

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

JULY 13, 2015

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

Trustees present:

Ms. Pilialoa Lee Loy, Chair
Mr. Vince Barfield, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Emmit Kane
Mr. Wesley Machida
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst

Staff present:

Ms. Kanoe Margol, Interim Executive Director
Mr. Karl Kaneshiro, Interim 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 Wetzel, Investment Specialist
Mr. Larry Wolfe, Accounting Manager
Ms. Donna Curry, Program Specialist
Ms. Jaime Hirata, Recording Secretary
Ms. Wanda Kugiya, Secretary

Attorneys present:

Mr. Brian Aburano, Deputy Attorney General (Counsel for the Board)

Guests present:

Mr. Michael Humphrey) Courtland Partners, Ltd.
Mr. Joe Newton) Gabriel Roeder Smith & Company
Ms. Kay Ceserani) Pension Consulting Alliance, Inc.
Mr. Neil Rue
Ms. Kristen Stuit

QUORUM/CALL TO ORDER	A quorum being present, Chair Lee Loy, called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System (ERS) to order at 9:03 a.m.
PUBLIC COMMENT	Chair Lee Loy called for public comment. There were no comments from members of the public.
RECESS	Chair Lee Loy called a recess at 9:05 a.m. and announced that the meeting would reconvene following the Chapter 91 proceedings.
RECONVENE	A quorum being present, Chair Lee Loy reconvened the meeting at 9:13 a.m.
ENTER EXECUTIVE SESSION	<p>On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board entered 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 the performance evaluations of the ERS's Interim Executive Director, Chief Investment Officer, and Investment Officers, where consideration of matters affecting privacy will be involved.</p> <p>(All individuals except Deputy Attorney General Brian Aburano were excused from the meeting.)</p>
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 THE PERFORMANCE EVALUATIONS OF THE EMPLOYEES' RETIREMENT SYSTEM'S INTERIM EXECUTIVE DIRECTOR, CHIEF INVESTMENT OFFICER, AND INVESTMENT OFFICERS, WHERE CONSIDERATION OF MATTERS AFFECTING PRIVACY WILL BE INVOLVED	
	(Chair Lee Loy was excused from the meeting at 10:00 a.m.)
EXIT EXECUTIVE SESSION	On a motion made by Trustee Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited executive session.

Vice Chair Barfield announced that Chair Lee Loy has been excused from the meeting and that he will chair the rest of the meeting.

JUNE 30, 2015 ANNUAL
ACTUARIAL VALUATION OF
THE EMPLOYEES'
RETIREMENT SYSTEM

Mr. Joe Newton of Gabriel Roeder Smith & Company (GRS), ERS's actuarial consultant, presented a preliminary report on GRS's June 30, 2015 annual actuarial valuation of the ERS, that included projections that reflected the impact of the 7.65% investment return assumption effective June 30, 2015:

- Funded ratio is anticipated to improve from 61.4% to 61.7% based on the 4-year smoothing methodology adopted by the Board for determining the valuation numbers.
- Unfunded liability is expected to increase to \$8.96 billion from \$8.58 billion.
- The funding period to pay off the unfunded liability is expected to remain the same at 26 years.
- GRS's valuation results are based on an estimated market value of \$14.367 billion.

Mr. Newton commented that fiscal year (FY) 2015 will be the first time employers will need to disclose the market value of assets on their balance sheet per the new requirements established by Governmental Accounting and Standards Board (GASB) 68, and that the FY 2015 return eliminated all deferred investment gains. GRS's next 5-year experience study of the ERS is scheduled to occur after their completion of the June 30, 2015 valuation of the ERS. Mr. Newton and the Board discussed continued mortality improvement and its possible effects on the 2016 annual actuarial valuation of the ERS. In closing, Mr. Newton mentioned that GRS will continue to research Hawaii's mortality rates.

