

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

OCTOBER 9, 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. Kanoë Margol, Deputy Executive Director  
Ms. Donna Curry, Program Specialist  
Mr. Karl Kaneshiro, Retirement Benefits 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

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

Guests present: Ms. Mary Bates, Pension Consulting Alliance, LLC  
Mr. Neil Rue, Pension Consulting Alliance, LLC

Public present: The Holt Family (Bradley, Maile, Kalae, Kainoa, and Kaolu.  
Mr. Robert Nishimoto, Senate Ways and Means

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 9:00 a.m.

WELCOME AND INTRODUCTION OF NEW CHIEF INVESTMENT OFFICER Chair Kane on behalf of the Board welcomed and introduced the New Chief Investment Officer, Elizabeth Burton.

AMENDMENT TO AGENDA

Chair Kane requested that an amendment be made to the agenda of New Business No. 3 to add:

“(a)(2) and” to the second paragraph to read (underlined for emphasis):

Pursuant to HRS§ 92-5(a)(2) and (a)(4), the Board of Trustees ... and liabilities with respect to this matter.

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

PUBLIC COMMENT

Chair Kane called for public comment. There were no comments from public present.

RECESS

Chair Kane called for a recess at 9:02 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 and Elmira Tsang; Executive Director, Thomas Williams; Deputy Executive Director, Kanoe Margol; 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 9:50 a.m.

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

Program Specialist, Donna Curry and Executive Director (ED), Thomas Williams, presented for the Board’s review, two ERS-related draft proposals for the 2019 Legislative Session. The potential proposals presented were recommended by the Administrative and Legislative Committee, and upon approval, proposals will be forwarded for consideration by the Department of Budget and Finance and the Governor’s Office.

In addition, and as requested by the Board, a prioritized list of potential plan revisions designed to positively impact our plan’s unfunded liability and reduce future costs were submitted.

After some discussion, the Board decided to continue to work on the proposals for future submission to the legislature.

ENTER EXECUTIVE  
SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Board entered into Executive Session at 10:20 a.m.

(All in attendance left the meeting except for the Board; Deputy Attorneys General, Ivan Torigoe and Elmira Tsang; Executive Director, Thomas Williams; Deputy Executive Director, Kanoe Margol, and Chief Investment Officer, Elizabeth Burton).

(Chair Kane transferred the next order of business to Vice Chair Rauckhorst)

ERS LEADERSHIP GOALS  
AND OBJECTIVES  
DEVELOPMENT IN  
COORDINATION WITH  
THE COMPENSATION  
REVIEW COMMITTEE  
PERFORMANCE  
EVALUATION PROCESS

Vice Chair Rauckhorst, the Compensation Review Committee (CRC) Chair, discussed with the Board the background of the strategic priorities and goals of the executive leadership of the ERS. The CRC previously presented the Board with performance ratings on the exempt Investment positions, as well as the Executive Director, and Deputy Executive Director. Recommendations were made for compensation changes effective July 1, 2019, for everyone except the Deputy Executive Director. The Committee felt the Board should have a commitment to the strategic priorities, as well as the goals of the executive leaders. These will be presented to the Board and the Committee and executive leaders are requesting input, modifications, and suggestions. We would then like the Board to approve the strategic priorities and goals as well as the process the Committee uses to evaluate the leadership for 2019.

ED Williams presented and discussed with the Board the strategic priorities, goals and objectives within the ERS. A document each for the Executive Director, Deputy Executive Director, Chief Investment Officer, and a combined document for all three positions outlining their responsibilities were reviewed. These documents will help the executive leaders move forward with long-term goals and objectives to benefit the ERS as an organization over time, and it will also give the Board the flexibility to evaluate the exempt Investment positions, the Chief Investment Officer, and the Executive Director to be fairly compensated.

On a motion made by Trustee Johnston, seconded by Vice Chair Racukhorst, and unanimously carried, the Board approved the goals and objectives as outlined in each of the documents for the Executive Director, Deputy Executive Director, and the Chief Investment Officer, as well as the evaluation process used by the Compensation Review Committee to fairly compensate the exempt positions.

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 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 § 88-27.5(a)(1) and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, and if appropriate, to make decisions on investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under Chapter 92F, including information and records that are proprietary information or confidential business information, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities relating to an update on Crisis Risk Offset Request for Information finalist reports.
- 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 decisions on investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under Chapter 92F, including information and records that are proprietary information or confidential business information, and to consult with the Board's attorneys on questions and issues pertaining to

EXECUTIVE SESSION  
(Cont'd)

the Board's powers, duties, privileges, immunities, and liabilities relating to an update on an Overlay Manager search.

- 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 decisions on investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under Chapter 92F, including information and records that are proprietary information or confidential business information, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities relating to an update on a Credit Manager recommendation.

