

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

JULY 11, 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. Kanoe Margol, Deputy Executive Director  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Karl Kaneshiro, Branch Manager, Enrollment, Claims & Benefits  
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. Keith Miyamoto, Information Technology Manager  
Ms. Kathleen Shiroma, Information Technology Specialist  
Mr. Larry Wolfe, Accounting Manager  
Ms. Wanda Kugiya, Secretary  
Ms. Dale Kanae, Secretary  
Ms. Lori Kim, Recording Secretary
- Attorneys present: 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. Colin Bebee, Pension Consulting Alliance, LLC  
Mr. John Linder, Pension Consulting Alliance, LLC  
Ms. Zee Marzec, Bradford & Marzec, LLC  
Mr. Brad Beman, Tortoise Credit Strategies, LLC  
Ms. Chenoa Fransworth, Blue Startups  
Mr. Joseph Newton, Gabriel Roeder Smith & Company  
Mr. Lewis Ward, Gabriel Roeder Smith & Company  
Ms. Lilian Wan, BlackRock, Inc.  
Ms. Samantha Taylor, BlackRock, Inc.  
Mr. Kevin Franklin, BlackRock, Inc.  
Mr. Mike Bishop, BlackRock, Inc.

QUORUM/CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Ferguson-Miyamoto, 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 9:00 a.m.

PUBLIC COMMENT

Chair Barfield called for public comment. There were no members of the public present.

RECESS

Chair Barfield called for a recess until after the Chapter 91 Proceedings and the Investment Committee Meeting.

Chair Barfield reconvened the meeting at 12:15 p.m.

(Trustee Machida joined the meeting at 12:19 p.m.)

PRELIMINARY RESULTS OF THE 2016 ACTUARIAL EXPERIENCE STUDY AND ACTUARIAL ISSUES AND OUTLOOK FOR JUNE 30, 2016

Mr. Joseph Newton and Mr. Lewis Ward of Gabriel Roeder Smith & Company (GRS) presented an oral, written, and PowerPoint presentation on the Employees' Retirement System's Actuarial Experience Study for the Five-Year Period Ending June 30, 2015. GRS is recommending going to the investment return assumption of 7.5% for the June 30, 2016 valuation, making the investment return assumption net of only investment expenses, and adding an explicit charge for administrative expenses. GRS is also recommending ERS replace the base mortality tables with client specific tables reflecting actual ERS experience and adding an explicit assumption for continued future mortality improvements (generational approach). ERS's overall liabilities are heavily impacted by post-retirement mortality improvements, i.e., the increasing life expectancy of ERS retirees. Contribution rates will have to increase to maintain the current 27-year funding period or even to produce a 30 year funding period. The experience study does not include the impact of legislation regarding the Maui Memorial Center separation. A separate illustration included the Maui separation, reduced investment return, and other lesser assumptions.

BANKING SERVICES CONTRACT

Mr. Thomas Williams, Executive Director, informed the Board that the ERS had exercised its option to extend the local banking services contract with Bank of Hawaii for 1 year, starting from July 1, 2016 to June 30, 2017. The ERS and Employer-Union Health Benefits Trust Fund (EUTF) issued a joint Expression of Interest (EOI) for banking services to see if a discount in fees could be obtained if both agencies selected the same bank. Exploring this joint option was done now due to the pending expiration of EUTF's contract with Bank of Hawaii in August 2016. Interested financial institutions submitted their EOI to both the ERS and EUTF. The ERS and EUTF will independently review the proposals. Once a bank is selected, the ERS and EUTF will proceed as appropriate with separate contracts.

EXECUTIVE DIRECTOR'S REPORT

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

- Mr. Williams and Mr. Vijoy Chattergy presented their self-evaluations to the Compensation Review Committee and also performance evaluations of the Investment Officers on June 21-22, 2016.
- Penetration testing for ERS's computer system is scheduled for the week of August 7-15, 2016.

- The State budget was signed on June 23, 2016. ERS's budget, including technology enhancements, is unchanged. Mr. Williams is currently working on the ERS's 2017 budget with the Department of Budget and Finance.
- Mr. Williams gave an update on the legislative bills on the Governor's desk. ERS recommended vetoes of HB 1370, HB 2016 and SB 2077. Deadline for the Governor to veto bills is Tuesday, July 12, 2016.
- Mr. Williams and Mr. Chattergy attended the RFKennedy Compass Conference June 27-29, 2016. The RFKennedy Compass program focuses on environmental, social and government issues.
- Mr. Williams will be attending the National Association of State Retirement Administrators Conference August 6-9, 2016.
- Mr. Williams will be scheduling meetings with the leaders of the House and Senate, Finance Chair, and unions regarding the issue of contribution increases. Trustee Machida, as Director of Finance, is in communications with the Governor and the Finance Chairs.
- Mr. Williams is working with the business community to strengthen relationships for their support for ERS's initiatives. Mr. Williams has recently met with members of the Hawaii Business Roundtable and American Savings Bank.
- Mr. Williams, Trustee Machida, Ms. Curry, and Mr. Newton & Mr. Ward from GRS, will be meeting with the State Auditor this afternoon.

(Trustee Machida and Mr. Williams left the meeting at 2:45 p.m.)

#### 2016 ANNUAL PROXY VOTING CERTIFICATION RESULTS REPORT

Mr. Chattergy stated this is an annual report done by PCA and is essentially the same as last year in terms of findings and recommendations in using an outside proxy voting service.

#### INVESTMENT POLICY REVISIONS – EVOLVING POLICY PLAN AND BROAD GROWTH CLASS RESTRUCTURING

Mr. Colin Bebee recommended that the Board consider approval of the policy section updates related to long-term allocation targets and Broad Growth Class restructuring for inclusion as a part of the ERS Investment Policy, Guidelines, & Procedures Manual as shown in the Investment Policy Revisions document and the PCA memorandum, dated July 1, 2016, subject to editing to consistency in form and terminology with the rest to the investment policy manual. The following bullet points highlight the modifications:

- Total portfolio evolving policy plan has been updated to better align with the anticipated funding of the CRO class.
- Effective July 1, 2016, real estate has been folded into the Broad Growth class.
- The Broad Growth class IPS section has been updated to reflect the new structure and funded (or soon to be funded) mandates.
- The Growth-oriented component of Broad Growth has been renamed Traditional Growth.
- Guidelines for the global put-writing mandates have been included.
- Increased the single private equity commitment limitation from 50 bps of total ERS portfolio to 100 bps.

On a motion made by Vice Chair Kane, seconded by Trustee Matsumoto, and unanimously carried, the Board approved the policy section updates related to long-term allocation targets and Broad Growth Class

restructuring for inclusion as a part of the ERS Investment Policy, Guidelines, & Procedures Manual.

BRADFORD & MARZEC,  
LLC/TORTOISE CREDIT  
STRATEGIES, LLC

Ms. Zee Marzec of Bradford & Marzec, LLC, reported that Tortoise Credit Strategies acquired Bradford & Marzec along with employees through a Tortoise-supported management buyout. Employees own approximately 37%, with the remainder owned by Tortoise Investments. Founders Ted Bradford and Zee Marzec exited their equity positions and remain employees to ensure a smooth transition. Ms. Marzec introduced Mr. Brad Beman of Tortoise Credit Strategies, LLC. Mr. Beman stated that Tortoise is deeply committed to exceptional service, focused on the long term, passionate about quality, and motivated by thinking differently.

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session at 3:04 p.m.

- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and to make decisions relating to the Global Mid-Large Cap Equity and Global Small Cap Equity manager searches.
- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and to make decisions relating to the Crisis Risk Offset Request for Information (RFI) search.
- Pursuant to HRS § 88-27.5(a)(1) and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, and to make a decision upon, the Employees' Retirement System's investment in, 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 Employees' Retirement System's investment in BlackSand Capital Opportunity Fund I, L.P.
- 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, Information Technology Strategic Plan.
- 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), Chief Investment Officer (CIO), and Investment Officers, 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, CIO, and Investment Officers; 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.

EXECUTIVE SESSION,  
PURUSANT TO HRS § 92-  
5(a)(4), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS AND TO  
MAKE DECISIONS  
RELATING TO THE GLOBAL  
MID-LARGE CAP EQUITY  
AND GLOBAL SMALL CAP

EQUITY MANAGER  
SEARCHES

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 REQUEST FOR  
INFORMATION (RFI)  
SEARCH

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88.27.5  
(a)(1) AND HRS § (a)(4), TO  
CONDUCT DISCUSSIONS  
AND DELIBERATIONS  
RELATING TO, AND TO  
MAKE A DECISION UPON,  
THE EMPLOYEES'  
RETIREMENT SYSTEM'S  
INVESTMENT IN, 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  
EMPLOYEES' RETIREMENT  
SYSTEM'S INVESTMENT IN  
BLACKSAND CAPITAL  
OPPORTUNITY FUND I, L.P.

EXECUTIVE SESSION,  
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, INFORMATION  
TECHNOLOGY STRATEGIC  
PLAN

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), CHIEF INVESTMENT OFFICER (CIO), AND INVESTMENT OFFICERS, 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, CIO, AND INVESTMENT OFFICERS; 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 by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited from the Executive Session.

Trustee Rauckhorst announced that during the Executive Session, the Board had approved annual salaries for the Investment Officers, effective from July 1, 2016, as follows:

Aaron Au - \$112,820  
Anthony Goo - \$135,000  
Howard Hodel - \$140,000

ADJOURNMENT

On a motion made by Vice Chair Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Barfield adjourned the meeting at 4:13 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:ltk