

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

SEPTEMBER 12, 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. Patrick Frane  
Mr. Wesley Machida  
Mr. Colbert Matsumoto  
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 Wetzel, Investment Specialist  
Ms. Donna Curry, Program Specialist  
Mr. Keith Miyamoto, Information Technology Manager  
Ms. Kathleen Shiroma, Information Technology 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)  
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)
- Attorneys excused: Mr. Brian Aburano, Deputy Attorney General (Counsel for the Board)
- Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC  
Mr. John Linder, Pension Consulting Alliance, LLC  
Mr. Michael Humphrey, Courtland Partners, Ltd.  
Mr. Tom Hester, Courtland Partners, Ltd.  
Mr. Paul Yett, Hamilton Lane Advisors, LLC  
Mr. Ronald Kravit, Cerberus Capital Management  
Mr. Mike Buckius, Gateway Investment Advisers, LLC  
Mr. Paul Anderson, Natixis Global Asset Management

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| QUORUM/CALL TO ORDER  | A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Ferguson-Miyamoto, Frane, Machida, 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.   |
| 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 following the conclusion of the chapter 91 proceedings and the Investment Committee meeting.  |
| RECONVENE   | A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Ferguson-Miyamoto, Frane, Machida, Matsumoto, and Rauckhorst), Chair Barfield reconvened the meeting at 10:46 a.m.  |
| HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY PROGRAM UPDATE | Mr. Paul Yett of Hamilton Lane Advisors LLC (Hamilton Lane) gave an oral and written update, as of March 31, 2016, regarding the Private Equity Program administered by Hamilton Lane. Hamilton Lane plans to sell the ERS's position in First Reserve Fund XI. This is the first sale of an ERS private equity holding on the secondary market. Internal rate of return (IRR) for the portfolio experienced a slight decrease over the past year; however the portfolio significantly outperformed the MSCI ACWI IMI across all time horizons. The portfolio remains well diversified and is on track with Hamilton Lane's recommended 2016 commitment pacing range of \$450 million to \$650 million. |
| DRA GROWTH & INCOME MASTER FUND IX, LLC                     | Mr. Aaron Au, Investment Officer, reported that, at the August 8, 2016 Board of Trustees meeting, the Trustees approved an investment commitment to DRA Growth & Income fund IX, LLC, which is a feeder fund. It was subsequently determined that ERS should invest through a non-feeder vehicle, DRA Growth and Income Master Fund IX, LLC.<br><br>On a motion by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board ratified the investment commitment to DRA Growth and Income Master Fund IX, LLC, instead of to DRA Growth & Income fund IX, LLC.  |
| AMENDMENT TO AGENDA   | Chair Barfield requested an amendment to the agenda to consider the agenda item regarding Cerberus Capital Management prior to the consideration of the other items on the agenda to accommodate Mr. Ronald Kravit's flight departure scheduled for 2:00 p.m.<br><br>On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board amended the agenda to consider the Cerberus Capital Management item out of order.   |
| ENTER EXECUTIVE SESSION                                     | On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, the Board entered into executive session at 11:27 a.m., pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations and to make a decision upon an investment in a real estate fund sponsored by Cerberus Capital Management.   |

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-  
27.5(a)(1), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS AND TO  
MAKE A DECISION UPON, AN  
INVESTMENT IN A REAL  
ESTATE FUND SPONSORED BY  
CERBERUS CAPITAL  
MANAGEMENT

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board exited Executive Session at 12:10 p.m.

RECESS

Chair Barfield called for a fifteen-minute recess for lunch at 12:11 p.m.

RECONVENE

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Ferguson-Miyamoto, Frane, Matsumoto, and Rauckhorst), Chair Barfield reconvened the meeting at 12:27 p.m.

INVESTMENT MANAGER  
WATCHLIST

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the removal of Stafford Capital Partners from watch status.

AUTHORIZATION FOR  
EXECUTION OF LEGAL  
DOCUMENTS ON BEHALF OF  
THE EMPLOYEES' RETIREMENT  
SYSTEM

Deputy Attorney General Diane Kishimoto presented for the Board's consideration resolutions, a copy of which is attached hereto, authorizing the Executive Director or, by written designation by the Executive Director, the Deputy Executive Director to sign and execute on behalf of the ERS:

- A. Contracts and agreements for goods and services for the administration or operation of the Employees' Retirement System of the State of Hawaii; provided that the compensation payable under the contract or agreement, including costs and taxes, does not exceed ONE HUNDRED THOUSAND DOLLARS (\$100,000.00); and
- B. Agreements that are ancillary to contracts with investment managers, transition managers or custodians of the financial accounts said System, including, without limitation, broker agreements, account opening agreements and transition letters.

Ms. Kishimoto reminded the Board that the Board's general resolutions relating to execution of contracts on behalf of the ERS require the signature of (1) the Executive Director or Deputy Executive Director and (2) the Board Chair or other trustee. This can be burdensome for the trustees and ERS staff and may not be warranted for contracts involving smaller amounts or which are ministerial in nature.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board adopted the resolutions, a copy of which s attached hereto.

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

Mr. Thomas Williams, Executive Director, Ms. Donna Curry, Program Specialist, and Ms. Diane Kishimoto, Deputy Attorney General presented the following legislative proposals for introduction at the request of the ERS during the 2017 legislative session.

- Funding for Disassociation of Employers from ERS
- Employer Contribution Rate Increase
- Housekeeping (commencement of interest for retroactive pension adjustments; required time for payment by employers of spiking costs; and amendments to facilitate revision of approval process for disability retirement and accidental death benefits)
- Retention of ERS Unclaimed Member Benefits
- Separate ERS Contribution Accounts for Employers
- Exempt Investment Specialists

Due to questions and concerns from the Board, staff will further review and research the legislative proposals and will present updated proposals to the Board at the October 11, 2016 meeting.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered Executive Session at 1:01 p.m.:

- Pursuant to HRS § 88-27.5(a)(1) and (2) and HRS § 92-5 (a)(4), to conduct discussions and deliberations and to make a decision upon, 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, real estate separate accounts;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations 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 § 88-27.5(a)(2), to conduct discussions and deliberations and to make decisions relating to Small Cap Manager Search Finalists;
- 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;
- 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 Information Technology Strategic Plan;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations and to make a decision upon, investments in the Hawaii Targeted Investment Program;
- 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; 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 a recommended appeal of an adverse decision in a federal securities fraud class action lawsuit; appropriate action.

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-  
27.5(a)(1) AND (2) AND HRS § 92-  
5(a)(4), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS AND TO  
MAKE A DECISION UPON, 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, REAL  
ESTATE SEPARATE ACCOUNTS

(Trustee Machida returned to the meeting at 1:43 p.m.)

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-  
27.5(a)(1), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS 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 § 88-  
27.5(a)(2), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS AND TO  
MAKE DECISIONS RELATING  
TO SMALL CAP MANAGER  
SEARCH FINALISTS

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 FOR  
INFORMATION

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  
INFORMATION TECHNOLOGY  
STRATEGIC PLAN

EXECUTIVE SESSION,  
PURSUANT TO HRS § 88-  
27.5(a)(1), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS AND TO  
MAKE DECISION UPON,  
INVESTMENTS IN THE HAWAII  
TARGETED INVESTMENT  
PROGRAM

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

(Trustee Rauckhorst and Trustee Matsumoto left the meeting at 2:29 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 A  
RECOMMENDED APPEAL OF  
AN ADVERSE DECISION IN A  
FEDERAL SECURITIES FRAUD  
CLASS ACTION LAWSUIT;  
APPROPRIATE ACTION

APPROVAL OF EXECUTIVE  
SESSION MINUTES

- June 13, 2016
- July 11, 2016

## EXIT EXECUTIVE SESSION

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

## EXECUTIVE DIRECTOR'S REPORT

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

- Act 1: Complaint was filed and TRO was granted. Hearing on preliminary injunction will be held later this month. Request for the private letter ruling has been submitted with the IRS as well as a request for expedited handling.
- Mr. Williams met with Senator Jill Tokuda and Senator Gil Keith-Agaran regarding the likely contribution increase due to improved life expectancy, Maui disassociation, and reduction in investment return rate.
- Mr. Williams met with Senator Keith-Agaran regarding the disability process due to a complaint.
- Mr. Williams attended the NASRA conference. One aspect of the conference was the improved mortality issue resulted in increased contributions and lower assumed investment returns, the trend in most states is 7.25%.
- Administrative & Legislative Committee meeting was held and draft legislative proposals were sent to Budget & Finance.
- Letters of commendation are included in the Board packets.
- Initiated a Customer Satisfaction Survey.
- Mr. Williams met with members of the Hawaii Business Roundtable (HBR) to talk about the start-up investment environment in Hawaii. HBR expressed gratitude for ERS's involvement in HiTIP due to ERS's ability to bring in larger, more powerful, well-funded investment managers to Hawaii. HBR sees ERS's support in HiTIP II as an important part of the overall fabric of technology and renewable energy start-up development.
- Chair Barfield hosted a meeting on the succession plan for the Deputy Attorney Generals which included Patricia Ohara, Supervising Deputy Attorney General, Ms. Kishimoto and Mr. Aburano. ERS will be seeking approval to permit an early hire in support of a good transition.
- Mr. Williams gave a report of the Public Funds Forum he attended last week which included an observation that the stock market is sitting at an all-time high while bond market rates are historically low would typically signal a recession.
- Meeting was held with Ms. Elizabeth Kim of the Governor's office on communications with the Governor, IRS, and congressional delegation.
- ERS developed a preliminary budget to Budget & Finance which included ERS being mandated to administer QDRO, legal support from AG's office, internal audit personnel, dedicated call center, staff, and expansion of the investment team.
- ERS issued a request for expression of interest (EOI) in banking services to pay benefits to retirees. The current service is being provided by Bank of Hawaii. Three organizations responded. A team rated the EOIs and the recommendation is to retain Bank of Hawaii.
- Internal audit remediation: IT and operations are making progress

toward goals. Shortfall is related to the writing of policies and processes due to lack of available resources. An internal auditor would help to support the documentation of policies, processes and business process review.

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

Chair Barfield invited Trustee Machida to provide background on the legislative proposal for separate accounts for employers. Trustee Machida explained that this is a funding issue. If an employer wants to make more than the contributions required by statute, there is no mechanism for giving the employer credit for the additional contributions. All employer contributions go into the same "pot." Additional contributions would benefit the ERS; however, there is no incentive for the employers to make additional contributions.

**OPERATIONS REPORT**

Mr. Williams stated the Operations Report is a receive and file.

**APPROVAL OF MINUTES**

- JUNE 13, 2016
- JULY 11, 2016

On a motion made by Vice Chair Kane, seconded by Trustee Frane, and unanimously carried, the Board approved the minutes of the June 13, 2016 and July 11, 2016 meetings, as circulated.

**ADJOURNMENT**

On a motion made by Vice Chair Kane, seconded by Trustee Machida, and unanimously carried, Chair Barfield adjourned the meeting at 2:49 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:ltk