

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

DECEMBER 13, 2021

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

Trustees present:  
(by teleconference) Mr. Emmitt Kane, Chair  
Mr. Vincent Barfield  
Mr. Craig Hirai  
Dr. Genevieve Ley  
Mr. Lance Mizumoto  
Mr. Bennett Yap

Trustees absent: Dr. Catherine Chan

Staff present:  
(City Financial tower  
by teleconference) Mr. Thomas Williams, Executive Director  
Ms. Kanoe Margol, Deputy Executive Director  
Mr. Larry Wolfe, Accounting Manager  
Mr. Bart Asato, Program Specialist  
Ms. Shanna Sakagawa, Program Specialist  
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  
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

Public present:  
(by teleconference) Mr. Joe Ebisa, withIntelligence

QUORUM/CALL TO ORDER

A quorum being present (Chair Kane, Vice Chair Barfield, Trustees Ley, Mizumoto, and Yap), Chair Kane called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 10:03 a.m. and requested each Trustee identify themselves and confirm that they are the only ones present at their remote location while attending the meeting. Each of the Trustees present confirmed same.

On a motion made by Vice Chair Barfield, seconded by Trustee Yap, 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 State's COVID -19, dated November 29, 2021, in order to

implement social distancing measures.

#### PUBLIC COMMENT

Chair Kane called for public comment. There was one (1) member of the public present by teleconference, however, no public comment. There was also no public written testimony received for this meeting.

#### EXECUTIVE DIRECTOR'S REPORT

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

- The Public Hearing for the Draft Hawaii Administrative Rules for Amendments to Chapters 6-20, 6-21, 6-22, 6-23, 6-26, and 6-29, Pursuant to Act 23, Session Laws of Hawaii (SLH) 2013; Act 263, SLH 2016; Act 17, SLH 2017; and Act 30, SLH 2018 will be held on January 18, 2022, from 1:00 to 2:30 p.m. in the 12<sup>th</sup> Floor Conference Room. ED Williams will serve as the presiding officer and Deputy Executive Director Kanoe Margol will be the assistant presiding officer in ED Williams absence. Public notices will be printed in the local papers.
- The Actuarial Valuation report will be presented at the January Board meeting. ED Williams shared some positive information that the unfunded liability went down as a result of investment earnings exceeding forecasts. The unfunded liability peaked last year, five years earlier than forecasted, and the full funding period scheduled for 25 years is now 24 years. The report also includes the Stress Test that affirms the plan is sustainable.

(Trustees Hirai entered the meeting at 10:05 a.m. by joining the teleconference.)

#### AMEND AGENDA

Chair Kane requested an amendment of the agenda to add under New Business:

“Declaration of Election Results for the 2021 ERS Trustee Election.”

On a motion made by Trustee Mizumoto, seconded by Trustee Yap, and unanimously carried, the Board amended the agenda to add under New Business, “Declaration of Election Results for the 2021 ERS Trustee Election.”

#### EXECUTIVE DIRECTOR'S REPORT (CONT'D)

ED Williams continued his oral presentation of his report to the Board as follows:

- Information for an Investment Accountant position and investment software was submitted to the Director of B&F to be included in the supplemental budget to the Governor.
- Meeting with the Ways and Means Committee is scheduled for January 5, 2022, and the House Finance Committee to be scheduled soon after.
- The recent Kona low affected electricity for most of downtown for 2.5 days except for the City Financial Tower (CFT). The CFT building also has a generator that could provide electricity for 2 days.
- An e-mail was sent to the Board regarding two retirements at the end of the year. Donna Curry Program Specialist of Administration and Shirlyn Young General Professional of the Retirement Benefits Branch.
- Annual presentation to the Board by the Ethics Commission is scheduled for next month, however, Dan Gluck Executive Director is leaving the Ethics Commission and another staff member will instead make the presentation.
- A settlement has been approved by the courts in the securities litigation against Synchronoss Technologies Inc. ERS' losses were \$2.5 million, of which \$1.39 million was recognized by the courts. ERS will recover \$118,000 and after expenses and costs will receive \$96,500. Attorney's fees of \$32,000 were also recovered.
- Civil Beat published an article on the Hawaii Police Department's abuse of overtime. ERS was quoted and no further inquiries from the press or legislature have been received.

DEPUTY EXECUTIVE  
DIRECTOR'S OPERATIONS  
REPORT

- ERS 2021 Virtual Christmas Celebration photos were shared.

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

DED Margol shared with the Board that of the two budget items submitted to B&F, the Investment Accountant position was downgraded to an entry level position.

