

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

MAY 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. Colbert Matsumoto

Trustees excused: Mr. Wesley Machida  
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. Anthony Goo, 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. 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  
Mr. Spencer Haber ) H/2 Capital Partners  
(via conference call)  
Mr. Neil Rue ) Pension Consulting Alliance, Inc.  
Mr. Michael Romo ) Torchlight Investors, LLC  
Mr. Marc Young

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 9:57 a.m.

PUBLIC COMMENT

Chair Lee Loy called for public comment. There were no members of the public present to offer comment.

PRESENTATION BY  
HAMILTON LANE ADVISORS,  
LLC -- PRIVATE EQUITY  
PROGRAM UPDATE

Mr. Paul Yett of Hamilton Lane Advisors, LLC (Hamilton Lane), ERS's private equity investment consultant, reported on the status of the ERS's private equity investment portfolio. Highlights included:

- Strong performance over the quarter ended December 31, 2014, with a point-to-point internal rate of return (IRR) of 4.65% for the quarter (14.78% for the year) and \$28.2 million in value generated during the quarter (\$80.1 million for the year).
- Portfolio market value increased to \$617.2 million from \$592.6 million (September 30, 2014) for the quarter ended December 31, 2014.
- To date in 2015, closed on 7 investments accounting for \$220 million in committed capital, five of which represent "re-ups":
  - \$35 million each to:
    1. American Securities Opportunities Fund VII, L.P. (large buyout; re-up)
    2. Abraaj Global Growth Markets Strategic Fund, L.P. (growth equity)
    3. TPG Growth III, L.P. (mid buyout)
    4. Blackstone Tactical Opportunities Fund II, L.P. (multi-strategy special situations; re-up)
    5. Kelso Investment Associates IX, L.P. (mid buyout; re-up)
  - \$30 million to:
    6. EnCap Energy Capital Fund X, L.P. (large buyout; re-up)
  - \$15 million to:
    7. New Enterprise Associates 15, L.P. (multi-stage venture capital; re-up)

Mr. Yett also highlighted the following initiatives under the 2015 Tactical Plan for the ERS's private equity portfolio:

- On-track for commitment pacing of \$250 million to \$350 million during 2015.
- Maintain existing relationships with strong-performing general partners by focusing on constructing a more concentrated portfolio with largest commitments to existing managers that demonstrated strong track records.
- Increase average commitment size.

- Focus on Buyout investments with tactical exposure to specific investment strategies such as energy and credit.
- Diversify the portfolio by increasing exposure to international and emerging markets.
- Consider investments in secondary opportunities.

Mr. Yett also reported that Hamilton Lane is considering four investment opportunities for the ERS (up to \$50 million to mega buyout, up to \$40 million to large buyout, and up to \$15 million each to two growth equity funds).

In closing, Mr. Yett reported that Hamilton Lane will run an analysis of the legacy private equity portfolio and will provide the analysis to Investment staff.

Upon completion of his presentation, Mr. Yett left the meeting.

PRESENTATION BY  
COURTLAND PARTNERS,  
LTD. -- REAL ESTATE  
PORTFOLIO MEASUREMENT  
REPORT FOR 4<sup>TH</sup> QUARTER  
2014

Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland Partners), ERS's real estate investment consultant, provided an update on organizational changes at Courtland Partners, including the recent departure of Mr. Dan Moore, as well as recent additions to Courtland Partners' staff. Mr. Humphrey confirmed that he would continue to be the ERS's primary contact at Courtland Partners. Mr. Humphrey also reported on the performance of the ERS's real estate investment portfolio for the quarter ended December 31, 2014. Highlights included:

- Portfolio market value of \$865,616,445 (compared to \$908,070,337 for the quarter ended September 30, 2014).
- 16 current investments.
- Total net return was 4.0% for the quarter; 14.2% year-to-date.
- Total portfolio internal rate of return was 7.6% (compared to 7.4% for the previous quarter).
- Portfolio is 6.1% of total plan assets (versus 7.0% target allocation).
- Allocation of the portfolio, measured by market value, is 80.4% core investments, 13.5% value investments, and 6.0% opportunistic investments; gradual moderation from the current exposure in core investments to an allocation of 70% core, 20% value, and 10% opportunistic is in process.
- No red flags in the Hancock Timberland portfolio.

