

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

AUGUST 10, 2015

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

Trustees present: Ms. Piliialoha Lee Loy, Chair
Mr. Vincent Barfield, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Emmitt Kane
Mr. Wesley Machida
Mr. Colbert Matsumoto

Trustee excused: Mr. Jerome Rauckhorst

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)

Staff present: Mr. Karl Kaneshiro, Interim Deputy Executive Director
Mr. Keith Miyamoto, Information Technology Manager
Ms. Kathleen Shiroma, Information Technology Specialist
Mr. Larry Wolfe, Accounting Manager
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, Investment Specialist
Ms. Wanda Kugiya, Recording Secretary

Staff excused: Ms. Kanoe Margol, Interim Executive Director
Mr. Howard Hodel, Investment Officer – Risk Management

Guests present: Mr. Michael Humphrey) Courtland Partners, Ltd.
Mr. Paul Yett) Hamilton Lane Advisors, LLC
Mr. Colin Bebee) Pension Consulting Alliance, LLC.
Mr. John Linder
Mr. Neil Rue

Mr. Peter Hanashiro) KMH, LLP
Ms. Maria Montero

Mr. Alfred Koh (via telephone) McGladrey LLP

Mr. Nelson Lau) KPMG, LLP
Ms. Kimberly Miyoshi

Mr. Charles Forbes) Cabot Industrial Core Fund L.P.
Mr. Franz Colloredo-Mansfeld
Ms. Kathy Reardon

Mr. Rick Mosely) LLC Capital Partners

Mr. David Minella) Minella Group, LLC

Public present:

Mr. Benjamin Sadoski) Unite Here Local 5

QUORUM/CALL TO ORDER

A quorum being present, Chair Lee Loy called the regular meeting to order at 9:00 a.m.

PUBLIC COMMENT

Chair Lee Loy called for public comment. Mr. Benjamin Sadoski of Unite Here Local 5 presented Unite Here research on Lowe Enterprises (Lowe) that indicated poor performance in portfolios managed by Lowe and labor issues with a property in Arizona managed by Lowe. Mr. Sadoski distributed copies of the report.

Trustee Matsumoto commented that Lowe was hired to manage the Kaanapali Golf Course and to assist the ERS with the planning the redevelopment of the property. Chair Lee Loy added that as development plans proceed, the ERS anticipates input from all stakeholders.

Following his comments, Mr. Sadoski thanked the Board for their time and left the room.

RECESS

Chair Lee Loy called a recess at 9:09 a.m. and announced that the meeting would reconvene following Chapter 91 proceedings and the Investment Committee meeting.

RECONVENE

A quorum being present, Chair Lee Loy, reconvened the meeting at 11:33 a.m.

PRESENTATION BY PENSION
CONSULTING ALLIANCE, LLC –
INVESTMENT PORTFOLIO
PERFORMANCE FOR 2ND QUARTER

Mr. Neil Rue of Pension Consulting Alliance, LLC (PCA), ERS's general investment consultant, presented PCA's reports on the performance of the ERS's investment portfolio and risk management for the quarter ended June 30, 2015. Highlights included:

- Aggregate portfolio value of \$14.4 billion.
- During the first quarter, the portfolio increased in value by roughly \$32.8 million, while increasing in value by roughly \$0.3 billion over the last year.
- Portfolio is up 4% for the quarter.
- New policy benchmark for the year was 2.7%; prior policy benchmark was 3.5%.
- The Consumer Price Index for All Urban Consumers posted its largest quarterly increase since the third quarter of 2012 as it rose by 3.5%.
- Market volatility is extremely low.

PRESENTATION BY HAMILTON LANE
ADVISORS, LLC – PRIVATE EQUITY
PROGRAM UPDATE

Mr. Paul Yett of Hamilton Lane Advisors, LLC (Hamilton Lane), ERS's private equity investment consultant, reported on the status of the ERS's private equity investment portfolio. Highlights included:

- Seven new partnerships in first quarter 2015.
- GP relationship: added three new managers.
- Paid-In Capital: \$58.4 million paid in quarter.
- Distributions: \$32 million.
- Distribution Ratio (against Paid-In Capital): 83% at end of 12/31/2014 to 82% at end of 3/31/2015.
- \$77.9 million in net value gain over the last 12 months.
- Unfunded commitments continue to rise – increased by 23% over the prior quarter with the addition of the seven new commitments.
- Strong one-year IRR of 13.60%, with each quarter achieving positive results.
- Cash flow remains flat and steady.
- The ERS portfolio has closed on nine investments in 2015, accounting for \$284 million in committed capital.
- On-track to approved 2015 commitment pacing range of \$250 million - \$350 million.

