

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

OCTOBER 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. Wesley Machida
Mr. Colbert Matsumoto

Trustees excused: Mr. Patrick Frane
Mr. Jerome Rauckhorst

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, Deputy Executive Director
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Aaron Au, Investment Officer
Mr. Anthony Goo, Investment Officer
Mr. Howard Hodel, Investment Officer
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzels, Investment Specialist
Ms. Donna Curry, Program Specialist
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)

Guests present: Mr. Ben Park, Senate Ways & Means Committee
Mr. Peter Hanashiro, KMH, LLP
Mr. Nelson Lau, KPMG, LLP

QUORUM/CALL TO ORDER	A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Ferguson-Miyamoto, and Matsumoto), 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 and announced that the meeting would reconvene after the Investment Committee meeting and Chapter 91 proceedings.
RECONVENE	A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Ferguson-Miyamoto, and Matsumoto), Chair Barfield reconvened the meeting at 11:34 a.m.
ENTER EXECUTIVE SESSION	On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Kane, and unanimously carried, the Board entered into Executive Session at 11:35 a.m., pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions upon investments in private equity funds sponsored by secondary manager(s).
EXECUTIVE SESSION, PURSUANT TO HRS § 88- 27.5(a)(1), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, AND, IF APPROPRIATE, TO MAKE DECISIONS UPON INVESTMENTS IN PRIVATE EQUITY FUNDS SPONSORED BY SECONDARY MANAGER(S)	
EXIT EXECUTIVE SESSION	On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Kane, and unanimously carried, the Board exited Executive Session at 11:54 a.m.
KMH LLP INTERNAL AUDIT UPDATE; CASH AND LIQUIDITY MANAGEMENT REVIEW REPORT	<p>Mr. Thomas Williams, Executive Director, introduced Mr. Peter Hanashiro of KMH LLP. Mr. Hanashiro presented KMH's Internal Audit Update Report dated October 6, 2016:</p> <ul style="list-style-type: none"> • Cash and liquidity management review is completed and the final draft report will be issued in October 2016. Review area is rated overall as "Marginal." The review was accepted by the Audit Committee on October 6, 2016. • The disability and contested case process review is currently in the planning stage. The objectives of the review are to (1) evaluate the design of the ordinary and service-connected disability processes, (2) assess the ERS's end-to-end processes to handle ordinary disability and service-connected disability cases to ensure compliance with internal policies and procedures, and (3) provide recommendations and leading practices for

improvement to enhance effectiveness and efficiency. Trustee Matsumoto requested KMH and staff to review the service-connected disability policy and bring findings to the Board.

- In collaboration with RSM US LLP, a business continuity planning needs assessment was performed in May 2016. A draft of the ERS business continuity plan needs assessment report was issued in July 2016 and management is in the process of reviewing the report.
- KMH has been assisting ERS with developing governance-related policies in response to findings in the Governance and Ethics Review Report.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Chan, and unanimously carried, the Board approved the Cash & Liquidity Management Review Report dated October 2016, as presented.

REPORT OF THE AUDIT COMMITTEE; AMENDMENT OF AUDIT COMMITTEE CHARTER

Mr. Hanashiro presented the revisions to the Audit Committee Charter and to the Internal Audit Charters that were approved at the Audit Committee's last meeting.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Chan, and unanimously carried, the Board approved the revisions to the Audit Committee Charter and to the Internal Audit Charter, as presented.

DRAFT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF THE EMPLOYEES' RETIREMENT SYSTEM

Mr. Nelson Lau of KPMG, LLP presented the Auditor's Report and Financial Statements of the ERS as of and for the year ended June 30, 2015.

Highlights included:

- The ERS adopted Governmental Accounting Standards Board (GASB) Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73 for the fiscal year ended June 30, 2015.
- Summary of uncorrected misstatements – fiscal 2015.
- Performance Improvement Observations
 - Establishment of relevant and reliable benchmarks and retrospective assessments.
 - Continue to monitor alternative investments.
 - Financial reporting encountered delays
 - Finalization of benefit payments to retirees.
- Highlights of the draft financial statements.

On a motion made by Trustee Matsumoto, seconded by Vice Chair Kane, and unanimously carried, the Board accepted the Auditor's Report and Financial Statements for the Employees' Retirement System of the State of Hawaii as of and for the year ended June 30, 2015, as presented.

RECESS

Chair Barfield called a fifteen-minute recess for lunch at 12:26 p.m.

RECONVENE

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Ferguson-Miyamoto, Machida, and Matsumoto), Chair Barfield reconvened the meeting at 12:47 p.m.

AMENDMENT OF THE AGENDA

Deputy Attorney General Diane Kishimoto requested that the Board amend the agenda to add the following item: Executive Session, pursuant to HRS § 88-27.5(a)(1) and HRS § 92-5(a)(4), to conduct discussions and

deliberations relating to, 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, BlackSand Capital Opportunity fund I, L.P.

On a motion made by Trustee Chan, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved amending the agenda to add the following item: Executive Session, pursuant to HRS § 88-27.5(a)(1) and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, 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, BlackSand Capital Opportunity fund I, L.P.

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

Donna Curry, Program Specialist, provided an overview of the legislative proposals that ERS staff is working on for the 2017 legislative session. Ms. Curry noted there were very few changes to the legislative proposals that were presented at the last Board meeting. Deputy Attorney General Diane Kishimoto will be drafting the legislative proposal for BUF-20(17) ("disaffiliation of employers") for the Board's consideration. The Trustees indicated that they would like staff to continue working on the 2017 legislative proposals that were presented to the Board .

ENTER EXECUTIVE
SESSION

On a motion made by Vice Chair Kane, seconded by Trustee Matsumoto, and unanimously carried, the Board entered executive session at 1:11 p.m.:

- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions upon, the ERS's investments with First Reserve Management;
- 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 or seeking lead plaintiff status in a potential federal securities fraud class-action lawsuit; appropriate action;
- 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 taking a recommended action involving a proposed order in *In re BP P.L.C. Securities Litigation*, Case No. 4:14-cv-00457 (S.D. Tex); appropriate action;
- Pursuant to HRS § 88-27.5 (a)(2), to conduct discussions and deliberations and, if appropriate, 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 consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to, 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 Act 1, Second Special Session Laws of Hawaii 2016; 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 the amendment to the Constitution of the State of Hawaii proposed by Senate Bill No. 2554, 2016 Regular Session, Relating to the Disposition of Excess Revenues; appropriate action; and

- To approve the Executive Session Minutes for the July 27-29, 2016, and August 8, 2016, meetings.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(1), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, AND, IF
APPROPRIATE, TO MAKE
DECISIONS UPON, THE
BOARD'S INVESTMENTS WITH
FIRST RESERVE
MANAGEMENT

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 OR SEEKING
LEAD PLAINTIFF STATUS
IN A POTENTIAL FEDERAL
SECURITIES FRAUD CLASS-
ACTION LAWSUIT;
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 TAKING A
RECOMMENDED ACTION
INVOLVING A PROPOSED

ORDER IN *IN RE BP P.L.C.*
SECURITIES LITIGATION,
CASE NO. 4:14-cv-00457 (S.D.
TEX); APPROPRIATE
ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5 (a)(2), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND, IF
APPROPRIATE, 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 § 92-
5(a)(4), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, 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, 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 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 THE
AMENDMENT TO THE
CONSTITUTION OF THE
STATE OF HAWAII
PROPOSED BY SENATE
BILL NO. 2554, 2016
REGULAR SESSION,
RELATING TO THE
DISPOSITION OF EXCESS
REVENUES; APPROPRIATE
ACTION

APPROVAL OF MINUTES

- JULY 27-29, 2016
- AUGUST 8, 2016

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Board exited Executive Session at 2:30 p.m.

DUE DILIGENCE SITE
INSPECTION REPORTS –
TOBAM S.A.S. AND
ROBECCO INSTITUTIONAL
ASSET MANAGEMENT –
U.S. INC.

Mr. Chattergy presented, on a receive and file basis, due diligence review reports for TOBAM S.A.S and Robeco Institutional Asset Management – U.S., Inc. The two companies were recently retained as managers for the ERS's global low volatility investment mandate.

EXECUTIVE DIRECTOR'S
REPORT

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

- KMH contract extension was approved.
- Sole Source MSCI contract was approved.
- PBI is offering a 30-day free trial for death audit services. Cost is \$6000 a year for full service. Ms. Kishimoto reviewed the offer and there were no significant legal problems. Mr. Miyamoto will be checking on the security of PBI. Mr. Williams will also be checking with the auditor on this matter.
- Mr. Williams is meeting with stakeholders regarding the expected increase in contributions.
- ERS started customer satisfaction surveys in mid-September and thus far have been receiving very favorable comments.
- Chair Barfield and Mr. Williams are working with Supervising Deputy Attorney General, Patricia Ohara, Ms. Kishimoto and Mr. Aburano on a succession plan for Ms. Kishimoto's and Mr. Aburano's retirement. Chair Barfield and Mr. Williams are working with the Attorney General's office to find resources for transition prior to Ms. Kishimoto's and Mr. Aburano's departure.

- ERS is currently working on a new logo and have met with Kanemura Communications and Nomura Design. ERS is working on its mission, vision and values of statement.
- ERS is currently working with Budget & Finance on the budget.

(Vice Chair Kane returned to the meeting at 2:40 p.m.)

(Trustee Machida left the meeting at 2:40 p.m.)

APPROVAL OF MINUTES
- JULY 27-29, 2016
- AUGUST 8, 2016

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes of the July 27-29, 2016 and August 8, 2016 meetings, as presented.

(All persons other than Chair Barfield, Vice Chair Kane, Trustees Chan, Ferguson-Miyamoto, and Matsumoto, and Deputy Attorney General Brian Aburano left the meeting.)

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 2:41 p.m. to approve Supplemental Executive Session Minutes for the July 11, 2016, meeting.

APPROVAL OF SUPPLEMENTAL EXECUTIVE SESSION MINUTES
- JULY 11, 2016

EXIT EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited the Executive Session at 3:03 p.m.

ADJOURNMENT

On a motion made by Trustee Kane, seconded by Trustee Ferguson-Miyamoto and unanimously carried, Chair Barfield adjourned the meeting at 3:03 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:ltk