

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

SEPTEMBER 10, 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
Dr. Genevieve Ley
Mr. Wesley Machida

Trustees absent: Ms. Jackie Ferguson-Miyamoto
Ms. Laurel Johnston

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoë 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. Geraldine Konishi, Member Home Loan Assistant
Ms. Wanda Kugiya, Secretary

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

Guests present: Mr. Colin Bebee, Pension Consulting Alliance, LLC
Mr. Neil Rue, Pension Consulting Alliance, LLC
Mr. Paul Yett, Hamilton Lane Advisors, LLC

Public present: Mr. Wayne Yoshioka, Hawaii Public Radio

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

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

RECESS Chair Kane called for a recess at 9:00 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, Elmira Tsang, and Jodi Yi; 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, Ley, and Machida), Chair Kane reconvened the meeting at 10:09 a.m.

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

Program Specialist, Donna Curry and Executive Director, Thomas Williams, presented for the Board's review, a list of ERS-related potential legislative proposals for the 2019 Legislative Session and suggested approval of the first two proposals listed: Service Connected Disability and Recovery of Overpayments. The potential proposals presented were recommended for approval by the Administrative and Legislative Committee on August 20, 2018, and upon approval, proposals will be drafted for consideration for the Department of Budget and Finance and the Governor's Office.

On a motion made by Trustee Barfield, seconded by Trustee Ley, and unanimously carried, the Board reviewed and approved the first two potential proposals as presented. The Board suggested the Administrative and Legislative Committee discuss and propose legislation relating to the unfunded liability.

HAMILTON LANE ADVISORS, LLC – PRIVATE EQUITY PROGRAM UPDATE – SEPTEMBER 2018 FOR PERIOD ENDING MARCH 31, 2018

Investment Officer-Illiquid Markets (IO-IM), Aaron Au, and Hamilton Lane Advisors, LLC (HL), Paul Yett, gave an oral and written presentation on the Private Equity Program Update - September 2018 for the period ending March 31, 2018. Mr. Yett discussed the Portfolio Review and Private Equity Market Brief.

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board entered into Executive Session at 10:43 a.m.

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;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions and deliberations 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 relating to an update on Crisis Risk Offset manager search;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions, deliberations, and if appropriate, to make decisions related to the selection of a

custodial bank to provide Global Custody and Securities Lending Services, update; appropriate action;

- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions, deliberations, and if appropriate, to make decisions related to the Global Small Cap Equity investment strategy; appropriate action;
- Pursuant to HRS § 88-27.5(a)(1), to conduct discussions, deliberations, and if appropriate, to make decisions related to the Equity-oriented Options-based investment strategy; appropriate action;
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding developments in ongoing litigation, 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 litigation; appropriate action;
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding HRS Chapter 92, Part I, Sunshine Law Amendments Update and education, 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 amendments, 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 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), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS 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 RELATING TO AN UPDATE ON CRISIS RISK OFFSET MANAGER SEARCH

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1), TO CONDUCT DISCUSSIONS, DELIBERATIONS, AND IF APPROPRIATE, TO MAKE DECISIONS RELATED TO THE SELECTION OF A CUSTODIAL BANK TO PROVIDE GLOBAL CUSTODY AND SECURITIES LENDING SERVICES, UPDATE; APPROPRIATE ACTION

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1), TO CONDUCT DISCUSSIONS, DELIBERATIONS, AND IF APPROPRIATE, TO MAKE DECISIONS RELATED TO THE GLOBAL SMALL CAP EQUITY INVESTMENT STRATEGY; APPROPRIATE ACTION

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(a)(1), TO CONDUCT DISCUSSIONS, DELIBERATIONS, AND IF APPROPRIATE, TO MAKE DECISIONS RELATED TO THE EQUITY-ORIENTED OPTIONS-BASED INVESTMENT STRATEGY; APPROPRIATE ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO CONSULT WITH
THE BOARD'S
ATTORNEYS REGARDING
DEVELOPMENTS IN
ONGOING LITIGATION,
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
LITIGATION;
APPROPRIATE ACTION

APPROVAL OF
EXECUTIVE SESSION
MINUTES

– JANUARY 24, 2018

(CONFIDENTIAL
MINUTES)

– FEBRUARY 12, 2018

(INCLUDES CONFIDENTIAL
MINUTES)

– MARCH 12, 2018

(INCLUDES
CONFIDENTIAL MINUTES)

– APRIL 9, 2018

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), TO CONSULT WITH
THE BOARD'S
ATTORNEYS REGARDING
HRS CHAPTER 92, PART I,
SUNSHINE LAW
AMENDMENTS UPDATE
AND EDUCATION, 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
AMENDMENTS,

APPROPRIATE ACTION

EXIT EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board exited Executive Session at 12:18 p.m.

RECESS

Chair Kane called for a lunch recess at 12:18 P.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ley, and Machida), Chair Kane reconvened the meeting at 12:35 p.m.

AMENDMENT OF THE AGENDA

Trustee Machida requested that an amendment to the agenda be made to discuss the Little League team from Hawaii that became the Little League World Champions.

On a motion made by Trustee Machida, seconded by Trustee Barfield, and unanimously carried, the Board amended the agenda to include a discussion about the Hawaii team that became the Little League World Champions.

Trustee Machida suggested that as an added item to the next Board meeting agenda a presentation be made by the ERS Board to the Little League World Champions. Team member Kaolu Holt is the son of ERS staff member Bradford Holt. Trustee Machida further added that the Little League World Champions, have brought so much joy and recognition to Hawaii.

On a motion made by Trustee Machida, seconded by Trustee Barfield, and unanimously carried, the Board agreed to add to next month's Board agenda a presentation to Mr. Kaolu Holt, his family, and the Little League World Champions.

CHIEF INVESTMENT OFFICER STATUS

Executive Director Williams reported that Elizabeth Burton was offered and accepted the Chief Investment Officer (CIO) position and her first day will be October 1, 2018.

EXECUTIVE DIRECTOR'S REPORT

Executive Director Williams gave an oral presentation of his report as follows:

- ERS recently held employer meetings across the State. Two hundred twenty-six (226) employer representatives attended a meeting on the grounds of Honolulu Hale focusing on employer compliance with payroll reporting statutes, which needs to be met by 2020. Some employers are having challenges modifying their payroll systems to interface with ours.
- Internal Revenue Service Act 1, private letter ruling. IRS recently wrote the ERS regarding an early retirement incentive that was offered in early 2004 to about 25 people electing a lump sum payment and asked if those retirees paid taxes? We reported back stating that the taxes were withheld by the employers. Eighteen (18) individuals elected the early retirement benefit, the statute of limitations may have passed on this. We are awaiting a response from the IRS.
- A dinner will be planned to welcome the new CIO.
- Administrative and Legislative Committee met and proposals were presented at today's meeting.
- A pension spiking article was shared and the Executive Director had conversations with Senator Dela Cruz's key staff person about the

amount of the spiking and how this occurred. We charge the employers when there is obvious spiking. The amount of the charge is substantial for employers and they are trying to discourage overtime.

- Attended a public funds forum in Laguna Beach California. James Comey, Jr. former FBI Director was a keynote speaker and Andrew Fastow, former CFO of Enron Corporation both gave presentations that were interesting and informative.
- The Executive Director and Board Chair will be attending the Principles for Responsible Investment (PRI), a Global Conference in San Francisco that follows a Global Climate Change Conference. The Governor is scheduled to sign a global climate change agreement that is intended to keep temperature growth below 2°F. The ERS will also have its own signing ceremony where the Executive Director and Board Chair will acknowledge compliance with the PRI.
- Bank of New York Mellon has offered us a client advisory board seat.

OPERATIONS REPORT

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

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, the Board adjourned the meeting at 1:04 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik