

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

NOVEMBER 17, 2014

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

Trustees present:

Ms. Pilialoha Lee Loy, Chair
Mr. Vincent Barfield, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Colbert Matsumoto
Mr. Emmit Kane
Mr. Jerome Rauckhorst
Mr. Kalbert Young

Staff present:

Mr. Wesley Machida, 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 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

Attorneys present:

Ms. Diane Kishimoto, Deputy Attorney General (Counsel for the Board)
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)

Guests present:

Mr. Michael Humphrey) Courtland Partners, Ltd.

Mr. Paul Yett) Hamilton Lane Advisors, LLC
Ms. Natalie Fitch

Ms. Kay Ceserani) Pension Consulting Alliance, Inc.
Mr. Neil Rue

Mr. Andy Betz) Stafford Capital Partners
Mr. Rick Fratus

Mr. Donovan Kealoha) Startup Capital Ventures

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 11:13 a.m.

PUBLIC COMMENT

No testimony was offered by members of the public.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Kane, seconded by Trustee Matsumoto, and unanimously carried, the Board amended the agenda to include the following in New Business: Resolution to Honor Kalbert Young.

RESOLUTION FOR KALBERT YOUNG

Trustee Ferguson-Miyamoto read proposed Resolutions recognizing Trustee Kalbert Young for his service on the ERS Board.

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

PRESENTATION BY PENSION CONSULTING ALLIANCE, INC. ON THE PERFORMANCE OF THE EMPLOYEES' RETIREMENT SYSTEM'S INVESTMENT PORTFOLIO AND RISK MANAGEMENT FOR 3RD QUARTER 2014

Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's general investment consultant, presented PCA's reports on the performance of the ERS's investment portfolio and risk management for the third quarter of 2014. Highlights included:

- Aggregate portfolio value of \$13.9 billion as of September 30, 2014.
- During the third quarter, the portfolio decreased by about \$0.2 billion; however, the portfolio increased by about \$1.0 billion over the past year.
- Portfolio trailed the Policy Benchmark by 30 basis points, but matched the Median Public Fund for the third quarter.
- Over the 1-year period, the portfolio matched the Policy Benchmark with a 10.8% return and outperformed the Median Public Fund by 60 basis points. Performance attributed to active domestic large cap equity managers' performance and differences in strategic allocations. Longer term performance gaps have begun to narrow as a result of the near-term outperformance.
- Portfolio ended the third quarter overweight Domestic Equity, Covered Calls, and Other Assets, while underweight Total Fixed Income and International Equity due to policy changes.
- Nine of eleven Domestic Equity managers matched their respective benchmarks over the third quarter, and five of eleven Domestic Equity managers matched or outperformed their respective benchmarks over the 1-year period.

- Restructuring of the International Equity portfolio reduced the number of International Equity managers and increased the level of passive management since 2011. Three of six International Equity managers outperformed their respective benchmarks over the third quarter, despite a challenging quarter.
- Four of six Fixed Income managers matched or exceeded their respective benchmarks during the third quarter and over the 1-year period.
- Real Estate strategic class exceeded its policy benchmark over the 3- and 5-year returns.
- Private Equity strategic class lagged its policy benchmark over all reported periods.
- Total portfolio and policy portfolio are less exposed to growth risk than in prior periods (pre-2014); more exposed to interest rate risk and inflation risk than in prior periods.
- Portfolio's beta is above 1.0, indicated that the total portfolio is more susceptible to broad market risks than the policy portfolio.

In closing, Mr. Rue commented that, going forward, ERS staff and the Board should expect to see newly reformatted performance reports that include an "in-progress blueprint" to show the status of the different phases of strategies under review.

PRESENTATION BY
COURTLAND PARTNERS, LTD.
ON THE PERFORMANCE OF
THE EMPLOYEES'
RETIREMENT SYSTEM'S REAL
ESTATE PORTFOLIO FOR 2ND
QUARTER 2014

Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland Partners), ERS's real estate investment consultant, presented Courtland Partners' report on the performance of the ERS's real estate portfolio for the second quarter of 2014. Highlights included:

- Portfolio market value of \$926,047,592 for the period ended June 30, 2014.
- Total number of current investments: 16 (16 last quarter).
- Total net return was 4.2% for the quarter; 6.9% year-to-date.
- Total portfolio internal rate of return inception to date was 7.4%.
- Portfolio is 6.8% of total plan assets (versus 7.0% target allocation).
- Portfolio income was 1.9%, 3.7%, 7.5%, 7.4%, 7.2%, and 7.2%, for the current quarter, year-to-date, 1-, 2-, 3-, and 5- year periods, respectively.
- Portfolio measured by market value is 80.9% to core, 13.6% to value, and 5.5% to opportunistic investments.

