

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

MARCH 12, 2018

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

Trustees present: Mr. Jerome Rauckhorst, Vice Chair
Mr. Vincent Barfield
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
Ms. Laurel Johnston
Dr. Genevieve Ley
Mr. Wesley Machida

Trustees absent: Mr. Emmit Kane, Chair

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoe Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Retirement Benefits Manager
Mr. Howard Hodel, Acting Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Andrew Chen, Investment Specialist
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. Ian Wetzel, Investment Specialist
Ms. Dale Kehau Kanae, Recording Secretary
Ms. Lori Kim, Secretary
Ms. Gerri Konishi, Member Home Loan Assistant

Staff excused Ms. Wanda Kugiya, Secretary

Attorneys present: Mr. Lyle Leonard, Deputy Attorney General
Ms. Elmira Tsang, Deputy Attorney General
Ms. Jodi Yi, Deputy Attorney General

Guests present: Mr. Matt Kaplan, Almanac Realty Investors, LLC (by telephone)
Ms. Gabrielle Porter, Almanac Realty Investors, LLC (by telephone)
Mr. Chae Hong, Aon Hewitt Investment Consulting, Inc.
Ms. Leanna Orr, Institutional Investor
Mr. Ted Lennon, Lowe Enterprises Investment Management, LLC
Mr. Russell Munn, Lowe Enterprises Investment Management, LLC
Mr. Neil Rue, Pension Consulting Alliance, LLC

QUORUM/CALL TO ORDER

A quorum being present (Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Ley, and Machida), Vice Chair Rauckhorst 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.

PUBLIC COMMENT Vice Chair Rauckhorst called for public comment. There were no public present, therefore no public comments.

RECESS Vice Chair Rauckhorst called for a recess at 9:01 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, Executive Director Thomas Williams, Retirement Benefits Manager Karl Kaneshiro, and Deputy Attorney General Jodi Yi).

RECONVENE A quorum being present (Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Johnston, Ley, and Machida), Vice Chair Rauckhorst reconvened the meeting at 9:46 a.m.

AON HEWITT INVESTMENT CONSULTING, INC, - THIRD QUARTER 2017 REAL ESTATE PERFORMANCE REVIEW Investment Officer – Illiquid Markets (IO-IM), Aaron Au discussed a change in disclosure of IRR numbers in the quarterly reports going forward. IO-IM Au introduced Mr. Chae Hong of Aon Hewitt Investment Consulting, Inc. (Aon) who gave an oral and written update on the private real estate program as of September 30, 2017:

EXECUTIVE SUMMARY
Real Estate Markets Performance and Overview

- Real estate market continues to moderate: Vacancy held fairly steady across core property types in second quarter, driven by no significant changes in new supply and demand trends. Industrial continued to outperform on a relative basis across the core property types; with Apartments underperforming.
- Investors hunt for yield: Transaction volume in second quarter continued to demonstrate an elevated level of pricing uncertainty as a disconnect between buyers’ and sellers’ expectations remained present. That said, investors still paid handsomely for well located properties in primary markets; helping to keep cap rates sticky and low. Search for yield continued to be a key driver of sales activity across all property types.
- Portfolio structure important: Overall, real estate fundamentals and pricing remain at a mature point in the cycle. Given that, it is important to ensure that risk mitigation strategies are incorporated into the portfolio’s structure. Preferred equity and debt structures are important investment considerations that can help mitigate medium term cyclical risks.

Portfolio Funding Status and Real Estate Portfolio Composition
HIERS’ Summary of Portfolio Returns (Time-Weighted)

- HIERS’ real estate portfolio performance has been strong across all risk spectrums (Core-Opportunistic), with the Opportunistic portfolio leading the way as one of the strongest drivers of returns.
- Overall the portfolio is performing well.

HIERS Returns vs. Benchmark (Time-Weighted)
The real estate portfolio continues to do well by outperforming its 1- and 5-year benchmarks on a net basis.

HIERS Real Estate Portfolio Highlights
Infrastructure Performance

After his presentation, Mr. Hong left the meeting.

LEGISLATIVE PROPOSALS
RELATED TO THE
EMPLOYEES'
RETIREMENT SYSTEM
FOR THE 2018
LEGISLATIVE SESSION
(INCLUDED IN SCHEDULE
A).

Executive Director Williams and Program Specialist Donna Curry presented, for the Boards review, two (2) listings of ERS-initiated and ERS-related House and Senate Bill proposals for the 2018 Legislative Session that ERS continues to monitor as of March 9, 2018.

Bills recommended that the ERS Board SUPPORT:
SB 2228 SD1, SB 2764 SD2, SB 2765 SD1, SB 2766 SD2, SB 2767 SD2,
HB 2336 HD1, and HB 2341 HD1.

Bills recommended that the ERS Board OPPOSE:
HB 629 SD1, and HB 913 HD2 SD1.

Bills recommended that the ERS Board MONITOR:
SB 249 SD2 HD1, SB 2333 SD2, SB 2585 SD2, SB 2598 SD2, SB 2660,
HB 887 HD1, and HB 1778 HD1.

And finally, Bills that did not crossover and are no longer moving for this session:

SB 250, SB 383 SD1, SB 927, SB 929, SB 931, SB 933, SB 1226, SB 2181,
SB 2236, SB 2253, SB 2357, SB 2555 SD1, SB 2660, SB 2763 SD1, SB 2768,
SB 2982, SB 2983, HB 2116, HB 2140, HB 2337, HB 2338, HB 2339,
HB 2340, HB 2496, and HB 2544 HD1.

EXECUTIVE DIRECTOR'S
REPORT

Executive Director Williams reported to the Board that:

- Acting Chief Investment Officer (CIO), Howard Hodel has been working with Man FRM and Executive Director Williams is now an ex-officio member of the Crisis Risk Committee.
- Time was spent with all of the consultants: PCA, Hamilton Lane, and Aon to assure their support during the leadership transition taking place; they have committed to be available to us during this period.
- A letter was sent out to investment managers and service providers communicating that Howard Hodel has been appointed as Acting CIO as of March 1, 2018.
- Executive Director Williams is meeting regularly with the investment team and meets separately with the Acting CIO, assure no delay in any of the activities during this leadership change.
- A number of Freedom of Information Act requests received FROM media as it relates to the departure of the CIO and have relayed that these are confidential personnel matters not for disclosure. The CIO resigned effective February 22, 2018.
- KPMG called to make sure no implications for the portfolio would be impacted as a result of the CIO departure; assured them that none would be.
- CIO search has been posted to the procurement website with the deadline of noon today. There is also a timeline related to this search included in the Board packet material. We have received unsolicited resumes that will be turned over to the search firm we have hired.
- Has attended Legislative hearings and are pleased with our Bills as they move forward.
- A formal request will be made at the next Board meeting to authorize the ERS to become a signatory of the Principles for Responsible Investment.
- Trustee Orientation continued with the second phase for Trustee Ley meeting with the Investment Team, IT and Accounting Sections.
- We wrote a letter to the editor regarding put-writing strategy.

EXECUTIVE DIRECTOR'S
REPORT (CONT'D)

- Travel expenses for past travel for the Investment Team have been completed.
- Will be interviewed by Leanna Orr from Institutional Investors.

OPERATIONS REPORT
– FEBRUARY 2018

Deputy Executive Director, Kanoe Margol presented the February 2018 Operations Report to the Board.

APPROVAL OF MINUTES
– DECEMBER 11, 2017

The December 11, 2017, minutes were not available and thus this item was deferred.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board entered into Executive Session at 10:23 a.m.

- 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 Almanac Realty Securities VIII, L.P. ("Almanac VIII" or the "Fund").

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
ALMANAC REALTY
SECURITIES VIII, L.P.
("ALMANAC VIII" OR THE
"FUND")

EXIT EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited executive session at 10:55 a.m.

LOWE ENTERPRISES
INVESTMENT
MANAGEMENT, LLC –
PORTFOLIO REVIEW

IO-IM Au introduced Messrs. Ted Lennon and Russell Munn of Lowe Enterprises Investment Management, LLC, (Lowe) who gave an oral and written presentation on the Portfolio Review of the Ka'anapali revitalization program. Lowe continues to evaluate various options in light of the community feedback and will periodically update the Board and/or the Ka'anapali Ad Hoc Committee.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried the Board entered into executive session at 11:18 a.m.

- Pursuant to HRS § 92-5(a)(4), the Board of Trustees 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 this matter.
- Pursuant to HRS § 88-27.5(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

ENTER EXECUTIVE
SESSION (CONT'D)

issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to changing the structure and manager composition of the Stabilized Growth – Credit portfolio structure and policy guidelines.

- 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 a recommended compromise or settlement of the Employees' Retirement System's claim for overpayment against a member's beneficiary; appropriate action.
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding a potential administrative action against a foreign municipality for tax reimbursement, 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 administrative action; appropriate action.
- Pursuant to HRS § 92-5(a)(2) and (4), to evaluate the performance of duties and compensation of Employees' Retirement System's personnel, where matters affecting privacy will be involved, 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 the evaluations; discussion and appropriate action.

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(A)(4), THE BOARD OF
TRUSTEES 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 THIS
MATTER

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(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 STABILIZED
GROWTH – CREDIT
PORTFOLIO STRUCTURE
AND POLICY GUIDELINES

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 A
RECOMMENDED
COMPROMISE OR
SETTLEMENT OF THE
EMPLOYEES'
RETIREMENT SYSTEM'S
CLAIM FOR
OVERPAYMENT AGAINST
A MEMBER'S
BENEFICIARY;
APPROPRIATE ACTION

(Trustee Machida left the meeting at 11:39 a.m.)

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(A)(4), TO CONSULT
WITH THE BOARD'S
ATTORNEYS REGARDING
A POTENTIAL
ADMINISTRATIVE ACTION
AGAINST A FOREIGN
MUNICIPALITY FOR TAX
REIMBURSEMENT, 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
ADMINISTRATIVE

ACTION; APPROPRIATE
ACTION

APPROVAL OF
EXECUTIVE SESSION
MINUTES
- DECEMBER 11, 2017

(All individuals except the Trustees and Deputy Attorney General Jodi Yi left the meeting).

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(2) AND (4), TO
EVALUATE THE
PERFORMANCE OF
DUTIES AND
COMPENSATION OF
EMPLOYEES'
RETIREMENT SYSTEM'S
PERSONNEL, WHERE
MATTERS AFFECTING
PRIVACY WILL BE
INVOLVED, 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 THE
EVALUATIONS;
DISCUSSION AND
APPROPRIATE ACTION

EXIT EXECUTIVE SESSION

On a motion made by Trustee Johnston, seconded by Trustee Chan, and unanimously carried, the Board exited executive session at 12:14 p.m.

ADJOURNMENT

On a motion made by Trustee Johnston, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board adjourned the meeting at 12:15 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik