

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

FEBRUARY 12, 2018

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  
Ms. Laurel Johnston  
Dr. Genevieve Ley  
Mr. Wesley Machida

Staff present: Mr. Thomas Williams, Executive Director  
Ms. Donna Curry, Program Specialist  
Mr. Karl Kaneshiro, Retirement Benefits Manager  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Aaron Au, Investment Officer – Illiquid Markets  
Mr. Andrew Chen, Investment Specialist  
Mr. Anthony Goo, Investment Officer – Liquid Markets  
Mr. Howard Hodel, Investment Officer – Risk Management  
Mr. Ian Wetzel, Investment Specialist  
Ms. Dale Kehau Kanae, Recording Secretary  
Ms. Lori Kim, Secretary  
Ms. Gerri Konishi, Member Home Loan Assistant  
Ms. Wanda Kugiya, Secretary

Staff excused Ms. Kanoë Margol, Deputy Executive Director

Attorneys present: Ms. Elmira Tsang, Deputy Attorney General  
Ms. Jodi Yi, Deputy Attorney General

Attorney absent: Mr. Kyle Chang, Deputy Attorney General

Guests present: Mr. Paul Yett, Hamilton Lane Advisors, LLC  
Ms. Mary Bates, Pension Consulting Alliance, LLC  
Mr. Colin Bebee, Pension Consulting Alliance, LLC  
Mr. Ophir Bruck, Principles for Responsible Investment

QUORUM/CALL TO ORDER A quorum being present (Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Johnston, Ley, and Machida), Vice Chair Rauckhorst 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 Vice Chair Rauckhorst called for public comment. There were no public present, therefore no public comments.

RESOLUTION RELATING TO COLBERT MATSUMOTO  
RESOLUTION RELATING TO COLBERT MATSUMOTO  
(CONT'D)

Executive Director, Thomas Williams presented a Resolution and an Excellence in Service Award to former ERS Trustee Colbert Matsumoto on behalf of the ERS Board of Trustees and Staff acknowledging his 17 years of service. Vice Chair Rauckhorst also presented a Proclamation to Mr. Matsumoto on behalf of Governor David Ige. Trustee Wesley Machida also thanked Mr. Matsumoto for mentoring him while he was Executive Director of the ERS.

After the presentation, Mr. Matsumoto left the meeting.

(Chair Emmitt Kane, entered the meeting at 9:11 a.m.).

RECESS

Chair Kane called for a recess at 9:12 a.m. and announced that the meeting would reconvene following the conclusion of the Chapter 91 proceedings and the Investment Committee meeting.

(All in attendance left the meeting except for the Board, Executive Director Thomas Williams, Retirement Benefits Manager Karl Kaneshiro, and Deputy Attorney General Jodi Yi).

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Johnston, Ley, and Machida), Chair Kane reconvened the meeting at 10:30 a.m.

HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY PROGRAM UPDATE

ERS Chief Investment Officer (CIO), Vijoy Chattergy, introduced ERS Investment Officer (IO) – Illiquid Markets (IM), Aaron Au and Mr. Paul Yett of Hamilton Lane Advisors, LLC who gave an oral and written presentation on:

PORTFOLIO REVIEW

*Portfolio Summary*

Mr. Yett reviewed the performance of the portfolio with no concerns or issues regarding the private equity portfolio.

*2018 Tactical Plan*

Mr. Yett presented a recap of the 2018 Tactical Plan, which was approved by the Board at the end of 2017. Overall, the ERS is in line with the key initiatives of the Tactical Plan, in particular, with the pacing commitment of \$500,000 million by December 2018. Mr. Yett then concluded his presentation with a review of the impact that recent tax reform will have on private markets.

PENSION CONSULTING ALLIANCE, LLC – INVESTMENT PORTFOLIO PERFORMANCE FOR 4<sup>TH</sup> QUARTER 2017

CIO Chattergy introduced ERS IO – Liquid Markets (LM), Anthony Goo, Mr. Colin Bebee and Ms. Mary Bates from Pension Consulting Alliance, LLC (PCA) gave an oral and written presentation on:

*HIERS Portfolio Review as of December 31, 2017*

- The ERS Total Portfolio outperformed the Policy Benchmark over each time period reported. Each of the Plan's major strategic classes posted positive absolute results during the periods measured. Relative outperformance over the 1-year period was driven by overall implementation decisions, notably within the Traditional and Stabilized segments of the Broad Growth class.

PENSION CONSULTING  
ALLIANCE, LLC –  
INVESTMENT PORTFOLIO  
PERFORMANCE FOR 4<sup>TH</sup>  
QUARTER 2017 (CONT'D)

- Versus the Median Public Fund, the ERS Total Portfolio matched or outperformed the Median Public Fund return over each time period reported.
- With respect to the policy target that took effect April 1, 2017, the Total Portfolio ended the latest quarter overweight the Crisis Risk Offset class, while underweight Broad Growth, Principal Protection, and Real Return. Allocation variances at the end of the quarter can be attributed to the Plan beginning to shift portfolio assets towards the January 2018 evolving policy target allocation.

*Economic & Market Overview*

Real US GDP growth increased by 2.6% (advance estimate) in the 4th quarter of 2017. GDP growth was driven by increases in consumer spending, business investment, as well as federal and state local government spending. At quarter end, the unemployment rate was unchanged at 4.1%. The seasonally adjusted Consumer Price Index for All Urban Consumers increased by 2.6% on an annualized basis during the quarter. Commodities increased during the 4<sup>th</sup> quarter, bringing the 1-year return into positive territory at 1.7%. Global equity returns were positive for the quarter at 5.8% (MSCI ACWI). The US Dollar depreciated against the Euro and the Pound by (1.6%) and (0.9%), respectively. Conversely, the US Dollar appreciated against the Yen by 20 basis points.

*Macro Risk Analytics – Key Takeaways*

Growth Risk, Interest Rate Risk, and Leverage Risk are the primary macro risks. While Growth Risk has been the dominant macro risk over the last several years, the influence of Interest Rate Risk and Leverage Risk has increased since 4Q 2016.

*HIERS Portfolio Relative Performance Results and ERS Portfolio Allocation as of December 31, 2017*

*Strategic Class Performance as of December 31, 2017*

- The Total Portfolio outperformed its policy benchmark over all trailing periods. Over the latest year, all major strategic classes, with the exception of Real Return, outperformed. Beginning 1/1/2018, the Total Portfolio policy benchmark will shift. Policy allocation to the Crisis Risk Offset class will rise, offset by a commensurate reduction in Broad Growth assets.
- The Broad Growth class outperformed the policy benchmark over the recent quarter and 1-year period by 0.1% and 1.8%, respectively, as the Traditional Growth and Stabilized Growth segments both exceeded their respective benchmarks over these periods. Over the 3-year period, the class outperformed the benchmark by 1.0% per annum, as all three Growth segments (Traditional, Stabilized, and Private) posted positive absolute and relative results.
- The Principal Protection class outperformed its policy benchmark over all periods reported. Each of the Plan's reporting Principal Protection managers tracked or exceeded their respective benchmarks.
- The Crisis Risk Offset class outperformed its policy benchmark by 4.4% over the latest quarter. Two of the class's segments, Alternative Return Capture and Systematic Trend following, exceeded their respective benchmarks, while the third segment, Treasury Duration Capture, matched its benchmark.
- The Real Return class outperformed its CPI + 3% benchmark over the recent quarter by 1.1% as all three of the class's managers exceeded their

PENSION CONSULTING ALLIANCE, LLC – INVESTMENT PORTFOLIO PERFORMANCE FOR 4<sup>TH</sup> QUARTER 2017 (CONT'D)

respective benchmarks. The class trailed the benchmark over the 1-, 3-, and 5-year periods by (1.1%), (0.1%), and (0.4%), respectively. For the 1-year period, while all three managers outperformed their respective benchmarks, returns posted by the two largest mandates, Timber and Global Inflation Linked Securities, trailed the strategic class benchmarks.

After their presentation, Mr. Bebee and Ms. Bates left the meeting. Mr. Yett also left the meeting.

REVISED ELECTION OF OFFICERS AND COMMITTEE ASSIGNMENTS

Chair Kane presented a revised list of Officers & Committee Assignments updated from the previous meeting of January 8, 2018, due to the departure of Trustee Colbert Matsumoto. The Governor appointed Mr. Wesley Machida to replace Trustee Matsumoto, however, Trustee Machida requested that Trustee Vince Barfield Chair the Ka'anapali Ad Hoc Committee (Committee). Trustee Laurel Johnston voiced concerns that she may not be able to attend a majority of the Committee meetings and after discussion, it was decided that Trustee Jerry Rauckhorst be added to the Committee.

On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the revised list of Officers & Committee Assignments with the above changes as noted (Attachment A).

APPROVAL OF ACTUARIAL VALUATION REPORT AS OF JUNE 30, 2017

Executive Director Williams presented the Final Annual Actuarial Valuation Report as of June 30, 2017, prepared by Gabriel, Roeder, Smith and Company. It was noted that no changes were made to the draft that was presented to the Board in its previous meeting of January 8, 2018.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Board approved ERS's Annual Actuarial Valuation Report for the Year Ending June 30, 2017.

DISCUSSION OF ADMINISTRATIVE AND LEGISLATIVE COMMITTEE RECOMMENDATIONS REGARDING LEGISLATIVE PROPOSALS RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2018 LEGISLATIVE SESSION (INCLUDED ON SCHEDULE A); AND APPROPRIATE ACTION

Program Specialist Donna Curry presented a memo from Executive Director Williams on Legislative Proposals Relating to the ERS which include updated listings of Senate and House Bills as of February 2, 2018. These listings also include recommendations from the ERS Administrative and Legislative Committee from its meeting of January 30, 2018.

Bills recommended that the ERS Board SUPPORT: SB 929, SB 933, SB 2228, SB 2357, SB 2763, SB 2764, SB 2765, SB 2766, SB 2767, SB 2768, HB 887 HD 1 (support intent of additional contributions beyond current contributions), HB 2140, HB 2336, HB 2337, HB 2338, HB 2339, HB 2340, and HB 2341.

Bills recommended that the ERS Board OPPOSE: SB 250, SB 383 SD1, SB 2236, SB 2555, SB 2598, SB 2982, HB 629 SD1, HB 913 HD2 SD1, HB 2116, and HB 2496.

And finally, Bills recommended that the ERS Board MONITOR: SB 249 SD2 HD1, SB 927, SB 931, SB 1226, SB 2181, SB 2253, SB 2333, SB 2660, SB 2983, HB 1778 HD1, and HB 2544.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Board approved the positions on

Senate and House Bills as recommended by the ERS Administrative and Legislative Committee.

RECESS

Chair Kane called for a recess at 11:40 a.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Johnston, Ley, and Machida), Chair Kane reconvened the meeting at 11:46 a.m.

PRESENTATION BY OPHIR BRUCK, US NETWORK MANAGER OF PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) ON THE IMPACT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS ON INVESTMENT OUTCOMES

Executive Director Williams introduced Mr. Ophir Bruck, US Network Manager of Principles for Responsible Investment (PRI) who gave an oral and written presentation on the impact of Environmental, Social and Governance (ESG) considerations on investment outcomes.

Mr. Bruck discussed responsible investment definitions and trends, what it means to be a signatory to the PRI, and how the PRI works with its signatories to integrate ESG factors into investment and ownership decisions to better manage risk, enhance returns and create a more sustainable global financial system.

After his presentation, Mr. Bruck left the meeting.

RECESS

Chair Kane called a recess for lunch at 12:32 p.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Johnston, Ley, and Machida), Chair Kane reconvened the meeting at 12:48 p.m.

PENSION CONSULTING ALLIANCE, LLC, STABILIZED GROWTH; CREDIT PROGRAM RESTRUCTURING RECAP AND SAMPLE MANAGER GUIDELINES

CIO Chattergy re-introduced IO-LM, Goo and Ms. Bates from PCA who gave an oral and written presentation on Stabilized Growth, Credit Program Restructuring Recap and Sample Manager Guidelines.

Ms. Bates stated that over the last several months, PCA and the ERS Investment Committee have discussed a plan for further incorporating best practices into the ERS's \$800M Credit Program (Program). Currently, the Program is managed by three external managers who invest largely in the publicly-traded corporate credit markets. An important aspect of a best practices approach is to begin incorporating private credit into the Program. Due to bank disintermediation that continues as a result of the Global Financial Crisis (now ten years in the past), the opportunity set for investors such as the ERS has expanded by several trillion dollars. Capturing this broader opportunity set (and the incremental income flows associated with these investments) would be an important element of the updated ERS Credit Program.

Based on the above rationale, PCA recommends that the ERS Board consider this approach and will ask the Board to approve its updated policies and guidelines for the ERS Credit Program at the March meeting. As per prior discussions, this policy presents an initial but essential phase in the process to prudently attain a best practices Credit portfolio over the next few years.

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Machida, and unanimously carried, the Board entered into Executive Session at 1:16 p.m.

ENTER EXECUTIVE  
SESSION (CONT'D)

- Pursuant to HRS § 92-5(a)(8), and HRS § 103D-303, to hold discussions on the request for proposals for private equity consultant services; appropriate action.
- Pursuant to HRS § 92-5(a)(4), to update the Board regarding a pending securities class action suit 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, and appropriate action.
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding a potential securities class action suit, 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 potential securities class action suit; appropriate action.
- Pursuant to HRS § 92-5(a)(2) and (4), to evaluate the performance of duties and compensation of Employees' Retirement System's personnel, where matters affecting privacy will be involved, 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 evaluations; discussion and appropriate action.

EXECUTIVE SESSION,  
PURSUANT TO HRS § 92-  
5(a)(8), and HRS § 103D-303,  
TO HOLD DISCUSSIONS  
ON THE REQUEST FOR  
PROPOSALS FOR PRIVATE  
EQUITY CONSULTANT  
SERVICES; APPROPRIATE  
ACTION

EXECUTIVE SESSION,  
PURSUANT TO HRS § 92-  
5(a)(4), TO UPDATE THE  
BOARD REGARDING A  
PENDING SECURITIES  
CLASS ACTION SUIT 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, AND  
APPROPRIATE ACTION

EXECUTIVE SESSION,  
PURSUANT TO HRS § 92-  
5(a)(4), TO CONSULT WITH  
THE BOARD'S

ATTORNEYS REGARDING  
A POTENTIAL SECURITIES  
CLASS ACTION SUIT, 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  
POTENTIAL SECURITIES  
CLASS ACTION SUIT;  
APPROPRIATE ACTION

APPROVAL OF  
EXECUTIVE SESSION  
MINUTES

- JUNE 13, 2017  
(AMENDED)
- DECEMBER 11, 2017

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board exited executive session at 1:44 p.m.

EXECUTIVE DIRECTOR'S  
REPORT

Executive Director, Williams reported to the Board that:

- A staff appreciation luncheon was held on January 12, 2018, provided by the Executive Director, Deputy Executive Director, Branch Chiefs (Accounting, IS, RBB), and CIO, usually held twice annually. The former Budget & Finance Director, Wesley Machida also made a large donation toward the luncheon.
- CIO and Investment Office staff are working on an RFP for a Custodial Bank. Met with Northern Trust to get insights on services to be included in the RFP.
- Security cameras were installed in the ERS reception area, counseling and computer rooms, and elevator areas on the 2<sup>nd</sup>, 12<sup>th</sup> and 14<sup>th</sup> floors. HGEA contacted ERS with concerns by staff and ERS replied to all concerns.
- ERS staff and B&F Director continue to attend Legislative hearings. ERS has submitted letters of support for an upcoming hearing to confirm the elected B&F Director Laurel Johnston.
- The Hawaii Budget Report Card by The Volcker Alliance was shared by the Acting B&F Director Laurel Johnston.
- A two-day orientation was held with Trustee Ley, consisting of ERS staff (Accounting, Information Services, Investment Office, Retirement Benefits Branch, and Staff Support Services) and the Attorneys General.
- The State ETS Office has implemented a phishing campaign in support of Cyber Security within State Departments and attached agencies.
- Procurement of BoardWorks for use by the Board and ERS staff is progressing.

OPERATIONS REPORT –  
JANUARY 2018

Executive Director Williams presented the Operations Report as receive and file on behalf of Deputy Executive Director Kanoe Margol, who was absent.

APPROVAL OF MINUTES  
– DECEMBER 11, 2017

The December 11, 2017, minutes were not available and thus this item was deferred.

ENTER EXECUTIVE  
SESSION

On a motion made by Trustee Machida, seconded by Trustee Barfield, and unanimously carried, the Board entered executive session at 1:54 p.m.

(All in attendance left the meeting except for the Board and Deputy Attorney General Jodi Yi).

EXECUTIVE SESSION,  
PURSUANT TO HRS § 92-  
5(a)(2) AND (4), TO  
EVALUATE THE  
PERFORMANCE OF  
DUTIES AND  
COMPENSATION OF  
EMPLOYEES'  
RETIREMENT SYSTEM'S  
PERSONNEL, WHERE  
MATTERS AFFECTING  
PRIVACY WILL BE  
INVOLVED, 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  
EVALUATIONS;  
DISCUSSION AND  
APPROPRIATE ACTION

EXIT EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Machida, and unanimously carried, the Board exited executive session at 2:16 p.m.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Trustee Machida, and unanimously carried, the Board adjourned the meeting at 2:16 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:dkik



# **ATTACHMENT A**

## **BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII**

### **OFFICERS & COMMITTEE ASSIGNMENTS**

**Proposed 2/12/18**

#### **BOARD MEMBERS**

**Emmit Kane, Chair**  
**Jerry Rauckhorst, Vice Chair**  
Vince Barfield  
Catherine Chan  
Jackie Ferguson-Miyamoto  
Laurel Johnston  
Genevieve Ley  
Wesley Machida

#### **INVESTMENT COMMITTEE**

**Vince Barfield, Chair**  
**Catherine Chan, Vice Chair**  
Jackie Ferguson-Miyamoto  
Laurel Johnston  
Emmit Kane  
Genevieve Ley  
Wesley Machida  
Jerry Rauckhorst

#### **ADMINISTRATIVE & LEGISLATIVE COMMITTEE**

**Jackie Ferguson-Miyamoto, Chair**  
Catherine Chan  
Laurel Johnston  
Jerry Rauckhorst (Alternate)

#### **AUDIT COMMITTEE**

**Catherine Chan, Chair**  
Jackie Ferguson-Miyamoto  
Genevieve Ley

#### **COMPENSATION REVIEW COMMITTEE**

**Jerry Rauckhorst, Chair**  
Vince Barfield  
Emmit Kane  
Wesley Machida

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#### **GOVERNANCE POLICY (ad-hoc)**

**Wesley Machida, Chair**  
Vince Barfield  
Emmit Kane

#### **KA'ANAPALI COMMITTEE (ad-hoc)**

**Wesley Machida, Chair**  
Vince Barfield  
Laurel Johnston