRM, as the DS Platform Manager, also presents their independent annual report at the same meeting on the DS portfolio, including their activities, accomplishments, and views on market risks and the managers. At the same meeting, DCIO Hodel gives his recap of the year as well as the DS plan going forward for the fiscal year. The process stays in place as the strategies expand and diversify. The general consultant stepped back from providing manager sourcing and IDD as Diversifying Strategies expanded into new, non-CRO strategies that were contemplated in the Asset/Liability Study and are described in the IPS. This lesser role was more or less by mutual agreement as FRM and ERS staff are better suited and able to provide these services. Meketa is currently informed of what is being done, and happy to have them involved as they want to be. Their reduced role became very apparent early in 2020 during the reinsurance and TALF manager searches as much of the work shifted to ERS staff and then to FRM in September 2020 with the expanded FRM scope that Mr. Foehrenbach outlined in his presentation. Meketa is still very involved in what happens in the old CRO strategies, very communicative, open, speak regularly about the systematic strategies, and very collaborative on the new strategies being put in Diversifying Strategies. FRM is the subject matter expert on the DS strategies and has the right background for the current role; whereas, Meketa in its role of general consultant is in the right spot for overseeing what we do in DS.

Chair Barfield asked Meketa the following questions: 1) Do you see yourself supporting that role described by DCIO Hodel? 2) Do we have a gap in Diversifying Strategies expanding to assets that go beyond CRO? and 3) is the Board getting the kind of reporting for that subclass that we need to be having?

Mr. Bebee agreed with DCIO Hodel's response. Meketa is also learning this and what will be presented in August's annual report for the Diversifying Strategies class will be different since CRO has evolved into DS. There are now actual allocations running there that are fully vetted. Howard and Elizabeth always keep us and our firm updated. There is a ton of activity that goes on behind the scenes. From the IC and Board perspective what the report will look like is TBD at this point.

Chair Barfield stated that he looks to Meketa to help the Board feel comfortable with our overall direction and overall strategy, which is their role. He asked if everything is being executed properly among all classes, noting Diversifying Strategies is of growing importance right now because we are reallocating to that space so as our general consultant are you comfortable with reporting on your assessment of that?

Mr. Rue responded that monitoring the new DS activities in this evolving space as a third-party overseer is not part of our scope at this point. Meketa can do that, and are very much aware of the evolution and the nature of your DS portfolio and where it is going. To DCIO Hodel's point about FRM having expertise to do all the functions they are doing, there is no question of their capabilities. Whether there is independent oversight and who does it are really preference issues for the Board. The consultant providing a lot of horsepower to staff and FRM may not be the best approach for the Board versus oversight.

Vice Chair Chan commented that Trustees need and value your opinion based on your oversight and understanding of what's going on in the space, especially since it's receiving an additional 10% allocation.

DCIO Hodel noted that he works very closely with CIO Burton in the space. She is very knowledgeable and involved with the process, giving invaluable advice, direction, and assistance. A year ago, a live Crisis Risk Committee meeting took place when a crisis arose, and a series of rebalances was initiated out of CRO and into the rest of the portfolio at a very opportune time at her direction. That is an example of the governance structure in place; it is a robust control process that is there. DCIO commented that so far through the end of February, inception-to-date returns for the first five new DS managers, totaling about $900 million, have ranged from flat to up 17%, although this is very early in the life of the strategies. He also noted that nearly all of the goals for the fiscal year that were laid out to the Board in the planning presentation last August were achieved.

Chair Barfield asked how much of the 28% target allocation for this fiscal year is currently in the old CRO strategies?

DCIO Hodel responded 14% CRO, about 4% principal protection and 1% public real return, making up nearly 20%."

Chair Barfield asked if 8% of the target is in new Diversifying Strategies.

CIO Burton responded that 28% is the target, not what is currently there.

DCIO Hodel explained that because of the March 2020 rebalances, the CRO duration strategy dropped below its target allocation and the outperformance of the growth strategies since then ended up resulting in the CRO strategies being several percent underweight. They have been gradually brought back up as a result of rebalances to trim growth risk and redeploy capital back into duration and new DS strategies.

Chair Barfield observed that in simple terms, net at the fiscal year of 2021, about 8% of the portfolio would be in the new Diversifying Strategies hedge funds assets.

DCIO Hodel agreed that about 8% this fiscal year should be in new DS strategies, although currently that figures is a bit less than 6%, so we have about 2% or 3% to go this year and next year DS is scheduled to grow an additional 4.5%, reaching about 12% or 13% in new DS strategies.

Mr. Bebee commented that it is important to note that the bulk of capital is still CRO and we are just building around that.

DCIO Hodel commented that because the growth class has done so well since March 2020, DS has received nearly $1.5 billion of capital back to redeploy this fiscal year. Duration strategies were brought back up close to target and additionally built a half billion dollar Treasury Inflation-Protected Securities portfolio that was not in the original plan because there were not enough diversifiers yet for that capital infusion; eventually readjust some of the capital that has created an imbalance within DS.

Vice Chair Chan asked how much dollar growth in DS comes from the assumed appreciation in the value of the portfolio from this fiscal year to next fiscal year.

DCIO Hodel responded that there is a 5% annual increase from performance assumed every year, which would equate to roughly $300 million annually.

Chair Barfield and Trustee Machida thanked DCIO Hodel for the presentation commenting that it was a good review and presentation.

DCIO Hodel responded that everyone involved wants to be transparent, making sure the Board is comfortable with the process.

CIO Burton summarized the ERS internal processes presentation noting that it was presented to the Board in October 2020 so she provided it as a refresher. It is also in the Boardworks documents from the October meeting. Regarding Vice Chair Chan's question about the IIC and IEIC, page 40 and 44 illustrates Investment Office approvals which lays out the difference between the IIC and the IEIC.

SUMMARY OF FEBRUARY 2021 INVESTMENT OFFICE ACTIVITIES:

- MARKET OVERVIEW
- CURRENT STATUS OF ACTIVITIES OF THE INVESTMENT OFFICE
- HIERS 2020 ESG REPORT

Deputy Chief Investment Officer Howard Hodel and Chief Investment Officer Elizabeth Burton presented an update on the market. DCIO Hodel presented market information for the month of February:

DCIO Hodel reported that the global equity markets rose about 2.5% in February after hitting highs mid-month before backing off the final two days of the month, due to optimism from the global deployment of multiple, effective COVID-19 vaccines, favorable economic news, accommodative central banks, and the near certainty of another large U.S. relief package ($1.9 trillion American Rescue Plan.) Treasury yields rose with the 10-year yield increasing by 33 bps and the 30-year increasing by 30 bps, leaving the yield curve sloping gradually up from about 4 bps for the three-month Treasury bill to 2.17% for the 30-year Treasury.

U.S. large cap equities were up nearly 3%, while the NASDAQ was up about 1% and U.S. small caps rose over 6% during February.

In currencies, the U.S. dollar was unchanged versus foreign currencies. Commodities posted strong returns with indexes increasing between 6.5% and 9%, led by the surge in oil prices.

CIO Burton gave an overview of her report as follows:

CIO Report

CIO Burton reported that February/March was a very busy month for the Investment Office:

- Portfolio rebalancing after year end
- New funds coming to market
- Team turnover at managers as people waiting to switch jobs until after year-end bonuses
- Lots of CMA coming from banking and consulting world
- A lot time spent on reporting for CAFR and PRI which is due in April
- Legislative hearings
- Rebalancing ERS portfolio

[End of CIO Report]

IO Goo mentioned nothing additional to report for Broad Growth.

IO Wetzel reported that real assets is a growing area in the portfolio, and he continues to rebalance, monitor existing strategies and build out new strategies. In core real estate, staff had an update call with our separate account manager. Performance as of December 31, 2020 has been strong with higher income returns than the ODCE benchmark. Industrial and storage had done extremely well during Covid, with high occupancy and demand. According to a new AL study, core is planning to be built out and we are looking into co-mingled open-end funds to complement the separate accounts around the second half of the year. Non-core real estate commitments are on track with plan. Total commitments of $90M (two funds) have been approved for calendar 2021. Staff is currently working on a third fund commitment and plans to recommend to internal committees in March.

IO Au reported staff, legal counsel and managers have closed on three deals to date for a total of $140 million. Calendar year 2021 continues on a strong pace. These funds have foundational managers with proven track records and include two growth equity funds and one large buyout fund. Staff anticipates a significant number of foundational managers coming back to the market in calendar year 2021.

Staff continues to track the financial markets' current economic uncertainty and its effects on the private equity portfolio. There is continued resilience with private growth generating a return of 10.92% versus 1.07% for its benchmark (preliminary and unaudited).

DCIO Howard Hodel reported the Crisis Risk Indicators were green in February. 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 February were favorable for trend, relative value/arbitrage and systematic macro strategies, but unfavorable for defensive macro, duration and alternative risk premia strategies.

Staff continues 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.

Investment Specialist Chen explained the VIX averaged 23.1% (closing between 20% and 30.2%) for the month. The current level is above the long-term historical average level of 19.5%. The S&P 500 index returned 2.8% in February, while the ERS's Active Traditional Equity returned 4.6%.

Daily tracking of the ERS portfolio performance during February indicated an annualized volatility of 12%, below the average annualized volatility of 9.1% over the past three years.

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

CIO Burton explained that during February the staff recommendation to invest up to 1.0% of total ERS assets in Diversifying Strategies-Liquid Diversifying-Relative Value/Arbitrage mandate, and referred the Staff recommendation to the ERS Board Investment Committee ("IC") to approve an increase in the initial allocation to $300 million. The Board IC approved the recommendation in February.

The IEIC approved to invest up to $50M in a Real Assets Non-Core Real Estate (Opportunistic) fund as well as $40M in a Real Assets Non-Core Real Estate (Value-add) debt fund.

DCIO Hodel presented an ERS ESG report prepared by IS Chen. ERS staff with assistance from Meketa so far this fiscal year (1) sent out a survey to the Trustees on their ESG priorities, (2) sent out a survey to ERS public equity managers on their ESG practices, (3) conducted an ESG education session for Trustees, and (4) compared ERS active equity managers' ESG scores to the ERS' global equity benchmark index. He highlighted several key findings from the study including that all eight public equity managers have ESG firm-level ESG policies and ESG investment policies, fossil fuel investments are very low at only0.17% of ERS assets and the ESG scores equity portfolios continue to improve. The following is a summary of the presentation:

Overview

- In May 2018, ERS became a signatory of the United Nations principles for Responsible Investment.
- Principles for Responsible Investment are a voluntary & aspirational set of principles that offer insight into investment practices related to:
    - Environment

- Social
- Corporate governance

Principles for Responsible Investment

- Incorporate ESG issues into investment analysis & decision-making processes.
- Be active owners & incorporate ESG issues into our ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Promote acceptance & implementation of the Principles within the investment industry.
- Work together to enhance our effectiveness in implementing the Principles.
- Each report on our activities & progress towards implementing the Principles.

Environmental, Social & Governance reporting include the following factors:

- Environmental
  - Sustainable land use
  - Plastics
  - Water
  - Fracking
  - Methane
  - Biodiversity
- Social
  - Human rights & labor standards
  - Employee relations
  - Conflict zones
- Governance
  - Executive pay
  - Corruption
  - Director nominations
  - Cyber Security

ENTER EXECUTIVE SESSION

EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee entered Executive Session at 10:35 a.m.

APPROVAL OF EXECUTIVE SESSION MINUTES – FEBRUARY 22, 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 February 22, 2021, meeting as presented.

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, 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

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 UPDATES ON STATUS OR ISSUES RELATED TO CONFIDENTIAL ERS INVESTMENT PORTFOLIO UPDATES REGARDING: DISCUSSION OF CONSULTANT SERVICES APPLICABLE TO THE DIVERSIFYING STRATEGIES SEGMENT OF THE ERS PORTFOLIO

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 12:04 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 12:05 p.m.

REDACTED
SIGNATURE

Elizabeth T. Burton
Chief Investment Officer
EB/dlg