

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

JANUARY 12, 2015

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

Trustees present:

Ms. Pilialoa Lee Loy, Chair  
Mr. Vincent Barfield, Vice Chair  
Ms. Jackie Ferguson-Miyamoto  
Mr. Patrick Frane  
Mr. Wesley Machida  
Mr. Colbert Matsumoto  
Mr. Emmit Kane  
Mr. Jerome Rauckhorst

Staff present:

Ms. Kanoë 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. Andrew Chen, Investment Specialist  
Mr. Ian Wetzel, Investment Specialist  
Mr. Karl Kaneshiro, Benefits Manager  
Mr. Keith Miyamoto, Information Systems Manager  
Mr. Larry Wolfe, Accounting Manager  
Ms. Donna Curry, Program Specialist  
Ms. Jaime Hirata, Recording Secretary  
Ms. Raechele Joyo, 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. Colin Bebee ) Pension Consulting Alliance, Inc.  
Mr. Neil Rue

Member of public present:

Mr. Dan Purcell

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 9:08 a.m.

ELECTION OF OFFICERS AND COMMITTEE ASSIGNMENTS

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board elected Trustee Lee Loy as Chair of the Board and Trustee Barfield as Vice Chair of the Board, and accepted the Chair's recommended changes to the Board's committee assignments effective January 12, 2015 as follows:

- Replace Trustee Lee Loy with Trustee Kane as Vice Chair of the Investment Committee.
- Add Trustee Machida to the Administrative and Legislative Committee, the Investment Committee, and the Ka'anapali Ad Hoc Committee.
- Change Chair Lee Loy to alternate member, from regular member, of the Administrative and Legislative Committee.
- Add Trustee Ferguson-Miyamoto to the Audit Committee.
- Add Trustee Rauckhorst to the Compensation Review Committee.

The Board's new committee assignments are as follows:

Investment Committee

Vince Barfield, Chair  
Emmit Kane, Vice Chair  
Jackie Ferguson-Miyamoto  
Patrick Frane  
Pilialoha Lee Loy  
Wesley Machida  
Colbert Matsumoto  
Jerry Rauckhorst

Administrative and Legislative Committee

Jackie Ferguson-Miyamoto, Chair  
Wesley Machida  
Jerry Rauckhorst  
Pilialoha Lee Loy (alternate)

Audit Committee

Jerry Rauckhorst, Chair  
Jackie Ferguson-Miyamoto  
Patrick Frane

Compensation Review Committee

Colbert Matsumoto, Chair  
Vince Barfield  
Emmit Kane  
Jerry Rauckhorst

Ka'anapali Ad Hoc Committee

Colbert Matsumoto, Chair  
Vince Barfield  
Wesley Machida

RECESS

Chair Lee Loy called a recess at 9:12 a.m. and announced that the meeting would reconvene at the ERS 12<sup>th</sup> floor boardroom following the chapter 91 adjudicatory proceedings and the Investment Committee meeting.

PUBLIC COMMENT

Mr. Dan Purcell, member of the public, commented that the annual Investment Summit is a “waste of money” and objected to the chapter 91 adjudicatory proceedings not being open to the public.

RECONVENE

A quorum being present (Trustee Machida did not return following the recess), Chair Lee Loy reconvened the meeting at 1:12 p.m.

REVIEW OF THE EMPLOYEES’  
RETIREMENT SYSTEM’S 2013  
COMMISSION RECAPTURE  
PROGRAM ACTIVITY

Mr. Vijoy Chattergy, Chief Investment Officer (CIO), reported on the annual review of the ERS’s Commission Recapture Program Activity (Program) for calendar year 2013, as coordinated by Pension Consulting Alliance, Inc. (PCA), ERS’s general investment consultant. Brokerage firms BNY ConvergeEX, CAPIS, and Russell participated in the program, which generated \$595,139 in credits to the ERS. In closing, the CIO commented that the Investment Office would like to reevaluate the program in a year.

HAWAII TARGETED  
INVESTMENT PROGRAM  
(HiTIP) ANNUAL REPORT  
AND THE SUDAN ANNUAL  
REPORT

The CIO presented the ERS’s 2014 annual reports to the legislature regarding the ERS’s direct holdings in Sudan scrutinized companies, as required by Act 192, Session Laws of Hawaii 2007, and the ERS’s Hawaii venture capital investments, as required by Act 260, Session Laws of Hawaii 2007.

LOWE ENTERPRISES  
INVESTMENT MANAGEMENT  
LLC CONTRACT

The CIO requested the Board’s authorization to pay Lowe Enterprises Investment Management (Lowe) for work completed by Lowe with respect to the Ka’anapali Golf Courses property. The Phase II Report presented by Lowe to the Board at the October 20, 2014 Board meeting included Lowe’s strategic plan for the Ka’anapali Golf Course Property, including recommendations for future use, management, development, and potential disposition of the Ka’anapali. The contract between the ERS and Lowe provides for payment to Lowe for the Phase II Report upon the Board’s approval of the Phase II Report, which is still under consideration by the Board. The approval date for the Phase II report has been extended by the parties to January 24, 2016.

