

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

JANUARY 14, 2019

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

Trustees present: Mr. Vincent Barfield, Chair  
Dr. Catherine Chan, Vice Chair  
Mr. Roderick Becker  
Ms. Jackie Ferguson-Miyamoto  
Mr. Emmit Kane  
Dr. Genevieve Ley  
Mr. Wesley Machida  
Mr. Jerome Rauckhorst

Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General  
Ms. Jodi Yi, Deputy Attorney General

Staff present: Mr. Thomas Williams, Executive Director  
Ms. Kanoe Margol, Deputy Executive Director  
Ms. Donna Curry, Program Specialist  
Ms. Elizabeth Burton, Chief Investment Officer  
Mr. Aaron Au, Investment Officer – Illiquid Markets  
Mr. Andrew Chen, Investment Specialist  
Mr. Anthony Goo, Investment Officer – Liquid Markets  
Mr. Howard Hodel, Investment Officer – Risk Management  
Mr. Ian Wetzel, Investment Specialist  
Ms. Gerri Konishi, Member Home Loan Assistant  
Ms. Dale Kanae, Board Secretary (Recording Secretary)  
Ms. Lori Kim, Secretary

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC (PCA)

Public present: Mr. Jordan Fein, UNITE HERE Local 5  
Ms. Laurel Fish, UNITE HERE Local 5  
Ms. Isabel Ponce, UNITE HERE Local 5  
Mr. Zander Salas, UNITE HERE Local 5  
Mr. Ben Sadoski, UNITE HERE Local 5

CALL TO ORDER/QUORUM

A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Becker, Ferguson-Miyamoto, Kane, Ley, Machida, and Rauckhorst), Chair Barfield called the Investment Committee meeting to order at 9:14 a.m.

PUBLIC COMMENT PERIOD

Chair Barfield called for public comment. No members of the public present offered any comments.

RECESS

Chair Barfield called for a recess and announced that the meeting would reconvene after the Chapter 91 proceedings.

## RECONVENE

A quorum being present (Chair Barfield, Vice Chair Chan, and Trustees Becker, Ferguson-Miyamoto, Kane, Ley, Machida, and Rauckhorst), Chair Barfield reconvened the meeting at 9:16 a.m.

## APPROVAL OF MINUTES - DECEMBER 10, 2018

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Investment Committee approved the minutes of the December 10, 2018, meeting, as presented.

## SUMMARY OF DECEMBER 2018 INVESTMENT OFFICE ACTIVITIES

Investment Officer – Risk Management (IO-RM), Howard Hodel, briefly presented the market overview for December, as well as the fourth quarter and full year. During December a “risk-off” sentiment was pervasive in the capital markets with global equities falling seven percent and long-term U.S. Treasury rates dropping about 30 bps. December was also a five-year high in both monthly volatility and average constituent correlations for the S&P 500 index, as lower liquidity and high trading volumes during the holiday season produced several plus/minus two to five percent moves in the index. The Fed continued on its path of monetary tightening with another increase in the Fed Funds rate, the trade impasse between China and the U.S. continued, the U.K. Prime Minister struggled to get the necessary support in the House of Commons to approve the separation agreement with the E.U., and the end of the year witnessed a partial U.S. government shutdown.

For the fourth quarter, global equity markets declined -13 percent, and at one point the drawdown reached nearly -20% before rebounding somewhat. 2018 was an unusual year for the capital markets, notably with no asset class performing well; there was no sustained bull market anywhere in the world and cash was the top performer.

Chief Investment Officer (CIO), Elizabeth Burton, provided expectations on the markets for 2019. She noted that she expects slower growth in the US economy; manufacturing orders are slowing, which is a sign of impending weakness. However, at the moment, some leading indicators (such as durable goods orders and unemployment) do not yet suggest a recession. She explained that although the markets are now expecting fewer rate hikes in 2019 than previously anticipated, economic fundamentals remain solid in the medium-term. She said she does not anticipate a recession in the next 12 months but does expect market volatility, which should present risk and opportunities. She warned that the portfolio is still heavily tilted towards global growth, and in a period of declining growth the Trustees should consider additional diversifying investments or examine allocations to markets that will have opportunities, such as credit. She also commented on what market indicators are useful to follow between investment committee meetings.

## PORTFOLIO

Investment Officer-Liquid Markets (IO-LM), Anthony Goo, and Investment Officer-Illiquid Markets (IO-IM), Aaron Au, presented highlights on the following risk classes and components:

## **BROAD GROWTH**

### **Traditional Growth**

- Global small cap asset transition from Fidelity to Wasatch was completed on December 19, 2018.

### **Stabilized Growth**

- Heitman closed on the self-storage joint venture. ERS now owns 12 self-storage properties located throughout the United States. This investment will improve diversification and income return is relatively resilient in market downturns.
- City Financial Tower (CFT) Building is expected to be 99.8% leased by July 2019. Tenant improvement costs expected to be ~\$2.2 million and a capital call would be needed of about \$1.5 million. Additionally, Heitman is seeking to adjust parking rates to be in-line with other parking in Honolulu's central business district. Executive Director Williams mentioned that the property tax assessment has been lowered by 49%, a \$300,000 annual savings.
- Invesco continues toward an orderly liquidation as previously planned. One asset remains to be sold by mid-2019.

### **Private Growth**

- Robust fundraising environment in 2018 is expected to continue into 2019. Staff is already reviewing fund investments for 2019 in both private equity and real estate.

## **CRISIS RISK OFFSET (CRO)**

### **Treasury Duration Capture (TDC)**

### **Systematic Trend Following (STF)**

### **Alternative Return Capture (ARC)**

- IO-RM Hodel summarized the CRO positioning and performance during the volatile December capital markets. CRO is positioned moderately risk-off with the portfolio neutral to equity, short commodities, and long fixed income and the U.S. dollar. CRO was up nearly three percent in December with all three components contributing positively (Alternative Return Capture, Systematic Trend Following, and Treasury Duration Capture). All crisis indicators remained GREEN throughout the month except for VIX, which breached its limit at the end of the year. The quarterly rebalance occurred on January 4<sup>th</sup>.

Trustee Machida and Chair Barfield requested CIO Barton summarize positive news for the past quarter for the upcoming Legislative Session.

## **PRINCIPAL PROTECTION**

### **U.S. Mandates**

### **Global Mandates**

- IO-LM Goo reported that a recommendation will be discussed in executive session:

## **REAL RETURN**

### **Illiquid Real Return**

- IO-IM Au, had nothing to report.

SUMMARY OF DECEMBER 2018  
INVESTMENT OFFICE ACTIVITIES  
(cont'd)

CIO Barton commented that Principal Protection and Real Return will be areas that will be prioritized going forward.

**OPPORTUNITIES**

**Kaanapali**

- IO-IM Au reported that a presentation will be made to the Ad Hoc Committee following today's Board meeting with a final presentation to the Board on February 11, 2019. Any discussion of confidential information should be conducted in executive session.

**RISK REPORT**

**Risk Monitoring**

- IO-RM Hodel noted that during December, both VIX and ERS intra-month volatility were elevated. There are several geopolitical risks around the globe that the Staff is monitoring.

**RFP/FRI/EOI**

- Global Custody Services & Securities Lending Request for Expression of Interest (EOI) contract negotiations were completed and the contract was executed in December.
- Crisis Risk Offset Systematic Trend Following mandate and Alternative Return Capture mandate recommendations will be presented to the Board today.

Following the report, all public in attendance left the meeting.

ENTER EXECUTIVE  
SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Investment Committee entered into Executive Session at 10:03 a.m.

- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions relating to investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under chapter 92F, including without limitation information and records that are proprietary information or confidential business or personnel information, with respect to investment manager organizational changes.
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APPROVAL OF EXECUTIVE  
SESSION MINUTES  
- DECEMBER 10, 2018

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Investment Committee exited Executive Session at 10:19 a.m.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Barfield adjourned the Investment Committee meeting at 10:19 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer

ETB/dkik