

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

APRIL 24, 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, Deputy Chief 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 – Real Assets
Mr. Andrew Chen, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Lori Kim, Secretary
Ms. Diana Gomes, Secretary

Public present:
(via teleconference)

Mr. Cyril Espanol, Journalist

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 9:02 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 Nineteenth Supplementary Proclamation related to the COVID-19 Emergency dated April 9, 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
MARCH 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 March 22, 2021 meeting as presented.

SUMMARY OF MARCH 2021
INVESTMENT OFFICE ACTIVITIES:

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

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 March:

DCIO Hodel reported that just like February, the global equity markets rose about 2.5% in March, due to economic optimism from the global deployment of multiple, effective COVID-19 vaccines, favorable economic news, accommodative central banks, and the passage of the \$1.9 trillion American Rescue Plan. Treasury yields rose with the 10-year yield increasing by 30 bps and the 30-year increasing by 24 bps, leaving the yield curve sloping gradually up from about 4.5 bps for the three-month Treasury bill to 2.41% for the 30-year Treasury.

U.S. large cap equities were up nearly 4.5%, while the NASDAQ was up about 0.5% and U.S. small caps rose about 1% during March.

Commodity indexes fell roughly 2.5% in March after surging the previous several months due to energy prices declining.

ERS pension fund assets are approximately \$21 billion as of today.

CIO Burton gave an overview of her report as follows:

CIO Report

CIO Burton reported that April was a very busy month for the Investment Office:

- She spoke to a group of Goldman Sach's wealth managers about where the portfolio is positioned and what we are considering moving forward.
- The 3-month annualized data looks inflationary.
- Spike in agricultural commodities and timber at some of its highest rates.
- Some interesting sectors in the next few years are:
 - Long-short equity in currently out-of-favor sectors like energy.
 - Event-driven strategies.
- Concern about domestic inflation since portfolio largest risk driver is U.S. growth.
- IO Wetzel has been doing a lot of work since January 2019 to bring the real assets portfolio up to target weight. This was helped by the updates to the IPS.
- IO Wetzel is very busy researching some interesting prospects in infrastructure and agriculture.
- DCIO Hodel, IS Chen and CIO Burton finished the questions and answers section for the UNPRI. ED Williams is currently finalizing the Senior Leadership Statement. All items should be complete for submission at the end of the month.

[End of CIO Report]

IO Wetzel reported that real assets is a growing area in the portfolio and since January 1, 2019, 14 funds at total commitments of \$768 million have been approved. Staff continues to implement ongoing monitoring process of existing managers and evaluate new prospective investments to build out the real asset portfolio.

Consolidating from two core real estate separate account managers to one continues with the remaining separate account manager managing the existing properties and researching additional opportunities with plans to invest remaining unfunded commitments over the next 18-24 months. ERS committed \$550 million to the manager's separate account and an additional \$50 million to the manager's core real estate debt fund for a \$600 million total commitments.

An updated real estate strategic/pacing plan for CY 2021, including the new long-term allocation targets from 2019 A/L study factored in, was approved by the Board in August. The long-term target allocation to core real estate increased considerably, resulting in a meaningful increase in new commitments to core real estate moving forward with Calendar 2021 commitments targeting \$150 million (\$110-\$190 million range). Calendar 2021 pacing plan for non-core real estate commitments is a \$100 million target (\$70-\$130 million range). Total commitments of \$140 million for three funds were approved for calendar 2021 and actual commitments are on track with plan.

Infrastructure and agriculture components are underweight and a priority to build out new commitments in these areas. Total infrastructure commitments of \$200 million for two funds were approved for calendar 2020. Staff is currently working on a new infrastructure fund commitment and planning to present to the Internal Investment Committee for approval in April. Additional real asset funds are in the due diligence pipeline for the coming months. Biden's infrastructure plan should further assist the U.S. crumbling infrastructure and will help long-term for this class.

IO Au reported that calendar year 2021 continues a strong pace of fundraising. Staff, Hamilton Lane and legal counsel to date have closed for a total of \$240 million in commitments. Four of these funds are considered foundational managers with proven track records while the fifth fund has potential to be considered a foundation manager upon passing a second investment due diligence by Hamilton Lane. There are two other investments currently in the pipeline undergoing due diligence for \$125 million in commitments. Private equity has been resilient in the current pandemic economy, particularly with managers that have proven track records, who successfully managed through the bottom of the economic slowdown.

Staff anticipates a significant number of foundational managers coming back to market in calendar year 2021. The strong start promises well for reaching the commitment target range of between \$550 million and \$650 million by year-end 2021. Staff also continues tracking the current economic uncertainty in the financial markets and its effects on the Private Growth portfolio. Private Growth does appear to be on the rebound as performance for the 5-year period ending March 31, 2021

showed continued resilience. Private Growth generated a 5-year return of 17.75% versus 14.16% for its benchmark (preliminary and unaudited) which is over 300 bps of outperformance. The financial markets continue to recover including the private equity portfolio.

DCIO Howard Hodel reported the Crisis Risk Indicators were green in March. The DS liquid portfolio at month-end remained long fixed income, commodities, and equity while foreign currency exposure flipped from long to short since the beginning of the month. The DS liquid portfolio has been negatively, or only moderately positively, correlated to the rest of the ERS portfolio, which has reduced the volatility of the total ERS portfolio. The capital markets in March were favorable for trend, alternative risk premia and defensive macro strategies, but unfavorable for relative value/arbitrage, systematic macro and duration 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 21.8% (closing between 18.9% and 28.6%) for the month. The current level is above the average level of 17.8% over the past five years.

Daily tracking of the ERS portfolio performance during March indicated an annualized volatility of 10.6%, above 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.

The IEIC approved the Staff recommendation to invest up to \$50 million in a Real Assets-Non-Core Real Estate (Value-add) fund.

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 HRS CHAPTER 92F,

On a motion made by Trustee Machida, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee entered Executive Session at 9:20 a.m.

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 INTRODUCTION OF A NEW MANAGER; APPROPRIATE ACTION.

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 LIMIT.

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 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, 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

RECOMMENDATION TO MAKE CHANGES TO THE MANAGER WATCH LIST; APPROPRIATE ACTION.

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: DISCUSSION OF CONSULTANT SERVICES APPLICABLE TO THE DIVERSIFYING STRATEGIES SEGMENT OF THE ERS PORTFOLIO.

APPROVAL OF EXECUTIVE SESSION MINUTES – MARCH 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 March 22, 2021, requesting the removal of "... like such as Trustee Kane indicated" from the second to the last paragraph in the document.

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