

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

MAY 28, 2024

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

Committee Member
Trustees present:
(via teleconference)

Mr. Lance Mizumoto, Chair
Mr. Vincent Barfield
Mr. Emmit Kane

In-person

Mr. Bennett Yap, Vice Chair

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. 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.
Mr. Jonathan Daffron, Man Group

Public present:
(via teleconference)

Mr. Joe Ebisa, With Intelligence

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 9:10 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.

PRESENTATIONS

Performance Report did not meet the new OIP time deadline for document submission; therefore, is not included in the meeting packet.

- MEKETA INVESTMENT GROUP, INC. – TOTAL FUND PERFORMANCE REVIEW FOR PERIOD ENDING MARCH 31, 2024

CIO Varela explained a lot of adjustments took place within the performance report due to bringing in the new benchmarks, renaming and reclassifying the composites which required a lot of detailed auditing. We have gone line by line to assure historical composition of our benchmarks integrated into the new benchmark system. This report is marked as a preliminary until the auditing process is completed. The auditing process, with guidance from Meketa along with our team, has taken longer than expected to complete the report.

Mr. Colin Bebee of Meketa Investment Group presented the Total Fund Performance Review. Mr. Bebee explained a lot of progress was made in the mapping process and in 2017, with the CRO class, was the last time this type of restructuring was done. The following is a summary of the presentation:

- The ERS Total Fund is on track to meeting its 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.
- Q1 2024 continued with extremely strong equity market returns and was up another 8% from 2023, a strong 15-month equity market period.
- 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 ending March 31, 2024 is \$23,271,069,490.

- HAMILTON LANE – ALTERNATIVE ASSET CLASS REVIEW: PRIVATE EQUITY QUARTERLY REVIEW FOR PERIOD ENDING DECEMBER 31, 2023

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

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 370 bps since inception.
- Quarterly net IRR of 2.17% or net value increase of \$96.3 million.
- Portfolio generated double digit performance across all longer-term time periods.
- PE allocation of 19.2% slightly above 19.0% target and up 9.1% over the one-year period ending 12/31/2023.
- ERS portfolio outperformed the public market benchmark (MSCI ACWI IMI +200 bps) for all periods.
- Contributions outweighed distributions by \$116 million in 2023.
- Foundation managers continue to represent most of the portfolio value and outperformed the total portfolio by 265 bps.
- Hamilton Lane portfolio outperformed total portfolio by 375 bps.
- ERS on track to achieve the approved pacing plan.

- Private equity has had greater upside and less downside across all cycles.
- Private markets generally have had less volatility than public markets.
- On average, figures show private markets were more expensive than public markets in 2023.
- Slowing rate of distribution is consistent across private equity and private credit strategies.
- Private equity has out performed liquid equities over a 10-year time period.
- Private equity has done well during the most recent turbulent market conditions.

- 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.
- The ERS portfolio is separated into Market Beta Risk and Active Risk.
- With new benchmarks in place, there will be consistent tracking error between the portfolio and the benchmark.
- ERS' public market benchmark establishes a baseline level of tracking error versus the Total Portfolio that includes private markets exposure.
- There is no standard or best practice way of doing risk budgeting.
- Given the complexity, Meketa and Staff suggest that ERS implement risk budgets in an incremental approach to achieve comfort. For example, at the first level the Staff is comfortable then would have the Investment Committee approve it and then introduced to the portfolio.
- Risk Budgeting is like having guard rails in place to direct decisions but also need the benchmarks in place.

- CIO UPDATE

CIO Varela reported that Lynn Kamimoto was hired as the new Risk Officer and onboarded on April 1, 2024. She is responsible for the internal build out for risk budgeting and work on building out the tools to effectively implement the system. Ms. Kamimoto worked in financial services since 2005 and served at Bank of Hawaii, Templeton Investment, Santa Clara County FCU and Hawaii USA FCU. She has a Bachelor's in Mechanical Engineering from MIT and hold a CFA and FRM.

APPROVAL OF MINUTES –
FEBRUARY 20, 2024

On a motion made by Trustee Barfield and seconded by Trustee Yap, and unanimously carried, the Investment Committee approved the minutes of February 20, 2024, 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 Yap, and unanimously carried, the Investment Committee entered Executive Session at 10:55 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, (2) MANAGER ORGANIZATIONAL UPDATE (3) INVESTMENT OFFICE STAFFING UPDATES

APPROVAL OF EXECUTIVE SESSION MINUTES – FEBRUARY 20, 2024

On a motion made by Trustee Yap, seconded by Trustee Barfield and unanimously carried, the Investment Committee approved the confidential Executive Session minutes of the February 20, 2024, meeting as presented.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Yap, seconded by Trustee Barfield, and unanimously carried, the Investment Committee exited Executive Session at 11:39 a.m.

SUMMARY OF EXECUTIVE
SESSION

Chair Mizumoto summarized what was discussed in Executive Session:

- Winding down of a fund manager and received capital.
- Acquisition of firm by one of our consultants.
- Executive Session minutes for February 20, 2024, were approved.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Trustee Yap, and unanimously carried, Chair Mizumoto adjourned the meeting at 11:40 a.m.

**REDACTED
SIGNATURE**

Kristin Varela
Chief Investment Officer
KV/dlg