

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

MARCH 14, 2022

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

Trustees present:
(by teleconference) Mr. Vincent Barfield, Chair*
Dr. Genevieve Ley, Vice Chair*
Dr. Catherine Chan*
Mr. Emmit Kane*
Mr. Lance Mizumoto*

Trustees absent:
Mr. Craig Hirai
Mr. Bennett Yap

Staff present:
(City Financial tower
by teleconference) Mr. Thomas Williams, Executive Director*
Ms. Kanoe Margol, Deputy Executive Director*
Mr. Karl Kaneshiro, Retirement Benefits Branch Manager
Mr. Kona Mann, Chief Compliance Officer
Mr. Bart Asato, Program Specialist
Ms. Shanna Sakagawa, Program Specialist
Ms. Elizabeth Burton, Chief Investment Officer*
Mr. Aaron Au, Investment Officer – Private Equity*
Ms. Christine Chang, Investment Officer – Operations*
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. Dale Kehau Kanae, Recording Secretary*
Ms. Lori Kim, Secretary*
Ms. Andrea Gasper, Secretary*
Ms. Diana Gomes, 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. Mika Malone, Meketa Investment Group, Inc.
Mr. Trevor Dodds, Townsend Group, an Aon Company
Mr. Jack Dowd, Townsend Group, an Aon Company
Mr. Chae Hong, Townsend Group, an Aon Company
Ms. Natalie Fitch, Hamilton Lane Advisors, LLC

Public present:
(by teleconference) Mr. Jordan Ash, Private Equity Stakeholder Project
Mr. Kevin Balaod, withIntelligence
Mr. Parker Robertson
Mr. Matt Steccato

*Attended Executive Session.

QUORUM/CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Ley, Trustees Chan, Kane, and Mizumoto), Chair Barfield called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 10:01 a.m. and requested each Trustee identify themselves and confirm that they are the only ones present at their remote

QUORUM/CALL TO ORDER
(CONT'D)

location while attending the meeting. Each of the Trustees present confirmed same.

On a motion made by Vice Chair Ley, seconded by Trustee Chan, 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 Act 220, Hawaii Session Laws 2021, and the Governor of the State of Hawaii's Emergency Proclamation Related to COVID-19 (Omicron Variant), dated January 26, 2022, in order to implement social distancing measures.

PUBLIC COMMENT

Chair Barfield called for public comment. There were four (4) members of the public present by teleconference. One member, Mr. Jordan Ash of the Private Equity Stakeholder Project provided verbal testimony regarding concerns with ERS investing with KKR, specifically KKR's recent acquisition of a majority stake in Refresco. Mr. Ash questions how KKR will apply its Environmental, Social, and Governance (ESG) Policies to Refresco as they have had numerous violations, fines, and non-compliance. Mr. Ash is also concerned with Refresco's claimed unfair labor practices and OSHA workplace violations. Mr. Ash requested the Board ensure KKR is taking steps to have Refresco follow KKR's ESG Policy.

Chair Barfield thanked Mr. Ash for sharing his concerns and stated that the Board will take his comments under consideration. There were no further public in-person, via teleconference, or written testimony received for this meeting.

EXECUTIVE DIRECTOR'S
REPORT

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

- Legislative:
 - HB 2105 HD1, related to service-connected disability passed the House and is now awaiting Senate hearings with Labor, Culture and the Arts, and the Joint Committee of Judiciary and Ways and Means. Staff has been working with Committee Chairs asking that the Bill be heard with favorable support.
 - HB 1736, related to immediate rehiring of teachers allowing teachers to forego the 12-month separation requirement. This could jeopardize our tax qualification, however, ERS supported a minimum separation requirement of 3-, 6-, 9-, or 12- months. This Bill did not pass.
 - SB 2819 SD1 and SB 2820 SD1, related to teacher compensation to appropriate funds to make necessary discretionary salary adjustments for certain teachers and for various teacher differentials to help address various labor shortages. Salary increases may impact unfunded liability and we are also working with our actuaries to prepare information of possible impacts.
 - State Budget has been passed by the House and is now awaiting Senate hearings. We have discussed with House Finance the Investment Office Strategic Plan and additional staffing needs.
 - There was also a discussion of pre-funding for ERS of advanced contributions. A previous Bill passed allowed advanced funding by State agencies. Staff will be working on options as to how the monies could be invested.
 - Trustee Mizumoto's ERS Board appointment passed unanimously on February 23, 2022, by the Senate Labor, Culture, and Arts Committee and will be recommending his appointment to the full Senate for confirmation.

ED Williams acknowledged and thanked Program Specialists Bart Asato

EXECUTIVE DIRECTOR'S
REPORT (CONT'D)

and Shanna Sakagawa, and Deputy Attorney General (DAG) Diane Wong for their work on legislative matters.

- National Association of State Retirement Administrators (NASRA) held an in-person Winter Legislative Conference February 26-28, 2022, in Washington D.C. Actuarial Standards of Practice, was discussed and will be published and effective in early 2023, requiring public pension plans illustrate, calculate, and compute their unfunded liability not only on an assumed investment return rate but also on a risk-free rate.
- Council of Institutional Investors Conference was held and topics discussed such as ESG, forced arbitration as it relates to securities litigation, and claims on behalf of violation of workers civil rights. They also discussed civil rights audits.
- After March 25, 2022, the Office of Information Practices has required a physical location for public participation of Board and Committee meetings, which ERS has always had in the 12th Floor Conference Room. Regarding Chapter 91 meetings, we will be requiring in-person or video teleconferencing to be able to identify the individuals.
- Russian divestment, a topic emerged in recent weeks as Russia has invaded the Ukraine. Public funds around the country have been faced with questions and demands that they divest from Russia related investments. We have minimal exposure to Russia investments. The market is closed in Russia and sanctions have been imposed by US, there is no trading in those securities.
- The Legislature might consider a resolution urging divestment. Our responsibility as fiduciaries would not allow us to arbitrarily divest from investments solely for political reasons. Our rational has to be undergirded by the best interest of the members.
- Introduced and welcomed two new staff members, Christine Chang, Investment Officer of Operations and Investments and Kona Mann, Chief Compliance Officer. Mr. Mann gave the Board a brief background of himself. ED Williams shared that Mr. Mann will work closely with the Administrative & Audit Committee.

Chair Barfield welcomed Ms. Chang and Mr. Mann to the ERS.

DEPUTY EXECUTIVE
DIRECTOR'S OPERATIONS
REPORT

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 February 2022 Monthly Operations Report. DED Margol also presented the Board an update provided by Program Specialist Bart Asato on Temporary Waiver Requirements Under Section 88-103.7 HRS.

RETIREMENT BENEFITS
BRANCH CHIEF'S REPORT

Retirement Benefits Branch (RBB) Manager Karl Kaneshiro presented an oral and written report to the Board with an RBB Update and discussed Overview, Core Activities, 2021 Accomplishments, 2022 Goals, RBB Staffing, Staff Development, and Challenges.

After his presentation, Mr. Kaneshiro left the meeting.

MEKETA INVESTMENT
GROUP, INC. –
QUARTERLY
PERFORMANCE REVIEW

Meketa Investment Group, Inc. (Meketa), Mika Malone entered the meeting by teleconference and presented an oral and written report to the Board on the Quarterly Performance for the 4th Quarter of 2021, and highlighted:

INTRODUCTION

Performance vs. Policy Benchmark and Median Public Fund

- The ERS Total Portfolio generated a 3.7% quarterly return, increasing by roughly \$694 million in Q4 to end the period at \$22.5 billion. This

MEKETA INVESTMENT
GROUP, INC. –
QUARTERLY
PERFORMANCE REVIEW
(CONT'D)

increase includes a cumulative outflow of \$86 million over the quarter along with \$780 million in investment gains.

- The ERS Total Portfolio outperformed the Policy Benchmark during the quarter as well as 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-, 5-, and 7-year trailing periods. The Diversifying Strategies class, however, trailed its benchmarks over the quarter and 1-year trailing period but outperformed the benchmark over the longer trailing 3-year period.
- The ERS Total Portfolio outperformed the Median Public Fund over the fiscal year-to-date period as well as over the trailing 1- and 10-year periods. However, the ERS Total Portfolio lagged the Median Public Fund in the most recent quarter and 3- and 5-year trailing periods. 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. During 2021 Q4, an Agriculture segment was funded within Real Assets along with additional Diversifying Strategies managers.
- As of 2021 Q4, the Total Portfolio ended the quarter overweight the Private Growth component while underweight Diversifying Strategies more broadly. 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

Performance Attribution v. Policy Benchmark – Gross of Fees

Performance Attribution 4Q21

- The total Portfolio outperformed the Policy Benchmark over the most recent quarter by 1.2%
- The Broad Growth category drove this outperformance over the quarter. In particular, the Private Growth segment's Implementation effect was the most prominent while the Public Growth slightly trailed its benchmark on a relative basis. The Diversifying Strategies and its underlying segments were virtually flat in terms of their implementation effect. It is important to remember, however, that benchmarks within the Diversifying Strategies class are imperfect and short-term deviations should not be overly scrutinized.

