

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

NOVEMBER 13, 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. Larry Wolfe, Accounting Manager
Ms. Elizabeth Burton, 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. Geraldine Konishi, Member Home Loan Assistant
Ms. Wanda Kugiya, Secretary

Staff absent: Ms. Kanoë Margol, Deputy Executive Director

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

Guests present: Mr. Paul Yett, Hamilton Lane Advisors, LLC
Mr. Nelson Lau, KPMG, LLP
Ms. Kimberly Miyoshi, KPMG, LLP
Ms. Mary Bates, Pension Consulting Alliance, LLC
Mr. Neil Rue, Pension Consulting Alliance, LLC
Mr. Chae Hong, Townsend Group, an Aon Company

Public present: Mr. Jordan Fein, UNITE HERE, Local 5
Mr. Ben Sadoski, UNITE HERE, Local 5
Ms. Mitra Elie, UNITE HERE, Local 5
Mr. Ed Hampton, UNITE HERE, Local 5
Mr. Steven Preza, UNITE HERE, Local 5
Ms. Glenda Lucelo, UNITE HERE, Local 5

Public present: Ms. Jonalyn Laerno, UNITE HERE, Local 5
(Cont'd) Ms. Gemma Juan, UNITE HERE, Local 5
Ms. Lia Gonzales, UNITE HERE, Local 5
Ms. Myrna Pijan, UNITE HERE, Local 5
Ms. Charito. Paeadunn, UNITE HERE, Local 5
Ms. Gloria C. Rotone, UNITE HERE, Local 5
Ms. June Pomero, UNITE HERE, Local 5
Ms. Lourdes Maquera, UNITE HERE, Local 5
Ms. Marilyn Cabral, UNITE HERE, Local 5
Mr. Dickenson Namola, UNITE HERE, Local 5
Ms. Janal Kaina, UNITE HERE, Local 5

QUORUM/CALL TO ORDER A quorum being present (Chair Kane, Vice Chair Raukkhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Johnston, Ley, 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 9:01 a.m.

PUBLIC COMMENT Chair Kane called for public comment. Members from UNITE HERE, Local 5 were in attendance and gave four oral testimonies (Mitra Elie, Janal Kaina, Ed Hampton, and Jordan Fein) and written reports regarding labor disputes with Pullman San Francisco Hotel, Irvine Marriott, and HEI Hotels & Resorts (CBRE owned) and requested ERS as investors urge CBRE to resolve the disputes prior to sale of the Hotels.

RECESS Chair Kane called for a recess at 9:15 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; Deputy Attorneys General, Ivan Torigoe, Elmira Tsang and Jodi Yi; Executive Director, Thomas Williams; and Retirement Benefits Manager, Karl Kaneshiro).

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.

RECESS Chair Kane called for a recess at 10:30 a.m. and announced that the meeting would reconvene after a short break.

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 10:37 a.m.

Note: Agenda items for this meeting were taken out of order to accommodate consultant's schedules. New Business Item No. 3 was reported on first.

DRAFT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF THE EMPLOYEES' RETIREMENT SYSTEM Mr. Nelson Lau and Ms. Kimberly Miyoshi of KPMG LLC (KPMG), presented to the Board, as accepted and recommended by the Audit Committee, a final draft of KPMG's independent audit results, financial statements, and schedule of employer allocations and pension amounts by employer of the ERS, as of and for the year ending June 30, 2017, including a discussion of findings and issues from the audit.

DRAFT AUDITOR'S
REPORT AND FINANCIAL
STATEMENTS OF THE
EMPLOYEES'
RETIREMENT SYSTEM
(CONT'D)

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Johnston, and unanimously carried, the Board voted to accept KPMG's audit results, financial statements, and schedule of employer allocations and pension amounts by employer of the ERS, as of and for the year ending June 30, 2017.

After their presentation, Mr. Lau and Ms. Miyoshi left the meeting.

AMENDMENT TO AGENDA

Chair Kane requested that an amendment be made to add an additional Executive Session Item No. 5 to read as:

“Executive Session, pursuant to HRS§ 88-27.5(a)(1) and HRS§ 92-5(a)(4), to conduct discussions and deliberations relating to, and if appropriate, to make a decision on (or delegate decision making on), 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 a private equity investment advised by Blackstone Real Estate; appropriate action.”

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board approved the amendment as noted.

PENSION CONSULTING
ALLIANCE, LLC –
QUARTERLY
PERFORMANCE REPORT

Pension Consulting Alliance, LLC, (PCA), Neil Rue, gave an oral and written presentation on the Quarterly Performance Report for the 3rd Quarter of 2018:

INTRODUCTION

HIERS Portfolio Review

- Portfolio Valuation
- Performance vs. Policy Benchmark and Median Public Fund
- Takeaways:
 - The ERS Total Portfolio tracked the Policy Benchmark over the recent quarter and 1-year period, while results over the extended periods outperformed.
 - The ERS Total Portfolio matched the Median Public Fund return over the quarter but underperformed over the 1-year period due largely to differences in allocation of assets. Longer-term results were in-line with the Median Public Fund.
 - With respect to the evolving policy target that took effect January 1, 2018, the Total Portfolio ended the latest quarter overweight the Broad Growth class, while underweight Real Return. All other strategic classes were near the policy target.

ECONOMIC OVERVIEW

Economic & Market Overview – 3Q 2018

- Overview: Real U.S. GDP increased by 3.5% (advance estimate) in the third quarter of 2018. GDP growth was driven by increases in personal consumption expenditures, private inventory investments, government spending, and nonresidential fixed investment, while a decrease in exports and residential fixed investments detracted from GDP growth over the quarter. At quarter-end, the unemployment rate decreased to 3.7%. The seasonally adjusted Consumer Priced Index for all Urban Consumers increased by 1.8% on an annualized basis during the quarter.

PENSION CONSULTING
ALLIANCE, LLC –
QUARTERLY
PERFORMANCE REPORT
(CONT'D)

Commodities fell during the second quarter, but the 1-year return for a basket of commodities remains positive at 2.6%. Global equity returns were positive for the quarter of 4.4% (MSCI ACWI). The U.S. Dollar appreciated against the Euro, Pound, and Yen by 0.7%, 1.3%, and 2.7%, respectively.

- Market Summary – Multi-term Performance

ERS PORTFOLIO RISK REVIEW

- 9/30/2018
 - Valuation Metrics versus Historical Range A Measure of Risk
 - PCA Market Sentiment Indicator – Most Recent 3-Year Period
- Pre-2008 Global Financial Crisis
 - Valuation Metrics versus Historical Range A Measure of Risk
 - PCA Market Sentiment Indicator – 3-Years ending 2/29/2008

ERS PORTFOLIO REVIEW

ERS Portfolio Allocation

Strategic Class Performance

- The Broad Growth class outperformed the policy benchmark over each period measured. Notably, the class posted double digit absolute results for the 3-year period that exceeded the benchmark by 1.1% as all three of the class's sub-segments. Traditional Growth, Stabilized Growth, and Private Growth outperformed their respective benchmarks.
- The Principal Protection class tracked its policy benchmark over the quarter and 1-year period while outperforming over the 3- and 5-year periods. Both, the class's reporting US intermediate and global intermediate, fixed income managers exceeded their respective benchmarks and contributed to longer-term results.
- The Crisis Risk Offset class trailed the policy benchmark by (1.0%) for the quarter but outperformed the benchmark over the 1-year period. While the Treasury Duration Capture segment matched its benchmark for the quarter, the class's two larger segments, Alternative Return Capture and Systematic Trend Following, underperformed.
- The Real Return class trailed its CPI + 3% benchmark over the quarter by (1.6%) as the class's timber and infrastructure segments posted flat returns that lagged the benchmark and global inflation-linked securities generated negative results. Trailing 1- and 5-year results bested the benchmark, while 3-year results underperformed.

TOWNSEND GROUP, AN
AON COMPANY – SECOND
QUARTER 2018 REAL
ESTATE PERFORMANCE
REVIEW

Investment Officer-Illiquid Markets (IO-IM), Aaron Au, and Townsend Group, an Aon Company (TG Aon), Chae Hong, gave an oral and written presentation on the Second Quarter 2018 Real Estate Performance Review:

EXECUTIVE SUMMARY

Real Estate Markets Performance and Overview

- The NFI-ODCE trailing one-year return now stands at 7.5% net. While real estate returns are generally in line with the sector's long-run average of 7-9% gross, continued moderation is expected with returns potentially dipping below average over the next year.
- Real Estate fundamentals remain healthy, but valuations across real estate and other asset classes are rich. Return expectations have normalized, with go forward expectations in line with historical norms. Rising interest rates have led to asset value correction fears across

TOWNSEND GROUP, AN
AON COMPANY – SECOND
QUARTER 2018 REAL
ESTATE PERFORMANCE
REVIEW (CONT'D)

various asset classes; within real estate, investors can mitigate these risks by shifting preference to investments that can participate and benefit from economic growth, with downside protection offered by current income. TG Aon prefers investments that offer relatively strong rental income growth or value-add potential with near-term income generation potential.

- According to PCA through August 2018, the U.S. property market has experienced price growth of 7.7% year-over-year across major sectors. Further, transaction volume is up 46% over the same period, primarily driven by large portfolio deals and foreign capital sources.

Portfolio Funding Status and Real Estate Portfolio Composition

- As of June 30, 2018
 - Portfolio Overview
Number of Investments - 46
 - Portfolio Composition to Targets
Core (Stabilized Growth) and Non-Core (Private Growth) are on target.
 - Structure Diversification
Equity Funds – 81.8%; Debt Funds – 18.2%

HIERS' Summary of Portfolio Returns (Time-Weighted)

- Overall the portfolio is performing well, outperforming the NFI-ODCE Index on a net of fee basis over the one-, three-, and five-year time periods.
- The total portfolio has generated an 8.1% net IRR and 1.5x net equity multiple since inception.

HIERS' Real Estate Portfolio Highlights

- During Q2 2018 and subsequent to quarter end, three new commitments were made:
 - Blacksand Capital Opportunity Fund II (up to \$40 million)
 - Fortress Japan Opportunity Fund IV (\$20 million)
 - AG Value Fund X (\$50 million)

Significant Events

- Subsequent to quarter end, Almanac Realty Investors announced the retirement of John McGurk, who founded Rothschild Realty, the predecessor to Almanac in 1981. Mr. McGurk's retirement had been anticipated and no action is recommended on behalf of investors.
 - In October 2018, it was announced that Mr. McGurk had passed away.

REAL ESTATE PORTFOLIO

Core Portfolio Returns (Net Time-Weighted Return)

Non-Core Portfolio Returns (Net Internal Rate of Return)

Portfolio Diversification

INFRASTRUCTURE PORTFOLIO

Infrastructure Performance

TIMBER PORTFOLIO

Hancock Timber Separate Account

LOWE SEPARATE ACCOUNT

Note: Agenda Items were taken out of order, Presentation No. 3 was given after New Business No. 2.

LEGISLATIVE PROPOSALS
RELATED TO THE
EMPLOYEES'
RETIREMENT SYSTEM
FOR THE 2019
LEGISLATIVE SESSION

Based on last month's recommendation by the Board to re-draft bills for submission, Executive Director (ED), Thomas Williams, presented for the Boards review, a draft of a bill relating to establishing a statutory basis for the recovery of overpayments of ERS benefits. This bill declares overpaid member benefits to be a debt due and owing to the ERS and authorizes the ERS to promulgate and enforce such rules and regulations as may be necessary to recover overpaid member benefits. The original draft included unclaimed property but was removed based on advice by ERS tax counsel and after further consideration of other factors. This draft will be submitted for consideration to the Department of Budget and Finance and then to the Governor's Office.

2018 ANNUAL PROXY
VOTING CERTIFICATION
RESULTS

Chief Investment Officer (CIO), Elizabeth Burton, provided a written report which included a summary report by PCA regarding the 2018 Annual Proxy Voting Certification Results as receive and file.

The Board had no questions regarding the written report.

Note: Agenda Items were taken out of order, Presentation 3 was the next agenda item.

HAMILTON LANE
ADVISORS, LLC –
PRIVATE EQUITY
PROGRAM UPDATE –
~~SEPTEMBER~~ NOVEMBER
2018 FOR PERIOD ENDING
JUNE 30, 2018

IO-IM, Aaron Au, and Hamilton Lane Advisors, LLC (HL), Paul Yett, gave an oral and written presentation on the Private Equity Program Update - November 2018 for period ending June 30, 2018. Mr. Yett discussed the Portfolio Review and Private Equity Market Brief:

PORTFOLIO REVIEW

PE Portfolio Highlights – June 30, 2018

- Performance
 - Portfolio continues to perform well

- Value Creation

Portfolio Snapshot

- HIERS Since Inception Portfolio Snapshot
- Portfolio Update: market value growth and meaningful liquidity
- Annual Net Asset Value (NAV) Growth
 - Significant NAV growth

Portfolio Summary

- Strong LTM Performance
- Recent vintage years driving results
- Gains are broad-based across manager relationships

Quarterly Cash Flow Summary

- Net Portfolio Cash Flow Activity
 - Distributions keeping record pace
 - Contributions remaining relatively consistent in recent quarters as the Portfolio's pacing has levelled in recent vintages

Performance Review by Strategy

- Buyout accounts for 63% of commitments and 63% of NAV
- Top two performing strategies, Mid Buyout and Growth Equity, areas of focus in 2018 commitments

Foundation Manager Performance

- Foundation Managers continuing to become majority of Portfolio
- Foundation Managers outperforming total portfolio

Portfolio Diversification

HAMILTON LANE
ADVISORS, LLC –
PRIVATE EQUITY
PROGRAM UPDATE –
~~SEPTEMBER~~ NOVEMBER
2018 FOR PERIOD ENDING
JUNE 30, 2018 (CONT'D)

- Portfolio is prudently diversified by strategy, geography, and sector
 - Diversification remained steady YoY
- 2018 Commitment Summary*
- 2018 commitment pacing target reached
 - Four new manager relationships, eight re-ups and two commitments to a new product with existing GP (Platinum Small, TPG Tech)
 - 2018 commitments include several top sector specialists

TACTICAL PLAN UPDATE

2018 Private Equity Tactical Plan (Recap)

- Key Initiatives Highlighted in December 2017 as part of the 20187 Tactical Plan
 - Commit \$500M to \$600M during 2018
 - Focus on constructing a concentrated portfolio with largest commitments to Foundation Managers
 - Maintain larger average commitment size
 - Primary commitment focus on Buyout investments, with tactical exposure to specific investment strategies such as Credit; opportunistically invest in high-conviction Venture Capital managers
 - Maintain a geographically diverse portfolio with primary exposures to North America and Europe

2019 Tactical Plan

- General Partner Relationships
 - Concentrate commitments with Foundation Managers
- Commitment Sizing
 - Maintain larger average commitment size
 - Consider larger commitments to top performing Foundation Managers
- Strategic Diversification
 - Primary commitment focus on Buyout investments
 - Build exposure to Credit related investments
 - Opportunistically invest in high-conviction Venture Capital managers
- Geographic Diversification
 - Maintain current geographic exposure, with primary commitments to North America and Western Europe
 - Opportunistically assess additional Asia relationship
- Commitment Pacing
 - 2019 commitment pacing of \$600-\$700M approved by HIERS Board at July 2018 Summit (Inclusive of any HIERS Board approved commitments)

Pacing and Exposures

Commitment Pacing – PE Allocation by Year

PRIVATE EQUITY MARKET BRIEF

Prices Remain Lofty ... Driven by several industries

- Two sectors, Healthcare and Computers/Electronics
- Services and Leasing hit 12.0x peak in 2017

PE Liquidity – Then and Now

- Liquidity ratios trending higher in most recent years, compared to a decade ago
- Liquidity moderating: Analysis of private markets cash flow data over last ten quarters

RECESS

Chair Kane called for a recess for lunch at 12:02 p.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Johnston, and Ley), Chair Kane reconvened the meeting at 12:28 p.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Johnston, and unanimously carried, the Board entered into Executive Session at 12:28 p.m.

EXECUTIVE SESSION

- Pursuant to HRS § 88-27.5(a)(1) and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, and to make a decision upon, 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, a private equity investment advised by Hamilton Lane; appropriate action;
- Pursuant to HRS § 92-5(a)(2) and (4), to conduct discussions and deliberations relating to, and if appropriate, to make decisions regarding certification and education of the Employees' Retirement System, Investment Office staff for reimbursement or payment of registration fees, study materials, testing fees, and membership dues of pre-approved investment industry certifications such as the Chartered Alternative Investment Analyst, Chartered Financial Analyst, and Financial Risk Manager;
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding a potential claim involving the Employees' Retirement System, 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 claim involving the Employees' Retirement System; appropriate action;
- Pursuant to HRS § 92-5(a)(4), to update the Board on 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;

(Note: Amendment of Additional Executive Session Item)

- Pursuant to HRS§ 88-27.5(a)(1) and HRS§ 92-5(a)(4), to conduct discussions and deliberations relating to, and if appropriate, to make a decision on (or delegate decision making on), 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 a private equity investment advised by Blackstone Real Estate; appropriate action.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(1) AND HRS § 92-
5(a)(4), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, AND TO

MAKE A DECISION UPON,
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, A PRIVATE
EQUITY INVESTMENT
ADVISED BY HAMILTON
LANE; APPROPRIATE
ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(2) AND (4), TO
CONDUCT DISCUSSIONS
AND DELIBERATIONS
RELATING TO, AND IF
APPROPRIATE, TO MAKE
DECISIONS REGARDING
CERTIFICATION AND
EDUCATION OF THE
EMPLOYEES'
RETIREMENT SYSTEM,
INVESTMENT OFFICE
STAFF FOR
REIMBURSEMENT OR
PAYMENT OF
REGISTRATION FEES,
STUDY MATERIALS,
TESTING FEES, AND
MEMBERSHIP DUES OF
PRE-APPROVED
INVESTMENT INDUSTRY
CERTIFICATIONS SUCH AS
THE CHARTERED
ALTERNATIVE
INVESTMENT ANALYST,
CHARTERED FINANCIAL
ANALYST, AND
FINANCIAL RISK
MANAGER

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

INVOLVING THE
EMPLOYEES'
RETIREMENT SYSTEM,
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 CLAIM
INVOLVING THE
EMPLOYEES'
RETIREMENT SYSTEM;
APPROPRIATE ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO UPDATE THE
BOARD ON 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 § 88-
27.5(a)(1) AND HRS§ 92-
5(a)(4), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS
RELATING TO, AND IF
APPROPRIATE, TO MAKE
A DECISION ON (OR
DELEGATE DECISION
MAKING ON), 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 A PRIVATE
EQUITY INVESTMENT
ADVISED BY
BLACKSTONE REAL
ESTATE; APPROPRIATE
ACTION

APPROVAL OF
EXECUTIVE SESSION
MINUTES

- MAY 15, 2018
- JUNE 12, 2018
- JULY 9, 2018 (WITH
CONFIDENTIAL MINUTES)
- JULY 25-17, 2018 (WITH
CONFIDENTIAL MINUTES)

EXIT EXECUTIVE SESSION

On a motion made by Trustee Johnston, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited Executive Session at 1:49 p.m.

EXECUTIVE DIRECTOR'S
REPORT

Executive Director Williams gave an oral presentation of his report as follows:

- Relating to Act 1, tax exemption, regarding the cash/deferred option offered to Maui Hospital employees due to privatization. In 2004, a similar cash/deferred option was offered. As one of the provisions for the IRS approving the initial private letter, we agreed to enter a voluntary compliance program which would outline to them the nature of our breach and what we've done to correct it. Tom Maloney, tax counsel, drafted a number of communications with the IRS revealing to them the numbers of people involved, 50+ individuals that took cash and 20 individuals who took early retirement options that allowed them to get benefits undiminished. They wanted to know were these moneys rolled over, did they pay taxes on them? We answered all the questions and got a letter two weeks ago showing that they concurred with the actions that we took and there'd be no more sanctions or penalties as a result of our voluntary compliance with that process.
- This morning the ERS is giving an orientation at the State House for about 15 or 20 new legislators, some of which were prior members of our system.
- The Governor requires any spend in the technology arena over \$5 million go before a PAC approval. This is out of the office of Enterprise and Technology Services. We have a VITECH upgrade that's just below that threshold of \$4.995 million which avoided the review. Then we had HiDRO, the Hawaii Domestic Relations order, that was \$1.5 million that took it over the threshold. We ended up having to present to that group, which they agreed and permitted our project to go forward. They also added \$220,000 for independent validation and verification of the progress. That is another requirement imposed whenever you have spends over \$5 million, they want to make sure you're getting what you paid for and that the project is moving on pace.

EXECUTIVE DIRECTOR'S
REPORT (CONT'D)

- The unclaimed member benefits and the concern with tax qualification, which spurred for us an internal project to get a handle on what we do today to identify and reconnect members with benefits that they may be owed.
- The internal audit services that KMH LLP had been providing for us over the last number of years, that contract expired last February. We were able to get the RFP out for bid at the end of October, based on the timing to get it back and review it, we should have a contract in place and service commence no later than February 1, 2019.
- We are continuing negotiations with Bank of New York Mellon in regard to the custodial contract. There are only three or four minor issues. We've asked to maintain some provisions that were in the prior contract and they are modifying language.
- We had an Audit Committee meeting, the draft audit and financial statements were presented by KPMG.
- The ERS staff, met with B&F Director and staff regarding our budget requests for personnel, technology, etc. to better understand ERS's requests. B&F Director and staff suggested combining requests in hope for a more positive and successful outcome.
- ED Williams and CIO Burton met with Kalbert Young of the University of Hawaii, to introduce him as an influential community member/business person, and to talk about an internship program. CIO Burton proposes we start with UH to bring finance professionals or students to intern in our Investment Office to increase our resources. It will have political and economic benefits for us. CIO Burton has been introduced to the Dean responsible for the program, and those conversations continue.
- ED Williams met last week with the Bank of New York Client Advisory Board, a two-day meeting that went very well and got some significant insight into the technologies that they are focusing on developing. As a member of the Client Advisory Board, we get access to all of the services that are extended to their top 30 clients. Any new things that come up, they focus first with big clients, of which we are not. However, being on the Client Advisory Board, we get the same access to services, advanced technology, and otherwise.
- There is an entity called the Public Pension Coordinating Counsel, and it attempts to identify the funding practices of public pension plans to see if they are moving toward addressing their unfunded liability making annual required contributions and the like. When you complete this survey, you pass or fail. We received a certificate that says the ERS is to be commended for having met the funding criteria.
- Securities litigation and monitoring, the contract for those services expired at the end of October. The Board has previously delegated it to the Attorney General's Office, the selection of securities litigation and monitoring counsel. The selection committee comprised of DAG Torigoe, DAG Tsang, and ED Williams, selected Spector, Roseman; Bernstein, Litowitz; and Pomerantz as counsel for the next period.
- ED Williams sent a letter to Governor Ige in support of the re-appointment of Trustee Machida.
- Board education opportunities for next year is on BoardWorks under the reference tab.

OPERATIONS REPORT

Deputy Executive Director, Ms. Kanoe Margol was not present and ED Williams presented the written operations report as receive and file.

APPROVAL OF MINUTES

- MAY 15, 2018
- JUNE 12, 2018
- JULY 9, 2018
- JULY 25-27, 2018

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board approved the minutes for the May 15, 2018, June 12, 2018, and July 9, 2018 meeting, as presented.

The July 25-27, 2018, minutes were not available and thus deferred to the next Board meeting.

ADJOURNMENT

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, Chair Kane adjourned the meeting at 2:03 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik