

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

FEBRUARY 21, 2023

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

Committee Member	Dr. Catherine Chan, Chair
Trustees present: (via teleconference)	Mr. Lance Mizumoto, Vice Chair Mr. Vincent Barfield
Visiting Trustees present: (via teleconference)	Dr. Genevieve Ley
Absent:	Mr. Emmit Kane
Attorneys present: (via teleconference)	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. Howard Hodel, Deputy Chief Investment Officer Mr. Aaron Au, Investment Officer – Illiquid Markets Mr. David Okamoto, Investment Officer – Credit Mr. Ian Wetzel, Investment Officer – Real Assets Ms. Christine Chang, Investment Officer – Liquid Diversifying Mr. Andrew Chen, Investment Specialist Ms. Gerri Konishi, Member Home Loan Assistant Ms. Lori Kim, Secretary Ms. Kehau Kanae, Secretary 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 Mr. Jack Dowd, Aon Ms. Natalie Fitch, Hamilton Lane Advisors, LLC Mr. Jonathan Daffron, FRM
Public present: (via teleconference)	No public present.

CALL TO ORDER

A quorum being present (Chair Chan, Vice Chair Mizumoto, and Trustee Barfield), Chair Chan called the Investment Committee meeting to order at 9:11 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.

## NEW BUSINESS

- DISCUSSION OF 2023 ELECTION OF CHAIR & VICE CHAIR. REVIEW OF CHARTER & EVALUATE COMMITTEE PERFORMANCE

A discussion took place between committee members and Vice Chair Mizumoto nominated Chair Catherine Chan for a second term. Trustee Barfield concurred with Vice Chair Mizumoto. Chair Chan nominated Vice Chair Mizumoto for a second term and Trustee Barfield concurred.

On a motion made by Vice Chair Mizumoto, seconded by Trustee Barfield and unanimously carried, the Investment Committee approved the election of Dr. Catherine Chan for Chair and Mr. Lance Mizumoto for Vice Chair.

Chair Chan welcomed the new CIO Kristin Varela to the Employees’ Retirement System.

CIO Varela clarified for Paragraph #1 the redline area was revised to be consistent with all other committee charters. For Section 5, line 6, “The committee shall not be required to implement or act consistently with the advice or recommendations of its consultant...” Chair Chan suggested to replace the wording “consistently with” to “upon.” Therefore, the sentence will read, “The committee shall not be required to implement or act upon the advice or recommendations of its consultant, legal counsel or other advisor...”

Chief Investment Officer Varela requested approval of the 2023 Investment Committee Charter.

On a motion made by Vice Chair Mizumoto, seconded by Trustee Barfield and unanimously carried, the Investment Committee approved the 2023 Investment Committee Charter as presented.

Chair Chan review the committee’s accomplishments for the past year. The items covered by the Investment Committee were:

- The committee met five times in 2022.
- Educational Sessions: Long Volatility Hedge Strategies, Carbon Neutral Initiative
- Investment Policy Updates:
  - 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
- Watchlist Removal: MLM and Longview Partners
- Oversee Asset/Liability Study: In Progress
- Approval of Consultant RFP Process and Timeline for Private Equity Consultant, General Consultant and Real Asset Consultant:
- Continued Periodic Review of Total Portfolio, Real Assets, Private Equity and Diversified Strategies
- Continued Oversight of Governance and Risk
- Continued Oversight of Key Issues:
  - Proxy Voting
  - ESG and Carbon Neutral Initiatives
  - Legislative Bills
  - Investment Management Fees
- Continued Oversight of Implementation of New Strategies and Asset Allocation
- Work with Compensation Committee on CIO Compensation and Temporary CIO and Deputy CIO Assignments
- Approval of Senior Level Risk Officer and Investment Officer Positions

After review of accomplishments, the committee determined that it functioned effectively in 2022.

## PRESENTATIONS

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

CIO Varela explained that due to time constraints, the agenda is reordered as follows: Presentation 1, 3, 7, 2, 4, 5, 6.

IO Chang informed the committee that the changes to the Investment Policy is reflecting the previously approved changes to the proxy voting guidelines.

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

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

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

- ERS’ Total Portfolio performance places it in the top percentile of peer performance over the 1- and 3-year trailing periods. The Total Portfolio increased in market value by about \$102.2 million during the quarter to end the period at \$21.7 billion in total assets. Total Portfolio outperformed the Policy Benchmark across all time periods measured.
- Public Growth was slightly underweight while Private Growth and Real Assets were slightly overweight.
- Within Diversifying Strategies, Liquid Defensive was overweight and Liquid Diversifying and Illiquid Diversifying were underweight.
- ERS Total Portfolio outperformed the Median Public Fund across all time periods measured except for the most recent quarter and fiscal year-to-date.

- Although experiencing a negative return in the recent quarter, Private Growth portfolio continues to produce strong results and has produced double-digit returns over all other time periods, except for the most recent quarter.
- MEKETA INVESTMENT GROUP, INC. – SURVEY RESULTS & ASSET LIABILITY STUDY UPDATE

Mr. Colin Bebee of Meketa Investment Group gave an update of the 2022/2023 Asset-Liability Study. The following is a summary of the presentation:

The results will serve as a foundation for the asset-liability model and support the current path of ERS.

- ERS is well-positioned to maintain consistent funding.
- Some allocation changes that would impact are:
  - Increasing private markets.
  - Increasing or decreasing Diversifying Strategies.
- Trustees and Staff feel that Diversifying Strategies can improve the stability of the funded ratio overtime.
- Although Diversifying Strategies is viewed as valuable, further refinement is needed on what can and cannot be included in the class.
- Overall goal is to maintain consistent progress on funded ratio.
- Both Trustees and Staff would like to increase exposure in private markets.

Staff and Meketa will work on potential portfolios and asset-liability metrics.

- MEKETA INVESTMENT GROUP, INC. – DIVERSIFYING STRATEGIES SEMI-ANNUAL REVIEW Q4 2022

Mr. Bebee of Meketa Investment Group gave an update of the Diversifying Strategies Semi-Annual Review. The following is a summary of the presentation:

- 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 of Diversifying Strategies Class:
  - Liquid Defensive.
  - Liquid Diversifying.
  - Illiquid Diversifying.
- Over the past six months, Liquid Defensive decreased around 7% and Liquid Diversifying increased by around 7%.
- The DS class grew during the year from \$6.3 billion to \$6.6 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.

- FRM – DIVERSIFYING STRATEGIES QUARTERLY REVIEW FOR PERIOD ENDING DECEMBER 31, 2022

Mr. Jonathan Daffron of FRM presented the Diversifying Strategies 4<sup>th</sup> Quarter Review. The following is a summary of the presentation:

- The portfolio performed negatively during the quarter.
- Components of Treasury/Agency Duration Capture (TADC) and Relative Value (RV/A) more than offset Systematic Trend Following (STF), Alternative Return Capture (ARC), and Defensive Return Capture (DRC).
- DS-LD 4<sup>th</sup> Quarter net performance was -5.62% and gross performance was -5.61%.
- Crisis risk status indicators remained green during the 4<sup>th</sup> quarter.
- Total Liquid Diversifying and Defensive strategies NAV at quarter end was \$5.6 billion.

Diversifying Strategies – Illiquid Diversifying:

- Three capital calls were processed totaling \$44.8 million.
- For drawdown funds, total distributions were \$3.3 million for the 4<sup>th</sup> quarter.
- As of the end of the quarter, total paid-in capital is \$141.1 million with a total commitment of \$650 million for the drawdown funds.

- AON – REAL ASSETS QUARTERLY REVIEW FOR PERIOD ENDING SEPTEMBER 30, 2022

This presentation was deferred due to time limitations.

- HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY QUARTERLY REVIEW FOR PERIOD ENDING SEPTEMBER 30, 2022

This presentation was deferred due to time limitations.

SUMMARY OF FEBRUARY 2023 INVESTMENT OFFICE ACTIVITIES:

- MARKET OVERVIEW
- CURRENT STATUS OF ACTIVITIES OF THE INVESTMENT OFFICE

Staff reports were deferred due to time limitations.

[While quorum was present, Chair Chan requested approval of the public and executive session minutes.]

APPROVAL OF MINUTES – NOVEMBER 28, 2022

On a motion made by Vice Chair Mizumoto, seconded by Trustee Barfield and unanimously carried, the Investment Committee approved the minutes of the November 28, 2022 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.]

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Mizumoto, seconded by Trustee Barfield, and unanimously carried, the Investment Committee entered Executive Session at 11:27 a.m.

EXECUTIVE SESSION

[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.]

APPROVAL OF EXECUTIVE  
SESSION MINUTES – NOVEMBER  
28, 2022

On a motion made by Vice Chair Mizumoto, seconded by Trustee Barfield, and unanimously carried, the Investment Committee approved the Executive Session minutes of November 28, 2022 meeting as presented.

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) ORGANIZATIONAL CHANGES AND CHANGE OF OWNERSHIP FOR DIVERSIFYING STRATEGIES MANAGERS, AND (2) MANAGER PIPELINES FOR EACH STRATEGIC.

Staff reports were deferred due to time limitations.

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 11:29 a.m.

CIO Varela recapped that Presentations 5 and 6, from Aon and Hamilton Lane were deferred and an electronic update would be given. Staff reports in both public and executive sessions were deferred and a summary would be sent to committee members.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Vice Chair Mizumoto, and unanimously carried, Chair Chan adjourned the meeting at 12:31 p.m.

**REDACTED  
SIGNATURE**

Kristin Varela  
Chief Investment Officer  
KV/dlg