

## **Actuary**

The Actuary is hired by, and responsible to, the Board of Trustees. However, the Board of Trustees does not have direct control over the work of the Actuary, because the studies do not involve any discretion but rather are based on the “facts” of the Plan and standard actuarial procedures.

### *Main Responsibilities*

- Measures and evaluates the actuarial soundness of the Plan on an annual basis.
- Provides actuarial values for the asset/liability study.
- Performs actuarial studies as requested by the Board of Trustees.
- Reviews proposed legislation and provides estimates of the cost impact of the proposed legislation.
- Performs actuarial evaluations to determine the annual State and county contributions to fund the ERS.

## **Legal Counsel**

The Attorney General of the State of Hawai‘i (“State Attorney General”) serves as the legal adviser to the Board of Trustees.

## **Bank Custodian**

The Custodian is hired by, and responsible to, the Board of Trustees.

### *Main Responsibilities*

- Provides a monthly reconciliation of ERS assets between the bank’s records and each investment manager’s statement.
- Provides safekeeping and custody of all securities purchased by managers on behalf of the Plan.
- Provides for timely settlement of securities transactions.
- Maintains short-term investment vehicles for investment of cash not invested by managers.
- Checks all investment manager accounts daily to make sure that all available cash is invested.
- Collects interest, dividend and principal payments on a timely basis.
- Processes corporate actions.
- Files and monitors class action settlements on behalf of ERS.
- Prices all securities at least on a monthly basis, preferably on a daily basis contingent on strategic class and types of securities.
- Manages a securities lending program.
- Generally provides data and reports directly to the ERS and service providers on a regular basis.
- Provides monthly, quarterly and annual reports.
- Values and monitors derivatives and the trades from which they emanate.
- Provides continuing education programs for the Board of Trustees and Investment Staff.
- Provides a daily compliance report to Investment Staff for ERS public markets managers.

## 2. Implementation of Private Equity Program

### A. Annual Strategic Plan

1. Annually, the Private Equity Consultant and Specialty Managers (if applicable), in conjunction with Investment Staff, will prepare a Strategic Plan which reviews the current status of the portfolio, recent historical and prospective market conditions, and proposes the actions to be taken over the next approximately twelve month period. This document will recommend general capital allocations to each investment strategy and the rationale and expectations for inclusion
2. The annual Strategic Plan will then be presented to the Board of Trustees for approval

### B. Investment Approval Process

The following steps shall be followed in order for the ERS to commit to any prospective private equity investment opportunity:

1. Private Equity Consultant sources and performs comprehensive due diligence on attractive investment opportunities consistent with criteria set forth in the annual Strategic Plan
2. If, as a fiduciary of the ERS, the Private Equity Consultant determines that the investment merits a commitment from the ERS, the Private Equity Consultant will take the following steps:
  - Discuss with Investment Staff the key findings during due diligence, including investment merits, risks and key conclusions
  - Follow-up with Investment Staff on additional requests for information based on this discussion and complete an Investment Disclosure Form
  - In conjunction with the ERS's legal review process, facilitate legal negotiation and closing into the investment opportunity
3. The Board of Trustees shall be notified in the event of a disagreement between Investment Staff and the Private Equity Consultant on an investment recommendation
4. The Specialty Manager (if applicable) will be expected to operate on a discretionary basis
  - The Specialty Manager is to operate under the oversight of and provide regular updates to the Board of Trustees, Staff and the Private Equity Consultant

### C. Monitoring and Reporting

#### 1. Reporting System

There shall be a quarterly reporting and monitoring system for the entire portfolio by the Private Equity Consultant. The monitoring shall include asset/risk allocation and portfolio performance in sufficient detail to identify situations of underperformance, diversification deficiencies and conflicts of interest. Due to the large number of funds, the ERS investment staff will employ a sampling methodology to verify that the Private Equity Consultant is adequately executing the monitoring program and detecting major performance issues within the private equity portfolio.

#### 2. Performance Measurement

The Private Equity Consultant and Specialty Manager(s) will provide cash flow, valuation, and any other requested information to Investment Staff and the Private Equity Consultant quarterly, and the ERS's custodian bank ("custodian") on a monthly