

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

NOVEMBER 22, 2021

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

Committee Member	Mr. Vincent Barfield, Chair
Trustees present:	Dr. Catherine Chan, Vice Chair
(via teleconference)	Dr. Genevieve Ley
	Mr. Lance Mizumoto

Visiting Trustees  
present:  
(via teleconference)

Attorneys present:	Mr. Ivan Torigoe, Deputy Attorney General
(via teleconference)	

Staff present:	Mr. Thomas Williams, Executive Director
(City Financial Tower)	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

Absent:	Ms. Kanoe Margol, Deputy Executive Director
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Guest present:	Mr. Colin Bebee, Meketa Investment Group, Inc.
(via teleconference)	Ms. Mika Malone, Meketa Investment Group, Inc.
	Mr. Neil Rue, Meketa Investment Group, Inc.
	Mr. Jack Dowd, Aon
	Ms. Natalie Fitch, Hamilton Lane Advisors, LLC
	Mr. Paul Yett, Hamilton Land Advisors, LLC
	Mr. Jens Foehrenbach, FRM

Public present:	Mr. Riley Fujisaki – House Finance Staff
(via teleconference)	

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 9:02 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 October 1, 2021, in order to implement social distancing measures." On a motion made by Trustee Mizumoto, seconded by Trustee Ley 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 OCTOBER 25, 2021

On a motion made by Trustee Mizumoto, seconded by Vice Chair Chan and unanimously carried, the Investment Committee approved the minutes of the October 25, 2021, meeting as presented.

#### NEW BUSINESS

##### ▪ DISCUSSION OF 2022 EMPLOYEES' RETIREMENT SYSTEM INVESTMENT COMMITTEE MEETINGS

Chair Barfield announced that CIO Burton and staff worked on a schedule that is achieving some of the goals set and Investment Policy (IP) structure by having Investment Committee meetings on a quarterly basis, noting that January and February will have back-to-back meetings because December 2021 meeting is cancelled. There are currently no urgent items for December so Chair Barfield proposed that the meeting be tentatively cancelled unless something comes up in the schedule, at which time the committee members will be notified in advanced.

On a motion made by Trustee Mizumoto, seconded by Trustee Ley and unanimously carried, the Investment Committee approved the 2022 Investment Committee meeting schedule as presented.

#### PRESENTATIONS

Mr. Colin Bebee of Meketa Investment Group gave the quarterly review. The following is a summary of the presentation:

##### • MEKETA INVESTMENT GROUP, INC. – QUARTERLY REVIEW FOR PERIOD ENDING SEPTEMBER 30, 2021

- ERS' total portfolio generated a 2.1% quarterly return, roughly an increase of \$374 million in the Quarter 3, ending the period at \$21.8 billion.
- ERS' total portfolio outperformed the Policy Benchmark during the quarter. Broad Growth outperformed its benchmark while Diversifying Strategies trailed its benchmark.
- In comparison to peers, ERS' total portfolio outperformed the Median Public Fund. It needs to be noted that the ERS total portfolio is more risk-focused, diversified and globally oriented than the average peer. ERS' overlay program also assists with ERS staying closer to policy targets while eliminating cash drag.
- On a risk-adjusted basis, ERS' total portfolio consistently outperformed relative to the Median Public Fund which suggests a more efficient portfolio.
- Both ERS' global small cap managers outperformed the benchmark over the quarter while Stabilized Growth underperformed.
- Global Credit, Private Growth and Real Assets, all outperformed their respective benchmarks. Liquid Defensive, Liquid Diversifying and Illiquid Diversifying underperformed for the quarter.

Trustee Mizumoto questioned the cash flow line item showing a negative cash flow position. Meketa explained the cash flow line item represents all contributions and distributions that are coming into and going out of the system. Since Covid, there were some changes with contributions through the year which is not going to be drastic from quarter to quarter. ERS is a negative cash flow system, and a liability study will show projections. This is not out of line from quarter to quarter.

DCIO Hodel mentioned there has been about a 2% annual cash drag over the long term.

Executive Director Williams clarified that generally actuary is not concerned with 2% for a mature plan; only when it is in the 5-6% range. The portfolio is viewed as conservative and no problems.

Chair Barfield requested that Meketa work with staff on footnotes for ERS net cashflow (contributions less benefit payments) versus comparable plans.

- FRM – DIVERSIFYING STRATEGIES QUARTERLY REVIEW FOR PERIOD ENDING SEPTEMBER 30, 2021

Mr. Jens Foehrenbach of FRM gave the quarterly review. The following is a summary of the presentation:

Diversifying Strategies – Liquid Defensive & Liquid Diversifying:

- The quarterly rebalance was instructed effective July 7 which included rebalancing STF managers as well as a reduction to one manager in favor of two others.
- \$200 million was added and allocated across three components on September 2.
- Crisis risk status remained green throughout the quarter.
- There were two breaches during the quarter which did not coincide with the agreed-upon limit framework; in addition, there were two waivers and three amendments.
- The DS-LD's long rates exposure was dynamic during the quarter. Long commodities exposure ended the quarter little changed and was the only driver of gains for the quarter.
- Treasury/Agency Duration Capture (TADC) was the sole positive contributor within fixed income.
- The portfolio benefitted particularly from long exposure to rising commodities markets, mainly energy. Equities contributed negatively due to inflationary concerns.
- Fixed income was the worst performing asset class driven by losses from two components.
- Asian equity markets suffered significant losses because of newly implemented regulatory changes and the weakening of the Chinese property sector.
- The global shortage of natural gas created a knock-on effect in other markets.

Diversifying Strategies – Illiquid Diversifying:

- Two capital calls were processed totaling \$39.5 million.

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

- As of the end of the quarter, total paid-in capital is \$538.75 with a total commitment of \$750 million and an unfunded commitment of \$211.25 million.

Mr. Jack Dowd of Aon gave the quarterly review. The following is a summary of the presentation:

- Recent infrastructure and real estate commitments should help the portfolio continue toward its target allocation.
- Real estate leverage is 8 bps over the new IPS maximum 50% which is down 150 bps from last quarter.
- The real estate portfolio is performing well overall by outperforming the NFI-ODCE Index on a net of fee basis.
- The real estate portfolio has generated an 8.2% net IRR and 1.4x net equity multiple since inception.
- The timber portfolio has generated an 8.0% net IRR and 2.5x net equity multiple since inception.
- The infrastructure portfolio has generated an 16.8% net IRR and 1.5x net equity multiple since inception.
- ERS sold a majority of the Ka'anapali Golf Course ownership for \$27 million. The quarry remains with the sale in early 2022.
- Three new commitments were made during Q2 2021 and subsequent to quarter end:
  - \$150 million to a Core Global Infrastructure Fund.
  - \$50 million to a Non-Core Global Infrastructure Fund.
  - \$100 million to a U.S. Diversified Open-Ended Farmland Fund.

- HAMILTON LANE ADVISORS,  
LLC – PRIVATE EQUITY  
QUARTERLY REVIEW FOR  
PERIOD ENDING JUNE 30, 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:

- A record quarterly gains of \$402.7 million during Quarter 2.
- Performance continues to rise above pre-COVID levels.
- ERS portfolio outperformed its public benchmark by 609 bps since inception.
- One year net IRR of 59.33% outperforming the public benchmark by 1,849 bps.
- ERS portfolio sustained a strong performance with quarterly IRR of 13.45%.
- PE allocation is above 13.5% due to the strong performance driving the increase in PE allocation with double digit quarterly IRRs.
- ERS portfolio outperformed the public market benchmark (MSCI ACWI IMI +200 bps) for all periods.
- Record quarter for both contributions and distributions.
- Foundation Managers continue to represent most of the portfolio value and outperformed the total portfolio by 331 bps.
- ERS closed on \$648.5 million across 14 investments and within the approved pacing plan of \$550-\$650 million.
- Keep current geographic exposure, primarily in North America with additions to Western Europe and Asia.

- LAFAYETTE SQUARE – NEW  
MANAGER

CIO Burton explained that the Internal Investment Committee and Executive Director, Thomas Williams approved a \$100 million investment with Lafayette Square between two Business Development

INTRODUCTION/DIRECT  
LENDING & IMPACT INVESTING

Corporations (BDCs.) Lafayette Square is a newly formed team of experienced professionals that will make loans to middle-market companies to create positive impact in low to moderate income areas. Lafayette Square will invest across the country, potentially including Hawaii. Mr. Damien Dwin is an experienced credit investor and launched Lafayette Square in 2020 when he observed that underserved communities were facing particular challenges from the pandemic. This investment has the potential to deliver both competitive investment returns and positive social impact. At today's presentation, Mr. Dwin is joined by Mr. Cory Scott and Mr. Steven Usher. The following is a summary of the presentation:

- Lafayette Square has a very experienced and diverse team.
- \$500-\$750 million is the target fundraise for each of Lafayette Square's 10 regional BDC.
- BDCs are regulated by the Investment Company Act of 1940.
- Investments are diversified across all industries.
- BDCs are regionally focused to promote public welfare through economic growth and jobs.
- Aim to make a difference for low to moderate income employees by customizing solutions to meet their needs such as financial literacy, coaching programs, interest-free small dollar lending and benefits navigation.
- Deploying capital and services creates opportunities for all.
- Conservative underwriting of primarily floating rate, senior secured first lien term loans to middle market businesses.
- Lafayette Square is positioned for a first close and deploying capital.
- Utilizing technology is at the core of Lafayette Square and they strive to source investments that achieve their operational, return and impact goals.

CIO Burton concluded that this investment adds diversification to the credit portfolio as Lafayette Square is targeting companies that ERS currently does not have access to through its other managers. It is a great opportunity to invest with Lafayette Square.

[Chair Barfield went out of sequence from the agenda to accommodate a presenter who had a flight to catch.]

ENTER EXECUTIVE SESSION

EXECUTIVE SESSION

On a motion made by Trustee Mizumoto, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee entered Executive Session at 10:55 a.m.

EXECUTIVE SESSION, PURSUANT  
TO HRS § 88-27.5(A)(1) AND (3), 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; OR TO DELIBERATE CONCERNING THE AUTHORITY OF PERSONS DESIGNATED BY THE BOARD TO NEGOTIATE INVESTMENTS OR THE SALE OF PROPERTY HELD BY OR FOR THE BENEFIT OF THE SYSTEM, OR DURING THE CONDUCT OF SUCH NEGOTIATIONS; 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 REAL ASSETS; APPROPRIATE ACTION.

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:

CHANGES IN (1) ORGANIZATIONAL  
STRUCTURE FOR A GLOBAL  
CREDIT/PRIVATE GROWTH  
MANAGERS, AND (2) MANAGER  
PIPELINES FOR EACH STRATEGIC  
CLASS

APPROVAL OF EXECUTIVE  
SESSION MINUTES – OCTOBER 25,  
2021

On a motion made by Trustee Ley, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee approved the Executive Session minutes of the October 25, 2021.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Vice Chair Chan, and unanimously carried, the Investment Committee exited Executive Session at 12:15 p.m.

[The meeting resumed in regular session.]

SUMMARY OF OCTOBER 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 October.

DCIO Hodel reported that in October the global equity markets rose 5% regaining September's losses and reaching a new high at the end of the month, as optimism returned amid stronger than expected quarterly corporate earnings reports, prospects for scaled back U.S. infrastructure programs, and still accommodative central banks, despite rising U.S. inflation, global supply chain problems, lingering and fluctuating COVID-19 constraints across the globe, and rapidly rising U.S. government debt.

The U.S. yield curve flattened in October with the 2-year Treasury yield rising 18 bps to 48 bps, the 10-year Treasury yield rising 3 bps to 1.55%, and the 30-year Treasury yield falling 15 bps to 1.93%, all well below current inflation.

Commodity indexes rose about 5% in October led by higher energy prices. The rise in equities was broad based during October with U.S. large cap stocks and NASDAQ up 7%, U.S. small caps up 4%, and international stocks up 3%.

CIO Report

CIO Burton stated that October was an extremely busy month for the Investment Office with the search for the Investment Officer (Operations.)

CIO Burton reported that 14 candidates applied, four withdrew due to another offer and 10 are interested in an interview. They are all strong candidates with good resumes. Interviews will begin the following week.

The Quarterly Performance Snapshot is updated through September. The portfolio is looking good.

[End of CIO Report]

IO Goo had nothing further to report.

IO Okamoto had nothing further to report.

IO Wetzel mentioned that for CY 2021, \$440 million in 6 funds of real assets commitments have been approved excluding a new core real estate fund (\$200M) that was approved last week after the deadline for these materials (will be reflected on the next report). Another Farmland fund commitment (\$100M) is in the process of being recommended for December approval. Commitment pacing has been on track with approved annual pacing plans & additional funds are in the due diligence pipeline. All eight funds combined will bring the total real assets commitments to \$740 million for CY 2021, well above the target pacing of \$550 million.

IO Au had nothing more to report.

DCIO Howard Hodel reported that Crisis Risk Indicators remained green during October. The capital markets in October were favorable for duration, relative value/arbitrage, systematic macro, and trend, and unfavorable for defensive return capture, discretionary macro and alternative risk premia.

Investment Specialist Chen explained the VIX averaged 17.9% (closing between 15% and 23%) for the month. The current level is in line with the average level of 18.2% over the past five years.

Daily tracking of the ERS portfolio performance during October indicated an annualized volatility of 7.4%, below the average annualized volatility of 9.3% over the past three years.

Staff is continuing to monitor potential, significant macro risks in each of the three major economic regions of the world, any of which could trigger another market correction.

CIO Burton reported that the IEIC approved Staff recommendation to invest up to \$70 million in a new sleeve in Lafayette Square.

MEETING ADJOURNED

On a motion made by Trustee Ley, seconded by Vice Chair Chan, and unanimously carried, Chair Barfield adjourned the meeting at 12:28 p.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer  
EB/dlg