

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

MARCH 13, 2017

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
Mr. Patrick Frane
Mr. Wesley Machida
Mr. Colbert Matsumoto

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, 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. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Branch Manager, Enrollment, Claims & Benefits
Ms. Wanda Kugiya, Secretary
Ms. Dale Kanae, Secretary
Ms. Lori Kim, Recording Secretary

Attorneys present: Ms. Diane Kishimoto, Deputy Attorney General (Counsel for the Board)
Mr. Brian Aburano, Deputy Attorney General (Counsel for the Board)
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)
Ms. Patricia Ohara, Supervising Deputy Attorney General

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Mr. John Linder, Pension Consulting Alliance, LLC
Mr. Colin Bebee, Pension Consulting Alliance, LLC
Mr. Tom Hester, Courtland Partners, Ltd.
Mr. Mark Rivitz, Courtland Partners, Ltd.
Mr. Anthony Fragapane, Courtland Partners, Ltd.
Ms. Lilian Wan, BlackRock, Inc.
Mr. Matt Farrar, BlackRock, Inc.
Mr. John Saunders, BlackRock, Inc.
Mr. Michael Kramer, Natural Investments
Mr. Taylor Alan-Lee, PIMCO
Mr. Michael Chandra, PIMCO

Mr. Loren Sageser, PIMCO
Mr. Graham Allen, Tortoise Credit Strategies, LLC
Mr. Greg Haendel, Tortoise Credit Strategies, LLC
Ms. Michelle McCloskey, Man/FRM (by telephone)
Mr. Sam Thompson, Man/FRM (by telephone)
Mr. Remy Chaudhuri, Man/FRM (by telephone)

QUORUM/CALL TO ORDER A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Frane, 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.

AMENDMENT OF THE AGENDA Chair Kane requested that the Board amend the agenda to add the following under Approval of Minutes:
- December 12, 2016 (amendment)

PUBLIC COMMENT Chair Kane called for public comment. There were no members of the public present.

RECESS Chair Kane called for a recess and announced that the meeting would reconvene following the conclusion of the Chapter 91 proceedings and the Investment Committee meeting.

RECONVENE A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Frane, Machida, and Matsumoto), Chair Kane reconvened the meeting at 10:51 a.m.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES AND THE ERS Mr. Michael Kramer of Natural Investments LLC gave an oral, written and PowerPoint presentation on socially responsible investing (also referred to as sustainable and responsible investing and sustainable, responsible and impact investemeng), which uses environmental, social and governance (ESG) based criteria to evaluate managers and investment portfolios. Mr. Kramer that studies show positive or neutral correlation of ESG and financial performance. Mr. Kramer also provided a list of public pension plans that have socially responsible investment policies.

TORTOISE CREDIT STRATEGIES, LLC – PORTFOLIO UPDATE Mr. Anthony Goo, Investment Officer, Mr. Graham Allen and Mr. Greg Haendel of Tortoise Credit Strategies LLC (Tortoise) gave an oral and written update, as of March 13, 2017, of Tortoise and the global credit portfolio managed by Tortoise for the ERS. Mr. Allen stated that the transition with Bradford Marzec is going well and that there has been no change in the investment process for the portfolio. Last year the portfolio managed by Tortoise for the ERS outperformed the benchmark.

(Trustee Machida left the meeting at 11:51 a.m.)

PIMCO – PORTFOLIO Mr. Anthony Goo introduced Mr. Taylor Alan-Lee, Mr. Michael Chandra and

UPDATE

Mr. Loren Sageser of Pacific Investment Management Company (PIMCO), who presented an oral and written update, as of March 2017, of PIMCO and the global credit portfolio managed by PIMCO for the ERS. Mr. Sageser reported that the portfolio showed strong returns for the year.

INVESTMENT POLICY REVISIONS: INTERIM STRATEGIC TARGETS AND CRISIS RISK OFFSET POLICY

Mr. Howard Hodel, Investment Officer, and Mr. John Linder of Pension Consulting Alliance, LLC (PCA) presented two Investment Policy revisions to the Board for approval. Investment staff and PCA recommended extension of the July 1, 2016 interim strategic risk class allocation targets through March 31, 2017 and presented an implementation plan for the strategic allocation targets. Investment staff and PCA also recommend approval of a restated Crisis Risk Offset (CRO) Policy to replace the existing policy adopted on February 8, 2016.

On a motion made by Trustee Chan, seconded by Trustee Barfield, and unanimously carried, the Board approved extension of the July 1, 2016 interim strategic risk class allocation targets through March 31, 2017 and approved the implementation plan for the strategic allocation targets, as presented.

On a motion made by Trustee Barfield, seconded by Trustee Chan, and unanimously carried, the Board approved the restated Crisis Risk Offset Policy, as presented.

RECESS

Chair Kane called for a ten-minute recess for lunch at 12:19 p.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Frane, and Matsumoto), Chair Kane reconvened the meeting at 12:31 p.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board entered into Executive Session at 12:31 p.m.

- Pursuant to HRS § 88-27.5(a)(1) and HRS § 92-5(a), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions 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 Crisis Risk Offset procedures.

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1) AND HRS § 92-5(a), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, AND, IF APPROPRIATE, TO MAKE DECISIONS 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 CRISIS RISK OFFSET PROCEDURES

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited Executive Session at 12:55 p.m.

CRISIS RISK OFFSET STRUCTURE – PRESENTATION

Mr. Howard Hodel, Mr. John Linder and, by telephone, Ms. Michelle McCloskey, Mr. Sam Thompson and Mr. Remy Chaudhuri of Man Investments Inc./FRM Investment Management (USA) LLC (Man/FRM) gave an oral and written presentation on the Crisis Risk Offset (CRO) class structure, including the manager sourcing process, allocation among the sub-strategies within the class and costs.

LEGISLATIVE PROPOSALS RELATED TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2017 LEGISLATIVE SESSION

Ms. Donna Curry, Program Specialist, gave an update on the ERS initiated and related bills, see Schedule A. The only active ERS initiated bill is SB936 SD2, for which the next hearing is scheduled for Thursday, March 16, 2017. ERS related bills that are still active are HB76 HD1, HB233 HD1, HB234 HD1, HB629, HB887 HD1, HB913 HD2, HB1182 HD1, SB103 SD2, SB133 SD2, SB249 SD2, and SB725 SD1. The hearing for the separation bills (HB76 HD1, HB233 HD1, and HB234 HD1) will also be on Thursday, March 16, 2017. The Board's position on the separation bills are:

- HB76 HD1 – opposition as it still offers the choice of a “cash or deferred arrangement” similar to Act 1 and amendment includes an additional choice of continued employment until bargaining unit contracts are completed.
- HB233 HD1 – opposition as the amendment includes both the benefit enhancement of the special retirement as well as the severance benefit, on which the Board takes no position.
- HB234 HD1 – opposition as the amendment deletes the severance benefit but still includes the benefit enhancement of the special retirement benefit.

In addition, all three bills provide no funding for special retirement benefits.

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session at 1:19 p.m.:

- 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 Act 1, Second Special Session Laws of Hawaii 2016; appropriate action;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations relating to, and to make a decision upon, an investment by the Employees'

- Retirement System in BlackRock Asia Property Fund IV;
- Pursuant to HRS § 88-27(a)(1) and (2), to conduct discussions and deliberations and, if appropriate, to make decisions relating to the Employees' Retirement System's core-real estate separate account managers;
- Pursuant to HRS § 88-27(a)(1), to conduct discussions and deliberations relating to the Employees' Retirement System's investment in BlackSand Capital Opportunity Fund I, L.P.;
- Pursuant to HRS § 88-27(a)(1) and (2), to conduct discussions and deliberations and, if appropriate, to make decisions relating to Crisis Risk Offset due diligence reports;
- Pursuant to HRS § 88-27.5(a)(1) and (2) and HRS § 92-5(a), to conduct discussions and deliberations relating to, and, if appropriate, to make decisions 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 changing the structure and manager composition of the Principal Protection risk class allocation; and
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys on questions and issues pertaining to the Board's power, duties, and privileges, immunities, and liabilities with respect to a proposed settlement of an action to recover an overpayment.

EXECUTIVE SESSION,
 PURSUANT TO HRS § 92-5(a)(4), THE BOARD MAY ENTER INTO 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 ACT 1, SECOND SPECIAL SESSION LAWS OF HAWAII 2016;
 APPROPRIATE ACTION

(Trustee Matsumoto and the Executive Director left the meeting at 1:25 p.m.)

EXECUTIVE SESSION,
 PURSUANT TO HRS §88-27.5(a)(1), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, AND TO MAKE A DECISION UPON, AN INVESTMENT BY THE EMPLOYEES'

RETIREMENT SYSTEM IN
BLACKROCK ASIA
PROPERTY FUND IV

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27(a)(1) AND (2), TO
CONDUCT DISCUSSIONS
AND DELIBERATIONS
AND, IF APPROPRIATE, TO
MAKE DECISIONS
RELATING TO THE
EMPLOYEES'
RETIREMENT SYSTEM'S
CORE-REAL ESATE
SEPARATE ACCOUNT
MANAGERS

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27(a)(1), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND, IF
APPROPRIATE, TO MAKE
DECISIONS RELATING TO
THE EMPLOYEES'
RETIREMENT SYSTEM'S
INVESTMENT IN
BLACKSAND CAPITAL
OPPORTUNITY FUND I,
L.P.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27(a)(1), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS AND, IF
APPROPRIATE, TO MAKE
DECISIONS RELATING TO
CRISIS RISK OFFSET DUE
DILIGENCE REPORTS

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27(a)(1) AND (a)(2) AND
HRS § 92-5(a), TO
CONDUCT DISCUSSIONS
AND DELIBERATIONS
RELATING TO, AND, IF
APPROPRIATE, TO MAKE
DECISIONS 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 CHANGING THE STRUCTURE AND MANAGER COMPOSITION OF THE PRINCIPAL PROTECTION RISK CLASS ALLOCATION

EXECUTIVE SESSION, PURSUANT TO HRS § 92-5(a)(4), TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWER, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES WITH RESPECT TO A PROPOSED SETTLEMENT OF AN ACTION TO RECOVER AN OVERPAYMENT

APPROVAL OF MINUTES
- JANUARY 9, 2017
- FEBRUARY 13, 2017
- DECEMBER 12, 2016
(AMENDMENT)

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 2:22 p.m.

APPROVAL OF MINUTES
- JANUARY 9, 2017
- FEBRUARY 13, 2017
- DECEMBER 12, 2016
(AMENDMENT)

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Frane, and unanimously carried, the Board approved the minutes of the January 9, 2017 and February 13, 2017 meetings, and the amended minutes of the December 12, 2016 meeting, all as presented.

EXECUTIVE DIRECTOR'S REPORT

The Executive Director's Report was deferred to the next Board meeting on April 10, 2017.

OPERATIONS'S REPORT

Ms. Kanoë Margol, Deputy Executive Director, presented a "receive and file" written report on ERS operations. Mr. Karl Kaneshiro, Branch Manager

Enrollment, Claims & Benefits, presented an oral and written Disability Applications Status Report, previously requested by the Board.

ADJOURNMENT

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Kane adjourned the meeting at 2:26 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:ltk

Schedule A

	Bill Number	Bill Title
1.	HB1061	Relating to Employer Contributions to the Employees' Retirement System
2.	HB1063	Relating to the Employees' Retirement System – Unclaimed Property
3.	HB1065	Relating to Actuarial Costs of Separation of Public Employees from Service
4.	HB1067	Relating to Investment Personnel of the Employees' Retirement System
5.	HB1070	Relating to the Employees' Retirement System – “Housekeeping”
6.	SB927	Relating to Employer Contributions to the Employees' Retirement System
7.	SB929	Relating to the Employees' Retirement System – Unclaimed Property
8.	SB931	Relating to Actuarial Costs of Separation of Public Employees from Service
9.	SB933	Relating to Investment Personnel of the Employees' Retirement System
10.	SB936	Relating to the Employees' Retirement System – “Housekeeping”
11.	SB101	Relating to State Funds
12.	SB103	Relating to the Disposition of Excess General Funds Authorized Under Article VII, Section 6, of the Constitution of the State of Hawaii
13.	SB133	Relating to Public Employees' Fringe Benefits – Actuarial Experience Studies
14.	SB244	Relating to Open Government
15.	SB249	Relating to Retirement
16.	SB250	Relating to the Board of Trustees of the Employees' Retirement System
17.	SB279	Relating to Public Employees
18.	SB383	Relating to Medical Coverage for Firefighters
19.	SB647	Relating to Teachers
20.	SB1047	Relating to the Employees' Retirement System – ERS Stress Test
21.	SB1226	Relating to Separation Benefits
22.	HB32	Relating to the Employees' Retirement System – Investment Yield Rate Assumption
23.	HB76	Relating to Separation Benefits
24.	HB233	Relating to Separation Benefits
25.	HB234	Relating to Separation Benefits
26.	HB629	Relating to Taxation
27.	HB828	Relating to the Employees' Retirement System – Legislative Officers' Benefits
28.	HB913	Relating to Medical Coverage for Firefighters
29.	HB987	Relating to Retirement
30.	HB989	Relating to the Board of Trustees of the Employees' Retirement System
31.	HB990	Relating to Public Employees
32.	HB991	Relating to Open Government
33.	HB1178	Relating to Separation Benefits
34.	HB1182	Relating to the Employees' Retirement System – ERS Stress Test
35.	HB1263	Relating to Teachers