

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

NOVEMBER 13, 2017

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

- Trustees present: Mr. Emmit Kane, Chair  
Mr. Jerome Rauckhorst, Vice Chair  
Ms. Jackie Ferguson-Miyamoto  
Mr. Patrick Frane  
Mr. Wesley Machida
- Trustees excused: Mr. Vincent Barfield  
Mr. Colbert Matsumoto  
Dr. Catherine Chan
- Staff present: Mr. Thomas Williams, Executive Director  
Ms. Kanoë Margol, Deputy Executive Director  
Ms. Donna Curry, Program Specialist  
Mr. Karl Kaneshiro, Retirement Benefits Manager  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Anthony Goo, Investment Officer  
Mr. Aaron Au, Investment Officer – Illiquid Markets  
Mr. Howard Hodel, Investment Officer – Risk Management  
Mr. Andrew Chen, Investment Specialist  
Mr. Ian Wetzel, Investment Specialist  
Ms. Gerri Konishi, Member Home Loan Assistant  
Mr. Larry Wolfe, Accounting Manager  
Ms. Lori Kim, Secretary  
Ms. Cynthia Chen, Recording Secretary  
Ms. Dale Kanae, Secretary  
Ms. Wanda Kugiya, Secretary
- Attorneys present: Ms. Jodi Yi, Deputy Attorney General (Counsel for the Board)  
Mr. Kyle Chang, Deputy Attorney General (Counsel for the Board)  
Mr. Lyle Leonard Deputy Attorney General
- Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC  
Mr. Colin Bebee, Pension Consulting Alliance, LLC  
Ms. Mary Bates, Pension Consulting Alliance, LLC  
Mr. Chae Hong, Aon Hewitt Investment  
Ms. Kimberly Miyoshi, KPMG, LLP  
Mr. Mark Deason, Starwood Capital Group  
Ms. Lanhee Yung, Starwood Capital Group  
Ms. Amanda Ly, Starwood Capital Group
- Public present: Mr. Benjamin Sadoski, UNITE HERE, Local 5  
Mr. Wayne Yoshioka, Hawaii Public Radio  
Mr. Robert Nishimoto, Senate Ways & Means

QUORUM/CALL TO ORDER

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

Chair Kane called for public comment

Mr. Benjamin Sadoski of UNITE HERE, Local 5, was present to provide comment on one of ERS's investment managers, Lowe's project manager. Chair Kane asked Mr. Sadoski to adhere to the three minute time limit. Mr. Sadoski commented that he is present to support the workers of Hotel De Anza and Hotel Terranea Resort (Destination Hotels & Resorts), both of which are operated by a subsidiary of Lowe Enterprises and also with regards to Kaanapali revitalization.

Mr. Sadoski presented concerns in regard to the two hotels, the Hotel De Anza and Hotel Terranea Resort. The manager of Hotel De Anza has been circulating literature discouraging hotel employees from forming unions. Mr. Sadoski provided concerns of UNITE HERE, Local 11 which filed charges of unfair labor practices with the Nation Labor Relations Board (NLRB), alleging the Hotel Terranea Resort has engaged in conduct which violates federal labor law; including surveying workers in concerted activity, interrogating workers about their protected union activity, unlawfully prohibiting employees' solicitation of hotel guests. Allegations will be investigated by the NLRB before any findings of merit is made. On October 19, 2017, employees of Hotel Terranea Resort announced the filing of a class action lawsuit against Lowe Enterprises. The lawsuit alleges the Hotel Terranea Resort subjected employees to wage hour violations; including failure to pay employees for all hours of work, the denial of meal and rest breaks, and failure to reimburse staff for work supplies.

Mr. Sadoski noted the Kaanapali revitalization opposition and advised the Board on other opposition in the Los Angeles Arts District of Southern California. Over the past several months, the company has met strong community opposition to one of their plan developments for an office and retail high-rise building that was formerly a metal recycling plant. The site has been shown to contain strong petroleum carbonates and other contaminates without having to complete a full environmental impact report.

RECESS

Chair Kane called for a recess at 9:05 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, Vice Chair Rauckhorst, and Trustees Ferguson-Miyamoto, Frane, and Machida), Chair Kane reconvened the meeting at 10:16 a.m.

PENSION CONSULTING ALLIANCE, LLC – INVESTMENT PORTFOLIO PERFORMANCE FOR 3<sup>RD</sup> QUARTER 2017

Mr. Neil Rue of Pension Consulting Alliance, LLC (PCA) gave an oral and written presentation on the ERS investment portfolio performance for the 3<sup>rd</sup> Quarter of 2017. The ERS's total portfolio outperformed the policy benchmark over the recent quarter. For the three (3)-year period, each of the plans reporting strategic classes matched or outperformed their respective benchmarks.

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

Ms. Donna Curry, Program Specialist, provided a review of the ERS legislative proposals for the 2018 legislative session. Ms. Curry noted there were very few changes to the legislative proposals that were presented at the last Board meeting. The legislative proposals will be discussed at the Administrative and Legislative Committee meeting on December 4, 2017. The Administrative and Legislative Committee will also discuss which of the Hawaii Domestic Relations Order (HiDRO) amendments will be recommended to Budget and Finance.

DRAFT AUDITOR'S  
REPORT AND FINANCIAL  
STATEMENTS OF THE  
EMPLOYEES'  
RETIREMENT SYSTEM

Ms. Kimberly Miyoshi of KPMG, LLP presented the Auditor's Report and Financial Statements of the ERS as of and for the year ended June 30, 2016.

Highlights included:

- The ERS adopted Governmental Accounting Standards Board (GASB) Statement No. 72 for the fiscal year (FY) ended June 30, 2016. GASB Statement No. 72 which addresses accounting and reporting issues related to fair value measurements.
- Summary of uncorrected misstatements – fiscal 2016.
- Performance Improvement Observations:
  - Alternative investments.
    - Establishment of relevant and reliable benchmarks and retrospective assessments; and
    - Continue to monitor alternative investments.
  - Financial reporting.
    - Encountered delays.
  - Finalization of benefit payments to retirees.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board accepted the Auditor's Report and Financial Statements for the Employees' Retirement System of the State of Hawaii as of and for the year ended June 30, 2016, as presented.

COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT OF THE  
EMPLOYEES'  
RETIREMENT SYSTEM

Mr. Larry Wolfe, Accounting Manager, presented the Comprehensive Annual Financial Report of the ERS for the FY ended June 30, 2016.

Major Accomplishments and Initiatives in FY 2016 included:

- The ERS completed a five (5)-year experience study with our actuary and adopted new actuarial assumptions for the ERS valuation based on their recommendations from the study, completed the 2015 Asset Liability Study with our investment consultant and updated the long-term asset allocation policy based on the results of this study, and introduced legislation to improve the cash flow of ERS.
- The Board of Trustees adopted new actuarial assumptions based on the recent actual results of 2010-2015 Five (5) Year Experience Study, that combined with ERS' actual results of FY 2016 resulted in the Net Pension Liability (NPL) increasing and corresponding funded ratio decreasing.
- The main change in the actuarial assumptions that affected the NPL increase are lowering the investment return assumption from 7.65% to 7.00% and the increasing life expectancy of the ERS membership.

On a motion, made by Trustee Ferguson-Miyamoto, seconded by Trustee

Frane, and unanimously carried, the Board accepted the Comprehensive Annual Financial Report of the Employees' Retirement System of the State of Hawaii for the year ended June 30, 2016, subject to the identifying edits.

INVESTMENT POLICY  
REVISIONS: REAL ESTATE  
PROGRAM

Mr. Vijoy Chattergy, Chief Investment Officer, presented the Board with the Real Estate Program Policy Revision to be "received and filed." Due to the voluminous nature of the changes, a recommendation for approval will be presented at the December 11, 2017, Board of Trustees meeting. This allows the Trustees and others more time to review the proposed policy changes and provide comments.

Aon Hewitt has reviewed HIERS' Investment Policy statement to update real estate policies to be in line with HIERS risk-based framework and real estate policy best practices. Mr. Chae Hong of Aon Hewitt, presented an oral and written memorandum which provides the ERS with redlined proposed changes that covers high level topics.

BOARD OF TRUSTEE  
SCHEDULE OF MEETINGS  
FOR 2018

Mr. Thomas Williams, Executive Director presented the schedule of Board meeting dates for 2018.

RECESS

Chair Kane called for a recess for lunch at 12:01 p.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Ferguson-Miyamoto, Frane, and Machida), Chair Kane reconvened the meeting at 12:21 p.m.

APPROVAL OF MINUTES  
- OCTOBER 10, 2017

On a motion, made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes for the October 10, 2017 meeting as presented.

EXECUTIVE DIRECTOR'S  
REPORT

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

- Introduction of Ms. Jodi Yi, new Deputy Attorney General who joined the ERS on November 1, 2017. Ms. Yi graduated from the University of Southern California, as well as the University of Hawaii at Manoa, William S. Richardson School of Law. Ms. Yi has extensive experience in the legal sector, she has been a judicial law clerk, partner with a private sector law firm, and recently with the Hawaii Employer-Union Health Benefits Trust Fund.
- In October, Mr. Williams was invited to the Grassroot Institute of Hawaii by Dr. Kelii Akina, to present ERS's current fiscal status and concerns over Kaanapli revitalization project.
- Mr. Williams reported the copy of submission from the Governor's office in support of the budget request as it relates to the Chief Compliance Officer to assist with the issues of cyber security and liability. Also, monies to complete ERS's internal audit and \$1.5 million for the Hawaii Domestic Relations Order (HiDRO).
- Mr. Williams provided an update on ERS's acquisition of Board software, iPads, as well as wireless access for the 14<sup>th</sup> floor conference rooms.
- Mr. Williams reported new actuarial factors relating to ERS spiking factor, resulted in an increase in 21.7% in the returns to the fund as a result of applying these new factors. Comparison of the old and the new factors are

approximately \$20.5 million, an additional \$4.5 million.

- Mr. Williams provided an update concerning Dr. Patricia Chinn's regulatory compliance filings that have not been completed as of date.
- Mr. Williams reported the submission of the Administrative Rules as it relates to the HiDRO bill and the Medical Board contested hearing cases and application to current practices. Recognition of Mr. Brian Aburano's assistance in drafting the rules, after his recent retirement as Deputy Attorney General.
- Mr. Williams attended a conference which focused on cyber security; the members of funds which discussed concerns and various exposures. Mr. Williams met with the Chief Information Officer, Mr. Todd Nacapuy. Mr. Nacapuy has agreed to present to the Board in the coming months relating to cyber liability and where ERS's exposure may be.
- Mr. Williams spoke with Ms. Tracy Kitaoka, Director of Risk Management, relating to cyber liability insurance. Ms. Kitaoka is pursuing a statewide policy that will be effective as of December 1, 2017.
- Mr. Williams reported actions taken for the Trustee election issue with the misprint on return envelopes for the ballot. Results of the election will be presented to the Board on December 11, 2017.
- Mr. Williams will be presenting at the Kauai County Council on December 13, 2017.
- Mr. Williams attended a West Maui Community Association on Monday, November 6, 2017. There were several hundred people in attendance relating to Kaanapali revitalization project; impact to the redevelopment to the environment, impact to beach access, traffic, etc.
- Mr. Williams' invitation for an interview with Hawaii Public Radio on November 14, 2017
- Mr. Williams reported Ms. Cynthia Chen's resignation as Board Secretary, effective November 22, 2017.

#### ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board adjourned the meeting at 1:41 p.m.

#### REDACTED SIGNATURE

Thomas Williams  
Executive Director

TW:cc