

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

JULY 10, 2017

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

Trustees present: Mr. Colbert Matsumoto
Mr. Patrick Frane
Mr. Vincent Barfield
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto

Trustees excused Mr. Emmit Kane, Chair
Mr. Jerry Rauckhorst, Vice Chair
Mr. Wesley Machida

Staff present: Mr. Thomas Williams, 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. 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

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Mr. Colin Bebee, Pension Consulting Alliance, LLC
Mr. Peter Hanashiro, KMH, LLP
Mr. Kenny Lee, KMH, LLP
Mr. Lewis Ward, Gabriel, Roeder, Smith & Company

Public Attendees Ms. Alika Ke-Paloma, Ways and Means Committee, Hawaii State Senate
Mr. Michele Sansone, Ways and Means Committee, Hawaii State Senate
Mr. Albert Vargas, Budget Chief, House Finance Committee
Mr. Riley Fujisaki, staff, House Finance Committee

QUORUM/CALL TO ORDER	A quorum being present (Trustees Barfield, Matsumoto, Frane, Ferguson-Miyamoto, and Chan), Trustee Barfield, designated by Chair Emmit Kane to act as Chair of the meeting, called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 10:13 a.m.
PUBLIC COMMENT	Trustee Barfield called for public comment. No comments from the public were submitted.
RECESS	Trustee Barfield called for a recess and announced that the meeting would reconvene following the conclusion of the Board's Chapter 91 proceedings.
RECONVENE	A quorum being present (Trustees Barfield, Matsumoto, Frane, Ferguson-Miyamoto, and Chan) Trustee Barfield reconvened the regular meeting of the Board at 10:27 a.m.
RECOGNITION OF BRIAN ABURANO, DEPUTY ATTORNEY GENERAL, UPON HIS RETIREMENT	The Board and ERS staff recognized Brian Aburano, Deputy Attorney General, for his 10 years of dedicated service to the Board with a Board commendation and an Excellence in Service Award.
RE-EVALUATION OF THE RISK ASSESSMENT AND PROPOSED INTERNAL AUDIT PLAN (JULY 1, 2017-JUNE 30, 2019), APPROPRIATE ACTION – APPROVAL	<p>Mr. Peter Hanashiro of KMH LLP (KMH) presented KMH's Re-Evaluation of the Risk Assessment and Proposed Internal Audit Plan (July 1, 2017 – June 30, 2019).</p> <p>The proposed internal audit plan proposes 8 projects in Fiscal Year (FY) 18 and 8 projects in FY 19. These projects are being proposed to address the higher risk areas, risk areas that are considered time sensitive or provide a larger coverage, as well as projects required in accordance with the standards of the Institute of Internal Auditors.</p> <p>Mr. Hanashiro proposed to provide more progress details when delivering their quarterly report, which will show movements throughout the year to update the risk assessment especially in auditable areas</p> <p>Trustee Chan inquired about the area of risks and what was KMH's role in assisting ERS in shifting the areas from high and moderate risk to low risk. Mr. Hanashiro replied that given the nature of some of the areas, there was always a potential and likelihood of significant impact to the auditable area.</p> <p>Deputy Attorney General Brian Aburano advised the Board that the proposed internal audit plan, if approved, would be part of the scope of work for the next Request for Proposals for Internal Audit Services.</p> <p>On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board accepted the Re-evaluation of the Risk Assessment and Proposed Internal Audit Plan, as presented by KMH, LLP.</p>
INVESTMENT AND RISK MONITORING AND	Mr. Kenny Lee of KMH LLP (KMH) presented KMH's Investment and Risk Monitoring and Reporting Review, issued June 2017.

REPORTING REVIEW –
APPROVAL

Based on KMH interviews and review of documents, KMH concluded that the Investment Office staff takes its responsibility seriously and has made very focused efforts to monitor the investment portfolio. However, overall, KMH found areas where there was a lack of documentation and standardization of procedure, which if corrected, could improve the investment monitoring processes.

Mr. Vijoy Chattergy responded that moving forward investment staff will increase procedural and documentation meetings with consultants to identify additional monitoring processes. The majority of management’s action plans are scheduled to be completed by July 2018.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board accepted the Investment and Risk Monitoring and Reporting Review as presented by KMH, LLP.

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

Deputy Attorney General Brian Aburano presented proposed amendments to Chapters 6-22 and 6-23 of the Hawaii Administrative Rules (HAR). Pursuant to the Board’s request at the last Board meeting, Mr. Aburano has included proposed amendments to HAR Chapter 6-22 that seek to clarify certain issues regarding disability retirements. Mr. Aburano discussed the proposed amendments with the Board.

On a motion made by Trustee Matsumoto, seconded by Trustee Frane and unanimously carried, the Board approved the proposed amendments to HAR Chapters 6-22 and 6-23, as presented, and approved their going to a public hearing pursuant to Administrative Directive 09-01 and HRS § 91-3.

ACTUARIAL ISSUES AND
OUTLOOK FOR THE YEAR
ENDING JUNE 30, 2017

Mr. Lewis Ward of Gabriel, Roeder, Smith (GRS), ERS actuaries, gave a presentation regarding the Actuarial Issues and Outlook for the Year Ending June 30, 2017.

GRS provided a summary of actuarial assumption changes adopted by the board in 2016, the most significant of which, decreased the investment return assumption to 7% and increased the life expectancy of the ERS membership by adding an explicit assumption for continued future mortality improvement (generational approach).

GRS provided charts that showed market and actuarial values of assets, an estimate of 2017 valuation results, a projection of the ERS unfunded actuarial accrued liability (UAAL), and included a projection of the UAAL with the impact of the loss of Maui Hawaii Health Systems Corporation members.

NEW ACTUARIAL
EQUIVALENT OPTION
FACTORS

Mr. Lewis Ward gave a presentation regarding the New Actuarial Equivalent Option Factors.

GRS prepared new factor tables to be used in converting the maximum annuity

retirement benefit to other optional forms of payment for members of the State of Hawaii Employees' Retirement System (ERS) who became members prior to July 1, 2012 and ERS members who became members after June 30, 2012.

On a motion made by Trustee Matsumoto and seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board accepted the New Actuarial Equivalent Option Factors.

RECESS

Trustee Barfield called for a 15 minute recess for lunch at 12:06 p.m.

RECONVENE

A quorum being present (Trustees Barfield, Matsumoto, Frane, Ferguson-Miyamoto, and Chan) Trustee Barfield reconvened the meeting at 12:23 a.m.

ENTER EXECUTIVE
SESSION

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

- Pursuant to HRS § 92-5(a)(4), and (8), to update the Board on pending securities litigation that the ERS is involved in, 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 such litigation, including consideration of information that must be kept confidential pursuant to state or federal law, or a court order.
- 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.
- 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 regarding IT Internal Audit; appropriate action.
- Pursuant to HRS 92-5(a)(8), to consider information relating to the Request for Proposals for General Investment Consultant Services.
- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and to make decisions relating to Principal Protection finalists.
- Pursuant to HRS § 88-27.5(a)(1) and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, or to make a decision upon, investments or prospective investments relating to the Global Equity (Mid-Large Cap) manager search and mandate, 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 this matter; appropriate action.

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(A)(4), AND (8), TO
UPDATE THE BOARD ON
PENDING SECURITIES

LITIGATION THAT THE
ERS IS INVOLVED IN, 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 SUCH
LITIGATION, INCLUDING
CONSIDERATION OF
INFORMATION THAT
MUST BE KEPT
CONFIDENTIAL
PURSUANT TO STATE OR
FEDERAL LAW, OR A
COURT ORDER.

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 AGAINST
A MEMBER'S
BENEFICIARY;
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 REGARDING
IT INTERNAL AUDIT;
APPROPRIATE ACTION.

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 § 88-
27.5(A)(2), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND TO
MAKE DECISIONS
RELATING TO PRINCIPAL
PROTECTION FINALISTS.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(A)(1) AND HRS § 92-
5(A)(4), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, OR TO
MAKE A DECISION UPON,
INVESTMENTS OR
PROSPECTIVE
INVESTMENTS RELATING
TO THE GLOBAL EQUITY
(MID-LARGE CAP)
MANAGER SEARCH AND
MANDATE, 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 THIS
MATTER; APPROPRIATE
ACTION.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Chan, and unanimously carried the Board exited executive session at 1:53 pm.

EXECUTIVE DIRECTOR'S REPORT

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

- Mr. Williams attended Employer meetings on Kauai
- Mr. Williams met with managing directors from all the counties on June 16th to update them on the status of ERS and legislative developments.
- Mr. Williams reported the dismissal of the ERS vs. State lawsuit regarding Act 1 and the Hawaii Health Systems Corporation transfer of employees.
- Mr. Williams and several staff members met with Representative Romy Cachola to discuss the Representative's plan to address ERS unfunded liability. The plan proposed redirecting certain monies from EUTF, for the prepayment of health care obligation, Mr. Cachola believed such monies would be better utilized to draw down or lower the ERS unfunded liability. ERS has provided some actuarial information to Mr. Cachola for review.
- Mr. Williams scheduled a Deputy Attorney General candidate interview with Wintehn Park, who has been interviewed by Doug Chin and Patricia Ohara.
- Mr. Williams attended the RFKennedy Compass conference on June 24 through June 29. RFKennedy Compass conferences are designed to help decision-makers at large public and corporate pension funds, endowments, foundations, sovereign wealth funds, and family offices fulfill their fiduciary duties and meet the challenges and opportunities of Environment, Social and Governance (ESG) investing today.
- Mr. Williams reported ERS exploring acquisition of Board Works, as well as internet access for 12th and 14th floor conference rooms.
- Mr. Williams reported the State will contributing about \$400 million in advance contribution to the ERS fund.
- Mr. Williams described new development concerning Dr. Chinn, head of medical board extension of contract. As of this date, Dr. Chinn has not completed her compliance express filing.

OPERATIONS REPORT – JUNE 2017

Mr. Karl Kaneshiro, Branch Manager, Enrollment, Claims & Benefits gave an oral and written operations report which was received and filed.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board adjourned the meeting at 2:07 p.m.

REDACTED SIGNATURE

Thomas Williams