

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

JUNE 28, 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
Absent:	Mr. Emmit Kane
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 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
Absent:	Ms. Kanoe Margol, Deputy Executive Director Ms. Elizabeth Burton, Chief Investment Officer
Public present: (via teleconference)	None

CALL TO ORDER

A quorum being present (Chair Barfield and Vice Chair Chan), Chair Barfield called the Investment Committee meeting to order at 9:00 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 Twenty-First Proclamation related to the COVID-19 Emergency dated June 7, 2021, in order to implement social distancing measures.” On a motion made by Vice Chair Chan, seconded by Chair Barfield 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 MAY 24, 2021

On a motion made by Vice Chair Chan, seconded by Chair Barfield and unanimously carried, the Investment Committee approved the minutes of the May 24, 2021 meeting as presented.

## PRESENTATIONS

### • INVESTMENT POLICY REVISIONS: BROAD GROWTH

PURSUANT TO HRS § 88-27.5(A)(1) AND HRS § 92-5(A)(4), THE BOARD OF TRUSTEES MAY ENTER INTO EXECUTIVE SESSION 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 THIS MATTER

DCIO Hodel explained that changes to Investment Policy Statement (IPS) were expected and non-significant, but necessary due to the portfolio transition and to comply with the October 2019 approved asset liability study regarding the IPS Strategic Target Portfolio Benchmarks for the investment policy statement.

The expected approved changes were outlined as follows:

- Section C – ERS General Investment Overview
- Section D – Broad Growth Program
- Section F – Diversifying Strategies (DS)

In Section F, there are also minor wording corrections and updates related to the ERS Diversifying Strategies (DS) manager and general consultant responsibilities and authorities. Specifically, the general consultant, Meketa, now provides comments and concurrence memos for new manager investment and risk guidelines which are now incorporated into the IPS.

Chair Barfield asked what portion the former Crisis Risk Offset (CRO) strategies would represent of the new, higher DS allocation. DCIO Hodel responded that the new plan as presented at the recent ERS investment team's offsite meeting will be about 40% of DS, or about 14% of total ERS portfolio by the end of fiscal year 2022. We are keeping the original target for the defensive strategies within DS that we had in before the CRO allocation to provide a reasonable offset to growth risk.

On a motion made by Vice Chair Chan, seconded by Chair Barfield and unanimously carried, the Investment Committee approved the changes to the IPS as presented.

### SUMMARY OF MAY 2021 INVESTMENT OFFICE ACTIVITIES:

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

Deputy Chief Investment Officer Howard Hodel presented an update on the market. DCIO Hodel presented market information for the month of May:

DCIO Hodel reported that for the fourth consecutive month, the global equity markets rose in May (up about 1.6%), due to economic optimism from falling COVID-19 infections and deaths in the developed world, favorable economic news, accommodative central banks, and the economic impact of the \$6 trillion U.S. budget proposal. Treasury yields

decreased in May, leaving the yield curve sloping up from 1 bp for the three-month Treasury bill to 2.26% for the 30-year Treasury.

U.S. large cap stocks were up about 0.7% while U.S. small caps, emerging markets and the NASDAQ indexes rose about 2% during May.

Commodity indexes rose about 3% in May.

DCIO Hodel presented CIO Burton's report in her absence:

### CIO Report

CIO Burton reported that June was another very busy month for the Investment Office:

- On June 3 ERS Investment Staff conducted 28 one-on-one meetings with minority-owned firms through a coordination with the National Association of Investment Companies (NAIC.) Andy Betz of Stafford Capital and Natalie Fitch of Hamilton Lane joined staff to expand the number of meetings taken. The investment team met with hedge fund and private equity managers and is following up with many of those firms.
- The audit-follow-up items were completed and submitted to KMH. We have also participated in their Business Continuity Plan process and assisted in developing procedures for the investment staff.
- On June 17 the investment team conducted a full-day strategic offsite where the investment staff went through the entire portfolio as a team and discussed strategies, pacing, concerns, staffing, and outlook.
- The ERS cumulative excess return since adopting a risk-based allocation methodology (September 2014) is 6.1% - or \$852 million.

[End of CIO Report]

IO Goo had nothing further to add from what was included in the activities report. The portfolio is performing as expected.

IO Wetzel had nothing further to add from what was included in the activities report. IO Wetzel highlighted that staff continues to make good progress on building out the real asset portfolio and commitments are on track with calendar year pacing plan. Staff is currently working on a new agriculture fund commitment. Core real estate and timber separate account managers and the real asset strategic/pacing plan will be presented at the upcoming ERS Investment Summit.

IO Au reported that Private Equity continued to climb consistently with global equities as the portfolio generated a 1-month internal rate of return of 6.81% (preliminary and unaudited) for the period ended May 31, 2021. The return outperformed its public market benchmark by 401 basis points. The long-term performance was just as strong with the 7-year number outperforming its benchmark by over 600 basis points.

As of May 31, 2021, staff closed on seven investments for a total of \$380 million in commitments. One other high conviction manager is

currently undergoing final legal and business due diligence with five others in the pipeline. Good performance to date.

Chair Barfield inquired whether we should increase our allocation to private equity. IO Au responded that they are researching this with Hamilton Lane to find what peers have allocated to private equity and may also engage Meketa to undertake a review as well. DCIO Hodel indicated that there may be up to two percent that can be reallocated to private equity and real assets.

DCIO Howard Hodel reported the Crisis Risk Indicators were green in May. The DS liquid portfolio at month-end remained long fixed income, commodities, and equity while currency switched from long to short U.S. dollar. 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 May were favorable for trend, alternative risk premia, systematic macro and duration strategies but unfavorable for defensive macro and relative value/arbitrage 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 19.7% (closing between 16.7% and 27.6%) for the month. The current level is above the average level of 17.9% over the past five years.

Daily tracking of the ERS portfolio performance during May indicated an annualized volatility of 7.4%, 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.

Executive Director, Thomas Williams, explained that the Governor's Emergency Proclamation halted all business travel for State employees, apart from emergency travel, for the past 16 months. Even with Hawaii's opening to tourism, the travel restrictions have not been lifted by the Governor.

Currently, for ERS staff or Board members to travel, approval must be secured from the Director of the Agency as well as the Comptroller. With the continuing budgetary concerns, the State discourages any travel until the end of the year to reduce expenses and highlight sensitivity to the Covid issue. The recommendation is to continue attending virtual events versus in-person. Travel restrictions will be re-evaluated at some later date.

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Chan, seconded by Chair Barfield, and unanimously carried, the Investment Committee entered Executive Session at 9:38 a.m.

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, 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 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 AN  
INVESTMENT MANAGER  
RECOMMENDATION;  
APPROPRIATE ACTION.

APPROVAL OF EXECUTIVE  
SESSION MINUTES – MAY 24, 2021

On a motion made by Vice Chair Chan, seconded by Chair Barfield, and unanimously carried, the Investment Committee approved the Executive Session minutes of the May 24, 2021.

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Chan, seconded by Chair Barfield, and unanimously carried, the Investment Committee exited Executive Session at 10:38 a.m.

MEETING ADJOURNED

On a motion made by Vice Chair Chan, seconded by Chair Barfield, and unanimously carried, Chair Barfield adjourned the meeting at 10:39 a.m.

**REDACTED  
SIGNATURE**

Howard Hodel  
Deputy Chief Investment Officer  
HH/dlg