

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

JUNE 9, 2014

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. Emmit Kane  
Mr. Colbert Matsumoto  
Mr. Jerome Rauckhorst  
Mr. Kalbert Young

Trustee excused: Ms. Jackie Ferguson-Miyamoto

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: Mr. Wesley Machida, Executive Director  
Ms. Kanoe Margol, Assistant Administrator  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Andre Chen, Investment Specialist  
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

Guests present: Mr. Peter Hanashiro ) KMH LLP  
Ms. Maria Montero  
Mr. Dallas Weyand

Mr. Colin Bebee ) Pension Consulting Alliance, Inc.  
Mr. John Linder

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 (ERS), to order at 11:56 a.m.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Kane, seconded by Trustee Barfield, and unanimously carried, the Board amended the agenda to add:

- Executive Session, pursuant to HRS § 92-5(a)(4) and (8), to consider, and to consult with the ERS's attorneys on questions

and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding, a request for waiver of conflicts from the attorneys that Lowe Enterprises, Inc. would like to retain in connection with land use and entitlement planning for real property owned by the ERS; appropriate action.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Matsumoto and unanimously carried, the Board entered executive session pursuant to HRS § 92-5(a)(4) and (8), to consider, and

- To approve April 14, 2014 executive session minutes;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision regarding the draft Data Collection and Maintenance internal audit report and the draft Member Retirement Application and Eligibility internal audit report by KMH LLP and to hear KMH LLP's internal audit update report;
- Pursuant to HRS § 92-5(a)(4) and (8), to consider, and to consult with the ERS's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding, the draft auditor's report and draft financial statements of the ERS; appropriate action;
- Pursuant to HRS § 92-5(a)(8), to consider preliminary staff comments relating to the operational structure of the ERS;
- 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 ERS's attorneys on questions and issues pertaining to the ERS's powers, duties, privileges, immunities and liabilities with respect to, and to consider preliminary staff proposals for future legislative initiatives; appropriate action;
- Pursuant to HRS § 92-5(a)(4) to consult with the ERS's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding participation in litigation against Saipem S.p.A.; appropriate action; and
- Pursuant to HRS § 92-5(a)(4) and (8), to consider, and to consult with the ERS's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding, a request for waiver of conflicts from the attorneys that Lowe Enterprises, Inc. would like to retain in connection with land use and entitlement planning for real property owned by the ERS; appropriate action.

APPROVAL OF EXECUTIVE SESSION  
MINUTES – APRIL 14, 2014

EXECUTIVE SESSION TO CONSIDER  
AND, IF APPROPRIATE, TO MAKE A  
DECISION REGARDING THE DRAFT  
DATA COLLECTION AND  
MAINTENANCE INTERNAL AUDIT  
REPORT AND THE DRAFT MEMBER  
RETIREMENT APPLICATION AND  
ELIGIBILITY INTERNAL AUDIT  
REPORT BY KMH LLP AND TO HEAR  
KMH LLP'S INTERNAL AUDIT  
UPDATE REPORT

EXECUTIVE SESSION TO CONSIDER  
PRELIMINARY STAFF COMMENTS  
RELATING TO THE OPERATIONAL  
STRUCTURE OF THE EMPLOYEES'  
RETIREMENT SYSTEM

There being no further discussion, the representatives from KMH LLP  
left the meeting.

EXECUTIVE SESSION TO CONSIDER,  
AND TO CONSULT WITH THE  
EMPLOYEES' RETIREMENT  
SYSTEM'S ATTORNEYS ON  
QUESTIONS AND ISSUES  
PERTAINING TO THE BOARD'S  
POWERS, DUTIES, PRIVILEGES,  
IMMUNITIES, AND LIABILITIES  
REGARDING THE DRAFT AUDITOR'S  
REPORT AND DRAFT FINANCIAL  
STATEMENTS OF THE EMPLOYEES'  
RETIREMENT SYSTEM

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

EXECUTIVE SESSION TO CONSULT WITH THE EMPLOYEES' RETIREMENT SYSTEM'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE EMPLOYEES' RETIREMENT SYSTEM'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES WITH RESPECT TO AND TO CONSIDER PRELIMINARY STAFF PROPOSALS FOR FUTURE LEGISLATIVE INITIATIVES

EXECUTIVE SESSION TO CONSULT WITH THE EMPLOYEES' RETIREMENT SYSTEM'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES REGARDING PARTICIPATION IN LITIGATION AGAINST SAIPEM S.P.A.

EXECUTIVE SESSION TO CONSIDER AND TO CONSULT WITH THE EMPLOYEES' RETIREMENT SYSTEM'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES REGARDING, A REQUEST FOR WAIVER OF CONFLICTS FROM THE ATTORNEYS THAT LOWE ENTERPRISES, INC. WOULD LIKE TO RETAIN IN CONNECTION WITH LAND USE AND ENTITLEMENT PLANNING FOR REAL ESTATE PROPERTY OWNED BY THE EMPLOYEES' RETIREMENT SYSTEM

EXIT EXECUTIVE SESSION

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

RECESS

Chair Lee Loy called a recess for lunch at 12:46 p.m.

RECONVENE

A quorum being present (Trustee Kane was not present), Chair Lee Loy reconvened the meeting at 1:07 p.m.

(Trustee Young left the meeting.)

PREVIEW OF THE 2014 EMPLOYEES' RETIREMENT SYSTEM'S INVESTMENT SUMMIT

Mr. Vijoy Chattergy, Chief Investment Officer (CIO), presented the latest agenda for the 2014 Investment Summit, scheduled for July 23-25, 2014 at the Grand Hyatt Kauai, and discussed with the ERS staff, trustees, and consultants, the invited guest speakers, theme and objectives.

(Trustee Kane returned to the meeting.)

APPOINTMENT OF TRUSTEES, PURSUANT TO HRS § 92-2.5(b)(1), TO MEET WITH REPRESENTATIVES OF CERTAIN INVESTMENT MANAGERS AT THE INVESTMENT SUMMIT TO DISCUSS INVESTMENT TRENDS AND OPPORTUNITIES

The CIO proposed the creation of, and assignment of trustees to, "ad hoc committees," pursuant to HRS § 92-2.5(b)(1), for the purpose of meeting with certain ERS portfolio fund managers to investigate investment themes, trends, and opportunities. The meetings will take place during the 2014 Investment Summit on July 23, 2014 at the Grand Hyatt Kauai. ERS investment staff will also be assigned to the ad hoc committees.

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, Chair Lee Loy assigned Trustees and ERS investment staff to meet with the ERS's portfolio fund managers referred to below for the purpose of investigating investment themes, trends, and opportunities:

- Pacific Investment Management Company (PIMCO):  
Chair Lee Loy, Trustee Barfield, Andrew Chen
- Sands Capital Management, LLC:  
Trustee Ferguson-Miyamoto, Trustee Rauckhorst, Ian Wetzel
- Western Asset Management Company:  
Trustee Frane, Trustee Young, Aaron Au, Howard Hodel
- JP Morgan Asset Management Company:  
Trustee Matsumoto, Trustee Kane, Anthony Goo

The findings and recommendations of the Trustees and ERS investment staff resulting from the meetings will be presented at a subsequent meeting of the Board.

EMPLOYEES' RETIREMENT SYSTEM STRATEGIC PLAN

Mr. Wesley Machida, Executive Director (Executive Director), requested the Trustees' input on the draft of the ERS Strategic Plan (Plan) for fiscal years 2016 – 2020. All internal decisions must take the Plan into consideration. When the updated Plan is adopted, it will be put on the ERS website.

The Executive Director reported that the Board's Administrative and Legislative Committee reviewed and discussed the draft Plan at its May 28, 2014 meeting. ERS administrative staff (Administration and Branch Chiefs) have reviewed the completed accomplishments of the current Plan and discussed outstanding issues. In addition, the ERS administrative staff is in the process of updating the Plan's vision, mission, values, goals, and objectives/strategic initiatives for the next 5 years. At this time, ERS staff has no suggested changes for the mission and values of the Plan; however, ERS staff believes that it is important to acknowledge the unselfish public service of ERS members as the

foundation of the ERS's standard of excellence.

The Executive Director reviewed proposed changes to the current Plan. The changes include:

- Addition of "maintaining a sustainable defined benefit plan" to goals and objective/strategic initiative.
- Expressly including "employees, employers, members and representatives" in the description of the ERS "team."
- Providing annual member statements. Although ERS members have access to their account information via the "Self-Service" feature on the ERS website, not all ERS members have access to a computer and/or an internet connection.

Trustee Rauckhorst noted that the Board's Administrative and Legislative Committee requested an action plan and timeline for implementation of the Plan.

#### LEGISLATIVE PROPOSALS AFFECTING THE EMPLOYEES' RETIREMENT SYSTEM

The Executive Director presented a summary of possible legislative proposals for the 2015 Legislative Session. The Administrative and Legislative Committee discussed the following proposals at its May 28, 2014 meeting and recommended that the Board authorize the proposals:

- Pensioner's Bonus. At the Board's discretion and upon its approval, a one-time bonus may be paid to pensioners after the fund becomes 100% fully funded (or upon other criteria as determined by the Board).
- ERS Qualified Domestic Relations Orders (QDRO) Implementation. As QDRO's will likely be introduced in this and future sessions, the ERS could introduce a proposal for the implementation of QDRO's that would be administratively practical and feasible for the System.
- ERS Benefit Forfeiture. Re-introduce legislation regarding the forfeiture of ERS benefits for members convicted of work-related felonies.
- Change in Formula for Crediting Unused Sick Leave. Re-introduce legislation regarding crediting 50% of unused sick leave credit towards retirement benefits for new employees; proposal includes an optional "purchase" of the remaining 50% by the total actuarial cost of the accumulated unused sick leave.
- Chapter 88 Housekeeping. Correction to § 88-341(c) for death benefits to beneficiaries of terminated Hybrid former members who became members after June 30, 2012 (Act 163/2011). Add death benefit requirement for 10 years to receive former member's hypothetical account balance.

- Revise § 88-59: Acquisition of Membership Service. Change the following for current and/or future members:
  - Purchase cost for service credit is currently based on the member's current salary and contribution rate. The proposed formula would be based on an actuarial calculation to include the present value cost of this additional service credit.
  - Currently members may apply to acquire service that was previously not eligible for membership (i.e., hourly, per-diem, short-term, emergency hire, etc.). Propose to limit service credit acquisition to previous "membership" service, if eligible.
  - Allow for lump sum purchase of service only and eliminate purchase of service by payroll deduction.

The Trustees discussed their concerns regarding the proposal for crediting 50% of unused sick leave credit towards retirement benefits for new employees.

On a motion made by Trustee Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board authorized the following legislative proposals for the 2015 Legislative Session:

- Pensioner's Bonus. At the Board's discretion and upon its approval, a one-time bonus may be paid to pensioners after the fund becomes 100% fully funded (or upon other criteria as determined by the Board).
- ERS Qualified Domestic Relations Order (QDRO) Implementation. As QDRO's will likely be introduced in this and future sessions, the ERS could introduce a proposal for the implementation of QDRO's that would be administratively practical and feasible for the System.
- ERS Benefit Forfeiture. Re-introduce legislation regarding the forfeiture of ERS benefits for members convicted of work-related felonies.
- Change in Formula for Crediting Unused Sick Leave. Re-introduce legislation regarding crediting 50% of unused sick leave credit towards retirement benefits for new employees.
- Chapter 88 Housekeeping. Correction to 88-341(c) for death benefits to beneficiaries of terminated Hybrid former members who became members after June 30, 2012 (Act 163/2011). Add death benefit requirement for 10 years to receive former member's hypothetical account balance.

