

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

AUGUST 23, 2021

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

Committee Member	Mr. Vincent Barfield, Chair
Trustees present: (via teleconference)	Dr. Catherine Chan, Vice Chair Dr. Genevieve Ley Mr. Lance Mizumoto
Visiting Trustees present: (via teleconference)	Mr. Craig Hirai Mr. Bennett Yap
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
Guest present: (via teleconference)	Mr. Colin Bebee, Meketa Investment Group, Inc. Ms. Mika Malone, Meketa Investment Group, Inc. Mr. Neil Rue, Meketa Investment Group, Inc. Mr. Chae Hong, Aon Mr. Jack Dowd, Aon Ms. Natalie Fitch, Hamilton Lane Advisors, LLC Mr. Paul Yett, Hamilton Land Advisors, LLC Mr. Jens Foehrenbach, FRM Mr. Ricky Fong, Paraport Mr. Zach Olsen, Paraport Mr. Dan Ryan, Paraport Ms. Marina Lund, Longview Partners
Public present: (via teleconference)	Mr. Albert Vargas

## CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Chan, Trustees Ley and Mizumoto), 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 Emergency Proclamation Related to the COVID-19 Response dated August 5, 2021, in order to implement social distancing measures.” On a motion made by Trustee Ley, seconded by Vice Chair Chan 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 JULY 26, 2021

On a motion made by Trustee Ley, seconded by Trustee Mizumoto and unanimously carried, the Investment Committee approved the minutes of the July 26, 2021 meeting as presented.

## PRESENTATIONS

- MEKETA INVESTMENT GROUP, INC. – ANNUAL REVIEW FOR PERIOD ENDING JUNE 30, 2021

Mr. Colin Bebee of Meketa Investment Group presented the Annual Review. The following is a summary of the presentation:

- ERS Portfolio generated a 5.6% quarterly return.
- Increase of roughly \$885 million in the second quarter to end the period at \$21.4 billion.
- ERS Portfolio outperformed the Policy Benchmark during the quarter.
- The strongest outperformance came from Private Growth (outperformed by 5.8%) and Illiquid Diversifying underperformed by 2.5% over the quarter.
- ERS Portfolio has consistently outperformed the Median Public Fund on a risk-adjusted basis and again over the last quarter. This suggests a more efficient or higher return per unit of risk.

New strategic allocation:

- Approved during the 2019 Asset-Liability study.
- Adopted new evolving policy targets that took effect 7/1/2020.
- ERS continuing to increase allocations to Diversifying Strategies and Real Assets with capital from Public Growth portfolio.
- In the last quarter, the Total Portfolio was overweight Public Growth, Private Growth and Liquid Defensive although underweight in Real Assets as well as Liquid and Illiquid Diversifying.
- ERS’ overlay program assists in securitizing uninvested cash.

- MEKETA INVESTMENT GROUP, INC. – DIVERSIFYING STRATEGIES BI-ANNUAL REVIEW FOR PERIOD ENDING JUNE 30, 2021

Mr. Colin Bebee of Meketa Investment Group presented the Diversifying Strategies Bi-Annual Review. The following is a summary of the presentation:

Brief Synopsis of the Diversifying Strategies Class:

- Large proportion of ERS’ investment assets rely on continued economic growth & success.
- Crisis Risk Offset (CRO) was designed to offset most material market declines.

- The CRO structure was modified to a broader version known as Diversifying Strategies.
- Diversifying Strategies components:
  - Liquid Defensive.
    - Treasury Duration Capture, Systematic Trend Following & Defensive Return Capture.
    - Highly liquid & accessible.
  - Liquid Diversifying.
    - Alternative Return Capture & Relative Value/Arbitrage.
    - Highly liquid, investable markets.
    - A ballast during normal times, flat returns during major market declines.
  - Illiquid Diversifying.
    - Insurance-linked & Idiosyncratic Return Capture.
    - Similar to Liquid Diversifying but with an illiquid profile.
- Diversifying Strategies remains tilted towards Liquid Defensive.
- CRO/DS portfolio has performed in line with original expectations.
- Since inception and during Covid market crisis, CRO/DS is highly complementary, providing strong diversification results.
- Solid absolute and relative returns over last 4+ years.
- Diversifying Strategies grew from \$3.4 to \$5.3 billion during the year.
- ERS Staff has executed on the policy plan that was presented in January 2020 as an outcome from the 2019 Asset-Liability Study.
- ERS Staff made significant progress in the CRO to DS transition with the scope of strategies sourced, due diligence and funding which was made possible with the new governance structure and partnerships.

- FRM – DIVERSIFYING STRATEGIES ANNUAL REVIEW FOR PERIOD ENDING JUNE 30, 2021

Mr. Jens Foehrenbach of FRM presented the Diversifying Strategies Annual Review. The following is a summary of the presentation:

- The Crisis Risk Offset (CRO) Class mandate was structured to the Diversifying Strategies (DS) mandate at the beginning of Q3 2020.
- The shift in mandate was to focus on adding strategies driven by idiosyncratic risks with higher alpha potential.
- The Diversifying Strategies portfolio is comprised of two components:
  - Liquid Diversifying and Liquid Defensive.
  - Illiquid Diversifying.
- With the shift in the mandate, FRM's role expanded to provide research services in addition to all previous responsibilities.
- In Q4 2020, ERS positioned capital to fund RVA managers.
- Five Separately Managed Accounts were launched in FY2021 as well as two commingled funds were onboarded.
- Relative Value/Arbitrage components and TIPS portfolios were supported with the addition of \$1.8 billion of capital.
- For Illiquid Diversifying, 11 capital calls were processed in FY2021, totaling \$499.25 million. At FY end, with a total commitment size of \$750 million, total paid-in capital is \$499.25 million with unfunded commitment equaling \$250.75 million.
- For FY2021, net performance was 4.92% versus the benchmark of 4.41%.

- FRM – DIVERSIFYING STRATEGIES – LIQUID DEFENSIVE & LIQUID DIVERSIFYING FOR PERIOD ENDING JUNE 30, 2021

Mr. Jens Foehrenbach of FRM presented the Diversifying Strategies - Liquid Defensive & Liquid Diversifying Q2 2021 Review. The following is a summary of the presentation:

- On April 8, 2021, a quarterly rebalance was done to the Systematic Trend Following managers only.
- On May 4, 2021, Shaolin SMA was launched with \$190 million of new capital.
- On June 30, 2021, AHL Liquid Diversifying SMA was launched with \$200 million from Treasury Duration Capture
- Diversifying Strategies – DL 2<sup>nd</sup> Quarter net performance was 2.79%, gross performance was 2.95% vs. benchmark of 2.23%.
- Crisis risk indicators were green throughout the quarter.
- There were no new amendments or waivers during the quarter.
- Long equities exposure increased during the quarter; long rates exposure decreased. Long commodities and credit exposure had little change.
- TDC was the top contributing strategy in Q2 with all managers adding to the portfolio performance.
- STF performed well with positive results from all managers.
- ARC performed was positive.

- FRM – DIVERSIFYING STRATEGIES – ILLIQUID DIVERSIFYING FOR PERIOD ENDING JUNE 30, 2021

Mr. Jens Foehrenbach of FRM presented the Diversifying Strategies - Illiquid Diversifying Q2 2021 Review, noting that strategies have performed well, and capital is being drawn with four capital calls processed in Q2 totaling \$144.75 million.

- AON – REAL ASSETS ANNUAL REVIEW FOR PERIOD ENDING JUNE 30, 2021

Mr. Jack Dowd and Mr. Chae Hong of Aon presented the Real Assets Performance Review for Q1 2021. The following is a summary of the presentation:

- NFI-ODCE return now stands at 1.5% net. The 5-year real estate returns are below the sector’s average of 7-9% gross due to the Covid-19 pandemic.
- NCREIF Farmland Index (“NFI”) returned 0.9%, down 73 basis points from prior quarter. Annual crops drove performance with a return of 1.6% while permanent crops lagged with a return of -0.2%.
- NCREIF Timberland Index (“NTI”) returned 0.8% for the quarter and 1.5% for the one-year return. The Northeast was the NTI’s top performer.
- Recent infrastructure and real estate commitments should help portfolio move towards target allocation regardless of liquidating investments.
- Overall, the real estate portfolio is performing well by outperforming the NFI-ODCE Index on a net of fee basis over all measurement periods with the exception of since inception.
- Since inception, the real estate portfolio has generated an 8.1% net IRR and 1.41x net equity multiple.
- Over the long-term, the timber portfolio is outperforming the NTI Index on a gross of fee basis, while underperforming in the near term.
- Since inception, the timber portfolio has generated an 8.1% net IRR and 1.41x net equity multiple.

- Overall, the infrastructure portfolio is doing well, outperforming the CPI + 400 BPS benchmark on a gross basis over all measurement periods.
  - Since inception, the infrastructure portfolio has generated a 17.1% net IRR and 1.45x net equity multiple.
- HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY ANNUAL REVIEW FOR PERIOD ENDING MARCH 31, 2021

Ms. Natalie Fitch and Mr. Paul Yett of Hamilton Lane presented the Private Equity Program Update. The following is a summary of the presentation:

- Net value increased by \$288.9 million during the quarter, which continues the strong performance from the previous three quarters.
- Since inception, performance continues to rise above pre-Covid levels due to Q2, Q3, and Q4 2020 as well as Q1 2021.
- The portfolio outperformed the public benchmark, MSCI ACWI IMI + 200 bps by 580 bps on a since inception basis.
- A one-year net IRR of 58.70% which outperformed the public benchmark by 152 bps.
- For Q1 2021, the portfolio continued strong performance:
  - Market value was up 12%.
  - Total exposure was up 9%.
  - Quarterly IRR of 11.11%.
- NAV growth is slightly above 13.5% of target allocation.
- Q1 2021 is the 34<sup>th</sup> quarter of positive performance out of the last 35 quarters, with Q1 2020 being the only negative performing quarter due to the global pandemic.
- The portfolio generated double digit performance, outperforming the benchmark, across all time periods (inception through 10 year.)
- Foundation Managers outperform total portfolio by 298 bps and continue to represent majority of portfolio value.
- Investments are consistent with the themes and recommendations in Hamilton Lane’s Strategic Plan.

