

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

DECEMBER 14, 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. Wesley Machida
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst
- Trustee excused: Mr. Emmit Kane
- Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoe 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
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. Traci Toguchi, Recording Secretary
- 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)
- Guests present: Mr. Joe Newton, Gabriel, Roeder, Smith & Company
Mr. Lewis Ward, Gabriel, Roeder, Smith & Company
Mr. Neil Rue, Pension Consulting Alliance, LLC
Mr. John Linder, Pension Consulting Alliance, LLC
Mr. Paul Yett, Hamilton Lane Advisors, LLC
Mr. Michael Humphrey, Courtland Partners, Ltd.

Public present: Mr. Paul Rezens, Heitman, LLC
Mr. Mary Ludgin, Heitman, LLC
Mr. John Mancuso, Heitman, LLC
Mr. Jim Proud, Heitman, LLC
Ms. Jennifer Boss, Heitman, LLC
Mr. Peter Fawcett, Heitman, LLC
Mr. Eric Burl, Man Group
Mr. Chris Gorgone, Man Group

QUORUM/CALL TO ORDER

A quorum being present (Chair Lee Loy, Vice Chair Barfield, and Trustees Ferguson-Miyamoto, Frane, Machida and Rauckhorst), Chair Lee Loy called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 9:03 a.m.

The Chair announced that, to facilitate preparation of the minutes, the public portions of the meeting would be taped. The recording secretary will verify her notes of the meeting and the tape will be erased after the minutes are prepared.

PUBLIC COMMENT

Chair Lee Loy called for public comment. There were no comments from members of the public at this time.

Chair Lee Loy informed the Board that Trustee Kane is excused from the meeting due to delays in his return flight to Honolulu from a National Conference on Public Employee Retirement Systems (NCPERS) Board Meeting in Texas.

AMENDMENT OF THE AGENDA

Deputy Attorney General Brian Aburano informed the Board that due to an inadvertent error, an executive session item was left off the Board's agenda. Mr. Aburano advised the Board that the agenda could be amended to add the item, as action on the item would not affect a significant number of persons.

After discussion, on a motion made by Vice Chair Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board amended the agenda to add the following executive session item:

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 qui tam action; appropriate action.

RECESS

Chair Lee Loy called a recess for proceedings pursuant to chapter 91, Hawaii Revised Statutes, and announced that the meeting would

reconvene upon conclusion of the chapter 91 proceedings.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 9:12 a.m.

ELECTION OF THE
TEACHER EMPLOYEE TO
THE BOARD OF TRUSTEES

Executive Director Williams presented an oral and written report of the results, certified by the Election Committee, of the election to fill the teacher-employee position on the Board of Trustees for the six-year term beginning January 2, 2016: Catherine K. Y. Chan received the majority of the votes with 68% of the votes counted.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Barfield, and unanimously carried, the Board declared Catherine K. Y. Chan as elected to fill the trustee term commencing on January 2, 2016, and expiring on January 1, 2022.

COMPENSATION REVIEW
COMMITTEE CHARTER

Deputy Attorney General Brian Aburano reminded the Board that, at its July 13, 2013 meeting, the Board directed ERS staff to provide a proposed amendment to the Charter of the Compensation Review Committee (CRC), under which the CRC would make recommendations to the Board regarding changes to the salaries of the Executive Director and Chief Investment Officer rather than the CRC deciding on those changes itself. Mr. Aburano presented the Board a document that showed the proposed amendments to the CRC Charter. Mr. Aburano pointed out that for consistency, the proposed amendments also provide for the CRC to make recommendations to the Board regarding changes to the salaries of exempt Investment Officers and any other exempt positions rather than the CRC deciding on those changes itself.

After discussion, on a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board adopted the proposed amendments to the CRC Charter, as they appeared on the document presented by Deputy Attorney General Aburano.

BOARD OF TRUSTEES
SCHEDULE OF MEETINGS
FOR 2016

Chair Lee Loy presented a proposed schedule of Board meeting dates for 2016.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered executive session at 9:26 a.m.:

- 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 qui tam action; appropriate action; and

- Pursuant to HRS § 88-27.5(a)(2), to consider the selection of the ERS's actuary.

All guests and the ERS staff that were present during the meeting exited the room with the exception of Executive Director Williams and Ms. Traci Toguchi, Recording Secretary.

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 A QUI TAM
ACTION; APPROPRIATE
ACTION

EXECUTIVE SESSION,
PURSUANT TO CONSIDER
THE SELECTION OF THE
ERS'S ACTUARY

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Barfield, and unanimously carried, the Board exited executive session at 9:35 a.m.

RECESS

Chair Lee Loy called a recess at 9:35 a.m. for further proceedings pursuant to chapter 91, Hawaii Revised Statutes, and for the Investment Committee Meeting. Chair Lee Loy announced that the meeting would reconvene upon conclusion of the Investment Committee meeting.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 10:43 a.m.

(All trustees in attendance at the meeting were present at this time with the exception of Trustee Machida.)

NEW BUSINESS

GOVERNMENT
ACCOUNTING STANDARDS
BOARD (GASB)
STATEMENT NO. 67
IMPACT ON INVESTMENT
RETURN ASSUMPTIONS

Executive Director Williams informed the Board of a matter that arose with ERS auditor KPMG LLP's (KPMG) regarding the financial statements for fiscal year ended June 30, 2014. KPMG initially took the position that standards of practice requirements required that the current assumed investment return be used for the financial statements instead of the 7.75% investment return assumption in effect during fiscal year ended June 30, 2014. The matter has since been resolved..

Trustee Matsumoto asked whether the issue will arise in subsequent years. Executive Director Williams replied that he and ERS staff would work with KPMG to resolve any potential reoccurrence in the future.

(Trustee Machida returned to the meeting at 10:47 a.m.)

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

Mr. Joe Newton and Mr. Lewis Ward of Gabriel, Roeder, Smith & Company (GRS) presented an oral and written report on the preliminary actuarial valuation for the ERS fiscal year ended June 30, 2015.

Mr. Newton introduced Ms. Linna Yee, whom he said has been working on the ERS's account for about 10 years, and Mr. Mehdi Rizzi, who works on the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) account.

Mr. Newton reported on the key changes and issues for the year:

- The funding period is 26 years based on current assumptions, benefits and contribution policy; it was 26 last year; it would have been 25 years this year, except for the change in the discount rate from 7.75% to 7.65%.
- The 2015 investment performance was below expected at 3.6%, with a 17.8% return on the market value of assets. (Mr. Newton, however, noted this performance was the best return for the year he has seen among GRS's clients.)
- 3 years of the new benefit structure had a very small impact on current liabilities; however, the new benefit structure will have an impact larger on the plan's future liabilities and funding period projections.

Mr. Newton noted that the three main sources impacting the valuation are the following:

- Investments – Underperformed on a market basis, but still exceeded 7.75% on a smoothed basis because of deferred gains.

- Liabilities – Grew mostly in line with expectations; however, public safety resulted in a loss (large individual salaries).
- Contributions -- In-line with expectations.

Mr. Newton added that salary assumptions are going to be a big decision to make with regards to the next experience study, as prediction of trends have been difficult the past few years. Over the past 15 years there has been an almost 7% per year increase in salaries for police and fire fighters. This may not be sustainable at current contribution rates.

Because of significant increases in longevity, a material change to mortality assumptions may be needed in the next experience study. Mortality and investment performance are the ERS's largest actuarial risks going forward.

REVIEW OF, AND
RECOMMENDATIONS
REGARDING, THE CRISIS
RISK OFFSET FUNCTIONAL
RISK CLASS, INCLUDING
CRISIS RISK OFFSET CLASS
POLICY GUIDELINES

Investment Officer Howard Hodel reviewed previous Board action regarding the Crisis Risk Offset class. The target allocation for this class is 20% by July 1, 2020; interim target for July 1, 2016, is 10%.

Mr. Neil Rue and Mr. John Linder of Pension Consulting Alliance, LLC (PCA) presented an oral and written report on structuring options for the Crisis Risk Offset class. In modeling the class, PCA attempted to solve for the three criteria that the trustees indicated were the most important to them when they were surveyed by PCA as part of the Asset-Liability study:

- Stay as close as possible to the project funding path (i.e., at or above 90% of projected funding growth)
- Limit rapid deterioration in funding status (i.e., avoid significant draw downs/dropping below 55%)
- Maintain a growth rate close to compound 7.5%

Of the five structuring alternatives that PCA presented for discussion purposes, PCA recommended two for the Board's further consideration:

- Construction 2 – 33% treasury duration strategy and 67% systematic trend following strategy
- Construction 5 – 25% treasury duration strategy; 45% trend following/managed futures strategy; and 30% liquid alternative premia

Of the five alternatives discussed: Construction 2 has the highest offset potential, but is more volatile; Construction 5 is less volatile, provides a higher stand alone return expectation, and is more diversified.

PCA and ERS Investment staff requested the Board's indication of which structuring alternative the Board prefers and authorization to develop guidelines and to begin manager searches for the Crisis Risk Offset class.

The trustees and the Executive Director questioned the PCA representatives and Chief Investment Officer Chattergy about rebalancing within the class and between the class and the rest of the portfolio and the timing for implementation of the class, including the development of risk management tools.

The PCA representatives and the Chief Investment Officer responded that development of guidelines and procedures, manager searches, and additional Board education sessions will be conducted in tandem. Funding of the class will not occur until the Board makes the decision to do so.

Following discussion, on a motion made by Vice Chair Barfield, seconded by Trustee Matsumoto, and unanimously carried, the Board authorized and directed Pension Consulting Alliance, LLC and ERS Investment staff to develop recommended guidelines, for the Board's consideration, for the Crisis Risk Offset Class based on Construction 5 presented in PCA's report on Crisis Risk Offset Class Structuring and to begin manager searches for the Crisis Risk Offset class.

RECESS

Chair Lee Loy called a fifteen minute recess for lunch at 12:56 p.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 1:14 p.m.

(All trustees in attendance at the meeting were present at this time with the exception of Trustee Frane.)

PACING ALTERNATIVES
TO ATTAIN STRATEGIC
ALLOCATION TARGETS
FOR PRIVATE MARKETS

Mr. Rue of PCA presented the Board with an oral and written report of PCA's pacing study of alternatives to transition from current investment allocations to the target allocations under the newly adopted allocation policies.

(Trustee Frane returned to the meeting at 1:16 p.m.)

Highlights of the pacing study included:

- A common timeframe to reach new policy allocations is three to seven years, with actual required time being most dependent upon: current vs. new private markets exposure; and Board

comfort levels with material changes in commitment amounts.

- For the ERS, reaching target allocations in five years may be unrealistic. Although the Core Real Estate allocation can be easily maintained and Private Real Return can feasibly follow a 5-year pacing schedule, a 5-year pacing plan for Private Growth may be too aggressive because of vintage year risk and Board comfort level/initial cash flows.
- A 7-year Private Growth pacing plan would allow Private Growth commitments to be increased more slowly; and therefore be more palatable and stable.
- A 7-year pacing schedule would primarily impact Private Growth; Private Real Return allocation may be met in five years.

Chief Investment Officer Chattergy noted that the increased allocation to private markets will cause the overall portfolio to be less liquid. It will therefore be necessary for Investments, Accounting and Administration to coordinate cash flow needs and to monitor and re-evaluate the pacing plan, if market conditions or other factors warrant doing so. Mr. Rue commented that cash flow implications will not be noticeable immediately, but will become evident in three to five years.

ANNUAL STRATEGIC PLAN
FOR THE PRIVATE EQUITY
PROGRAM MANAGED BY
HAMILTON LANE
ADVISORS,
LLC

Investment Officer Aaron Au introduced Mr. Paul Yett of Hamilton Lane Advisors, LLC (Hamilton Lane). Mr. Au stated that Investment staff reviewed and vetted the pacing plan presented by PCA with all of the consultants (PCA, Courtland Partners, Ltd., and Hamilton Lane) and that the pacing plan is in alignment with Hamilton Lane's strategic plan. Mr. Au noted the pacing to attain the allocation to Private Growth is necessary to maintain vintage year allocation.

Mr. Au reported that he reviewed the list of potential managers Hamilton Lane will seek to put in the portfolio. The managers, which are top tiered/high producing managers, will go through the due diligence process before commitments are made. Mr. Au also reported that Investment staff reviewed Hamilton Lane's tactical plan and are in agreement with Hamilton Lane's findings and recommendations, which include an increase of Hamilton Lane's discretionary mandate in Private Growth.

Highlights of Mr. Yett's oral and written presentation of Hamilton Lane's Private Equity Tactical Plan Update included the following:

- 2015 Private Equity Tactical Plan (Recap): All key initiatives were accomplished; rather than adding new managers, added capital to existing managers as part of the initiative to develop a

more concentrated portfolio.

- Portfolio Recommendations:
 - Pacing: Change in Private Equity allocation from 7% to 13.5% requires an increase in commitment pacing. Hamilton Lane recommended a range of \$450 million minimum to \$650 million maximum for Private Equity commitments in 2016 to meet the increased pacing. Projected Private Equity allocation by year is similar to what was presented by Mr. Rue. The increase in commitment pacing will result in the J-curve effect. To help mitigate the J-curve effect, Hamilton Lane is considering secondary investments and other strategies, such as credit, that are able to distribute capital early in a fund's life.
 - Primary Manager Commitments: Hamilton Lane identified 26 existing managers as potential "Foundation Managers," where commitments will be concentrated.
 - Commitment Sizing: Increase average commitment size and make larger commitments to Foundation Managers. Expect \$55 million average commitment; maximum commitment at \$75 million; minimum commitment at \$15 million. Might take smaller commitments to get a seat at the table with potential Foundation Managers.
 - Strategic Diversification: Primary commitment focus on Buyout investments. Build exposure to credit and energy related investments. Manage down exposure to Venture Capital. Consider opportunistically investing in secondary opportunities.
 - Geographic Diversification: Construct geographically diverse portfolio with primary exposure in North America and Europe. Increase exposure to Emerging Markets and Asia opportunistically.
 - Number of Commitments: Planning on six to twelve funds; possibly up to fifteen funds because commitments to venture capital funds which tend to be smaller.

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

On a motion made by Vice Chair Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the strategic plan for the private equity portfolio managed for the ERS by Hamilton Lane Advisors, LLC. The “tactical plan” presented by

Hamilton Lane Advisors, LLC was accepted, subject to the following clarifications and amendments: strategic "discretion in a box" for 2016, with 6 to 15 partnership fund investments at the range of \$450 million up to \$650 million.

RESOLUTION RELATING
TO THE CHAIR OF THE
BOARD OF TRUSTEES

Vice Chair Barfield noted that this was Chair Lee Loy's last meeting on the Board of Trustees. He extended the Board's gratitude to Chair Lee Loy, commending her for two decades of service to ERS members and the community.

Trustee Ferguson-Miyamoto presented a Resolution honoring and recognizing Chair Lee Loy's service on the ERS Board of Trustees.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Board adopted the Resolution, a copy of which is attached to these minutes and incorporated by reference (Attachment A).

Trustee Machida presented a Proclamation on behalf of Governor David Ige, who was unable to attend the Board meeting. Trustee Machida detailed Chair Lee Loy's history and achievements with the ERS. Trustee Machida extended appreciation and commended Chair Lee Loy on an excellent job.

Executive Director Williams presented Chair Lee Loy with a Message on behalf of United States Senator Brian Schatz congratulating Chair Lee Loy on her many years of service on the ERS Board and her accomplishments as a teacher and ERS Trustee.

Chair Lee Loy spoke about her many positive experiences as an ERS Trustee and closed with a reminder that "there are members out there."

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Matsumoto, seconded by Vice Chair Barfield, and unanimously carried, the Board entered executive session at 2:33 p.m.:

- Pursuant to HRS § 88-27.5(a)(1) 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 Royal Ka'anapali Golf Courses property; appropriate action;
- Pursuant to HRS § 88-27.5(a)(1) 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, BlackSand Capital Opportunity Fund I, L.P.;

- 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 possible participation in securities fraud litigation against Zafgen, Inc. and related persons and entities; appropriate action;
- Pursuant to HRS § 88-27.5(a)(2), to consider the selection of the ERS's actuary;
- 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 legislation to authorize the ERS to make direct payment to the former spouse of an ERS member or retirant when the former spouse has been awarded a portion of the member's or retirant's retirement benefits as part of a property division adjudicated, ordered or decreed by a court in a domestic relations proceeding;
- 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 cybersecurity policies and procedures; 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 the Executive Director; appropriate action;

(Trustee Rauckhorst and Trustee Machida left the meeting at 2:35 p.m.)

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 ROYAL
KA'ANAPALI GOLF
COURSES PROPERTY;
APPROPRIATE ACTION

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, BLACKSAND
CAPITAL OPPORTUNITY
FUND I, L.P.

EXECUTIVE SESSION TO
CONSULT WITH THE
BOARD'S ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE
BOARD'S POWERS, DUTIES,
PRIVILEGES, IMMUNITIES,
AND LIABILITIES
REGARDING POSSIBLE
PARTICIPATION IN
SECURITIES FRAUD
LITIGATION AGAINST
ZAFGEN, INC. AND
RELATED PERSONS AND
ENTITIES; APPROPRIATE
ACTION

EXECUTIVE SESSION TO
CONSIDER THE SELECTION
OF THE ERS'S ACTUARY

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 LEGISLATION
TO AUTHORIZE THE ERS

TO MAKE DIRECT
PAYMENT TO THE
FORMER SPOUSE OF AN
ERS MEMBER OR
RETIRANT WHEN THE
FORMER SPOUSE HAS
BEEN AWARDED A
PORTION OF THE
MEMBER'S OR RETIRANT'S
RETIREMENT BENEFITS AS
PART OF A PROPERTY
DIVISION ADJUDICATED,
ORDERED OR DECREED BY
A COURT IN A DOMESTIC
RELATIONS PROCEEDING

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
CYBERSECURITY POLICIES
AND PROCEDURES

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 THE
EXECUTIVE DIRECTOR;
APPROPRIATE ACTION

(Trustee Matsumoto left the meeting at 3:45 p.m.)

ADJOURNMENT DUE TO
LOSS OF QUORUM

Due to the loss of quorum, the remainder of the meeting was cancelled; however, pursuant to HRS § 92-2.5(d), the Trustees present received testimony and presentations, as described below:

RECORD, PURSUANT TO HRS § 92-2.5(d)(2), OF TESTIMONY
AND PRESENTATIONS

EXECUTIVE DIRECTOR'S
REPORT

Executive Director Williams informed the Board of issues and matters he has been working on, including cybersecurity, and the selection of the actuary, and mentioned meetings he had with key stakeholders, noting the expression of support and respect offered by those with whom he met:

- ERS Board of Trustees individually;
- Department of Budget and Finance Agency Heads;
- Hawaii State Procurement Office;
- State Legislators from the House of Representatives and Senate (House Speaker Representative Joseph Souki; House Committee on Finance Chair Representative Sylvia Luke; House Committee on Labor and Public Employment Chair Representative Mark Nakashima; Representative San Buenaventura; Senate Committee on Ways and Means Chair Senator Jill Tokuda; Senate Committee on Judiciary and Labor Chair Senator Gilbert Keith-Agaran; and Senate Committee on Judiciary and Labor Vice Chair Senator Maile Shimabukuro);
- Investment managers with Chief Investment Officer Chattergy;
- Major consultants;
- ERS Investment staff as a group and individually;
- Public employee union leaders (Hawaii State Teachers Association (HSTA) Executive Director Wilbert Holke, and Hawaii Government Employees Association (HGEA) Executive Director Randy Perreira);
- Business leaders (including from the Bank of Hawaii, and First Hawaiian Bank);
- Mayor of the City and County of Honolulu Kirk Caldwell and City and County of Honolulu Managing Director Roy Amemiya through Chair Lee Loy; and
- Trustee Rauckhorst, with Mr. Brodie Lockhard of 350 Hawaii, and associates of Mr. Lockhard regarding fossil fuel investments.

