

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

May 10, 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  
Mr. Patrick Frane  
Mr. Wesley Machida
- Trustees excused: Ms. Jackie Ferguson-Miyamoto  
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. Aaron Au, Investment Officer  
Mr. Anthony Goo, Investment Officer  
Mr. Howard Hodel, Investment Officer  
Mr. Andrew Chen, Investment Specialist  
Mr. Ian Wetzels, Investment Specialist  
Ms. Donna Curry, Program Specialist  
Mr. Keith Miyamoto, 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. Neil Rue, Pension Consulting Alliance, LLC  
Mr. Colin Bebee, Pension Consulting Alliance, LLC  
Ms. Kay Ceserani, Pension Consulting Alliance, LLC  
Mr. Michael Humphrey, Courtland Partners, Ltd.  
Mr. Tom Hester, Courtland Partners, Ltd.  
Mr. Robert Moore, Legal & General Investment Management America  
Ms. Meghan Bourke, Legal & General Investment Management America  
Mr. Shaun Murphy, Legal & General Investment Management America  
Ms. Christy Wittington, Legal & General Investment Management America  
Mr. Paul Yett, Hamilton Lane Advisors, LLC  
Mr. Wilson Leung, Angelo, Gordon & Co., AG Asia Realty Fund III, L.P.  
Ms. Aliana Spungen, Angelo, Gordon & Co., AG Asia Realty Fund III, L.P.  
Mr. Louis Paletta, Kildare Partners

QUORUM/CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Frane, and Machida), 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.

PUBLIC COMMENT

Chair Barfield called for public comment. There were no members of the public present.

APPROVAL OF MINUTES  
- March 14, 2016

On a motion made by Trustee Frane, seconded by Vice Chair Kane, and unanimously carried, the Board approved the March 14, 2016 minutes as circulated.

LEGAL & GENERAL  
INVESTMENT  
MANAGEMENT AMERICA  
INC.

Chief Investment Officer Vijoy Chattergy welcomed the representatives of Legal & General Investment Management America, Inc. (LGIMA), one of two recently selected managers for the global passive mandate in the Growth-oriented component of the ERS's Broad Growth class: Mr. Robert Moore (Chief Executive Officer), Ms. Christy Wittington (Senior Client Relationship Manager), Mr. Shaun Murphy (Head of U.S. Index Funds); and Ms. Meghan Bourke (Investment Director). Mr. Chattergy noted that LGIMA was an unknown prior to the selection process; however, the firm's compelling history, experience, and fee structure warranted consideration of the firm, which is well known in the United Kingdom.

The representatives from LGIMA responded to questions from Mr. Chattergy regarding the firm's investment philosophy and process, including the reasons why the firm is able to keep costs low while maintaining a good long-term track record.

Following their presentation, the representatives from LGIMA left the meeting.

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

Ms. Donna Curry reported that the legislative session ended on Thursday, May 5, 2016. Ms. Curry provided a written summary of the status of the bills listed on Schedule A. Ms. Curry's oral comments focused on the following bills:

SB 2841, which allows employers to make ERS contributions in advance, was signed by the Governor and became effective July 1, 2016, as Act 31.

HB 1370 CD1 (relating to divorce) and SB 2077 CD2 (relating to separation benefits). were passed by the legislature and sent to the Governor for approval. Ms. Curry reported that funding provisions were deleted from HB 1370 CD1. The ERS does not have the funds necessary for implementation of the bill. ERS staff also has concerns regarding SB 2077 CD2. The bill ignores the benefit enhancement moratorium, sets a difficult precedent, and does not address the \$17.2 million cost to the ERS resulting from the loss of members. Staff therefore asked the Board to recommend that the Governor veto HB 1370 CD1 (relating to divorce) and SB 2077 CD2.

Trustee Machida reported that the Department of Budget and Finance opposed SB 2077 for policy reasons -- the bill is too far reaching.

The Executive Director commented that he shares Trustee's Machida's view that SB 2077 CD2 goes beyond what is necessary to address the affected employees. The Executive Director also noted that the ERS submitted testimony that the Board was willing to acquiesce to "QDRO" legislation, such as HB 1370, only if the ERS was provided with funding to implement the legislation. Previous versions of the legislation included funding, either through a general fund appropriation or allocation from the ERS's funds. Without the appropriation or allocation, the ERS would have to find the funding for the implementation of HB 1370 CD1. Initial implementation costs could be upwards of 10% of the ERS's total annual operating budget.

On a motion made by Trustee Machida, seconded by Trustee Chan, and unanimously carried, the Board voted to recommend that the Governor veto HB 1370 CD1 and SB 2077 CD2.

EXECUTION OF  
MEMORANDA OF  
UNDERSTANDING WITH  
STATE AND COUNTY  
EMPLOYERS REGARDING  
GASB 68 REPORTS

Mr. Thomas Williams asked the Board to authorize the Executive Director to execute memoranda of understanding (MOUs) with State and county employers for the provision by Gabriel, Roeder, Smith and Company of GASB 68 employer reports pursuant to the contract dated January 1, 2016, between the Employees' Retirement System and Gabriel, Roeder, Smith and Company. Eliminating the need for the Chair, Vice Chair or other trustee to also sign the MOUs as required by the ERS's standing resolutions for execution of contracts would facilitate and expedite execution of the MOUs for the current and succeeding years.

On a motion made by Trustee Machida, seconded by Trustee Chan, and unanimously carried, the Board authorized the Executive Director to execute memoranda of understanding with State and county employers for the provision by Gabriel, Roeder, Smith and Company of GASB 68 employer reports pursuant to the contract dated January 1, 2016, between the Employees' Retirement System and Gabriel, Roeder, Smith and Company.

INVESTMENT MANAGER  
WATCH LIST

Mr. Colin Bebee from Pension Consulting Alliance, LLC (PCA) reported that Bank of Hawaii/CM Bidwell failed short-term performance criteria and CS McKee failed medium-term criteria. PCA therefore recommended that both firms be placed on "Watch Status" for 12-18 months while portfolio restructuring continues.

The Chair announced that he would be voting on this matter. He noted that, because his employer, Bank of Hawaii, is one of the managers recommended for Watch Status, he would ordinarily recuse himself from consideration of the matter. However, if he did so, the Board would be unable to act on the matter at this meeting because there would only be four trustees who could vote on the matter.

On a motion made by Trustee Machida, seconded by Trustee Frane, and unanimously carried, the Board placed Bank of Hawaii/CM Bidwell and CS McKee placed on "Watch Status" for 12-18 months.

ENTER EXECUTIVE  
SESSION

On a motion made by Trustee Machida, seconded by Trustee Frane, and unanimously carried, the Board entered into Executive Session at 9:42 a.m.:

- Pursuant to HRS § 88-27.5(a)(1) and (2), to conduct discussions and deliberations and to make a decision relating to the selection of managers for the Global Low Volatility Mandate;
- 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, 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 investments managed by Bradford & Marzec, LLC; and
- Pursuant to HRS § 88-27.5(a)(2), to conduct discussions and deliberations and, if appropriate, to make a decision relating to the selection of managers for the Global Equity (Mid-Large Cap) strategy.

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

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, 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 INVESTMENTS MANAGED BY BRADFORD & MARZEC, LLC.

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

THE SELECTION OF  
MANAGERS FOR THE  
GLOBAL EQUITY (MID-  
LARGE CAP) STRATEGY

EXIT EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Frane, and unanimously carried, the Board exited Executive Session at 10:03 a.m.

RECESS

Chair Barfield called for a recess of the Board meeting at 10:03 a.m. Chair Barfield announced that the Board meeting would reconvene at 11:15 a.m..

RECONVENE

A quorum being present (Chair Barfield, Vice Chair Kane, and Trustees Chan, Frane, and Machida), Chair Barfield reconvened the meeting at 11:26 a.m.

CONTRACTS WITH VITECH  
SYSTEMS GROUP, INC. FOR  
SOFTWARE AND  
DATABASE MAINTENANCE  
AND SUPPORT SERVICES

Mr. Keith Miyamoto gave an oral and written presentation requesting the Board's approval to enter into two new contracts for maintenance and support of the ERS computer system, known as V3, a proprietary system that was implemented by Vitech Systems Group, Inc. (Vitech).

The first contract is a four year contract for maintenance and support services. This contract also includes annual license fees for software provided by Vitech. A multi-year contract for the software license and maintenance and support services is in the best interests of the ERS because it locks in maintenance hours at current rates until the ERS is able to either upgrade the current system or select a vendor and get a new computer system.. The current contract for maintenance and support services with Vitech terminates on June 30, 2016.

The second contract is for database support and maintenance. The current contract expires on May 31, 2016. The new contract is for one year. ERS is consulting with the State ETS (Enterprise Technology Service) regarding a hardware replacement for ERS' Pension Administration System Application which may impact the type of database support the ERS will need in the future when it either upgrades or replaces the application. Until that is determined, staff believes that a multi-year contract is not in the best interest of the ERS.

On a motion made by Trustee Machida, seconded by Trustee Frane, and unanimously carried, the Board approved execution of contracts for (1) maintenance and support services and (2) database support and maintenance, at costs not to exceed \$2,228,000 for the software license and maintenance and support contract and \$162,900 for the database support contract and subject to inclusion of a clause allowing the ERS to cancel the multi-year contract; however, the Board asked staff to expedite development of the strategic plan for information technology and to make another attempt to lower costs for the multi-year software license and maintenance and support contract.

ENTER EXECUTIVE  
SESSION

On a motion made by Vice Chair Kane, seconded by Trustee Frane, and unanimously carried, the Board entered into Executive Session at 11:53

a.m.:

- 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 Angelo Gordon (AG) Asia Realty Fund III, L.P.;
- 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 Kildare European partners II, L.P.; and
- 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 secondary private equity fund services; appropriate action.

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 ANGELO  
GORDON ASIA REALTY  
FUND III, L.P.

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 KILDARE  
EUROPEAN PARTNERS II,  
L.P.

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 SECONDARY  
PRIVATE EQUITY FUND  
SERVICES; APPROPRIATE

ACTION

APPROVAL OF EXECUTIVE  
SESSION MINUTES  
- MARCH 14, 2016

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Kane, seconded by Trustee Chan, and unanimously carried, the Board exited Executive Session at 1:48 p.m.

The Chair announced that consultation with legal counsel regarding the Information Technology Plan was deferred.

(Chair Barfield left the meeting at 1:48 p.m.)

ADJOURNMENT DUE TO  
LOSS OF QUORUM

Due to the loss of quorum, the meeting was terminated; however, pursuant to HRS § 92-2.5(d), the Trustees present received testimony and presentations on the remaining items on the agenda, as described below:

RECORD, PURSUANT TO HRS § 92-2.5(d)(2), OF TESTIMONY AND  
PRESENTATIONS

PENSION CONSULTING  
ALLIANCE, LLC –  
INVESTMENT PORTFOLIO  
PERFORMANCE FOR 1<sup>ST</sup>  
QUARTER 2016

Mr. Rue presented an oral and written report on the investment portfolio performance for the 1<sup>st</sup> quarter of 2016. Overall the portfolio underperformed for the 1<sup>st</sup> quarter of 2016. Most of the under performance (60 basis points) and be attributed to four large cap equity managers.

HAMILTON LANE  
ADVISORS, LLC – PRIVATE  
EQUITY PROGRAM  
UPDATE

Mr. Paul Yett from Hamilton Lane Advisors, LLC (Hamilton Lane) gave an oral and written update on the private equity program. The private equity portfolio has significantly outperformed since its inception through the period ending December 31, 2015. Commitments are on track to Hamilton Lane's recommended 2016 commitment of \$450 -- \$650 million commitment. Hamilton Lane is targeting \$550 million in commitments for 2016, unless there is a really compelling potential foundation manager.

COURTLAND PARTNERS,  
LTD. – REAL ESTATE  
PORTFOLIO  
MEASUREMENT REPORT  
FOR 4<sup>TH</sup> QUARTER 2015

Mr. Humphrey of Courtland Partners Ltd. gave an oral and written report on the real estate portfolio for the 4<sup>th</sup> quarter of 2015. Return performance continues to be strong.

EXECUTIVE DIRECTOR'S  
REPORT

Mr. Williams reported the following:

- Presentation of Information Technology Strategic Plan and the Operational Strategic Plan will be deferred to the June 13, 2016 Board meeting.
- Business Continuity Plan Development Project meetings will be held May 16 to 19 with RSM US LLP which will be addressing risk assessment, crisis management, and recovery strategies.
- Mr. Williams met with Representative Cindy Evans and did an interview on her television program called "Now What".
- Legislation took a lot of staff time especially the QDRO and separation

bills. Staff was in direct communication and held meetings with Conference Committee members.

- Staff met with KMH to develop an approach towards a Governance Policy. Has options that will be brought to the committee and ultimately to the Board.
- Previous IT security and internal penetration test results were provided. External penetration tests are scheduled during May 2016, in collaboration with the Chief Technology Office.
- An all-staff meeting was held on April 19, 2016. All managers and officers gave updates to staff.
- Mr. Williams will be attending the NCPERS Conference May 15 to 18, 2016 in San Diego.
- State Foundation for Culture and the Arts brought in some artwork that is now displayed throughout the ERS office. After the pieces were installed, ERS noticed more public spaces available and will be asking the foundation for more art pieces.
- A list of Board Education Opportunities was given to the Board.

#### OPERATIONS REPORT

Mr. Williams stated that the written operations report is for "receive and file."

#### CONCLUSION

Receipt of testimony and presentations concluded at 2:43 p.m.

#### REDACTED SIGNATURE

Thomas Williams  
Executive Director

TW:ltk



## Schedule A

### 1. Employees' Retirement System (ERS) Legislation

	Bill Number	Title
1.	<a href="#">SB2841</a>	RELATING TO PAYMENTS BY EMPLOYERS TO THE EMPLOYEES' RETIREMENT SYSTEM.

### 2. ERS Related Legislation

	Bill Number	Title
1.	<a href="#">HB1370 SD2</a>	RELATING TO DIVORCE.
2.	<a href="#">HB2008 SD2 PROPOSED</a>	RELATING TO PUBLIC EMPLOYMENT.
3.	<a href="#">HB2016 SD1</a>	RELATING TO PUBLIC EMPLOYEES.
4.	<a href="#">HB2311 SD1</a>	RELATING TO REPORTING DEATHS TO STATE AGENCIES.
5.	<a href="#">SB2077 SD1</a>	RELATING TO SEPARATION BENEFITS.
6.	<a href="#">HCR32 SD1</a>	REQUESTING THE CONVENING OF A TASK FORCE TO EXAMINE CANCER IN THE FIREFIGHTING PROFESSION.
7.	<a href="#">SR6 SD2</a>	AUTHORIZING THE FORMATION OF A TASK FORCE TO STUDY THE ISSUE OF A CANCER PRESUMPTIVE STATUTE RELATING TO FIREFIGHTERS.
8.	<a href="#">HR106</a>	REQUESTING THE LEGISLATIVE REFERENCE BUREAU TO EVALUATE THE ESTABLISHMENT OF SEPARATE MEDICAL AND PENSION BENEFIT PLANS FOR JUSTICES AND JUDGES.
9.	<a href="#">HCR170 HD1</a>	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.
10.	<a href="#">HR120 HD1</a>	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.