RECESS

Vice Chair Barfield called a recess at 11:03 a.m. and announced that the meeting would reconvene following the Investment Committee meeting.

RECONVENE

A quorum being present (Trustees Barfield, Ferguson-Miyamoto, Frane, Kane, Matsumoto, Rauckhorst), Vice Chair Barfield reconvened the meeting at 1:38 p.m. and announced that the New Business agenda items 6 and 7 will be taken into consideration now:

- 6. Appointment of Trustees, pursuant to HRS § 92-2.5(b)(1), to meet with representatives of certain investment managers at the Investment Education Summit to discuss investment trends and opportunities;
- 7. Transition Manager Selection; and

New Business agenda items 3, 4, and 5 will be taken into consideration towards the end of the meeting:

- 3. Performance Evaluations of the ERS's Interim Executive Director, Chief Investment Officer, and Investment Officers;

- 4. Contracts for Maintenance and Support Services for the ERS computer system;
- 5. Legislative proposals relating to the ERS, including the proposals listed in Schedule A.

APPOINTMENT OF TRUSTEES, PURSUANT TO HRS § 92-2.5(b)(1), TO MEET WITH REPRESENTATIVES OF CERTAIN INVESTMENT MANAGERS AT THE INVESTMENT EDUCATION SUMMIT TO DISCUSS INVESTMENT TRENDS AND OPPORTUNITIES

Mr. Vijoy Chattergy, ERS’s Chief Investment Officer (CIO), recommended that the Board appoint trustees, pursuant to HRS § 92-2.5(b)(1), to discuss investment themes and opportunities with certain ERS investment managers on July 21, 2015.

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board established the following ad hoc committee assignments:

Trustees	Fund Manager	ERS Staff
Pilialoa Lee Loy & Emmitt Kane	Polaris Venture	Andrew Chen
Jackie Ferguson-Miyamoto & Jerry Rauckhorst	Oechsle	Ian Wetzel
Colbert Matsumoto & Wesley Machida	KKR Infrastructure	Aaron Au
Vince Barfield & Patrick Frane	Gateway	Tony Goo, Howard Hodel

TRANSITION MANAGER SELECTION

Ms. Kay Ceserani and Ms. Kristen Stuit of Pension Consulting Alliance, LLC (PCA), ERS’s investment consultant, reported on the outcome of the ERS’s transition management provider request for information (RFI) process that began in April 2015, to determine if any changes should be made to the existing pool of transition management providers. The CIO and PCA recommended that the Board increase the pool to the following six providers, subject to final due diligence and contract negotiations:

- Citi
- BlackRock
- State Street
- Russell
- Abel Noser
- Pavilion

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the selection of the six recommended transition management providers (Citi, BlackRock, State Street, Russell, Abel Noser, and Pavilion), subject to final due diligence and contract negotiations.

RECRUITMENT AND SEARCH
FOR NEW EMPLOYEES'
RETIREMENT SYSTEM
EXECUTIVE DIRECTOR

Ms. Kanoe Margol, ERS's Interim Executive Director (Interim Executive Director) reported that the recruitment for a new permanent executive director for the ERS is on track per the approved timeline. Interviews with finalists are scheduled for July 30, 2015 and August 3, 2015.

(All PCA representatives left the meeting.)

CONTRACTS FOR
MAINTENANCE AND
SUPPORT FOR THE
EMPLOYEES' RETIREMENT
SYSTEM COMPUTER SYSTEM

The Interim Executive Director presented ERS staff's request for the Board's approval to exercise the option to extend the support services of Vitech Systems Group, Inc. (Vitech) for the ERS's computer system known as "V3" to August 30, 2015, to allow the ERS time to negotiate a multi-year contract to provide for maintenance and support services while the ERS evaluates its options for upgrade or replacement of the current information management/computer system.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board approved extension of the term of the contract with Vitech to August 30, 2015, on the terms and conditions set forth in the contract.

LEGISLATIVE PROPOSALS
RELATING TO THE
EMPLOYEES' RETIREMENT
SYSTEM

The Interim Executive Director reported that the following legislative proposals related to the ERS for the 2015 Legislative Session were signed into law by the Governor on June 5, 2015:

1.	Senate Bill (S.B.) 1087, Senate Draft (S.D.) 1, House Draft (H.D.) 1	Act 85, Session Laws of Hawaii (SLH) 2015	Relating to the ERS (Hybrid Plan vested death and refund benefits)
2.	S.B. 1089, S.D. 1, H.D. 1	Act 86, SLH 2015	Relating to the ERS (Acquisition of service credit and workers' compensation benefit contributions)
3.	S.B. 1090, S.D.1, H.D.1, C.D. 1	Act 87, SLH 2015	Relating to the ERS (Employer reporting and penalties for non-compliance)
4.	S.B. 1208, S.D.1, H.D.1	Act 88, SLH 2015	Relating to the ERS (Board of Trustees meetings)

On June 29, 2015, the Governor notified the Legislature of his intent to veto S.B. 1324, S.D. 2, H.D. 1, C.D. 1 (Relating to Divorce). The Governor must veto or sign all the bills enrolled to him by July 14, 2015, or they become law without his signature. In closing, the Interim Executive Director noted that ERS staff will continue to monitor the proposal relating to divorce.

OPERATIONS REPORT
– JUNE 2015

Mr. Karl Kaneshiro, ERS’s Interim Deputy Executive Director (Interim Deputy Executive Director), presented the monthly report on the ERS’s operations and website statistics for June 2015. Highlights included:

- Update on the status of the recruitment for the Secretary III position.
- KMH LLP was selected as the vendor to assist the ERS with the trustee election to fill the teacher trustee position on the ERS Board.
- Update on the finalization of applications for retirement.

ENTER EXECUTIVE SESSION

On a motion mad by Trustee Rauckhorst, seconded by Trustee Kane, and unanimously carried, the Board entered executive session:

- Pursuant to Act 88, Session Laws of Hawaii (SLH) 2015, and HRS § 92-5(a)(4), to deliberate concerning the authority of persons designated by the Board to negotiate the sale of property held by or for the benefit of the ERS 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 sale;
- To approve May 13, 2015 executive session minutes; and
- 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, the performance evaluations of the ERS’s Interim Executive Director, CIO, and Investment Officers, where consideration of matters affecting privacy will be involved.

EXECUTIVE SESSION,
PURSUANT TO ACT 88,
SESSION LAWS OF HAWAII
2015, AND HRS 92-5(a)(4), TO
DELIBERATE CONCERNING
THE AUTHORITY OF
PERSONS DESIGNATED BY
THE BOARD TO NEGOTIATE
THE SALE OF PROPERTY
HELD BY OR FOR THE
BENEFIT OF THE
EMPLOYEES’ RETIREMENT
SYSTEM 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 SALE

(Mr. Michael Humphrey of Courtland Partners left the meeting.)

APPROVAL OF EXECUTIVE
SESSION MINUTES
– MAY 13, 2015

(All ERS staff were excused from the room.)

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, THE
PERFORMANCE
EVALUATIONS OF THE
EMPLOYEES' RETIREMENT
SYSTEM'S INTERIM
EXECUTIVE DIRECTOR,
CHIEF INVESTMENT
OFFICER, AND INVESTMENT
OFFICERS, WHERE
CONSIDERATION OF
MATTERS AFFECTING
PRIVACY WILL BE INVOLVED

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Frane, and unanimously carried, the Board exited executive session.

APPROVAL OF MINUTES
– MAY 13, 2015

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board approved the minutes of the May 13, 2015 meeting, as circulated.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Vice Chair Barfield adjourned the meeting at 2:50 p.m.

**REDACTED
SIGNATURE**

Kanoe Margol
Interim Executive Director

KM: jh