

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

MARCH 9, 2015

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

Trustees present:

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

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
Mr. Aaron 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. Jaime Hirata, Recording Secretary
Ms. Wanda Kugiya, Secretary

Attorneys present:

Mr. Brian Aburano, Deputy Attorney General (Counsel for the Board)
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)

Guests present:

Mr. John Gilb) CBRE Global Investors
Mr. Michael McMenemy

Mr. Zach Brown (via conference call)) Courtland Partners, Ltd.
Mr. Michael Humphrey
Mr. Dan Moore (via conference call)

Mr. Andreas Moon) I Squared Capital
Mr. Adil Rahmathulla

Mr. John Linder) Pension Consulting Alliance, Inc.
Mr. Neil Rue

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 11:20 a.m.

PUBLIC COMMENT

There were no members of the public present.

REPORT ON THE ROYAL
KA'ANAPALI GOLF COURSES
PROPERTY

Mr. Vijoy Chattergy, Chief Investment Officer (CIO), and Trustee Matsumoto gave an Ad Hoc Committee update and report on the latest activities relating to the management and development of the Royal Ka'anapali Golf Courses property. It was reported that Lowe Enterprises Investors has been meeting with stakeholders on plans and issues that may arise. There were positive responses from Host (Marriot), General Growth, and Royal Lahaina regarding redevelopment of the golf course property. A constructive meeting was had with the Mayor of Maui County. Trustee Matsumoto encouraged other trustees to attend these types of meetings to emphasize the ERS's ownership of the property, how it affected public employees, and to explain the ERS's objectives.

APPOINTMENT OF TRUSTEES,
PURSUANT TO HRS § 92-
2.5(b)(1), TO INVESTIGATE
INVESTMENT SERVICES AND
OPPORTUNITIES PROVIDED
BY THE CARLYLE GROUP

Pursuant to HRS § 92-2.5(b)(1), Chair Lee Loy appointed the following trustees to investigate investment services and opportunities provided by The Carlyle Group and to report back to the Board:

- Patrick Frane
- Piliialoha Lee Loy
- Jerry Rauckhorst

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered executive session pursuant to HRS § 92-5(a)(4) and (8), to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to investment in CBRE Strategic Partners U.S. Value 7, L.P. and to consider business information that must be kept confidential pursuant to state or federal law.

(Mr. Dan Moore and Mr. Zach Brown of Courtland Partners, Ltd. joined the meeting via conference call.)

(Mr. John Gilb and Mr. Michael McMenemy of CBRE Global Investors joined 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 INVESTMENT IN
CBRE STRATEGIC PARTNERS
U.S. VALUE 7, L.P.

(The representatives from CBRE Global Investors left the meeting.)

EXIT EXECUTIVE SESSION

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

INVESTMENT IN CBRE
STRATEGIC PARTNERS U.S.
VALUE 7, L.P

Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland Partners), ERS's real estate investment consultant, provided an overview of CBRE Strategic Partners U.S. Value 7, L.P. (CBRE 7). Mr. Humphrey also reported on the status of CBRE Strategic Partners U.S. Value 6, L.P. (CBRE 6) that the ERS is currently invested in.

Mr. Humphrey stated that CBRE 7 is a moderate risk value added commercial real estate investment fund, not involving any development but buying physically good properties with some leasing risk. Among the lessons learned from CBRE 4 was to eliminate development and certain leverage provisions. CBRE concentrates on office and multi-family residential properties. They buy underperforming but good properties from transition/interim owners, improve them, and increase rent. The Board asked about risk management, reserve policies, financing, exit strategies, and other aspects of the proposed investment. It was noted that April 11 is the closing date for CBRE 7. Courtland Partners and ERS investment office staff recommended that the Board approve an investment of \$20 million in CBRE 7 subject to normal business and legal reviews.

On a motion made by Trustee Barfield, seconded by Trustee Matsumoto, and unanimously carried, the Board approved an investment of \$20 million in CBRE U.S. Value 7, L.P., subject to normal due diligence and legal review.

INVESTMENT IN ISQ GLOBAL
INFRASTRUCTURE FUND, L.P.

Mr. Humphrey gave an overview of I Squared Capital (ISQ) and the proposed investment in ISQ Global Infrastructure Fund, LP (ISQ Fund). Mr. Humphrey noted that this was a relatively new group that has been very successful in raising capital. Many of the management personnel are well known experienced personnel from Morgan Stanley Infrastructure. While up to 75% of their infrastructure investments can be in the United States, the allocation to the United States will probably be about 60% , with 20% in Europe and 20% in Asia. Mr. Humphrey discussed ISQ's investment strategy, leverage, cash flow, and other matters. Mr. Dan Moore of Courtland Partners participated by speaker phone. He noted that a placement agent fee would be involved and named some of the other large investors, including public pension funds from Texas, New Mexico and Canada, who had already invested in the ISQ Fund.

