

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

DECEMBER 8, 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. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, Investment Specialist
Mr. Karl Kaneshiro, Benefits Manager
Mr. Keith Miyamoto, Information Systems Manager
Mr. Larry Wolfe, Accounting Manager
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:

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)

Guests present:

Mr. Michael Humphrey) Courtland Partners, Ltd.

Mr. Tom Pulley) Fortress Investment Group LLC
(via conference call)

Mr. Joe Newton) Gabriel, Roeder, Smith & Company
Mr. Lewis Ward

Mr. Paul Anderson) Gateway Investment Advisers, LLC
Mr. Michael Buckius

Mr. Russell Munn) Lowe Enterprises Investment Management
Mr. Bleecker Seaman

Mr. John Linder) Pension Consulting Alliance, Inc.

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 9:03 a.m.

PUBLIC COMMENT

No testimony was offered by members of the public.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Matsumoto, seconded by Trustee Young, 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, recruiting and hiring a new Executive Director, appointing an interim Executive Director, and related transition issues.

(All individuals present, except for the Executive Director and Deputy Attorneys General Aburano and 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,
RECRUITING AND HIRING A
NEW EXECUTIVE DIRECTOR,
APPOINTING AN INTERIM
EXECUTIVE DIRECTOR, AND
RELATED TRANSITION ISSUES

EXIT EXECUTIVE SESSION

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

(Individuals previously excused returned to the meeting.)

APPOINTMENT OF INTERIM
EXECUTIVE DIRECTOR;
RECRUITMENT AND HIRING OF
A NEW EXECUTIVE DIRECTOR;
AND RELATED TRANSITION
ISSUES

On a motion made by Trustee Matsumoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board authorized the Compensation Review Committee to conduct the search for an Executive Director for the ERS and to engage an executive search firm for such purpose.

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board appointed Ms. Kanoe Margol as the interim Executive Director at a compensation rate of \$150,000 a year during her service as interim Executive Director.

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board appointed Mr. Karl Kaneshiro as the interim Deputy Executive Director for the ERS, if Ms. Margol accepts the position as interim Executive Director, at a compensation rate of \$118,000 a year during his service as interim Deputy Executive Director.

RESOLUTION RELATING TO
THE EMPLOYEES'
RETIREMENT SYSTEM'S
EXECUTIVE DIRECTOR

Trustee Ferguson-Miyamoto read proposed Resolutions recognizing the Executive Director for his service to the ERS.

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

INVESTMENT IN FORTRESS
JAPAN OPPORTUNITY FUND III

Mr. Tom Pulley of Fortress Investment Group LLC (Fortress), via conference call, made a presentation on the Fortress Japan Opportunity Fund III (Dollar A), L.P. (FJOF Fund III). Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland Partners), ERS's real estate investment consultant, reported on Courtland Partners' evaluation of the proposed investment and answered additional questions expressed by the Board, ERS staff, and other consultants. The advantages of the investment and the risk/concerns with respect to the investment are described in Courtland Partners written report. Courtland Partners recommended that the ERS commit to an investment in the FJOF Fund III of up to \$20 million, inclusive of 15% currency risk hedging.

Mr. Pulley also reported on the market conditions in Japan and the status of Fortress Japan Opportunity Fund I and Fortress Japan Opportunity Fund II. The ERS invested in the Fortress Japan Opportunity Fund II.

On a motion made by Trustee Barfield, seconded by Trustee Matsumoto, and unanimously carried, the Board approved an investment of up to \$20 million, including currency risk hedging, in the Fortress Japan Opportunity Fund III (Dollar A), L.P., subject to due diligence and legal review.

RECESS

Chair Lee Loy called a recess at 11:06 a.m. and announced that the meeting would reconvene following the Board's Investment Committee meeting.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting to order at 11:52 a.m.

APPROVAL OF MINUTES –
OCTOBER 20-21, 2014

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board approved the minutes of the October 20-21, 2014 meeting, as circulated.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board entered executive session to approve the executive session minutes of the October 20-21, 2014, meeting.

EXECUTIVE SESSION TO
APPROVE EXECUTIVE SESSION
MINUTES
– OCTOBER 20 – 21, 2014

EXIT EXECUTIVE SESSION

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

PRESENTATION BY GABRIEL,
ROEDER SMITH & COMPANY
ON THE JUNE 30, 2014 ANNUAL
ACTUARIAL VALUATION OF
THE EMPLOYEES'
RETIREMENT SYSTEM

Mr. Joe Newton and Mr. Lewis Ward of Gabriel Roeder Smith & Company (GRS), ERS's actuary, presented a preliminary report on GRS's June 30, 2014 annual actuarial valuation of the ERS. Highlights of the report included:

- ERS's funded ratio is anticipated to improve from 60% to 61.4% based on the 4-year smoothing methodology adopted by the Board for determining the valuation numbers.
- The ERS's unfunded liability is expected to increase to \$8.58 billion from \$8.49 billion.
- The funding period to pay off the ERS unfunded liability is expected to decrease to 26 years from 28 years.
- The ERS's largest risks to funding going forward include payroll growth, investment performance, and mortality rates. The ERS has the longest living mortality assumption in the nation, with life expectancy rates increasing faster than actuaries can adequately incorporate into their provisions and calculations for mortality tables.

Mr. Newton also reported on the projections based on the Board's recent adoption of a 3-year phased-in lower investment return rate assumption over the next few valuations:

- Current assumption is 7.75%
- June 30, 2015 valuation will use 7.65%
- June 30, 2016 valuation will use 7.55%
- June 30, 2017 and thereafter will use 7.50%

In closing, Mr. Newton commented that GRS's next 5-year experience study of the ERS is scheduled to occur after the completion of GRS's 2015 valuation of the ERS. In the ERS's last experience study (2010), new life expectancy tables were adopted by the Board, which provided a margin for future improvement in mortality consistent with historical trends and published actuarial tables at the time. However, in four (4) years, a significant portion of the margin has been overtaken much faster than historical patterns. GRS recommended that the ERS may want to consider a

4-year experience study (although a 5-year experience study would still be valid) since these trends and confirmation by other national statistics and peer public pension systems have suggested a material change to this assumption. The Executive Director advised that the 5-year experience study is set by statute, so therefore if the Board were to decide to change to a 4-year experience study, the ERS would need to submit a legislative proposal for it.

The Executive Director also reported that he and the representatives from GRS will be conducting informational sessions to the legislators, members of the public, ERS staff, and the Department of Budget and Finance, on GRS's June 30, 2014 annual actual valuation of the ERS.

RECESS

Chair Lee Loy called a ten minute recess for lunch at 12:40 p.m.

RECONVENE

A quorum being present (all trustees except Trustee Rauckhorst), Chair Lee Loy reconvened the meeting at 12:50 p.m.

PRESENTATION BY GATEWAY
INVESTMENT ADVISERS, LLC
ON THE PERFORMANCE
REVIEW OF THE EMPLOYEES'
RETIREMENT SYSTEM'S
PORTFOLIO

Mr. Paul Anderson and Mr. Michael Buckius of Gateway Investment Advisers, LLC (Gateway), presented Gateway's report on the performance of the two covered call strategies managed by Gateway for the ERS. The covered call strategies are part of the Stabilized Growth component within the Broad Growth Class. Highlights of the report included:

- Total return since inception is 72.42%; 20.96% annualized.
- Outperformed the BXM by 1.8% every year.
- Asset values for the replication and active strategies are \$433 million and \$416 million, respectively; combined value represents 6% of the ERS's total portfolio value.
- Overview of the equity market volatility for the United States which may be positive for covered calls strategies over the next 3 to 4 years

There being no further questions and discussion, the representatives from Gateway left the meeting.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered executive session pursuant to 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, 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.

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 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

(Trustee Rauckhorst returned to the meeting at 1:25 p.m.)

(The Executive Director and Trustee Young left the meeting at 1:41 p.m.)

EXIT EXECUTIVE SESSION

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

LOWE ENTERPRISES
INVESTMENT MANAGMENT –
KA'ANAPALI PROPOSAL

On a motion made by Trustee Kane, seconded by Trustee Rauckhorst, and unanimously carried, the Board (1) extended the deadline for the acceptance by the Board of the Phase II Feasibility Study, required by the contract between the ERS and Lowe Enterprises Investment Management (Lowe), to January 31, 2016, (2) transferred active management of the Royal Ka'anapali Golf Courses property to Lowe, effective January 1, 2015; (3) approved asset management fees equal to the greater of 30 basis points of Net Asset Value or 5.5% of Net Operating Income, plus up to \$5,000 annual travel reimbursement, but in any event not to exceed \$175,000 per year; and (4) approved the scope of services for Development Management for the period ending June 30, 2015, as presented.

There being no further questions or discussions, the representatives from Lowe were excused from the meeting.

CORE REAL ESTATE
STRATEGIC PLAN

Mr. Humphrey presented Courtland Partners' report on the ERS's core real estate investment strategy. Highlights included:

- Target allocation is 70% to Core, 20% to Value, and 10% to Opportunistic; currently at 72.5% (\$65 million), slightly over-allocated to Core relative to the ERS's investment policy targets.
- Overweight to industrial and underweight to retail.
- Projected separate account distributions total \$365.60 million by 2017.
- With 5% growth, the Core portfolio would be \$429.6 million short of the Core target for 2017.

- On-going discussions with ERS staff on Core investment pacing for 2014 – 2017.
- Examples of publically traded funds that could provide Core exposure.

In closing, Mr. Humphrey reported that Courtland Partners would like to present a more formalized plan to the Board in the first quarter of 2015. There being no further discussion, Mr. Humphrey left the meeting.

PROCESS FOR
RECOMMENDATION OF
HYBRID MARKET
INVESTMENTS FOR THE
BOARD’S APPROVAL

Mr. John Linder of Pension Consulting Alliance Inc. (PCA), ERS’s general investment consultant, presented PCA’s initial proposal for the process to be used for presenting “hybrid” market investments to the Board for approval. The process will eventually be included in the ERS’s *Investment Policy, Guidelines, and Procedures* manual. The proposed process addressed only investments that are not already covered under the ERS’s current Real Estate Equity and Private Equity mandates. Certain trustees expressed their concerns regarding hybrid market investments and the roles of the consultants, ERS staff, and the trustees in these types of investments.

REQUEST TO SUPPORT
INSTITUTIONAL INVESTOR
LETTERS OPPOSING
DELAWARE “LOSER PAYS”
LAW

Deputy Attorney General Brian Aburano presented a memorandum to the Board about: (a) the Delaware Supreme Court having recently approved the facial validity of a Delaware corporation’s “loser pays” bylaw, i.e., a bylaw that made a stockholder that sued the corporation liable for the corporation’s attorneys’ fees and costs if the stockholder’s action was not substantially successful; (b) public pension funds, law firms, and others raising an alarm about Delaware corporations starting to adopt “loser pay” bylaws in the wake of the Delaware Supreme Court’s ruling thereby having a chilling effect on the filing of investor actions; and (c) certain groups asking the ERS to sign on to letters to the Delaware Legislature and Governor asking them to take action to reverse the effect of the Delaware Supreme Court’s ruling. Attached to Mr. Aburano’s memorandum were copies of letters to the Delaware Legislature and Governor that were signed by a number of public pension funds. After discussion, upon a motion by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously approved, the Board approved the ERS signing on to similar letters to the Delaware Legislature and Governor.

LEGISLATIVE PROPOSALS
RELATING TO THE
EMPLOYEES’ RETIREMENT
SYSTEM

Ms. Donna Curry, Program Specialist, reported that the following legislative proposals relating to the ERS that were previously authorized by the Board, have been submitted to the Department of Budget and Finance for review and approval for introduction with the Governor’s administrative package for the 2015 legislative session:

1. ERS Benefit Forfeiture – BUF-12(15). Forfeiture of ERS benefits for members convicted of work-related felonies.
2. Chapter 88 Housekeeping – BUF-13(15). Amend section 88-341(c) for death benefits to beneficiaries of terminated Hybrid Plan members (under Act 163/2011) who became ERS 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 or 4 years after the calendar year of service termination, whichever is later (current deadline is age 62).

3. Judges' Parity – BUF-14(15). Correct sections 88-73(b) and 88-74(c) and (d) to restore age and service requirements for Contributory Plan members who become judges after June 30, 2012.
4. Change in Formula for Crediting Unused Sick Leave – BUF-15(15). Credit 50% of unused sick leave credit towards retirement benefits for new employees.
5. Actuarially Neutral Acquisition of Service and Initiation of Purchase – BUF-16(15). Revise sections §§ 88-59, 88-132.5 and 88-324. Purchase cost for service credit is currently based on the member's current salary and contribution rate. This proposal would 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.
6. ERS Board Meetings – BUF-17(15). Clarify the authority of the Board (including the Board's committees) to hold executive sessions during meetings subject to HRS chapter 92.
7. Employer Reporting and Penalty for Noncompliance – BUF-18(15). Re-introduce legislation requiring employers to submit all transactions (including adjustment transactions electronically). Provides that, if a department or agency fails to provide the information in the required format, the State or county is required to pay its employer contributions to the ERS at the beginning of the following fiscal year; unpaid amounts are subject to interest. Allows the ERS to waive penalties due to unforeseen circumstances. Requires annual reporting by the ERS to B&F of the departments and agencies that fail to comply with the statute, the budget programs affected and the anticipated amounts payable by the affected departments and agencies.
8. Initiation of Service Credit Purchase – BUF-19(15). Revise HRS §§ 88-59, 88-132.5 and 88-324. Requires the member to apply for previous membership service and previous military service upon enrollment or within one year of first eligibility and to initiate purchase within one year of verification or certification. Also requires that payment of contributions for professional improvement leaves be initiated within one year of return from such leave (see item d below). Effective on July 1, 2016.

Ms. Curry also presented a draft legislative proposal to implement the Administrative and Legislative Committee's recommendation that legislation should be sought to require ERS contributions from workers'

compensation payments, as most deficiencies are due to the lack of contributions from workers' compensation payments paid to the employee:

9. Workers' Compensation and ERS Contributions – BUF-draft20(15).

In closing, Ms. Curry reported that the draft of the following legislative proposal is still being researched and that ERS staff plans to continue to work on a preliminary draft of the proposal for presentation to the Board at a future Board meeting:

10. Qualified Domestic Relations Orders (QDRO) Implementation

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board authorized the submission of a legislative proposal, in substantially the form presented, to require ERS contributions on workers' compensation payments when an ERS member is absent from work and receiving workers' compensation benefits.

COMPENSATION REVIEW
COMMITTEE CHARTER

Trustee Matsumoto presented, for the Board's consideration, the Compensation Review Committee's proposed revisions to the Board's Compensation Review Committee Charter. The proposed revisions to confirm that the committee will not directly evaluate exempt Investment Office staff; the CIO will be responsible for evaluating the performance of Investment Office staff in exempt positions and will make recommendations to the Compensation Review Committee.

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board approved the following changes to Section IV Authority and Responsibilities, of the Compensation Review Committee Charter (additions are underlined; deletions are stricken and bracketed):

- To review at least annually, the ED [~~Executive Director~~] and CIO's [~~Chief Investment Officer~~] evaluations of the performance of exempt Investment Office staff and any other exempt positions in light of the goals and objectives applicable to those staff.
- The Committee [~~Compensation Review Committee~~] shall approve or make recommendations to the Board regarding the compensation of exempt Investment Office staff and any other exempt positions.

A copy of the charter, including the revisions approved, is attached to these minutes (Attachment B).

2015 SCHEDULE OF BOARD
MEETINGS

A schedule of the Board meeting dates for 2015 was circulated. There were no comments regarding the proposed schedule.

AMENDMENT OF AGENDA

On a motion made by Trustee Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board amended the agenda to include the following:

- Report by Trustee Kane on his attendance at the Blackstone Real Estate Limited Partners Conference.

TRUSTEE KANE'S REPORT ON THE BLACKSTONE REAL ESTATE LIMITED PARTNERS CONFERENCE

Trustee Kane circulated his report on his attendance at the Blackstone Real Estate Limited Partners Conference that was held November 4 to 6, 2014 in New York City.

DRAFTS OF THE UNCLAIMED MEMBER BENEFITS INTERNAL AUDIT REPORT, THE INTERNAL AUDIT REPORT BY KMH LLP, AND THE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE EMPLOYEES' RETIREMENT SYSTEM

Ms. Kanoe Margol, Deputy Executive Director, reported on the status of the on-going review by the ERS's internal auditor, KMH LLP (KMH), of ERS operations, policies, and procedures to assist the ERS with implementing an internal audit function. Highlights included:

- KMH representatives met with the Board's Audit Committee (Trustees Rauckhorst, Frane, and Young), and ERS staff on December 3, 2014. KMH presented their draft report on their review of the ERS's Unclaimed Member (inactive/former employee) Benefits and Accounts.
- KMH is currently in the planning stage to conduct a review of the ERS's Benefit Disbursement that would include a review of the operations of the disbursement of benefit payments to retirees and the accuracy and completeness of disbursements made to eligible retirees, and KMH's recommendations for improvement to enhance effectiveness and efficiency of the processes.
- As part of the on-going implementation of the recommendations set forth in the Records Management and Retention Review Report that was approved by the Audit Committee in October 2012, the Records Retention and Disposal Policy was revised by ERS management. ERS management and staff will further discuss improvement and refinement of the Policy and related procedures, as well as, the completion of the Record Inventory and Retention Schedule for the ERS's accounting and administration records.
- KMH is conducting an on-going review of the Business Process, Information Flow, and Efficiency Study, to support ERS management's review of the ERS's existing organizational structure because of the significant organizational growth in the number of positions over the last fourteen (14) years.
- KMH proposed the following changes to the Internal Audit Plan:
 - Extend the Business Process, Information Flow, and Efficiency Study into the calendar year 2015 to allow for proper evaluation of the business processes.

- Move the Governance and Ethics Review to the first quarter of calendar year 2015 rather than the fourth quarter of calendar year of 2014.
- Rescheduling the Risk Assessment and Audit Plan to the first quarter of calendar year 2015;

Trustee Rauckhorst, Chair of the Audit Committee, also reported on ERS management's request for extensions to complete outstanding recommended corrective action for each review.

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board decided that staff could receive up to two extensions in a 12-month period for completion of corrective action recommended by the internal auditor in any internal audit review.

The Deputy Executive Director also reported on the status of the audit and draft financial statements of the ERS for the fiscal year ended June 30, 2013, and presented a draft of the 2013 audit report and financial statements from KPMG LLP (KPMG), ERS's independent auditor. The Audit Committee reviewed the draft audit report and financial statements at its December 3, 2014 meeting and recommended approval by the Board of the draft audit report and financial statements. The Deputy Executive Director provided some highlights of the reports:

- No material instances of noncompliance or disagreements with ERS staff on the information that was received
- Net assets valued at \$12.3 billion (increase of about \$1.0 billion during fiscal year end). Schedule of funded and funding progress show that the funded ratio increased to 60% as of June 30, 2013 from 59.2% as of June 30, 2012, while the corresponding unfunded actuarial accrued liability (UAAL) increased to \$8.5 billion from \$8.4 billion, respectively.

Contributions from employers and employees totaled \$767.3 million and \$730.8 million during FY 2013 and FY 2012, respectively.

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board: (1) accepted the report on the Unclaimed Member Benefits and Accounts Review, (2) approved KMH's and ERS staff's changes to the Internal Audit Plan, extending the timeline for the Business Process, Information Flow, and Efficiency Study to calendar year 2015, rescheduling the Governance and Ethics Review to the first quarter of calendar year 2015, and rescheduling the Risk Assessment and Audit Plan to the first quarter of calendar year 2015; and (3) accepted the independent auditor's report and financial statements of the ERS for the fiscal year ended June 30, 2013, as presented.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Trustee Ferguson-Miyamoto, 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 regarding possible participation in litigation against Petroleo Brasileiro S.A. – Petrobras and related persons and entities.

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 PETROLEO
BRASILEIRO S.A. – PETROBAS
AND RELATED PERSONS AND
ENTITIES

EXIT EXECUTIVE SESSION

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

RECESS

Chair Lee Loy announced at recess at 3:16 p.m. and that the meeting would reconvene following the Chapter 91 proceedings.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 3:22 p.m.

OPERATIONS REPORT –
NOVEMBER 2014

The Deputy Executive Director presented the monthly report on the ERS's operations and website statistics (top 10 viewed pages) for November 2014, and provided some highlights of the report.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, Chair Lee Loy adjourned the meeting at 3:23 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**.



**Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
COMPENSATION REVIEW
COMMITTEE CHARTER**

I. PURPOSE

The purpose of the Compensation Review Committee (“Committee”) is to carry out the responsibilities delegated by the Board of Trustees of the Employees’ Retirement System of the State of Hawaii (“Board”) relating to the review and determination of executive compensation and/or compensation for exempt positions in the Employees’ Retirement System of the State of Hawaii (“ERS”).

II. COMMITTEE MEMBERSHIP

The Committee shall consist of no more than four (4) trustees. The members of the Committee shall be appointed by the Board. The members of the Committee shall be appointed for one-year terms and shall serve for such term or terms as the Board may determine or until earlier resignation. The Board may remove any member from the Committee at any time with or without cause.

III. MEETINGS

The Committee shall meet at such times and places as it deems necessary to fulfill its responsibilities. The Committee shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. The Committee may invite such members of management to its meetings as it deems appropriate. However, the Committee shall meet regularly without such members present, and in all cases the Executive Director (“ED”), the Chief Investment Officer (“CIO”), and any other such officers shall not be present at meetings at which their compensation or performance is discussed or determined, unless directed otherwise by the Committee. The Committee

shall review this Charter at least annually and recommend any proposed changes to the Board for approval.

IV. AUTHORITY AND RESPONSIBILITIES

The Board shall designate a member of the Committee as the chairperson.

The Committee shall have the following authority and responsibilities:

- To review and approve annually the ERS' goals and objectives applicable to the compensation of the ED and the CIO.
- Evaluate at least annually the ED's and CIO's performance in light of those goals and objectives, and determine and approve the ED's and CIO's compensation level based on this evaluation.
- The Committee shall consult with the ED on the goals and objectives applicable to the CIO and Investment Office.
- To review at least annually the ED's and CIO's evaluations of the performance of exempt Investment Office staff and any other exempt positions in light of the goals and objectives applicable to those staff.
- The Committee shall approve or make recommendations to the Board regarding the compensation of exempt Investment Office staff and any other exempt positions.
- In evaluating and determining or making recommendations regarding compensation, the Committee shall consider the results of the most recent performance reports applicable to the goals and objectives of the ERS.
- To review, and make recommendations to the Board regarding any employment agreements and any severance arrangements or plans, including any benefits to be provided in connection with a change in control, for the ED and CIO, which includes the ability to adopt, amend and terminate such agreements, arrangements or plans.

- To develop and recommend to the Board for approval a succession plan ("Succession Plan"), to review the Succession Plan periodically with the ED, develop and evaluate potential candidates for ED or CIO positions and recommend to the Board any changes to, and any candidates for succession under, the Succession Plan.

V. OUTSIDE ADVISORS

The Committee shall have the authority, in its sole discretion, to select, retain and obtain the advice of a compensation consultant as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. The Committee shall set the compensation, and oversee the work, of the compensation consultant. The Committee shall have the authority, in its sole discretion, to retain and obtain the advice and assistance of legal counsel and such other advisors as it deems necessary to fulfill its duties and responsibilities under this Charter. The Committee shall set the compensation, and oversee the work, of its legal counsel and other advisors. The Committee shall not be required to implement or act consistently with the advice or recommendations of its compensation consultant, legal counsel or other advisor to the Committee, and the authority granted in this Charter shall not affect the ability or obligation of the Committee to exercise its own judgment in fulfillment of its duties under this Charter. The compensation consultant(s), outside counsel and any other advisors retained by, or providing advice to, the Committee (other than the ERS's in-house counsel) shall be independent as determined in the discretion of the Committee.

VI. PERFORMANCE EVALUATION

The Committee shall conduct an annual evaluation of the performance of its duties under this charter and shall present the results of the evaluation to the Board. The Committee shall conduct this evaluation in such manner as it deems appropriate.

Adopted by the Board of Trustees on December 9, 2013 and revised on December 8, 2014.