

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

OCTOBER 13, 2015

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

Trustees present: Ms. Pilialoa Lee Loy, Chair
Mr. Vincent Barfield, Vice Chair
Mr. Patrick Frane
Mr. Emmit Kane
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst

Trustee excused: Ms. Jackie Ferguson-Miyamoto
Mr. Wesley Machida

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)

Staff present: Ms. Kanoe Margol, Interim Executive Director
Mr. Karl Kaneshiro, Interim Deputy Executive Director
Mr. Vijoy Chattergy, Chief Investment Officer (via telephone)
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. Howard Hodel, Investment Officer – Risk Management
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzal, Investment Specialist
Ms. Traci Toguchi, Secretary
Ms. Dale Kanae, Secretary
Ms. Wanda Kugiya, Recording Secretary

Guest present: Mr. Neil Rue) Pension Consulting Alliance, LLC.

Public present: None

QUORUM/CALL TO ORDER A quorum being present (Chair Lee Loy and Trustees, Barfield, Frane, Kane and Rauckhorst), Chair Lee Loy called the regular meeting to order at 9:00 a.m.

PUBLIC COMMENT Chair Lee Loy called for public comment. There were no members of the public present to offer comment.

RECESS

Chair Lee Loy called a recess at 9:01 for proceedings pursuant to chapter 91, Hawaii Revised Statutes, and for the Investment Committee meeting and announced that the meeting would reconvene after the Investment Committee meeting.

RECONVENE

A quorum being present (Chair Lee Loy and Trustees, Barfield, Frane, Kane, Matsumoto and Rauckhorst), Chair Lee Loy reconvened the meeting 11:35 a.m.

2016 LEGISLATIVE PROPOSALS
RELATING TO THE EMPLOYEES'
RETIREMENT SYSTEM

Ms. Kanoë Margol, Interim Executive Director, presented the Board with an oral and written report on legislative proposals that were submitted to the Department of Budget and Finance to be considered for the Governor's administrative package for the 2016 legislation session. The Administrative and Legislative Committee reviewed the proposals and recommended that the Board support the proposals:

- ERS Employer Contribution. Amends 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. Amends 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. This is an outgrowth of the Internal Audit report on Unclaimed Member Benefit and Accounts Review. There are also tax compliance implications.
- Forfeiture of Retirement Benefits. Proposal for members' forfeiture of retirement benefits upon the commitment of felonies related to their employment.

Deputy Attorney General Diane Kishimoto, Counsel for the Board, reported that a draft of a legislative proposal that would allow the ERS to make direct payment to a spouse or former spouse of an ERS member or retiree of all or a portion of the member's or retiree's benefits pursuant to a "qualified domestic relations order" (QDRO) will be presented to the Administrative and Legislative Committee for review.

On a motion made by Trustee Rauckhorst, seconded by Trustee Matsumoto, and unanimously carried, the Board adopted the Administrative and Legislative Committee recommendation to support the following legislative proposals:

- ERS Employer Contribution. Amends 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. Amends 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. Proposal for members' forfeiture of retirement benefits upon the commitment of felonies related to their employment.

REQUEST FOR PROPOSALS FOR
ACTUARIAL SERVICES

Ms. Margol provided the Board with an oral and written report on the Request for Proposals (RFP) for actuarial services to ERS. The contract with Gabriel, Roeder, Smith and Company (GRS) will expire on December 31, 2015. The selection committee will inform the Board of their final selection and submit the proposed fees to the Board for approval at the December 14, 2015 meeting.

EVOLVING STRATEGIC ALLOCATION
POLICY PLAN

Mr. Neil Rue of Pension Consulting Alliance, LLC (PCA), ERS's general investment consultant, presented the Board with an oral and written report on PCA's recommendation for an evolving policy plan for the ERS's portfolio's strategic allocation and the components of the Broad Growth class. As ERS staff and consultants continue to dialogue about the new long-term strategic allocation, and in particular the private markets components and their various cash flow requirements, this evolving policy plan may change. The final evolving policy plan will reflect the general direction of the changes.

On a motion made by Trustee Barfield, seconded by Trustee Matsumoto, and unanimously carried, the Board adopted PCA's recommended policy plan for strategic allocation and the components of the Broad Growth class, as presented.

(Mr. Chattergy ended his telephone call at 11:51 a.m.)

APPOINTMENT OF TRUSTEES,
PURSUANT TO HRS § 92-2.5(b)(1), TO
ATTEND CHINEN & ARINAGA 1ST
ANNUAL INSTITUTIONAL INVESTOR'S
FORUM TO INVESTIGATE FIRMS THAT
PROVIDE INVESTMENT MANAGEMENT
STRATEGIES TO HAWAII
INSTITUTIONAL INVESTORS

Chair Lee Loy will attend Chinen & Arinaga 1st Annual Institutional Investor's Forum.

(Investment staff and Mr. Rue left the meeting.)

RECESS

Chair Lee Loy called a 15 minute recess at 11:52 a.m..

RECONVENE

A quorum being present, Chair Lee Loy, reconvened the meeting at 12:15 p.m.

APPROVAL OF MINUTES

– JULY 13, 2015

– JULY 21, 2015

– AUGUST 10, 2015

On a motion made by Trustee Kane, seconded by Trustee Frane, and unanimously carried, the Board approved the minutes of the July 13, 2015, July 21, 2015 and August 10, 2015 meetings, as circulated.

ENTER EXECUTIVE SESSION

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

- 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 with respect to, member, retirant, and beneficiary requests for waiver of overpayment under HRS § 88-106; 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 Employees' Retirement System's securities fraud action against Medtronic, Inc. and other persons; 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;
- 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 oath of trustees; and
- Pursuant to HRS § 92-5(a)(4) and (8), 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 retention of investment counsel; 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, MEMBER, RETIRANT, AND BENEFICIARY REQUESTS FOR WAIVER OF OVERPAYMENT UNDER HRS § 88-106; 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 EMPLOYEES' RETIREMENT SYSTEM'S SECURITIES FRAUD ACTION AGAINST MEDTRONIC, INC. AND OTHER PERSONS; 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 THE OATH OF TRUSTEES.

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 RETENTION OF INVESTMENT COUNSEL; APPROPRIATE ACTION.

APPROVAL OF EXECUTIVE SESSION
MINUTES

- JULY 13, 2015
- JULY 21, 2015
- AUGUST 10, 2015

EXIT EXECUTIVE SESSION

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

OPERATIONS REPORT
- SEPTEMBER 2015

Mr. Kaneshiro presented the Board with an oral and written Operations Report for September 2015, highlighting: the 2015 Legislative Update/Employer Briefing – information sessions on Maui, Kauai and Hawaii; audit reports; Board of Trustees 2015 Election announcement will be deferred to December Board meeting; outstanding retirement benefit finalization cases; and welcoming of new Executive Director on November 2, 2015.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Frane, and unanimously carried, Chair Lee Loy adjourned the meeting at 12:42 p.m.

**REDACTED
SIGNATURE**

Kanoe Margol
Interim Executive Director

KM:wk