

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

APRIL 13, 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. Kanoë 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
Mr. Keith Miyamoto, Information Technology Manager
Ms. Kathleen Shiroma, Information Technology 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. 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. Neil Rue) Pension Consulting Alliance, Inc.

<p>QUORUM/CALL TO ORDER</p>	<p>A quorum (Trustees Lee Loy, Barfield, Ferguson-Miyamoto, Frane, Machida, Matsumoto, and Rauckhorst) being present, Chair Lee Loy, called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System (ERS) to order at 9:00 a.m.</p>
<p>PUBLIC COMMENT</p>	<p>Chair Lee Loy called for public comment. There were no members of the public present to offer comment.</p>
<p>RECESS</p>	<p>Chair Lee Loy called a recess at 9:01 a.m. and announced that the meeting would reconvene following the Investment Committee meeting.</p>
<p>RECONVENE</p>	<p>A quorum being present, Chair Lee Loy, reconvened the meeting at 10:11 a.m.</p>
<p>ACTIVE RISK ANALYSIS: EMPLOYEES' RETIREMENT SYSTEM EQUITY MANAGERS</p>	<p>Investment Specialist Ian Wetzel provided an educational presentation to the Board on the new concept of "Active Share" (AS) that is a metric for monitoring active investment fund managers. AS, as a tool alongside the current "Tracking Error" (TE) metric, is important for the process by which the ERS Investment staff will monitor, evaluate, and recommend active investment managers in the future. AS is not in the current ERS Investment Policy, Guidelines and Procedures manual, but will be used informally at the staff level.</p>
<p>REQUEST BY PENSION CONSULTING ALLIANCE, INC. FOR CONSENT TO ASSIGNMENT OF THE EMPLOYEES' RETIREMENT SYSTEM'S INVESTMENT CONSULTING CONTRACT FROM PENSION CONSULTING ALLIANCE, INC. TO PENSION CONSULTING ALLIANCE, LLC</p>	<p>Mr. Vijoy Chattergy, Chief Investment Officer (CIO), presented a request from Pension Consulting Alliance, Inc. (PCA) for consent to assignment of the ERS's investment consulting contract with PCA to Pension Consulting Alliance, LLC. PCA is in the process of changing its ownership/business structure to a limited liability company from a corporation. Mr. Chattergy noted that Neil Rue would continue to be the ERS's primary contact at PCA and that ERS staff supported PCA's request.</p> <p>On a motion made by Trustee Matsumoto, seconded by Trustee Kane, and unanimously carried, the Board approved PCA's request for consent to assignment of the ERS's investment consulting contract with PCA to Pension Consulting Alliance, LLC, subject to business review, legal review, and documentation.</p>
<p>EXTENSION OF INVESTMENT CONSULTING CONTRACT WITH PENSION CONSULTING ALLIANCE, INC</p>	<p>Ms. Kanoe Margol, Interim Executive Director (Interim Executive Director), presented ERS staff's request for the Board's approval to exercise the option to extend the investment consulting contract with PCA for one two-year period. The current contract term expires on June 30, 2015. The contract provides for the annual fees if the option is exercised.</p> <p>On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved extension of the term of the contract with PCA to June 30, 2017, on the terms and conditions set forth in the contract.</p>

REAL RETURN CLASS
GUIDELINES

The CIO presented a proposed update to the Real Return Program guidelines of the ERS Investment Policy, Guidelines, and Procedures manual, to include guidelines and procedures for infrastructure and agriculture investments and requested the Board's approval of the update. The proposed update is part of the restructuring of the ERS's investment portfolio to better diversify the Real Return investment strategies and to protect long-term investment returns against inflation.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board adopted the Infrastructure Sub-Component policy and the Agriculture Sub-Component policy as part of Section F (Real Return Program) of the ERS Investment Policy, Guidelines, and Procedures manual, as presented, subject to editing for consistency in form and terminology with the rest of the ERS Investment Policy, Guidelines, and Procedures manual.

REPORT ON THE ROYAL
KA'ANAPALI GOLF COURSES
PROPERTY

The CIO reported on the latest activities relating to the management and development of the Royal Ka'anapali Golf Courses property. Lowe Enterprises Investors (Lowe) assumed fiduciary and asset management responsibilities for the property and began Phase I of the entitlement process by meeting with stakeholders on plans and issues that may arise. A schedule of meetings with stakeholders was also presented. The CIO noted that a more formal report to the Board on the outcome of the entitlement process and other plans for the property is planned for the July 21, 2015 Special Board meeting.

UPDATE ON
CYBERSECURITY POLICIES
AND PROCEDURES

Mr. Keith Miyamoto, Information Technology Manager, and Ms. Kathleen Shiroma, Information Technology Specialist, provided an update on cybersecurity policies and procedures relating to the ERS.

LEGISLATIVE PROPOSALS
RELATING TO THE
EMPLOYEES' RETIREMENT
SYSTEM

The Interim Executive Director and Ms. Donna Curry, Program Specialist, reported that the following legislative proposals relating to the ERS have crossed over to, have been heard by, the non-originating chamber, and are still active:

(*Introduced as part of the Governor's administrative package)

1. ***Senate Bill (S.B.) 1087.** Hybrid Plan death benefits and refunds.
2. ***S.B. 1089.** Relating to the ERS service credit and workers' compensation benefit contributions.
3. ***S.B. 1090.** Relating to the ERS employer reporting with penalty for non-compliance.
4. **S.B. 1208.** Relating to the ERS Board of Trustees meetings held in executive session.
5. **S.B. 1324.** Provide authority for the ERS to direct payment to former spouse (divorce) pursuant to a qualified domestic relations order (QDRO).
6. **House Bill (H.B.) 1075.** Relating to Health (transition the Maui Regional System Facilities to a new public-private collaboration).

7. **S.B. 100.** Relating to appropriations.
8. **S.B. 158.** Relating to budget documents.
9. **S.B. 675.** Relating to Firefighters (worker's compensation and medical insurance for rebuttable presumption of service-related cancer).

They also reported that the following proposals that may impact the ERS, have crossed over to, have been heard by, the non-originating chamber, and are still technically active:

10. **H.B. 1370.** Relating to divorce (direct payment to a former spouse pursuant to a QDRO).
11. **House Concurrent Resolution (H.C.R.) 1370.** Authorizing the formation of a task force to study the issue of a cancer presumptive statute relating to firefighters.
12. **House Resolution (H.R.)/H.C.R. 222.** Requesting the Department of Business, Economic Development, and Tourism (DBEDT) to convene a task force to develop recommendations to divest public investments from fossil fuels.
13. **Senate Resolution (S.R.) 74.** Authorizing the formation of a cancer presumptive law task force to make recommendations regarding a potential cancer presumptive law for firefighters.
14. **S.B. 133.** Forfeiture of ERS benefits for ERS members convicted of work-related felonies.
15. **S.B. 1209.** Relating to the retirement of judges (Act 163 housekeeping). (Was not heard by the non-originating chamber.)

Trustees and ERS staff discussed their concerns regarding the potential impact that H.B. 1075 may have on ERS members and on the unfunded liabilities of the ERS and the Employer-Union Health Benefits Trust Fund (EUTF). The Interim Executive Director and Ms. Curry noted that ERS staff plans to meet with the Conference Committee Chairs on the proposals that go to conference and that ERS staff will continue to monitor the proposals.

AGREEMENTS WITH STATE
AND COUNTY AGENCIES
WITH RESPECT TO
GOVERNMENTAL
ACCOUNTING STANDARDS
BOARD (GASB) 68
ACTUARIAL REPORTS

The Interim Executive Director presented a proposal from the ERS's actuary Gabriel, Roeder, Smith and Company (GRS), in response to requests from State and County employers for assistance in meeting the new pension liability reporting requirements under Governmental Accounting and Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions." The ERS is able to obtain the information for the employers under the ERS's contract with GRS; however, because of concerns arising from federal tax-qualification requirements applicable to the ERS, the ERS is unable to advance the fees for these reports. There are ten State and County employers who need the reports for fiscal year 2015. GRS is willing to provide the information at a favorable rate, provided that it can bill the ERS instead of the individual employers. GRS will not require payment until the ERS receives payment from the employers.

On a motion made by Trustee Machida, seconded by Trustee Matsumoto, and unanimously carried, the Board (1) authorized the ERS to assist the State and County employers to obtain the reports required to comply with GASB 68, on the terms described, and (2) authorized the Interim Executive Director to execute memoranda of understanding with the employers with respect to the arrangements for obtaining and paying for the reports.

REPORT ON THE 2015
CERTIFIED FINANCIAL
ANALYST (CFA) SOCIETY OF
HAWAII 10TH ANNUAL
ECONOMIC FORECAST

The CIO circulated a report on the trustees and ERS staff attendance to the 2015 Certified Financial Analyst (CFA) Society of Hawaii 10th Annual Economic Forecast presentation held on March 5, 2015 at the Hawaii Convention Center in Honolulu.

RECESS

Chair Lee Loy called a recess at 11:58 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 12:05 p.m.

INVESTMENT OFFICERS
REPORTS ON PROGRAM
ACTIVITIES (LIQUID
MARKETS, ILLIQUID
MARKETS, AND RISK)

Investment Officers Mr. Aaron Au, Mr. Anthony Goo, and Mr. Howard Hodel, reported on their respective program (liquid markets, illiquid markets, and risk) activities, responsibilities, successes, challenges, and aspirations.

(Trustee Matsumoto left the meeting.)

OPERATIONS REPORT
– MARCH 2015

Mr. Karl Kaneshiro, Interim Deputy Executive Director and the Interim Executive Director presented the monthly report on the ERS's operations and website statistics for March 2015. Highlights included an update on the status of the election to fill the teacher trustee position on the Board upon expiration of Chair Lee Loy's term on January 1, 2016, and the recruitment for the executive director position.

APPROVAL OF MINUTES
– FEBRUARY 9, 2015
– MARCH 25, 2015

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes of the February 9, 2015 and March 25, 2015 meetings, as circulated.

(Mr. Rue left the meeting.)

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board entered executive session to approve executive session minutes of the February 9, 2015 and March 25, 2015 meetings.

APPROVAL OF EXECUTIVE
SESSION MINUTES

– FEBRUARY 9, 2015

– MARCH 25, 2015

EXIT EXECUTIVE SESSION

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

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Lee Loy adjourned the meeting at 1:22 p.m.

**REDACTED
SIGNATURE**

Kanoe Margol
Interim Executive Director

KM: jh