

MINUTES OF THE REGULAR BOARD MEETING OF THE  
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM (ERS)

DECEMBER 9, 2013

CITY FINANCIAL TOWER  
201 MERCHANT STREET, SUITE 1935  
HONOLULU, HAWAII 96813

Trustees present: Ms. Piliialoha Lee Loy, Chair  
Mr. Vincent Barfield, Vice Chair  
Mr. Patrick Frane  
Mr. Colbert Matsumoto  
Mr. Jerome Rauckhorst  
Mr. Wayne Yamasaki  
Mr. Kalbert Young

Trustee excused: Ms. Jackie Ferguson-Miyamoto

Attorneys present: Mr. Brian Aburano, Deputy Attorney General  
Ms. Diane Kishimoto, Deputy Attorney General

Staff present: Mr. Wesley Machida, Executive Director  
Ms. Kanoë Margol, Assistant Administrator  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Ian Wetzel, Investment Specialist  
Ms. Donna Curry, Program Specialist  
Ms. Gerri Konishi, Member Home Loan Assistant  
Ms. Jaime Hirata, Recording Secretary  
Ms. Raechele Joyo, Secretary  
Ms. Wanda Kugiya, Secretary

Staff excused: Mr. Andrew Chen, Investment Specialist

Guests present: Mr. Ian MacNaughton ) BlackSand Capital  
Mr. Ben Wang

Mr. Michael Humphrey ) Courtland Partners, Ltd.  
Mr. Dan Moore

Mr. Joe Newton ) Gabriel Roeder Smith & Company  
Mr. Lewis Ward

Mr. Jeff Gehl ) RCP Advisors

Mr. Dallas Weyand ) KMH LLP

Ms. Kimberly Miyoshi ) KPMG LLP

Mr. Andy Betz ) Macquarie Funds Group (USA) Inc.

Guests present  
(continued):

Ms. Kay Ceserani ) Pension Consulting Alliance, Inc.  
Mr. John Linder  
Mr. Neil Rue

QUORUM/CALL TO ORDER

A quorum being present, Chair Lee Loy, called the regular meeting of the Board of Trustees of the Employees' Retirement System (the Board), to order at 9:04 a.m.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried (Trustee Young was not present for the vote), the Board amended the agenda to add the following to New Business:

- Resolution to honor Wayne Yamasaki;
- Presentation by Pension Consulting Alliance, Inc. (PCA) on the Real Return Class;

and to amend item 3 of the Executive Session to read as follows:

Executive Session, pursuant to HRS § 92-5(a)(4) and (8), to hear a status report from Macquarie Funds Group (USA) Inc. on the Hawaii Targeted Investment Program (HiTIP) and on Macquarie Funds Group (USA) Inc. organizational changes; appropriate action.

RECESS

Chair Lee Loy called a recess and announced that the meeting would reconvene after the Investment Committee meeting.

(Trustee Young arrived during the recess.)

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 10:49 a.m.

PRESENTATION BY COURTLAND PARTNERS, LTD. ON THE ERS'S REAL ESTATE PORTFOLIO MEASUREMENT REPORT FOR 2<sup>ND</sup> QUARTER 2013

Mr. Michael Humphrey and Mr. Dan Moore of Courtland Partners, Ltd. (Courtland), ERS's real estate investment consultant, presented Courtland's performance measurement report for the ERS's real estate portfolio for the second quarter of 2013. Highlights included:

- Portfolio market value of \$887,328,879.00 for the period ended June 30, 2013.
- Total number of current investments: 17.
- 4.4% total net return for the quarter; 9.0% year to date.
- 7.3% internal rate of return.
- Portfolio is 7.2% of plan assets (versus 7.0% target allocation).

Mr. Humphrey and Mr. Moore also provided Courtland's recommendations for:

- A core component in Asia or outside the U.S. for more international exposure.
- Investment leverage review.
- Potential changes to the management of the separate accounts.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Matsumoto, and unanimously carried, the Board entered executive session, pursuant to HRS § 92-5(a)(8), to consider a preliminary draft of the June 30, 2013 Actuarial Valuation.

EXECUTIVE SESSION TO CONSIDER GABRIEL ROEDER SMITH & COMPANY'S PRELIMINARY DRAFT OF THE 88<sup>th</sup> ANNUAL ACTUARIAL VALUATION OF THE ERS FOR THE YEAR ENDING JUNE 30, 2013

(Trustee Rauckhorst left the meeting.)

EXIT EXECUTIVE SESSION

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board exited from executive session.

RESOLUTION FOR WAYNE YAMASAKI

Chair Lee Loy read proposed Resolutions recognizing Trustee Wayne Yamasaki, for his service on the ERS Board for a term expiring on January 1, 2014.

On a motion made by Trustee Matsumoto, seconded by Trustee Young, and unanimously carried, the Board adopted the Resolutions, a copy of which is attached to these minutes and incorporated by reference (Attachment A).

RECESS

Chair Lee Loy called a recess at 12:10 p.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 12:30 p.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Yamasaki, and unanimously carried, the Board entered executive session:

- To approve executive session minutes of the October 17-18, 2013 Board meeting;
- Pursuant to HRS § 92-5(a)(4) and (8), to consider, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding, the Royal Ka'anapali Golf Courses property;
- Pursuant to HRS § 92-5(a)(8), to consider, and if appropriate, to act on BlackSand Capital, LLC's portfolio review;
- Pursuant to HRS § 92-5(a)(8), to hear a status report from Macquarie Funds Group (USA), Inc. on the Hawaii Targeted Investment Program (HiTIP) and on Macquarie Funds Group (USA) Inc. organizational changes;
- Pursuant to HRS § 92-5(a)(8), to consider draft internal audit reports by KMH LLP; and
- Pursuant to HRS § 92-5(a)(4) and (8), to consider, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding, the draft audit reports and financial statements of the ERS.

APPROVAL OF EXECUTIVE  
SESSION MINUTES

– OCTOBER 17-18, 2013

EXECUTIVE SESSION TO  
CONSIDER, AND TO CONSULT  
WITH THE BOARD'S ATTORNEYS  
ON QUESTIONS AND ISSUES  
PERTAINING TO THE BOARD'S  
POWERS, DUTIES, PRIVILEGES,  
IMMUNITIES, AND LIABILITIES  
REGARDING THE ROYAL  
KA'ANAPALI GOLF COURSES  
PROPERTY

(Trustee Rauckhorst returned to the meeting during the discussion.)

EXECUTIVE SESSION TO  
CONSIDER, AND IF APPROPRIATE,  
TO ACT ON BLACKSAND  
CAPITAL, LLC'S PORTFOLIO  
REVIEW

(The Executive Director left the meeting.)

EXECUTIVE SESSION TO HEAR A  
STATUS REPORT FROM  
MACQUARIE FUNDS GROUP (USA)  
INC. ON THE HAWAII TARGETED  
INVESTMENT PROGRAM (HiTIP)  
AND ON MACQUARIE FUNDS  
GROUP (USA) INC.  
ORGANIZATIONAL CHANGES

(The Executive Director returned to the meeting during the  
discussion.)

EXECUTIVE SESSION TO  
CONSIDER DRAFT INTERNAL  
AUDIT REPORTS BY KMH LLP

EXECUTIVE SESSION TO  
CONSIDER, AND TO CONSULT  
WITH THE BOARD'S ATTORNEYS  
ON QUESTIONS AND ISSUES  
PERTAINING TO THE BOARD'S  
POWERS, DUTIES, PRIVILEGES,  
IMMUNITIES, AND LIABILITIES  
REGARDING, THE DRAFT AUDIT  
REPORTS AND FINANCIAL  
STATEMENTS OF THE ERS

EXIT EXECUTIVE SESSION

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

APPROVAL OF MINUTES  
– OCTOBER 17-18, 2013

On a motion made by Trustee Barfield, seconded by Trustee  
Rauckhorst, and unanimously carried, the Board approved the minutes  
of the October 17-18, 2013 Board meeting, as circulated.

APPOINTMENT OF AD HOC  
COMMITTEE FOR TOUR OF SKAI  
VENTURES

Chair Lee Loy appointed the following Trustees to attend a tour of the Skai Ventures research facilities, scheduled for December 10, 2013, conducted by Dr. Hank Wu of Skai Ventures, and coordinated by Mr. Betz of Macquarie Funds Group (USA) (Macquarie), to further assess the investment opportunities of Skai Ventures and the status of the Hawaii Targeted Investment Program (HiTIP) managed by Macquarie for the ERS:

- Jackie Ferguson-Miyamoto;
- Patrick Frane; and
- Pili Lee Loy.

TERMINATION OF COMMISSION  
RECAPTURE BROKERS WITH  
EXPIRED CONTRACTS

Mr. Vijoy Chattergy, ERS Chief Investment Officer (CIO), recommended that the Board authorize cancellation of the agreements with legacy commission recapture brokers which were not selected to participate in the new commission recapture program that was approved by the Board at its January 14, 2013 meeting. There are approximately five outstanding agreements with commission recapture managers.

On a motion made by Trustee Barfield, seconded by Trustee Yamasaki, and unanimously carried, the Board authorized termination of the agreements with legacy commission recapture brokers which were not selected to participate in the new commission recapture program.

ADMINISTRATIVE AND  
LEGISLATIVE COMMITTEE  
CHARTER

Mr. Wesley Machida, ERS Executive Director (Executive Director), presented for the Board's consideration the revised draft of the Administrative and Legislative Committee Charter that included the Administrative and Legislative Committee's recommendation that the number of committee members be changed from four trustees to "no fewer than three trustees."

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the Administrative and Legislative Committee Charter, as presented. A copy of the charter is attached to these minutes (Attachment B).

COMPENSATION REVIEW  
COMMITTEE CHARTER

The Executive Director presented for the Board's consideration a draft of Compensation Review Committee Charter. The draft charter required that the committee meet "not less than four times a year." The Trustees discussed whether a minimum number of meetings per year should be required.

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the proposed Compensation Review Committee Charter, with the deletion of the requirement that the Committee meet "at least four times a year." A copy of the charter is attached to these minutes (Attachment B).

PRESENTATION BY PENSION  
CONSULTING ALLIANCE, INC. ON  
REAL RETURN CLASS

Ms. Kay Ceserani, Mr. John Linder, and Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's investment consultant, presented an overview of the real return class as described in the ERS's current Investment Policy Statement. The PCA representatives also reported that PCA may present a structural recommendation for the real return class at the January 2014 Board meeting.

2014 LEGISLATIVE PROPOSALS  
AFFECTING THE ERS

The Executive Director reported that the ERS submitted a legislative proposal (BUF-06(14)) to the Department of Budget and Finance for inclusion in the Governor's package. The proposal would provide that public employees who become ERS members after June 30, 2014, with a minimum of 120 days of unused sick leave at retirement, would be able to increase their years of credited service for retirement benefit purposes by one month for every 40 days of unused sick leave (public employees who became members before July 1, 2014, with a minimum of 60 days of unused sick leave at retirement would continue to increase their credited service for retirement benefit purposes by one month for every 20 days of unused sick leave).

The Executive Director further noted that at the November 13, 2013 Board meeting, the Board decided that it would not re-submit its prior proposal relating to the retirement benefits of judges who become judges after June 30, 2012.

In addition, the Executive Director recommended that the Board consider submitting a proposal to amend section 88-119 (a)(1), Hawaii Revised Statutes, to repeal the limitation on the holding period for real estate acquired by the ERS by foreclosure, enforcement of security, or in satisfaction of debts, because the current limitation on the holding period prevents the Board from making long range plans for the affected property, which are necessary for the management of the ERS's real estate investment portfolio.

