

MINUTES OF THE REGULAR MEETING OF THE  
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF HAWAII

DECEMBER 12, 2016

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

Trustees present: Mr. Vince Barfield, Chair  
Mr. Emmit Kane, Vice Chair  
Dr. Catherine Chan  
Ms. Jackie Ferguson-Miyamoto  
Mr. Patrick Frane  
Mr. Wesley Machida  
Mr. Colbert Matsumoto  
Mr. Jerome Rauckhorst

Staff present: Mr. Thomas Williams, Executive Director  
Ms. Kanoë Margol, Deputy Executive Director  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Aaron Au, Investment Officer  
Mr. Anthony Goo, Investment Officer  
Mr. Howard Hodel, Investment Officer  
Mr. Andrew Chen, Investment Specialist  
Mr. Ian Wetzel, Investment Specialist  
Ms. Donna Curry, Program Specialist  
Ms. Wanda Kugiya, Secretary  
Ms. Dale Kanae, Secretary  
Ms. Lori Kim, Recording Secretary

Attorneys present: Ms. Diane Kishimoto, Deputy Attorney General (Counsel for the Board)  
Mr. Brian Aburano, Deputy Attorney General (Counsel for the Board)  
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC  
Mr. John Linder, Pension Consulting Alliance, LLC  
Mr. Colin Bebee, Pension Consulting Alliance, LLC  
Mr. Lewis Ward, Gabriel Roeder Smith & Company  
Mr. Joseph Newton, Gabriel Roeder Smith & Company (by telephone)  
Mr. Paul Yett, Hamilton Lane (by telephone)

QUORUM/CALL TO ORDER	A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Frane, Matsumoto, and Rauckhorst), Chair Barfield called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 9:03 a.m.
AMENDMENT OF THE AGENDA	On a motion made by Vice Chair Kane, seconded by Trustee Rauckhorst, and unanimously carried, the Board amended the agenda to add an additional item to New Business for the Auditor's Report and Financial Statements of the Employees' Retirement System for fiscal year ended 2015.
PUBLIC COMMENT	Chair Barfield called for public comment. There were no members of the public present.
RECESS	Chair Barfield called for a recess and announced that the meeting would reconvene following the conclusion of the chapter 91 proceedings and the Investment Committee meeting.
RECONVENE	A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Frane, Matsumoto, and Rauckhorst), Chair Barfield reconvened the meeting at 11:31 a.m.  (Trustee Rauckhorst left the meeting at 11:31 a.m.) (Trustee Ferguson-Miyamoto joined the meeting at 11:35 a.m.)
PRELIMINARY ACTUARIAL VALUATION RESULTS; ADOPTION OF INVESTMENT RETURN ASSUMPTIONS AND FUNDING POLICIES	Mr. Lewis Ward and Mr. Joe Newton (by telephone) of Gabriel Roeder Smith & Company (GRS) gave an oral, written and PowerPoint presentation on the preliminary actuarial valuation for the ERS fiscal year ended June 30, 2016, alternative investment rate return assumptions, and alternative funding policies. Some of the key points of the presentation were:  GRS provided charts that showed the ERS's unfunded actuarial accrued liability (UAAL) and funded ratio for the fiscal year ended June 30, 2016, based on the Board's adoption of an investment return assumption between 6.75% and 7.50%, and the other GRS recommended actuarial assumptions including the increased mortality assumption from the recent ERS experience study. Depending on the investment return assumption selected, the charts showed an ERS UAAL for all employees combined of \$13.31 billion (6.75% AIR) to \$10.80 billion (7.50% AIR). The charts also provided separate UAAL and funded ratios for police and fire employees and all other employees.  GRS also provided charts that estimated employer contribution rates for the current funding period and for a 30 year funding period. The charts provided separate employer contribution rates for police and fire employees and all other employees. The charts provided employer contribution rates based on actuarial valuation of assets (AVA) and market valuation of assets (MVA). Depending on the investment return rate assumption and funding period selected, the charts showed employer contributions rates (based on actuarial valuation) from 31.75% to 42% for police and fire and 19.25% to 25.50% for all other employees.

Mr. Newton and Mr. Ward explained to the Board the impact of contribution rate increases and possible alternate funding strategies. The Board discussed with the GRS representative what the factors were that had resulted in the increases in UAAL and unfunded ratio. Aside from the investment return rate assumption, the factors included the increase in mortality shown by the recent experience study and unexpected salary increases.

The Board discussed with the representatives from Pension Consulting Alliance, LLC (PCA) and the Chief Investment Officer (CIO) their forecasts as to what investment return rate could be expected in the future. The PCA representatives confirmed that the trend is downward for expected capital market returns and the assumed rates used by state public pension funds. The CIO agreed noting that lower inflation expectations and interest rates on bonds contributed to the lowering of expectations. The Executive Director provided information from NASRA regarding the investment return rate assumptions of other public pension funds, and confirmed the decreasing trend in those assumptions.

On a motion made by Vice Chair Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Trustees approved an investment return assumption (assumed investment rate) of 7.0%.

EMPLOYEES’  
RETIREMENT SYSTEM  
COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT FOR THE FISCAL  
YEAR ENDED JUNE 30,  
2015; APPROPRIATE  
ACTION

Mr. Thomas Williams, Executive Director, presented the Employees’ Retirement System’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015 for approval.

On a motion made by Trustee Matsumoto, seconded by Vice Chair Kane, and unanimously carried, the Board approved the Employees’ Retirement System’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015 as circulated.

RECESS

Chair Barfield called for a ten-minute recess for lunch at 12:36 p.m.

RECONVENE

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Ferguson-Miyamoto, Frane, Machida, Matsumoto, and Rauckhorst), Chair Barfield reconvened the meeting at 12:55 p.m.

PRELIMINARY  
ACTUARIAL VALUATION  
RESULTS; ADOPTION OF  
INVESTMENT RETURN  
ASSUMPTIONS AND  
FUNDING POLICIES

Further discussion was held on the impact of the use of Market Value of Assets (MVA) versus Actuarial Value of Assets (AVA) on required contributions. Using MVA results in a modest additional increase in funding requirements.

On a motion made by Vice Chair Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved a 25-year funding period and the use of market value of assets (MVA) for purposes of determining the level of required contributions that the ERS will request effective July 1, 2017.

LEGISLATIVE PROPOSALS  
RELATING TO THE  
EMPLOYEES’

Ms. Donna Curry, Program Specialist, provided a review of the ERS legislative proposals that staff is working on for the 2017 legislative session:

RETIREMENT SYSTEM  
FOR THE 2017  
LEGISLATIVE SESSION

- BUF-15(17) – Relating to Employer Contributions to the ERS (employer rate increase)
- BUF-17(17) – Relating to Employer Contributions to the ERS (separate accounts)
- BUF-18(17) – Relating to the Employees’ Retirement System (retention of unclaimed member benefits)
- BUF-20(17) – Relating to Actuarial Costs of Separation of Public Employees from Service (transfer or privatization of employing entities)
- BUF-22(17) – Relating to Investment Personnel of the ERS (exempt professional investment personnel)
- BUF-26(17) – Relating to the Employees’ Retirement System (housekeeping)

Ms. Curry stated that BUF 15(17) was based on an anticipated decrease of the assumed investment rate to 7.25%; however, due to the decision made by the Board to change the rate to 7%, the required contribution rates in the legislative proposal will be recalculated.

Ms. Curry and Deputy Attorney General Diane Kishimoto presented two versions of the draft of BUF 17(17), which is intended to facilitate prepayment of employer contributions. One draft provides for interest on the prepayments and the other does not. The Trustees indicated that they support the draft that provides for the payment of interest.

The Trustees indicated their support of the legislative proposals presented.

