

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

APRIL 10, 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  
Ms. Jackie Ferguson-Miyamoto  
Mr. Patrick Frane

Trustees excused: Mr. Wesley Machida  
Mr. Colbert Matsumoto

Staff present: Mr. Thomas Williams, Executive Director  
Ms. Kanoë Margol, Deputy Executive Director  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Anthony Goo, Investment Officer  
Mr. Howard Hodel, Investment Officer  
Mr. Ian Wetzel, Investment Specialist  
Ms. Donna Curry, Program Specialist  
Mr. Karl Kaneshiro, Branch Manager, Enrollment, Claims & Benefits  
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)  
Mr. Kyle Chang, Deputy Attorney General

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC  
Mr. Tom Hester, Courtland Partners, Ltd. (by telephone)  
Mr. Anthony Fragapane, Courtland Partners, Ltd.  
Ms. Jennifer Boss, Heitman Capital Management LLC  
Mr. David Maki, Heitman Capital Management LLC  
Ms. Mary Ludgin, Heitman Capital Management LLC  
Mr. Jeff Cavanaugh, Invesco Real Estate  
Mr. Max Swango, Invesco Real Estate  
Ms. Veronica Amici, Western Asset Management Company  
Mr. Michael Buchanan, Western Asset Management Company

|   |  |
|---|--|
| QUORUM/CALL TO ORDER  | A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, and Frane), 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.   |
| 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 and the Investment Committee meeting.   |
| RECONVENE   | A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, and Frane), Chair Kane reconvened the meeting at 10:15 a.m.   |
| APPROVAL OF MINUTES<br>– MARCH 13, 2017   | On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved the minutes of the March 13, 2017 meeting, as presented.  |
| WESTERN ASSET<br>MANAGEMENT COMPANY<br>– PORTFOLIO REVIEW   | <p>Mr. Anthony Goo, Investment Officer, introduced Ms. Veronica Amici and Mr. Michael Buchanan of Western Asset Management Company (Western Asset), who gave an oral and written overview of Western Asset and a review of the fixed-income portfolio that Western Asset manages for the ERS. The portfolio's performance exceeds Western Asset's Custom Index. Mr. Buchanan reported on the 2017 investment outlook and the resulting portfolio considerations which include:</p> <ul style="list-style-type: none"> <li>• Enormous policy uncertainty – particularly in the US.</li> <li>• Cyclical surge amidst challenging secular headwinds</li> <li>• Better US outlook against a constrained global growth background</li> <li>• Asymmetric upside growth prospects in the US</li> <li>• Asymmetric downside growth risks from China</li> </ul> |
| ENTER EXECUTIVE<br>SESSION  | <p>On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board entered into Executive Session at 10:56 a.m.</p> <ul style="list-style-type: none"> <li>• Pursuant to HRS § 88-27(a)(1) and (3), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions upon, investments held in Heitman Core-Real Estate Separate Account; and</li> <li>• Pursuant to HRS § 88-27(a)(1) and (3), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions upon, investments held in Invesco Core-Real Estate Separate Account.</li> </ul>  |
| EXECUTIVE SESSION,<br>PURSUANT TO HRS § 88-<br>27(a)(1) AND (3), TO<br>CONDUCT DISCUSSIONS<br>AND DELIBERATIONS |  |

RELATING TO, AND, IF APPROPRIATE, TO MAKE DECISIONS UPON, INVESTMENTS HELD IN HEITHMAN CORE-REAL ESTATE SEPARATE ACCOUNT

Following their presentation, the Heitman representatives left the meeting.

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27(a)(1) AND (3), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, AND, IF APPROPRIATE, TO MAKE DECISIONS UPON, INVESTMENTS HELD IN INVESCO CORE-REAL ESTATE SEPARATE ACCOUNT

Following their presentation, the Invesco representatives left the meeting.

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited Executive Session at 11:52 p.m.

INVESTMENT POLICY REVISIONS: CORE-REAL ESTATE SEPARATE ACCOUNT

Mr. Vijoy Chattergy, Chief Investment Officer, Mr. Anthony Goo, Investment Officer, and Mr. Neil Rue of Pension Consulting Alliance, LLC (PCA), presented recommended changes to the ERS Investment Policy, Guidelines, and Procedures. The recommended changes included expanding the core real estate asset types to include debt, self-storage, medical offices, and student housing. The recommended changes will be presented for approval at the May 8, 2017 Board meeting.

CONSENT TO ASSIGNMENT OF CONTRACT TO PROVIDE ADVISORY SERVICES TO FORTRESS JAPAN OPPORTUNITY FUNDS II AND III FROM FORTRESS JAPAN INVESTMENT GROUP LLC TO SOFTBANK GROUP CORP.

Mr. Vijoy Chattergy presented for the Board's approval the consent requested by Fortress Investment Group LLC (Fortress) to the assignment by Fortress to SoftBank Group Corp. (SoftBank) of the contracts for investment advisory services provided by Fortress to the Fortress Japan Funds II and III. The planned merger of Fortress and SoftBank will result in a deemed assignment of the contracts under the U.S. Investment Advisers Act of 1940. Investment staff concurs with Courtland Partners' recommendation that the ERS consent to the Assignment.

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved consent to the assignment to SoftBank Group Corp. of the Fortress Investment Group LLC's contracts to provide investment advisory services to the Fortress Japan Funds II and III, and authorized Executive Director Thomas Williams to execute the consents.

COMMISSION RECAPTURE PROGRAM

Mr. Anthony Goo and Mr. Neil Rue reported that ERS staff and PCA recommend that the ERS's commission recapture program be eliminated.

The recommendation is based on the evolving portfolio structure, which reduces the number of managers that are subject to commission recapture requirements, and the decreasing income trend in the commission recapture commissions

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved eliminating the Commission Recapture Program and removal of Section C.7 – ERS Distribution of Brokerage Commission Policy from the Investment Policy, Guidelines and Procedures.

AMENDMENT OF  
COMPENSATION REVIEW  
COMMITTEE CHARTER

Mr. Brian Aburano, Deputy Attorney General, presented to the Board proposed amendments to the Compensation Review Committee Charter that are being recommended by the Compensation Review Committee. Mr. Aburano stated that the proposed amendments were made to:

- Make the Charter more readable
- Not use acronyms for ERS officer position titles
- Remove private plan language that is not appropriate for a public plan such as the ERS

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the proposed amendments to the Compensation Review Committee Charter as presented.

RECESS

Chair Kane called for a ten-minute recess for lunch at 12:10 p.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, and Frane), Chair Kane reconvened the meeting at 12:26 p.m.

LEGISLATIVE PROPOSALS  
RELATING TO THE  
EMPLOYEES'  
RETIREMENT SYSTEM  
FOR THE 2017  
LEGISLATIVE SESSION,  
INCLUDING THE BILLS  
LISTED IN SCHEDULE A

Ms. Donna Curry, Program Specialist, gave an update on the ERS initiated and related bills, see Schedule A. The only active ERS initiated bill is SB936. The two actuary bills are also still alive. SB 207, which is related to Act 1, will be going to Conference Committee soon. The legislative session is scheduled to end on May 4.

AUTHORIZATION FOR  
PUBLIC HEARING FOR  
PROPOSED  
ADMINISTRATIVE RULES  
FOR IMPLEMENTATION  
OF HAWAII DOMESTIC  
RELATIONS ORDERS

Ms. Donna Curry and Deputy Attorney General. Diane Kishimoto presented to the Board draft administrative rules for implementation of Hawaii Domestic Relations Orders (HiDRO). The purpose of rules is to provide ERS's interpretation of the HiDRO statute.

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the authorized the Executive Director to proceed with the rule-making process and public hearing for the administrative rules for implementation of Hawaii Domestic Relations Orders.

AUTHORIZATION FOR  
PUBLIC HEARING FOR  
PROPOSED AMENDMENTS  
TO CHAPTER 6-20, HAWAII  
ADMINISTRATIVE RULES

Mr. Brian Aburano, Deputy Attorney General, presented proposed amendments to Hawaii Administrative Rules (HAR) Chapter 6-20, that are being recommended by the Administrative and Legislative Committee. Mr. Aburano stated that, among other things, the proposed amendments:

- Change references to the Administrator to the Executive Director
- Correct an incorrect statutory reference in HAR § 6-20-4.01 that will enable the ERS to charge fifty cents per page for copying as was intended when the rule was passed in 2009
- Increase the time the Board has to respond to proposed rule changes to sixty days
- Clarify the procedures that the ERS will follow in declaratory ruling procedures

After discussion, on a motion made by Vice-Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the proposed amendments to HAR Chapter 6-20 and authorized the Executive Director to proceed to a public hearing on the proposed amendments.

ENTER EXECUTIVE  
SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Frane, and unanimously carried, the Board entered into Executive Session at 12:42 p.m.:

- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations relating to, and to make decisions relating to, the Large Cap manager search;
- Pursuant to HRS § 88-27(a)(1), to conduct discussions and deliberations and, if appropriate, to make decisions relating to Crisis Risk Offset due diligence reports;
- Pursuant to HRS § 92-5(a)(8), to consider information relating to the Request for Proposals for Real Estate Investment Consultant Services;
- 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 matters relating to Act 1, Second Special Session Laws of Hawaii 2016; appropriate action; 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 Special Deputy Attorneys General: Tax Counsel, Investment Counsel, and Securities Litigation Monitoring Counsel; appropriate action.

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

LARGE CAP MANAGER  
SEARCH

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-  
27(a)(1), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS AND, IF  
APPROPRIATE, TO MAKE  
DECISIONS RELATING TO  
CRISIS RISK OFFSET DUE  
DILIGENCE REPORTS

(Mr. Rue left the meeting.)

EXECUTIVE SESSION,  
PURSUANT TO HRS § 92-  
5(a)(8), TO CONSIDER  
INFORMATION RELATING  
TO THE REQUEST FOR  
PROPOSALS FOR REAL  
ESTATE INVESTMENT  
CONSULTANT SERVICES

(ERS Investment staff, with the exception of Mr. Chattergy, left the meeting.)

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

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 SPECIAL  
DEPUTY ATTORNEYS  
GENERAL: TAX COUNSEL,  
INVESTMENT COUNSEL,  
SECURITIES LITIGATION  
MONITORING COUNSEL;  
APPROPRIATE ACTION

APPROVAL OF  
EXECUTIVE SESSION  
MINUTES  
- MARCH 13, 2017

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, 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:

- Congratulations to Mr. Chattergy and the Investment team on the Crisis Risk Offset.
- Mr. Williams met with Senator Jill Tokuda on the contribution increase bill. Unfortunately, the contribution increase bill died in the House. If there are no additional contributions, it would negatively affect the fundas well as the state's bond ratings. Mr. Williams spoke with Representative Aaron Johanson, who agreed to attach the contribution increase to the ERS housekeeping bill. Rep. Johanson also helped defer the assumed investment returns bill and Senator Gilbert Keith-Agaran deferred the bill that would preclude the ERS from hiring outside counsel.
- University of Hawaii Volleyball Coach Dave Shoji came in to the office for his retirement.
- Mr. Williams and Ms. Kanoe Margol, Deputy Executive Director, are continuing to interview for the position of Board Secretary. This position will be excluded from collective bargaining.
- Mr. Williams had a presentation with the Association of Government Accountants and will have a presentation with the Financial Planning Association in a few weeks.
- Mr. Williams held a meeting with all Private Letter Ruling attorneys to develop a communications plan.
- ERS staff has selected a strategic plan facilitator, Leslie Mullens, who will start after the legislative session. ERS will now refine the plan that was done in 2015.
- The budget is moving well but the HiDRO programming money was missing. Senator Maile Shimabukuro had it added to the Senate version.
- Mr. Williams will be participating at the Hawaii Business Roundtable along with Representative Sylvia Luke, Senator Jill Tokuda and Director of Finance, Wesley Machida.
- Congratulations to Vince Barfield who was confirmed for a new term as

- a trustee for the ERS.
- Mr. Aburano held an orientation for the new hearing officers.
- Sent thank you letters to Representatives Luke and Johanson for hearing and passing SB936.
- Letters were sent to the House and Senate leadership regarding the IRS Private Letter Ruling and support efforts to repeal Act 1. Senate leadership elected to distribute the Executive Director's letter to all senators.

#### OPERATIONS REPORT

Mr. Williams characterized the Operations Report as receive and file. Trustee Barfield inquired about the percentage of standards met and why we are not meeting them. Ms. Margol explained the reasons are due to EC&B losing a staff member who has not been replaced. Also, March was a heavy month for filing especially during spring break.

#### ADJOURNMENT

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Kane adjourned the meeting at 1:41 p.m.

#### REDACTED SIGNATURE

Thomas Williams  
Executive Director

TW:ltk



**Schedule A**

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