The Trustees asked about the oversight of infrastructure investments, which are currently included in Courtland Partners' report. Mr. Vijoy Chattergy, Chief Investment Officer (CIO), noted that the Board has adopted general policies and procedures for agriculture and infrastructure; however, development of a more formalized process for infrastructure investments is still in progress.

The Trustees directed the CIO to work with the consultants (general, real estate, and private equity) to make sure that someone has overall responsibility for infrastructure investments.

INVESTMENT IN  
TORCHLIGHT DEBT  
OPPORTUNITY FUND V, L.P.

Mr. Michael Romo and Mr. Marc Young of Torchlight Investors, LLC (Torchlight) made a presentation on the Torchlight Debt Opportunity Fund V, L.P. (Torchlight Fund). The Torchlight Fund is a value-add/opportunistic real estate investment fund that invests primarily in commercial real estate debt instruments such as commercial mortgage-backed securities.

Upon completion of their presentation, the representatives from Torchlight left the meeting.

Mr. Humphrey presented Courtland Partners' evaluation of the proposed investment and recommended that the ERS invest up to \$20 million in the Torchlight Fund. Mr. Humphrey also answered questions from the Board about how the Torchlight Fund compares to the ERS's investments in the Mesa West and Lone Star funds.

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board approved an investment of up to \$20 million in the Torchlight Debt Opportunity Fund V, L.P., subject to due diligence and legal review.

INVESTMENT IN H/2 CORE  
REAL ESTATE DEBT FUND  
L.P.

Mr. Spencer Haber of H/2 Capital Partners (H/2 Capital) made a presentation on the H/2 Core Real Estate Debt Fund L.P. (H/2 Fund) via conference call. The H/2 Fund is an open-end fund that invests in commercial real estate credit in both fixed and floating rate loans with a focus on high-quality assets and borrowers.

Upon completion of his presentation, Mr. Haber ended his call.

Mr. Humphrey presented Courtland Partners' evaluation of the proposed investment and recommended that the ERS invest up to \$30 million in the H/2 Fund.

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board approved an investment of up to \$30 million in the H/2 Core Real Estate Debt Fund L.P., subject to due diligence and legal review.

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), 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 BlackSand Capital Opportunity Fund I, L.P.

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 BLACKSAND CAPITAL OPPORTUNITY FUND I, L.P.

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 called a recess at 1:45 p.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 at 2:23 p.m.

PRESENTATION BY PENSION CONSULTING ALLIANCE, INC. ON THE PERFORMANCE OF THE EMPLOYEES' RETIREMENT SYSTEM'S INVESTMENT PORTFOLIO FOR 1<sup>ST</sup> QUARTER 2015

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 first quarter of 2015 ended March 31, 2015. Highlights included:

- Aggregate portfolio value of \$14.4 billion.
- Portfolio increased by \$0.3 billion for the quarter and by \$0.7 billion for the year.
- The portfolio outperformed the policy benchmark by 0.5% for the quarter and by 1.5% for the year.
- The portfolio's performance exceeded the Median Public Fund performance by 40 basis points for the quarter and by 60 basis points for the year. The outperformance for the quarter was driven by Alternative Assets. Outperformance for year was driven by Non-US Fixed Income and by Domestic Equity and Fixed Income.
- Applying the new risk-based framework for asset allocation, the portfolio ended the quarter with a temporary overweight in Other Assets by 5.2%, and was underweight in all Risk Classes. Overweight was due to approximately \$560 million in transition to implement adjustments to the fixed income mandates as part of the realignment of the portfolio from an asset-based framework to the risk-based framework.
- Ten of eleven Domestic Equity managers outperformed their respective benchmarks over the quarter and six of the eleven matched or outperformed their respective benchmarks for the year.

- Investment managers on “Watch Status” due to organizational changes:
  - February 1, 2014, Stafford (formerly Macquarie)
  - March 1, 2014, Bradford & Marzec

#### REPORT ON THE ROYAL KA‘ANAPALI GOLF COURSES PROPERTY

The CIO provided an update on the activities relating to the management and development of the Royal Ka‘anapali Golf Courses property:

- Lowe Enterprises Investors (Lowe) issued a request for proposal for golf course operations (response due May 2015).
- Lowe has been meeting with stakeholders and other various groups on plans and issues that may arise.
- Lowe has been exploring joint venture investments.
- Lowe will present a more detailed report to the trustees at the July 21, 2015 Board meeting.

#### REPORT OF TRUSTEES APPOINTED PURSUANT TO HRS § 92-2.5(b), TO MEET WITH REPRESENTATIVES OF THE CARLYLE GROUP TO INVESTIGATE INVESTMENT SERVICES AND OPPORTUNITIES PROVIDED BY THE CARLYLE GROUP

The CIO circulated the report of the trustees appointed pursuant to HRS § 92-2.5(b) to meet with the Carlyle Group (private equity investment manager) on March 20, 2015, to investigate investment services and other opportunities provided by the Carlyle Group.

#### ASSET-LIABILITY STUDY – PROPOSED NEW ASSET CLASSES

Mr. Rue of PCA presented PCA’s proposals to introduce new asset classes/concepts as part of the 2015 asset-liability. PCA proposes: (1) reclassifying the real estate investments by separating core and non-core real estate and reallocating the segments to the stabilized growth and private growth classes, (2) adding a crisis risk offset class to offset drawdowns in the broad growth class, and (3) adding an opportunistic class, with 0% weighting, to allow the ERS to make allocations to dislocated market segments. Details of PCA’s proposals will be presented for consideration at the June 2015 Board meeting.

#### STRATEGIC INVESTMENT OPPORTUNITIES

The CIO reported that strategic investment opportunities, such as revenue enhancements and strategic partnerships, could provide additional sources of returns that are different from the traditional approach of serial investments in fund structures. The CIO has begun brainstorming potential strategic investment opportunities with the ERS’s investment consultants. Trustee Matsumoto commented that potential conflicts of interest should be addressed.

#### PROXY VOTING CERTIFICATION REPORT

In compliance with the ERS’s policies and procedures on Socially Responsible Investing, the CIO reported on the results of the 2015 annual survey of public markets managers to assess if each manager’s proxy voting policies comply with CFA Institute Standards. The survey covered 21 current public market investment managers. Six of these managers reported not to be in compliance with ERS’s Proxy Voting Guidelines; however, PCA explained the exceptions and concluded that all are reasonable.

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 been approved by the House and Senate and have been enrolled to the Governor:

(\*ERS proposal)

1. \*Senate Bill (S.B.) 1087, Senate Draft (S.D.) 1, House Draft (H.D.) 1 (Hybrid Plan death benefits and refunds).
2. \*S.B. 1089, S.D. 1, H.D. 1 (acquisition of service credit and workers' compensation benefit contributions).
3. \*S.B. 1090, S.D. 1, H.D. 1, Conference Draft (C.D.) 1 (employer reporting and penalty for non-compliance).
4. S.B. 1208, S.D. 1, H.D. 1 (ERS Board of Trustees executive sessions).
5. S.B. 1324, S.D. 2, H.D. 1, C.D. 1 (authority of the ERS to make direct payments of benefits to former spouses pursuant to family court orders in divorce proceedings).
6. H.B. 1075, H.D. 2, S.D. 2, C.D. 1 (transition the Maui regional Hawaii Health Care System Facilities to a private non-profit entity).
7. S.B. 158, S.D. 1, H.D. 1, C.D. 1 (budget documents re pension and other post-retirement benefits).

The Interim Executive Director and Ms. Curry stated that ERS staff will continue to monitor these proposals.

OPERATIONS REPORT  
– APRIL 2015

Mr. Karl Kaneshiro, Interim Deputy Executive Director, presented the monthly report on the ERS's operations and website statistics for April 2015. Highlights included the status of ERS's staffing vacancies, on-going internal audit projects, and outstanding retirement benefit finalization cases.

APPROVAL OF MINUTES  
– MARCH 9, 2015

Deputy Attorney General Brian Aburano noted that, on page 7 of the minutes for the March 9, 2015 Board meeting, reference to Trustee Miyamoto should be changed to Trustee Matsumoto.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the minutes of the March 9, 2015 meeting, as corrected.

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), 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 pending securities fraud claims and litigation being pursued by the ERS.

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 PENDING  
SECURITIES FRAUD CLAIMS  
AND LITIGATION BEING  
PURSUED BY THE  
EMPLOYEES' RETIREMENT  
SYSTEM

APPROVAL OF EXECUTIVE  
SESSION MINUTES  
– MARCH 9, 2015

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

EXIT EXECUTIVE SESSION

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

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Lee Loy adjourned the meeting at 3:42 p.m.

## **REDACTED SIGNATURE**

Kanoe Margol  
Interim Executive Director

KM: jh