Other matters Executive Director Williams updated the Board about included:

- Federal legislation relating to an alternative retirement system;
- Pay levels and related matters for the Secretary IV and Investment Specialist positions; and
- Work on his 6-month plan.

Executive Director Williams noted challenges ahead, and acknowledged the support he has received.

**OPERATIONS REPORT
– NOVEMBER 2015**

Deputy Executive Director Margol provided the Board with an oral and written Operations Report for November 2015. In the interest of time, Deputy Executive Director Margol highlighted the Enrollment, Claims and Benefits branch finals, noting the staff made significant progress in this area. At the end of November, the ERS had 868 pending finalization cases, with 96% being within the 6-month standard benchmark period. Deputy Executive Director Margol added that although retirements tend to double in the month of December, the goal is to remain within the 6-month benchmark.

CONCLUSION

Receipt of testimony and presentations concluded at 4:07 p.m.

**REDACTED
SIGNATURE**

Thomas Williams
Executive Director

TW:tt



Employees' Retirement System
of the State of Hawaii

Resolution

WHEREAS, Piliialoha E. Lee Loy became an elected member of the Board of Trustees of the Employees' Retirement System of the State of Hawaii on January 2, 1992, has been the current Chair of the Board since 2013, and will continue to serve until January 1, 2016 prior to her well-deserved retirement in June 2016; and

WHEREAS, during her tenure, she has also worked as a Secondary Teacher of English with the Department of Education at Aliamanu Middle School, where she began her teaching career on September 1, 1970; and

WHEREAS, during her tenure as a Trustee, Ms. Lee Loy has been the heart and soul of the Employees' Retirement System and its membership, as she watched its assets grow from \$8.4 billion to \$14.2 billion, its membership increase from 79,188 to 118,398 and the number of pensioners grow from 21,787 to 43,087 with the average pension payment substantially increased from \$933 to \$2,215; and

WHEREAS, due to Ms. Lee Loy's determined support, the Board encouraged the implementation of the Pension Management and Information System in 2005 which computerized ERS membership and benefit processing; instituted the Hybrid plan in 2006 which reinforced current and future defined member benefits; advocated for the Board's position of retaining ERS excess investment earnings which stressed the Board's fiduciary responsibility to its members; and, in addition, she championed the Board's following proposals to deal with the System's growing pension and unfunded liabilities which jeopardizes its sustainability: (1) the 2011 moratorium on benefit enhancements until the ERS is 100% funded; (2) the 2011 pension benefit reforms which lowered benefits and increased eligibility requirements and 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 "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, during Ms. Lee Loy's 24-year tenure with the ERS, she has worked closely with four Executive Directors, watched the ERS staff double from 50 to over 100 employees, witnessed the birth and development of the Investment Office, which now has a staff of seven and has an innovative Policy, Guidelines and Procedures Manual that places risk management at the center of the Fund's asset allocation, and has nurtured relationships with countless Trustees, Staff, and Investment Consultants and Managers; and

WHEREAS, as Trustee, Ms. Lee Loy has always supported customer service as the primary mission of the Employees' Retirement System and has helped, by example, to elevate the System's openness, responsiveness and professionalism through eliciting the membership's confidence and trust and confirming that, for the Board and Staff, the membership is their main priority; and

WHEREAS, Piliialoha E. Lee Loy is a public servant in the true sense of the word, committing herself to serving the people of Hawaii with dedication, unselfishness and honesty, working tirelessly to insure that the quality of life of retired public employees is of the highest standard, and dedicating herself to improving the resources of the program which would enable its members to retire knowing that such years would be lived with dignity; and

WHEREAS, during her tenure as Trustee, she won the respect and admiration of her peers, legislators, citizens of the State, ERS Staff and fellow board members; and her 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 14, 2015, that it commends and congratulates Piliialoha E. Lee Loy for her outstanding leadership and service to the Employees' Retirement System and the people of Hawaii;

ATTACHMENT A

BE IT FURTHER RESOLVED that a certified copy of this Resolution be transmitted to **Ms. Pilialoha E. Lee Loy**, and that the same be incorporated into the minutes of the Board of Trustees of the Employees' Retirement System of the State of Hawaii.