(Ms. Elmira Tsang, Deputy Attorney General, arrived at the meeting.)

PRESENTATION BY COURTLAND PARTNERS, LTD. – REAL ESTATE PORTFOLIO MEASUREMENT REPORT FOR 1ST QUARTER 2015

Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland Partners), ERS's real estate investment consultant, reported on the performance of the ERS's investment portfolio for the first quarter ended March 31, 2015. Highlights included:

- Portfolio market value of \$857,127,229 as of March 31, 2015.
- Portfolio is 6.0% of total plan assets.
- Total net return was 5.0% for the quarter
- Total portfolio internal rate of return was 7.7%.
- Returns continue to be strong: \$40,409,703 return of capital for the quarter; \$12,361,186 net income.

RECESS

Chair Lee Loy called a ten minute recess at 12:35 p.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 12:51 p.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board entered executive session:

- Pursuant to Act 88, Session Laws of Hawaii 2015, and HRS § 92-5(a)(4), to consider an investment 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, Cabot Industrial Core Fund, L.P.
- Pursuant to Act 88, Session Laws of Hawaii 2015, and HRS §92-5(a)(4), to consider the system's investment 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 the Ka'anapali Golf Courses.
- 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 cyber security.

EXECUTIVE SESSION TO CONSIDER AN INVESTMENT 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, CABOT INDUSTRIAL CORE FUND, L.P.

EXECUTIVE SESSION TO CONSIDER THE SYSTEM'S INVESTMENT 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 THE KA'ANAPALI GOLF COURSES.

(Everyone left the room except the Trustees, Mr. Chattergy, Ms. Kishimoto, Ms. Tsang, and Ms. Kugiya.)

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 CYBER SECURITY.

(Mr. Keith Miyamoto and Ms. Kathleen Shiroma joined the meeting.)

(Mr. Peter Hanashiro, Ms. Maria Montero, from KMH LLP (KMH), ERS's internal auditor, and Mr. Alfred Koh from McGladeryLLP joined the meeting.)

(Mr. Koh left the meeting.)

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board exited executive session.

(Investment staff returned to the meeting.)

KMH LLP'S BENEFIT DISBURSEMENT REVIEW, RE-EVALUATION OF THE RISK ASSESSMENT AND PROPOSED INTERNAL AUDIT PLAN, AND INTERNAL AUDIT UPDATE

Mr. Kaneshiro reported that, at the Audit Committee meeting on July 30, 2015, the Committee reviewed the following reports presented by the ERS's internal audit consultants KMH LLP:

- Audit Committee Update Report dated July 30, 2015;
- Benefit Disbursement Review Internal Audit Report; and
- Risk Assessment Re-Evaluation and Proposed Internal Audit Plan.

Based on such review, the Committee recommended that the Board:

- accept the Benefit Disbursement Review Internal Audit Report, as presented by KMH; and
- approve the proposed Internal Audit Plan (July 1, 2015 –

June 30, 2017), as presented by KHM, subject to: availability of funds; one-year extension of the KMH LLP contract; and procurement of a new contract for the period beyond the termination of the current internal audit contract.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board:

- Accepted the Benefit Disbursement Review Internal Audit Report as presented; and
- Approved the proposed Internal Audit Plan (July 1, 2015 – June 30, 2017) as presented, subject to: availability of funds; one-year extension of the current internal audit contract with KMH LLP; and procurement of a new internal audit contract for the period beyond the termination of the current contract.

There being no further discussion, the representatives from KMH and Mr. Miyamoto and Ms. Shiroma left the meeting.

(Mr. Aburano returned to the meeting.)

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

Mr. Nelson Lau and Ms. Kimberly Miyoshi from KPMG LLP (KPMG) presented the Auditor's Report and Financial Statements of the ERS as of and for the year ended June 30, 2014.

(Mr. Larry Wolfe, Accounting Manager, arrived at the meeting.)

Highlights included:

- The ERS adopted Governmental Accounting Standards Board (GASB) Statement No. 67 *Financial Reporting for Pension Plans --an amendment of GASB Statement No. 25* for the fiscal year ended June 30, 2014.
- There were no material uncorrected misstatements.
- Focus areas during the audit:
 - Valuation of alternative investments: establishment of relevant and reliable benchmarks and retrospective assessment; and continue to monitor alternative investments.
 - Finalization of benefit payments to retirees.
 - Delays encountered in financial reporting.
- Highlights of the draft financial statements.

On a motion made by Trustee Matsumoto, seconded by Trustee Kane, and unanimously carried, the Board accepted KPMG LLP Auditor's Report and Financial Statement as of and for the year

ended June 30, 2014, as presented.

There being no further discussion, the representatives from KPMG left the meeting.

(Investment staff and consultants left the meeting.)

AMEND AGENDA

Trustee Barfield made a motion, seconded by Trustee Matsumoto, to amend the agenda to include the following:

Executive Session, pursuant to HRS § 92-5(a)(2) and (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, and to consider, administrative staff personnel issues; appropriate action.

Trustees Barfield, Matsumoto and Kane voted in favor of the motion. Trustees Ferguson-Miyamoto and Frane and Chair Lee Loy voted against the motion. An affirmative vote of six or more Trustees being required to amend the agenda, the motion failed.

(Investment staff returned to the meeting.)

EDUCATION SESSION ON INVESTMENT STRUCTURES TO ENHANCE RETURN OPPORTUNITIES—PRESENTED BY LLM CAPITAL PARTNERS, LLC AND MINELLA GROUP, LLC

Mr. Chattergy and Mr. Rue opened the education session on economic sharing concepts. Mr. Rue presented a recap of the economic sharing concept and provided background on how the concept could be applied to stabilized growth strategies.

Mr. David Minella from Minella Capital, and Mr. Frederick Moseley from LLM Capital Partners LLC led a discussion on approaches and issues relating to economic sharing.

(Trustee Machida left the meeting.)

There being no further discussions, representatives from Minella Capital and LLM Capital Partners LLC left the meeting.

REPORT OF TRUSTEES, APPOINTED PURSUANT TO HRS§ 92-2.5(b)(1), TO MEET WITH REPRESENTATIVES OF GATEWAY INVESTMENT ADVISERS, LLC; KOHLBERG KRAVIS ROBERTS & COMPANY (KKR); OECHSLE INTERNATIONAL ADVISORS, LLC; AND POLARIS PARTNERS

Mr. Chattergy presented written reports on the following meetings held pursuant to HRS § 92-2.5(b)(1):

<u>Trustees</u>	<u>Fund Manager</u>	<u>ERS Staff</u>
Chair Lee Loy	Polaris Venture	Andrew Chen
Trustee Ferguson-Miyamoto	Oechsle International	Ian Wetzel
Trustee Rauckhorst	KKR Infrastructure	Aaron Au
Trustee Frane	Gateway	Tony Goo, Howard Hodel

The Trustees were appointed at the July 21, 2015, Board meeting to meet with the managers to discuss investment themes and opportunities.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board entered 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 Employees' Retirement System of the State of Hawaii and the State of Hawaii ex rel. Stephen Jackson v. Clarion Partners LLC, et al.

The Chair announced that the following Executive Session item would be deferred:

- 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 gifts.

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 EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII AND THE STATE OF HAWAII EX REL. STEPHEN JACKSON V. CLARION PARTNERS LLC, ET AL

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto and unanimously carried, the Board exited executive session.

OPERATIONS REPORT
- JULY 2015

Mr. Karl Kaneshiro, Interim Deputy Executive Director, presented the operations report for July 2015. Highlights included status of ERS's staffing vacancies, on-going internal audit projects, Board election ballots, Governor Ige's visit to the ERS office, planned travel by the Interim Executive Director and outstanding retirement benefit finalization cases.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, Chair Lee Loy adjourned the meeting at 3:21 p.m.

**REDACTED
SIGNATURE**

Karl Kaneshiro
Interim Deputy Executive Director

KK:wk

