

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

AUGUST 14, 2017

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

Trustees present: Mr. Emmit Kane, Chair
Mr. Jerome Rauckhorst, Vice Chair
Mr. Vincent Barfield
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Colbert Matsumoto

Trustees excused: Mr. Wesley Machida

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, Deputy Executive Director
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Anthony Goo, Investment Officer
Mr. Aaron Au, Investment Officer
Mr. Howard Hodel, Investment Officer
Mr. Ian Wetzel, Investment Specialist
Mr. Andrew Chen, Investment Specialist
Ms. Gerri Konishi, ERS Member Home Loan Assistant
Mr. Karl Kaneshiro, Retirement Benefits Manager
Ms. Donna Curry, Program Specialist
Ms. Wanda Kugiya, Secretary
Ms. Lori Kim, Secretary
Ms. Cynthia Chen, Recording Secretary

Attorneys present: Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)
Ms. Patricia Ohara, Supervising Deputy Attorney General (Counsel for Board)

Guests present: Ms. Mary Bates, Pension Consulting Alliance
Mr. Colin Bebee, Pension Consulting Alliance
Mr. Chae Hong, Aon Hewitt
Mr. Ifikhar Ahmed, Aon Hewitt (by Telephone)
Mr. Tom Hester, Courtland Partners, Ltd. (by Telephone)
Mr. Paul Yett, Hamilton Lane Advisors, LLC.
Mr. Hugh Lawson, Goldman Sachs Asset Management
Ms. Stephanie Ivy Sanford, Goldman Sachs Asset Management
Mr. Jeffrey Scott, Goldman Sachs Asset Management
Mr. Soheil Gala, J.P. Morgan Asset Management
Mr. Darren Smith, J.P. Morgan Asset Management
Mr. John Buser, Newberger Berman Investment Advisers, LLC.

Mr. Paul Sauer, Newberger Berman Investment Advisers, LLC.
Mr. Russ Bates, Aviva Investors
Mr. Michael Benjamin, Aviva Investors
Ms. Ginger Lew, I Squared Capital
Mr. Andreas Moon, I Squared Capital
Mr. Bob Perry, CBRE Global Investors
Mr. Michael McMenemy, CBRE Global Investors

QUORUM/CALL TO ORDER

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Frane, Ferguson-Miyamoto, and Chan), Chair Kane 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

There were no comments offered from the public.

RECESS

Chair Kane called for a recess and announced that the meeting would reconvene following the conclusion of the Chapter 91 proceedings and the Investment Committee meeting.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Matsumoto, Frane, Ferguson-Miyamoto, and Chan), Chair Kane reconvened the meeting at 12:22pm.

PENSION CONSULTING ALLIANCE, LLC – INVESTMENT PORTFOLIO PERFORMANCE FOR 2ND QUARTER 2017

Mr. Anthony Goo, Investment Officer, and Mr. Colin Bebee of Pension Consulting Alliance, LLC (PCA) presented an oral and written report on the ERS's investment portfolio performance for 2nd quarter of 2017. Mr. Bebee comments included the following:

The ERS Total Portfolio underperformed the Policy Benchmark. The Crisis Risk Offset and Real Return strategic classes underperformed their respective benchmarks during the period, which detracted from results. The Total Portfolio outperformed the Policy Benchmark over the 1-, 3-, and 5-year periods, while matching the benchmark over the 10-year period. With respect to the evolving policy target, the total portfolio ended the latest quarter relatively near target in all strategic class.

HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY PROGRAM UPDATE

Mr. Paul Yett of Hamilton Lane Advisors, LLC (Hamilton Lane) gave an oral and written report on the Private Equity program as of August 2017. Highlights were:

Performance:

- The Private Equity portfolio significantly outperformed the public benchmark across all time horizons
 - Exceeded benchmark by 415 bps for the since inception period
 - Aggregate average premium of 559 bps across the 1-, 3-, 5-, 10-year, and since inception periods
- Strongest one year IRR of 19.40%, since Hamilton Lane relationship began value creation
- Portfolio generated market value growth of \$51.7million during the quarter, with \$43.7 million in positive net value
 - 122 partnerships generated positive value gain of \$45.6 million for

- the quarter
- Top five funds driving net value gain generated \$14.2 million, or 32% of total value gains for the quarter

Portfolio Snapshot

- The Portfolio continues to grow and generate value
 - Market Value – up 6% Quarter on Quarter (QoQ)
 - Since inception IRR – increased 18 bps QoQ
- Commitments growing to meet target exposure of 13.5% to Private Equity
 - Private Equity Allocation is currently 6.4% as of March 31, 2017, up 0.1% from the prior year
- Net Asset Value (NAV) growth, up 26% from one year prior
- 2017 invested capital on pace to surpass 2016 record total

Performance Summary

- Q1 2017 represents the 19th consecutive quarter of positive returns
- Strong value creation across Portfolio – net value gain of \$154.8 million for the year
 - 69% of the partnerships within the Portfolio experienced increases in value of \$165.0 million
- Unfunded commitments increased by \$245.9 million during the year
 - As a percentage of total exposure, unfunded commitments remained consistent, increasing by just over 1.5%

COURTLAND PARTNERS,
LTD. (VIA
TELECONFERENCE) –
REAL ESTATE PORTFOLIO
MEASUREMENT REPORT
FOR 1ST QUARTER 2017.
AON HEWITT
INVESTMENT
CONSULTING IN
ATTENDANCE

Mr. Tom Hester of Courtland Partners, Ltd. was not able to join by telephone so Aaron Au gave an oral and written report on performance of the ERS real estate portfolio for the 1st quarter of 2017. The ERS real estate portfolio continues to perform well and outperformed the NPI by 0.5%, 2.6%, 5.1%, 5.3%, and 4.8% for the Quarter, 1-yr., 2-yr., and 5-yr., periods, respectively. The real estate portfolio underperformed the NPI for the inception-to-date period.

INVESTMENT POLICY
REVISION – INTERIM
BROAD GROWTH CLASS
TARGET STRUCTURE

Mr. Howard Hodel, Investment Officer, presented the written report for “receive and file.”

PROSPECTIVE PROPOSALS
RELATING TO THE
EMPLOYEES’
RETIREMENT SYSTEM
FOR 2018 THE
LEGISLATIVE SESSION

Ms. Donna Curry, Program Specialist, presented the following potential ERS legislative proposals for discussion and possible introduction during the 2018 legislative session:

- Amendment to delay ERS Hawaii Domestic Relations Orders (HiDRO) implementation and to add applicability of HiDRO for deferred vested members.
- Alternative amendment to revise Hawaii Domestic Relations Orders scope of benefits to alternate payees.
- Separate accounts for employer contributions.

- Amendment to retain unclaimed member benefits with ERS rather than escheating to State.
- Amendment to allow optional exempt status for current Investment Specialists and exempt status for future investment staff.
- Amendment to update real estate investment provisions.
- Amendment to comply with IRS tax-qualification requirements and to delete acquisition of service by payroll deduction from July 1, 2020.
- Amendment to change the definition of average final compensation from “highest” five years to “last” five years for new members.
- Amendment to limit service-connected disability retirement and accidental death benefit provisions to cover only members in membership positions for which required contributions are made by employee and/or employer.
- Amendment to change to calculation of crediting of unused sick leave for benefits earned prospectively.
- Amendment to change to the calculation of post-retirement benefits for benefits earned prospectively.
- Adding an alternative ERS Defined Contribution Plan.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board entered into Executive Session at 1:17p.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 ISQ Global Infrastructure Fund II, 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 CBRE Strategic Partners U.S. Value 8, L.P.
- Pursuant to HRS § 88-27.5(a) (2), to conduct discussions and deliberations and to make decisions relating to Principal Protection finalists.
- Pursuant to HRS § 88-27(a) (1), to conduct discussions and deliberations and, if appropriate, to make decisions relating to issues related to the Crisis Risk Offset launch.
- Pursuant to HRS § 92-5(a)(4), to update the Board on pending litigation for overpayment that the ERS is involved 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 such litigation.
- Pursuant to HRS § 92-5(a)(4), to update the Board on pending litigation for service-connected disability benefits that the ERS is involved in, in the case of *Stout v. ERS Board*, 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 such litigation.
- Pursuant to HRS § 92-5(a)(4), to update the Board on potential securities litigation claims by the ERS, 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 such litigation.
- Pursuant to HRS § 92-5(a)(4), to update the Board on pending securities litigation that the ERS is involved 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 such litigation.

- Pursuant to HRS § 92-5(a)(4), to update the Board on pending securities litigation that the ERS is involved 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 such litigation.

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
ISQ GLOBAL
INFRASTRUCTURE FUND
II, 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
CBRE STRATEGIC
PARTNERS U.S. VALUE 8,
L.P.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a) (2), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND TO
MAKE DECISIONS
RELATING TO PRINCIPAL
PROTECTION FINALISTS

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27(a) (1), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND, IF
APPROPRIATE, TO MAKE
DECISIONS RELATING TO
ISSUES RELATED TO THE
CRISIS RISK OFFSET

LAUNCH

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO UPDATE THE
BOARD ON PENDING
LITIGATION FOR
OVERPAYMENT THAT
THE ERS IS INVOLVED 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 SUCH
LITIGATION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO UPDATE THE
BOARD ON PENDING
LITIGATION FOR
SERVICE-CONNECTED
DISABILITY BENEFITS
THAT THE ERS IS
INVOLVED IN, IN THE
CASE OF *STOUT V. ERS
BOARD*, 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 SUCH
LITIGATION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO UPDATE THE
BOARD ON POTENTIAL
SECURITIES LITIGATION
CLAIMS BY THE ERS, 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 SUCH
LITIGATION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO UPDATE THE
BOARD ON PENDING
SECURITIES LITIGATION
THAT THE ERS IS
INVOLVED 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 SUCH
LITIGATION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO UPDATE THE
BOARD ON PENDING
SECURITIES LITIGATION
THAT THE ERS IS
INVOLVED IN, AND TO
CONSULT WITH THE
BOARD'S ATTORNEYS ON
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LITIGATION

APPROVAL OF
EXECUTIVE SESSION
MINUTES

- JUNE 13, 2017
- JUNE 20, 2017
- JULY 10, 2017

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried the Board exited Executive Session at 2:30 p.m.

APPROVAL OF MINUTES

- JUNE 13, 2017

- JUNE 20, 2017

- JULY 10, 2017

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried the Board approved the minutes of the June 13, 2017, June 20, 2017, and July 10, 2017 meetings, as presented.

EXECUTIVE DIRECTOR'S REPORT

Mr. Thomas Williams, Executive Director gave an oral presentation of the Executive Director's report as follows:

- Mr. Williams provided an update that the Attorney General had made an offer to a candidate for a deputy attorney general position to provide legal services to the ERS, but the candidate's employer persuaded the candidate to remain, and the candidate did not accept the offer.
- Mr. Williams was provided an update by Pat Ohara, Deputy Attorney General, on the status of the search for a deputy attorney general to replace the recently retired deputies. Other candidates, interviews are being planned.
- ERS's office meeting and staff appreciation gathering held on July 13 was well attended. Karl Kaneshiro, nominated as manager of the year, hosted breakfast.
- ERS is working with building management on enhancing office security by providing meeting room security cameras.
- Mr. Williams met with Brian Aburano, Deputy Attorney General and Elmira Tsang, Deputy Attorney General, regarding the *Stout* case; discussed the importance of responding to the court with ERS's position and for recordation purposes.
- Mr. Williams provided a Trustee election update; two candidate names received from HGEA. Mr. Williams has been in touch with all of the unions involved and emphasized the expectations, roles, and responsibilities in regards to Trustee candidate recommendations.
- Mr. Williams discussed the proposal of EC& B reorganization; individual roles and responsibilities will be restructured in leadership positions. The reorganization will allow for succession planning and staff development. Further benefiting staff, to promote work efficiency and hopefully upgrade the job description in which may result in improve compensations for staff.
- Meeting with representative of the federal government concerning reimbursement of pension cost. There are a number of federal grants and reimbursements that comes to the State and the government wants to pay what is required, in terms annual contributions, but does not want to pay for unfunded liabilities. Requesting ERS to develop an annual required contribution. GRS agreed to provide additional calculation for the state and will to the State directly.
- Mr. Williams attended the NASRA conference. The conference features leaders in the fields of retirement plan investment and administration covering a variety of topics including investment management, world events applicable to the pension industry, the economy, human resources, trends, and more.

OPERATIONS REPORT
– JULY 2017

Ms. Kanoe Margol gave an oral and written operations report to be received and filed. Per Board request, they would like more details on the progress in regards to the aging report, to highlight the month to month progress with the Medical Board.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, and seconded by Vice Chair Barfield, and unanimously carried, the Board adjourned the meeting at 2:44 p.m.

REDACTED SIGNATURE

Thomas Williams
TW:cc