

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

SEPTEMBER 13, 2021

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

Trustees present:
(by teleconference) Mr. Vincent Barfield
Dr. Catherine Chan
Dr. Genevieve Ley
Mr. Lance Mizumoto
Mr. Bennett Yap

Trustees absent: Mr. Emmit Kane, Chair
Mr. Craig Hirai

Staff present:
(City Financial tower
by teleconference) Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Bart Asato, Program Specialist
Mr. Keith Miyamoto, Information Systems Manager
Ms. Sandra Straub, Applications Supervisor, Information Service's
Ms. Jing Zhang, IT Band C (Senior Systems Analyst)
Ms. Elizabeth Burton, Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. Ian Wetzel, Investment Officer – Real Assets
Mr. Andrew Chen, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant (audio only)
Ms. Diana Gomes, Secretary
Ms. Dale Kehau Kanae, Recording Secretary
Ms. Lori Kim, Secretary
Ms. Andrea Gasper, Secretary

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

Guests present:
(by teleconference) Ms. Natalie Fitch, 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
Mr. Vincent Hoang, CISO, State Office of Enterprise Technology Services

Public present:
(by teleconference) Mr. Rowen Descallar, Journalist, Pageant Media
Mr. Riley Fujisaki, Staff, House Finance Committee
Mr. Albert Vargas, Staff, House Finance Committee

QUORUM/CALL TO ORDER

A quorum being present (Trustees Barfield, Chan, Ley, Mizumoto, and Yap), Trustee Barfield, in Chair Kane's absence, called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 9:03 a.m.

On a motion made by Trustee Ley, 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 Emergency Proclamation Related to the COVID-19 Response, dated August 5, 2021, in order to implement social distancing measures.

PUBLIC COMMENT

Trustee Barfield called for public comment. There were three (3) members of the public present by teleconference, however, none of the public present had any comments. There was also no public written testimony received for this meeting.

Trustee Barfield announced that the meeting agenda items will be taken out of order starting with New Business.

ELECTION OF VICE CHAIR TO THE BOARD OF TRUSTEES

Trustee Barfield called for nominations of Vice Chair for the Board, with the recent departure of Vice Chair Rauckhorst. This term would be for the remainder of the year. Trustees Chan, Yap and Ley nominated Trustee Barfield. There were no other nominations.

On a motion made by Trustee Yap, seconded by Trustee Ley, and unanimously carried, the Board elected Trustee Barfield as Vice Chair of the Board. Vice Chair Barfield presided over the remainder of the meeting.

EXECUTIVE DIRECTOR'S REPORT

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

- Preparation for upcoming months include ERS Budget, Legislation to be submitted with the Governors package to be discussed later in this meeting.
- ERS employees have responded positively to the State's COVID-19 requirements of being fully vaccinated or tested.
- A recent Executive Order issued by Governor Ige on September 9, 2021, requires contractors, vendors, and visitors to provide proof of immunization or a negative test prior to 72 hours in order to enter a State facility. As a result, ERS has notified all contractors, vendors, and by website ERS members.
- ED Williams requested all Board members submit copies of their vaccination cards to the Board Secretary, Kehau Kanae.
- ERS has submitted a blanket approval request to Budget and Finance to be able to hire vacant Civil Service and Exempt positions. We have received approval for the Civil Service positions and are awaiting approval of the Exempt positions.
- Our new telephone system provides data that will help us better plan to serve our members and improve staffing levels.
- Received communication from Tom Maloney, ERS Tax Counsel, that he will be retiring at the end of the year. ED Williams has requested the Board suggest replacements.
- A Trustee orientation will be conducted for Trustee Mizumoto on Trustee responsibilities, various operations of the ERS, and Deputy Attorneys General.

DEPUTY EXECUTIVE DIRECTOR'S OPERATIONS REPORT

Deputy Executive Director (DED) Margol gave updates to the Board on ERS staffing and projects of Administration, Accounting, Information Services, Retirement Benefits and Staff Support Services Branches as presented in the August 2021 Monthly Operations Report.

STAFF INFORMATION SERVICES BRANCH CHIEF'S REPORT

Information Services (IS) Manager Keith Miyamoto entered the meeting and presented an oral report to the Board on IS responsibilities, branch staffing, goals, project updates, and major accomplishments. IS staff members also in attendance were Jing Zhang and Sandra Straub. After the presentation, all IS staff left the meeting.

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 2nd Quarter of 2021:

INTRODUCTION

Performance vs. Policy Benchmark and Median Public Fund

- The ERS Total Portfolio generated a 5.6% quarterly return, increasing by roughly \$885 million in Q2 to end the period at \$21.4 billion. This roughly \$885 million increase includes a cumulative outflow of \$247 million over the quarter.
- The ERS Total Portfolio outperformed the Policy Benchmark during the quarter and over the trailing 1-, 3-, 5-, and 10-year periods. The majority of the strategic classes and their underlying components outperformed their respective benchmarks over all examined trailing periods. Over the quarter, the strongest outperformance came from *Private Growth* (outperformed by 5.8%), whereas the most significant underperformance came from *Illiquid Diversifying* (underperformed by (2.5%) over the quarter).
- 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. 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 and Real Assets, with the capital coming from the Public Growth portfolio. As of the latest quarter end, the Total Portfolio ended the quarter overweight the Public Growth, Private Growth, and Liquid Defensive components, while underweight Real Assets, as well as Liquid and Illiquid Diversifying. While not explicitly shown, the ERS's overlay program also assists the ERS in staying closer to policy targets.

Risk-Adjusted Return of Hawaii ERS vs. Peers

- On a risk-adjusted basis, the ERS Total Portfolio has consistently outperformed relative to the Median Public Fund. This is indicative of a more efficient (i.e., higher return per unit of risk) portfolio that was explicitly constructed by the ERS over the last several asset-liability studies.

ERS PORTFOLIO REVIEW

Asset Allocation vs. Target

Asset Class Performance Summary

Performance Attribution vs. Policy Benchmark – Gross of Fees

- The Total Portfolio tracked the Policy Benchmark over the trailing 1-year period by 290 basis points.
- Weighting and implementation within Broad Growth contributed the majority of relative performance over the period, primarily coming from the Public Growth and Real Asset sub-components.
- Except for Liquid Defensive, weighting decisions throughout the portfolio added to relative performance over the trailing 1-year period, with Liquid Diversifying as the largest contributor.

QUARTER 2021 REAL
ESTATE PERFORMANCE
REVIEW

HAMILTON LANE
ADVISORS, LLC –
PRIVATE EQUITY
PROGRAM UPDATE
– FOR PERIOD ENDING
MARCH 31, 2021

the 1st Quarter 2021 Real Estate Performance Review and discussed:

EXECUTIVE SUMMARY

Real Assets Markets Performance and Overview

- The NFI-ODCE trailing one-year return now stands at 1.5% net. 5-year real estate returns are below the sector’s long-run average of 7-9% gross, which is primarily a result of distress caused by the COVID-19 pandemic.
- The NCREIF Farmland Index (“NFI”) returned 0.9%, down 73 basis points from the prior quarter. Annual crops drove performance with a return of 1.6% while permanent crops lagged with a return of -0.2%.
- The NCREIF Timberland Index (“NTI”) returned 0.8% for the quarter and 1.5% for the trailing one-year return. Both total returns were driven by positive income offsetting negative appreciation. Regionally, the Northeast was the NTI’s top performer while the Lake States was NTI’s bottom performer for the quarter.

HIERS’ Real Estate Performance Summary

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 real estate portfolio has generated a 8.1% 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 infrastructure portfolio has generated a 17.1% net IRR and 1.45x net equity multiple since inception.

HIERS’ Kaanapali Performance Summary

Hamilton Lane Advisors, LLC, (HL), Natalie Fitch entered the meeting by teleconference and presented an oral and written report to the Board on the Private Equity Program Update – For Period Ending March 31, 2021.

Ms. Fitch discussed the Portfolio Review and Market Update:

PORTFOLIO REVIEW

PE Portfolio Highlights – March 31, 2021

- Net value increase of \$288.9M during Q1, continuing strong performance from prior 3 quarters.
- One-year net IRR of 58.70% outperformed public benchmark by 152 bps.

Portfolio Snapshot

- Q1 2021: Portfolio continued strong performance.
- Slightly above 13.5% target allocation

MARKET UPDATE

Private Markets Trends

- Purchase Price multiples continued to reach all-time highs throughout Q2 2021 especially outside of the United States.
- Leverage multiples were flat QoQ but remain elevated as low interest rates and optimistic earnings forecasts have helped enable higher debt ratios.
- Coverage ratios remain steady. While banks are willing to finance leveraged

buyouts, there are concerns over inflated valuations and private equity firms have had to maintain current average equity levels.

Private Markets Activity

- After a period of relatively low capital calls due to uncertainty around the pandemic, Q2 2021 levels are now reaching an all time high.
- The healthy fundraising observed in Q1 2021 is likely to continue and may result in a record year for fundraising.

After the presentation, Ms. Fitch left the meeting by exiting the teleconference.

DISCUSSION OF E-SIGNATURE DOCUMENTS BY THE BOARD OF TRUSTEES

ED Williams discussed with the Board that ERS staff may be using e-sign for documents requiring Trustees signatures, however, some documents may still need to be sign. Documents requested to be signed would go through the appropriate Committees.

REPORT BY ADMINISTRATIVE & AUDIT COMMITTEE

Administrative & Audit Committee (Committee) Vice Chair Yap reported that the last Committee meeting was held on July 1, 2021, however, the next meeting will be scheduled in September to discuss financial audits.

TRUSTEE ELECTION UPDATE.

Vice Chair Yap also reported that DED Kanoe Margol discussed the Trustee Election Update in her Operations Report and no further update is needed.

REPORT BY THE LEGISLATIVE COMMITTEE

Legislative Committee (Committee) Chair Chan reported that the Committee met on September 7, 2021, and elected Trustee Mizumoto as Vice Chair of the Committee.

POTENTIAL LEGISLATIVE PROPOSALS RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2022 LEGISLATIVE SESSION FOR REVIEW AND APPROVAL TO BE CONSIDERED FOR THE GOVERNOR'S ADMINISTRATIVE PACKAGE OF LEGISLATION.

Program Supports Donna Curry shared with the Board that the Committee discussed ERS legislation for the upcoming 2022 Legislative session. The Committee then reviewed the Service-Connected Disability/Accidental Death Benefits amendment (previously submitted to the legislature in 2021 as HB931) which was not passed during the 2021 Legislative Session. The Committee recommended that the proposal as submitted, with subsequently approved legislative amendments, be resubmitted for inclusion in the Governor's administrative package for the 2022 Legislative Session.

On a motion made by Committee Chair Chan, seconded by Trustee Mizumoto, and unanimously carried, the Board accepted the Committee's recommendation that the proposal, with subsequently approved legislative amendments, be resubmitted for inclusion in the Governor's administrative package for the 2022 Legislative session.

REPORTS BY THE COMPENSATION REVIEW, GOVERNANCE POLICY, INVESTMENT AND KAA NAPALI AD HOC, COMMITTEES

Compensation Review Committee (Committee) Chair Ley discussed that the Committee reviewed it's activities for the year. Chair Ley requested a discussion in Executive Session.

Vice Chair Barfield stated that there was no **Governance Policy Committee** meeting held.

Investment and Kaanapali Ad Hoc Committees (Committee) Chair Barfield reported to the Board that the Committee met on August 23, 2021, quarterly reports from consultants, highlighted in today's meeting, were presented in detail. Presentations were also given by FRM and Perimetric Overlay Solutions, the standard reports were reviewed from staff, and in executive Session confidential matters were discussed that involved a manager placed on watch, and detailed pipeline reports were reviewed.

Regarding the sale of the remaining Kaanapali parcel, the consultant manager has launched a marketing effort through CBRE and the process is proceeding.

(Public participation concluded by ending the teleconference link.)

Vice Chair Barfield identified all the participants in Executive Session, the Board and staff members are listed on these minutes. Board members confirmed that no other persons are in the room while they are on the teleconference.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Ley, seconded by Trustee Mizumoto and unanimously carried, the Board entered into Executive Session at 10:20 a.m.

Items in Executive Session were taken out of order.

EXECUTIVE SESSION

- Pursuant to HRS § 92-5(a)(4), and (a)(6) to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to Cyber Security.
- Pursuant to HRS § 92-5(a)(4) and (a)(8), to consult with the Board's attorneys for legal advice regarding procurement and funding of Special Deputy Attorney General contracts for legal services relating to investments in private equity and real estate funds, hedge funds, separate accounts, investment service providers and similar sophisticated investment transactions, and involving consideration of information that must be kept confidential pursuant to state law; appropriate action

HRS § 92-5(A)(4) AND (A)(8),
TO CONSULT WITH THE
BOARD'S ATTORNEYS FOR
LEGAL ADVICE REGARDING
PROCUREMENT AND
FUNDING OF SPECIAL
DEPUTY ATTORNEY
GENERAL CONTRACTS FOR
LEGAL SERVICES RELATING
TO INVESTMENTS IN
PRIVATE EQUITY AND REAL
ESTATE FUNDS, HEDGE
FUNDS, SEPARATE
ACCOUNTS, INVESTMENT
SERVICE PROVIDERS AND
SIMILAR SOPHISTICATED
INVESTMENT
TRANSACTIONS, AND
INVOLVING
CONSIDERATION OF
INFORMATION THAT MUST
BE KEPT CONFIDENTIAL
PURSUANT TO STATE LAW;
APPROPRIATE ACTION.

APPROVAL OF EXECUTIVE
SESSION CONFIDENTIAL
SUPPLEMENTAL MINUTES
– JUNE 14, 2021
– JULY 12, 2021

APPROVAL OF EXECUTIVE
SESSION MINUTES
– JULY 28-29, 2021
– AUGUST 9, 2021

(CIO Burton and Board Secretary Dale Kehau Kanae were excused from the meeting at 10:35 a.m. Only the Board, ED Williams and DAG Torigoe remained in the meeting. DAG Torigoe was the notetaker for the discussion.)

REPORT BY THE
COMPENSATION REVIEW
COMMITTEE (CONT'D)

(DED Margol, Information Services Manager Miyamoto, Applications Supervisor Sandra Straub, IT Band C (Senior Systems Analyst) Jing Zhang, and Board Secretary Kanae re-entered the meeting at 10:41 a.m.)

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), AND (a)(6) TO
CONSIDER AND CONSULT
WITH THE BOARD'S
ATTORNEYS ON QUESTIONS
AND ISSUES PERTAINING TO
THE BOARD'S POWERS,
DUTIES, PRIVILEGES,
IMMUNITIES, AND
LIABILITIES, AND TO
CONSIDER SENSITIVE
MATTERS RELATED TO
CYBER SECURITY

EXIT EXECUTIVE SESSION

On a motion made by Trustee Mizumoto, seconded by Trustee Ley, and unanimously carried, the Board exited Executive Session at 11:27 a.m.

APPROVAL OF MINUTES
– JULY 28-29, 2021
– AUGUST 9, 2021

Approval of minutes for this agenda item were deferred to the next meeting.

ADJOURNMENT

On a motion made by Trustee Mizumoto, seconded by Trustee Ley, and unanimously carried, Vice Chair Barfield adjourned the meeting at 11:27 a.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik