

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

June 13, 2017

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

- Trustees present: Mr. Emmit Kane, Chair
Mr. Jerry Rauckhorst, Vice Chair
Mr. Colbert Matsumoto
Mr. Patrick Frane
Mr. Vincent Barfield
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
Mr. Wesley Machida
- 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. Gerri Konishi, ERS Member Home Loan Assistant
Ms. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Branch Manager, Enrollment, Claims & Benefits
Ms. Wanda Kugiya, Secretary
Ms. Dale Kanae, Secretary
Ms. Lori Kim, Secretary
Ms. Cynthia Chen, Recording Secretary
- Attorneys present: 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
Ms. Doris Dvovich, Medical Board Attorney
Mr. Chris Bouslog, Attorney for Member
- Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Mr. Colin Bebee, Pension Consulting Alliance, LLC
Mr. Tom Hester, Courtland Partners, Ltd. (by Telephone)
Ms. Kristin Shofner, Fidelity Institutional Asset Management
Mr. Shah Badkoubei, Fidelity Institutional Asset Management
Mr. Nick Horn, Fidelity Institutional Asset Management
Mr. Jeff Cavanaugh, Invesco Real Estate
Mr. Mike Trovato, Wellington Management Company, LLC

Mr. Gardiner Holland, Wellington Management Company, LLC
Ms. Mary Anne Young, Court Reporter

QUORUM/CALL TO
ORDER

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Matsumoto, Frane, Ferguson-Miyamoto, and Chan), 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.

AMENDMENT OF THE
AGENDA

Chair Kane requested that the Board amend the agenda of today's meeting to add a new item under New Business for Board approval of the ERS filing a request with the Internal Revenue Service for a private letter ruling regarding the limited liabilities companies through which the ERS will be making investments in the Crisis Risk Offset class, and authorizing the Executive Director to sign documents and take actions necessary or desirable to file and process that request.

On a motion made by Vice-Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board approved amending the agenda to add a new item under New Business for Board approval of the ERS filing of a request to the Internal Revenue Service for a private letter ruling regarding the limited liability companies through which the ERS will be making investments in the Crisis Risk Offset class and authorizing the Executive Director to sign documents and take actions necessary or desirable to file and process that request.

RECESS

Chair Kane called for a recess and announced that the meeting would reconvene following the conclusion of the Chapter 91 proceedings and Investment Committee meeting.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Matsumoto, Frane, Ferguson-Miyamoto, and Chan), Chair Kane reconvened the meeting at 10:31 a.m.

FIDELITY
INSTITUTIONAL ASSET
MANAGEMENT

Mr. Nick Horn, Mr. Shah Badkoubei, and Ms. Kristin Shofner of Fidelity Institutional Asset Management (Fidelity), a Global Small Cap manager, gave an oral and written presentation on Fidelity's Concentrated Global Small Cap program and portfolio. Their presentation included an overview of Fidelity's program, personnel, investment process and portfolio positioning, as well as their global outlook on small cap investments. Fidelity's program:

- Combines qualitative stock selection with quantitative risk management
- An institutional funds focus

- A portfolio construction approach as part of its investment process involving region and sector exposures and liquidity measures.

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Following their presentation, Mr. Horn, Mr. Badkoubei and Ms. Shofner left the meeting.

WELLINGTON
MANAGEMENT
COMPANY, LLP

Mr. Mike Trovato and Mr. Gardiner Holland of Wellington Management, LLP (Wellington), a Global Small Cap manager, gave an oral and written presentation on Wellington and its personnel, its investment philosophy and process, its returns and portfolio performance. They discussed Wellington’s outlook for small cap investments. Mr. Trovato and Mr. Holland noted that Wellington is able to focus on long-term capital appreciation due to its private partnership culture.

Following their presentation, Mr. Trovato and Mr. Holland left the meeting.

INVESTMENT POLICY
REVISIONS AND
SEPARATE ACCOUNT
MANAGER CONTRACT:
CORE-REAL ESTATE
SEPARATE ACCOUNT

Aaron Au, Investment Officer - Illiquid Markets, and Mr. Tom Hester of Courtland Partners, Ltd. (Courtland) (by telephone) presented proposed modifications to the Real Estate Program section of the ERS’s Investment Policy, Guidelines and Procedures Manual (Investment Policy Manual) and discussed related changes to certain provisions of the separate account investment management agreement of Heitman Capital Management LLC. (Heitman), including Heitman’s fees. Mr. Au and Courtland provided memoranda to the Board on the proposed modifications and changes. A red-lined draft of the proposed modifications to the Investment Policy Manual was also provided to the Board. The modifications are recommended by Courtland and Investment staff due to changes in the ERS’s core real estate portfolio and program. The modifications to the Investment Policy Manual will allow for, among other things, added special property types to be included in the core portfolio as described in Investment staff’s and Courtland’s memoranda, dated June 13, 2017 and May 19, 2017, respectively. .

PCA provided a written concurrence recommending that the ERS Board approve the Real Estate guidelines modifications, as proposed in Courtland’s May 19, 2017 memorandum.

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the proposed changes to the Investment Policy Manual, as presented by Mr. Au and Courtland.

ENTER EXECUTIVE
SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session at 11:47 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 Heitman Core Real Estate Debt Income Trust, L.P.
- 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 Invesco Commercial Mortgage Income Fund, L.P.

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 HEITMAN CORE REAL ESTATE DEBT INCOME TRUST, L.P.

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 INVESCO COMMERCIAL MORTGAGE INCOME FUND, L.P.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board exited Executive Session at 12:27 p.m.

RECESS

Chair Kane called for a 15-minute recess for lunch at 12:27 p.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Matsumoto, Frane, Ferguson-Miyamoto, and Chan), Chair Kane reconvened the meeting at 12:42 p.m.

LEGISLATIVE PROPOSALS RELATING

Ms. Donna Curry, Program Specialist, reported that:

- The Governor signed S.B.207, C.D.1, which is now Act 18,

TO THE EMPLOYEES’
RETIREMENT SYSTEM
FOR THE 2017
LEGISLATIVE SESSION

Relating to Employees. This Act repeals Act 1, Second Special Session, Session Laws of Hawaii 2016, retroactive to July 20, 2016, which would have provided special retirement benefits to HHSC Maui region employees who transfer from the State to a private entity.

- The Governor signed S.B.936, C.D.1, which is now Act 17, Relating to Employees’ Retirement System. This Act includes “housekeeping” provisions and incrementally increases the rates for employer contributions to the ERS over the next four years.
- Provided an update on the ERS initiated and related bills. ERS related bills that are still active are H.B.1182, S.B.133, H.B.100 and H.B.165.
- For the bills passed by the 2017 Legislature, the Governor has an “intent to veto” deadline of June 26, 2017 and a signature deadline of July 11, 2017.

AUTHORIZATION FOR
PUBLIC HEARING FOR
PROPOSED
ADMINISTRATIVE RULES
FOR IMPLEMENTATION
OF 2017 LEGISLATION

Deputy Attorney General Brian Aburano gave an oral and written presentation regarding ERS staff’s proposals to amend Chapters 6-22, 6-23, and 6-29 of the Hawaii Administrative Rules (HAR). Mr. Aburano noted that one of the main purposes of the proposed amendments was to effectuate certain provisions of Act 17. Mr. Aburano reviewed and discussed with the Board the proposed amendments to HAR Chapters 6-22, 6-23, and 6-29. Some Board members requested that ERS staff consider further amendments to HAR Chapters 6-22 and 6-23 to clarify certain disability retirement matters, citing ambiguities that could lead to disability retirement being granted in dubious cases.

On a motion made by Trustee Matsumoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved the proposed amendments to HAR Chapter 6-29 to go to a public hearing pursuant to Administrative Directive 09-01 and HRS § 91-3. The Board deferred action on the proposed amendments to HAR Chapters 6-22 and 6-23 pending receipt and review of further proposed amendments to those Chapters.

(Trustee Wesley Machida joined the meeting at 1:02 p.m.)

AUTHORIZATION TO
ISSUE A REQUEST FOR
PROPOSALS FOR A
DESIGNATED ENTITY, AS
AN ALTERNATIVE TO
THE MEDICAL BOARD,
TO PERFORM MEDICAL
EXAMINATIONS AND
PROVIDE
CERTIFICATIONS,
RECOMMENDATIONS,

Mr. Thomas Williams asked the Board to approve the issuance of a Request for Proposal (RFP) for a designated alternative to the Medical Board. The Medical Board has not been performing as effectively as it should nor is it in full compliance with its contract. ERS would like the opportunity to explore alternatives.

The Board deferred approval until it was provided with more insight and clarity on the proposed program involving the designated alternative, the specific responsibilities of the parties involved, and who will be accountable.

AND OTHER SERVICES
RELATED TO DISABILITY
RETIREMENT AND
ACCIDENTAL DEATH
APPLICATIONS FILED
UNDER HRS CHAPTER 88

TRUSTEE ELECTION

Mr. Thomas Williams announced Trustee Frane will not be seeking re-election when his term ends on January 1, 2018. A trustee election timetable was presented to the Board.

INVESTMENT OFFICE
STAFFING &
ORGANIZATION – 2017
UPDATE

Mr. Neil Rue of PCA presented an oral and written presentation including an updated study and a survey regarding staffing levels. A comparison was drawn with other organizations similar in size. PCA recommends the addition of 3 or 4 investment staffers (FTEs), to support the new CRO Investment class, as well as the steady push towards a higher level of illiquid investments.

PCA BAILLIE GIFFORD
OVERSEAS LTD.
("BAILLIE GIFFORD") –
DUE DILIGENCE

Mr. Colin Bebee of PCA presented a memo which provides the ERS with key findings from PCA's due diligence onsite visit with Baillie Gifford regarding the active global mid-large cap equity mandate.

PRIVATE LETTER
RULING

Mr. Williams explained why the ERS was, in an abundance of caution, seeking a private letter ruling from the Internal Revenue Service regarding the limited liability companies involved in the Crisis Risk Offset program, and what had been done to date on this matter. Deputy Attorney General Brian Aburano noted that the Board had not formally approved filing the private letter ruling. In addition, he noted that certain documents had to be signed by the ERS in order to file the request and that it would be advisable to authorize the Executive Director to sign such documents and take any other actions necessary or desirable to process the request.

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the ERS filing a request with the Internal Revenue Service for a private letter ruling that the income of each of the limited liability companies through which the ERS will be making investments in the Crisis Risk Offset class is excluded from gross income under Section 115(a) of the Internal Revenue Code, and authorizing the Executive Director to sign all documents and take all actions necessary or desirable to file and process that request.

APPROVAL OF MINUTES
-MAY 8, 2017

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the minutes for May 8, 2017 meetings, as presented.

EXECUTIVE DIRECTOR'S
REPORT

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

- Mr. Williams attended Employer meetings on Oahu, Hawaii and Kauai which updated employers on the status of the legislative session and Act 87, a reporting requirement on how they remit monies to ERS.
- Mr. Williams reported no intrusion in the ERS system from the “Wanna Cry” computer virus.
- Mr. Williams met with Attorney General’s office regarding provision of legal services to ERS following the retirements of Diane Kishimoto and Brian Aburano
- Mr. Williams did an Olelo interview as it relates to community outreach which will be telecast in coming weeks.
- The Vitech maintenance and upgrade contract was approved.
- On May 19th a debriefing meeting was held for organizations not awarded the contract for the Real Estate Consultant services led by Vijoy Chattergy.
- Mr. Williams sent a letter to Dr. Chinn regarding the Medical Board’s backlog of claims.
- Mr. Williams reported the hiring freeze has been lifted and instructed that hiring resume to avoid possible recapturing of vacancies.
- The Compensation Review Committee met to discuss the Performance Review of the CIO, Investment staff & Executive Director.
- Mr. Williams was approached by Principles of Responsible Investing (PRI) global organization requesting that ERS become signatory.
- ERS, EUTF and Budget and Finance gave presentations at the Hawaii Business Round Table luncheon which were well received.

OPERATIONS REPORT-
MAY 2017

Ms. Kanoe Margol, Deputy Executive Director, gave an oral and written operations report . Ms. Margol provided an update on Dr. Chinn’s processing of the back log of older disability claims.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session at 2:03 p.m.

- Pursuant to HRS 88-27.5(a)(2), to conduct discussions and deliberations relating to, and, if appropriate, to make a decision relating to the selection of managers for the Principal Protection Global Intermediate Bond and U.S. Intermediate Bond strategies.
- Pursuant to HRS 92-5(a)(8), to consider information relating to the Request for Proposals for General Investment Consultant Services.
- 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.

- 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 a recommended compromise or settlement of the ERS's claim for overpayment against a member's beneficiary; appropriate action.

EXECUTIVE SESSION,
PURSUANT TO HRS 88-
27.5(A)(2), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, AND, IF
APPROPRIATE, TO MAKE
A DECISION RELATING
TO THE SELECTION OF
MANAGERS FOR THE
PRINCIPAL PROTECTION
GLOBAL INTERMEDIATE
BOND AND U.S.
INTERMEDIATE BOND
STRATEGIES

(Neil Rue and Colin Rue left the meeting)

EXECUTIVE SESSION,
PURSUANT TO HRS 92-
5(A)(8), TO CONSIDER
INFORMATION
RELATING TO THE
REQUEST FOR
PROPOSALS FOR
GENERAL INVESTMENT
CONSULTANT SERVICES

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

All individuals except the Trustees and Deputy Attorney General Brian Aburano left the meeting.

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

APPROVAL OF
EXECUTIVE SESSION
MINUTES

- May 8, 2017

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 A
RECOMMENDED
COMPROMISE OR
SETTLEMENT OF THE
ERS'S CLAIM FOR
OVERPAYMENT

(Mr. Williams, Ms. Margol, Mr. Kaneshiro, Ms. Kugiya, Ms. Kanae, Ms. Kim, Ms. Chen, Ms. Tsang, and Mr. Chang re-entered the meeting.)

AGAINST A MEMBER'S
BENEFICIARY;
APPROPRIATE ACTION

EXECUTIVE SESSION,
PURSUANT TO HAWAII
REVISED STATUTES,
SECTION 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 SERVING
AS PLAINTIFF IN,
SEEKING LEAD
PLAINTIFF STATUS IN,
OPTING OUT OF, OTHER
POSSIBLE
PARTICIPATION,
AND/OR APPROPRIATE
ACTION IN A
POTENTIAL FEDERAL
SECURITIES FRAUD
CLASS-ACTION
LAWSUIT;
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 A
RECOMMENDED
COMPROMISE OR
SETTLEMENT OF A
CLAIM FOR BENEFITS
UNDER HRS § 88-106.5;
APPROPRIATE ACTION

EXIT EXECUTIVE
SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board exited Executive Session at 4:28 p.m.

ADJOURNMENT

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board adjourned the meeting at 4:28 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director