

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

NOVEMBER 9, 2015

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

Trustees present: Ms. Piliialoha Lee Loy, Chair  
Mr. Vincent Barfield, Vice Chair  
Mr. Patrick Frane  
Mr. Emmitt Kane  
Mr. Wesley Machida  
Mr. Jerome Rauckhorst

Trustees excused: Ms. Jackie Ferguson-Miyamoto  
Mr. Colbert Matsumoto

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  
Mr. Ian Wetzell, Investment Specialist  
Ms. Wanda Kugiya, Secretary  
Ms. Dale Kanae, Secretary  
Ms. Traci Toguchi, Recording Secretary

Attorneys present: Ms. Diane Kishimoto, Deputy Attorney General (Counsel for the Board)  
Mr. Brian Aburano, Deputy Attorney General (Counsel for the Board)  
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)

Guests present: Mr. Colin Bebee, Pension Consulting Alliance, LLC  
Ms. Kay Ceserani, Pension Consulting Alliance, LLC  
Mr. Michael Humphrey, Courtland Partners, Ltd.  
Mr. Paul Yett, Hamilton Lane Advisors, LLC  
Mr. Jeff Friedman, Mesa West Capital, LLC  
Mr. Ryan Krauch, Mesa West Capital, LLC

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 of the State of Hawaii (ERS) to order at 9:05 a.m.

## AMENDMENT OF THE AGENDA

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst, and unanimously carried, the Board amended the agenda to include the following in 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 ERS exempt employees; appropriate action.

## ORDER OF AGENDA ITEMS

Chair Lee Loy stated that agenda items would be taken out of order to accommodate the departure flight of ERS real estate investment consultant Mr. Michael Humphrey of Courtland Partners, Ltd.

## PUBLIC COMMENT

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

## PRESENTATION BY COURTLAND PARTNERS, LTD. – REAL ESTATE PORFOLIO MEASUREMENT REPORT FOR 2<sup>ND</sup> QUARTER 2015.

Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland Partners), the ERS's real estate investment consultant, provided an oral and written report on the performance of the ERS's real estate portfolio for the second quarter of 2015. Highlights included:

- Aggregate real estate portfolio value as of June 30, 2015: \$913,565,719.
- Current market value + unfunded commitments: \$1,153,214,823.
- Target allocation to real estate: \$1,010,592,220 (7% of total plan assets).
- Will be transitioning to new target allocation, which is 9.5% of total plan assets.

Mr. Humphrey commented that the portfolio shows strong returns; however, the real estate market will be challenging going forward, especially in the core sector. It will be important to focus on pacing and to watch the market place.

## ENTER EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Trustee Rauckhorst, and unanimously carried, the Board entered executive session at 9:40 a.m.:

- Pursuant to Act 88, Session Laws of Hawaii 2015, and HRS § 92-5(a)(4), 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 with respect to, Lowe Enterprises Investment Management, LLC Contract/Appraisal; appropriate action;
- 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, Mesa West Real Estate Income Fund IV; appropriate action;

- Pursuant to Act 88, Session Laws of Hawaii 2015, and HRS § 92-5(a)(4), 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 with respect to, Pension Consulting Alliance, LLC report on potential finalists for the Passive manager search; appropriate action;
- 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; 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 ERS Exempt Employees; appropriate action.

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  
WITH RESPECT TO, LOWE  
ENTERPRISES INVESTMENT  
MANAGEMENT, LLC  
CONTRACT/APPRaisal;  
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, MESA WEST  
REAL ESTATE INCOME FUND IV;  
APPROPRIATE ACTION.

Following their presentation, Mr. Ryan Krauch and Mr. Jeff Friedman of Mesa West Capital, LLC left the meeting.

Mr. Humphrey left the meeting at 10:42 a.m.

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  
WITH RESPECT TO, PENSION AND  
CONSULTING ALLIANCE, LLC  
REPORT ON POTENTIAL FINALISTS  
FOR THE PASSIVE MANAGER  
SEARCH; APPROPRIATE ACTION.

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.

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 ERS EXEMPT  
EMPLOYEES; APPROPRIATE  
ACTION.

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

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Kane, and unanimously carried, the Board exited executive session at 11:03 a.m.

Chief Investment Officer Chattergy, Mr. Au, Ms. Wanda Kugiya, Mr. Bebee, Ms. Ceserani, and Mr. Paul Yett of Hamilton Lane Advisors, LLC returned to the meeting at 11:03 a.m.

NEW BUSINESS

INVESTMENT MANAGER WATCH  
LIST

Chief Investment Officer Chattergy and Mr. Bebee of PCA presented the Board with an oral and written recommendation that the watch list status for Pacific Investment Management Co. (PIMCO) should be extended

for six to twelve months due to the lawsuit against PIMCO by Bill Gross and continuing uncertainty in the organization regarding organization and strategy.

On a motion made by Vice Chair Barfield, seconded by Trustee Kane, and unanimously carried, the Board extended the watch list status of Pacific Investment Management Co. by six to twelve months.

UPDATE AND RECOMMENDATION  
REQUEST FOR PROPOSAL ON  
BUSINESS SHARING SPECIAL  
PURPOSE VEHICLE (SPV).

Chief Investment Officer Chattergy reported on his continuing exploration of business sharing arrangements. Mr. Bebee reported that Allan Emkin and Neil Rue of PCA will provide additional education to the Board regarding business sharing arrangements at the December Board meeting.

The rest of the ERS staff previously in attendance returned to the meeting at 11:08 a.m.

2015 VERIFICATION OF  
INVESTMENT MANAGER  
COMPLIANCE WITH THE  
EMPLOYEES' RETIREMENT  
SYSTEM'S DERIVATIVES POLICY.

Ms. Ceserani of PCA provided the Board with an oral and written report on the responses by the ERS's 21 external managers to the ERS's request for certification that the managers were in compliance with the objectives and constraints of the ERS's Derivative Guidelines for the fiscal year ending June 30, 2015, and for a summary of derivatives used and their purpose in the portfolio.

On a motion made by Vice Chair Barfield, seconded by Trustee Kane, and unanimously carried, the Board accepted the 2015 Verification of Investment Manager Compliance with ERS's Derivatives Policy report from PCA.

BUDGET FOR ERS OFFICE  
RENOVATIONS FOR ADDITIONAL  
SPACE REQUIREMENTS.

Deputy Executive Director Margol presented the Board with an oral and written report on plans for the renovation of the City Financial Tower 12th floor to accommodate three additional Retirement Claims Examiners. The Administrative and Legislative Committee considered the project at its October 30, 2015, meeting and recommended approval of the project and expenditure of the estimated cost of the improvements. The estimated cost of the improvements is \$66,000 - \$70,000.

On a motion made by Trustee Rauckhorst, seconded by Vice Chair Barfield, and unanimously carried, the Board approved the expenditure of up to \$70,000 for renovations to reconfigure and expand existing space on the 12<sup>th</sup> floor in order to accommodate three additional Retirement Claims Examiners.

2016 LEGISLATIVE PROPOSALS  
RELATING TO THE EMPLOYEES'  
RETIREMENT SYSTEM

Deputy Executive Director Margol provided an overview of the legislative proposals for the 2016 legislative session that the Administrative and Legislative Committee recommended the ERS

support. Deputy Executive Director Margol noted that the legislative proposals are the same proposals that were presented at the last Board meeting.

On a motion made by Trustee Rauckhorst, seconded by Trustee Kane, and unanimously carried, the Board agreed to support the following:

- ERS Employer Contributions – BUF-08 (16). Amendments to sections 88-124 (Payment of state contributions to the system) and 88-126 (Payment of county contributions to the system) to facilitate advance payments of employer contributions to the ERS.
- Unclaimed Member Benefits – BUF-09 (16). Amendments to sections 88-74.7 (Commencement of benefits on required beginning date), 88-96 and 33-341 (Rights of members separated from service) to preserve the ERS's use and control of unclaimed member benefits and contributions that would otherwise be paid to the State's Unclaimed Property Program or be escheated to other states.
- Forfeiture of Retirement Benefits – BUF-10 (16). Proposal for members' forfeiture of retirement benefits upon the commitment of felonies related to their employment.

#### ENTER EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Vice Chair Barfield, and unanimously carried, the Board entered executive session at 11:14 a.m.:

- Pursuant to HRS § 92-5(a)(4), to consult with the Board of Trustees' attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to 2016 Legislative Proposals Relating to the ERS; and
- Pursuant to HRS § 92-5(a)(4), to consult with the Board of Trustees' attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to the Trustee election results.

Mr. Bebee and Ms. Ceserani left the meeting.

EXECUTIVE SESSION TO CONSULT  
WITH THE BOARD OF TRUSTEES'  
ATTORNEYS ON QUESTIONS AND  
ISSUES PERTAINING TO THE  
BOARD'S POWERS, DUTIES,

PRIVILEGES, IMMUNITIES, AND  
LIABILITIES WITH RESPECT TO 2016  
LEGISLATIVE PROPOSALS  
RELATING TO THE ERS.

EXECUTIVE SESSION PURSUANT  
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  
ELECTION RESULTS.

EXIT EXECUTIVE SESSION

Trustee Rauckhorst left the meeting at 11:30 a.m.

On a motion made by Trustee Kane, seconded by Vice Chair Barfield, and unanimously carried, the Board exited executive session at 11:33 a.m.

Mr. Bebee, Ms. Ceserani, and Mr. Yett returned to the meeting at 11:34 a.m.

Chair Lee Loy announced that the Board voted to authorize a commitment of up to \$20 million to Mesa West Real Estate Fund IV, subject to due diligence and legal review by the ERS Investment staff and legal counsel.

PRESENTATION BY PENSION  
CONSULTING ALLIANCE, LL–  
INVESTMENT PORTFOLIO  
PERFORMANCE FOR  
3<sup>RD</sup> QUARTER 2015.

Mr. Colin Bebee and Ms. Kay Ceserani of PCA provided the Board with an oral and written presentation of PCA's quarterly report for the ERS's portfolio through the third quarter of 2015. Highlights included:

- Aggregate portfolio value as of September 30, 2015: \$13.8 billion.
- The decline in the portfolio's value during the quarter was the most severe in over five years.
- Referencing pages 18 and 19 of the performance report, Mr. Bebee noted that variance in the portfolio performance compared to its peers was due to a larger holding in non-U.S. equities and the covered calls strategy.
- Non-Growth-risk allocation classes help to diversify the growth exposure and performed in-line with expectations for the quarter.

Following PCA's report, Chief Investment Officer Chattergy commented that, although this was not a strong quarter, there were some clear improvements on how the portfolio was managed and structured compared to the past. For example, the Board implemented a maximum cash holding rule in the policy guidelines after 2011, which keeps managers invested in the market and able to rebound as markets rebound. Additionally, investment staff monitored conditions closely and did not undertake rebalancing operations during a volatile period.

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

Mr. Paul Yett of Hamilton Lane Advisors, LLC (Hamilton Lane) provided the Board with an oral and written presentation on the status of the ERS's private equity portfolio as of June 30, 2015. Mr. Yett stated that he will be returning in December to present Hamilton Lane's 2016 tactical plan. Highlights of the portfolio report included:

- Consistent positive performance – since inception return of 9.58% as of June 30, 2015, follows twelve consecutive quarters of positive performance.
- Portfolio has posted strong performance over the past year – since inception IRR increased 24 basis points to 9.58%.
- Portfolio market value increased by over 20% over the past year to \$712.1 million; total exposure increased by \$336.1 million over the past year.
- Net increase in active partnerships over the past year: 10.

Investment Officer Mr. Au suggested to Mr. Yett that a chart that reflects trend lines for purchase price multiples and "dry powder" be included in the portfolio report. Mr. Yett acknowledged and noted the request.

Vice Chair Barfield asked Mr. Yett to report to the Board in December how much of the ERS's investment in the HiTIP fund is actually coming to Hawaii. Mr. Yett acknowledged and noted the request.



Mr. Yett left the meeting.

Chief Investment Officer Chattergy informed the Board that Hamilton Lane's contract is coming up for a one-year extension. Investment staff has started discussion with Hamilton Lane regarding the extension. Chief Investment Officer Chattergy noted that ERS staff has been very satisfied with Hamilton Lane's performance since the contract started three years ago.

OPERATIONS REPORT  
– OCTOBER 2015

Deputy Executive Director Margol presented the Board with an oral and written Operations Report for October 2015, highlighting statistics on finalizations: staff continues to do a good job on meeting the performance benchmark for finalizations (95% of cases completed within 6 months). Deputy Executive Director Margol also noted that there are currently 10 staff vacancies.

ADJOURNMENT

On a motion made by Vice Chair Barfield, seconded by Trustee Kane, and unanimously carried, the meeting was adjourned by Chair Lee Loy at 12:22 p.m.

**REDACTED  
SIGNATURE**

Thomas Williams  
Executive Director

TW:tt