

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII

JUNE 14, 2021

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

Trustees present: Mr. Jerome Rauckhorst, Vice Chair (in person)
(by teleconference) Mr. Vincent Barfield
Dr. Catherine Chan
Mr. Craig Hirai
Dr. Genevieve Ley
Mr. Wesley Machida
Mr. Bennett Yap

Trustees absent: Mr. Emmit Kane, Chair

Staff present: Mr. Thomas Williams, Executive Director
(City Financial tower Ms. Kanoe Margol, Deputy Executive Director
by teleconference) Ms. Donna Curry, Program Specialist
Mr. Bart Asato, Program Specialist
Ms. Shanna Sakagawa, Program Specialist
Ms. Diane Tengan, Staff Services Supervisor
Ms. Elizabeth Burton, Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Howard Hodel, Deputy Chief Investment Officer
Mr. David Okamoto, Investment Officer – Credit Markets
Mr. Ian Wetzel, Investment Officer – Real Assets
Ms. Gerri Konishi, Member Home Loan Assistant (audio only)
Ms. Diana Gomes, Secretary
Ms. Dale Kehau Kanae, Recording Secretary
Ms. Lori Kim, Secretary

Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General
(by teleconference) Ms. Elmira Tsang, Deputy Attorney General
Ms. Diane Wong, Deputy Attorney General

Guests present: Ms. Natalie Fitch, Hamilton Lane Advisors, LLC
(by teleconference) Mr. Paul Yett, Hamilton Lane Advisors, LLC
Mr. Colin Bebee, Meketa Investment Group, Inc.
Mr. Jack Dowd, Townsend Group, an Aon Company
Mr. Chae Hong, Townsend Group, an Aon Company

QUORUM/CALL TO ORDER

A quorum being present (Vice Chair Rauckhorst, Trustees Barfield, Chan, Hirai, Ley, Machida, and Yap), Vice Chair Rauckhorst presided and called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 9:05 a.m.

On a motion made by Trustee Barfield, seconded by Trustee Chan, and unanimously carried, to be able to hold a meeting closed to the public and allow Trustees to participate by teleconference or other remote meeting technology, pursuant to the Governor of the State of Hawaii's Twenty-First Proclamation Related to the COVID-19 Emergency, dated June 7, 2021, in order to implement social distancing measures.

PUBLIC COMMENT

Vice Chair Rauckhorst called for public comment. There were no members of the public present by teleconference and no written testimony received for this meeting.

EXECUTIVE DIRECTOR'S REPORT

Executive Director (ED) Thomas Williams gave an oral presentation of his report to the Board as follows:

- A video tape from NCTR on cyber security and ransomware was viewed by ERS Staff that revealed cases that have disabled public pension plans for weeks. ERS staff is working with ETS on a Ransomware Response Plan and are continuing its phishing testing with ERS staff.
- Letters were sent to all employers, state agencies, county mayors and finance officers, informing them that the Board granted a one-year extension to the compliance time of Act 87 to July 1, 2022. ERS staff is working with employers to be compliant and will report quarterly to the Board, as requested.
- Regarding the RFP for Actuarial Services, the ERS' Evaluation Committee held two debriefs for companies that were not awarded the bid to understand the strengths and weaknesses of their proposals.
- Discussed with tax counsel and Comptroller Curt Otaguro a proposed salary reduction plan by Compensation Plus, that offers employees payment of unreimbursed business expenses through payroll deduction. This plan would start with charter schools and eventually be extended to other State employees. ERS voiced opposition to the plan as it would lower contributions and create more unfunded liability, unlike other 403B or 401K plans. ERS will continue to monitor this proposed plan.
- ERS researched a letter received by B&F alleging that ERS engaged in fraudulent accounting practices from 2011 to 2014 in the amount of \$7.4 billion. ERS' obligations were not reflected in the State financial statements, however, EUTF did have its unfunded liability reported and the change in unfunded liability of \$7.4 billion is believed to have occurred when EUTF went from a pay-as-you-go to a pre-funding program.
- An increase in the number retirements is impacting the overtime and workload of the Retirement Benefits Branch. In June of 2020, 282 retirements vs. 345 for June of 2021, a 22% increase; and in July of 2020, 200 retirements vs. 405 for July 2021, 102% increase.
- The Trustee election teacher seat nomination deadline, addressed in Deputy Executive Director (DED) Margol's report, is today and two candidates have submitted their names, Ms. Lynne Wilkens, endorsed by the University of Hawaii Professional Assembly, and Ms. Catherine Chan.
- The ERS Investment Summit, to be reported by Chief Investment Officer (CIO) Elizabeth Burton, is scheduled for July 28 and 29.
- ERS staff is continuing to update the 2017 Disaster Recovery and Business Continuity Plans with a number of meetings that also included KMH and RSM.

DEPUTY EXECUTIVE DIRECTOR'S OPERATIONS REPORT

DED Margol gave updates to ERS staffing and projects of Administration, Accounting, Information Services, Retirement Benefits and Staff Support Services Branches as presented in the May 2021 Monthly Operations Report.

In response to DED Margol's report, the Board requested that dates of the vacancies be identified rather than listing "new vacancy." The Board also requested ERS review the numerous IT positions and consider adding cyber security information in its position description.

STAFF SUPPORT SERVICES REPORT

Staff Support Services Supervisor, Diane Tengan gave an oral and written report to the Board on a brief overview of the services her branch provides.

MEKETA INVESTMENT
GROUP, INC. –
QUARTERLY
PERFORMANCE REPORT

Vice Chair Rauckhorst reminded the Board that the upcoming investment performance report presentations were already presented at the Investment Committee meeting and summary presentations are being given today.

Meketa Investment Group, Inc. (Meketa), Colin Bebee entered the meeting by teleconference and presented an oral and written report to the Board on the Quarterly Performance for the 1st Quarter of 2021:

INTRODUCTION

Performance vs. Policy Benchmark and Median Public Fund

- The ERS Total Portfolio generated a 4.1% quarterly return, increasing by roughly \$990 million in Q1 to end the period at \$20.6 billion.
- The ERS Total Portfolio outperformed the Policy Benchmark over the trailing 1-, 3-, 5-, and 10-year periods and matched the benchmark during the recent quarter. The portfolio's strategic classes and underlying components exhibited mixed relative performance over the quarter. In aggregate, Broad Growth outperformed by 0.3% over the quarter whereas Diversifying Strategies underperformed by (-1.4%).
- The ERS Total Portfolio outperformed the Median Public Fund over the recent quarter but underperformed across all other time periods measured. Underperformance over the longer trailing periods is attributable to the ERS's more risk-focused, diversified, and globally-oriented portfolio construction. Over the trailing 1-year period, for example, public equity markets soared by roughly 30-90% (depending on the region and market capitalization) as the capital markets rebounded from the onset of COVID-19 in Q1 2020. Considering this market environment, the ERS's peer-relative performance is entirely in-line with expectations.
- As part of the new strategic allocation that was approved during the 2019 Asset-Liability study, the ERS adopted new evolving policy targets that took effect 7/1/2020. The next phase of policy target changes will take place on 7/1/2021. In particular, the ERS is continuing to increase the allocations to Diversifying Strategies, Real Assets, and Private Growth, with the capital coming from the Public Growth portfolio. As of the latest quarter end, the Total Portfolio ended the latest quarter overweight the Public Growth and Private Growth components, while underweight Real Assets and Diversifying Strategies. While not explicitly shown, the ERS's overlay program also assists the ERS in staying closer to policy targets.

ERS PORTFOLIO REVIEW

Performance Attribution vs. Policy Benchmark – Gross of Fees

- The Total Portfolio tracked the Policy Benchmark over the most recent quarter.
- Implementation within the Broad Growth (i.e., Private Growth) and Diversifying Strategies (i.e., Liquid Defensive) classes detracted from relative performance over the most recent quarter. With the exception of Liquid Defensive, weighting decisions throughout the portfolio added to relative performance over the quarter.
- Due to the new allocation framework, attribution analysis longer than the most recent quarter is unavailable.

TOWNSEND GROUP, AN
AON COMPANY – FOURTH
QUARTER 2020 REAL
ESTATE PERFORMANCE
REVIEW

Investment Officer Ian Wetzel, and Townsend Group, an Aon Company (Aon), Chae Hong, entered the meeting by teleconference and presented an oral and written report to the Board on the 4th Quarter 2020 Real Estate Performance Review and discussed:

EXECUTIVE SUMMARY

HIERS' Real Estate Performance Summary

TOWNSEND GROUP, AN
AON COMPANY – FOURTH
QUARTER 2020 REAL
ESTATE PERFORMANCE
REVIEW (CONT'D)

HAMILTON LANE
ADVISORS, LLC –
PRIVATE EQUITY
PROGRAM UPDATE – FOR
PERIOD ENDING
DECEMBER 31, 2020

REPORTS BY
ADMINISTRATIVE &
AUDIT, COMPENSATION
REVIEW, GOVERNANCE
POLICY, INVESTMENT
AND KAAPALI AD HOC,

Overall, the portfolio is performing well, outperforming the NFI-ODCE Index on a net of fee basis over all measurement periods with the exception of since inception. The total portfolio has generated a 8.0% net IRR and 1.41x net equity multiple since inception.

HIERS' Timber Performance Summary

Over longer-term periods the portfolio is outperforming the NTI Index on a gross of fee basis, while underperforming in the near-term. The total portfolio has generated an 8.1% net IRR and a 2.49x net equity multiple since inception.

HIERS' Infrastructure Performance Summary

Overall, the portfolio is performing well, outperforming the CPI + 400 BPS benchmark on a gross basis over all measurement periods. The total portfolio has generated an 16.5% net IRR and 1.42x net equity multiple since inception.

(Trustee Hirai entered the meeting by joining the teleconference at 9:45 a.m.)

Investment Officer – Illiquid Markets Aaron Au, and Hamilton Lane Advisors, LLC, (HL), Natalie Fitch and Paul Yett entered the meeting by teleconference and presented an oral and written report to the Board on the Private Equity Program Update – For Period Ending December 31, 2020.

Ms. Fitch and Mr. Yett discussed the Portfolio Review and Market Update:

PORTFOLIO REVIEW

PE Portfolio Highlights

- Net value increase of \$348.6M during Q4, continuing strong performance from Q2 and Q3.
- One-year net IRR of 26.86%, outperformed public benchmark by 1,055 bps.

Portfolio Snapshot

- Q4 2020: Portfolio continued strong performance from Q2 and Q3.
- Continued growth towards 13.5% target allocation.

MARKET UPDATE

Private Markets Trends

- Purchase Price multiples maintained their elevated levels, reaching all-time hits in Q1 2021.
- Lending activity also remains high for new deals with a backlog of opportunity fueled by strong capital markets.
- Coverage ratios remain in-line with price year levels.

Private Markets Activity

- Despite a slowdown in activity in Q2 2020, capital calls for the full year remained in-line with historical levels as buyers have picked up activity which has continued through Q1 2021.
- Fundraising levels rallied late in 2020 and are expected to increase further in 2021 due to pent up demand and increased rates of contribution activity.

After their presentation, Ms. Fitch and Mr. Yett left the meeting by exiting the teleconference.

Administrative & Audit Committee Chair Ley stated that she did not have anything to report.

Compensation Review Committee Chair Rauckhorst stated that the item to be reported on is in Executive Session.

Governance Policy Committee (Committee) Chair Kane was not in attendance

AND LEISLATIVE
COMMITTEES

and Vice Chair Rauckhorst stated that the Committee did not meet and there was nothing to report.

Investment and Kaanapali Ad Hoc Committees (Committee) Chair Barfield reported to the Board that the Committee met on May 24, 2021, and reviewed the quarterly reports from the consultants (Meketa, Aon, and HL), presentations given from FRM on diversified strategies and Morgan Stanley on real asset opportunities, reviewed the standard report on Investment Office activities with the addition of the quarterly risk report and inflation scenario analysis, covered executive session items on finalized fiduciary roles and responsibilities matrix, first transaction approved with Meketa concurrence under diversified strategies, reviewed manager pipeline organizational changes, and update on private investments. No new updates on Kaanapali.

Legislative Committee (Committee) Chair Chan reported that there was no Committee meeting held and nothing new to report, however, requested any ideas for Legislative bills for next session to be submitted to either Program Specialist Donna Curry or herself.

DISCUSSION ON 2021
INVESTMENT SUMMIT

CIO Burton reported that the Investment Summit (Summit) will be held virtually as it was difficult to plan given the COVID restrictions. The Summit is scheduled for July 28-29, 2021, with executive session items to be held on July 28, 2021. If the Trustees would like any specific subject matter, please send to CIO Burton or ED Williams. Once the agenda has been finalized, it will be shared with everyone.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Ley, seconded by Trustee Machida and unanimously carried, the Board entered into Executive Session at 10:08 a.m.

(Public participation was ended by closing the link to the meeting. All participants and staff were excused from the meeting by ending their teleconference or exiting the room except for the Board, Deputy Attorney General Ivan Torigoe, ED Williams, CIO Burton, and Recording Secretary Dale Kehau Kanae.)

EXECUTIVE SESSION

- Pursuant to HRS § 92-5(a)(2) and (4), to evaluate the performance of duties and compensation of Employees' Retirement System's personnel, where matters affecting privacy will be involved, 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 the evaluations and the use of not-to-exceed employment dates; appropriate action.
- Pursuant to HRS § 88-92-5(a)(2) and (4), Report of the Compensation Review Committee relating to the performance, evaluation, goals and objectives established for certain exempt and non-exempt staff of the Employees' Retirement System; appropriate action

(See Executive Session Confidential Supplemental Minutes for this agenda item.)

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(2) AND (4), TO
EVALUATE THE
PERFORMANCE OF DUTIES
AND COMPENSATION OF
EMPLOYEES' RETIREMENT
SYSTEM'S PERSONNEL,
WHERE MATTERS
AFFECTING PRIVACY WILL
BE INVOLVED, 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 THE
EVALUATIONS AND THE USE
OF NOT-TO-EXCEED
EMPLOYMENT DATES;
APPROPRIATE ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-92-
5(a)(2) AND (4), REPORT OF
THE COMPENSATION
REVIEW COMMITTEE
RELATING TO THE
PERFORMANCE,
EVALUATION, GOALS AND
OBJECTIVES ESTABLISHED
FOR CERTAIN EXEMPT AND
NON-EXEMPT STAFF OF THE
EMPLOYEES' RETIREMENT
SYSTEM; APPROPRIATE
ACTION

(See Executive Session Confidential Supplemental Minutes for this agenda item.)

APPROVAL OF EXECUTIVE
SESSION CONFIDENTIAL
SUPPLEMENTAL MINUTES
– MAY 11, 2021

APPROVAL OF EXECUTIVE
SESSION MINUTES
– FEBRUARY 8, 2021
– MARCH 8, 2021
– APRIL 12, 2021
– MAY 11, 2021

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Chan, and unanimously carried, the Board exited Executive Session at 11:23 a.m.

APPROVAL OF MINUTES
– FEBRUARY 8, 2021
– MARCH 8, 2021
– APRIL 12, 2021
– MAY 11, 2021

On a motion made by Trustee Barfield, seconded by Trustee Yap, and unanimously carried, with Trustee Chan abstaining, the Board approved the Minutes of February 8, 2021, as presented.

On a motion made by Trustee Barfield, seconded by Trustee Yap, and unanimously carried, the Board approved the Minutes of March 8, 2021, as presented.

On a motion made by Trustee Barfield, seconded by Trustee Yap, and unanimously carried, the Board approved the Minutes of April 12, 2021, as presented.

On a motion made by Trustee Barfield, seconded by Trustee Ley, and unanimously carried, the Board approved the Minutes of May 11, 2021, as presented.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Trustee Yap, and unanimously carried, Vice Chair Rauckhorst adjourned the meeting at 11:25 a.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik