

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

NOVEMBER 18, 2024

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

Committee Member
Trustees present:
(via teleconference)

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

Absent:

Mr. Vince Barfield

Visiting Trustees
present:
(via teleconference)

Dr. Genevieve Ley

Attorneys present:
(via teleconference)

Ms. Jenny Nakamoto, Deputy Attorney General

Staff present:
(City Financial Tower)

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. Masayo Zabinski, Investment Accountant
Ms. Andrea Gaspar, Administrative Assistant
Ms. Lori Kim, Administrative Assistant
Ms. Diana Gomes, Administrative Assistant

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, Meketa
Nathan Paulsen
Michael Barela, Voya

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 10:01 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 Kane 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.

NEW BUSINESS

DISCUSSION OF 2025 EMPLOYEES’ RETIREMENT SYSTEM INVESTMENT COMMITTEE MEETINGS

The 2025 Investment Committee meeting schedule was presented to the Investment Committee.

On a motion made by Trustee Kane, seconded by Trustee Yap and unanimously carried, the Investment Committee approved the 2025 meeting schedule.

PRESENTATIONS

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

Mr. Colin Bebee of Meketa Investment Group presented the Total Fund Performance Review for period ending September 30, 2024. The following is a summary of the presentation:

- The ERS Total Fund continues to meet its return benchmark (7%) over the fiscal-year measurement period, and all other periods, excluding the 3-year period.
- The portfolio has lagged its market benchmark for the short-term periods of 3-years or less but has closely met or exceeded the Total Fund Policy Benchmark over the long-term horizon of 5-years or longer.
- On a risk-unadjusted basis, the portfolio tracked the Median Public Fund Peer Group for the quarter and outperformed across all long-term time periods.
- Market value for the quarter ending September 30, 2024 is \$24,036,177,828, a 2.2% net return was generated.

- TOWNSEND GROUP – REAL ASSETS PORTFOLIO REVIEW FOR PERIOD ENDING JUNE 30, 2024

IO Wetzel introduced the Rotating Alternative Asset Class Review for the Team Assets portfolio for period ending June 30, 2024, including an introduction of Real Assets portfolio and selection consultants, Mr. Jeff Leighton, Ms. Kathryn Finneran and Mr. D’metrius Grier from Townsend. The following is a summary of the presentation:

- In 2024, ERS increased the target allocation for Real Assets to 19%, from a previous target of 12%.
- Recent infrastructure, agriculture, and real estate commitments will assist the portfolio to continue to move towards its target allocation.
- The program comprises 82 active investments, across 28 GP relationships, totaling \$6.3B in commitments, and \$4.4B in net asset value.
- In 2024, \$750 million commitment for the year with seven funds. For 2025, another \$725 million will deploy with focus on infrastructure and real estate.
- ERS Real Assets has generated a since inception IRR of 7.6%, as of June 30, 2024.

- The real estate portfolio generating 7.6% net IRR and 1.4 x net equity multiple since inception. Timber portfolio generated an 8.4% net IRR and 3.1x net equity multiple since inception. Infrastructure portfolio (ex Olomana) generated a 10.8% net IRR and 1.2x net equity multiple since inception. Agriculture portfolio generated a 2.9% net IRR and 1.0x net equity multiple since inception. Olomana portfolio generated a 1.0% net IRR and 1.0x net equity multiple since inception.
 - The portfolio is following the Investment Policy Statement (IPS) and outperforming the benchmark for the current quarter and since inception and continues over the longer-term periods.
 - The portfolio is performing well over the long-term, outperforming the blended benchmark on a gross of fee basis for the five year and ten year periods.
- ANNUAL BENCHMARKING REVIEW

Mr. Colin Bebee of Meketa Investment Group presented the Annual Benchmarking Review and explained the presentation will provide a quick review of benchmarks. No changes are recommended.

Four events occurred in the last 17 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 of historical benchmark composites.

Benchmarks:

- The ERS Board of Trustees adopted a new long-term policy portfolio in June 2023.
- In August 2023, the ERS Board of Trustees approved the new asset class and total fund benchmarks.
- The new policy structure and benchmarks were implemented on January 1, 2024.
- Better alignment between benchmarks and betas/market risks.
- Improved investability.
- Elimination of “riskless” indices.

Conclusion:

- ERS staff along with Meketa will continually review the effective benchmarks:
- Benchmark modifications may take place for the following reasons:
 - Board-directed asset allocation changes.
 - Modifications to the existing benchmarks.
 - Adjustments to ERS benchmarking philosophy or changes in industry best practices.
- No changes are proposed if ERS staff and Meketa believe current benchmarks are appropriate for the Total Portfolio.
- Benchmark reviews will occur on a regular basis with any changes proposed to the ERS Board of Trustees and Investment Committee.

On a motion made by Trustee Yap, seconded by Trustee Kane and unanimously carried, the Investment Committee accepted the Annual

Benchmark Review for recommendation to the Board of Trustees for approval.

- ANNUAL PLAN LIQUIDITY TARGET REVIEW

Mr. Colin Bebee of Meketa Investment Group presented the Annual Plan Liquidity Target Review and explained the presentation will provide a quick review of portfolio liquidity. No changes are recommended.