- Revise § 88-59: Acquisition of Membership Service. Change the following for current and/or future members:
  - Purchase cost for service credit is currently based on the member's current salary and contribution rate. The proposed formula would be based on an actuarial calculation to include the present value cost of this additional service credit.
  - Currently members may apply to acquire service that was previously not eligible for membership (i.e., hourly, per-diem, short-term, emergency hire, etc.). Propose to limit service credit acquisition to previous "membership" service, if eligible.
  - Allow for lump sum purchase of service only and eliminate purchase of service by payroll deduction.

INTERNAL AUDIT AND THE AUDIT  
OF THE FINANCIAL STATEMENTS OF  
THE EMPLOYEES' RETIREMENT  
SYSTEM FOR THE YEAR ENDED  
JUNE 30, 2012

Chair Lee Loy announced the following decisions made by the Board in executive session regarding the internal audit reports and the financial statements of the ERS:

- Approved the internal audit reports on the Data Collection and Maintenance Review, and the Member Retirement Application and Eligibility;
- Approved the Audit Committee's, KMH's, and ERS staff's recommended changes to the Internal Audit Plan to: extend the timeline of the Policy Documentation Review until the end of the calendar year 2014; reallocate 150 hours from Monitoring Development and Implementation of a Disaster Recovery and Business Continuity Program to the Business, Process, Information, Flow, and Efficiency Review; and move the Privacy Review from the second quarter of calendar year 2014 to the first quarter of calendar year 2015; and
- Accepted the draft auditor's report and financial statements of the ERS for the fiscal year ended June 30, 2012 subject to the Trustees comments regarding page 36: The Trustees requested that the "Schedule of Funding Progress" include a note to the effect that the schedule does not reflect the effect of pension reforms that became effective July 1, 2013 and that GASB 67 and 68 eliminated the requirement for of annual required contribution amounts.

PUBLIC PENSION CONFERENCE

Chair Lee Loy's report on her attendance to the 2014 Public Pension Conference was deferred.

PENSION BRIDGE CONFERENCE

Trustee Kane's report on his attendance to the 2014 Pension Bridge Conference was deferred.



OPERATIONS REPORT – MAY 2014

The Executive Director presented a report on ERS operations and ERS website statistics (top 10 viewed pages) for May 2014. Highlights included:

- Completed fee negotiations for the Memorandum of Understanding (MOU) with the Department of Health to identify and confirm deaths.
- Status of the ERS’s operating expense budget as of April 30, 2014.
- Top ten viewed web pages of the ERS’ website included the benefits calculator still holding at number one since October 2013; update to benefits calculator to include data for new ERS members currently underway.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board amended the agenda to add the following:

- Executive Session, pursuant to HRS § 92-5(a)(8), to hear a report by the Executive Director of confidential information concerning an ERS contractor.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board entered executive session, pursuant to HRS § 92-5(a)(8), to hear a report by the Executive Director of confidential information concerning an ERS contractor.

EXECUTIVE SESSION TO HEAR A REPORT BY THE EXECUTIVE DIRECTOR OF CONFIDENTIAL INFORMATION CONCERNING AN EMPLOYEES’ RETIREMENT SYSTEM CONTRACTOR

EXIT EXECUTIVE SESSION

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

APPROVAL OF MINUTES – APRIL 14, 2014

On a motion made by Trustee Kane, seconded by Trustee Barfield, and unanimously carried, the Board approved the April 14, 2014 minutes.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Barfield, and unanimously carried, Chair Lee Loy adjourned the meeting at 3:38 p.m.

**REDACTED SIGNATURE**

Wesley K. Machida  
Executive Director

WKM: jh