

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

FEBRUARY 13, 2017

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

Trustees present: Mr. Emmit Kane, Chair
Mr. Jerome Rauckhorst, Vice Chair
Mr. Vincent Barfield
Dr. Catherine Chan
Mr. Patrick Frane
Mr. Wesley Machida
Mr. Colbert Matsumoto

Trustee excused: Ms. Jackie Ferguson-Miyamoto

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. Paul Yett, Hamilton Lane
Mr. Tom Hester, Courtland Partners, Ltd.
Mr. Steve Novick, Courtland Partners, Ltd.
Mr. Ted Lennon, Lowe Enterprises Investors
Mr. Bleecker Seaman, Lowe Enterprises Investors

Public present: Mr. Kenny Lee, KMH LLP

QUORUM/CALL TO ORDER A quorum being present (Chair Kane, and Trustees Barfield, Frane, Matsumoto, and Rauckhorst), Chair Kane called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 10:08 a.m.

PUBLIC COMMENT Chair Kane called for public comment. There were no members of the public present.

RECESS Chair Kane called for a recess and announced that the meeting would reconvene following the conclusion of the chapter 91 proceedings.

(PCA representatives and Mr. Kenny Lee left the meeting)

RECONVENE A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Frane, Matsumoto, and Rauckhorst), Chair Kane reconvened the meeting at 10:28 a.m.

(Trustee Machida joined the meeting at 10:30 a.m.)

AMENDMENT OF THE AGENDA Chair Kane requested that the Board amend the agenda to add the following under New Business:

Extension of the contracts with Medical Board members.

Pursuant to HRS § 92-5(a)(4), the Board may enter into Executive Session to consult with the Board of Trustees' attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to this matter.

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board amended the agenda to add the following under New Business:

Extension of the contracts with Medical Board members.

Pursuant to HRS § 92-5(a)(4), the Board may enter into Executive Session to consult with the Board of Trustees' attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to this matter.

(Trustee Chan joined the meeting at 10:32 a.m.)

HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY PROGRAM UPDATE Mr. Aaron Au, Investment Officer, and Mr. Paul Yett of Hamilton Lane gave an oral and written update, as of February 2017, of ERS's private equity portfolio, as of September 30, 2016. Highlights were:

Performance:

- Since inception IRR increased by 15 bps year over year as of September 30, 2016
- Portfolio significantly outperformed the public benchmark across time horizons
 - Beat benchmark by 408 bps for the since inception period
 - Aggregate average premium of 419 bps across the 1-, 3-, 5-, and 10-

year periods

- Strong one-year IRR of 11.64%, with each quarter achieving positive results

Value Creation:

- Portfolio generated market value growth of \$47.6 million during the third quarter, with \$35.8 million in positive net value
 - 120 partnerships generated positive value gain of \$41.1 million for the quarter

Portfolio Snapshot:

- The Portfolio continues to grow and generate value
- Commitments growing to meet target exposure of 13.5% to Private Equity
- Significant NAV (net asset value) appreciation, up to 18% from one year prior
- 2016 is largest single year in Portfolio's history, both in terms of invested capital and commitments

Performance Summary:

- Q3 represents the 17th consecutive quarter of positive returns
- Net value gain of \$88.9 million for the year
- Unfunded commitments increased – up to \$259.6 million or 38% over the year

Upon completion of his presentation, Mr. Yett left the meeting.

PENSION CONSULTING
ALLIANCE, LLC –
INVESTMENT PORTFOLIO
PERFORMANCE FOR 4TH
QUARTER 2016

Mr. Neil Rue of Pension Consulting Alliance, LLC gave an oral and written report on the performance of ERS's investment portfolio for the 4th quarter of 2016. Over the quarter, the Total Portfolio slightly trailed the Policy Benchmark by 20 basis points as relative underperformance in the Broad Growth and Real Return classes detracted from results. The Total Portfolio exceeded the benchmark by 70 basis points over the trailing 1-year period; all strategic classes outperformed their respective benchmarks during the period and contributed to results. The Total Portfolio bested the Policy Benchmark over all extended time periods measured. The ERS Total Portfolio outperformed the medial public fund return over all trailing time periods measured. With respect to the evolving policy target, new strategic allocations took effect July 1, 2016. The portfolio ended the quarter overweight Other Assets primarily due to movement of cash and stocks within the Broad Growth class. While the Broad Growth class ended the quarter underweight, all other strategic classes were relatively near their policy targets.

COURTLAND PARTNERS,
LTD. – REAL ESTATE
PORTFOLIO
MEASUREMENT REPORT
FOR 3RD QUARTER 2016

Mr. Aaron Au, Mr. Tom Hester of Courtland Partners, Ltd. (Courtland), and Mr. Steve Novick, co-founder of Courtland Partners, Ltd., gave an oral and written report on the performance of the ERS's real estate portfolio for the 3rd quarter of 2016. The ERS real estate portfolio continues to perform well and outperformed the NCREIF Property Index (NPI) for the quarter, year-to-date, 1-yr., 2-yr., 3-yr., and 5-yr. periods. The real estate portfolio underperformed the NPI for the inception-to-date period.

RECESS

Chair Kane called a ten-minute recess for lunch at 12:21 p.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Frane, Machida and Matsumoto), Chair Barfield reconvened the meeting at 12:27 p.m.

LEGISLATIVE PROPOSALS
RELATED TO THE
EMPLOYEES'
RETIREMENT SYSTEM
FOR THE 2017
LEGISLATIVE SESSION

Ms. Donna Curry, Program Specialist, presented to the Board lists of legislative proposals initiated by or relating to the ERS and the positions that the Administrative and Legislative Committee recommends that the Board take with respect to the bills.

Trustee Machida stated that the employer contribution rates in HB1061/SB927 are not what the ERS originally proposed. The State's Financial Plan cannot accommodate the contribution rates that the ERS proposed. Therefore the bills that were introduced phase in the contribution rate: 2% per year for 4 years and 25% thereafter. Police and Fire will be 4% per year for 4 years and 41% thereafter.

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board adopted the recommendations of the Administrative and Legislative Committee as set forth in Schedule A, attached to these minutes.

ACT 1, SECOND SPECIAL
SESSION LAWS OF
HAWAII 2016;
APPROPRIATE ACTION

Mr. Thomas Williams, Executive Director, reported the IRS Private Letter Ruling is drafted and moving through IRS's internal approval process; issuance of the ruling is expected soon. Mr. Williams plans to meet with counsel to plan the next step after issuance of the private letter ruling.

ADMINISTRATIVE AND
LEGISLATIVE
COMMITTEE CHARTER
REVISIONS

Mr. Thomas Williams presented for the Board's approval, the Administrative and Legislative Committee Charter, with revisions accepted by the Administrative and Legislative Committee for approval by the Board.

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved the revised Administrative and Legislative Charter, as presented.

EXTENSION OF THE
CONTRACTS WITH
MEDICAL BOARD
MEMBERS

Mr. Thomas Williams reported that the contracts for the Chair and other members of the Medical Board will be expiring soon. ERS staff recommended to the Administrative and Legislative Committee that the contract with the ERS Medical Board Chair, Patricia Chinn, M.D. be extended for one (1) year to June 1, 2018, and that the contracts with Medical Board members, Howman Lam, M.D. and Gerald McKenna M.D. be extended for one (1) year to August 15, 2018. The contracts allow the ERS to terminate the contracts with 60-days notice. The extension will allow the ERS to consider ways to improve the processing of disability and service-connected death applications. Results of an internal audit by KMH LLP are expected shortly. The Administrative and Legislative Committee accepted staff's recommendation and recommends approval of the contract extensions by the Board.

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board authorized the extension of the contract with ERS Medical Board Chair, Patricia Chinn, M.D. for one (1) year to June 1, 2018 and the extension of Medical Board members, Howman Lam, M.D.

and Gerald McKenna M.D. for one (1) year to August 15, 2018.

ENTER EXECUTIVE
SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Machida, and unanimously carried, the Board entered into Executive Session at 1:16 p.m.:

- 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 decisions upon, 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 the ERS's investment in the Royal Kaanapali Golf Courses;
- Pursuant to HRS § 88-27.5(a)(1) and (a)(2) and HRS § 92-5(a), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions upon, 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 changing the structure and manager composition of the Principal Protection risk class allocation;
- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and to make decisions relating to Global Mid/Large Cap finalists.
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to the Crisis Risk Offset accounts;
- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and to make decisions relating to the Crisis Risk Offset manager search process; and
- Pursuant to HRS § 88-92-5(a)(4) to consult with the Board's attorneys on questions and issues pertaining the Board's powers, duties, privileges, immunities, and liabilities with respect to participation in a foreign arbitration against Petroleo Brasileiro S.A.; appropriate action.

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
APPLICABLE, TO MAKE
DECISIONS UPON, 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 THE ERS'S
INVESTMENT IN THE
ROYAL KAAPALI GOLF
COURSES

Upon completion of the presentation by Mr. Lennon and Mr. Seaman, Mr. Lennon, Mr. Seaman, Mr. Hester and Mr. Novick left the meeting.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(1) AND (a)(2) AND
HRS § 92-5(a), TO
CONDUCT DISCUSSIONS
AND DELIBERATIONS
RELATING TO, AND, IF
APPROPRIATE, TO MAKE
DECISIONS UPON, 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 CHANGING
THE STRUCTURE AND
MANAGER COMPOSITION
OF THE PRINCIPAL
PROTECTION RISK CLASS
ALLOCATION

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(2), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND TO
MAKE DECISIONS
RELATING TO GLOBAL
MID/LARGE CAP
FINALISTS

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(1), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO THE CRISIS
RISK OFFSET ACCOUNTS

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(2), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND TO
MAKE DECISIONS
RELATING TO THE CRISIS

RISK OFFSET MANAGER
SEARCH PROCESS

(Trustee Matsumoto, PCA representatives and the Investment Staff left the meeting at 2:10 p.m.)

EXECUTIVE SESSION,
PURSUANT TO HRS §88-
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
PARTICIPATION IN A
FOREIGN ARBITRATION
AGAINST PETROLEO
BRASILEIRO S.A.;
APPROPRIATE ACTION

APPROVAL OF
EXECUTIVE SESSION
MINUTES
- DECEMBER 12, 2016

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board exited Executive Session at 2:14 p.m.

EXECUTIVE DIRECTOR'S
REPORT

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

- ERS held informative meetings on the Actuarial Valuation Report with the Legislature, Budget & Finance, Unions, Employers, and ERS staff in January 2017.
- Legislation – ERS has 5 initiated bills with 5 companion bills and 25 ERS related bills that staff is monitoring. Mr. Williams met with Labor Chairs Senator Gilbert Keith-Agaran and Representative Aaron Johanson regarding ERS bills. Ms. Donna Curry; Ms. Kanoë Margol, Deputy Executive Director; Ms. Diane Kishimoto; and Mr. Brian Aburano have been very helpful with legislation and writing testimony. Mr. Williams, Ms. Margol, and Ms. Curry have been attending hearings and giving testimony. ERS is incurring budget challenges as the House budget staff has been deeply questioning all of ERS requests.
- Mr. Williams met with the acting HART CFO and Fiscal Officer regarding the ERS actuarial valuation report.
- Mr. Williams and Ms. Margol met with ERS Branch Managers regarding strategic and succession planning.
- Ms. Margol, Mr. Karl Kaneshiro, Enrollment, Claims and Benefits Manager and ARO-HR are working on restructuring the Enrollment, Claims and Benefits Department.
- Mr. Williams, Ms. Margol and Ms. Curry met with an outside communication and marketing firm to help with ERS's communications.

- Mr. Williams was asked by the Kauai County Council to give a presentation on the ERS's actuarial valuation report. Mr. Williams gave a 2 ½ hour presentation which was well received.

(Trustee Machida left the meeting at 2:26 p.m.)

APPROVAL OF MINUTES
- DECEMBER 12, 2016

On a motion made by Trustee Barfield, seconded by Trustee Frane, and unanimously carried, the Board approved the minutes for the December 12, 2016 meeting, as presented.

(Trustee Chan left the meeting at 2:27 p.m.)

The meeting was terminated at 2:27 p.m. due to loss of quorum; however, pursuant to HRS § 92-2.5(d), the Trustees present continued to receive testimony and presentations on the remaining item on the agenda.

OPERATIONS REPORT

Ms. Margol gave an oral and written operations report which is a receive and file. Per Board request, Ms. Margol presented a Disability Applications Pending Aging Report to provide management and the Board a tool to account for the pending disability applications.

ADJOURNMENT

Receipt of testimony and presentations concluded at 2:37 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:ltk

Schedule A

	Bill Number	Bill Title	Board's Position
1.	HB1061	Relating to Employer Contributions to the Employees' Retirement System	Support
2.	HB1063	Relating to the Employees' Retirement System – Unclaimed Property	Support
3.	HB1065	Relating to Actuarial Costs of Separation of Public Employees from Service	Support
4.	HB1067	Relating to Investment Personnel of the Employees' Retirement System	Support
5.	HB1070	Relating to the Employees' Retirement System – "Housekeeping"	Support
6.	SB927	Relating to Employer Contributions to the Employees' Retirement System	Support
7.	SB929	Relating to the Employees' Retirement System – Unclaimed Property	Support
8.	SB931	Relating to Actuarial Costs of Separation of Public Employees from Service	Support
9.	SB933	Relating to Investment Personnel of the Employees' Retirement System	Support
10.	SB936	Relating to the Employees' Retirement System – "Housekeeping"	Support
11.	SB101	Relating to State Funds	Monitoring
12.	SB103	Relating to the Disposition of Excess General Funds Authorized Under Article VII, Section 6, of the Constitution of the State of Hawaii	Support
13.	SB133	Relating to Public Employees' Fringe Benefits – Actuarial Experience Studies	Comments
14.	SB244	Relating to Open Government	Comments
15.	SB249	Relating to Retirement	Comments
16.	SB250	Relating to the Board of Trustees of the Employees' Retirement System	Opposed
17.	SB279	Relating to Public Employees	Comments
18.	SB383	Relating to Medical Coverage for Firefighters	Oppose
19.	SB647	Relating to Teachers	Oppose
20.	SB1047	Relating to the Employees' Retirement System – ERS Stress Test	Comments
21.	SB1226	Relating to Separation Benefits	Monitoring
22.	HB32	Relating to the Employees' Retirement System – Investment Yield Rate Assumption	Oppose
23.	HB76	Relating to Separation Benefits	Oppose
24.	HB233	Relating to Separation Benefits	Comments
25.	HB234	Relating to Separation Benefits	Comments
26.	HB629	Relating to Taxation	Comments
27.	HB828	Relating to the Employees' Retirement System – Legislative Officers' Benefits	Comments
28.	HB913	Relating to Medical Coverage for Firefighters	Oppose
29.	HB987	Relating to Retirement	Comments
30.	HB989	Relating to the Board of Trustees of the Employees' Retirement System	Comments
31.	HB990	Relating to Public Employees	Oppose
32.	HB991	Relating to Open Government	Comments
33.	HB1178	Relating to Separation Benefits	Monitoring
34.	HB1182	Relating to the Employees' Retirement System – ERS Stress Test	Comments
35.	HB1263	Relating to Teachers	Opposed
36.	HB1357	Relating to Statutory Revision	Monitoring