

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

JUNE 13, 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. Craig Hirai*
Mr. Lance Mizumoto*
Mr. Bennett Yap

Trustees absent: Mr. Emmit Kane

Staff present:
(City Financial Tower
by teleconference) Mr. Thomas Williams, Executive Director*
Ms. Kanoe Margol, Deputy Executive Director*
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. David Okamoto, Investment Officer – Credit Markets*
Mr. Ian Wetzel, Investment Officer – Real Assets*
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) Ms. Lori Tanigawa, Deputy Attorney General*
Mr. Ivan Torigoe, Deputy Attorney General*
Ms. Elmira Tsang, Deputy Attorney General*
Ms. Diane Wong, Deputy Attorney General*

Guests present:
(by teleconference) Mr. Colin Bebee, 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. Joe Ebisa, withIntelligence
Mr. Gregg Gethard
Ms. Joan Pino – Allspring
Mr. Alex Tamase - Allspring

*Attended Executive Session.

QUORUM/CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Ley, Trustees Chan, Hirai, 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 10:08 a.m. and requested each Trustee identify

QUORUM/CALL TO ORDER
(CONT'D)

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.

PUBLIC COMMENT

On a motion made by Trustee Mizumoto, seconded by Vice Chair Ley, and unanimously carried, to be able to hold a meeting allowing Trustees and members of the public to participate by interactive conference technology, pursuant to HRS § 92-3.7, with at least one meeting location open to the public that has audiovisual connection.

Chair Barfield called for public comment. There were four (4) members 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 report to the Board as follows:

- Activities with the Human Resources Committee Meetings included:
 - Review of performance and goals for the Executive Director, Deputy Executive Director, Chief Investment Officer, exempt Investment Officers, and Branch Chiefs.
 - Suggested compensation increase recommendations for exempt staff were sent to the Budget and Finance Director by memorandum.
 - Mercer compensation study will be reported to the Board by August.
- Presentation to the Office of Hawaiian Affairs Trustees on ERS governance related activities and the process of hiring Investment staff that included compensation.
- Attended conferences by the National Conference on Public Employee Retirement Systems in Washington D.C., and the National Council on Teacher Retirement in Atlanta, Georgia.
- Presentation to the Kauai County Council on the overview of the ERS, pension spiking, and economic impacts on our portfolio.

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 May 2022 Monthly Operations Report.

STAFF SUPPORT
SERVICES REPORT

Staff Support Services Supervisor, Diane Tengan gave an oral report to the Board on a brief overview of the services her branch provides.

After her presentation, Ms. Tengan left the meeting.

RESOLUTION
PRESENTATION TO
ELIZABETH BURTON

Chair Barfield, on behalf of the ERS Board of Trustees, thanked departing Chief Investment Officer Ms. Burton for her dedication and outstanding leadership and service to the ERS. ED Williams presented a Resolution on behalf of the Board of Trustees and also thanked Ms. Burton on behalf of ERS. Ms. Burton shared parting words with the Board and ERS staff attending the meeting.

MEKETA INVESTMENT
GROUP, INC. –
QUARTERLY
PERFORMANCE REVIEW

Meketa Investment Group, Inc. (Meketa), Colin Bebe entered the meeting by teleconference and presented an oral and written report to the Board on the Quarterly Performance for the 1st Quarter of 2022, and highlighted:

INTRODUCTION

Portfolio Valuation

- With the backdrop of a volatile quarter where both equities and bonds declined, the ERS's performance stood out as a proof statement for the portfolio's structure. The ERS Total Portfolio was effectively flat for the

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

quarter, and this performance places the ERS in the top 1% of peer performance. This is the type of scenario that the ERS has been preparing for, and the portfolio performed perfectly in-line with expectations given the market environment.

- The ERS Total Portfolio generated a -0.1% quarterly return, decreasing by approximately \$120.1 million in Q1 to end the period at \$22.4 billion in total assets. This includes a cumulative outflow of \$77.4 million over the quarter along with \$42.7 million in investment depreciation.

Performance vs. Policy Benchmark and Median Public Fund

- The ERS Total Portfolio trailed the Policy Benchmark during the quarter by (0.3%) while maintaining its outperformance over the fiscal year-to-date and trailing 1-, 3-, 5-, and 10-year periods.
- As part of evolving policy targets that began taking effect on 7/1/2020, the current phase of policy targets started on 7/1/2021 at the beginning of the fiscal year. 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 part of 2022 Q1, the Total Portfolio ended the quarter overweight the Private Growth component while underweight the Public Growth component within the Broad Growth program. Diversifying Strategies was also underweight at the end of the quarter. While not explicitly shown, the ERS's overlay program also assists the ERS in staying closer to policy targets while eliminating cash drag.
- On the risk-unadjusted basis, the ERS Total Portfolio outperformed the Median Public Fund across all time periods measures. This outperformance is even greater once shown on a risk-adjusted basis.

Risk-Adjusted Return of Hawaii ERS vs Peers

- On a risk-adjusted basis, the ERS Total Portfolio has consistently, and materially, 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

Asset Allocation vs Target

Asset Class Performance Summary

TOWNSEND GROUP, AN
AON COMPANY – 4th
QUARTER 2021 REAL
ESTATE PERFORMANCE
REVIEW

Investment Officer – Real Assets Ian Wetzel, and 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 4th 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 21.0% 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 3.8%, up from the prior quarter. Row crops drove performance with a return of 4.65%, while permanent crops returned 2.51%.
- The NCREIF Timberland Index (“NTI”) returned 4.6% for the quarter and 9.2% for the trailing one-year return. The quarterly return was driven by appreciation, while the 1-year was driven by a combination of income and appreciation. Regionally, the Northwest was the NTI's top performer

while the Lake States lagged for the quarter.

Total Real Asset Portfolio Funding Status and Composition

- Recent infrastructure and real estate commitments should help the portfolio continue to move towards its target allocation irrespective of liquidating investments.
- In general, the portfolio is in compliance with its Statement of Investment Policy with the following exceptions: Timber has a slight overweight to the South and exceeds the largest asset as a percent of Timber maximum due to Hancock's sale of a large property in December 2017 for roughly \$36M.

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 and the current quarter.
- The real estate portfolio has generated an 8.6% 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 3-year-term. The near-term out performance is due to net unrealized appreciation associated with appraisals.
- The Timber portfolio has generated an 8.2% net IRR and 2.6x 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 16.4% net IRR and 1.5x net equity multiple since inception.

HIERS' Agriculture Performance Summary

- Overall, the portfolio is performing well the first quarter, outperforming the benchmark on a gross return basis.

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.

Investment Officer – Illiquid Markets Aaron Au, and 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 December 31, 2021, and highlighted:

PORTFOLIO REVIEW

PE Portfolio Highlights – December 31, 2021

- Quarterly gains of \$223.3 million during Q4, continuing strong performance from prior 6 quarters.
- One-year net IRR of 42.37% outperformed public benchmark by 903 bps.

Portfolio Snapshot

- Q4 2021: Portfolio continued strong performance.
- PE allocation above 13.5% target.

HAMILTON LANE
ADVISORS, LLC –
PRIVATE EQUITY
PROGRAM UPDATE
– FOR PERIOD ENDING
DECEMBER 31, 2021
(CONT'D)

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

REPORT BY THE HUMAN
RESOURCES COMMITTEE

REVIEW AND DISCUSS
COMPENSATION
STUDY

REPORT BY THE
INVESTMENT COMMITTEE

APPROVAL OF MINUTES
– MAY 10, 2022

Performance Against Benchmark

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

Governance Policy Committee (Committee) Chair Barfield reported to the Board that the Committee did not meet and there was nothing to report.

In absence of **Administrative & Audit Committee** (Committee) Chair Yap, Board Chair Barfield reported to the Board that the Committee did not meet and there was nothing to report.

In absence of **Legislative Committee** (Committee) Chair Kane, Board Chair Barfield reported to the Board that the Committee did not meet and there was nothing to report.

Human Resources Committee (Committee) Chair Ley, reported to the Board that the Mercer Compensation Study has commenced as Mercer will conduct interviews with staff and Chair Ley. Board members were encouraged to participate in the process by meeting individually with Mercer. Board Chair Barfield reconfirmed that one additional Board member could join the Committee for the process.

Investment Committee (Committee) Chair Chan reported to the Board that the Committee met on May 25, 2022, and discussed:

- Approval of the Investment Policy Statement Revisions;
- Overview of markets in the first four months of 2022;
- Update of Activities of Core Real Estate;
- Update of Activities of Private Equity;
- Update of Activities of Diversifying Strategies;
- Reviewed the first quarter risk report and the portfolio forward manager pipeline. The portfolio is moving closer to target weights on schedule.

On a motion made by Trustee Mizumoto, seconded by Trustee Chan, and unanimously carried, the Board approved the Minutes of May 10, 2022, as presented.

