

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

JUNE 13, 2016

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

- Trustees present: Mr. Vince Barfield, Chair
Mr. Emmit Kane, Vice Chair
Mr. Patrick Frane
Mr. Wesley Machida
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst
- Trustees excused: Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
- Staff present: Mr. Thomas Williams, Executive Director
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Karl Kaneshiro, Acting Deputy Executive Director
Mr. Aaron Au, Investment Officer
Mr. Anthony Goo, Investment Officer
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, Investment Specialist
Ms. Donna Curry, Program Specialist
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. Diane Kishimoto, 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
Ms. Kay Ceserani, Pension Consulting Alliance, LLC

QUORUM/CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Frane, Machida, 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.

AMENDMENT OF THE AGENDA

Deputy Attorney General Brian Aburano requested that the Board amend the agenda to add the following item under New Business: Extension of the appointments of the Investment Officers.

On a motion made by Vice Chair Kane, seconded by Trustee Rauckhorst and unanimously carried, the Board amended the agenda to add the following item under New Business: Extension of the appointments of the Investment Officers.

PUBLIC COMMENT

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

RECESS

Chair Barfield call 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 Barfield reconvened the meeting at 11:10 a.m.

LEGISLATIVE PROPOSALS RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2016 LEGISLATIVE SESSION

Ms. Donna Curry, Program Specialist, reported that:

- The Governor signed SB 2841, which is now Act 31, regarding payments to the ERS. Act 31 becomes effective July 1, 2016; and
- HB1370, CD1 (relating to divorce), HB2016, CD1 (which requires ERS to deduct EUTF premiums from the retirees' pensions), and SB2077, CD2 (which provides for separation benefits relating to transfer of Hawaii Health System Corporation's Maui County facilities to a private sector operator), have been sent by the Legislature to the Governor.

(The PCA representatives and Investment Office staff left the meeting.)

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Kane, seconded by Trustee Machida, and unanimously carried, the Board entered into Executive Session at 11:13 a.m., 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: HB1370, CD1; HB2016, CD1; and SB2077, CD2.

PURSUANT TO HRS § 92-5(a)(4), THE BOARD MAY ENTER INTO EXECUTIVE SESSION 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 HB 1370, HB
2016, AND SB 2077.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Frane, seconded by Trustee Rauckhorst, and unanimously carried, the Board exited Executive Session at 11:26 a.m.

OPERATIONS STRATEGIC
PLAN

Mr. Thomas Williams, Executive Director, gave an overview of the ERS's operational strategic plan. ERS needs to resolve vulnerabilities and shortcomings, assess services, standards, and resources needed. All of this information is to help with the budget process. Mr. Williams asked each of the managers to identify in their areas service level objectives. This will help the budget request. Mr. Karl Kaneshiro, Branch Manager of Enrollment, Claims & Benefits (EC&B), gave an oral and written operations report and focused on data clean up. Data is current, just needs to be scanned. By 2020 all employers will be submitting information electronically, some employers have started this process. EC&B needs legislation to help improve the process and cut costs. Having dedicated staff for the Call Center is a priority. ERS will be requesting \$150,000 in 2019 for a new phone system and four staff positions; therefore, ERS will need to submit a budget request this fall to achieve this goal.

EXTENSION OF KMH FINALS
CONTRACT

Mr. Williams requested the Board's approval of a 2-year extension of the contract with KMH LLP for finalization of benefits. This is a precautionary measure, as Mr. Williams does not expect that ERS will need the services from KMH. KMH is paid on the basis of completed cases.

On a motion made by Trustee Machida, seconded by Trustee Matsumoto, and unanimously carried, the Board approved a 2-year extension of the contract with KMH LLP for finalization of benefits.

INTERNAL AUDIT
REMEDATION STATUS

Mr. Williams stated that the status of Internal Audit remediation measures was covered in his Operations Report; a report on remediation measures relating to information technology (IT) will be presented at the July 11, 2016 Board meeting. Staff will update the Board on Operations and IT on a monthly basis thereafter.

EXTEND APPOINTMENT OF
EXEMPT INVESTMENT
OFFICERS

Mr. Williams reported that a decision on the extension of the appointments of Investment Officers Anthony Goo, Aaron Au, and Howard Hodel is required by June 30. The Compensation Review Committee will be meeting on June 21 and will be making recommendations to the Board at the July 11, 2016 Board meeting regarding compensation for the Investment Officers.

On a motion made by Trustee Rauckhorst, seconded by Vice Chair Kane, and unanimously carried, the Board approved extension of the appointments of the Investment Officers Anthony Goo, Aaron Au, and Howard Hodel, subject to Board approval of their compensation on July 11, 2016.

RECESS

Chair Barfield called a 10-minute recess for lunch at 11:57 a.m.

RECONVENE

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Frane, Machida, Matsumoto, and Rauckhorst), Chair Barfield reconvened the meeting at 12:17 p.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Matsumoto, seconded by Trustee Machida, and unanimously carried, the Board entered into Executive Session at 12:17 p.m.:

- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and to make a decision relating to the selection of managers for the Global Low Volatility Equity Mandate manager search; 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 seeking lead plaintiff status in, opting out of, and other matters pertaining to certain federal securities fraud class action lawsuits.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(2), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND TO
MAKE A DECISION
RELATING TO THE
SELECTION OF MANAGERS
FOR THE GLOBAL LOW
VOLATILITY MANDATE
GLOBAL EQUITY (MID-
LARGE CAP) MANAGER
SEARCH

(The PCA representatives left the meeting at 12:22 p.m.)

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 SEEKING LEAD
PLAINTIFF STATUS IN,
OPTING OUT OF, AND
OTHER MATTERS
PERTAINING TO CERTAIN
FEDERAL SECURITIES
FRAUD CLASS ACTION
LAWSUITS.

APPROVAL OF EXECUTIVE
SESSION MINUTES
- APRIL 11, 2016
- MAY 10, 2016

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Matsumoto, and unanimously carried, the Board exited Executive Session at 12:56 p.m.

EXECUTIVE DIRECTOR'S
REPORT

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

- Per the Board's request to negotiate reduction in fees from Vitech from the May 10, 2016 meeting, Mr. Williams was able to reduce fees in the amount of \$88,000 over the 4 years.
- The system penetration test has been delayed as Enterprise Technology Services (ETS) stated that the penetration test might have a negative impact on the State system. ETS contacted their vendor to do the system penetration test but the contract with the State expired and is currently renegotiating the contract which should be finalized this week. ETS believes the system penetration test will be done soon.
- Business Continuity Plan meetings were held in May with ERS managers and key staff. Consultants will be reporting to ERS in early to mid Fall.
- B&F asked if any agencies have any major budget requests for personnel, resources, etc. Staff is working on this and will report to the Department of Budget & Finance (B&F) in early July.
- Benefits Fair was well attended. Appreciation letter from the Department of Human Resources Development (DHRD) to EC&B for their participation.
- Per recent legislation to allow employers to pay contributions to ERS upfront, ERS will be receiving from the State approximately \$556M: \$328M at the end of July and \$228M in early August. Mr. Chattergy was informed and will be working with his team on how to deploy these monies in consideration of the other capital calls that have to be made, payments, and benefits.
- Staff is working on electronic Board packets. Information Services is working on a secured Board website.
- Mr. Williams and Ms. Curry had an interview on Hawaii Public Radio.
- The Compensation Review Committee will be meeting on June 21, 2016 to discuss the assessments of the Investment Officers, Executive Director, and Chief Investment Officer.
- Mr. Williams met with Governor Ige regarding the current bills and will be communicating with Governor Ige to state the Board's intent to support a veto of these bills.
- Fossil fuels investments and renewable energy will continue into the next legislative session. Mr. Williams and Mr. Chattergy will continue to monitor exposure to fossil fuels investments and renewable energy.
- Mr. Williams and Mr. Chattergy will be attending the RFKennedy Compass Conference June 27-29, 2016.
- Mr. Williams will be attending the National Association of State Retirement Administrators Conference (NASRA) August 6-10, 2016 in Coeur d'Alene, Idaho.

- The Board packet included “ERS in the News” which contains articles and appreciation letters of ERS staff.
- The Summer edition of Holomua will be coming soon.
- GRS experience study will be presented at the July Board meeting. Funding period will exceed the 30-year threshold. This is impacted by improved mortality. General member population will have a 32-year funding period, police and fire would be 37 years. This does not drop the funding ratio just yet. GRS will be coming in with new recommendations as it relates to the assumed investment returns. This study does not include the Maui separation. GRS will give an estimate as to what the contributions will have to be increased to in order to bring the funding period back below the 30-year level.

APPROVAL OF MINUTES

- APRIL 11, 2016
- MAY 10, 2016

On a motion made by Trustee Frane, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved the minutes of the April 11, 2016 and May 10, 2016 meetings, as presented.

ANNOUNCEMENT

Chair Barfield announced that Robeco Institutional Asset Management – U.S., Inc. was selected as a Global Low Volatility Equity manager.

ADJOURNMENT

On a motion made by Trustee Machida, seconded by Vice Chair Kane, and unanimously carried, Chair Barfield adjourned the meeting at 1:15 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:ltk