

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

JUNE 8, 2015

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

Trustees present:

Ms. Pili'alo'ha Lee Loy, Chair
Mr. Vince Barfield, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Emmit Kane
Mr. Wesley Machida
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst

Staff present:

Ms. Kanoe Margol, Interim Executive Director
Mr. Karl Kaneshiro, Interim Deputy Executive Director
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Aaron Au, Investment Officer
Mr. Anthony Goo, Investment Officer
Mr. Howard Hodel, Investment Officer
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, Investment Specialist
Ms. Jaime Hirata, Recording Secretary
Ms. Wanda Kugiya, Secretary

Attorneys present:

Mr. Brian Aburano, Deputy Attorney General (Counsel for the Board)
Ms. Diane Kishimoto, Deputy Attorney General (Counsel for the Board)
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)

Guests present:

Mr. Michael Humphrey) Courtland Partners, Ltd.

Mr. Jim Hutchinson) LaSalle Investment Management
Mr. Matthew Walley

Mr. John Linder) Pension Consulting Alliance, Inc.
Mr. Neil Rue

Members of the public present:

Mr. Joseph Mobley) University of Hawaii

QUORUM/CALL TO ORDER

A quorum being present, Chair Lee Loy, called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System (ERS) to order at 9:00 a.m.

PUBLIC COMMENT

Chair Lee Loy called for public comment. There were no comments from members of the public.

RECESS

Chair Lee Loy called a recess at 9:01 a.m. and announced that the meeting would reconvene following the Investment Committee meeting.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 10:44 a.m.

INVESTMENT IN LASALLE
INCOME AND GROWTH FUND
VII, L.P.

Mr. Jim Hutchinson and Mr. Matthew Walley of LaSalle Investment Management, Inc. (LaSalle) made a presentation on the LaSalle Income and Growth Fund VII, L.P. (Fund). The Fund is a value-add investment fund that seeks to acquire interests in non-core real estate properties that can be improved and later sold.

Upon completion of their presentation, the representatives from LaSalle left the meeting.

Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland Partners), ERS's real estate investment consultant, presented Courtland Partners' evaluation of the proposed investment and recommended that the ERS invest \$20 million in the Fund. Mr. Humphrey also answered additional questions from the Board about how Fund VII compares to the ERS's investment in Fund V. The ERS invested \$50 million in Fund V. It did not invest in Fund VI.

Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's investment consultant, asked why Courtland Partners is recommending a commitment of only \$20 million when \$50 million was invested in Fund I. Mr. Rue pointed out that the ERS's total portfolio is larger now than when the ERS invested in Fund V; as the portfolio grows, the ERS should consider the number of investment relationships that must be managed. Mr. Humphrey responded that, in light of other real estate strategies to which allocations should be made, Courtland Partners believes that a commitment to Fund VII of more than \$40 million is not appropriate; however, a commitment of up to \$30 million could be made by the ERS without adversely impacting the availability of capital for other real estate investments.

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board approved an investment of up to \$30 million in the LaSalle Income and Growth Fund VII, L.P., subject to due diligence and legal review.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Matsumoto, seconded by Trustee Kane, and unanimously carried, the Board entered executive session to pursuant to HRS § 92-5(a)(4), 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 BlackSand Capital Opportunity Fund I, L.P.

EXECUTIVE SESSION 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 BLACKSAND
CAPITAL OPPORTUNITY
FUND I, L.P.

EXIT EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board exited executive session.

RECESS

Chair Lee Loy called a recess for lunch at 12:15 p.m. and announced that the meeting would reconvene following the Board's Chapter 91 Proceedings.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 12:40 p.m.

ASSET-LIABILITY STUDY
– PROPOSED NEW ASSET
CLASSES

Mr. Rue presented PCA's proposals to introduce new asset classes/concepts as part of the 2015 asset-liability study:

1. Reclassifying real estate components -- separate core and non-core and reallocate to Stabilized Growth and Private Growth classes.
2. New Crisis Risk Offset class.
3. Opportunistic class.

(Trustee Kane left the meeting during the presentation.)

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously, the Board authorized inclusion in the 2015 asset-liability study of the new asset classes/concepts proposed by PCA.

EMPLOYEES' RETIREMENT
SYSTEM STRATEGIC
INVESTMENT PLAN FOR
2015 – 2018 FINAL DRAFT BY
PENSION CONSULTING
ALLIANCE, INC.

Mr. Rue presented PCA's final draft of the ERS's Strategic Investment Plan for 2015 - 2018.

Trustee Machida pointed out a correction that should be made: on page 11, reference to the "pension reforms in 2013" should be changed to the "pension reforms in 2011."

On a motion made by Trustee Barfield, seconded by Trustee Machida, and unanimously carried, the Board approved the ERS Strategic Investment Plan for 2015 – 2018, as presented by Mr. Rue, with the following amendment: on page 11, reference to the "pension reforms in 2013" will be changed to the "pension reforms in 2011".

STRATEGIC INVESTMENT
OPPORTUNITIES UPDATE

Mr. Vijoy Chattergy, ERS's Chief Investment Officer (CIO), reported that he has continued with diligence on two potential strategic investment opportunities: "revenue enhancements" and "strategic partnerships." Board approval will be sought before anything is finalized.

LOCAL INVESTMENT
MANAGERS POLICY

The CIO and Mr. Rue presented their recommendations for modification of the ERS's guidelines with respect to Hawaii-based (local) investment managers. ERS's Hawaii-based investment managers are currently CM Bidwell and First Hawaiian Bank. The modifications are intended to increase the amount of assets and broaden the types of assets that a local manager may manage.

On a motion made by Trustee Matsumoto, seconded by Trustee Machida, and unanimously carried, the Board approved to modify the ERS Investment Policy, Guidelines, Procedures relating to the Policy on Local Managers (Section C, Part D), as presented.

PRINCIPAL PROTECTION AND
EXTENDED GLOBAL CREDIT
INVESTMENT POLICIES

Mr. Anthony Goo, ERS's Investment Officer, reported on the ERS's investment policies pertaining to principal protection and extended global credit investments.

RECRUITMENT AND SEARCH
FOR NEW EXECUTIVE
DIRECTOR FOR THE
EMPLOYEES' RETIREMENT
SYSTEM

Ms. Kanoe Margol, ERS's Interim Executive Director, reported that the recruitment and search for a new executive director for the ERS is on-track per the timeline agreed to by the Board, the Compensation Review Committee, ERS management, and the executive recruiter. The Interim Executive Director also reported that special Board meetings, for the purpose of conducting interviews of the candidates on the short list, are scheduled for July 30, 2015 and August 3, 2015.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board entered executive session:

- Pursuant to HRS § 92-5(a)(2)(4), and (8), to discuss candidates for the position of Executive Director where considerations of matters affecting privacy will be involved, to deliberate upon matters that require the consideration of information that must be kept confidential, 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 this matter; and
- To consider the executive session minutes for the April 13, 2015 meeting.

(All ERS staff were excused from the room.)

EXECUTIVE SESSION TO
DISCUSS CANDIDATES FOR
THE POSITION OF
EXECUTIVE DIRECTOR
WHERE CONSIDERATIONS OF
MATTERS THAT REQUIRE
THE CONSIDERATION OF
INFORMATION THAT MUST

BE KEPT CONFIDENTIAL,
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 THIS MATTER

APPROVAL OF EXECUTIVE
SESSION MINUTES
– APRIL 13, 2015

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Matsumoto, and unanimously carried, the Board exited executive session.

LEGISLATIVE PROPOSALS
RELATING TO THE
EMPLOYEES' RETIREMENT
SYSTEM

The Interim Executive Director and Ms. Donna Curry, ERS's Program Specialist, reported that the following legislative proposals relating to the ERS for the 2015 Legislative Session have been enrolled to the Governor and are pending the Governor's approval or veto:

(*ERS proposal)

1. *Senate Bill (S.B.) 1087, Senate Draft (S.D.) 1, House Draft (H.D.) 1 (Hybrid Plan death benefits and refunds).
2. *S.B. 1089, S.D. 1, H.D. 1 (acquisition of service credit and workers' compensation benefit contributions).
3. *S.B. 1090, S.D. 1, H.D. 1, Conference Draft (C.D.) 1 (employer reporting and penalty for non-compliance).
4. S.B. 1208, S.D. 1, H.D. 1 (ERS Board of Trustees executive sessions).
5. S.B. 1324, S.D. 2, H.D. 1, C.D. 1 (authority of the ERS to make direct payments of benefits to former spouses pursuant to family court orders in divorce proceedings).

The Interim Executive Director and Ms. Curry also reported that: the Governor has until June 29, 2015 to inform the Legislature of any proposals being considered for a veto; if, by July 14, 2015, the Governor does not veto or sign a bill that was enrolled to him, the bill will become law without his signature.

TRUSTEE ELECTION UPDATE

The Interim Executive Director reported that there is more than one candidate/nominee to fill the teacher seat on the Board for a term that would be effective January 2, 2016. ERS staff plans to procure the services of an auditor to assist with the election.

OPERATIONS REPORT
– MAY 2015

Mr. Karl Kaneshiro, Interim Deputy Executive Director, presented the monthly report on the ERS's operations and website statistics for May 2015. Highlights included the status of ERS's staffing vacancies, on-going internal audit

projects, and outstanding retirement benefit finalization cases. The Interim Executive Director reported that the draft of the ERS's financial statements for fiscal year 2014 is scheduled for presentation to the Audit Committee on June 30, 2015.

ADJOURNMENT

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst, and unanimously carried, Chair Lee Loy adjourned the meeting at 2:53 p.m.

**REDACTED
SIGNATURE**

Kanoe Margol
Interim Executive Director

KM: jh