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

Chair Barfield provided the reason to enter into Executive Session:

Executive Session, pursuant to HRS§ 92-5(a)(2) and (4), to review and discuss the Chief Investment Officer search process, and to discuss the performance evaluations, goals, objectives, and compensation for Employees' Retirement System's non-exempt, and exempt employees covered by Chapter 76, HRS, where matters affecting privacy will be involved, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, with Securities Litigation Cases,

(Public participation concluded by ending the teleconference link.)

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Mizumoto, seconded by Vice Chair Ley, and unanimously carried, the Board entered into Executive Session at 11:04 a.m.

All attendees affirmed that no other persons were in their rooms 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§ 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 a Securities Litigation Case, for appropriate action.
- 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 Securities Litigation Cases, report and update.
- Pursuant to HRS§ 92-5(a)(2) and (4), to review and discuss the Chief Investment Officer search process, and to discuss the performance evaluations, goals, objectives, and compensation for Employees' Retirement System's non-exempt, and exempt employees covered by Chapter 76, HRS, where matters affecting privacy will be involved, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, including but not limited to:
 - Review and Discuss the Chief Investment Officer Search Process;
 - Review and Discuss Performance Evaluations of Non-Exempt Staff; and
 - Review and Discuss Performance Evaluations and Compensation of Chapter 76 HRS Exempt Staff.

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 A
SECURITIES LITIGATION
CASE, FOR APPROPRIATE
ACTION

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
SECURITIES LITIGATION
CASES, REPORT AND
UPDATE

APPROVAL OF EXECUTIVE
SESSION MINUTES
– MAY 10, 2022

EXECUTIVE SESSION,

PURSUANT TO HRS§ 92-5(a)(2) AND (4), TO REVIEW AND DISCUSS THE CHIEF INVESTMENT OFFICER SEARCH PROCESS, AND TO DISCUSS THE PERFORMANCE EVALUATIONS, GOALS, OBJECTIVES, AND COMPENSATION FOR EMPLOYEES' RETIREMENT SYSTEM'S NON-EXEMPT, AND EXEMPT EMPLOYEES COVERED BY CHAPTER 76, HRS, WHERE MATTERS AFFECTING PRIVACY WILL BE INVOLVED, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE COMMITTEE'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES, INCLUDING BUT NOT LIMITED TO:

- REVIEW AND DISCUSS THE CHIEF INVESTMENT OFFICER SEARCH PROCESS;
- REVIEW AND DISCUSS PERFORMANCE EVALUATIONS OF NON-EXEMPT STAFF; AND
- REVIEW AND DISCUSS PERFORMANCE EVALUATIONS AND COMPENSATION OF CHAPTER 76 HRS EXEMPT STAFF.

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Ley, seconded by Trustee Chan, and unanimously carried, the Board exited Executive Session at 12:20 p.m.

Continuing the discussion from Executive Session regarding compensation of Chapter 76 HRS exempt staff, Trustee Hirai asked if action could be taken if he abstained from a vote. DAG Ivan Torigoe advised that the Board needs five (5) concurring votes to carry a motion. Due to an insufficient number of voting members, Chair Barfield announced that the meeting would be recessed.

RECESS

Chair Barfield called for a recess at 12:27 p.m. and announced that the meeting would reconvene at 2:00 p.m.

RECONVENE

A quorum being present (Chair Barfield, Vice Chair Ley, Trustees Chan, Mizumoto and Yap), Chair Barfield reconvened the meeting at 2:00 p.m. noting that Trustee Yap joined the meeting and that Trustee Hirai did not rejoin the meeting.

Chair Barfield opened the floor for action regarding compensation of Chapter 76 HRS exempt staff.

On a motion made by Vice Chair Ley, seconded by Trustee Yap, and unanimously carried, the Board approved the salary increases (3% baseline increase plus individual performance-based increase) for the exempt Investment Officers as outlined in the memorandum to the Budget and Finance Director dated June 3, 2022.

On a motion made by Vice Chair Ley, seconded by Trustee Mizumoto, and unanimously carried, the Board approved the salary increases (3% baseline increase plus individual performance-based increase) for ED Williams and CIO Burton as outlined in the memorandum to the Budget and Finance Director dated June 3, 2022.

ADJOURNMENT

On a motion made by Trustee Mizumoto, seconded by Trustee Chan, and unanimously carried, Chair Barfield adjourned the meeting at 2:07 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik