

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

JANUARY 24, 2022

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 Mr. Lance Mizumoto Mr. Emmit Kane
Visiting Trustees present: (via teleconference)	Mr. Bennett Yap
Absent:	Dr. Genevieve Ley
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 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. Elizabeth Burton, Chief Investment Officer
Guest present: (via teleconference)	Mr. Colin Bebee, Meketa Investment Group, Inc. Ms. Mika Malone, Meketa Investment Group, Inc.
Public present: (via teleconference)	Mr. Joe Ebisa, Journalist from Intelligence

CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Chan, Trustees Kane and Mizumoto), Chair Barfield called the Investment Committee meeting to order at 9:00 a.m. and requested Board members to identify themselves and confirm that no other individuals are present in the room. Committee members present confirmed. 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 interactive conference technology, pursuant to Act 220, Hawaii Session Laws 2021, and the Governor of the State of Hawaii’s

Emergency Proclamation Related to Sunshine Law In-Person Meetings, dated December 29, 2021, in order to implement social distancing measures.” On a motion made by Trustee Mizumoto, seconded by Trustee Kane 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 NOVEMBER 22, 2021

On a motion made by Trustee Mizumoto, seconded by Vice Chair Chan and unanimously carried, the Investment Committee approved the minutes of the November 22, 2021, meeting as presented.

## NEW BUSINESS

### ▪ DISCUSSION OF 2022 ELECTION OF CHAIR & VICE CHAIR & REVIEW OF CHARTER

Chair Barfield mentioned that the Charter is a format followed by all committees which is reviewed annually. This year there are no revisions to the Investment Committee Charter. Chair Barfield emphasized that Page 2 of the Charter outlines the authority/responsibilities of the Investment Committee and reviewed the accomplishments in 2021: 1) Separation of the Investment Committee that reports to the Board, 2) Implemented new enhanced reporting, 3) Oversight of delegated authority, 4) Continued risk reporting, 5) Quarter 1 investment process review, 6) Educational sessions, 7) Enhanced risk reporting, 8) Updated fiduciary roles, 9) Investment Policy Updates, 10) Work with Compensation Committee to set CIO goals, 11) Meeting to cover Investment Summit, and 12) Continued oversight including key issues.

On a motion made by Trustee Mizumoto, seconded by Vice Chair Chan and unanimously carried, the Investment Committee approved the Investment Committee Charter as presented.

Chair Barfield started the discussion of election for a new Investment Committee Chair and Vice Chair. Chair Barfield is relinquished the role following his being elected Chair of the Board. He began by nominating Vice Chair Chan for the Chair position and Trustee Mizumoto for the Vice Chair position and asked for additional nominations. None were offered. Trustee Kane seconded the nominations and unanimously carried; the Investment Committee approved the newly elected officers.

Chair Barfield turned the meeting over to newly elected Chair Chan.

### ▪ GLASS LEWIS PROXY VOTING ANNUAL REPORT

DCIO Hodel conveyed that the Proxy Voting Report is done annually by Meketa for accounts whose proxies are not voted by Glass Lewis, where the bulk of the proxy voting takes place. Accounts not covered include fixed income accounts and a commingled equity index fund. Meketa does the certification. The document was informational for the committee and it was received and filed.

## PRESENTATIONS

### • LONG VOLATILITY EDUCATION SESSION – 36 SOUTH

DCIO Hodel explained that 36 South is presenting an education session on their long volatility strategy, which is in the final stage of being onboarded. All the required approvals as well as due diligence for 36 South took place in December, except for regulatory approval which is still pending. 36 South employs a defensive strategy that buys options in

various markets to capitalize on movement in prices. The strategy fits into Defensive Return Capture along with two other managers. Defensive Return Capture is a sub-component of the Liquid Defensive component which represents about half of Diversifying Strategies

Mr. Jerry Haworth, CIO, Partner and Co-Founder of 36 South presented the Long Volatility Education Session. The following is a summary of the presentation:

- 36 South
  - Founded in New Zealand in 2001, headquartered in London since 2009.
  - Volatility and tail risk hedging specialists.
  - Invest in put and call options across asset classes to profit from moves in the market.
  - Investment Management Committee (IMC) consists of a 5-member team of long-time traders with combined 90+ years of experience.
  - Manage portfolio to maximize returns and minimize losses.
- Why invest in long volatility?
  - Traditional assets are characteristically short volatility so tend to lose value when volatility rises.
  - 36 South invests in long volatility assets that are not only a diversifier but should thrive in a crisis. The higher the volatility/worse the crisis, the better the expected returns. It acts as a buffer during a market correction and protection in a serious crash.
  - Adding a sleeve of long volatility assets alongside traditional assets helps to create a robust portfolio. In a financial crisis, long volatility assets become more valuable by reducing total portfolio risk and increase the terminal value by reducing drawdowns in a crisis and providing cash to buy depressed assets after a crisis.
- Why invest in options?
  - 36 South buys options that are cyclical, asymmetric, convex, pan-asset class and long dated.
  - One type of option 36 South uses is equity put options because they gain value when the underlying equity price falls below the pre-determined strike price. The more the underlying equity falls, the more valuable the put option becomes.
- Kohinoor Carry Neutral Protection Fund (KCNPF)
  - A long volatility and long convexity tail risk fund with no bleed in normal times. Provides convexity in a crisis and targets zero bleed over a 5-year period if there is not crisis.

Trustee Mizumoto asked if 36 South had a methodology for monetizing gains during a capital markets crisis so profits could be rebalanced into assets that had declined significantly. Mr. Haworth responded that they do have a system in place to monetize gains based on a tiered stop-loss at various gain levels.

SUMMARY OF NOVEMBER &  
DECEMBER 2021 INVESTMENT  
OFFICE ACTIVITIES:

Deputy Chief Investment Officer Howard Hodel presented an update on the market. DCIO Hodel presented market information for the month of November and December 2021.

- MARKET OVERVIEW
- CURRENT STATUS OF ACTIVITIES OF THE INVESTMENT OFFICE

DCIO Hodel reported that during the final two months of 2021, global equity markets rose 1% reaching a high for 2021 in early November before hitting a choppy but range bound market for the remainder of the year.

The U.S. yield curve flattened since end of October with the 2-year Treasury yield rising 25 bps to 73 bps, the 10-year Treasury yield and the 30-year Treasury yield falling 3 bps to 1.52% and 1.90% respectively, all well below current inflation.

Commodity indexes receded during the last two months of the year. The rise in equities was concentrated in U.S. large cap stocks with the S&P 500 up nearly 4% and the NASDAQ up 1%, while U.S. small caps fell 2% and international stocks fell about 1% over the final two months of the year.

IO Goo stated that traditional growth has nothing to report, and he continues to monitor existing portfolio managers as well as speaking to prospective managers. For stabilized growth, Geode fund assets were depleted which was about \$420 million to fund other strategies in the Diversifying Strategies class. Geode's termination was not due to performance. Gateway and Neuberger Berman are the remaining option based managers in that component. As Diversifying Strategies increase, funding will come from the public growth area and continue to rotate among the subcomponents to raise cash.

IO Okamoto reported that one new credit manager was onboarded at the end of December. More details will be given during the Pipeline discussion in Executive Session.

IO Wetzel mentioned that there is good progress for new commitments on real asset class and the portfolio is doing well. Since January 1, 2019, \$2.0 billion in real assets commitments were approved. For CY 2021, \$740 million in commitments were approved within the pacing plan. An additional \$600M commitment to custom real assets solution was approved outside of the pacing plan, bringing total CY 2021 real asset commitments to \$1.34 billion. Commitment pacing is on track.

A total of approximately \$1.0 billion is targeted to be deployed to new core real estate commitments over CY 2021-2025 (~\$200 million/year). CY 2021 pacing plan for core real estate commitments is a \$150 million target. Total commitments of \$200 million were approved in November for CY 2021. CY 2022 pacing plan for core real estate commitments is a \$200 million target with a recommendation of \$200 million (subsequently increased to \$220 million) fund commitment in January for CY 2022.

Non-core real estate commitments are a \$100 million target for CY 2021. Total commitments of \$140 million were approved for CY 2021. CY 2022 pacing plan is a \$150 million target. Actual commitments are on track with plan.

CY 2021 pacing plan for infrastructure commitments is a \$150 million target and total commitments of \$200 million were approved for CY 2021. CY 2022 pacing plan for infrastructure commitments is a \$150 million target.

CY 2021 pacing plan for agriculture commitments is a \$150 million target. One agriculture fund for \$100M was approved in September and a second fund for \$100 million was approval in December. Total agriculture commitments of \$200 million were approved for CY 2021. CY 2022 pacing plan for agriculture commitments is a \$150 million target. A \$600 million commitment to a custom real asset solution has also been approved to further complement the ongoing build out of the real asset portfolio.

Chair Chan questioned the implication of continuously exceeding the pace and do you need to exceed the pace?

IO Wetzel responded that there are asset allocation targets. Real assets have been underweighted, so staff is currently in the process of building out to a higher share of funds by establishing annual pacing plans for commitments, which when drawn over time will increase the allocation to real assets. It takes a multi-year effort to reach target and staff are doing a good job it. The overall real estate portfolio has the majority in U.S., with approximately 15% non- U.S. The non-U.S. piece contains Europe and Asia, and staff is looking at an Asia fund to balance the existing Europe and Asia holdings. The bulk is Continental U.S. which tend to be the larger, institutional quality real estate market. One manager focuses on Hawaii which will be discussed in Executive Session.

