

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

SEPTEMBER 14, 2015

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

Trustees present: Ms. Pilialoa Lee Loy, Chair
Mr. Vincent Barfield, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Emmit Kane
Mr. Wesley Machida
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst

Attorneys present: 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
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 Wetzel, Investment Specialist
Ms. Traci Toguchi, Secretary
Ms. Wanda Kugiya, Recording Secretary

Guests present: Mr. Michael Humphrey (via telephone)) Courtland Partners, Ltd.

Mr. Colin Bebee) Pension Consulting Alliance, LLC.
Mr. Neil Rue

Mr. Matt Moran) Chicago Board Options Exchange
(CBOE)

Public present: Mr. Albert Vargas) House Finance

QUORUM/CALL TO ORDER

A quorum being present (all trustees except Trustee Barfield),
Chair Lee Loy called the regular meeting of the Board of Trustees

(Board) of the Employees' Retirement System (ERS) to order at 9:01 a.m.

PUBLIC COMMENT

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

PRESENTATION BY CHICAGO BOARD
OPTIONS EXCHANGE, INCORPORATED
(CBOE)

Mr. Matt Moran of Chicago Board Options Exchange, Incorporated gave a presentation on Options-Based Strategies for enhanced yield and risk-adjusted returns utilizing CBOE Standard & Poor's (S&P) 500 Buy Write Index (BXM), CBOE S&F 500 2% Out-of-the-Money (OTM) Buy Write Index (BXY), PutWrite Index (PUT) and other benchmark indexes. Mr. Moran also provided the history of CBOE from 1973 to 2015.

There being no further questions, Mr. Moran left the meeting.

RECESS

Chair Lee Loy called a recess at 9:44 a.m. and announced that the meeting would reconvene following the Investment Committee meeting.

RECONVENE

A quorum being present (all trustees), Chair Lee Loy reconvened the meeting at 11:26 a.m.

There were no members of the public present.

ENTER EXECUTIVE SESSION

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

- 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 the Ka'anapali Golf Courses.

(Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland Partners) joined the meeting via telephone.)

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 KA'ANAPALI GOLF
COURSES

There being no further questions, Mr. Humphrey left the meeting.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board exited executive session.

RECESS

Chair Lee Loy called a recess at 12:00 p.m. and announced that the meeting would reconvene at 12:15 p.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 12:26 p.m.

2015 ASSET LIABILITY STUDY

Mr. Neil Rue and Mr. Colin Bebee of Pension Consulting Alliance, LLC (PCA), ERS's general investment consultant, presented PCA's 2015 Asset Liability Study – Presentation 5. The presentation included the results of PCA's simulation modeling and PCA's recommendations for selection of a policy portfolio.

(Trustee Machida left the meeting during PCA's presentation.)

PCA recommended that the Board select one of two policy portfolios:

- Simulation Version #1 – Portfolio 6 (Real Estate Separate)
- Simulation Version #2 – Portfolio 9 (Real Estate Embedded)

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board approved Portfolio 9 (Simulation Version #2 – Real Estate Embedded).

Under the allocation portfolio approved by the Board, allocations would be as follows:

Class	Allocation
Public Growth	45.0%
Private Growth	18.0%
Principal Protection	7.0%
Crisis Risk Offset	20.0%
Real Return	10.0%
Real Estate	0.0%

Real Estate would not be a separate class. Non-core Real Estate investments would be included in Private Growth. Core Real Estate investments would be included in Public Growth. Overall Real Estate allocation would be close to 10%,

PCA and Investment staff will work on an implementation timeline, including development of policies and cash flow planning. The trustees also emphasized the importance of

communicating the proposed changes and reasons for the changes to stakeholders and the public.

CASH ACCOUNT POLICY

Mr. Neil Rue presented the Board with an oral and written report on proposed investment guidelines for the Board of Trustees Discretionary Account. There are currently no investment guidelines for the account. If approved, the guidelines will be incorporated into the ERS's *Investment Policy, Guidelines, and Procedures*.

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board approved the proposed "Board of Trustees Discretionary Account Guidelines," as presented, for inclusion in the ERS's *Investment Policy, Guidelines, and Procedures* document.

MANAGER CONCENTRATION EXEMPTION – COVERED CALLS

Mr. Neil Rue presented an oral and written report on PCA's recommendation that Gateway Investment Advisers (Gateway) be granted a temporary exemption from Section C.9.D (Single Manager Portfolio and Firm Allocation Limits for Active Mandates) of ERS's investment policy manual, which limits allocation to a single active mandate manager to 10% of the ERS portfolio. PCA recommends that, in order to facilitate quick and efficient transition to the new structure for the ERS's investment portfolio, the allocation for Gateway be increased to 20% of the total ERS portfolio until all other Stabilized Growth managers are eligible to be funded.

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board approved PCA's recommendation to increase the allocation for Gateway Investment Advisers to 20% of the total ERS portfolio until all other Stabilized Growth managers are eligible to be funded.

SUDAN INVESTMENT POLICY – DIRECT HOLDINGS

Mr. Vijoy Chattergy and Mr. Anthony Goo, ERS Investment Officer, presented an oral and written report on issues relating to the ERS's ownership of shares in Volkswagen AG (Volkswagen), which was classified as Scrutinized on the EIRIS Conflict Risk Network (CRN) report. The shares are held for the ERS by JP Morgan. JP Morgan's preference is to continue holding Volkswagen shares without adding to the existing position.

Pursuant to Act 192 of the 2007 Session Laws of Hawaii and the ERS's Sudan Investment Policy, the Board has two options:

- 1) Sell scrutinized company.
- 2) Continue holding scrutinized company based on the Board's discretion.

INVESTMENT OFFICE TRAVEL MEMO

MODIFICATION OF SECTION C.11 OF
THE INVESTMENT POLICY, GUIDELINES,
AND PROCEDURES (SECURITIES
LITIGATION GUIDELINES)

The Board did not take any action; however, the trustees asked Investment staff to report back in six months.

Mr. Chattergy presented an oral and written report on the 2016 Investment Office Manager Meeting and Conference Schedule for receive and file. This schedule may be subject to change.

In the absence of Mr. Brian Aburano, Deputy Attorney General, Deputy Attorney General Diane Kishimoto presented Mr. Aburano's written report on proposed revisions to Section C.11 of the *Investment Policy, Guidelines, and Procedures* manual relating to Securities Litigation Guidelines. Currently, the ERS's Securities Litigation Guidelines provide that "the State Attorney General is authorized to retain up to two law firms to identify, monitor and review securities litigation in which the ERS may be a class member and to make recommendations as to whether active participation in such litigation should be considered by the ERS."

(The Investment Officers and Specialists left the meeting.)

The contracts for the current ERS portfolio monitoring counsel are set to expire on September 30, 2015. The selection committee designated by the Attorney General, which includes Mr. Anthony Goo, believes that four portfolio monitoring counsel should be selected for the ERS—two to primarily monitor securities traded on domestic exchanges (U.S. securities) and two to primarily monitor securities traded on foreign exchanges (International securities).

The proposed amendment would allow "two or more" firms to be retained as monitoring counsel and also more fully describes the range of services monitoring counsel now perform for institutional investors such as the ERS.

On a motion made by Trustee Rauckhorst, seconded by Trustee Matsumoto, and unanimously carried, the Board approved revisions to the applicable language on page 27 of Section C.II of the *Investment Policy, Guidelines, and Procedures* to read as follows:

The ERS does recognize that there are situations when it could benefit from active participation in a securities class action lawsuit or by taking some other action in pursuit of a securities claim. The State Attorney General is therefore authorized to retain up to four law firms to: monitor the ERS's portfolio; identify, analyze and evaluate possible ERS securities claims; provide information as to new or pending securities lawsuits and settlements; and provide advice and recommendations as to whether the ERS should seek active

participation in a securities class action lawsuit, opt-out of a securities class action lawsuit, file or participate in a non-class action lawsuit or claim, or take some other action regarding a possible ERS securities claim.

SPECIAL DEPUTY ATTORNEYS
GENERAL

Deputy Attorney General Kishimoto presented a request for the Board's authorization to exercise the one-year contract extension option for the Special Deputy Attorney General contract with the ERS's tax counsel, J. Thomas Maloney, Jr. No increase in the fee and expense cap of \$140,000 was requested.

On a motion made by Trustee Rauckhorst, seconded by Trustee Matsumoto, and unanimously carried, the Board approved a one-year extension of the Special Deputy Attorney General contract with J. Thomas Maloney, Jr.

Deputy Attorney General Kishimoto presented an oral and written request to increase the fee and expense cap under the Contract for Special Deputy Attorney General Services with Nossaman LLP by \$150,000.00. The contract with the Nossaman firm is for two years, from October 14, 2014, with one one-year extension at the ERS's option.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board approved a \$150,000 increase in the fee and expense cap under the Contract for Special Deputy Attorney General Services with Nossaman LLP.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto, and unanimously carried, the Board entered 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 possible participation in a federal securities fraud class action lawsuit against Whole Foods, Inc.

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
POSSIBLE PARTICIPATION IN A
FEDERAL SECURITIES FRAUD CLASS
ACTION LAWSUIT AGAINST WHOLE
FOODS, INC.

(Trustee Machida returned to the meeting.)

EXIT EXECUTIVE SESSION

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

OPERATIONS REPORT
- AUGUST 2015

Mr. Karl Kaneshiro, Interim Deputy Executive Director, presented the Board with an oral and written Operations Report for August 2015, highlighting the status of ERS's staff vacancies and filling of positions, Information Systems Risk Assessment Project, Accounting Branch Fiscal Years 2014 and 2015 Audits, Board election, and outstanding retirement benefit finalization cases.

APPROVAL OF MINUTES
- JUNE 8, 2015
- JULY 21, 2015

On a motion made by Trustee Kane, seconded by Trustee Barfield, and unanimously carried, the Board approved the minutes of the June 8, 2015 meeting, as circulated. Chair Lee Loy noted that the minutes for the July 21, 2015 meeting were not available.

ENTER EXECUTIVE SESSION

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

- Approval of Executive Session Minutes – June 8, 2015.
– July 21, 2015.
- 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, and to consider, administrative staff personnel issues; appropriate action.

APPROVAL OF EXECUTIVE SESSION
MINUTES
- JUNE 8, 2015
- JULY 21, 2015

(Everyone present was excused from the meeting except the trustees and counsel for the Board.)

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, AND TO
CONSIDER, ADMINISTRATIVE STAFF
PERSONNEL ISSUES; APPROPRIATE
ACTION

(Deputy Attorney Kishimoto left the meeting at 2:00 p.m.)

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Board exited executive session.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, Chair Lee Loy adjourned the meeting at 2:36 p.m.

**REDACTED
SIGNATURE**

Kanoe Margol
Interim Executive Director

KM:wk