

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

AUGUST 19, 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
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
Anthony Toscano
Jason Leong-Campbell
Nathan Paulsen
Michael Barela

CALL TO ORDER

A quorum being present (Chair Mizumoto, Vice Chair Yap, Trustee Barfield, and Trustee Kane), 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 both written and public comment. There was no public comment or written testimony submitted.

PRESENTATIONS

- EDUCATIONAL PRESENTATION: BENCHMARKING UPDATE

Mr. Colin Bebee of Meketa Investment Group presented the benchmarking update and explained the presentation will provide a quick review of the new policy structure, asset class composites and the process the benchmarks have been updated and audited.

Four events occurred in the last 14 months:

- 2022/2023 Asset/Liability Study & new long-term allocation targets.
- Approval of new asset class and Total Fund benchmarks.
- Implementation of new long-term allocation targets.
- Reconfiguration of asset class composites.

Audit Process:

- Starting with Q1 2024 performance report, new composites were created by BNY to accurately reflect composite performance.
- Meketa and ERS staff reviewed historical benchmark constructs and ERS Investment Policy Statement to create benchmarks that reflect Board-approved decisions.
- Audit documentation will be compiled and stored for ERS records.

Two important categories of benchmarks:

- Total Fund-Oriented Benchmarks.
- Description of Composite Benchmarks.

Conclusion:

- New policy took effect on 1/1/2024.
- New asset class composites and benchmarks were implemented.
- To provide ERS and Board with proper benchmark return comparison, retroactive benchmarks were created to reflect prior Board-approved decisions/policies.
- The Total Fund Benchmark was unchanged on a historical basis.

- MEKETA INVESTMENT GROUP, INC. – TOTAL FUND PERFORMANCE REVIEW FOR PERIOD ENDING JUNE 30, 2024

Mr. Colin Bebee of Meketa Investment Group presented the Total Fund Performance Review. The following is a summary of the presentation:

- The ERS Total Fund did meet 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; 3 years and beyond.
- 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 outperformed the Median Public Fund Peer Group, over longer time horizons; 3 years and beyond.
- Market value for the quarter ending June 30, 2024 is \$23,596,065,256, a 7.4% net return was generated.

- MEKETA INVESTMENT GROUP - PRIVATE CREDIT PORTFOLIO REVIEW FOR PERIOD ENDING MARCH 31, 2024

IO Chen introduced the Global Equity portfolio and selection consultants, Meketa. Ms. Mary Bates and Mr. Michael Pellaz of Meketa presented the Private Credit Portfolio Update. The following is a summary of the presentation:

- In 2023, ERS increased the target allocation for private credit to 8% from a previous target of 5%.
- The return objective is 9-11% net IRR with emphasis on yield-oriented opportunities and focus on diversification across manager, strategy, collateral and geography.
- This program comprises 19 partnerships totaling \$2.3B in commitments with \$1.7B in capital contributions, ERS has received \$18.8M in distributions to date.
- In 2024, \$700M in commitments were made across three funds.
- The portfolio is performing in line with expectations.
- ERS Private Credit has generated since inception an IRR of 9% as of March 31, 2024.
- Annual commitment amount of \$600 million is targeted in 2025, subject to Board approval of 2025 strategic pacing in October.

- CIO UPDATE

CIO Varela informed the Investment Committee that active procurement was taking place for the global custody services and security lending. An expression of interest was issued due to a contract expiration at the end of the year. This is one of ERS' largest contractors. Issued on June 26, 2024, five responses were received as of July 31, 2024. The Evaluation Committee, which consists of investment team staff as well as accounting staff, is currently sorting through the responses.

APPROVAL OF MINUTES – MAY 28, 2024

On a motion made by Trustee Barfield and seconded by Trustee Yap, and unanimously carried, the Investment Committee approved the minutes of May 28, 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) CLOSURE OF WEISS ASSET MANAGEMENT, (2) TOWNSEND ORGANIZATIONAL UPDATE (3) CLIMATE ACTION 100+, (4) MANAGER ACTIVITY AND ORGANIZATIONAL UPDATE, AND (5) INVESTMENT OFFICE STAFFING UPDATES

APPROVAL OF EXECUTIVE SESSION MINUTES – MAY 28, 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 May 28, 2024, meeting as presented, with the addition of Trustee Barfield's comments.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Yap, seconded by Trustee Barfield, and unanimously carried, the Investment Committee exited Executive Session at 11:27 a.m.

SUMMARY OF EXECUTIVE SESSION

Chair Mizumoto summarized what was discussed in Executive Session:

- Discussion of Weiss memo.
- Commitment to Climate Action 100
- Townsend staffing.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Trustee Yap, and unanimously carried, Chair Mizumoto adjourned the meeting at 11:29 a.m.

REDACTED SIGNATURE

Kristin Varela
Chief Investment Officer
KV/dlg