- PARAMETRIC OVERLAY SOLUTIONS ANNUAL REVIEW FOR PERIOD ENDING JUNE 30, 2021

Mr. Dan Ryan, Mr. Richard Fong and Mr. Zach Olsen of Parametric presented the Overlay Solutions Performance Review for period ending June 30, 2021. The following is a summary of the presentation:

- Overlay strategies offer convenient, low cost to:
  - Enhance expected return.
  - Manage risk.
  - Increase efficiency.
- Institutional investors employ overlay strategies to better implement and achieve policy objectives.
- Exchanged-traded futures are utilized to add or remove exposure to a variety of asset classes.
  - Integrate into existing fund framework.
  - Non-disruptive to existing manager portfolios.
- Overlay cash is held for ongoing fund liquidity needs such as:
  - Benefit payments.
  - Capital calls.
  - Operating cash flow.
  - Funding obligations.
- Overlay cash within manager portfolios:
  - Separately manage equity accounts within Traditional Growth asset class.

- Select managers within Stable Growth asset class – TOBAM and Robeco.
- Maintain asset allocation and rebalance only after pre-defined thresholds are breached.
- Maintain exposure throughout transition events.
- Overlay results since inception:
  - Over 98% of average cash exposure was securitized while maintaining zero portfolio leverage.
  - Market environment though 6/30/2021 produced a net synthetic overlay return of \$136,854,964 in FY 2021 and \$167,091,783 since inception (May 2019.)
  - Overlay increased liquidity and flexibility in fund management.
  - Portfolio tracking worked well with securitizing cash efficiently.
  - Overlay bridged exposure gaps during manager transition events.

[Chair Barfield called for a 10-minute break at 11:10 a.m. Meeting resumed at 11:20 a.m.]

SUMMARY OF JULY 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 July:

DCIO Hodel reported that for the sixth consecutive month, the global equity markets rose in July (up about 0.6%), due to economic optimism from strong economic growth in developed economies, accommodative central banks, and the Biden administration’s highly stimulative fiscal policies. Treasury yields decreased in July for the fourth consecutive month. The U.S. Treasury curve slopes up from 5 bps for the three-month Treasury bill to 1.89% 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 1.1%, while U.S. large cap stocks were up about 2.4% and U.S. small cap was down 3.7% in July.

Commodity indexes rose over 2% in July.

CIO Report

CIO Burton reported that July was another very busy month for the Investment Office.

CIO Burton reported the following information from the Quarterly Performance Snapshot that was distributed to the Trustees. In addition, she mentioned that the ERS is outperforming the benchmark on returns and drawdowns and the team is up for two more national awards.

[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 mentioned that the 2022 pacing plan for real assets is on track even though it is underweight, it is hitting the approved annual pacing target. The planned commitments for core real estate buildout is approximately \$1 billion over 5 years (\$200 million each year.)

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

DCIO Howard Hodel reported that he had nothing further to add from what was included in the activities report. The portfolio is performing as expected.

Investment Specialist Chen explained the VIX averaged 17.6% (closing between 15.1% and 22.5%) for the month. The current level is above the average level of 18% over the past five years.

Daily tracking of the ERS portfolio performance during July indicated an annualized volatility of 7.8%, below the average annualized volatility of 9.2% 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.

Investment Specialist Chen continued with the 2<sup>nd</sup> Quarter 2021 Risk Report. The following is a summary of the presentation:

- Growth risk dominates, market & ERS projected volatilities are elevated while ERS realized risk is muted, active risk and other risks remain high.
- ERS portfolio is tilted toward the U.S. dollar and U.S. equity markets.
- International growth-oriented assets are tilted toward non-U.S. developed companies.
- Portfolio risk levels are appropriate and consistent with policy & market conditions.
- Diversifying Strategies (DS) class dampened portfolio volatility from 11.2% to 6.8% during the quarter.
- Growth risk accounted for 79.7% of the projected portfolio risk.
- Portfolio beta to MSCI ACWI IMI is approximately 0.4.
- Sharpe Ratio, Information Ratio and annual excess returns over the rolling 1-year were 1.2, 0.6, and 1.3% respectively.
- Diversifying Strategies' Crisis Indicators remained green during the quarter.
- Equity volatility, as measured by the VIX, averaged 18% for the quarter, in line with the 5-year historical average of 17.9%.

ENTER EXECUTIVE SESSION  
EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee entered Executive Session at 11:53 a.m.

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 – JULY 26, 2021

On a motion made by Trustee Ley, seconded by Trustee Mizumoto, and unanimously carried, the Investment Committee approved the Executive Session minutes of the July 26, 2021.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Trustee Mizumoto, and unanimously carried, the Investment Committee exited Executive Session at 12:52 p.m.

MEETING ADJOURNED

On a motion made by Trustee Ley, seconded by Trustee Mizumoto, and unanimously carried, Chair Barfield adjourned the meeting at 12:53 p.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer  
EB/dlg