

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

MAY 25, 2022

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

Committee Member	Dr. Catherine Chan, Chair
Trustees present:	Mr. Lance Mizumoto, Vice Chair
(via teleconference)	Dr. Genevieve Ley
	Mr. Emmitt Kane
Visiting Trustees	Mr. Vincent Barfield
present:	Mr. Craig Hirai
(via teleconference)	
Attorneys present:	Mr. Ivan Torigoe, Deputy Attorney General
(via teleconference)	
Staff present:	Mr. Thomas Williams, Executive Director
(City Financial Tower)	Ms. Kanoe Margol, Deputy Executive Director
	Ms. Elizabeth Burton, Chief Investment Officer
	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. Kehau Kanae, Secretary
Absent:	
	Ms. Diana Gomes, Secretary
Guest present:	
(via teleconference)	Mr. Colin Bebee, Meketa Investment Group, Inc.
	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
	Mr. Ashel Shah, EJF Capital LLC
Public present:	Mr. Joe Ebisa, WithIntelligence
(via teleconference)	

CALL TO ORDER

A quorum being present (Chair Chan, Vice Chair Mizumoto, Trustees Kane and Ley), Chair Chan called the Investment Committee meeting to order at 10:00 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 HRS § 92-3.7, with at least one meeting location open to the public that has audiovisual connection.” On a motion made by Trustee Ley, seconded by Trustee Kane and unanimously carried, the Investment Committee meeting continued.

PUBLIC COMMENT PERIOD PRESENTATIONS

- **EMPLOYEES’ RETIREMENT
SYSTEM OF THE STATE OF
HAWAII INVESTMENT POLICY
REVISIONS**

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

DCIO Hodel recommended to make minor revisions to the ERS Investment Policy. This is an annual recommendation designed to update the policy transition plan. Revisions are to the following sections:

Section C – Implementation Plan Update & Revisions to Strategic Class Allocation Targets & Ranges
Section D – Broad Growth Return Benchmark & Weighting Revisions
Section D – Change LIBOR to SOFR for Credit 3-year Return Objective
Section F – Diversifying Strategies (“DS”) Component Range & Target
Section F – DS Class Return Benchmark & Weighting Revisions & Committee Name Classification

These are changes to benchmark weights to align with 2019 Board of Trustees approved asset-liability study and this is for the final and third year of transition. The minor changes include a name change for the Diversifying Strategies Risk Committee, movement of the TIPs allocation from Diversifying Strategies to the Real Assets portfolio. Diversifying Strategies percentages changes from 37% to 35% inline with the asset-liability study. The changes will be effective July 1, 2022.

A year from now, there will be a new asset-liability study presented to the Board to determine the new Investment Policy Statement target benchmarks.

On a motion made by Trustee Ley, seconded by Vice Chair Mizumoto and unanimously carried, the Investment Committee approved the revisions to the ERS Investment Policy as presented.

- **MEKETA INVESTMENT GROUP,
INC. – QUARTERLY REVIEW FOR
PERIOD ENDING MARCH 31, 2022**

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

- ERS’ total portfolio generated a -0.1% quarterly return, roughly a decrease of \$120.1 million in the Quarter 1, ending the period at \$22.4 billion.
- ERS’ total portfolio trailed the Policy Benchmark during the quarter. Private Growth was overweight while Public Growth and Diversifying Strategies were underweight.
- In comparison to peers, ERS’ total portfolio consistently 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 also 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.
 - Private Growth and Real Assets underperformed their respective benchmarks. Liquid Defensive and Liquid Diversifying outperformed while Illiquid Diversifying underperformed for the quarter.
- FRM – DIVERSIFYING STRATEGIES QUARTERLY REVIEW FOR PERIOD ENDING MARCH 31, 2022

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 January 11 which included rebalancing Systematic Trend Following managers.
 - Crisis risk status turned amber at close of business on March 8.
 - The DS-LD's exposures were long equities, short, fixed income, long commodities, long U.S. dollar and long credit.
 - Treasury/Agency Duration Capture (TADC) was an under contributor and SLC the worst performer in the component.
 - Systematic Trend Following, Alternative Return Capture and Defensive Return Capture all experienced positive performance during the quarter.
 - Due to continued increase in inflation, central banks across the globe set an aggressive tone in support of rate increases during the quarter. U.S. inflation hit the highest in 40 years.
 - US dollar rallied during the quarter.

Diversifying Strategies – Illiquid Diversifying:

 - Three capital calls were processed totaling \$95.8 million.
 - As of the end of the quarter, total paid-in capital is \$796 million with a total commitment of \$1.2 billion.

Mr. Jens Foehrenbach said that the performance was generally positive and due to its complexity, 26 individuals within FRM work with the ERS portfolio.
- AON – REAL ASSETS QUARTERLY REVIEW FOR PERIOD ENDING DECEMBER 31, 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.
 - 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 8.6% net IRR and 1.5x net equity multiple since inception.
 - The timber portfolio has generated an 8.2% net IRR and 2.6x net equity multiple since inception.
 - The infrastructure portfolio has generated a 16.4% net IRR and 1.5x net equity multiple since inception.
 - ERS sold a majority of the Ka'anapali Golf Course for \$27 million in Q2 2021. The quarry was sold for \$1.5 million at the end of Q4 2021.

- New commitments were made during Q4 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.
 - \$50 million U.S. Value-Add Fund.
 - \$50 million Asia Opportunistic Fund.

Mr. Hong mentioned there are no Russia or Ukraine investments in the portfolio. The Ka'anapali Baseyard sale has closed and will appear “inactive” in the portfolio reporting from BNY around the middle of the 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 \$223.3 million during Quarter 4.
- ERS portfolio outperformed its public benchmark by 649 bps since inception.
- One year net IRR of 42.37% outperforming the public benchmark by 903 bps.
- ERS portfolio sustained strong performance with quarterly IRR of 5.92%.
- PE allocation is above 13.5% due to the strong performance driving the increase in PE allocation with quarterly net value changes > \$200 million in 2Q20 through 4Q21.
- 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 362 bps.
- ERS closed on \$360 million across nine investments and is expected to be within the approved pacing plan of \$550-\$650 million by 2022-year end.

Ms. Fitch reported the Hamilton Lane is receiving updates regarding the Russia/Ukraine crisis from companies. Global fundraising reached a record high, rebounding from the 2020 slowdown due to the pandemic.

SUMMARY OF MAY 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 year to date.

DCIO Hodel reported that in January there was a sharp turning point for global equity markets, as tensions rose between Russia and Ukraine leading to an invasion, disturbing the global capital markets. Global equity markets were down by 13% by the end of April. The U.S. Treasury yield curve rose sharply by the end of April with the 2-year yield rising 197 bps to 2.70%, the ten-year yield up 137 bps to 2.89% and the 30-year yield up 106 bps to 2.96%, all well below current inflation.

Commodity indexes climbed through April led by higher energy prices due to the Russia-Ukraine war and reduced production in the U.S. The drop in equities was widespread with the Nasdaq down 21%, U.S. small caps down 17%, U.S. large caps down 13% and international developed and emerging market stocks each down 12%.

CIO Report

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

CIO Burton reported that most of the activity has been market related. U.S. inflation hit the highest in 40 years. The market will continue to be choppy with more downturns in the future. The new real assets investment with Morgan Stanley will allow ERS to take advantage of current market conditions. Furthermore, several investments in the private markets should help ERS portfolio from an inflationary standpoint going forward.

[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 manager Hillhouse for China A-shares in the amount of \$200 million. Initial allocation of \$100 million to China A-shares was invested April 1, 2022 with the second tranche of \$100 million scheduled for investment on June 1, 2022.

IO Goo continues to liquidate portions of the portfolio to provide capital for new strategies as well as for month end distribution.

IO Okamoto reported that two managers were presented to the Internal Investment Committee (IIC) and one manager closed in April. He will be traveling to New York and Chicago for due diligence on various companies. More details to follow in the pipeline.

IO Wetzel mentioned that the Real Assets commitment pacing is on track with/exceeded annual pacing plans plus additional funds in the due diligence pipeline. CY 2022 pacing plan for total real assets commitments is a \$650 million target with total commitments of \$320 million approved for CY 2022.

In core real estate, approximately \$1 billion is targeted for deployment to new commitments over CY 2021-2025 with actual commitments on track with plan. CY 2022 pacing plan commitments is \$200 million target plus \$220 million approved for CY 2022 with other potential fund commitments for CY 2023 and CY 2024.

For non-core real estate, actual commitments are on track with plan along with timber, infrastructure, and agriculture. CY 2022 pacing plan for non-core real estate is a \$150 million target and \$100 million approved for CY 2022. Staff and consultant plan to recommend two additional fund commitments at \$50 million each in May/June.

Staff has made progress on building out new commitments over the past two years by achieving key strategic objectives of adding core infrastructure, agriculture exposure, as well as increasing manager diversification for both infrastructure and agriculture. CY 2022 pacing plan for infrastructure is a \$150 million target and for agriculture is a \$150 million target. To further complement the ongoing build out of the real asset portfolio, a \$600 million commitment to a custom real asset solution was also approved.

IO Au reported that Hamilton Lane (HL) covered most of the information in their presentation. Private Equity continued its rapid fundraising pace as ERS has commitments and investments in-process of \$535 million through April 2022. Fundraising activity is very robust with many high conviction managers coming to market. ERS has increased the Private Equity allocation to \$775 million from \$650 million. This commitment will still be within the overall 25% allocation to Private Equity and has Meketa's support. Certain investments may be outside of HL's discretionary mandate; thus, approvals will be done in accordance with the Investment Governance Policy. ERS is on its way to achieving its approved pacing target for calendar year 2022.

DCIO Howard Hodel reported the return of the \$6 billion Diversifying Strategies ("DS") liquid portfolio was positive during a risk-off environment with lower stock prices and higher interest rates, higher commodity prices, elevated volatility in virtually all markets and the highest inflation levels in 40 years during the first four months of 2022. The DS liquid portfolio's annualized ex-ante volatility rose from 5% to nearly 7%, while ex-post volatility rose from 6% to nearly 8% since the end of January.

Crisis Risk Indicators turned from green to amber in mid-March as the VIX and Gold indicators exceeded their limits, and again briefly in late April as the VIX and Dollar indicators exceeded their limits. On March 9, 2022, the CIO called a meeting of the Crisis Risk Committee and decided to transfer \$80 million of profits from four defensive managers and one diversifying manager into the ERS Operating Account to fund Broad Growth mandates. The capital markets from February to April were favorable for defensive return capture, trend, alternative risk premia, relative value/arbitrage, systematic macro and discretionary macro, and unfavorable for 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 and the hedged private equity manager. ERS funded an Asian event-driven fund and a litigation finance fund in March and April.

In addition, the cash securitization overlay has been running since late May 2019 and has produced positive results to date; cash securitization averaging between \$500-\$700 million.

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

- Up to \$50 million in a Real Assets – Non-Core Core Real Estate (Value-Add) fund in March.
- Up to \$50 million in a Real Assets – Non-Core Core Real Estate (Opportunistic) fund in April.
- Up to \$30 million in a Private Equity-Buyout fund in April.

IS Chen reported that the VIX averaged 24.4% (closing between 18.6% and 33.5%) for the month. The current level is above the average level of 19.3% over the past five years. Daily tracking of the ERS portfolio performance during April indicated an annualized volatility of 9.3%, in line with the average annualized volatility of 9.4% 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 1st Quarter 2022 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 developed markets (11.9%).
- Portfolio risk levels are appropriate and consistent with policy & market conditions.
- Diversifying Strategies (DS) class dampened portfolio volatility from 15.7% to 7% during the quarter.
- Growth risk accounted for 84.5% of the projected portfolio risk.
- Portfolio beta to MSCI ACWI IMI is approximately 0.45.
- Sharpe Ratio, Information Ratio and annual excess returns over the rolling 1-year were 1.82, 0.83, and 1.74% respectively.
- Equity volatility, as measured by the VIX, averaged 25.2% for the quarter, well above the 5-year historical average of 19.1%.

[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

On a motion made by Vice Chair Mizumoto, seconded by Trustee Ley, and unanimously carried, the Investment Committee entered Executive Session at 11:47 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.]

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 A GLOBAL CREDIT
MANAGER, (2) ORGANIZATIONAL
CHANGE FOR A STABILIZED
EQUITY MANAGER, (3) REMOVAL
FROM WATCHLIST FOR A LIQUID
DEFENSIVE MANAGER, (4)
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 A PUBLIC
GROWTH INVESTMENT;
APPROPRIATE ACTION.

APPROVAL OF EXECUTIVE
SESSION MINUTES – FEBRUARY 28,
2022

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
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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 REAL ASSETS;
APPROPRIATE ACTION

EXECUTIVE SESSION, PURSUANT
TO HRS § 88-27.5(A)(1), AND HRS §
92-5(A)(4), TO CONDUCT

On a motion made by Trustee Kane, seconded by Trustee Ley, and
unanimously carried, the Investment Committee approved the Executive
Session minutes of the February 28, 2022.

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,
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WITH THE BOARD'S ATTORNEYS
ON QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, PRIVILEGES,
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WITH RESPECT TO UPDATES ON
STATUS OR ISSUES RELATED TO
CONFIDENTIAL ERS INVESTMENT
PORTFOLIO UPDATES REGARDING
CHANGES IN (1)
ORGANIZATIONAL STRUCTURE
FOR A GLOBAL CREDIT
MANAGER, (2) ORGANIZATIONAL
CHANGE FOR A STABILIZED
EQUITY MANAGER, (3) REMOVAL
FROM WATCHLIST FOR A LIQUID
DEFENSIVE MANAGER, (4)
MANAGER PIPELINES FOR EACH
STRATEGIC CLASS.

EXIT EXECUTIVE SESSION

APPROVAL OF MINUTES
FEBRUARY 28, 2022

MEETING ADJOURNED

**REDACTED
SIGNATURE**

Elizabeth T. Burton
Chief Investment Officer
EB/dlg

On a motion made by Trustee Ley, seconded by Vice Chair Mizumoto, and unanimously carried, the Investment Committee exited Executive Session at 12:18 p.m.

On a motion made by Trustee Kane, seconded by Trustee Ley and unanimously carried, the Investment Committee approved the minutes of the February 28, 2022, meeting as presented.

On a motion made by Trustee Ley, seconded by Trustee Kane, and unanimously carried, Chair Chan adjourned the meeting at 12:19 p.m.