- Liquidity needs for a pension plan are different than other investors:
 - Consistent benefit payment outflows.
 - Private market capital calls.
 - For some closed systems, a portfolio may not have any contributions and will eventually be entirely liquidated.
 - Liquidity is important to rebalance and take advantage of investment opportunities.
- ERS conducts a comprehensive evaluation of the total portfolio's ability to meet liquidity requirements during asset-liability studies (every 3-5 years).
- Liquidity requirements include projected benefit payments over a 20-year period and private markets commitments/distributions over the first five years.
- Portfolios are examined under severe liquidity stress tests to assess the ability to meet liquidity requirements.
- Mature public pension systems require liquidity concerns.
- Liquidity is complex and it is important to examine each asset class under periods of market stress.
- During periods of market stress, liquidity should be accessed from asset classes with stable/improving values and low transaction costs.
- Based on current market values and actuarial projections, ERS staff and Meketa recommend that the 5% minimum remain unchanged for the calendar year 2025.

On a motion made by Trustee Yap, seconded by Trustee Kane and unanimously carried, the Investment Committee accepted the Annual Plan Liquidity Target Review for recommendation to the Board of Trustees for approval.

- ANNUAL INVESTMENT POLICY STATEMENT REVIEW

CIO Varela presented the Annual Investment Policy Statement (IPS) Review. CIO Varela noted upon the review of original recommended revisions, as provided on November 13, 2024. Staff and Committee Chair identified areas to further revised, focused on consistency of terminology, correction of administrative typos, and streamlining processes. Revised recommendations, as provided on November 18, 2024, include all proposed revisions. Listed below are the recommended revisions to the IPS.

SECTION C – ERS GENERAL INVESTMENT OVERVIEW

Section C.7 Responsible Investing. Page 12.

Update definition and language for “Responsible Investing” to account for systemic risk factors, to align with ERS goals and objectives.

Section C.7.1 Responsible Investing – Proxy Voting. Pages 13-15.
Update language to delete specific references to the proxy voting administrator by name and redundancy and include guidance for ERS investment managers with delegated proxy authority to eliminate reference to vendor by name in IPS and for clarity.

SECTION D – BROAD GROWTH PROGRAM

Section D.2 – Class Structure, 1. Components, a. Private Equity. Page 3.

Changed introductory language to reference private equity, instead of public equity to correct a typo.

SECTION D – BROAD GROWTH APPENDIX

Derivatives Policy. Page 8.

Delete prohibitive language in first paragraph. Section 4, Permitted Instruments allows for the full scope of investable derivative instruments.

Real Assets Component – Various Sections. Pages 9-12.

Update reference to selection consultant, from Real Estate Consultant to Real Assets Consultant to align with contracted responsibilities of selection consultant, covering total Real Asset portfolio.

Real Estate Sub-Component Sections 1a, 1.b, 2.a, 2.c. Pages 12-13.

Update language to align with current practice to consolidate the naming convention of Core and Non-Core Real Estate to align, Separate Account Tactical Plan with current practice and to broaden leverage expectations in alignment with market implementations.

Real Estate Sub-Component Sections 3.c.iv, 3.c.vi, 3.d.viii. Pages 14-15.

Update language of Value -Add and Opportunistic Real Estate general characteristics to ensure alignment with Infrastructure and Agriculture Sub-Component policies.

Real Estate Sub-Component Sections 4.c. Pages 14-15.

Elimination of Section C, Target Portfolio, to remove target portfolio references to legacy benchmark, no longer utilized by ERS as specific guidelines as no longer relevant.

Real Estate Sub-Component Sections 5.a, 6.a (i-iii), 6.b.i. Pages 16-17.

Updated reference to selection consultant from Real Estate Consultant to Real Assets Consultant to align with contracted responsibilities of selection consultant covering total Real Asset portfolio.

Timber Sub-Component, Sections 2.a, 2.b, 2.b.ii. Page 18-19.

Update reference to selection consultant from Real Estate Consultant to Real Assets Consultant to align with contracted responsibilities of selection consultant, covering total Real Asset portfolio.

On a motion made by Trustee Yap, seconded by Trustee Kane and unanimously carried, the Investment Committee accepted the Annual Investment Policy Statement Review for recommendation to the Board of Trustees for approval.

- CIO UPDATE

CIO Varela informed the Investment Committee that the Investment Accountant, Ms. Masayo Zabinski, joined ERS on October 1, 2024. She transferred from the Department of Transportation – Harbors Division. Ms. Zabinski is working with the accounting team and the investment team by building out the custody bank accounting book of record, strengthen portfolio reconciliation, and systematize internal processes.

APPROVAL OF MINUTES – AUGUST 19, 2024

On a motion made by Trustee Kane and seconded by Trustee Yap, and unanimously carried, the Investment Committee approved the minutes of August 19, 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 Kane, seconded by Trustee Yap, and unanimously carried, the Investment Committee entered Executive Session at 11:41 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) UPDATE ON
CLOSURE OF WEISS ASSET
MANAGEMENT, (2) MAN
OPERATIONAL RISK PROCESS
UPDATE (3) INVESTMENT OFFICE
STAFFING UPDATES.

APPROVAL OF EXECUTIVE
SESSION MINUTES – AUGUST 19,
2024

On a motion made by Trustee Kane, seconded by Trustee Yap and unanimously carried, the Investment Committee approved the confidential Executive Session minutes of the August 19, 2024 as presented.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Yap, seconded by Trustee Kane, and unanimously carried, the Investment Committee exited Executive Session at 12:03 a.m.

SUMMARY OF EXECUTIVE
SESSION

Chair Mizumoto summarized what was discussed in Executive Session:

- Update on Closure of Weiss Asset Management.
- Man Operation risk process update.
- Investment office staffing update.
- Approved Executive Session minutes.

ADJOURNMENT

On a motion made by Trustee Kane, seconded by Trustee Yap, and unanimously carried, Chair Mizumoto adjourned the meeting at 12:04 a.m.

**REDACTED
SIGNATURE**

Kristin Varela
Chief Investment Officer
KV/dlg