

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

JULY 26, 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

Visiting Trustees  
present:  
(via teleconference)

Dr. Genevieve Ley

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  
Ms. Lindsay Saienni, Financial Investment News

CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Chan and Emmit Kane), Chair Barfield called the Investment Committee meeting to order at 9:03 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 JUNE 28, 2021

On a motion made by Vice Chair Chan, seconded by Chair Barfield and unanimously carried, the Investment Committee approved the minutes of the June 28, 2021 meeting as presented.

## PRESENTATIONS

- HEDGED NICHE PRIVATE EQUITY COMPLETION PORTFOLIO EDUCATION SESSION – COMMONFUND CAPITAL

DCIO Hodel explained that for this Diversifying Strategies education session he and IO Okamoto worked on a Niche Private Equity for several months and believe Commonfund Capital has great potential.

Mark Anson, Chief Executive Officer & Chief Investment Officer of Commonfund as well as Peter Burns, President & CEO of Commonfund Capital are the presenters. The following is a summary of the presentation:

Complement the existing portfolio with focus on alpha & diversification by:

- Construct a private capital portfolio with six diversifying components
- Direct manager commitments focusing on growth equity with sector specialist managers, mainly smaller/mid-sized fund managers
- Venture capital emphasizing early stages
- Secondaries emphasizing smaller transaction sizes
- Co-investments in highly resilient sectors
- Private equity environmental sustainability
- Emerging markets

Complement the existing ERS portfolio with smaller, sector specialists by:

- Focusing on a mix of smaller, geographic & sector
- Industry expertise
- Operational enhancements
- Low leverage
- Increase diversification
- Capital efficient secondaries and co-investments
- Tighter LP/GP alignment
- Focus on Investment success vs. fee growth

Benefits of Environmental Sustainability Investing

- Financial Characteristics with potential for:
  - Market rate risk-adjusted returns
  - Diversification benefits
  - Yield orientation
  - Inflation hedging
- Environmental Benefits
  - Carbon emissions
  - Energy efficiency
  - Food production
  - Water quality & access
  - Pollution reduction

## Environmental Sustainability - Opportunities

- Renewables
  - Solar & wind
  - Battery systems
  - Development
  - Services & components
  - Distribution generation
- Food, Agriculture & Water
  - Permanent & row crops
  - Agribusiness
  - Food systems
  - Protein & dairy
  - Water
- Resources Efficiency
  - Energy efficiency
  - Smart buildings
  - Mobility
  - Substitution
  - Recycling & Reuse

- LITIGATION FINANCE  
EDUCATION SESSION –  
LONGFORD CAPITAL

DCIO Hodel explained that for the second Diversifying Strategies education session he and David Okamoto worked on Litigation Finance and believe Longford Capital has great potential.

Timothy Farrell, Co-Founder & Managing Director of Longford Capital as well as William Farrell, Jr., Esq, Co-Founder, Managing Director & General Counsel of Longford Capital are the presenters. The following is a summary of the presentation:

### Litigation Finance:

- Rapidly growing form of specialty finance used by corporate litigants & leading law firms
- Provides non-recourse capital to:
  - Companies to pay attorneys' fees & expenses incurred in litigation
  - Monetize litigation assets
  - Invest in portfolios of cases managed by leading law firms
- Litigation financing is not a loan
- Is a non-recourse or limited recourse investment in the outcome of a meritorious, commercial legal claim
- If the litigation is resolved, the litigation finance company will recover its investment plus agreed return
- If the litigation is not resolved, the litigation finance company is generally owed nothing for that case
- Types of public & private business that use litigation financing:
  - Law firms
  - Universities
  - Government entities
  - Estates in bankruptcy
  - Liquidation proceedings
- Other organizations can use litigation finance to:
  - Spread litigation risk

- Control costs
- Create certainty within budgets
- Work with law firms of their choice
- Overcome liquidity or budgetary constraints
- Avoid adverse impact on corporate balance sheets, profit/loss statements & quarterly earnings per share
- Litigation finance is used by law firms to transfer the risk of alternative fee arrangements or out-of-pocket expenses in contingency matters, & fund portfolios of cases managed by law firms.
- Can benefit:
  - Investors
  - Corporate Litigants
  - Law Firms
  - Legal System