On a motion made by Trustee Matsumoto, seconded by Trustee Kane, and unanimously carried, the Board approved payment of Lowe’s fee for the Phase II Report at this time.

2015 EMPLOYEES'  
RETIREMENT SYSTEM  
INVESTMENT SUMMIT

The CIO presented ERS staff's recommendation to combine the ERS annual Investment Summit and Private Markets Symposium into a single "Investment Summit." Combining the two events will improve efficiencies by saving time and expenses and will also allow the Trustees and ERS investment staff to focus on the integrated nature of the ERS portfolio. ERS staff also recommended the Kahala Hotel and Resort on Oahu as the optimal venue to host the Investment Summit. Based on previously used island rotation schedule, the 2015 Investment Summit should be held on Oahu. ERS staff has evaluated and ranked the hotel properties on Oahu which have known capabilities and reputations to host conferences appropriate for the Investment Summit. Based on the evaluation, the Kahala Hotel and Resort received the highest ranking. The CIO also presented ERS staff's budget analysis of the proposed expenses for the 2015 Investment Summit. The Trustees discussed the recommendation to combine the two events into one, the budget for the event, and the name for the event.

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board accepted ERS staff's recommendation to host the 2015 "Investment Education Summit" at the Kahala Hotel and Resort with a proposed budget of expenses as presented.

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

Ms. Kanoe Margol, Interim Executive Director, reported that the Board's Compensation Review Committee (Committee) recommended that the Board use an executive search firm to assist in finding and hiring a new permanent Executive Director for the ERS and presented a draft timeline for the recruitment with the assistance of an executive search firm. The Committee also recommended that the Board approve a compensation range of \$150,000 to \$200,000 per year, and that the Board should interview the finalists as determined by the Committee.

On a motion made by Trustee Rauckhorst, seconded by Trustee Kane, and unanimously carried, the Board accepted the recommendations from the Committee to:

1. Use an executive search firm;
2. Authorize a compensation range of \$150,00 to \$200,00 for the Executive Director position; and
3. Interview the finalists as determined by the Compensation Review Committee.

LEGISLATIVE PROPOSALS  
RELATING TO THE  
EMPLOYEES' RETIREMENT  
SYSTEM

Ms. Donna Curry, Program Specialist, reported that the following legislative proposals relating to the ERS that were previously authorized by the Board, have been submitted to the Department of Budget and Finance for introduction with the Governor's administrative package for the 2015 legislative session:

1. ERS Benefit Forfeiture – BUF-12(15). Forfeiture of ERS benefits for members convicted of work-related felonies.
2. Chapter 88 Housekeeping – BUF-13(15). Amend section 88-341(c) for death benefits to beneficiaries of terminated Hybrid Plan members (under Act 163/2011) who became ERS members after June 30, 2015, by requiring 10 years of service as a condition of payment of the former

member's hypothetical account balance to the beneficiary. Changes the deadline for terminated Contributory Plan and Hybrid Plan members to take a refund of their retirement contributions from age 62 or 4 years after the calendar year of service termination, whichever is later (current deadline is age 62).

3. Judges' Parity – BUF-14(15). Correct sections 88-73(b) and 88-74(c) and (d) to restore age and service requirements for ERS Contributory Plan members who become judges after June 30, 2012. Effective July 1, 2012.
4. Change in Formula for Crediting Unused Sick Leave – BUF-15(15). Credit 50% of unused sick leave credit towards retirement benefits for new employees. Effective July 1, 2012.
5. Acquisition of Service at Actuarial Cost and Commencement of Purchase – BUF-16(15). Revise sections §§ 88-59, 88-132.5 and 88-324. Purchase cost for service credit is currently based on the member's current salary and contribution rate. Requires that (1) members after June 30, 2016, must claim for their previous service within 1-year of eligibility and (2) that all purchases of services credit after June 30, 2016 must commence within 1-year of certification. Also requires that purchases by Contributory Plan and Hybrid Plan members made after June 30, 2020 will be based on an actuarial calculation to include the present value cost of this additional service credit. Effective upon approval.
6. ERS Board Meetings – BUF-17(15). Clarify the authority of the ERS Board of Trustees (including the Board's committees) to hold executive sessions during meetings subject to HRS chapter 92. Effective upon approval.
7. Employer Reporting and Penalty for Noncompliance – BUF-18(15). Require employers to submit all transactions (including adjustment transactions electronically). Provides that, if a department or agency fails to provide the information in the required format, the State or County is required to pay its contributions to the ERS at the beginning of the following fiscal year; unpaid amounts are subject to interest. Allows the ERS to waive penalties due to unforeseen circumstances. Requires annual reporting by the ERS to the Department of Budget and Finance of the departments and agencies that fail to comply with the statute, the budget programs affected and the anticipated amounts payable by the affected departments and agencies.
8. Commencement of Service Credit Purchase – BUF-19(15). Revise HRS §§ 88-59, 88-132.5 and 88-324. Purchase cost for service credit is currently based on the member's current salary and contribution rate. Requires that members after June 30, 2016 must claim for their previous service within 1-year of eligibility and that all purchases of service credit after June 30, 2016 must commence within 1-year of certification. Effective July 1, 2016.

9. Workers' Compensation and ERS Contributions – BUF-21(15). As most deficiencies are due to the lack of contributions from workers' compensation payments paid to the employee, the Board's Administrative and Legislative Committee recommends legislation to require ERS contributions from workers' compensation payments. Effective July 1, 2016.

Ms. Curry also reported that the draft of the following legislative proposal is still being researched and that ERS staff will plan to continue to work on the draft for presentation to the Board at a future Board meeting:

10. Qualified Domestic Relations Orders (QDRO) Implementation. As QDRO's will likely be introduced in this and future legislative sessions, the ERS could prepare a proposal for the implementation of QDROs that would be administratively practical and feasible for the System.

As part of the research, ERS staff will be meeting with certain legislators that have shown an interest in QDROs.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board supported legislative proposals BUF-12 to -19 and BUF-21, in substantially the form presented (at this and prior meetings), and authorizes the individual ERS trustees, ERS Interim Executive Director, and other ERS staff to take all necessary and appropriate measures in furtherance of the Board's position, including the preparation and presentation of testimony to legislative committees.

#### OPERATIONS REPORT – DECEMBER 2014

Mr. Karl Kaneshiro, Interim Deputy Executive Director, presented the monthly report on the ERS' operations and website statistics for December 2014. Highlights of the report included:

- Recruitment for the new Procurement and Supply Specialist IV position is in progress.
- Fiscal year (FY) 2013 Audit has been completed and the FY 2014 Audit is expected to be completed February 2015.
- Internal audit of the "Unclaimed Member Benefits and Accounts Review" has been completed and the internal auditor's draft report was presented to the Board's Audit Committee and to the trustees at the December 8, 2014 Board meeting. This review included an audit of the unclaimed member benefit accounts (inactive members that have left their retirement contributions with the ERS and are eligible for their refund).
- 4<sup>th</sup> quarter 2014 publication of the ERS's quarterly newsletter, "Holomua", is expected to be distributed early January 2015.
- Number of cases of outstanding finalization of retirement benefits is at an all-time low of 10% for cases over 6 months old. Due to funding

issues, continued use of an outside vendor to assist with the outstanding cases has been put on hold.

- Received approximately 800+ applications for December 2014 retirement (highest in history).
- ERS staff met with Vitech Systems Group, Inc. (Vitech), ERS' vendor for the pension database management system, to discuss how the Vitech system would be able to assist with the finalization of retirement benefits on a long-term basis.

The Trustees discussed their concerns with the number of cases of outstanding finalization of retirement benefits. As a result of the concerns expressed by the Trustees, the monthly Operations Report will include a separate section or further breakdown of the cases within the 6 month standard finalization deadline and finalization cases over 6-months old to help the Trustees to better understand and evaluate the "aging" of the finalization cases.

APPROVAL OF MINUTES –  
NOVEMBER 17, 2014

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Frane, and unanimously carried, the Board approved the minutes of the November 17, 2014 meeting, as circulated.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Kane, seconded by Trustee Matsumoto, and unanimously carried, the Board entered 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 powers, duties, privileges, immunities, and liabilities with respect to Employees' Retirement System of the State of Hawaii and State of Hawaii ex rel. Stephen Jackson v. Clarion Partners LLC and Ing Clarion Realty Services LLC; appropriate action.
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys on the Board's powers, duties, privileges, immunities, and liabilities with respect to filed and pending securities litigation involving the Employees' Retirement System of the State of Hawaii; appropriate action.
- To approve executive session minutes of the November 17, 2014 meeting.

(All ERS staff except the Interim Executive Director, the Interim Deputy Executive Director, Ms. Hirata and Ms. Joyo were excused from the meeting.)

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 EMPLOYEES'  
RETIREMENT SYSTEM OF  
THE STATE OF HAWAII AND  
STATE OF HAWAII EX. REL.  
JACKSON V. CLARION  
PARTNERS LLC AND ING  
CLARION REALTY SERVICES  
LLC

EXECUTIVE SESSION TO  
CONSULT WITH THE  
BOARD'S ATTORNEYS ON  
THE BOARD'S POWERS,  
DUTIES, PRIVILEGES,  
IMMUNITIES, AND  
LIABILITIES WITH RESPECT  
TO FILED AND PENDING  
SECURITIES LITIGATION  
INVOLVING THE  
EMPLOYEES' RETIREMENT  
SYSTEM OF THE STATE OF  
HAWAII

APPROVAL OF EXECUTIVE  
SESSION MINUTES –  
NOVEMBER 17, 2014

EXIT EXECUTIVE SESSION

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

(ERS staff that was previously excused from executive session returned to the meeting.)

NEXT MEETING  
– FEBRUARY 9, 2015

Chair Lee Loy announced that the next Board meeting is scheduled for February 9, 2015.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto, and unanimously carried, the Board adjourned the meeting at 1:55 p.m.

## **REDACTED SIGNATURE**

Kanoe Margol  
Interim Executive Director

KM: jh