REPORT ON STATUS OF  
MATTERS RELATING TO  
ACT 1, SECOND SPECIAL  
SESSION LAWS OF  
HAWAII 2016;  
APPROPRIATE ACTION

Mr. Thomas Williams, Executive Director and Ms. Kishimoto reported that the Internal Revenue Service (IRS) has indicated that the IRS will be issuing an “adverse ruling” in response to the ERS’s request for a private letter ruling with respect to Act 1, Second Special Session Laws of Hawaii 2016. There will be a conference call on Thursday, December 22 with the IRS, ERS staff, and ERS’s litigation and tax counsel.

ANNUAL STRATEGIC  
PLAN FOR THE PRIVATE  
EQUITY PROGRAM  
MANAGED BY HAMILTON  
LANE ADVISORS, LLC

Mr. Aaron Au, Investment Officer and Mr. Paul Yett of Hamilton Lane (joined the meeting by telephone) presented an oral and written report on the annual strategic plan for the private equity program. The recommendations are:

- Continue to concentrate commitments with Foundation Managers
- Maintain larger average commitment size
- Larger commitments to Foundation Managers
- Primary commitment focus on Buyout investments
- Build exposure to Credit related investments
- Moderate Venture Capital exposure
- Consider opportunistically investing in Secondary funds
- Construct a geographically diverse portfolio with primary exposure in North America and Europe
- Commitment pacing of \$450-\$600 million for 2017

ERS and Hamilton Lane requested Board approval of the Strategic Plan.

On a motion made by Vice Chair Kane, seconded by Trustee Frane, and unanimously carried, the Board approved the Strategic Plan as presented.

HAWAII TARGETED  
INVESTMENT PROGRAM  
INVESTMENT (HiTIP)  
POLICY

Mr. Au and Mr. Colin Bebee of Pension Consulting Alliance, LLC (PCA) presented revisions to the HiTIP policy guidelines and recommended Board approval of the revised policy guidelines. The revised guidelines will apply to the second HiTIP fund. There will be two major changes from the first HiTIP fund: co-investments are not permitted and target 25% to 33% of investments in funds managed by locally-based partnerships.

On a motion made by Trustee Matsumoto, seconded by Trustee Machida, and unanimously carried, the Board approved the revisions to the HiTIP policy guidelines as presented.

2017 STRATEGIC  
INVESTMENT AGENDA –  
GAME PLAN MEMO

Mr. Vijoy Chattergy, Chief Investment Officer, and Mr. Neil Rue of Pension Consulting Alliance, LLC (PCA) presented the 2017 Strategic Investment Plan. ERS has fully addressed 16 of the 26 tasks set forth in the ERS Strategic Investment Plan for 2015-2018. ERS is expected to complete the remaining 10 tasks in 2017.

INVESTMENT MANAGER  
WATCH LIST

Mr. Anthony Goo, Investment Officer, and Mr. Bebee recommended that PIMCO be removed from the Investment Manager Watch List due to the relative stability of the firm's organizational structure over the past year.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved removal of PIMCO from the Investment Manager Watch List.

HONORING MICHAEL J.  
HUMPHREY OF  
COURTLAND PARTNERS,  
LTD.

Mr. Williams and Mr. Chattergy reported on the sudden passing of Michael J. Humphrey, co-founder of Courtland Partners, Ltd. Mr. Williams expressed the shock and sadness of Mr. Humphrey's passing and presented contact and donation information to the Board. Options to honor Mr. Humphrey were discussed and will be decided at a later date.

ENTER EXECUTIVE  
SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Kane, and unanimously carried, the Board entered into Executive Session at 1:38 p.m.

- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and, if appropriate, to make decisions relating to the Crisis Risk Offset Request for Information (RFI) search;
- Pursuant to HRS Section 88-106, to consult with the Board's attorney on questions and issues pertaining to the Board's power, duties, and privileges, immunities, and liabilities with respect to proposed action for a request to forgive overpayments; and
- Pursuant to HRS § 92-5(a)(4), 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 seeking lead plaintiff status in a federal securities fraud class action against Tyson Foods, Inc.

