

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

MAY 8, 2017

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

Trustees present: Mr. Emmit Kane, Chair
Mr. Vincent Barfield
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Wesley Machida
Mr. Colbert Matsumoto

Trustees excused: Mr. Jerome Rauckhorst, Vice Chair

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. Aaron Au, Investment Officer
Mr. Howard Hodel, Investment Officer
Mr. Ian Wetzel, Investment Specialist
Mr. Andrew Chen, 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. Colin Bebee, Pension Consulting Alliance, LLC
Mr. John Linder, Pension Consulting Alliance, LLC
Mr. Tom Hester, Courtland Partners, Ltd.
Mr. Marc Rivitz, Courtland Partners, Ltd.
Mr. Paul Yett, Hamilton Lane Advisors, LLC
Ms. Aliana Spungen, Angelo, Gordon & Co.
Mr. Adam Schwartz, Angelo, Gordon & Co.
Ms. Jill Kitazaki Garvans, Denning & Co.
Ms. Cara Nakamura Ball, KSBE
Mr. Barry Griffiths, Landmark Partners

Mr. Brian Chee, Polaris Partners
Mr. Andy Betz, Stafford Capitol Partners
Mr. Rick Fratus, Stafford Capitol Partners
Mr. Peter Hanashiro, KMH, LLP

QUORUM/CALL TO ORDER

A quorum being present (Chair Kane, and Trustees Barfield, Chan, Frane, and Matsumoto), 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, and Trustees Barfield, Chan, Ferguson-Miyamoto, Frane, Machida, and Matsumoto), Chair Kane reconvened the meeting at 11:24 a.m.

RECOGNITION OF DIANE
KISHIMOTO, DEPUTY
ATTORNEY GENERAL
UPON HER RETIREMENT

The Board and ERS staff recognized Diane Kishimoto, Deputy Attorney General for her dedicated service to the Board for more than 15 years with a commendation and an Excellence in Service Award.

PENSION CONSULTING
ALLIANCE, LLC –
INVESTMENT PORTFOLIO
PERFORMANCE FOR 1ST
QUARTER 2017

Mr. Neil Rue of Pension Consulting Alliance, LLC (PCA) gave an oral and written report on the performance of ERS's investment portfolio for the 1st quarter of 2017. Mr. Rue reported the ERS total portfolio outperformed the policy benchmark over each period measured, ending March 31, 2017. All three of the plan's reporting risk classes, Broad Growth, Principal Protection, and Real Return, matched or exceeded their respective benchmarks over the latest quarter and 1-year period. The ERS portfolio exceeded the Median Fund return over all reported periods. With respect to the evolving policy target effective April 1, 2017, the portfolio ended the latest quarter overweight Other Assets, while relatively near target in all other strategic classes. The Plan transitioned assets during the quarter to implement the Crisis Risk Offset class and move towards the new evolving policy target allocation.

COURTLAND PARTNERS,
LTD. – REAL ESTATE
PORTFOLIO
MEASUREMENT REPORT
FOR 4TH QUARTER 2016

Mr. Tom Hester and Mr. Marc Rivitz of Courtland Partners, Ltd. (Courtland) gave an oral and written report on performance of the ERS real estate portfolio measurement for the 4th 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.

HAMILTON LANE
ADVISORS, LLC –
PRIVATE EQUITY
PROGRAM UPDATE

Mr. Paul Yett of Hamilton Lane Advisors, LLC (Hamilton Lane) gave an oral and written update on the private equity program as of December 31, 2016. Highlights were:

Performance:

- Since inception IRR increased by 36 bps year over year (YoY) as of December 31, 2016
- The private equity portfolio significantly outperformed the public benchmark across all time horizons
 - Exceeded the benchmark by 427 bps for the since inception period
 - Aggregate average premium of 628 bps across the 1-, 3-, 5-, 10-year, and since inception periods
- Strong one year IRR of 14.78%, with each quarter achieving positive results

Value Creation:

- Portfolio generated market value growth of \$179.3 million during the year, with \$116.4 million in positive net value
 - 114 partnerships generated positive value gain of \$132.9 million for the year
 - Top five funds driving net value gain generated \$37.7 million, or 28% of total value gains for the year

Portfolio Snapshot:

- The Portfolio continued to grow and generate value
 - Capital Commitments – up 23% YoY
 - Market Value – up 24% YoY
 - Distributions – up 17% YoY
- Commitments growing to meet target exposure of 13.5% to Private Equity
- 2016 was largest single year in Portfolio's history, in terms of invested capital, distributions, and commitments
- Only 15% of capital committed from 2016 vintage year funds called as of year-end

Performance Summary:

- Q4 2016 represents the 18th consecutive quarter of positive returns
- Strong value creation across the private equity portfolio – net value gain of \$116.4 million for the year
 - Market value increased by \$179.3 million
 - Ascribe III accounted for \$12.8 million or 30.3% of the portfolio's total net value increase
 - Driven by appreciation of underlying energy investments
- Unfunded commitments increased by \$249.1 million during the year
 - As a percentage of total exposure, unfunded commitments only increase 2.5% due to value appreciation within the portfolio

RECESS

Chair Kane called for a ten-minute recess for lunch at 12:06 p.m.

RECONVENE

A quorum being present (Chair Kane and Trustees Barfield, Chan, Ferguson-Miyamoto, Frane, Machida, and Matsumoto), Chair Kane reconvened the meeting at 12:24 p.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board entered into Executive Session at 12:24 p.m.:

- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, and to make a decision upon, an investment by the Employees' Retirement System in Angelo, Gordon Europe Realty Fund II, L.P.;
- To approve the Executive Session Minutes for the April 10, 2017, and April 20, 2017 minutes; and
- Pursuant to HRS § 92-5(a)(8), to consider information relating to the Request for Proposals for Real Estate Investment Consultant Services.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(1), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, AND TO
MAKE A DECISION UPON,
AN INVESTMENT BY THE
EMPLOYEES'
RETIREMENT SYSTEM IN
ANGELO, GORDON
EUROPE REALTY FUND II,
L.P.

APPROVAL OF
EXECUTIVE SESSION
MINUTES

- APRIL 10, 2017
- APRIL 20, 2017

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

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto, and unanimously carried, the Board exited Executive Session at 12:51 p.m.

2016 ANNUAL PUBLIC
MARKET MANAGERS FEE
REVIEW

Mr. Neil Rue presented PCA's 2016 review of public manager fees. Mr. Rue reported that PCA's review finds that the ERS's public market managers are providing the ERS with comparable, if not the lower, fee structure for accounts of similar size, managed in the same structure and with similar objectives.

INVESTMENT MANAGER
WATCH LIST;
APPROPRIATE ACTION
(BRADFORD & MARZEC,
LLC)

Mr. Neil Rue reported that PCA recommends removing Tortoise Credit Strategies, LLC, successor to Bradford & Marzec, LLC, from Watch Status.

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved removing Tortoise Credit Strategies, LLC/Bradford & Marzec, LLC from Watch Status.

DUE DILIGENCE SITE
INSPECTION REPORTS –
QUANTITATIVE
MANAGEMENT
ASSOCIATES LLC,
LONGVIEW PARTNERS
(GUERNSEY) LIMITED

Mr. Anthony Goo, Investment Officer, gave an oral and written report on key findings from PCA's due diligence onsite visit with Quantitative Management Associates LLC and Longview Partners (Guernsey) Limited, which were selected as finalists, and ultimately as managers, for the active global mid-large cap equity mandate.

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

Ms. Donna Curry, Program Specialist, gave an update on the ERS-initiated and ERS-related bills. The legislative session ended on Thursday, May 4, 2017. SB936, Relating to the Employees' Retirement System, and SB207, Relating to Employees, were passed the legislature and are awaiting the Governor's signature. Two ERS actuary bills SB 133, Relating to Public Employees' Fringe Benefits, and HB1182, Relating to the Employees' Retirement System, are also awaiting the Governor's signature.

(Trustees Matsumoto and Machida left the meeting at 1:10 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, reported as the result of the legislature's passage of the bill to repeal Act 1 (SB207), the status conference with Judge Crabtree of the First Circuit Court was cancelled, pending the Governor's decision whether to sign or veto the bill.

INTERNAL AUDIT STATUS
UPDATE

Mr. Peter Hanashiro of KMH, LLP (KMH), the ERS's internal auditor, gave an oral and written report on the status of the ongoing internal audit of the ERS by KMH. The report of the internal audit status update was accepted by the Audit Committee.

On a motion by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board accepted the report of the internal audit status update.

INTERNAL AUDIT REPORT
ON DISABILITY HEARING
AND CONTESTED CASES
PROCESS REVIEW;

Mr. Peter Hanashiro of KMH, LLP, gave an oral and written report on the KMH's review of disability hearings and contested cases. The written report of the review was accepted by the Audit Committee.

APPROPRIATE ACTION

On a motion by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board accepted the Disability Hearings and Contested Cases Review internal audit report, as presented.

PROCUREMENT OF
INTERNAL AUDIT
SERVICES; APPROPRIATE
ACTION

Trustee Patrick Frane, Chair of the Audit Committee, reported that the Audit Committee recommends that the Board authorize issuance of a Request for Proposals (RFP) for internal audit services, as KMH's contract will expire on July 31, 2017.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board approved issuance of a Request for Proposal for internal audit services.

ROLES AND
RESPONSIBILITIES OF THE
DEPUTY ATTORNEYS
GENERAL ASSIGNED TO
THE EMPLOYEES'
RETIREMENT SYSTEM

Mr. Thomas Williams and Ms. Diane Kishimoto briefed the Board on the roles and responsibilities of the three main Deputy Attorneys General who advise the ERS Board and staff.

EXECUTIVE DIRECTOR'S
REPORT

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

- At the request of the Maui Finance Committee, Mr. Williams gave a presentation to the Committee on the ERS and proposed Maui contribution increases.
- Many hours were spent on the legislative session especially on SB936 and SB207. As reported earlier, the status conference with the First Circuit Court was cancelled as the legislature passed SB207 to repeal Act 1. Representative Aaron Johanson and Senator Gilbert Keith-Agaran were very helpful with the two bills especially in adding the contribution portion to SB936.
- Mr. Williams met with Attorney General Doug Chin and Deputy Attorney General Supervisor Patricia Ohara regarding the two upcoming openings for Deputy Attorney General to the Board.
- Mr. Williams continues to meet quarterly with the ERS HGEA stewards.
- Mr. Williams met with KMH regarding ERS's risk assessment and business continuity plan.
- The Compensation Review Committee will be evaluating and reviewing compensation for the Executive Director, Chief Investment Officer and Investment Officers.
- Mr. Williams will be attending the National Conference on Public Employee Retirement Systems in Hollywood, Florida May 21-24, 2017.
- ERS was unable to obtain the \$1.9 million from the legislature to fund Hawaii Domestic Relations Order (HiDRO) which starts July 1, 2018 and impacts 12 of 14 modules of the ERS system.
- ERS Customer Satisfaction Survey comments shows high customer satisfaction levels.
- A new Board secretary was hired and will start at the end of May.
- A list of Board educational opportunities is included in the Board packets.

**OPERATIONS REPORT –
APRIL 2017**

Ms. Kanoë Margol, Deputy Executive Director, presented the written operations report for “receive and file.” Ms. Margol also noted that, due to a hiring freeze, ERS is unable to fill current vacancies, except for 89-day hires.

APPROVAL OF MINUTES

- APRIL 10, 2017
- APRIL 20, 2017

On a motion made by Trustee Frane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes of the April 10, 2017 and April 20, 2017 meetings, as presented.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, Chair Kane adjourned the meeting at 1:57 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:ltk