

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

FEBRUARY 28, 2022

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

Committee Member	Dr. Catherine Chan, Chair
Trustees present:	Dr. Genevieve Ley
(via teleconference)	Mr. Emmit Kane
Visiting Trustees	Mr. Vincent Barfield
present:	
(via teleconference)	
Absent:	Mr. Lance Mizumoto, Vice Chair
Attorneys present:	Mr. Ivan Torigoe, Deputy Attorney General
(via teleconference)	
Staff present:	Ms. Kanoe Margol, Deputy Executive Director
(City Financial Tower)	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. Andrew Chen, Investment Specialist
	Ms. Gerri Konishi, Member Home Loan Assistant
	Ms. Lori Kim, Secretary
	Ms. Diana Gomes, Secretary
Staff present:	Mr. Thomas Williams, Executive Director
(via teleconference)	Ms. Elizabeth Burton, Chief Investment Officer
Absent:	Mr. Ian Wetzel, Investment Officer – Real Assets
Guest present:	Mr. Colin Bebee, Meketa Investment Group, Inc.
(via teleconference)	Ms. Mika Malone, Meketa Investment Group, Inc.
	Mr. Chae Hong, Aon
	Ms. Natalie Fitch, Hamilton Lane Advisors, LLC
	Mr. Paul Yett, Hamilton Land Advisors, LLC
	Mr. Jens Foehrenbach, FRM
Public present:	None.
(via teleconference)	

CALL TO ORDER

A quorum being present (Chair Chan, Trustees Kane and Ley), Chair Chan 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 Chan 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 COVID-19 (Omicron Variant), dated January 26, 2022, in order to implement social distancing measures.” On a motion made by Trustee Ley, seconded by Trustee Kane and unanimously carried, the Investment Committee meeting continued.

PUBLIC COMMENT PERIOD PRESENTATIONS

- MEKETA INVESTMENT GROUP, INC. – QUARTERLY REVIEW FOR PERIOD ENDING DECEMBER 30, 2021

Chair Chan called for public comment. There was no public comment.

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

- ERS' total portfolio generated a 3.7% quarterly return, roughly an increase of \$694 million in the Quarter 4, ending the period at \$22.5 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.

- MEKETA INVESTMENT GROUP, INC. – DIVERSIFYING STRATEGIES SEMI-ANNUAL REVIEW Q4 2021

Mr. Bebee remarked that ERS is in a very good cash flow position.

- A large proportion of ERS' investment assets rely on continued economic growth/success.
- Crisis Risk Offset (“CRO”) was originally designed to offset significant market declines.
- Components for Diversifying Strategies Class:
 - Liquid Defensive.
 - Liquid Diversifying.
 - Illiquid Diversifying.
- Over the past six months, Liquid Defensive decreased around 9% and Liquid Diversifying increased by around 9%.
- The DS class grew significantly during the year from \$4 billion to \$6.3 billion.
- ERS staff executed on the policy plan presented in January 2020 which resulted from the 2019 Asset-Liability study.
- ERS staff made significant progress in the CRO to DS transition. The new governance structure has made this possible.

- Components of CRO still exist and make up most of the Diversifying Strategies class; however, other strategies were added to improve the resiliency of the class.
 - Diversifying Strategies class is a crucial element of ERS' long-term success in protecting the portfolio during drawdowns and full-cycle alpha generation.
 - DCIO Hodel stated that Diversifying Strategies will be 85% built out by the end of the fiscal year. CIO Burton commented that the Diversifying Strategies build out takes a lot of time of those who are involved.
- FRM – DIVERSIFYING STRATEGIES QUARTERLY REVIEW FOR PERIOD ENDING DECEMBER 31, 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 effective October 1 which included rebalancing STF managers as well as adding \$50 million.
- \$650 million was added and allocated across three components.
- Crisis risk status remained green throughout the quarter.
- The DS-LD's exposures were dynamic during the quarter. Long commodities exposure ended the quarter little changed.
- Treasury/Agency Duration Capture (TADC) was the top contributor and SLC the best performer in the component.
- Systematic Trend Following, Alternative Return Capture and Defensive Return Capture all experienced negative performance during the quarter.
- Due to continued increase in inflation, central banks across the globe set an aggressive tone during the quarter.
- Value stocks outperformed growth stocks during the quarter.
- US dollar rallied during the quarter.

Diversifying Strategies – Illiquid Diversifying:

- Five capital calls were processed totaling \$51.3 million.
- As of the end of the quarter, total paid-in capital is \$590 million with a total commitment of \$830 million.

Mr. Jens Foehrenbach said that the performance was generally positive and due to its complexity, 26 individuals work with the ERS portfolio.

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

Mr. Chae Hong 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 came down ~150 bps from last quarter and below the new IPS maximum of 50%.
- 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 8.4% net IRR and 1.5x net equity multiple since inception.
- The timber portfolio has generated a 7.7% net IRR and 2.2x net equity multiple since inception.
- The infrastructure portfolio has generated a 16.7% net IRR and 1.5x net equity multiple since inception.

- ERS sold a majority of the Ka'anapali Golf Course in Q2 2021. The quarry was sold at the end of Q4 2021.
- Four new commitments were made during Q3 2021 and subsequent to quarter end:
 - \$200 million to a Core Plus Industrial Real Estate Fund.
 - \$100 million to a US Agriculture Fund.
 - \$220 million to a U.S. Diversified Real Estate Fund.
 - \$600 million to a Custom Real Asset Solution Fund.

Mr. Hong mentioned there are no Russia or Ukraine investments in the portfolio. The Ka'anapali Baseyard sale has occurred and will appear "inactive" in the portfolio reporting from BNY around the middle of next quarter.

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

- Another strong quarterly gain of \$258.6 million during Quarter 3.
- ERS portfolio outperformed its public benchmark by 649 bps since inception.
- One year net IRR of 54.97% outperforming the public benchmark by 2,593 bps.
- ERS portfolio sustained a strong performance with quarterly IRR of 7.38%.
- 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 353 bps.
- ERS closed on \$648.5 million across 14 investments and within the approved pacing plan of \$550-\$650 million for 2021.
- Geographic exposure is stable primarily in North America with additions to Western Europe and Asia.

Ms. Fitch reported the Hamilton Lane is receiving updates regarding the Russia/Ukraine crisis from companies. Increased activities hit all-time highs. One-year performance was an incredible 55% IRR, but also being mindful of what is next and what is around the corner.

SUMMARY OF JANUARY 2022 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 January 2022. DCIO Hodel reported that during January there was a sharp turning point for global equity markets, as tensions rose between Russia and Ukraine, disturbing the global capital markets. Global equity markets were down by 4.6%. The U.S. Treasury yield curve rose sharply in January with the 2-year yield rising 45 bps to 1.18%, the ten-year yield up 27 bps to 1.79% and the 30-year yield up 21 bps to 2.11%, all well below current inflation.

Commodity indexes climbed in January led by higher energy prices due to the Russia - Ukraine conflict. The rise in equities was widespread with U.S. large cap stocks and Nasdaq each down about 5%, U.S. small caps down 10% and international developed stocks down 4%; only emerging market stocks were up, but less than 1% in January.

CIO Report

CIO Burton stated that January was another very busy month for the Investment Office.

CIO Burton reported that after a very, comprehensive search, an Investment Officer – Operations was hired and will start on March 1, 2022.

CIO Burton informed everyone that the team is meeting with managers, both in-person as well as virtually and with the AL study approaching, reviewing asset allocations. Supply chain disruption continues to cause issues throughout the economy including inflation that reached a 40-year high.

In addition, three consultants/manager contracts expire in 2023 and will be going out for RFP.

The Quarterly Performance Snapshot is updated through December 31, 2021. The portfolio is looking good. Assets under management is \$22.5 billion. Funded ratio increased to 58% because of the performance ratio from last year. There is strong savings due to the sale of Ka'anapali Golf Course. The portfolio outperformed the benchmark.

[End of CIO Report]

IO Goo stated that both the Internal Investment Committee (IIC) and the Internal Executive Investment Committee (IEIC) approved the hiring of a manager for China A shares in the amount of \$200 million. More details on China A shares will be provided in Executive Session. \$400 million was liquidated in broad growth as the team continues to raise liquidity for new investments.

IO Au presented the real assets report for IO Wetzel. Real Assets commitments are on track per the information provided in the meeting packet. This information shows the various investments that are being considered and the target for CY2022. For core real estate, Mr. Hong covered this area in depth during Aon's presentation and industrial real estate was included in the Heitman portion.

For non-core real estate commitments, actual commitments are on track with plan along with timber, infrastructure, and agriculture.

IO Au reported that Hamilton Lane covered the information in their presentation and that there is nothing further to add.

CIO Burton mentioned that IOs Au and Wetzel, along with the rest of the team, have done an outstanding job these past couple of months in

contracting and fully supports the job that they are doing. She is very appreciative in the amount of work the team does to close funds.

DCIO Howard Hodel reported the return of the \$5.7 billion Diversifying Strategies (“DS”) liquid portfolio was positive during a risk-off environment with lower stock prices and higher interest rates in January. The DS liquid portfolio’s annualized ex-ante volatility rose slightly to about 5%, while ex-post volatility remained at 6% during the month.

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

DCIO Hodel continued that in Illiquid Diversifying, for insurance-linked, there was nothing to report. For idiosyncratic return, staff is negotiating final legal terms with one niche asset manager. FRM is conducting due diligence on an Asian event manager and completed due diligence on 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 averaging between \$600-\$800 million.

CIO Burton reported that in January/February, the IEIC approved staff recommendation for:

- A \$200 million commitment to a hedged, niche private equity strategy in Illiquid Diversifying Strategies – Idiosyncratic Return Capture portfolio.
- Up to \$220 million (1.0% of ERS assets) in a Long Volatility strategy in Diversifying Strategies – Liquid Defensive – Defensive Return Capture.
- Up to \$220 million in a Real Assets – Core Real Estate fund.
- Up to \$220 million (1.0% of ERS assets) in a Tail Hedging mandate in Diversifying Strategies – Liquid Defensive – Defensive Return Capture.
- A \$100 million commitment to a litigation finance fund within the Illiquid Diversifying Strategies – Idiosyncratic Return Capture portfolio.

IS Chen reported that the VIX averaged 23.2% (closing between 16.6% and 32%) for the month. The current level is above the average level of 18.6% over the past five years.

Daily tracking of the ERS portfolio performance during January indicated an annualized volatility of 6.5%, 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.

Investment Specialist Chen continued with the 4th Quarter 2021 Risk Report. The following is a summary of the presentation:

- Growth risk dominates, ERS realized risk is muted, active risk and other risks remain high.
- ERS portfolio is tilted toward the U.S. dollar and U.S. equity markets.
- International growth-oriented assets are tilted toward non-U.S. developed companies.
- Portfolio risk levels are appropriate and consistent with policy & market conditions.
- Diversifying Strategies (DS) class dampened portfolio volatility from 12% to 7.3% during the quarter.
- Growth risk accounted for 82.5% of the projected portfolio risk.
- Portfolio beta to MSCI ACWI IMI is approximately 0.4.
- Sharpe Ratio, Information Ratio and annual excess returns over the rolling 1-year were 1.8, 0.8, and 1.6% respectively.
- Diversifying Strategies' Crisis Indicators remained green during the quarter.
- Equity volatility, as measured by the VIX, averaged 19.3% for the quarter, in line with the 5-year historical average of 18.4%.

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

ENTER EXECUTIVE SESSION

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 UPDATES ON STATUS OR ISSUES RELATED TO CONFIDENTIAL ERS INVESTMENT PORTFOLIO UPDATES REGARDING:

On a motion made by Trustee Ley, seconded by Trustee Kane, and unanimously carried, the Investment Committee entered Executive Session at 11:42 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.]

CHANGES IN (1) ORGANIZATIONAL
STRUCTURE FOR A GLOBAL CREDIT
MANAGER, (2) MANAGER PIPELINES
FOR EACH STRATEGIC CLASS, (3)
LIQUIDITY REPORT FOR TOTAL
PORTFOLIO.

APPROVAL OF EXECUTIVE
SESSION MINUTES – JANUARY 24,
2022

EXIT EXECUTIVE SESSION

APPROVAL OF MINUTES
JANUARY 24, 2022

MEETING ADJOURNED

On a motion made by Trustee Kane, seconded by Chair Chan, and
unanimously carried, the Investment Committee approved the Executive
Session minutes of the January 24, 2022.

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

On a motion made by Trustee Kane, seconded by Trustee Ley and
unanimously carried, the Investment Committee approved the minutes of
the January 24, 2022, meeting as presented.

On a motion made by Trustee Ley, seconded by Trustee Kane, and
unanimously carried, Chair Chan adjourned the meeting at 12:15 a.m.

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer
EB/dlg