DECLARATION OF  
ELECTION RESULTS FOR  
THE 2021 TRUSTEE  
ELECTION (AMENDED  
AGENDA ITEM ADDED)

ED Williams gave a brief background to the Board on the elected teacher trustee vacancy to be effective January 2, 2022, for a 6-year term ending January 1, 2028. ED Williams also gave details of the election stating that incumbent Catherine Chan, one of two candidates, was declared the candidate receiving the highest number of votes and noted that the results were certified by the Election Committee and KMH, LLP.

On a motion made by Trustee Yap, seconded by Trustee Ley, and unanimously carried, it was declared and accepted by the Board that Catherine Chan was the candidate receiving the highest number of votes.

(Trustee Hirai exited the meeting at 10:30 a.m. by ending his teleconference.)

ACCOUNTING BRANCH  
CHIEF'S REPORT

DED Margol introduced Accounting Manager Larry Wolfe who presented an oral report to the Board on Accounting responsibilities, branch staffing, goals, project updates, and major accomplishments.

DISCUSSION OF 2022  
ELECTION OF OFFICERS  
AND COMMITTEE  
ASSIGNMENTS

Chair Kane requested Board members consider for 2022, the Chair, Vice Chair, and Committee Assignments to be proposed and decided at the January meeting. If members have any preferences, please let the Chair know.

REPORT BY THE  
ADMINISTRATIVE &  
AUDIT COMMITTEE

**Administrative & Audit Committee** Chair Yap, reported to the Board that KMH LLP is currently conducting the annual Risk Assessment with several of the Board members. Also, in January, the Actuarial Valuation Report will be presented to the Committee and to the Board.

UPDATE ON TEMPORARY  
WAIVER OF  
REQUIREMENTS UNDER  
SECTION 88-103.7 HRS

ED Williams reported to the Board a memorandum from Program Specialist Donna Curry on an Update on Temporary Waiver of Requirements Under Section 88-103.7, HRS.

ED Williams discussed with the Board the recent activities regarding the employer reporting of personnel and payroll data and shared that this report will be done quarterly as requested by the Board. This is receive and file.

REPORTS BY THE  
COMPENSATION REVIEW,  
GOVERNANCE POLICY,  
INVESTMENT AND  
KAANAPALI AD HOC, AND  
LEGISLATIVE  
COMMITTEES

**Compensation Review Committee** Chair Ley, **Governance Policy Committee** Chair Kane, and **Legislative Committee** Chair Chan each stated that there were no items to be reported.

**Investment and Kaanapali Ad Hoc Committees** (Committee) Chair Barfield reported to the Board that at the Committee meeting on November 22, 2021, performance reports were presented by consultants Man FRM, Meketa Investment Group, Inc., Townsend Group, an Aon Company, Hamilton Lane Advisors, LLC; the 2022 Investment Committee Meeting schedule was discussed, of which the December meeting will be cancelled. The standard staff reports were reviewed on investment activities, no significant item. A presentation by a new manager Lafayette Square was made. In executive session, confidential matters involving the sale of a real estate asset and acquisition of a real estate investment were reviewed and approved by the Committee.

MEKETA INVESTMENT  
GROUP, INC. –  
QUARTERLY  
PERFORMANCE REVIEW

Regarding the sale of the remaining Kaanapali parcel, there are no new updates and the process is still proceeding.

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 3rd Quarter of 2021:

## INTRODUCTION

### *Performance vs. Policy Benchmark and Median Public Fund*

- The ERS Total Portfolio generated a 2.1% quarterly return, increasing by roughly \$374 million in Q3 to end the period at \$21.8 billion. This increase includes a cumulative outflow of \$55 million over the quarter along with \$429 million in investment gains.
- The ERS Total Portfolio outperformed the Policy Benchmark during the quarter and over the trailing 1-, 3-, 5-, and 10-year periods. The *Broad Growth* strategic classes outperformed its benchmark over the quarter as well as the longer 1-, 3-, and 5-year trailing periods. The *Diversifying Strategies* class, however, trailed its benchmarks over the quarter and 1-year trailing period. However, it has outperformed its benchmark over the longer 3-year trailing period.
- In comparison with its peers, i.e., Public Funds with more than \$1B in assets, the ERS Total Portfolio outperformed the Median Public Fund over all time periods measured with the exception of the 5-year trailing period. In evaluating its relative performance against peers, it is important to remember that the ERS Total Portfolio is more risk-focused, diversified, and globally oriented than the average peer.
- As part of evolving policy targets that began taking effect in 7/1/2020, the next phase of policy target changes occurred 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 2021 Q3, the Total Portfolio ended the quarter overweight the Public and Private Growth components. While not explicitly shown, the ERS's overlay program also assists the ERS in staying closer to policy targets while eliminating cash drag.

