

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

AUGUST 21, 2023

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)	Mr. Vincent Barfield
	Mr. Emmitt Kane

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

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

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. 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. 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)	Ms. Mary Bates, Meketa Investment Group, Inc.

Public present:	Mr. Joe Ebisa, WithIntelligence
(via teleconference)	Mr. Jake Indursky, Civil Beat

CALL TO ORDER

A quorum being present (Chair Chan, Vice Chair Mizumoto, Trustees Barfield and Kane), 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 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 Vice Chair Mizumoto, seconded by Trustee Barfield and unanimously carried, the Investment Committee meeting continued.

## PUBLIC COMMENT PERIOD

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

## PRESENTATIONS

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

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

- ERS’ Total Portfolio outperformed the Median Public Fund across all time periods measured with the outperformance being greater in longer time periods of 3+ years when shown on a risk-adjusted basis.
- ERS’ Total Portfolio had a positive return for the quarter. Ending market value for the second quarter is \$22,279,123,109.
- Public markets finished positive.
- The actual portfolio’s beta increased during the second quarter.

- MEKETA INVESTMENT GROUP, INC. – ANNUAL BENCHMARKING REVIEW

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

The results will serve as a foundation for benchmarking and support the current path of ERS.

- Three actions occurred within the last three years:
  - Investment authority was delegated for ERS Staff.
  - 2022/2023 Asset/Liability Study.
  - New long-term allocation targets.
- As a result of the above actions, it is practical to improve ERS’ benchmarks.
- The goal is to select a new benchmark policy that considers the risk of the newly approved strategic allocation policy.
- The benchmark policy proposes the following:
  - A better alignment among benchmarks and betas/market risk of conforming asset classes.
  - Improve investing ability.
  - Eliminate illiquidity premiums that are false.
  - Eliminate riskless indices.
- As a result:
  - Better reflects the Board directed market risk.
  - Improves measurability of performance between policy and implementation.
  - Complexity is reduced with a streamlined structure.
  - Stronger model of benchmark features.
- Benchmarks functions:
  - Portfolio/implementation options.
  - Measurements/comparisons for active management.
  - Proxies for classes in asset allocation.
- Bailey Criteria:
  - Unambiguous.
  - Investable.
  - Measurable.
  - Appropriate.

- Reflective of current investment options.
- Specified in advance.
- Three approaches used at the total portfolio level:
  - Simple.
  - Static/Policy.
  - Dynamic.
- ERS historically used a Static/Policy benchmark.
- The proposed benchmark will align asset classes to investable betas/benchmarks that will fulfill the ideal characteristics of a benchmark.

On a motion made by Trustee Kane, seconded by Vice Chair Mizumoto and unanimously carried, the Investment Committee approved the annual benchmark review as presented.

- MEKETA INVESTMENT GROUP, INC. – RISK BUDGETING EDUCATION

Mr. Colin Bebee of Meketa Investment Group provided the risk budgeting education. The following is a summary of the presentation:

- Risk budgeting is managing a portfolio on risk contributions/levels.
- There are two risk levels:
  - Market return level.
  - Active/excess return level.
- Multiple metrics of risk are examined:
  - Volatility.
  - Maximum Drawdown.
  - Funded probability status below X% in five years.
- As risk budgets are established, ERS Staff is responsible for overseeing and managing sources of tracking error and actively managing portfolio exposures in relation to specific policy benchmarks.
- In an active risk budget, ERS Staff measures the value of the active decisions and determine if the risk will be proportionate to the anticipated return.
- Risk Budgeting Responsibilities:
  - Board and IC.
    - Establish governance guidelines.
    - Define excess risk and return for the total fund.
    - Establish allowances as adopted in the Strategic Asset Allocation.
  - Staff.
    - Implement risk decisions within scope of adopted governance.
    - Balance prospects/active risk with potential excess return.
    - Continued optimization for improved risk-adjusted return.
  - Reporting.
    - Frequently measure tracking error and excess return.
    - Strategy level acknowledgment of active risk contribution.
- Risk budgets provides guidelines for staff.
- Three items need to exist for risk budget to be applicable:
  - Clear policy benchmarks.
  - Separation between policy and implementation decisions.
  - Correct reporting on both historical and projected risk levels.

- MEKETA INVESTMENT GROUP, INC. – ALTERNATIVE ASSET CLASS REVIEW: CREDIT PORTFOLIO FOR PERIOD ENDING JUNE 30, 2023

Mr. Colin Bebee and Ms. Mary Bates of Meketa Investment Group as well as IO Okamoto presented the credit portfolio for period ending June 30, 2023. The items covered by the credit portfolio are as follows:

- Credit is defined as an arrangement where one party (borrower) borrows money from another party (lender) expecting the money to be repaid. The underwriting process is important to success.
- Credit risk is the probability that the principal and interest may not be paid back.
- ERS has utilized liquid credit for decades and both liquid and private credit are defined as Broad Growth strategies.
- The objective of Global Credit is to provide hybrid exposure between growth and income.
- As of June 30, 2023, \$2.14 billion was committed to 17 investments, representing 6.6% of the Total Fund which includes eight funds transferred in July 2023.
- Geographic overview of allocations as of June 2023:
- By commitments:
  - Special situations – 60%
  - Asset-based – 9%
  - Diversifying – 19%
  - Direct lending – 12%
- By market value:
  - Special situations – 65%
  - Asset-based – 11%
  - Diversifying – 16%
  - Direct lending – 99%
- Use a core/satellite approach emphasizing on yield-oriented strategies focusing on the following:
  - Core yield-oriented opportunities (direct lending and asset based).
  - Increase strategy diversification.
  - Move from a time-weighted returns to IRR by initiating Private Market performance reporting.

#### SUMMARY OF AUGUST 2023 INVESTMENT OFFICE ACTIVITIES:

- CIO UPDATE

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

- Team is working on moving allocations to strategic allocation targets and accessing liquidity as well.
- IO Chang and IO Okamoto were named by Chief Investment Officer magazine as “Class of 2023 Next Gens.” The two of them are among 26 named to the nationwide list. “NextGens” are allocators who may become Chief Investment Officers someday and are known for their financial knowledge, interpersonal skills, and forward thinking. In addition, they are already leaders in their organizations and communities.
- IO Chang was also named by Institutional Investor magazine as one of 14 “2023 Rising Stars.” The magazine’s nationwide list was based on investment allocators who are positioned to become leaders in the industry. The selection was made by the editorial team from an extensive, competitive pool of nominations submitted by peers, bosses, and industry experts.

- FIRST QUARTER 2023 RISK REPORT

APPROVAL OF MINUTES – MAY 22, 2023, JUNE 27, 2023

ENTER EXECUTIVE SESSION

EXECUTIVE SESSION

CIO Varela updated the Investment Committee on the risk report and that it is available for discussion.

On a motion made by Vice Chair Mizumoto and seconded by Trustee Kane, and unanimously carried, the Investment Committee approved the minutes of May 22, 2023, and June 27, 2023 meeting as presented.

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

On a motion made by Vice Chair Mizumoto, seconded by Trustee Kane, and unanimously carried, the Investment Committee entered Executive Session at 11:26 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.]

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 CHANGES IN (1) CREDIT STRATEGIC PLAN AND (2) MANAGER PIPELINES AND ACTIVITIES UPDATE

APPROVAL OF EXECUTIVE  
SESSION MINUTES – MAY 22, 2023

On a motion made by Vice Chair Mizumoto, seconded by Trustee Barfield and unanimously carried, the Investment Committee approved the confidential Executive Session minutes of the May 22, 2023 meeting as presented.

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Mizumoto, seconded by Trustee Barfield, and unanimously carried, the Investment Committee exited Executive Session at 11:32 a.m.

SUMMARY OF EXECUTIVE  
SESSION

Chair Chan summarized what was discussed in Executive Session:

- The Investment Committee approved the Credit Strategic Plan and plan will be submitted to the Board of Trustees for approval.
- Executive Session minutes for May 22, 2023, were approved.

ADJOURNMENT

On a motion made by Vice Chair Mizumoto, seconded by Trustee Barfield, and unanimously carried, Chair Chan adjourned the meeting at 11:33 a.m.

**REDACTED  
SIGNATURE**

Kristin Varela  
Chief Investment Officer  
KV/dlg