

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

JANUARY 9, 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. Lewis Ward, Gabriel Roeder Smith & Company  
Mr. Joseph Newton, Gabriel Roeder Smith & Company  
Ms. Michell McCloskey, Man FRM  
Mr. Jens Foehrenbach, Man FRM

Public present: Mr. Gordon Choy, DHRD  
Ms. Jennifer Woo, DHR/City & County of Honolulu  
Mr. David Segal, Star Advertiser  
Mr. Dallen Paleka, Captain at Halawa Correctional Facility

QUORUM/CALL TO ORDER A quorum being present (Vice Chair Kane, and Trustees Chan, Frane, Matsumoto, and Rauckhorst), Vice 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 9:02 a.m.

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

RECESS Vice Chair Kane 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 10:35 a.m.

PUBLIC COMMENT Mr. Dallen Paleka, an Adult Corrections Officer Captain at Halawa Correctional Facility, reported that corrections officers will be supporting two legislative proposals this legislative session. The first is a request that the ERS do a mortality study to determine whether adult corrections officers (ACOs) die at an earlier age than other ERS members. It seems to ACOs that many of their retired colleagues die within a couple of years of retirement. If this is the case, Mr. Paleka believes that ACOs should be able to retire earlier. The second proposal is to reduce the service requirement for early retirement at age-55 from 30 to 29 years. Mr. Paleka believes that this would benefit both ACOs and the ERS because many ACOs who are close to retirement are taking sick leave.

Upon completion of his comments, Mr. Paleka left the meeting.

RECESS Chair Barfield called for a recess and announced that the meeting would reconvene following the conclusion of the Investment Committee meeting.

RECONVENE A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Frane, Machida, and Matsumoto), Chair Barfield reconvened the meeting at 10:52 a.m.

ELECTION OF OFFICERS AND COMMITTEE ASSIGNMENTS On a motion made by Trustee Machida and seconded by Trustee Matsumoto, Vice Chair Kane was nominated as Chair of the Board of Trustees for a term of one year or until a successor is elected. Vice Chair Kane was unanimously elected as Chair of the Board of Trustees for a term of one year or until a successor is elected.

Chair Kane assumed the role of chair of the meeting.

(Trustee Rauckhorst returned to the meeting.)

On a motion made by Trustee Barfield and seconded by Trustee Machida, Trustee Rauckhorst was nominated as Vice Chair of the Board for a term of

one year or until a successor is elected. Trustee Rauckhorst was unanimously elected as Vice Chair of the Board of Trustees for a term of one year or until a successor is elected.

Chair Kane presented his proposal for Committee assignments. He held separate discussions with individual Trustees prior to developing the assignments. Chair Kane proposed for the Investment Committee, Trustee Barfield as Chair and Trustee Chan as Vice Chair. The remaining Committee assignments will remain unchanged from the 2016 assignments.

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield and unanimously carried, the Board adopted the Committee assignments set forth in Attachment A to these minutes.

CORRECTION TO THE  
AGENDA

Chair Kane recommended a correction to the agenda to revise New Business item #5 to read as follows: “Annual Report to the Legislature required by Act 87, Session Laws of Hawaii 2015.”

On a motion made by Trustee Barfield, seconded by Trustee Machida, and unanimously carried, the Board amended the agenda to correct New Business item #5 to read as follows: “Annual Report to the Legislature required by Act 87, Session Laws of Hawaii 2015.”

ACTUARIAL VALUATION  
REPORT AS OF JUNE 30,  
2016

Mr. Lewis Ward and Mr. Joe Newton of Gabriel Roeder Smith & Company gave an oral, written and PowerPoint presentation on the actuarial valuation for the ERS fiscal year ended June 30, 2016, alternative investment rate return assumptions, and alternative funding policies. Some 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 of 7% and other GRS recommended actuarial assumptions including the increased mortality assumption from the recent ERS experience study. The charts showed an ERS UAAL for all employees combined of \$12.44 billion (7% investment return assumption). The charts also provided separate UAAL and funded ratios for police and fire and all other employees.

GRS also provided charts that showed estimated employer contributions for a 25-year funding period. Contribution rates would increase from 25% to 42.5% for police and fire and 17% to 24.75% for all other employees.

New contribution rates would equal an additional \$386 million; however, it will mean \$225 billion in savings as the funding period would be 25 years versus 85 years.

On a motion made by Trustee Barfield, seconded by Trustee Machida, and unanimously carried, the Board approved the Actuarial Valuation Report as of June 30, 2016, as presented.

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

Ms. Donna Curry, Program Specialist, presented to the Board ERS's legislative proposals for the 2017 legislative session. Drafts of BUF-15(17) and BUF-20(17) were also presented to the Board. Ms. Curry informed the Board that BUF 15(17) reflects information from the actuaries and is based on a 7% assumed investment rate (AIR) and increased employer contributions rates for Police/Fire from 25% to 42.5% and General Employees from 17% to 24.75%. BUF 20(17) includes actuarial cost and a continued liability created by the loss of a significant number of employees such as the result of the transfer of Maui Medical facilities to a private entity. Ms. Curry also informed the Board that the Legislative Session begins on January 18, 2017 and that the Administration and Legislative Committee will be meeting on January 30, 2017 to review bills, affecting the ERS, that were introduced.

RECESS

Chair Kane called for a ten-minute recess for lunch at 11:53 a.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Frane, Machida, and Matsumoto), Chair Kane reconvened the meeting at 12:06 p.m.

ENTER EXECUTIVE  
SESSION

On a motion made by Trustee Machida, seconded by Trustee Frane, and unanimously carried, the Board entered into Executive Session at 12:06 p.m.

- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations and, if appropriate, to make decisions relating to the Crisis Risk Offset accounts;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, the Employees' Retirement System's investment in BlackSand Capital Opportunity Fund I, L.P.;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, the Employees' Retirement System's investment in the Royal Kaanapali Golf Courses;
- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations relating to the Crisis Risk Offset manager search process; and
- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and, if appropriate, to make a decision relating to the selection of managers for the Global Equity (Mid-Large Cap) strategy.

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

(Chair Kane left the meeting at 12:54 p.m.)

Vice Chair Rauckhorst assumed the role of chair of the meeting.

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-

27.5(a)(1), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, THE EMPLOYEES' RETIREMENT SYSTEM'S INVESTMENT IN BLACKSAND CAPITAL OPPORTUNITY FUND L.L.P.

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, THE EMPLOYEES' RETIREMENT SYSTEM'S INVESTMENT IN THE ROYAL KAA NAPALI GOLF COURSES

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(2), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO THE CRISIS RISK OFFSET MANAGER SEARCH PROCESS

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(2), TO CONDUCT DISCUSSIONS AND DELIBERATIONS AND, IF APPROPRIATE, TO MAKE A DECISION RELATING TO THE SELECTION OF MANAGERS FOR THE GLOBAL EQUITY (MID-LARGE CAP) STRATEGY

EXIT EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Frane, and unanimously carried, the Board exited Executive Session at 1:22 p.m.

EXECUTIVE DIRECTOR'S REPORT

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

- Mr. Williams went to Hilo on December 12, 2016 and met with Hawaii County Finance Director to inform them regarding contribution increases with breakdown of impact for their plan.
- The Treasurer of North Carolina, Dale Folwell, met with Mr. Williams while he was visiting Hawaii with his family.

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

EXECUTIVE DIRECTOR'S  
REPORT

OPERATIONS REPORT  
– DECEMBER 2016

ANNUAL REPORT TO THE  
LEGISLATURE REQUIRED  
BY ACT 87 SESSION LAWS  
OF HAWAII 2015

Mr. Williams informed the Board that a telephone call with the IRS, regarding the ERS's request for a private letter ruling with respect to Act 1, Second Special Session Laws of Hawaii 2016, was held on December 21. The telephone call was offered to the ERS because the IRS indicated that it expected to rule that Act 1 created a "cash or deferred arrangement," which would be adverse to the ERS. Expedited responses to requests for private letter rulings usually takes 4-6 months after the ruling request is received.

Mr. Williams continued his report:

- Mr. Williams sent a condolence card to the family of Michael Humphrey on behalf of the Board and ERS.
- Customer satisfaction survey for December 2016 had very positive comments.
- Mr. Williams will be scheduling meetings with Senator Gilbert Keith-Agaran and Representative Aaron Johanson. Mr. Williams and Ms. Curry have previously met with Representative Johanson and he wants to learn more about ERS and recognizes the risks to the state regarding the funding of contributions ERS will be requiring. He indicated his desire to serve as an advocate for ERS.
- Mr. Williams continues to work on the Board Secretary position. Mr. Williams will be contacting Mr. Randy Perreira of HGEA regarding his request to exclude this position from collective bargaining.
- Governor Ige reappointed Vincent Barfield to the ERS Board of Trustees, confirmation hearing forthcoming.
- Mr. Williams attended the Budget WAM session.
- Mr. Williams and Mr. Vijoy Chattergy, Chief Investment Officer, met with Laurel Johnston, Deputy Director of Finance, and Tracy Ban of Budget & Finance to discuss streamlining the travel request process.
- ERS will be holding seven actuarial informational sessions this week with ERS staff, Budget & Finance, Employers, Unions, House of Representatives and Senators.
- Budget & Finance had a meet and greet with Riley Fujisaki, Analyst for the Finance Committee.
- CALPERS/Moody's positive commentary about lowering their investment return assumption.
- ERS will look into changing the frequency of the experience study to a interim 2-year study and a full comprehensive 4-year study.

Mr. Williams reported procedurally going well. All areas are 100% compliant except Enrollment due to limited staff resources as a member of staff transferred to another department.

Mr. Williams presented the ERS's status report to the Legislature, required by Act 87, Session Laws of Hawaii 2015, on the progress by State and county departments and agencies in complying with the requirements of section 88-103.7(f), Hawaii Revised Statutes, with respect to the reporting of personnel and payroll information to the ERS. The status report was sent to the Legislature through the Director of Finance.

ANNUAL REPORT TO THE LEGISLATURE REQUIRED BY HRS § 88-119(11) REGARDING THE HAWAII TARGETED INVESTMENT PROGRAM (HITIP)

Mr. Chattergy presented the report to the Legislature required by section 88-119(11), Hawaii Revised Statutes, regarding Hawaii venture capital investments the ERS made through ERS's Hawaii Targeted Investment Program. The report was sent to the Legislature through the Director of Finance.

ANNUAL REPORT TO THE LEGISLATURE REQUIRED BY ACT 192, SESSION LAWS OF HAWAII 2007 (SUDAN)

Mr. Chattergy presented ERS's Direct Holdings in Sudan Scrutinized Companies 2015, which is required by Act 192, Session Laws of Hawaii 2007. The report summarizes activities related to the Sudan holdings and violations over the past year. The report was sent to the Legislature through the Director of Finance.

2017 INVESTMENT SUMMIT

Mr. Chattergy presented an analysis for the 2017 ERS Investment Education Summit. He reported that the summit is currently planned for July 26-28, 2017. The Summit will be held at the Fairmont Orchid in Kona, Hawaii. Based on a budget analysis, the estimated budget for the summit is \$41,080.

2017 INVESTMENT OFFICER MANAGER MEETINGS AND CONFERENCE SCHEDULE

Mr. Chattergy presented the travel and meeting expectations for 2017 by quarter for the Investment office.

2016 VERIFICATION OF INVESTMENT MANAGER COMPLIANCE WITH THE EMPLOYEES' RETIREMENT SYSTEM'S DERIVATIVES POLICY

Mr. Chattergy presented a "receive and file" report on compliance by ERS's investment managers with the ERS's Derivatives Policy. There were no comments or questions on this report by the Trustees.

GENERAL CONSULTANT AND SPECIALTY CONSULTANT (REAL ESTATE AND REAL RETURN) REQUESTS FOR PROPOSALS

Mr. Chattergy presented a timetable for conducting searches for the general investment consultant and the real estate/real return consultant. ERS is required to conduct two searches in 2017 for consultant services related to the execution of the investment program. The contract for Courtland Partners, Ltd., the current real estate consultant, will expire on March 31, 2017. The contract for the current general investment consultant will expire on June 30, 2017. Staff is trying to align the two contracts; therefore, Mr. Chattergy is requesting approval to extend Courtland Partners Ltd.'s contract to June 30, 2017.

On a motion made by Trustee Barfield, seconded by Trustee Frane, and unanimously carried, the Board approved issuance of requests for proposal for general investment and real estate/real return investment consultants and authorized the extension of Courtland Partners Ltd.'s contract from March 31, 2017 to June 30, 2017.

APPROVAL OF MINUTES  
– OCTOBER 11, 2016  
– NOVEMBER 14, 2016

On a motion made by Trustee Machida, seconded by Trustee Frane, and unanimously carried, the Board approved the minutes of the October 11, 2016 and November 14, 2016 meetings, as presented.

**ENTER EXECUTIVE  
SESSION**

On a motion made by Trustee Barfield, seconded by Trustee Frane, and  
unanimously carried, the Board entered into Executive Session at 1:50 p.m.

(Everyone left the meeting except for the Trustees and Deputy Attorney  
General Aburano.)

**APPROVAL OF MINUTES  
– OCTOBER 11, 2016  
– NOVEMBER 14, 2016**

**APPROVAL OF  
SUPPLEMENTAL  
EXECUTIVE SESSION  
MINUTES  
– NOVEMBER 14, 2016**

**EXIT EXECUTIVE SESSION**

On a motion made by Trustee Barfield, seconded by Trustee Chan, and  
unanimously, the Board exited Executive Session at 1:53 p.m.

**ADJOURNMENT**

On a motion made by Trustee Barfield, seconded by Trustee Frane, and  
unanimously carried, Vice Chair Rauckhorst adjourned the meeting at 1:53  
p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:ltk



**BOARD OF TRUSTEES OF THE  
EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF HAWAII**

**OFFICERS & COMMITTEE ASSIGNMENTS**

**Effective 1/9/17**

**BOARD MEMBERS**

**Emmit Kane, Chair**  
**Jerome Rauckhorst, Vice Chair**  
Vincent Barfield  
Catherine Chan  
Jackie Ferguson-Miyamoto  
Patrick Frane  
Wesley Machida  
Colbert Matsumoto

**INVESTMENT COMMITTEE**

**Vincent Barfield, Chair**  
**Catherine Chan, Vice Chair**  
Emmit Kane  
Jackie Ferguson-Miyamoto  
Patrick Frane  
Wesley Machida  
Colbert Matsumoto  
Jerome Rauckhorst

**ADMINISTRATIVE & LEGISLATIVE COMMITTEE**

**Jackie Ferguson-Miyamoto, Chair**  
Catherine Chan  
Wesley Machida  
Jerome Rauckhorst (Alternate)

**AUDIT COMMITTEE**

**Patrick Frane, Chair**  
Jackie Ferguson-Miyamoto  
Catherine Chan

**COMPENSATION REVIEW COMMITTEE**

**Jerome Rauckhorst, Chair**  
Colbert Matsumoto  
Vincent Barfield  
Emmit Kane

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**GOVERNANCE POLICY (ad-hoc)**

**Colbert Matsumoto, Chair**  
Vincent Barfield  
Emmit Kane

**KA'ANAPALI COMMITTEE (ad-hoc)**

**Colbert Matsumoto, Chair**  
Vincent Barfield  
Wesley Machida