### *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 over all time periods. 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

### *The World Markets Third Quarter of 2021*

#### *Asset Class Performance Summary*

- The Broad Growth class outperformed its policy benchmark across all time periods measured. All underlying components outperformed their respective benchmarks over the quarter, as well as over the 1- and 3-year trailing periods. Over the longer 5-year trailing period, all investment sleeves except *Public Growth* outperformed their respective benchmarks (*Public Growth* trailed its benchmark by (0.3%) over this period).
- The Diversifying Strategies class trailed the policy benchmark during the quarter and the 1-year trailing period. Over the longer, intermediate-term 3-year trailing period, however, it outperformed its benchmark at the margin. The underlying investment sleeves posted similar outcomes with underperformance over the most recent quarter and the 1-year trailing period

TOWNSEND GROUP, AN  
AON COMPANY – 2ND  
QUARTER 2021 REAL  
ESTATE PERFORMANCE  
REVIEW

while outperforming over the 3-year time frame. It is important to remember, however, that these areas utilize imperfect benchmarks that are aligned with their long-term return expectations, and thus, material short-term deviations will occur.

Townsend Group, an Aon Company (Aon), Jack Dowd and Chae Hong entered the meeting by teleconference and presented an oral and written report to the Board on the 2nd 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 7.1% net. Despite this, 5-year real estate returns are still 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 1.5%, up 61 basis points from the prior quarter. Annual crops drove performance with a return of 2.2% while permanent crops tagged with a return of 0.4%.
- The NCREIF Timberland Index ("NTI") returned 1.7% for the quarter and 3.1% for the trailing one-year return. The quarterly return was driven by appreciation, while the 1-year was driven by income. 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 an 8.2% net IRR and 1.4x 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 timber portfolio has generated an 8.0% net IRR and 2.5x 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 16.8% net IRR and 1.5x net equity multiple since inception.

After the presentation, Mr. Dowd left the meeting by exiting the teleconference.

HAMILTON LANE  
ADVISORS, LLC –  
PRIVATE EQUITY  
PROGRAM UPDATE  
– FOR PERIOD ENDING  
JUNE 30, 2021

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 June 30, 2021.

Ms. Fitch discussed the Portfolio Review and Market Update:

#### PORTFOLIO REVIEW

##### *PE Portfolio Highlights – June 30, 2021*

- Record quarterly gains of \$402.7M during Q2, continuing strong performance from prior 4 quarters.
- One-year net IRR of 59.33% outperformed public benchmark by 1,849 bps.

##### *Portfolio Snapshot*

- Q2 2021: Portfolio continued strong performance.
- PE allocation above 13.5% target.

HAMILTON LANE  
ADVISORS, LLC –  
PRIVATE EQUITY  
PROGRAM UPDATE  
– FOR PERIOD ENDING  
JUNE 30, 2021 (CONT'D)

ENTER EXECUTIVE  
SESSION

EXECUTIVE SESSION

EXECUTIVE SESSION,  
PURSUANT TO HRS § 92-  
5(a)(4) 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  
APPEALS TO COURT OF  
CONTESTED CASE  
DECISIONS OF THE BOARD  
ON RETIREMENT BENEFITS

EXECUTIVE SESSION,  
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 CONTRACT FOR  
LEGAL SERVICES RELATING  
TO TAX LAW AND  
INVOLVING  
CONSIDERATION OF  
INFORMATION THAT MUST  
BE KEPT CONFIDENTIAL  
PURSUANT TO STATE LAW;  
APPROPRIATE ACTION

*Performance Against Benchmark*

- Portfolio outperforming benchmark, MSCI ACWI IMI +200 bps, across all periods.
- Portfolio generated double digit performance across all time periods.

STRATEGIC PLAN UPDATE

*2022 Private Equity Strategic Plan*

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

(Public participation concluded by ending the teleconference link.)

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

On a motion made by Vice Chair Barfield, seconded by Trustee Ley and unanimously carried, the Board entered into Executive Session at 11:02 a.m.

- Pursuant to HRS § 92-5(a)(4), 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 Appeals to Court of Contested Case Decisions of the Board on Retirement Benefits.
- 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 Contract for Legal Services Relating to Tax Law and involving consideration of information that must be kept confidential pursuant to state law; appropriate action

APPROVAL OF EXECUTIVE  
SESSION MINUTES  
– NOVEMBER 8, 2021

EXIT EXECUTIVE SESSION

On a motion made by Trustee Mizumoto, seconded by Trustee Yap, and unanimously carried, the Board exited Executive Session at 11:14 a.m.

APPROVAL OF MINUTES  
– NOVEMBER 8, 2021

On a motion made by Trustee Mizumoto, seconded by Trustee Ley, and unanimously carried, the Board approved the Minutes of November 8, 2021.

ADJOURNMENT

On a motion made by Trustee Mizumoto, seconded by Vice Chair Barfield, and unanimously carried, Chair Kane adjourned the meeting at 11:15 a.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:dkik