- Portfolio outperformed the National Council of Real Estate Investment Fiduciaries (NCREIF) property index (NPI) 1.8%, 2.1%, 1.1%, 3.8%, 4.2%, and 4.2% for the current quarter, year-to-date, 1-, 2-, 3-, and 5-year periods, respectively; the portfolio underperformed the NPI by 3.8% for the inception-to-date period.
- Additional investments to core and allocations to non-core real estate are expected; will look into real estate debt funds for potential protection of value in the down markets.

PRESENTATION BY HAMILTON
LANE ADVISORS, LLC ON AN
UPDATE OF THE EMPLOYEES'
RETIREMENT SYSTEM'S
PRIVATE EQUITY PROGRAM

Mr. Paul Yett of Hamilton Lane Advisors, LLC (Hamilton Lane), ERS's private equity consultant, introduced Ms. Natalie Fitch, as the newest member of the team supporting the ERS.

Mr. Yett reported on the status of the ERS's private equity portfolio. Highlights included:

- Positive performance over the four quarters ended June 30, 2014 of 21.2%, compared with a four quarter performance of 13.0% in the period ended June 30, 2013. Net value gained for the 12 months ended June 30, 2014 was \$100.1 million.

(The Executive Director left the meeting.)

- Since inception internal rate of return (IRR) was 9.34%, an increase from the previous year's 8.52%.
- Portfolio market value increased by over 23% over the past year to \$592.6 million; total exposure increased by \$238 million during the past year.
- Through November 2014, closed on 8 investments, \$240 million in committed capital:
 - \$35 million each to Waterton Precious Metals Fund II Cayman, L.P. (small buyout), American Securities Opportunities Fund III, L.P. (distressed debt), Providence Debt Fund III, L.P. (distressed debt), Veritas Capital Fund V, L.P. (mid buyout), Hellman & Friedman Capital Partners VIII, L.P. (mega buyout), and Blackstone Energy Partners II, L.P. (large buyout).
 - \$15 million each to Polaris Partners VII, L.P. (venture capital), and JMI Equity Fund VIII, L.P. (growth equity).
 - Four of eight investments represent "re-ups".

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

Mr. Yett highlighted the following completed initiatives under the 2014 Tactical Plan for the private equity portfolio:

- Invested \$240 million in 2014.
- Increased average commitment size to \$30 million from historical average commitments of \$8.4 million.

- Maintained existing relationships with strong-performing general partners by investing with 4 existing managers that demonstrated strong track records.
- Invested in targeted strategies: 2 buyout funds, 2 energy-focused buyout funds, and 2 distressed debt funds.
- Invested in energy-focused small buyout fund and a middle-market buyout fund that targeted companies with government end-users.

(The Executive Director returned to the meeting.)

Mr. Yett stated that Hamilton Lane will continue to track and identify investment opportunities that would diversify the portfolio geographically with a goal of increasing exposure to internal and emerging markets exhibiting strong economic fundamentals. Hamilton Lane's 2015 Tactical Plan would include the same recommended initiatives from 2014, with an additional recommendation to consider investments in secondary opportunities that would allow further access to top-performing general partners and enhance ability to reach ERS's target private equity allocation. Currently there is no specific process in place for secondary opportunities, but if there is an opportunity for it, Hamilton Lane would like to have a process in place for it.

Hamilton Lane's proposed investment pacing models for 2015 included recommendation to increase investment pacing for up to \$350 million per year, assuming a 7.0% target allocation and a 5% growth rate.

After discussion of concerns regarding the size of the investment commitment pacing and possible scenarios of lower than 5% growth rates, PCA and ERS staff recommended that the Board accept Hamilton Lane's 2015 Tactical Plan, with a modification to set the commitment pacing as a range, which would include a minimum target in addition to a maximum target.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board approved Hamilton Lane's 2015 Tactical Plan and an investment commitment pacing size of \$250 million to \$350 million.

RECESS

Chair Lee Loy called a ten minute recess for lunch at 12:44 p.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 1:04 p.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, 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, and to consider a status report from Courtland Partners, Ltd. on Lowe Enterprises Investment Management's Phase II Feasibility Study on the Royal Ka'anapali Golf Courses property; 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, AND TO CONSIDER A STATUS REPORT FROM COURTLAND PARTNERS, LTD. ON LOWE ENTERPRISES INVESTMENT MANAGEMENT'S PHASE II FEASIBILITY STUDY ON THE ROYAL KA'ANAPALI GOLF COURSES PROPERTY

EXIT EXECUTIVE SESSION

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

(Mr. Humphrey left the meeting.)

PRESENTATION BY STAFFORD CAPITAL PARTNERS ON THE HAWAII TARGETED INVESTMENT PROGRAM UPDATE

Mr. Andy Betz and Mr. Rick Fratus of Stafford Capital Partners (Stafford), manager for the ERS's Hawaii Targeted Investment Program (HiTIP) reported on the status of the Hawaii Targeted Investment Fund I, L.P. (HiTIP Fund) managed by Stafford for the ERS. Highlights included:

- As of October 31, 2014, 100% of capital (\$25.25 million) committed to seven funds with investments across 103 companies and one co-investment.
- 511 Hawaii-based investment opportunities reviewed by the HiTIP funds.
- Two investments completed in Hawaii-based companies; one investment in a company with technology originally developed on Maui.
- Investment in Arsenal Venture Partners II continues to be impacted by the J-curve.

- Volta Industries, an Epic Venture Fund IV investment, is expanding to California and Arizona.
- Hu Honua of TEM Capital reported that negotiations and financing are positively progressing.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, 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, and to consider, investment in Startup Capital Ventures;
- 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 litigation against Banco Espirito Santo, Espirito Santo Financial Group, and related persons and entities;
- Pursuant to HRS § 92-5(a)(4) and (8) and Haw. Const. art. I, § 6, 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, retiree, and beneficiary requests for waiver of overpayment under HRS § 88-106;
- Pursuant to HRS § 92-5(a)(2) and (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, the evaluations of the Employees' Retirement System's Executive Director, Chief Investment Officer, and Investment Officers where consideration of matters affecting privacy will be involved; and
- To approve July 23-25, 2014 and September 23, 2014 executive session minutes.

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, AND TO
 CONSIDER, INVESTMENT IN
 STARTUP CAPITAL VENTURES

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 LITIGATION
AGAINST BANCO ESPIRITO
SANTO, ESPIRITO SANTO
FINANCIAL GROUP, AND
RELATED PERSONS AND
ENTITIES

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

(Ms. Tsang and all consultants, guests, and ERS staff, except the Executive Director, the Deputy Executive Director, the CIO, Ms. Hirata, and Ms. Kishimoto were excused from the meeting.)

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, THE EVALUATIONS
OF THE EMPLOYEES'
RETIREMENT SYSTEM'S
EXECUTIVE DIRECTOR, CHIEF
INVESTMENT OFFICER, AND
INVESTMENT OFFICERS
WHERE CONSIDERATION OF
MATTERS AFFECTING
PRIVACY WILL BE INVOLVED

APPROVAL OF EXECUTIVE
SESSION MINUTES

– JULY 23-25, 2014

– SEPTEMBER 23, 2014

EXIT EXECUTIVE SESSION

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

(Ms. Tsang, consultants, guests, and other ERS staff returned to the meeting.)

PORTFOLIO RESTRUCTURING
PLAN

Mr. Vijoy Chattergy, ERS's Chief Investment Officer (CIO), and Mr. Rue presented their plans to restructure the ERS's portfolio according to the ERS's revised Investment Policy, Guidelines, and Procedures, which were approved by the Board, effective October 1, 2014. The revised policy shifts the allocation framework from asset classes to broader risk/functional classes. The new risk/functional classes consist of Broad Growth, Principal Protection, Real Return, Real Estate, and Hawaii Targeted Investments. The first step in implementing the new policy is to shift ERS's current Fixed Income managers to Broad Growth (stabilized growth or credit strategies) or Principal Protection. Completion of the first step of the restructuring is anticipated by the end of calendar year or in the first quarter of 2015.

LEGISLATIVE PROPOSALS
RELATING TO THE
EMPLOYEES' RETIREMENT
SYSTEM

Mr. Wesley Machida, ERS's Executive Director (Executive Director) reported that the following legislative proposals affecting the ERS were discussed by the Board's Administrative and Legislative Committee (Committee) at a November 3, 2014 meeting and the Committee recommended that the Board authorize the proposals for the 2015 Legislative Session:

1. ERS Qualified Domestic Relations Orders (QDRO) Implementation. Committee decided to defer this new proposal.
2. Clarify the authority of the Board to hold executive sessions during meetings subject to HRS chapter 92. Committee indicated that the proposal should be expanded to include consideration of draft reports and memoranda and preliminary recommendations, from staff, consultants and other agencies.
3. Forfeiture of ERS benefits for members convicted of work-related felonies.
4. Change in formula for crediting unused sick leave by crediting 50% of unused sick leave credit towards retirement benefits for new employees. Effective on July 1, 2015.
5. Require employers to submit all transactions electronically in the proper format to the ERS and establish monetary consequences for noncompliance.