Performance Attribution – Trailing 1-Year ending December 31, 2021

- The Total Portfolio outperformed the Policy Benchmark over the trailing 1-year period by 3.2%.
- Similar to the most recent quarter's performance attribution, the Broad Growth category drove the outperformance over this period with the Private Growth sleeve leading as the primary contributor to the relative

MEKETA INVESTMENT
GROUP, INC. –
QUARTERLY
PERFORMANCE REVIEW
(CONT'D)

TOWNSEND GROUP, AN
AON COMPANY – 3RD
QUARTER 2021 REAL
ESTATE PERFORMANCE
REVIEW

performance, followed by Real Assets. Diversifying Strategies was a modest detractor. In particular, the Liquid Defensive component was a modest detractor from relative returns, albeit this occurred during a strong “risk on” period where defensive strategies would not be expected to perform well.

After her presentation, Ms. Malone left the meeting by exiting the teleconference.

Townsend Group, an Aon Company (Aon), Trevor Dodds, Jack Dowd and Chae Hong entered the meeting by teleconference and presented an oral and written report to the Board on the 3rd Quarter 2021 Real Estate Performance Review and highlighted:

EXECUTIVE SUMMARY

Real Assets Markets Performance and Overview

- The NFI-ODCE trailing one-year return now stands at 13.6% net. NFI-ODCE returns have recovered to long-term expectations of 7% to 9% gross due to the robust recovery of the Global economy following the COVID-19 pandemic.
- The NCREIF Farmland Index (“NFI”) returned 1.5%, equivalent to the prior quarter. Row crops drove performance with a returns of 2.3%, while permanent crops returned 38 basis points.
- The NCREIF Timberland Index (“NTI”) returned 1.9% for the quarter and 5.0% for the trailing one-year return. The quarterly return was driven by appreciation, while the 1-year was driven by income. Regionally, the Northwest was the NTI’s top performer while the Northeast lagged 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 8.4% net IRR and 1.5x 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 near-term underperformance is due to net unrealized depreciation associated with appraisals.
- The Timber portfolio has generated a 7.7% net IRR and 2.2x 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 an 16.7% net IRR and 1.5x net equity multiple since inception.

HIERS’ Ka’anapali Performance Summary

HIERS sold a majority of its ownership in Ka’anapali for \$27 million, which was received in 2Q21. Additionally, HIERS sold the remaining quarry for \$1.5 million at the end of 4Q21.

Mr. Hong commented that Aon understands the concerns voiced in the public comments by Mr. Jordan Ash regarding KKR and will report back whether or

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

REPORTS BY THE
ADMINISTRATIVE &
AUDIT, COMPENSATION
REVIEW, GOVERNANCE
POLICY, INVESTMENT,
AND LEGISLATIVE
COMMITTEES

not the investment is a part of the ERS portfolio.

Messrs. Dodds, Dowd, and Hong left the meeting by exiting the teleconference.

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 September 30, 2021, and highlighted:

PORTFOLIO REVIEW

PE Portfolio Highlights – September 30, 2021

- Quarterly gains of \$258.6 million during Q3, continuing strong performance from prior 5 quarters.
- One-year net IRR of 54.97% outperformed public benchmark by 2,593 bps.

Portfolio Snapshot

- Q3 2021: Portfolio continued strong performance.
- PE allocation above 13.5% target.

Performance Against Benchmark

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

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

Governance Policy Committee (Committee) Chair Barfield reported to the Board that the Committee did not meet, however, a meeting will convene soon to review all revised Committee Charters. Chair Barfield also reminded the Committee Chairs to prepare any governance related items for discussion.

Administrative & Audit Committee (Committee) Vice Chair Mizumoto, reported to the Board in Chair Yap's absence that the Committee did not meet and there was nothing to report.

Compensation Review Committee (Committee) Chair Ley, reported to the Board that the Committee did not meet, however, an update regarding the request to Contract for the Compensation Study was submitted to Budget and Finance and has yet to be secured. The Committee will meet in April to discuss contingency plans on how to move forward since the Compensation Study will be delayed.

Investment Committee (Committee) Chair Chan reported to the Board that the Committee met on February 28, 2022, and that there will be a presentation in Executive Session. Chair Chan further reported on a summary of the meeting that included:

- Report of Investment Activities – January and February 2022;
- Announcement of Christine Chang joining the Investment Office;
- IEIC Chaired by ED Williams approved six (6) investments, recommended by staff. Investments in China are also scheduled for review;
- CIO Elizabeth Burton noted that the UNPRI notified ERS that they will be postponing this year's reporting until Fall 2022;
- CIO Burton also presented the Quarterly Performance Snapshot;

REPORTS BY THE
ADMINISTRATIVE &
AUDIT, COMPENSATION
REVIEW, GOVERNANCE
POLICY, INVESTMENT,
AND LEGISLATIVE
COMMITTEES (CONT'D)

- Current status of Activities of the Investment Office Fourth Quarter 2021 Risk Report; and
- Executive Session items included: Investment Portfolio Updates regarding Changes in Organizational Structure for a Global Credit Manager, Manager Pipelines for Each Strategic Class, and Liquidity Report for Total Portfolio.

Approved Minutes of January 24, 2022.

Legislative Committee (Committee) Chair Kane reported to the Board that the Committee did not meet, however, the Board was provided an update on legislation being monitored by ERS via e-mail from Program Specialist Bart Asato.

(Public participation concluded by ending the teleconference link.)

Chair Barfield identified all the participants in Executive Session, the Board and staff members are noted with an asterisk on these minutes.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Chan, seconded by Vice Chair Ley, and unanimously carried, the Board entered into Executive Session at 11:35 a.m.

Board members confirmed that no other persons were in the room or able to listen in on their audio or audiovisual connection while they were on the teleconference. The Board Secretary Dale Kehau Kanae also confirmed that no unauthorized persons were in the conference room or able to listen in via audio or audiovisual connection while on the teleconference.

EXECUTIVE SESSION

- Pursuant to HRS § 88-27.5(a)(1) and (3); HRS § 88-103.5(c)(2)(7)(9); HRS § 92-5(a)(4) and HRS § 92F-13(3), 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 88 and HRS Chapter 92F, including information and records that are proprietary information or confidential business information, or regarding the authority of persons designated by the Board to negotiate investments; 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 Alternative Investment Real Estate Fund Advisory Committee Participation; appropriate action.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(1) AND (3); HRS § 88-
103.5(c)(2)(7)(9); HRS § 92-5(a)(4)
AND HRS § 92F-13(3), 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 88 AND HRS CHAPTER
92F, INCLUDING INFORMATION
AND RECORDS THAT ARE
PROPRIETARY INFORMATION

OR CONFIDENTIAL BUSINESS
INFORMATION, OR REGARDING
THE AUTHORITY OF PERSONS
DESIGNATED BY THE BOARD
TO NEGOTIATE INVESTMENTS;
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
ALTERNATIVE INVESTMENT
REAL ESTATE FUND ADVISORY
COMMITTEE PARTICIPATION;
APPROPRIATE ACTION

Chair Barfield again had Board members confirm that no other persons were in the room or able to listen in on their audio or audiovisual connection while they were on the teleconference. The Board Secretary Dale Kehau Kanae also re-confirmed that no unauthorized persons were in the conference room or able to listen in via audio or audiovisual connection while on the teleconference.

APPROVAL OF EXECUTIVE
SESSION MINUTES
– FEBRUARY 14, 2022

EXIT EXECUTIVE SESSION

On a motion made by Trustee Mizumoto, seconded by Trustee Chan, and unanimously carried, the Board exited Executive Session at 11:58 p.m.

APPROVAL OF MINUTES
– FEBRUARY 14, 2022

Trustee Chan requested an edit on page 2 under the Executive Director's Report, "Legislatively:" first bullet, "A bill ..." Please replace with the actual bill number. On a motion made by Trustee Mizumoto, seconded by Trustee Chan, and unanimously carried, the Board approved the Minutes of February 14, 2022, with the change as requested by Trustee Chan above.

ADJOURNMENT

On a motion made by Trustee Mizumoto, seconded by Trustee Chan, and unanimously carried, Chair Barfield adjourned the meeting at 12:00 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik