

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

APRIL 11, 2016

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

- Trustees present: Mr. Vince Barfield, Chair
Mr. Emmit Kane, Vice Chair
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Wesley Machida
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst
- Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoe Margol, Deputy Executive Director
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Anthony Goo, Investment Officer
Mr. Howard Hodel, Investment Officer
Ms. Donna Curry, Program Specialist
Mr. Keith Matsumoto, Information Technology Manager
Ms. Kathleen Shiroma, Information Technology Specialist
Ms. Wanda Kugiya, Secretary
Ms. Dale Kanae, Secretary
Ms. Lori Kim, Recording 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. John Linder, Pension Consulting Alliance, LLC
Mr. Colin Bebee, Pension Consulting Alliance, LLC
Mr. Ben Doramus, H/2 Credit Partners
Mr. Keith Lee, H/2 Credit Partners
Mr. Peter Hanashiro, KMH LLP
Mr. Alfred Ko, RSM US
- Public present: Mr. Benjamin Sadoski, UNITE HERE Local 5

QUORUM/CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Ferguson-Miyamoto, Frane, Machida, Rauckhorst and Chan), Chair Barfield called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 9:00 a.m.

(Trustee Matsumoto joined the meeting at 9:01 a.m.)

PUBLIC COMMENT

Chair Barfield called for public comment.

Mr. Benjamin Sadoski of UNITE HERE, Local 5, commented on labor disputes at the Palms Casino in Las Vegas involving Leonard Green & Partners and TPG Capital and Leonard Green & Partners' private jet expenses.

Following his comments, Mr. Sadoski left the meeting.

WELCOME AND INTRODUCTION OF ATTORNEY GENERAL DOUGLAS CHIN

Chair Barfield introduced Attorney General Douglas Chin and welcomed him to the meeting. Each of the trustees introduced themselves to the Attorney General. The Attorney General thanked the trustees for their important service. He acknowledged Executive Director Thomas Williams visit. The Attorney stated that he will continue to support the ERS with his Deputy Attorneys General Diane Kishimoto, Brian Aburano, and Elmira Tsang.

RECESS

Chair Barfield called for a recess at 9:14 a.m. for proceedings pursuant to Chapter 91, Hawaii Revised Statutes, and the Investment Committee Meeting. Chair Barfield announced that the meeting would reconvene upon conclusion of the Investment Committee Meeting.

RECONVENE

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Ferguson-Miyamoto, Frane, Rauckhorst and Chan), Chair Barfield reconvened the meeting at 2:02 p.m.

LEGISLATIVE PROPOSALS RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2016 LEGISLATIVE SESSION

Ms. Donna Curry gave an oral summary of the bills listed on Schedule A.

Ms. Curry highlighted HB 1370. Ms. Curry reported that staff is concerned that the current version of the bill does not provide funding and resources for implementation of the bill. The appropriation is from the ERS expense fund instead of from the State general fund and there is no provision for additional staffing.

The following "separation bills" are of concern to staff:

- HB 2445 would allow former Maui Hawaii Health Systems Corporation (HHSC) employees to continue to receive ERS benefits even after Kaiser Permanente takes over operations of the facilities. The Board opposes this bill. The Executive Director commented that this bill is the most egregious of the separation bills and that, if the bill passes, the ERS would ask the Governor to veto it because of potential adverse tax consequences to the ERS's tax qualified status.
- HB 2606 would give Maui HHSC employees early retirement rights without

- reduction for age. The ERS has provided comments on potential costs.
- SB2077 would allow Maui HHSC employees who are qualified for retirement to receive up to an additional three years of service credit. The Board opposes this bill.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst and unanimously carried, the Board decided to oppose HB 1370 because of the inadequate funding and resources for implementation.

GASB 68 ACTUARIAL
REPORTS FOR FISCAL
YEAR 2016

Mr. Thomas Williams reported on plans for the ERS to facilitate provision by Gabriel Roeder Smith & Company (GRS) to the State and county employers of reports required by Governmental Accounting Standards Board Statement 68 (GASB 68). The cost of GRS's services will be borne by the employers.

AMENDMENT OF 2016
BOARD MEETING
SCHEDULE

Mr. Williams reported the addition to the 2016 Board Meeting Schedule of a meeting on July 11, 2016, and the specific dates (July 27-29) for the Investment Summit.

INTERNAL AUDITOR'S
INTERNAL AUDIT
STATUS UPDATE,
GOVERNANCE AND
ETHICS REVIEW
REPORT, AND IT
SECURITY RAPID
ASSESSMENT AND
INTERNAL NETWORK
SECURITY REVIEW
REPORT; APPROPRIATE
ACTION.

Mr. Peter Hanashiro of KMH LLP (KMH) and Mr. Alfred Ko of RSM US who joined the meeting by telephone, presented KMH's Audit Committee Update Report dated April 2016. KMH is seeking approval from the Board of changes to the audit plan described in the report. The Audit Committee approved the changes.

Mr. Hanashiro presented KMH's Governance and Ethics Review Internal Audit Report dated April 2016. The objectives of KMH's review were to:

1. Review and evaluate the design and operating effectiveness of the ERS's ethics-related programs, code of conduct activities, and related processes to ensure effective governance and accountability throughout the ERS.
2. Evaluate the ERS's compliance with its Board and Committee charters and applicable laws, regulations, and policies in areas including, but not limited to, governance and delegations of authority.
3. Assess the ERS's governance processes, practices and structures against industry leading practices, where applicable.
4. Provide recommendations for improvement to enhance effectiveness and efficiency.

Based on KMH's review, KMH's found that:

1. Several committee meeting minutes were not drafted within 30 days as required by the *Sunshine Law* and several committee minutes were still in draft form over a year after the meeting occurred.
2. Several committees were not performing duties as described in their charter, such as performance evaluations and an annual charter review to ensure relevancy and accuracy.
3. Board member training, including onboarding and ongoing education, is not formally documented in a training plan or education policy.

Mr. Hanashiro reported that KMH recommends that the ERS focus on developing a Governance Policy, which would include a Board Charter, a Delegation of

Authority Policy, and establishment of a Governance Committee.

On a motion made by Trustee Frane, seconded by Trustee Ferguson-Miyamoto and unanimously carried, the Board approved (1) the changes to the Audit Plan and (2) the Governance and Ethics Review Audit Report, as presented.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Rauckhorst, seconded by Vice-Chair Kane, and unanimously carried, the Board entered into Executive Session at 2:23 p.m.:

- 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 then Internal Auditor's IT Security Rapid Assessment and Internal Network Security Review Report; appropriate action;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, and to make a decision upon, an investment by the Employees' Retirement System in H/2 CP L.P.;
- Pursuant to HRS §88-27.5(a)(1) and HRS §92-5(a)(4), to consider the System's investment in, 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, the Royal Ka'anapali Golf Course property;
- Pursuant to HRS § 88-27.5(a)(1) and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, and to make a decision upon, the Employees' Retirement System's investment in., 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, the Employees' Retirement System's investment in BlackSand Capital Opportunity Fund I, L.P.
- To approve the Executive Session Minutes for the July 30, 2015, August 3, 2015, and January 11, 2016, meetings; and
- Pursuant to HRS §88-27.5(a)(2), to conduct discussions and deliberations and to make a decision relating to the selection of managers for the Global Low Volatility Equity Manager Search.

(Keith Miyamoto and Kathleen Shiroma joined the meeting at 2:23 p.m.)

INTERNAL AUDITOR'S
INTERNAL AUDIT
STATUS UPDATE AND
GOVERNANCE AND
ETHICS REVIEW
REPORT; APPROPRIATE
ACTION.

(The telephone call from Mr. Ko was terminated.)

(Mr. Hanashiro, Mr. Miyamoto, and Ms. Shiroma left the meeting.)

EXECUTIVE SESSION,
PURSUANT TO HRS §88-
27.5(a)(1), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, AND TO
MAKE A DECISION
UPON, AN INVESTMENT
BY THE EMPLOYEES'
RETIREMENT SYSTEM
IN H/2 CP L.P.

EXECUTIVE SESSION,
PURSUANT TO HRS §88-
27.5(a)(1) AND HRS §92-
5(a)(4), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, THE
EMPLOYEES'
RETIREMENT SYSTEM'S
INVESTMENT IN, 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, THE
EMPLOYEES'
RETIREMENT SYSTEM'S
INVESTMENT IN THE
ROYAL KA'ANAPALI
GOLF COURSES
PROPERTY;
APPROPRIATE ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS §88-
27.5(a)(1) AND HRS §92-
5(a)(4), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, AND TO
MAKE A DECISION

UPON, THE EMPLOYEES' RETIREMENT SYSTEM'S INVESTMENT IN, 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, THE EMPLOYEES' RETIREMENT SYSTEM'S INVESTMENT IN BLACKSAND CAPITAL OPPORTUNITY FUND I, L.P.

APPROVAL OF EXECUTIVE SESSION MINUTES
- FEBRUARY 8, 2016

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1) AND (2), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, AND TO MAKE A DECISION UPON, THE SELECTION OF FINALISTS FOR THE GLOBAL LOW VOLATILITY MANDATE

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Chan, and unanimously carried, the Board exited Executive Session at 3:40 p.m.

EXECUTIVE DIRECTOR'S REPORT

Mr. Williams reported the following:

- ERS will be participating in a State funded program for youth employment opportunities in the summer for disadvantaged children.
- Continued issues with travel requests, arduous process.
- Mr. Wes Machida and Mr. Williams visited the Maui County Council and presented updates on EUTF and ERS.
- Vice Chair Kane, Mr. Williams and Mr. Chattergy attended the Pension Bridge Annual Conference in San Francisco. Mr. Chattergy had a very effective presentation as a member on a panel. Mr. Williams stated that there appears to be numerous funds that are in the same situation as ERS in risk exposure as it impacts their funds.

- Mr. Williams had a meeting with Attorney General, Douglas Chin, particularly to talk about succession planning for ERS.
- Fossil fuel bills were killed and a couple of resolutions have not gone forward.
- ERS staff meeting will be held on April 19, 2016.
- Recent staff that have left ERS submitted some disappointing comments and Mr. Williams will be working the ARO to address these comments and concerns.
- Mr. Williams and Ms. Kanoe Margol have been working with KMH closely on the internal audit reports.
- Representative Cindy Evans has invited Mr. Williams for an interview about ERS on Olelo, a public access TV station.
- ERS is already developing legislative focus on the 2017 Legislation Session.
- Chief Darryl Perry has signed the Settlement, Release and Indemnity Agreement.
- Mr. Williams presented updated Board Education Opportunities.
- Chair Barfield, Vice Chair Kane, Mr. Williams and Mr. Chattergy meet after each Board meeting to debrief and to address action items.

OPERATIONS REPORT
- MARCH 2016

Mr. Williams reported a decline in service levels in enrollments. Standards have not been met. ERS has a staffing shortage in scanning the documents. Mr. Williams will be meeting with managers and supervisors to set goals and discuss what ERS needs to accomplish these goals.

APPROVAL OF MINUTES
- FEBRUARY 8, 2016

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board approved the minutes of the February 8, 2016 meeting, as circulated.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Barfield adjourned the meeting at 3:47 p.m.

**REDACTED
SIGNATURE**

Thomas Williams
Executive Director

TW/ltk

Schedule A

1. Employees' Retirement System (ERS) Legislation

	Bill Number	Title
1.	HB2313 HD1	RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.
2.	SB2841	RELATING TO PAYMENTS BY EMPLOYERS TO THE EMPLOYEES' RETIREMENT SYSTEM.

2. ERS Related Legislation

	Bill Number	Title
1.	HB1370 HD1 SD1	RELATING TO DIVORCE.
2.	HB1556 HD1 SD1	RELATING TO THE UNIVERSITY OF HAWAII.
3.	HB2008 HD2 SD1	RELATING TO PUBLIC EMPLOYMENT.
4.	HB2016 HD1 SD1	RELATING TO PUBLIC EMPLOYEES.
5.	HB2311 SD1	RELATING TO REPORTING DEATHS TO STATE AGENCIES.
6.	HB2445 HD1 SD1	RELATING TO PUBLIC EMPLOYEES.
7.	HB2446 HD2 SD1	RELATING TO SEPARATION BENEFITS.
8.	HB2606 HD2 SD1	RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.
9.	SB2077 SD1 HD1	RELATING TO SEPARATION BENEFITS.
10.	SB2244 SD1 HD1	RELATING TO RETIREMENT.
11.	SB2346 SD2 HD1	RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

	Bill Number	Title
12.	SB2428 SD2 HD1	RELATING TO PUBLIC EMPLOYEES.
13.	SB2840 SD1	RELATING TO REPORTING DEATHS TO STATE AGENCIES.
14.	SB3000 SD1 HD1	RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.
15.	HCR32 HD1	REQUESTING THE CONVENING OF A TASK FORCE TO EXAMINE CANCER IN THE FIREFIGHTING PROFESSION.
16.	SCR8 SD1	AUTHORIZING THE FORMATION OF A TASK FORCE TO STUDY THE ISSUE OF A CANCER PRESUMPTIVE STATUTE RELATING TO FIREFIGHTERS.
17.	SR6 SD1	AUTHORIZING THE FORMATION OF A TASK FORCE TO STUDY THE ISSUE OF A CANCER PRESUMPTIVE STATUTE RELATING TO FIREFIGHTERS.
18.	HCR154	REQUESTING THE LEGISLATIVE REFERENCE BUREAU TO EVALUATE THE ESTABLISHMENT OF SEPARATE MEDICAL AND PENSION BENEFIT PLANS FOR JUSTICES AND JUDGES.
19.	HR106	REQUESTING THE LEGISLATIVE REFERENCE BUREAU TO EVALUATE THE ESTABLISHMENT OF SEPARATE MEDICAL AND PENSION BENEFIT PLANS FOR JUSTICES AND JUDGES.
20.	HCR170 HD1	URGING THE EMPLOYEES' RETIREMENT SYSTEM TO WORK IN CONJUNCTION WITH A REPUTABLE FIRM OF INVESTMENT CONSULTANTS TO SUBMIT A REPORT ASSESSING THE IMPACT ON THE EMPLOYEES' RETIREMENT SYSTEM'S PORTFOLIO OF FOSSIL FUEL INVESTMENTS TO THE LEGISLATURE.
21.	HR120 HD1	URGING THE EMPLOYEES' RETIREMENT SYSTEM TO WORK IN CONJUNCTION WITH A REPUTABLE FIRM OF INVESTMENT CONSULTANTS TO SUBMIT A REPORT ASSESSING THE IMPACT ON THE EMPLOYEES' RETIREMENT SYSTEM'S PORTFOLIO OF FOSSIL FUEL INVESTMENTS TO THE LEGISLATURE.