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 § 88-  
27.5(a)(1) AND HRS § 92-  
5(a)(4), TO CONDUCT  
DISCUSSIONS AND  
DELIBERATIONS  
RELATING TO, AND IF  
APPROPRIATE, TO MAKE  
DECISIONS ON  
INVESTMENTS OR  
PROSPECTIVE  
INVESTMENTS BY THE  
SYSTEM THAT REQUIRE  
THE CONSIDERATION OF  
INFORMATION OR  
RECORDS THAT ARE  
EXEMPT FROM  
DISCLOSURE UNDER  
CHAPTER 92F, INCLUDING

INFORMATION AND RECORDS THAT ARE PROPRIETARY INFORMATION OR CONFIDENTIAL BUSINESS INFORMATION, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES RELATING TO AN UPDATE ON CRISIS RISK OFFSET REQUEST FOR INFORMATION FINALIST REPORTS

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 DECISIONS ON INVESTMENTS OR PROSPECTIVE INVESTMENTS BY THE SYSTEM THAT REQUIRE THE CONSIDERATION OF INFORMATION OR RECORDS THAT ARE EXEMPT FROM DISCLOSURE UNDER CHAPTER 92F, INCLUDING INFORMATION AND RECORDS THAT ARE PROPRIETARY INFORMATION OR CONFIDENTIAL BUSINESS INFORMATION, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES RELATING TO AN UPDATE ON AN OVERLAY MANAGER

## SEARCH

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  
DECISIONS ON  
INVESTMENTS OR  
PROSPECTIVE  
INVESTMENTS BY THE  
SYSTEM THAT REQUIRE  
THE CONSIDERATION OF  
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RECORDS THAT ARE  
EXEMPT FROM  
DISCLOSURE UNDER  
CHAPTER 92F, INCLUDING  
INFORMATION AND  
RECORDS THAT ARE  
PROPRIETARY  
INFORMATION OR  
CONFIDENTIAL BUSINESS  
INFORMATION, AND TO  
CONSULT WITH THE  
BOARD'S ATTORNEYS ON  
QUESTIONS AND ISSUES  
PERTAINING TO THE  
BOARD'S POWERS,  
DUTIES, PRIVILEGES,  
IMMUNITIES, AND  
LIABILITIES RELATING TO  
AN UPDATE ON A CREDIT  
MANAGER  
RECOMMENDATION

EXIT EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board exited Executive Session at 11:45 p.m.

RECESS

Chair Kane called for a lunch recess at 11:45 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 12:02 p.m.

EXECUTIVE DIRECTOR'S  
REPORT

ED Williams gave an oral presentation of his report as follows:

- Gave background on the resolution for the Little League World Champions that will be presented at this meeting, at the suggestion of Trustee Machida. ED Williams received a signed baseball and photo from the entire team. The team will also be recognized in our next Holomua.

EXECUTIVE DIRECTOR'S  
REPORT (Cont'd)

- Attended in San Francisco, a Principles for Responsible Investing (PRI) Conference with Chair Kane held in concurrence with the Global Climate Action Summit, which Governor Ige attended. ERS had a signing ceremony on joining the PRI that will be included in the Holomua. ERS also became signatories to the Climate Action 100.
- Conferenced with Tom Maloney, ERS tax counsel, and the IRS representative relating to the voluntary compliance program as reported last month. During discussions, we resolved all issues and responses regarding ERS's plan compliance.
- BNY Mellon has been selected as our custodial bank and the new contract will commence January 1, 2019.
- House Finance staff asked about fees (custodial, manager, and consultants). We shared the PCA report of fees.
- Met with Hawaii Budget Policy Center (HBPC), Beth Geisting. Jerome Rauckhorst and Kalbert Young are on the Board. They will develop a budget primer that discusses the budget process for the State. ED Williams and Derek Mizuno from EUTF have been asked to review retirement and healthcare papers. HBPC is also proposing the legislature or executive branch commission someone to look at the unfunded liabilities of ERS and EUTF. They are also recommending an effort to mitigate investment risk by assuring appropriate resources to manage investment programs. They also made suggestions for changing of the EUTF Board by employee and employer (50/50), and odd number of trustees, and add 2 non-affiliated. They are also suggesting an alternative to the current structure for the pension plan and health plan as well. They also recommend the commission consider taxing pensions.
- Will invite Beth Geisting to the next Board meeting to present the recommendations of the two documents mentioned above.
- CIO Elizabeth Burton started on October 1, 2018, welcoming coffee hour was held with staff and some of the Trustees.
- Preparing biennium budget submission to B&F.
- Met with DHRD and B&F/ARO regarding discussions on positions within ERS.
- Asking for video conference capabilities state-wide so we can communicate more effectively with neighbor island staff and with investment managers. We are also including a request to upgrade our telephone system.
- BNY has asked the ED to join the client advisory board, quarterly meetings will be held.
- Kalbert Young will do a presentation on behalf of the ERS with Trustee Chan, to the UH Professional Association.

OPERATIONS REPORT

Deputy Executive Director, Kanoe Margol presented the written operations report as receive and file.

Enter the Holt Family at 12:20 p.m.

RESOLUTION RELATING  
TO THE 2018 LITTLE  
LEAGUE WORLD SERIES  
CHAMPIONS AND THE  
HOLT FAMILY

ED Williams presented and read on behalf of the Board, a proclamation relating to Kaolu Holt, the Holt family, and to the 2018 Little League World Series Champions.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Trustee Ley, and unanimously carried, Chair Kane adjourned the meeting at 12:39 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:dkik