

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

FEBRUARY 20, 2024

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

Committee Member
Trustees present:
(via teleconference)

Mr. Lance Mizumoto, Chair
Mr. Bennett Yap, Vice Chair
Mr. Vincent Barfield
Mr. Emmit Kane

Visiting Trustees
present:
(via teleconference)

Dr. Genevieve Ley

Attorneys present:
(via teleconference)

Ms. Jenny Nakamoto, Deputy Attorney General
Ms. Lori Tanigawa, Deputy Attorney General

Staff present:
(City Financial Tower)

Mr. Thomas Williams, Executive Director
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
Ms. Christine Chang, Investment Officer – Diversifying Strategies
Mr. Andrew Chen, Investment Officer - Credit
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Andrea Gaspar, Secretary
Ms. Lori Kim, Secretary
Ms. Diana Gomes, Secretary

Guest present:
(via teleconference)

Mr. Colin Bebee, Meketa Investment Group, Inc.
Ms. Samantha Rosenstock, Man Group
Mr. Jonathan Daffron, Man Group
Mr. Brendan Kelleher, Man Group

Public present:
(via teleconference)

Mr. Joe Ebisa, With Intelligence
Mr. Ryan Estalilla
Ms. Lindsay Saienni, FIN News
Mr. Roman Mahi

CALL TO ORDER

A quorum being present (Chair Mizumoto, Vice Chair Yap and Trustee Barfield), Chair Mizumoto 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 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 Vice Chair Yap, seconded by Trustee Barfield and unanimously carried, the Investment Committee meeting commenced.

PUBLIC COMMENT PERIOD

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

NEW BUSINESS

- DISCUSSION & ELECTION OF CHAIR & VICE CHAIR OF THE INVESTMENT COMMITTEE

A discussion took place between committee members and Trustee Barfield nominated Trustee Mizumoto as Chair of the Investment Committee and Trustee Yap as Vice Chair. Trustee Barfield concurred.

On a motion made by Trustee Barfield and unanimously carried, the Investment Committee approved the election of Trustee Mizumoto for Chair and Trustee Yap for Vice Chair.

CIO Varela noted that the Investment Committee Charter provided in the packet was approved in May 2023. No changes to recommend.

On a motion made by Vice Chair Yap, seconded by Trustee Barfield and unanimously carried, the Investment Committee approved the Investment Committee Charter as presented.

- REVIEW OF THE INVESTMENT COMMITTEE CHARTER TO INCLUDE INVESTMENT COMMITTEE PERFORMANCE ASSESSMENT, AND REVIEW OF THE PRIOR YEAR'S INVESTMENT COMMITTEE ACTIVITY

CIO Varela presented the Investment Committee Annual Performance Assessment. In the Summary Assessment, present on page 2, the Committee reviewed Committee Management, Committee Effectiveness, and Notable Accomplishments over the past year.

On a motion made by Trustee Barfield, seconded by Trustee Yap and unanimously carried, the Investment Committee approved the Annual Performance Assessment as presented.

PRESENTATIONS

- ADOPTION OF ANNUAL INVESTMENT COMMITTEE WORKPLAN

The Annual Workplan has not changed from last year and subject to modifications at the discretion of the committee. This document outlines the goals and initiatives for the upcoming year.

On a motion made by Trustee Barfield, seconded by Vice Chair Yap and unanimously carried, the Investment Committee approved the Annual Investment Committee Workplan as presented.

- MEKETA INVESTMENT GROUP, INC. – TOTAL FUND PERFORMANCE REVIEW FOR PERIOD ENDING DECEMBER 31, 2023

Mr. Colin Bebee of Meketa Investment Group gave the total fund performance review. Mr. Bebee explained the report reviewed historical results and does not represent the recent actions taken by the Committee and Board over the last year. The following is a summary of the presentation:

- The ERS Total Fund, has closely paced its Actuarial Rate of Return over all time horizons, and is on track to meeting this return target over the fiscal-year measurement period.

- The portfolio has closely met or exceeded the Total Fund Policy Benchmark over longer-term time horizons. Short-term performance has lagged its benchmark, due to the defensive positioning of the ERS portfolio, and rallying market beta.
 - On a risk-unadjusted basis, the portfolio outperformed the Median Public Fund Peer Group across all time periods. On a risk-adjusted basis, the ERS has closely matched the Median Public Fund Peer Group, over longer time horizons.
 - Ending market value for the quarter is \$22,880,493,536.
- FRM – ALTERNATIVE ASSET CLASS REVIEW: DIVERSIFYING STRATEGIES QUARTERLY REVIEW FOR PERIOD ENDING DECEMBER 31, 2023

Ms. Samantha Rosenstock of Man Group presented the Diversifying Strategies Annual Review. The following is a summary of the presentation:

Diversifying Strategies – Liquid Diversifying (DS-LD):

- The DS-LD class performed slightly positive during the calendar year.
- Positive contributors for the year included: Treasury/Agency Duration Capture (TADC) and Discretionary Alpha (DA).
- Negative contributors for the year included: Defensive Return Capture (DRC) and Systematic Trend Following (STF).
- DS-LD net performance was 1.51%, compared to benchmark performance of 4.56%.
- Crisis risk status indicators finished the fiscal year in green.
- Total NAV for DS-LD at the end of December 2023 was \$5.6 billion.

Diversifying Strategies – Illiquid Diversifying (DS-ID):

- DS-ID net performance was 9.30%, compared to benchmark performance of 12.45%.
- For drawdown funds, total distributions were \$10.4 million for the year.
- As of the end of the year, total paid-in capital is \$216.2 million with a total commitment of \$400 million for the drawdown funds.

Trustee Kane joined the meeting at 9:40 a.m.

- MEKETA INVESTMENT GROUP, INC. – RISK BUDGETING EDUCATION (CONTINUED)
- Mr. Colin Bebee of Meketa Investment Group presented the continuation of education on risk budgeting at the total portfolio level. The following is a summary of the presentation:
- Risk budgeting is managing a portfolio based on risk contributions/levels.
 - Risk budgeting is closely related to the concept of active risk or tracking error and should be budgeted.
 - Risk budgets guide the decisions that the ERS Staff makes at the implementation level relative to portfolio benchmarks.
 - Risk budgeting is the process by which the Board/IC will be able to discuss, monitor, and set thresholds for various levels of active risk.
- REPORTS BY STAFF
- Benefits of risk budgeting:
 - Utilization to enhance fund returns.
 - Accountability for implementation decisions.
 - Measurement of off-benchmark decisions.

- Focuses on monitoring and adjusting active decisions.
- Reduces unintentional risk exposure.
- Allows focus on areas of opportunity where there is higher probability.

• CIO UPDATE

CIO Varela reported that the team continues to work diligently to transition the portfolio assets to the newly adopted strategic asset allocation targets, as outlined in the 2023 Asset Liability Study.

APPROVAL OF MINUTES –
NOVEMBER 20, 2023

On a motion made by Trustee Barfield and seconded by Trustee Kane, and unanimously carried, the Investment Committee approved the minutes of November 20, 2023, meeting as presented.

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

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Investment Committee entered Executive Session at 11:05 a.m.

EXECUTIVE SESSION

[At the beginning of Executive Session, 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.]

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) MANAGER

PIPELINES AND ACTIVITY UPDATE
(2) STAFFING UPDATES

APPROVAL OF EXECUTIVE
SESSION MINUTES – NOVEMBER
20, 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 November 20, 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 11:24 a.m.

SUMMARY OF EXECUTIVE
SESSION

Chair Mizumoto summarized what was discussed in Executive Session:

- Manager pipeline and activity update: Annual review of investment activity.
- Staffing updates: Status of Risk Officer recruitment and other Investment Office staff vacancies.
- Executive Session minutes for November 20, 2023, were approved.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, Chair Mizumoto adjourned the meeting at 11:27 a.m.

**REDACTED
SIGNATURE**

Kristin Varela
Chief Investment Officer
KV/dlg