On a motion made by Trustee Matsumoto, seconded by Trustee Young, and unanimously carried, the Board approved the submission of legislative proposal BUF-06(14), relating to ERS benefits and unused sick leave credit for new public employees.

On a motion made by Trustee Matsumoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved submission of a legislative proposal to amend section 88-119(a)(1), Hawaii Revised Statutes, to repeal the limitation on the holding period for real estate acquired by the ERS by foreclosure, enforcement of security, or in satisfaction of debts.

OPERATIONS REPORT  
– NOVEMBER 2013

The Executive Director presented the monthly update on ERS operations and ERS website statistics (top 10 viewed pages) for November 2013, as well as highlights for December 2013:

- Invitation letters to a presentation conducted by Gabriel Roeder Smith & Company (GRS), ERS’s actuarial consultant, on the 2013 actuarial valuation of the ERS, were sent to the House of Representatives, the Senate, State and County Directors, Department of Budget and Finance, employee organizations, and ERS staff. Presentations were scheduled throughout the week of December 9, 2013.
- 4<sup>th</sup> quarter 2013 ERS newsletter, “Holomua”, was scheduled for distribution by the end of December 2013.
- Trustee Rauckhorst was reappointed to the ERS Board of Trustees by Governor Neil Abercrombie, subject to confirmation by the Senate.

2014 BOARD MEETING DATES

A schedule of Board meeting dates for 2014 was circulated with no objections.

NEXT BOARD MEETING  
– JANUARY 13, 2014

Chair Lee Loy announced that the next Board meeting is scheduled for January 13, 2014.

ADJOURNMENT

On a motion made by Trustee Matsumoto, seconded by Trustee Young, and unanimously carried, Chair Lee Loy adjourned the meeting at 3:20 p.m.

**REDACTED  
SIGNATURE**

Wesley K. Machida  
Executive Director

WKM: jh





# *Resolution*

**WHEREAS, WAYNE J. YAMASAKI** became a member of the Board of Trustees of the Employees' Retirement System of the State of Hawaii on January 2, 2008 when elected outright as the retiree trustee for a six-year term through January 1, 2014; and

**WHEREAS**, during his tenure, the Employees' Retirement System's assets grew from \$8.9 billion to \$12.3 billion with positive investment returns for 4 years, its membership increased from 110,927 to 113,282 and the number of pensioners grew from 36,999 to 40,774 with the average pension payment increasing from \$1,906 to \$2,023; and

**WHEREAS**, during his tenure on the Board's legislative committee, the Board introduced the following proposals that became state law to deal with the System's growing pension and unfunded liabilities that jeopardizes its sustainability: (1) the 2011 moratorium on benefit enhancements until the Employees' Retirement System is 100% funded, (2) the pension benefit reforms of 2011 which lowered benefits and costs for new members, increased eligibility requirements, and increased the employee contribution rates for all new members from July 1, 2012, (3) the graduated increase in employer contributions from 2012 to 2016, (4) the employer assessments for significant increases in non-base compensation prior to retirement resulting in "pension spiking" for retirees after June 30, 2012, and (5) the elimination of overtime and certain differentials in the calculation of retirement benefits for new members from July 1, 2012; and

**WHEREAS**, while Mr. Yamasaki was a member of the administrative committee, the Employees' Retirement System, with the Board's encouragement, greatly improved its customer service through timely Holomua newsletters, an expanded website and a member self-service module, providing employees and retirees with a more responsive, open and professional organization that elicits confidence and trust confirming that, for the Board and Staff, the membership is their main priority; and

**WHEREAS**, by serving as a retiree-trustee, Mr. Yamasaki continued his support of public service after over 40 years of personnel management, labor contract negotiation and public administration, including tenures as Deputy Director of the Department of Personnel Services, Deputy Director and Director of the Department of Transportation, Special Advisor to the Vice-Chancellor of Research and Graduate Education of the University of Hawaii, and representing the Hawaii Government Employees Administration; and

**WHEREAS**, Wayne Yamasaki was a public servant in the true sense of the word, committing himself to serving the people of Hawaii with dedication and unselfishness, and worked relentlessly and diligently to insure that the quality of life of retired public employees was of the highest standard, and dedicated himself to improving the resources of the program which would enable the members to retire knowing that such years would be lived with dignity; and

**WHEREAS**, under his stewardship, the Employees' Retirement System continued to be nationally recognized and emulated by sister states; and

**WHEREAS**, during his tenure as a Trustee, he won the respect and admiration of his peers; and his distinguished and exemplary service merits the highest recognition;

**NOW THEREFORE BE IT RESOLVED** by the Board of Trustees of the Employees' Retirement System, on December 9, 2013, that it commends and congratulates Wayne J. Yamasaki for his outstanding leadership and service to the Employees' Retirement System and the people of Hawaii; and that sincerest best wishes be extended to Wayne J. Yamasaki for a distinguished career in public service;

**BE IT FURTHER RESOLVED** that a certified copy of this Resolution be transmitted to **Mr. Wayne J. Yamasaki**

## ATTACHMENT B



# Employees' Retirement System of the State of Hawaii BOARD OF TRUSTEES ADMINISTRATIVE AND LEGISLATIVE COMMITTEE CHARTER

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## **I. PURPOSE**

The purpose of the Administrative and Legislative Committee (“Committee”) is to carry out the responsibilities delegated by the Board of Trustees of the Employees’ Retirement System of the State of Hawaii (“Board”) relating to the review and monitoring of the administration of the Employees’ Retirement System of the State of Hawaii (“ERS”), and to assist the Board in fulfilling its fiduciary oversight responsibilities by reviewing and advising recommendations on proposed legislation.

## **II. COMMITTEE MEMBERSHIP**

The Committee shall consist of no fewer than three (3) trustees. The members of the Committee shall be appointed by the Board. The members of the Committee shall be appointed for one-year terms and shall serve for such term or terms as the Board may determine or until earlier resignation. The Board may remove any member from the Committee at any time with or without cause.

## **III. MEETINGS**

The Committee shall meet at least three times a year at such times and places as it deems necessary to fulfill its responsibilities. The Committee shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. The Committee may invite such members of management and advisors to its meetings as it deems appropriate. The Committee shall review this Charter at least annually and recommend any proposed changes to the Board for approval.



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**IV. AUTHORITY AND RESPONSIBILITIES**

The Board shall designate a member of the Committee as the chairperson.

The Committee shall have the following authority and responsibilities regarding the administration of the ERS:

- To review and approve annually the ERS' goals and objectives applicable to the administration of the ERS.
- To assign and provide direction to the Executive Director ("ED") and Assistant Administrator ("AA") on priorities and actions to successfully execute the responsibilities of the Administrative Branch.
- To review and establish administrative policies, guidelines and recommendations for the Board's consideration.

The Committee shall have the following authority and responsibilities regarding ERS Legislation:

- To review and approve annually the ERS' goals and objectives applicable to the legislative process.
- To review proposed legislation introduced by the ERS and by other parties, and to assign and provide direction for the ED and AA on priorities and actions to successfully support the goals and responsibilities of the ERS.
- To recommend support or opposition of proposed legislation to the full Board for their consideration.



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**V. OUTSIDE ADVISORS**

The Committee shall have the authority, in its sole discretion, to obtain the advice of any ERS consultant or ERS service provider as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. The Committee shall have the authority, in its sole discretion, to obtain the advice and assistance of ERS' legal counsel and such other advisors as it deems necessary to fulfill its duties and responsibilities under this Charter. The Committee shall not be required to implement or act consistently with the advice or recommendations of its consultant, legal counsel or other advisor to the Committee, and the authority granted in this Charter shall not affect the ability or obligation of the Committee to exercise its own judgment in fulfillment of its duties under this Charter. The consultant(s), outside counsel and any other advisors retained by, or providing advice to, the Committee (other than the ERS's in-house counsel) shall be independent as determined in the discretion of the Committee.

**VI. PERFORMANCE EVALUATION**

The Committee shall conduct an annual evaluation of the performance of its duties under this charter and shall present the results of the evaluation to the Board. The Committee shall conduct this evaluation in such manner as it deems appropriate.

## ATTACHMENT C



### **Employees' Retirement System of the State of Hawaii BOARD OF TRUSTEES COMPENSATION REVIEW COMMITTEE CHARTER**

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#### **I. PURPOSE**

The purpose of the Compensation Review Committee (“Committee”) is to carry out the responsibilities delegated by the Board of Trustees of the Employees’ Retirement System of the State of Hawaii (“Board”) relating to the review and determination of executive compensation and/or compensation for exempt positions in the Employees’ Retirement System of the State of Hawaii (“ERS”).

#### **II. COMMITTEE MEMBERSHIP**

The Committee shall consist of no more than four (4) trustees. The members of the Committee shall be appointed by the Board. The members of the Committee shall be appointed for one-year terms and shall serve for such term or terms as the Board may determine or until earlier resignation. The Board may remove any member from the Committee at any time with or without cause.

#### **III. MEETINGS**

The Committee shall meet at such times and places as it deems necessary to fulfill its responsibilities. The Committee shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. The Committee may invite such members of management to its meetings as it deems appropriate. However, the Committee shall meet regularly without such members present, and in all cases the Executive Director (“ED”), the Chief Investment Officer (“CIO”), and any other such officers shall not be present at meetings at which their compensation or performance is discussed or determined, unless directed otherwise by



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the Committee. The Committee shall review this Charter at least annually and recommend any proposed changes to the Board for approval.

**IV. AUTHORITY AND RESPONSIBILITIES**

The Board shall designate a member of the Committee as the chairperson.

The Committee shall have the following authority and responsibilities:

- To review and approve annually the ERS' goals and objectives applicable to the compensation of the ED and the CIO.
- Evaluate at least annually the ED's and CIO's performance in light of those goals and objectives, and determine and approve the ED's and CIO's compensation level based on this evaluation.
- The Committee shall consult with the ED on the goals and objectives applicable to the CIO and Investment Office.
- The Committee shall approve or make recommendations to the Board regarding the compensation of all other exempt positions.
- In evaluating and determining or making recommendations regarding compensation, the Committee shall consider the results of the most recent performance reports applicable to the goals and objectives of the ERS.
- To review, and make recommendations to the Board regarding any employment agreements and any severance arrangements or plans, including any benefits to be provided in connection with a change in control, for the ED and CIO, which includes the ability to adopt, amend and terminate such agreements, arrangements or plans.



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- To develop and recommend to the Board for approval a succession plan ("Succession Plan"), to review the Succession Plan periodically with the ED, develop and evaluate potential candidates for ED or CIO positions and recommend to the Board any changes to, and any candidates for succession under, the Succession Plan.

**V. OUTSIDE ADVISORS**

The Committee shall have the authority, in its sole discretion, to select, retain and obtain the advice of a compensation consultant as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. The Committee shall set the compensation, and oversee the work, of the compensation consultant. The Committee shall have the authority, in its sole discretion, to retain and obtain the advice and assistance of legal counsel and such other advisors as it deems necessary to fulfill its duties and responsibilities under this Charter. The Committee shall set the compensation, and oversee the work, of its legal counsel and other advisors. The Committee shall not be required to implement or act consistently with the advice or recommendations of its compensation consultant, legal counsel or other advisor to the Committee, and the authority granted in this Charter shall not affect the ability or obligation of the Committee to exercise its own judgment in fulfillment of its duties under this Charter. The compensation consultant(s), outside counsel and any other advisors retained by, or providing advice to, the Committee (other than the ERS's in-house counsel) shall be independent as determined in the discretion of the Committee.





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**VI. PERFORMANCE EVALUATION**

The Committee shall conduct an annual evaluation of the performance of its duties under this charter and shall present the results of the evaluation to the Board. The Committee shall conduct this evaluation in such manner as it deems appropriate.