6. Amend section 88-341(c) for death benefits to beneficiaries of terminated Hybrid Plan members (under Act 163/2011) who become members after June 30, 2015, by requiring 10 years of service as a condition of payment of the former member's hypothetical account balance to the beneficiary. Changes the deadline for terminated Contributory Plan and Hybrid Plan members to take a refund of their retirement contributions from age 62 to the later of age 62 or four years after the calendar year of termination. Effective on July 1, 2015.
7. Judges' parity – restores age and service requirements for ERS Contributory Plan members who were ERS members prior to July 1, 2012, but who become judges after June 30, 2012. Effective on July 1, 2012.
8. Acquisition of membership service and military service purchase credit – require member to apply for previous membership service and previous military service upon enrollment or within 1-year of first eligibility and to initiate purchase within 1-year of verification. Purchase cost for service credit based on actuarial calculation to include present value cost of additional service credit.
9. Defer revising the method of calculating service and AFC for teachers.
10. Requires ERS contributions from workers' compensation payments when an ERS member will receive service credit while on workers' compensation leave.

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

1. Clarify the authority of the Board to hold executive sessions during meetings subject to HRS chapter 92 to consider information and to make decisions that must be kept confidential to fulfill the Board's investment responsibilities and to consider draft reports and memoranda and preliminary recommendations, from staff, consultants and other agencies.
2. Forfeiture of ERS benefits for members convicted of work-related felonies.
3. Change in formula for crediting unused sick leave by crediting 50% of unused sick leave credit towards retirement benefits for new employees. Effective on July 1, 2015.
4. Require employers to submit all transactions electronically in the proper format to the ERS and establish monetary consequences for noncompliance.

5. Amend section 88-341(c) for death benefits to beneficiaries of terminated Hybrid Plan members (under Act 163/2011) who become members after June 30, 2015, by requiring 10 years of service as a condition of payment of the former member's hypothetical account balance to the beneficiary. Changes the deadline for terminated Contributory Plan and Hybrid Plan members to take a refund of their retirement contributions from age 62 to the later of age 62 or four years after the calendar year of termination. Changes the deadline for terminated Contributory Plan and Hybrid Plan members to take a refund of their retirement contributions from age 62 to the later of age 62 or four years after the calendar year of termination. Effective on July 1, 2015.
6. Judges' parity – Amend sections 88-73(b) and 88-74(c) and (d) to restore age and service requirements for Contributory Plan members who were ERS members prior to July 1, 2012 but who become judges after June 30, 2012. Effective on July 1, 2012.
7. Acquisition of membership service and military service purchase credit – Revise sections 88-59, 88-132.5 and 88-324 to require the member to apply for previous membership service and previous military service upon enrollment or within 1-year of first eligibility and to initiate purchase within 1-year of verification. Also requires that the payment of contributions for professional improvement leaves be initiated within 1-year of return from such leave. Effective on July 1, 2016.
 - a. Actuarially neutral acquisition of service and initiation of purchase – Require that after June 30, 2016, the purchase cost would be based on an actuarial calculation to include the present value cost of this additional service credit. Effective on July 1, 2016.
8. Requires ERS contributions from workers' compensation payments when an ERS member will receive service credit while on workers' compensation leave.

The Executive Director commented that the legislative proposals are subject to reviews by the Department of the Attorney General and the Department of Budget and Finance. ERS staff will continue to work the Committee to finalize the legislative proposals.

PROCEDURES FOR HANDLING OVERPAYMENTS

The Executive Director presented for the Board's consideration, revised procedures intended to conform with the Board's recent decisions and directions on overpayment cases, to streamline the process, and to ensure that reimbursements of overpayments are not delayed. The revisions were also based on the ERS staff's current practices and experiences in handling overpayment cases, and guidance from the Department of the Attorney General. Major revisions included:

1. ERS staff will immediately begin to recover the overpaid amount from the retirant's pension upon notification to the retirant/beneficiary of the overpayment.
2. ERS staff will use their judgment and discretion as to the rate and method of recovery based on (1) the corrected pension amount and (2) the other factors stated in the revised procedures.
3. The procedures also address other overpayment situations: (1) retirant who has returned to work, and (2) deceased retirant or beneficiary

On a motion made by Trustee Young, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the revised overpayment procedures as presented.

OPERATIONS REPORT
– OCTOBER 2014

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

- Developed short and long term plans to appropriately manage and reduce the outstanding finalization of pension payments for retirees currently on estimated pension payments (presented at the October 20, 2014 Board meeting); completion of 460 finalization of pension payments projected for November 2014.
- Conducted "Brown Bag" informational session for Hybrid Plan and Contributory Plan members.
- Conducted pre-retirement sessions and new employee orientation for Department of Education employees.
- Participated in new employee orientation for new employees of the City & County of Honolulu.
- Provided informational booths at the Hawaii Government Employees Association (HGEA) Educational Officers Seminar and the Department of Human Resource and Development (DHRD) Benefits Fair.
- Fiscal year (FY) 2013 Audit is near completion and draft of the FY 2013 Audit Report will be presented to the Board's Audit Committee in December 2014. The FY 2014 Audit is expected to be completed in February 2015.
- Internal audit of the unclaimed member benefits accounts (inactive members have left their retirement contributions with the System and are eligible for their refund) has been completed.

APPROVAL OF MINUTES
– JULY 23-25, 2014
– SEPTEMBER 23, 2014

On a motion made by Trustee Fergsuon-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved the minutes of the July 23-25, 2015 and September 23, 2014 Board meetings as presented.

NEXT MEETING
– DECEMBER 8, 2014

Chair Lee Loy announced that the next Board meeting is scheduled for Monday, December 8, 2014.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, Chair Lee Loy adjourned the meeting at 2:48 p.m.

REDACTED SIGNATURE

Kanoe Margol
Interim Executive Director

KM: jh

Resolution

WHEREAS, Kalbert K. Young became an ex-officio member of the Board of Trustees of the Employees' Retirement System of the State of Hawaii on December 10, 2010 when he was appointed by Governor Neil Abercrombie to be his Director of Finance; and

WHEREAS, during his tenure, the Employees' Retirement System's assets grew from \$8.9 billion to \$14.1 billion with positive investment returns for 4 years, its membership increased from 110,927 to 118,466 and the number of pensioners grew from 36,999 to 43,087 with the average pension payment increasing from \$1,906 to \$2,023; and

WHEREAS, during his term as a Trustee, the Board introduced the following proposals that became state law to deal with the System's growing pension and unfunded liabilities that jeopardizes its sustainability: (1) the 2011 moratorium on benefit enhancements until the Employees' Retirement System is 100% funded, (2) the pension benefit reforms of 2011 which lowered benefits and costs for new members, increased eligibility requirements, and increased the employee 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 significant increases in non-base compensation prior to retirement resulting in "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 Mr. Young's tenure on the Board's investment committee, the Board's effective investment strategy became more complex and diversified by including asset classes such as Covered Calls and Real Returns to better take advantage of market opportunities, increasing exposure to global investments in public and private markets, reconstructing the portfolio to include more passive strategies and opportunistic real estate funds, hiring a private equity consultant to support efforts to increase exposure to private equity going forward and initiating a risk-based asset allocation strategy; and

WHEREAS, while Mr. Young served as a Trustee, the Employees' Retirement System, with the Board's encouragement, greatly improved its customer service through timely Holomua newsletters and an expanded website, providing its members with a more responsive, open and professional organization that elicits confidence and trust confirming that, for the Board and Staff, the membership is their main priority; and

WHEREAS, Mr. Young as the Director of Budget and Finance, led the Administration's efforts to restore the State's fiscal health following the Great Recession, was instrumental in bringing about a \$1.0 billion turnaround of state finances in a span of three years, oversaw the rebuilding of the State's fiscal reserves and restructuring of the State's general obligation bond debt profile to be in line with best practices, and spearheaded efforts to help put the State on a path to meeting its looming pension and other post-employment benefit (OPEB) liabilities; and

WHEREAS, Kalbert K. Young is a public servant in the true sense of the word, committing himself to serving the people of Hawaii with dedication and unselfishness, and worked relentlessly and diligently to insure that the quality of life of retired public employees was of the highest standard, and dedicated himself to improving the resources of the program which would enable the members to retire knowing that such years would be lived with dignity; and

WHEREAS, under his stewardship, the Employees' Retirement System continued to be nationally recognized and emulated by sister states; and

WHEREAS, during his tenure as a Trustee, he won the respect and admiration of his peers; and his distinguished and exemplary service merits the highest recognition;

NOW THEREFORE BE IT RESOLVED by the Board of Trustees of the Employees' Retirement System, on November 17, 2014, that it commends and congratulates Kalbert K. Young for his outstanding leadership and service to the Employees' Retirement System and the people of Hawaii;

BE IT FURTHER RESOLVED that a certified copy of this Resolution be transmitted to **Mr. Kalbert K. Young**.