

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

NOVEMBER 20, 2023

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

Committee Member Mr. Lance Mizumoto, Vice Chair
Trustees present: Mr. Vincent Barfield
(via teleconference) Mr. Emmit Kane

Absent: Dr. Catherine Chan, Chair

Visiting Trustees
present: Dr. Genevieve Ley
(via teleconference)

Attorneys present: Ms. Jenny Nakamoto, Deputy Attorney General
(via teleconference)

Staff present: Mr. Thomas Williams, Executive Director
(City Financial Tower) Ms. Kanoe Margol, Deputy Executive Director
 Ms. Kristin Varela, Chief Investment Officer
 Mr. Anthony Goo, Deputy Chief Investment Officer
 Mr. Aaron Au, Investment Officer – Illiquid Markets
 Mr. Ian Wetzel, Investment Officer – Real Assets
 Mr. Andrew Chen, Investment Specialist
 Ms. Gerri Konishi, Member Home Loan Assistant
 Ms. Andrea Gaspar, Secretary
 Ms. Diana Gomes, Secretary

Staff present: Ms. Christine Chang, Investment Officer – Liquid Diversifying
(via teleconference)

Guest present: Mr. Colin Bebee, Meketa Investment Group, Inc.
(via teleconference)

Public present: Mr. Joe Ebisa, WithIntelligence
(via teleconference)

CALL TO ORDER

A quorum being present (Vice Chair Mizumoto, Trustees Barfield and Kane), Vice Chair Mizumoto called the Investment Committee meeting to order at 9:05 a.m. and requested Board members to identify themselves and confirm that no other individuals are present in the room. Committee members present confirmed. Vice Chair Mizumoto read the following statement, "Motion to hold the 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." On a motion made

by Trustee Kane, seconded by Trustee Barfield and unanimously carried, the Investment Committee meeting continued.

PUBLIC COMMENT PERIOD

Vice Chair Mizumoto called for public comment. There was no public comment.

NEW BUSINESS

DISCUSSION OF 2024 EMPLOYEES' RETIREMENT SYSTEM INVESTMENT COMMITTEE MEETINGS

The 2024 Investment Committee meeting schedule was presented to the Investment Committee.

On a motion made by Trustee Kane, seconded by Trustee Barfield and unanimously carried, the Investment Committee approved the 2024 meeting schedule.

PRESENTATIONS

- MEKETA INVESTMENT GROUP, INC. – TOTAL FUND PERFORMANCE REVIEW FOR PERIOD ENDING SEPTEMBER 30, 2023

Mr. Colin Bebee of Meketa Investment Group gave the total fund performance review. Mr. Bebee explained the purpose of the report is to look back at the match up with the expectations as set with the Asset-Liability Study and provides a historical look at the ERS portfolio. However, this performance report does not currently reflect what will take effect on January 1, 2024 with the new Asset-Liability Study and benchmarking that was adopted previously by the Investment Committee and Board of Trustees. Every performance report is impacted by recent events. The following is a summary of the presentation:

- ERS' Total Portfolio outperformed the Median Public Fund across all time periods.
- ERS' Total Portfolio had a positive return for the quarter. Ending market value for the third quarter is \$22,188,792,098.
- The actual portfolio's beta remained steady during the third quarter.

- EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII INVESTMENT POLICY REVISIONS

The Investment Committee was given the full, red-lined copy of the Investment Policy Statement for their review. CIO Varela discussed the changes and rationale to the Investment Policy Statement as presented in the memo. The Investment Committee as well as the Board of Trustees adopted the Asset -Liability Study and the benchmarks for the ERS portfolio. A correction to a typo on Page 3, Section D, D2.1 under component. Public equity shall read private equity. There were no questions or comments from the Investment Committee.

On a motion made by Trustee Kane, seconded by Trustee Barfield and unanimously carried, the Investment Committee approved the change to the Investment Policy Statement.

- MEKETA INVESTMENT GROUP, INC. – ANNUAL PLAN LIQUIDITY TARGET

Mr. Colin Bebee of Meketa Investment Group presented the annual plan liquidity. Mr. Bebee explained that liquidity is a key factor in a pension system because monthly funds are needed to pay pensioners. The following is a summary of the presentation:

There are three items that will be discussed:

- The meaning of liquidity.

- How ERS determines liquidity needs.
- Minimum liquidity allocation within the ERS portfolio.
- Liquidity is defined as the speed at which an asset can be bought or sold:
 - How quickly accessed.
 - Price on market environment.
 - Instrument vs. vehicle.
 - Capital calls that need to be made.
 - Contributions that are coming in.
 - Ability to rebalance.
- As a result:
 - Mature public pension systems require consideration of liquidity.
 - Liquidity should be accessed from asset classes during periods of market stress.
 - Annual reporting of a liquidity and implementation plan.

On a motion made by Trustee Barfield, seconded by Trustee Kane and unanimously carried, the Investment Committee approved the Liquidity Target Plan as presented and recommended to the Board of Trustees.

- AON/TOWNSEND –
ALTERNATIVE ASSET CLASS
REVIEW: REAL ASSETS FOR
PERIOD ENDING JUNE 30, 2023

Mr. Chae Hong and Ms. Julianna Pereira of Townsend/Aon gave the second quarter 2023 Real Assets Performance review. The following is a summary of the presentation:

- Recent infrastructure, agriculture 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 over majority of the measurement periods.
- The real estate portfolio has generated an 8.1% net IRR and 1.4x net equity multiple since inception.
- The timber portfolio has generated an 8.3% net IRR and 2.8x net equity multiple since inception.
- The infrastructure portfolio has generated a 12.6% net IRR and 1.2x net equity multiple since inception.
- The agriculture portfolio has generated an 4.6% net IRR and 1.0x net equity multiple since inception.
- New commitments were made during 2Q 2023 and after quarter end:
 - \$75 million Global Opportunistic Fund.
 - \$100 million U.S Opportunistic Fund.

- DIVERSIFYING STRATEGIES
[INCLUDED INVESTMENT
COMMITTEE PACKET]

The Investment Committee members had questions regarding this submission. CIO Varela provided the following explanation regarding Diversifying Strategies performance of contributors with negative return on Duration Capture. For long duration exposure of a 1-year period where interest rates were rising, duration is more sensitive to rising interest rates. The Investment Team sets capital limits for each of the managers and when the upper or lower end is breached, it will prompt a rebalance.

- HAMILTON LANE-PRIVATE
EQUITY [INCLUDED IN
INVESTMENT COMMITTEE
PACKET]

The Investment Committee members had questions regarding this submission. Ms. Natalie Fitch of Hamilton Lane provided the following explanation. Ms. Fitch and staff monitors all the managers in the

portfolio for underlying performance. Two funds are being monitored closely due to its newness. Going forward, Hamilton Lane is looking to streamline relationships and avoiding strategy overlaps, where possible, across the whole alternative asset book. Any distressed debt will be addressed, and the Board of Trustees' adopted credit measures will be put in place. Hamilton Lane to deemphasize those opportunities. Most recent venture capital is General Catalyst, a re-up, with a manager that will invest across technology, health care, high tech and have a generalist type mandate where they can see opportunity. \$50 million was committed to this foundation manager who we have invested in the past. About 15% of the portfolio is in venture and 9% in growth equity. About ¼ of the portfolio is targeted toward these high rewards.

SUMMARY OF INVESTMENT OFFICE ACTIVITIES:

- CIO UPDATE

CIO Varela updated the Investment Committee of activities since the last meeting.

CIO Varela reported that the team is working on the changes to the portfolio that the Board of Trustees approved and will take place on January 1, 2024, regarding strategic asset allocation as well as benchmarks. They are reviewing ways to move capital to achieve this goal.

- TOTAL FUND RISK REVIEW

Due to a transfer issue with the custody bank, the data was not processed in time to create a risk report. At February's Investment Committee meeting, a year-end review will be provided to show you the full scope.

APPROVAL OF MINUTES – AUGUST 21, 2023

On a motion made by Trustee Barfield and seconded by Trustee Kane, and unanimously carried, the Investment Committee approved the minutes of August 21, 2023 meeting as presented.

ENTER EXECUTIVE SESSION

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

EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Investment Committee entered Executive Session at 11:12 a.m.

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

[At the beginning of Executive Session, Vice Chair Mizumoto 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.]

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) MANAGER
PIPELINES AND ACTIVITY UPDATE
(2) STAFFING UPDATES

APPROVAL OF EXECUTIVE
SESSION MINUTES – AUGUST 21,
2023

On a motion made by Trustee Kane, seconded by Trustee Barfield and
unanimously carried, the Investment Committee approved the
confidential Executive Session minutes of the August 21, 2023, meeting
as presented.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Trustee Barfield, and
unanimously carried, the Investment Committee exited Executive
Session at 11:18 a.m.

SUMMARY OF EXECUTIVE
SESSION

Vice Chair Mizumoto summarized what was discussed in Executive
Session:

- The Investment Team staff changes and hiring.
- Executive Session minutes for August 21, 2023, were approved.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Trustee Kane, and
unanimously carried, Vice Chair Mizumoto adjourned the meeting at
11:19 a.m.

**REDACTED
SIGNATURE**

Kristin Varela
Chief Investment Officer
KV/dlg