EXECUTIVE SESSION,  
PURSUANT TO HRS §88-  
27.5(A)(2), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS AND, IF  
APPROPRIATE, TO MAKE  
DECISIONS RELATING TO  
THE CRISIS RISK OFFSET  
REQUEST FOR  
INFORMATION (RFI)  
SEARCH

EXECUTIVE SESSION  
PURSUANT TO HRS §88-  
106, TO CONSULT WITH  
THE BOARD'S ATTORNEY  
ON QUESTIONS AND  
ISSUES PERTAINING TO  
THE BOARD'S POWER,  
DUTIES, AND PRIVILEGES,  
IMMUNITIES, AND  
LIABILITIES WITH  
RESPECT TO PROPOSED  
ACTION FOR A REQUEST  
TO FORGIVE  
OVERPAYMENTS

EXECUTIVE SESSION  
PURSUANT TO HRS §92-  
5(a)(4), TO CONSULT WITH  
THE BOARD'S ATTORNEY  
ON QUESTIONS AND  
ISSUES PERTAINING TO  
THE BOARD'S POWER,  
DUTIES, AND PRIVILEGES,  
IMMUNITIES, AND  
LIABILITIES WITH  
RESPECT TO SEEKING  
LEAD PLAINTIFF STATUS  
IN A FEDERAL  
SECURITIES FRAUD  
CLASS ACTION AGAINST  
TYSON FOODS, INC.

APPROVAL OF  
EXECUTIVE SESSION  
MINUTES

- SEPTEMBER 12, 2016

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board exited Executive Session at 2:06 p.m.

EXECUTIVE DIRECTOR'S REPORT

Mr. Williams gave an oral presentation of the Executive Director's report as follows:

- ERS participated in the New Legislator Orientation on November 15, 2016.
- Mr. Williams and Ms. Margol are working with Peter Hanashiro of KMH on the development of the Governance Policy.
- Trustee Rauckhorst, Vice Chair Kane, Mr. Williams along with the Investment Team met with Twenty First Century Utilities and are continuing due diligence.
- Mr. Williams and Mr. Chattergy met with the Hawaii Business Roundtable regarding the HiTIP program.
- ERS submitted budget to Governor Ige through Mr. Wesley Machida, Director of Finance.
- Trojan was found on ERS system. Company that was hired over a year ago to do penetration testing left on ERS system evidence of the penetration test. ETS was notified and determined that it was not an exterior penetration and did not pose a risk to ERS and was deleted.
- Mr. Williams met with 6 EC&B specialists regarding reallocation. The specialists filed a grievance with HGEA. Mr. Williams will be meeting with HGEA on Wednesday, December 14, 2016.
- Election of Board and Committee assignments will take place at the January Board meeting.
- Mr. Williams met with Governor Ige to review upcoming legislation and the Governor is in support of ERS bills.
- Mr. Williams met with Pomerantz, lead counsel in Petrobas case, along with Attorney General Doug Chin and Deputy Attorney General Brian Aburano.
- Mr. Williams met with Dr. Patricia Chinn, Chair of the Medical Board, to discuss her efforts in improving disability determinations.
- Mr. Williams met with UPW regarding the ERS actuarial valuation and increasing contribution rates.
- ERS developed a confidentiality policy which every employee received and acknowledged.
- ERS Christmas party was held on Friday, December 2 at the Dole Cannery Ballroom.
- ERS management provided a pizza lunch to thank staff.
- Mr. Williams met with Finance Directors on Kauai, Maui and Big Island to present the ERS actuarial valuation and need for increase in contribution rates.
- Mr. Williams and Ms. Kanoe Margol attended DISC training that was arranged with Budget & Finance.
- Mr. Williams expressed his appreciation to the Board for another year of service on their part.

OPERATIONS REPORT

Mr. Williams presented the Operations Report for November 2016. The Board requested the following:

- Create a production/aging status report for the Medical Board.
- Of the 135 service-connected disability cases pending, how many are with the Medical Board?

APPROVAL OF MINUTES  
- SEPTEMBER 12, 2016

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved the September 12, 2016 minutes, as circulated.

ADJOURNMENT

On a motion made by Trustee Machida, seconded by Trustee Matsumoto, and unanimously carried, Chair Barfield adjourned the meeting at 2:26 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:ltk