

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

NOVEMBER 14, 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  
Mr. Patrick Frane  
Mr. Wesley Machida  
Mr. Jerome Rauckhorst
- Trustees excused: Ms. Jackie Ferguson-Miyamoto  
Mr. Colbert Matsumoto
- 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  
Mr. Karl Kaneshiro, Enrollment, Claims & Benefits Manager  
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. John Linder, Pension Consulting Alliance, LLC  
Mr. Colin Bebee, Pension Consulting Alliance, LLC  
Mr. Tom Hester, Courtland Partners, Ltd.  
Mr. Paul Yett, Hamilton Lane Advisors, LLC  
Ms. Michelle McCloskey, FRM-MAN

<p>QUORUM/CALL TO ORDER</p>	<p>A quorum being present (Vice Chair Kane and Trustees Chan, Frane, Machida 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 9:00 a.m.</p>
<p>PUBLIC COMMENT</p>	<p>Vice Chair Kane called for public comment. There were no members of the public present.</p>
<p>RECESS</p>	<p>Vice Chair Kane called for a recess and announced that the meeting would reconvene after the Chapter 91 proceedings and the Investment Committee meeting.</p>
<p>RECONVENE</p>	<p>A quorum being present (Chair Barfield, Vice Chair Kane and Trustees Chan, Frane, Machida and Rauckhorst), Chair Barfield reconvened the meeting at 10:30 a.m.</p>
<p>PENSION CONSULTING ALLIANCE, LLC – INVESTMENT PORTFOLIO PERFORMANCE FOR 3<sup>RD</sup> QUARTER 2016</p>	<p>Mr. Colin Bebee of Pension Consulting Alliance, LLC (PCA) gave an oral and written presentation on the ERS investment portfolio performance for the 3<sup>rd</sup> quarter of 2016. The ERS portfolio had an aggregate value of \$15 billion as of September 30, 2016. The portfolio outperformed the policy benchmark by 1.4%. Over the last six quarters, growth risk has become the primary macro risk and this singularity may indicate potential risk management issues ahead. The implementation of the Crisis Risk Offset class over the next six months is expected to partially mitigate this risk concentration.</p>
<p>COURTLAND PARTNERS, LTD. – REAL ESTATE PORTFOLIO MEASUREMENT REPORT FOR 2<sup>ND</sup> QUARTER 2016</p>	<p>Mr. Tom Hester of Courtland Partners, Ltd. gave an oral and written presentation on the ERS real estate portfolio measurement for the 2<sup>nd</sup> quarter of 2016. Mr. Michael Humphreys joined the meeting by phone. Performance in the 2<sup>nd</sup> quarter was strong. The Trustees had questions regarding the rolling 1 year management fees reported on page 12 of Courtland's report; the numbers seemed high. Courtland will review the numbers and will report back to the Board with their findings.</p>
<p>HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY PROGRAM UPDATE</p>	<p>Mr. Paul Yett of Hamilton Lane Advisors, LLC gave an oral and written presentation on the ERS private equity program. Q2 2016 represents the 16<sup>th</sup> consecutive quarter of positive performance. The private equity portfolio significantly outperformed the public benchmark. Since inception IRR remained steady year-over-year, despite ramp up in commitments. Point-to-point one-year IRR was strong. Increase in capital commitments is the largest since inception of the private equity program. Since inception DPI ratio remains strong. Portfolio remains well diversified.</p> <p>Mr. Yett also provided a preview of the strategic plan for the upcoming calendar year. The plan will be presented to the Board for approval at the December Board meeting.</p>
<p>LEGISLATIVE PROPOSALS RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2017 LEGISLATIVE SESSION</p>	<p>Ms. Donna Curry, Program Specialist, provided an overview of the legislative proposals that staff is working on for the 2017 legislative session. Ms. Curry noted there were very few changes to the legislative proposals that were presented at the last Board meeting. Deputy Attorney General Diane Kishimoto will be drafting legislative proposals for BUF-17(17) and BUF-20(17) for Board consideration. Executive Director</p>

Williams, Deputy Executive Director Margol, Deputy Attorney General Kishimoto and Ms. Curry met with the Governor on October 21, 2016 to review the six legislative proposals. The legislative proposals will be discussed at the Administrative and Legislative Committee meeting on November 23, 2016. The Trustees indicated that staff should proceed with the drafts of BUF-17(17) and BUF-20(17) and continue to advance the ERS legislative proposals presented.

RECESS

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

RECONVENE

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

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

Mr. Thomas Williams, Executive, Director, gave an update on developments relating to Act 1. The Private Letter Ruling request has been assigned to the Internal Revenue Service (IRS) attorney who will be working on the IRS response. The IRS attorney has been in touch with ERS tax counsel and has requested additional information.

REPORT OF THE COMPENSATION REVIEW COMMITTEE; APPROPRIATE ACTION

Trustee Jerry Rauckhorst gave a report on the Compensation Review Committee meeting held on October 27, 2016. The Compensation Review Committee (Committee) decided to discontinue the salary cap that it had established for Investment Officers. This was because the Committee's Charter has been changed so that the Committee no longer approves salary adjustments for the Investment Officers. Under the current Charter, the Committee only makes recommendations to the Board regarding salary adjustments for Investment Officers.

DISABILITY PROCESS STANDARDS AND PROCEDURES

Mr. Karl Kaneshiro, Enrollment, Claims & Benefits Manager, gave a PowerPoint presentation on the disability process standards and procedures.

Plan Objectives:

- Identify and address disability application processing delays.
- Coordinate effectively, efficiently, and timely with the Medical Board, applicants, Deputy Attorney General, and Employers as ERS is dependent on their input and responses to process applications.
- Establish standards and monitor compliance.

Short-Term Goals:

- Resources – Adding more support staff to the Disability Team.
- Pending Cases – Determine reasons(s) for pending.
- Set Deadlines – Scheduled follow ups.
- Monitor Medical Board and Deputy Attorney General Activities – Quarterly Reports.
- Monthly Status Report to the Board.

Long-Term Goals:

- Internal Audit – “Disability Hearing and Contested Cases Process.”
- Audit will evaluate the ordinary and service connected disability application processes which includes compliance with policies and

procedures.

- Implement changes / recommendations / leading practices to improve effectiveness and efficiency.
- Target date for the audit completion is mid December 2016.

RECOMMENDED  
REVISIONS TO HAWAII  
TARGETED INVESTMENT  
PROGRAM INVESTMENT  
POLICY

Mr. Vijoy Chattergy, Chief Investment Officer, presented proposed revisions to the investment policy for the Hawaii Targeted Investment Program (HiTIP). The revised HiTIP investment policy will be brought to the Board for approval at the December 12, 2016 meeting.

BOARD OF TRUSTEES  
SCHEDULE OF MEETINGS  
FOR 2017

Chair Barfield presented the schedule of Board meeting dates for 2017.

EXECUTIVE SESSION

On a motion made by Vice Chair Kane, seconded by Trustee Rauckhorst, and unanimously carried, the Board entered into Executive Session at 12:53 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 manager search.
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions relating to the structure and rebalancing of Crisis Risk Offset accounts.
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions upon investments in private equity funds that have a primary investment strategy of purchasing interests in private equity funds on the secondary market.
- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations relating to, and, if appropriate, to make a decision upon, the selection of managers for the Global Small Cap Mandate.
- Pursuant to HRS § 88-27.5(a)(1) and (2) and HRS §92-5(a)(4), to conduct discussions and deliberations relating to, 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, and, if appropriate, to make decisions upon, the Employees' Retirement System's real estate separate accounts.
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to possible investment in Twenty First Century Utilities.

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  
MANAGER SEARCH

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

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-  
27.5(a)(1), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS  
RELATING TO, AND, IF  
APPROPRIATE, TO MAKE  
DECISIONS UPON  
INVESTMENTS IN PRIVATE  
EQUITY FUNDS THAT  
HAVE A PRIMARY  
INVESTMENT STRATEGY  
OF PURCHASING  
INTERESTS IN PRIVATE  
EQUITY FUNDS ON THE  
SECONDARY MARKET

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

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-  
27.5(a)(1) AND (2) AND HRS  
§ 92-5(a)(4), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS  
RELATING TO, 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, AND, IF  
APPROPRIATE, TO MAKE  
DECISIONS UPON, THE  
EMPLOYEES' RETIREMENT  
SYSTEM'S REAL ESTATE  
SEPARATE ACCOUNTS

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-  
27.5(a)(1), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS  
RELATING TO POSSIBLE  
INVESTMENT IN TWENTY  
FIRST CENTURY UTILITIES.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Frane, and unanimously carried, the Board exited Executive Session at 2:29 p.m.

EXECUTIVE DIRECTOR'S  
REPORT

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

- Mr. Kaneshiro and Mr. Williams gave a presentation and update on ERS to HSTA retirees.
- Mr. Williams and Ms. Curry met with the Honolulu Board of Water Supply regarding legislation and a likely contribution increase.
- Mr. Williams, Vice Chair Kane and Mr. Chattergy traveled to New York for the Blackstone Conference and meetings with various investment managers.
- Mr. Williams mentioned the Op-Ed article in the Star Advertiser on the Constitutional Amendment 2; a copy of the article was given to the Board.
- ERS staff has been invited to speak at the New Legislators Orientation tomorrow.
- Mr. Williams is working with the Attorney General's office regarding the replacement of Ms. Kishimoto and Mr. Aburano upon their retirement next year.
- Mr. Williams had a meeting with Kamehameha Schools as Mr. Williams is trying to get to know people in the community.
- Assumed investment return was discussed earlier this meeting. ERS staff and GRS will be giving a presentation to the Board in December.
- Mr. Williams met with the City & County of Honolulu Finance Director regarding the spiking bill and contribution increase.
- A Confidentiality Policy has been created and circulated to the ERS staff. The staff will be submitting a Confidentiality Policy Acknowledgment form that states the employee has received, reviewed and abides by the policy.
- Vitech contracts have been approved.
- A list of Board educational opportunities were given to the Board for their consideration.
- Customer satisfaction surveys have continued to be very positive.

- Mr. Williams is reviewing staff travel and budget and is working on a travel policy that will be presented to the Board.

OPERATIONS REPORT –  
OCTOBER 2016

Mr. Williams presented the Operations Report for October 2016. Mr. Williams stated that future Operations Reports will include a disability status report.

ENTER EXECUTIVE  
SESSION

On a motion made by Vice Chair Kane, seconded by Trustee Rauckhorst, and unanimously carried, the Board entered into Executive Session at 2:36 p.m.:

- Pursuant to HRS§ 92-5(a)(2) and (4): to consider the annual evaluations of the performance of the Employees' Retirement System's Executive Director (ED) and Chief Investment Officer (CIO), where matters affecting privacy will be involved; to consider and act on any changes in compensation recommended by the Compensation Review Committee for the ED and CIO; 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 foregoing matters; appropriate action.

(All persons other than the Trustees and Deputy Attorney General Brian Aburano left the meeting.)

EXECUTIVE SESSION,  
PURSUANT TO HRS§ 92-  
5(a)(2) AND (4): TO  
CONSIDER THE ANNUAL  
EVALUATIONS OF THE  
PERFORMANCE OF THE  
EMPLOYEES' RETIREMENT  
SYSTEM'S EXECUTIVE  
DIRECTOR (ED) AND CHIEF  
INVESTMENT OFFICER  
(CIO), WHERE MATTERS  
AFFECTING PRIVACY WILL  
BE INVOLVED; TO  
CONSIDER AND ACT ON  
ANY CHANGES IN  
COMPENSATION  
RECOMMENDED BY THE  
COMPENSATION REVIEW  
COMMITTEE FOR THE ED  
AND CIO; 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

FOREGOING MATTERS;  
APPROPRIATE ACTION.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Trustee Rauckhorst, and unanimously carried, the Board exited the Executive Session at 3:30 p.m.

ADJOURNMENT

On a motion made by Trustee Kane, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the meeting at 3:30 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:ltk