

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

MAY 22, 2023

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

Committee Member	Mr. Lance Mizumoto, Vice Chair
Trustees present: (via teleconference)	Mr. Vincent Barfield Mr. Emmit Kane
Visiting Trustees present: (via teleconference)	Dr. Genevieve Ley
Absent:	Dr. Catherine Chan, Chair
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, Senior 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. Ms. Natalie Fitch, Hamilton Lane Advisors, LLC Mr. Paul Yett, Hamilton Lane Advisors, LLC
Public present: (via teleconference)	Mr. Philip Walker

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 9:00 a.m. and requested Board members to identify themselves and confirm that no other individuals are present in the room. Committee members present confirmed. 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 Barfield, seconded by Trustee Kane 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

- REVIEW OF INVESTMENT COMMITTEE CHARTER

Chief Investment Officer Varela requested approval of the 2023 Investment Committee Charter. The Charter was brought to the Investment Committee meeting on February 21, 2023; however, there were administrative errors that were corrected. The wording changes to Section I and II is to align with Governance Committee structure. In Section V, the committee... consistently was removed and replaced with upon. At the end of the document, May 22, 2023, the approval date, was added.

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

PRESENTATIONS

- MEKETA INVESTMENT GROUP, INC. – QUARTERLY REVIEW FOR PERIOD ENDING MARCH 30, 2023

Mr. Colin Bebee of Meketa Investment Group gave the quarterly 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 first quarter is \$21,907,850,856.
- Public markets, except commodities, finished positive.
- The actual portfolio’s beta declined during the first quarter.

- MEKETA INVESTMENT GROUP, INC. – TRUSTEES’ 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:
 - Decrease Public Growth.
 - Increase Private Credit.
 - Slight Increase Private Equity.
 - Increase Real Assets.
- ERS Staff, Meketa, and other partners still discussing the correct structure for Diversifying Strategies. The structure remains consistent regardless of the construct of Diversifying Strategies.

- The final Diversifying Strategies construct will reduce policy/implementation differences while demonstrating the best contribution for the Total Portfolio.
- ERS Staff and Meketa will continue to analyze asset-liability output.
- The final portfolio recommendation will reflect:
 - Continuous conversations between Staff, Meketa and FRM.
 - Liquidity stress tests
 - Funding status projections based on Meketa's asset-liability simulation methodology.
 - Historical and hypothetical market stress tests.
- Final model and portfolio selection to be completed in June 2023.

- INVESTMENT COMMITTEE ANNUAL WORKPLAN

CIO Varela introduced the Investment Committee Annual Workplan and request the adoption of the document. The items covered by the Investment Committee Annual Workplan are as follows:

- The document is a work in progress.
- The document's intentions are to outline expectations for the remainder of the year and responsive to governance policy for our meetings.
- The document will keep track of work progress and focus on main points, governance points, and educational topics to address.
- The goal of the Investment Committee Annual Workplan is to evaluate effectiveness of the meetings.
- Some changes which have taken place are:
 - Alternating different asset classes at each meeting for an in-depth review of that particular asset class.
 - Streamlining reports.
 - Annual governance items at each meeting.
 - Educational sessions at each meeting.
 - At the end of the year, Investment Policy Statement Review (IPS).

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

- HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY QUARTERLY REVIEW FOR PERIOD ENDING DECEMBER 31, 2022

Ms. Natalie Fitch and Mr. Paul Yett of Hamilton Lane presented the Private Equity Program Update. The following is a summary of the presentation:

- ERS portfolio outperformed its public benchmark by 655 bps since inception.
- One year net IRR of 2.59% is outperforming the public benchmark by 1,525 bps.
- Over the last three years, net value increased by \$1.6 billion.
- Portfolio generated double digit performance across all longer-term time periods.
- PE allocation of 18.5% as of 12/31/2022 and up 95 bps from 12/31/2021.
- ERS portfolio outperformed the public market benchmark (MSCI ACWI IMI +200 bps) for all periods.

- Contributions were down by 34% and distributions were down by 35%.
- Foundation managers continue to represent most of the portfolio value and outperformed the total portfolio by 302 bps.
- Hamilton Lane portfolio outperformed total portfolio by 590 bps.
- ERS on track to achieve the approved pacing plan of \$600-\$700 million by 2023 commitment.

SUMMARY OF MAY 2023
INVESTMENT OFFICE ACTIVITIES:

- CIO UPDATE

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

- There is a continued effort to rebalance public equities.
- Working on funding ERS' cash needs.
- Shifting to other opportunity costs.
- Assuring that risk is aligned with our expectations.
- Meeting three major goals:
 - Meeting required rate of return.
 - Exceeding benchmark performance.
 - Continuing to pace or exceed our peers.
- No manager shifts.
- Two vacancies within the Investment Team. Will actively begin recruiting for Risk Officer and then for second position, Investment Officer.
- Completed team evaluations.
- Working on team restructuring toward specialties.

- FIRST QUARTER 2023 RISK REPORT

CIO Varela updated the Investment Committee on the risk report.

- The risk report is aligned with our expectations.
- Decrease equity risk contributions.

APPROVAL OF MINUTES –
FEBRUARY 21, 2023

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

ENTER EXECUTIVE SESSION

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.]

On a motion made by Trustee Kane, seconded by Trustee Barfield, and unanimously carried, the Investment Committee entered Executive Session at 10:52 a.m.

[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.]

APPROVAL OF EXECUTIVE
SESSION MINUTES – FEBRUARY 21,
2023

On a motion made by Trustee Barfield, seconded by Trustee Kane and
unanimously carried, the Investment Committee approved the Executive
Session minutes of the February 21, 2023 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) MANAGER
PIPELINES FOR EACH STRATEGIC
CLASS.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Trustee Barfield, and
unanimously carried, the Investment Committee exited Executive
Session at 10:58 a.m.

ADJOURNMENT

On a motion made by Trustee Kane, seconded by Trustee Barfield, and
unanimously carried, Vice Chair Mizumoto adjourned the meeting at
10:59 a.m.

**REDACTED
SIGNATURE**

Kristin Varela
Chief Investment Officer
KV/dlg