

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

SEPTEMBER 11, 2017

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

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

Trustees excused: Mr. Jerome Rauckhorst, Vice Chair

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

Attorneys present: Ms. Patricia Ohara, Supervising Deputy Attorney General
Mr. Kyle Chang, Deputy Attorney General (Counsel for the Board)

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Ms. Mary Bates, Pension Consulting Alliance, LLC
Mr. Chae Hong, Aon Hewitt Investment Consulting, Inc.

Public present: Mr. Albert Vargas, Budget Chief, House Finance Committee
Mr. Riley Fujisaki, House Finance Committee
Mr. Robert Nishimoto, Senate Ways & Means

QUORUM/CALL TO ORDER A quorum being present (Chair Kane and Trustees Frane, Machida, Chan, and Ferguson-Miyamoto), 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 9:00a.m.

PUBLIC COMMENT Chair Kane called for public comment. There were no members of the public

present.

RECESS

Chair Kane called for a recess at 9:00 a.m. 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 and Trustee Frane, Machida, Chan, and Ferguson-Miyamoto), Chair Kane reconvened the meeting at 9:03 a.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session at 9:03 a.m.

- Pursuant to HRS § 92-5(a)(8), to hold discussions with offerors for an exempt procurement (investment management services as related to the US principal protection mandate) and to evaluate the proposals of such offerors.
- 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 Torchlight Debt Opportunity Fund VI, LP.

(Trustee Matsumoto joined the meeting at 9:06 a.m.)

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(8), TO HOLD
DISCUSSIONS WITH
OFFERORS FOR AN
EXEMPT PROCUREMENT
(INVESTMENT
MANAGEMENT SERVICES
AS RELATED TO THE US
PRINCIPAL PROTECTION
MANDATE) AND TO
EVALUATE THE
PROPOSALS OF SUCH
OFFERORS

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
TORCHLIGHT DEBT
OPPORTUNITY FUND VI,

LP

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto, and unanimously carried, the Board exited Executive Session at 11:06 a.m.

(Trustee Kane delegated his authority as Board Chair to Trustee Barfield for the remainder of the meeting and left the meeting at 11:06 a.m.)

RECESS

Trustee Barfield called for a recess at 11:06 a.m. and announced that the meeting would reconvene following the conclusion of Investment Committee meeting.

RECONVENE

A quorum being present (Trustee Barfield, Trustees Matsumoto, Frane, Machida, Chan, and Ferguson-Miyamoto), Trustee Barfield reconvened the meeting at 12:51 a.m.

GASB STATEMENT 67 AND 68 ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS FOR YEAR ENDING JUNE 30, 2016 PROVIDED BY ERS'S ACTUARY GABRIEL, ROEDER, SMITH & COMPANY

Mr. Thomas Williams, Executive Director presented for the Board's information and review the report, prepared by ERS's actuary Gabriel, Roeder, Smith and Company (GRS), providing the information required by the ERS in connection with the Government Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. This report also provides information required by the employers covered by ERS in connection with the GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board accepted GASB Statement 67 and 68 Accounting and Financial Reporting for Pensions for year ending June 30, 2016.

LEGISLATIVE PROPOSALS RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2018 LEGISLATIVE SESSION

Mr. Thomas Williams, Executive Director, and Ms. Donna Curry, Program Specialist, presented for the Board's consideration the following proposals for the 2018 legislative session:

- BUF -01(18) – Separate accounts for employer contribution advance payments
- BUF -02(18) – Amendment to retain unclaimed member benefits with ERS rather than escheating to State
- BUF -03(18) – Amendment for exempt and additional investment staff
- BUF -04(18) – Amendment to delete acquisition of service by payroll deduction July 1, 2020 (tax-qualification)
- BUF -05(18) – Update real estate investment provisions
- BUF -06(18) – Amendment to delay ERS Hawaii Domestic Relations Orders (HiDRO) implementation, to add applicability of HiDRO for deferred vested members and to limit the scope of payments to alternate payees
- BUF -08(18) – Amendment to limit service-connected disability retirement and accidental death benefit provisions to cover only members for whom required contributions are made by employee and/or

- employer
- TBD(18) – Additional Defined Contribution Plan

On a motion made by Trustee Matsumoto, seconded by Trustee Machida, and unanimously carried, the Board accepted BUF-01, BUF-02, BUF-03, BUF-04, BUF-05, BUF-06, and BUF-08 that was presented.

(Mr. Vargas of House of Finance left the meeting at 1:13 a.m.)

(Mr. Fujisaki of House of Finance and Mr. Nishimoto of Senate Ways and left the meeting at 1:27 p.m.)

PROPOSED ENROLLMENT
CLAIMS & BENEFITS
REORGANIZATION

Ms. Kanoe Margol, Deputy Executive Director, and Mr. Karl Kaneshiro, Retirement Benefits Manager gave a presentation regarding proposed Enrollment Claims & Benefits Reorganization.

BOARD ELECTION
UPDATE

Mr. Thomas Williams, Executive Director reported on the nominations received to fill retiring seat on the ERS Board of Trustees, for terms beginning on January 2, 2018. ERS received three nominations; Mr. Ka’aina S. Hull, Dr. Genevieve Ley, and Mr. James Wataru. Mr. Ka’aina S. Hull is the Deputy Planning Director of the County of Kauai, Mr. Hull has been in various leadership positions with the Hawaii Government Employees Association (HGEA) since 2007. Dr. Genevieve Ley works for the State Department of Health. Mr. James Wataru serves as President of United Public Workers (UPW). Results will be presented at the Board of Trustees meeting on December 11, 2017.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Board entered into Executive Session at 1:53 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 Special Deputy Attorneys General: Investment Counsel; appropriate action.
- 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 CONSULT WITH
THE BOARD’S
ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE
BOARD’S POWERS,
DUTIES, PRIVILEGES,
IMMUNITIES, AND

LIABILITIES WITH
RESPECT TO SPECIAL
DEPUTY ATTORNEYS
GENERAL: INVESTMENT
COUNSEL; APPROPRIATE
ACTION

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

STATUS OF DEPUTY
ATTORNEY GENERAL FOR
EMPLOYEES'
RETIREMENT SYSTEM

APPROVAL OF
EXECUTIVE SESSION
MINUTES
– JULY 26-28, 2017

EXIT EXECUTIVE SESSION

On a motion made by Trustee Frane , seconded by Trustee Machida, and unanimously carried the Board exited Executive Session

EXECUTIVE DIRECTOR'S
REPORT

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

- Employees' Retirement System (ERS), Budget and Finance (BUF) and Employer-Union Health Benefits (EUTF) met with Senate Committee on Ways and Means on August 16, 2017. Mr. Williams, Mr. Wesley Machida, Director of Finance and Mr. Derek Mizuno, EUTF Administrator presented to Senator Dela Cruz and Mr. Keith-Agaran an update on the funding status and operations of ERS, BUF and EUTF.
- The Holomua newsletter vendor contract was awarded in August. Fall edition will be published and distributed by mid-October.

- The Compensation Review Committee will consider and review the Deputy Executive Director’s goals and objectives beginning spring of 2018.
- Request for GRS to update the spiking factors to reflect the new assumptions.
- Held a conference call with University of Massachusetts Medical School regarding disability evaluation services that they are providing to businesses and pension plans. ERS is seeking a price and service comparison as an alternative to the Medical Board.
- Mr. Williams provided an update concerning the Chair of the Medical Board. As of this date, required regulatory filings have not been completed. A meeting is scheduled to address our concern regarding the backlog of applications. The other two medical board doctors are providing additional review.
- Mr. Williams gave an update on ERS’s planned acquisition of Board software, iPads, and enhanced internet access. All are estimated to be in place by end of December 2017.
- ERS Customer Satisfaction Survey comments were very positive.
- Mr. Williams and Ms. Donna Curry, Program Specialist, met with Attorney Tom Maloney about a Voluntary Compliance Program with the IRS as it relates to the ACT 1 private letter ruling request.
- A meeting was held last month with Representative Joy San Buenaventura, a key proponent for HiDRO. ERS has not been provided funding, There is an apparent lack of appreciation of the complexity of the calculations. ERS requires actuarial equivalence of the alternative benefits. There are 21 different settlement options available through ERS’s multiple plans. ERS needs to program the system to make these multiple computations. Representative Buenaventura has indicated her support of our asking for delayed effective date of 2020 or 2021.

(Trustee Machida left the meeting at 2:11 p.m.)

OPERATIONS REPORT
– AUGUST 2017

Ms. Kanoë Margol, Deputy Executive Director, presented the written operations report for “receive and file.”

APPROVAL OF MINUTES
– JULY 26-28, 2017

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried the Board approved the minutes for July 26-28, 2017.

ADJOURNMENT

On a motion made by Trustee Frane, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Trustee Barfield adjourned the meeting at 2:15p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:cc