IO Au reported that due diligence is being conducted on three foundational managers for a total commitment of \$85.0 million. ERS is on target to achieve its pacing plan of between \$550 million and \$650 million for calendar year 2022.

To keep our investment relationships and not commit more than the \$650 million, staff may need to decrease the size of commitments. For example, instead of a \$50.0 million commitment, the amount may be reduced to \$30.0 million, or we may have to decline a re-up opportunity.

DCIO Howard Hodel reported the return of the \$5.6 billion Diversifying Strategies (“DS”) liquid portfolio was negative during a mostly risk-on environment with higher stock prices and slightly lower long-term interest rates during November-December. Two managers experienced small trading errors and have fully reimbursed the ERS accounts; one error was due to reversing the purchase of a stock that was on the prohibited Sudan-list and the other loss was related to manual trade input errors.

Crisis Risk Indicators remained green during November and December. The capital markets in November-December were favorable for duration and alternative risk premia, and unfavorable for trend, relative value/arbitrage, defensive return capture, systematic macro, and discretionary macro.

Chair Chan asked who discovered the errors? ERS or the managers? DCIO Hodel explained that the managers discovered the mistakes, and, in this case, it was FRM that reported them to ERS. Managers know quickly if an error was made and if it is on the restrictive list. Vice Chair Mizumoto asked if ERS was fully reimbursed. DCIO Hodel responded yes, ERS was fully reimbursed for these errors and ERS gets fully reimbursed on trading errors as a matter of policy. Errors are rare in diversifying strategies portfolios especially given the large number of trades.

DCIO Hodel continued that in Illiquid Diversifying, for insurance-linked, staff completed the staged funding of both managers at the end of 2021, including the addition of a climate strategy for one of the managers. For idiosyncratic return, staff is negotiating final legal terms with one niche asset manager. FRM completed due diligence on a niche, private equity completion manager and is conducting due diligence on an Asian event manager and a litigation finance manager.

In addition, the cash securitization overlay has been running since late May 2019 and has produced positive results to date; cash securitization in November-December averaged roughly \$800 million.

IS Chen reported that the VIX averaged 21.4% (closing between 17% and 31%) for the month. The current level is in line with the average level of 18.3% over the past five years.

Daily tracking of the ERS portfolio performance during October indicated an annualized volatility of 8.1%, below the average annualized volatility of 9.2% 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

DCIO Hodel reported that in November and December, the IEIC approved staff recommendation for:

- Up to \$220 million (1.0% of ERS assets) in a Systematic Completion Strategy mandate in Diversifying Strategies–Liquid Diversifying–Alternative Return Capture in November.
- Up to \$220 million (1.0% of ERS assets) in a Merger Arbitrage Strategy mandate in Diversifying Strategies–Liquid Diversifying–Relative Value/Arbitrage in December.
- Staff/Consultant recommendation to invest up to \$200 million in a Real Assets–Core Real Estate fund in November.
- A \$100 million commitment to a direct lending strategy within the Global Credit portfolio in November.

- Staff/Consultant recommendation to invest up to \$100 million in a Real Assets-Agriculture (Core Plus) fund in December.

ENTER EXECUTIVE SESSION

[Before entering Executive Session, Chair Chan read the names of all authorized participants. All unauthorized participants were asked to leave the meeting.]

EXECUTIVE SESSION

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 A PRIVATE EQUITY INVESTMENT; APPROPRIATE ACTION.

On a motion made by Trustee Mizumoto, seconded by Trustee Kane, and unanimously carried, the Investment Committee entered Executive Session at 10:22 a.m.

[At the beginning of Executive Session, Chair Chan asked each participant individually to confirm no unauthorized person is present or able to hear them at their remote locations or via another audio or audiovisual connection. All responded they were by themselves.]

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 AN ILLIQUID DIVERSIFYING STRATEGIES MANAGER AND A PRIVATE EQUITY SPONSOR, AND (2) MANAGER PIPELINES FOR EACH STRATEGIC CLASS.

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 SALE OF THE KAA NAPALI GOLF COURSE BASE YARD LOT; APPROPRIATE ACTION.

APPROVAL OF EXECUTIVE SESSION MINUTES – NOVEMBER 22, 2021

On a motion made by Trustee Mizumoto, seconded by Trustee Kane, and unanimously carried, the Investment Committee approved the Executive Session minutes of the November 22, 2021.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Mizumoto, seconded by Trustee Kane, and unanimously carried, the Investment Committee exited Executive Session at 11:33 a.m.

MEETING ADJOURNED

On a motion made by Trustee Mizumoto, seconded by Trustee Kane, and unanimously carried, Chair Chan adjourned the meeting at 11:34 a.m.

**REDACTED  
SIGNATURE**

Elizabeth T. Burton  
Chief Investment Officer  
EB/dlg