Mr. Andreas Moon and Mr. Adil Rahmathulla of I Squared Capital (ISQ) made a presentation on the ISQ Global Infrastructure Fund, L.P. (ISQ Fund) and reported on the background of their firm. They noted that the ISQ team had committed to invest 1% of the ISQ Fund to align their interests with investors. They said that ISQ invested in the middle market of infrastructure (\$50-250 million). They described ISQ's investment strategies and the risk model ISQ use to compare and analyze investments in different areas. They reviewed several of the infrastructure investments ISQ had made and how they fit into ISQ's investment strategies. The representatives of ISQ reviewed the ISQ Fund and the ERS's proposed investment. The Board and ERS investment staff asked questions regarding the terms of the investment, currency risk, and other matters pertaining to the proposed investment. There being no further discussion, the representatives from ISQ left the meeting.

Mr. Humphrey reported on Courtland Partners evaluation of the proposed investment in ISQ Fund and answered questions raised by the Board, ERS investment staff, and other consultants. Courtland Partners recommended that the ERS invest \$20 million in ISQ Fund subject to normal business and legal review. The CIO said that the ERS investment staff supported this recommendation.

On a motion made by Trustee Barfield, seconded by Trustee Matsumoto, and unanimously carried, the Board approved an investment of \$20 million in ISQ Global Infrastructure Fund, L.P., subject to due diligence and legal review.

RECESS

Chair Lee Loy called a recess at 1:32 p.m. and announced that the meeting would reconvene following the Board's Chapter 91 Proceedings and lunch.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 2:02 p.m.

SPECIAL DEPUTY ATTORNEY
GENERAL CONTRACT WITH
REINHART BOERNER VAN
DEUREN, S.C.

The CIO reported on the status of the contract with Reinhart Boerner Van Deuren (Reinhart) to provide legal services relating to private equity investments by the ERS. ERS staff requested the Board to increase the contract amount for Reinhart by an additional \$50,000 due to the Board's having approved increases in investment commitments and investment commitment pacing size. Reinhart's contract will end on June 30, 2015.

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved increasing the contract amount for Reinhart Boerner Van Deuren, s.c. by \$50,000.

RECRUITMENT AND SEARCH
FOR NEW EXECUTIVE
DIRECTOR

Deputy Attorney General Brian Aburano reported that Inkinen & Associates has been selected as the executive search firm to assist with the ERS's recruitment and search for a new permanent executive director for the ERS. Mr. Aburano presented the final draft of a position description for the executive director position and a revised timeline for the recruitment, as recommended by the Board's Compensation Review Committee.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto, and unanimously carried, the Board approved the position description for the executive director position and the revised timeline for the recruitment as circulated.

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 and the Department of Budget and Finance have been introduced as part of the Governor's administrative package:

1. **House Bill (H.B.) 917 and Senate Bill (S.B.) 1086.** Forfeiture of ERS benefits for members convicted of work-related felonies.
2. **H.B. 918 and S.B. 1087.** Hybrid Plan death benefits and refunds.
3. **H.B. 919 and S.B. 1088.** Relating to retirement credit for sick leave.
4. **H.B. 920 and S.B. 1089.** Relating to the ERS service credit and workers' compensation benefit contributions.
5. **H.B. 291 and S.B. 1090.** Relating to the ERS employer reporting with penalty for non-compliance.

Ms. Curry also reported that the following proposals related to the ERS have been introduced by other parties, which includes proposals originally initiated by the ERS and proposals related to qualified domestic relations orders (QDRO):

6. **H.B. 790 and S.B. 1208.** Relating to the ERS Board of Trustees meetings held in executive session.
7. **H.B. 791 and S.B. 1209.** Relating to the retirement of judges.

8. **H.B. 85.** Relating to disability retirement.
9. **H.B. 256.** Establishment of a Special Task Force to study death certificates.
10. **H.B. 382.** Relating to the ERS division of pension pursuant to a QDRO.
11. **H.B. 521.** Relating to the ERS pensioners' bonus (technical amendments).
12. **H.B. 602.** Establishment of a Special Task Force to address the State and County unfunded liabilities.
13. **H.B. 680.** Forfeiture of ERS benefits for members convicted of work-related felonies.
14. **H.B. 1075.** Relating to Health (transition the Maui Regional System Facilities to a new public-private collaboration).
15. **H.B. 1137.** Require certain taxes collected by the State to be applied to unfunded liabilities.
16. **H.B. 1370.** Relating to divorce (direct payment to a former spouse pursuant to a QDRO).
17. **H.B. 1511.** Divestiture of ERS's investments in fossil fuels.
18. **S.B. 133.** Forfeiture of ERS benefits for members convicted of work-related felonies.
19. **S.B. 311.** Transition the Hawaii Health Systems Corporation to a new healthcare management system.
20. **S.B. 693.** Require employers (State and County) to furnish to ERS, payroll and personnel transaction information.
21. **S.B. 827.** Require the ERS to require employers to provide accurate payroll and personnel information to the ERS.
22. **S.B. 1324.** Provide authority for the ERS to direct payment to former spouse (divorce) pursuant to a QDRO.

The Board's Administrative and Legislative Committee's recommendations with respect to the foregoing bills was as follows:

Support: H.B. 790; S.B. 1208, H.B. 791; S.B. 1209.

Support Intent: H.B. 680; S.B. 133; S.B. 693; S.B. 827.

Oppose: H.B. 85; H.B. 382; H.B. 602; H.B. 1370; H.B. 1511; S.B. 1324.

The Trustees discussed their concerns that H.B. 85 would provide a benefit enhancement that would violate the moratorium on benefit enhancements until the ERS is fully funded, and that H.B. 382 would require extensive administrative and operational costs to the ERS to implement this proposal because one of the current versions of that bill does not provide for an appropriation to the ERS out of the general fund to cover those costs.

In closing, Ms. Curry noted that ERS staff will continue to work with the Board's Administrative and Legislative Committee to monitor these legislative proposals for the Board's review.

CYBERSECURITY POLICIES AND PROCEDURES

ERS staff Mr. Keith Miyamoto, Information Technology Manager, and Ms. Kathleen Shiroma, Information Technology Specialist, made a presentation on cybersecurity policies and procedures relating to the ERS. Mr. Miyamoto said that one of the ERS's objectives has been to make ERS data as secure as HIPAA protected data. Some progress had been made, e.g., ERS staff is being trained to keep member information confidential and desktops were now being automatically updated for security. Mr. Miyamoto said that of utmost priority was for the ERS to have a risk assessment done. However, there has been no money in the budget to have such an assessment performed. Trustee Matsumoto said that a risk assessment should have been done by now. It was suggested that Ms. Kanoe Margol, ERS Interim Executive Director, should put together a proposal to the Board for the risk assessment so that the Board could get a budget request to the Legislature. Trustee Matsumoto asked the Interim Executive Director to work with the Board's Administrative and Legislative Committee on this matter.

There being no further discussion, Mr. Miyamoto and Ms. Shiroma left the meeting.

TRUSTEE ELECTION

The Interim Executive Director reported that Chair Lee Loy's term will expire on January 1, 2016, and that Chair Lee Loy has decided not to seek re-election. The employee organizations and ERS members will be invited to nominate candidates to fill the teacher trustee position on the Board. If there is more than one candidate, an election will need to be held in which all of the ERS's active members, inactive vested members and retirees are eligible to vote. The Interim Executive Director presented a tentative timetable for the election process and noted that the teacher seat on the Board would be for a six-year term beginning on January 2, 2016.

2015 SCHEDULE OF BOARD MEETINGS

The Board discussed changing the date of the Board's meeting in May from May 12, 2015 to May 13, 2015 to accommodate a scheduling conflict.

INVESTMENT OFFICER'S REPORTS ON PROGRAM ACTIVITIES (LIQUID MARKETS, ILLIQUID MARKETS, AND RISK) – DEFERRED

The Investment Officer's reports on their respective program activities were deferred to a future Board meeting.

OPERATIONS REPORT
– FEBRUARY 2015

Mr. Karl Kaneshiro, Interim Deputy Executive Director, presented the monthly report on the ERS's operations and website statistics for February 2015.

APPROVAL OF MINUTES
– DECEMBER 8, 2014
– JANUARY 12, 2015

On a motion made by Trustee Kane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes of the December 8, 2014 and January 12, 2015 meetings as circulated.

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), 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 Greek Sovereign Debt Litigation; and to
- To approve executive session minutes of the December 8, 2014 and January 12, 2015 meetings.

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 GREEK
SOVEREIGN DEBT
LITIGATION

APPROVAL OF EXECUTIVE
SESSION MINUTES
– DECEMBER 8, 2014
– JANUARY 12, 2015

EXIT EXECUTIVE SESSION

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

NEXT BOARD MEETING
– APRIL 13, 2015

Chair Lee Loy announced that the next Board meeting is scheduled for April 13, 2015.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Lee Loy adjourned the meeting at 3:07 p.m.

**REDACTED
SIGNATURE**

Kanoe Margol
Interim Executive Director

KM: jh