Litigation Finance as an Investment:

- Fast-emerging, alternative asset class
- Used to diversify portfolios
- Generate attractive returns without correlation or traditional market volatility.
- Investments can be harvested at many points & underperforming assets can be exited

Covid Impact Analysis:

- Litigation will increase
- Risk tolerance will decrease for corporate litigants
- Risk tolerance will similarly decrease for law firms
- Increased need for corporate liquidity
- Non-correlated returns more important than ever

Longford Capital believes that the market for litigation finance is underserved with demand greatly exceeding supply of capital.

SUMMARY OF JUNE 2021

INVESTMENT OFFICE ACTIVITIES:

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

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

DCIO Hodel reported that for the fifth consecutive month, the global equity markets rose in June (up about 1.2%), due to economic optimism from falling COVID-19 infections and deaths in the developed world, favorable economic news, accommodative central banks, and the Biden administration's highly stimulative fiscal policies. Treasury yields decreased in June for the third consecutive month. The U.S. Treasury curve slopes up from 5 bps for the three-month Treasury bill to 2.06% for the 30-year Treasury. Globally, the value of stimulus programs exceeds \$20 trillion as developed countries in particular intervene in their capital markets to support their financial systems and provide aid to businesses and individuals.

International stocks were down about 0.5%, while U.S. large cap stocks were up about 2.2% and U.S. small cap were up about 1.7% in June.

Commodity indexes rose about 2% in June.

## CIO Report

CIO Burton reported that June was a very busy month for the Investment Office with Investment Summit preparations.

CIO Burton reported she had nothing to cover at this point. Most items will be covered at the Investment Summit later in the week.

[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. CIO Burton added to Chair Barfield and Vice Chair Chan that they are in the process of working on how to best improve the Real Assets portfolio.

IO Au reported that on June 30, 2021 Private Equity achieved a significant milestone by achieving its targeted allocation of 13.5%. This was the target established in the 2015 asset allocation study and was to be achieved over a 7-year period ending in 2022 and was achieved slightly earlier than projected. During the same 7-year period, the market value increased to \$3.0 billion (as of 6/30/2021) from \$688 million (as of 6/30/2015), an increase of over \$2.3 billion.

The 13.5% target is expected to fluctuate year-to-year as market values change and investments are bought and sold. The portfolio generated significant long-term outperformance over its benchmark by generating a return of 20.36% (preliminary and unaudited) for the 5-year period ended June 30, 2021. The return outperformed its public market benchmark of 15.25% by 511 basis points. Much of the outperformance is because of sound due diligence involved in manager selection.

Staff continues to commit to high conviction managers coming to market. As of May 31, 2021, staff closed on eight investments for a total of \$465 million in commitments. Two other high conviction managers are currently undergoing final legal and business due diligence with three others in the pipeline.

DCIO Howard Hodel reported the Crisis Risk Indicators were green in June. The DS liquid portfolio at month-end remained long fixed income, commodities, and equity while currency switched from short to long 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 June were favorable for defensive macro, alternative risk premia, relative value/arbitrage strategies, systematic macro and duration strategies but unfavorable for trend.

Staff onboarded the AHL Liquid Defensive account at the end of June, negotiated lower fees for one manager and 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 17% (closing between 15.6% and 20.7%) 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 June indicated an annualized volatility of 5.1%, 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.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee entered Executive Session at 10:48 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 – JUNE 28, 2021

On a motion made by Vice Chair Chan, seconded by Trustee Kane, and  
unanimously carried, the Investment Committee approved the Executive  
Session minutes of the June 28, 2021.

EXIT EXECUTIVE SESSION

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

MEETING ADJOURNED

On a motion made by Vice Chair Chan, seconded by Trustee Kane, and  
unanimously carried, Chair Barfield adjourned the meeting at 11:12 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer  
EB/dlg