

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

APRIL 8, 2019

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
Dr. Genevieve Ley
Mr. Wesley Machida

Trustee Absent Mr. Roderick Becker

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Retirement Benefits Manager
Ms. Elizabeth Burton, Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Ian Wetzel, Investment Specialist
Ms. Geraldine Konishi, Member Home Loan Assistant
Ms. Dale Kehau Kanae, Recording Secretary
Ms. Lori Kim, Secretary

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

Guests present: Mr. Collin Bebee, Pension Consulting Alliance, LLC
Mr. Ryan Lobdell, Pension Consulting Alliance, LLC
Mr. Peter Hanashiro, KMH LLP
Mr. Kenny Lee, KMH LLP
Mr. Tyson Suehiro, KMH LLP
Mr. Marcus Berry, PGIM
Mr. Timothy Robeson, PGIM
Mr. Chae Hong, Townsend Group, an Aon Company (via telephone)

QUORUM/CALL TO ORDER A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, 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 8:00 a.m.

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

RECESS

Chair Kane called for a recess at 8:00 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, Ferguson-Miyamoto, Ley, and Machida), Chair Kane reconvened the meeting at 8:55 a.m.

PENSION CONSULTING ALLIANCE, LLC – ASSET LIABILITY STUDY UPDATE

Meketa Investment Group, formerly known as Pension Consulting Alliance, LLC (Meketa), Mr. Colin Bebee, presented an oral and written report to the Board on the 2019 Asset Liability Study (Strategic Class Discussion). Mr. Bebee reviewed the strategic classes and framework for which the model will be utilized and implemented in the coming years. The goal of the strategic allocation is to construct a portfolio with the highest probability of achieving the ERS’s overall goals with the lowest risk possible. Best practices in designing a strategic allocation is to conduct an Asset Liability Study. Mr. Bebee also reviewed the preliminary timeline, and noted that determining the strategic allocation is an important project the Trustees should actively be involved in and have opinions and say in the process, this will be the major determinant to the success of the plan over time. ERS Staff and Meketa are proposing modest enhancements (one new high-level class) to the Strategic Allocation Framework. The new class, a dedicated Diversifying Class of which Crisis Risk Offset will be one of its sub-components, similar to Traditional Growth, Stabilized Growth, and Private Growth within Broad Growth. Mr. Bebee explained several aspects of the dedicated Diversifying Class, it’s purpose and construct, and potential components. The results from the Trustee Asset Liability Survey will guide the ERS Staff and Meketa in recommending specific strategies and components for the Class. Brief explanations were given on Global Macro and Reinsurance. The ERS Staff and Meketa will provide an analysis of the 2019 Asset-Liability Trustee Survey at the next meeting.

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

Program Specialist, Donna Curry presented to the Board on behalf of Executive Director (ED), Thomas Williams, an updated listing of the ERS-initiated and ERS-related proposals for the 2019 Legislative Session as submitted. ERS Staff will continue to monitor the listing of legislation.

DRAFT INTERNAL AUDITOR’S REPORT, INTERNAL AUDIT PLAN, INTERNAL AUDIT CHARTER, AUDIT COMMITTEE CHARTER, AND FINANCIAL REPORTING PROCESS REVIEW OF THE EMPLOYEES’

Trustee Ley, Chair of the Audit Committee (Committee) gave a brief background of the ERS Internal Audit, Update Report that was accepted by the Committee on March 20, 2019, and is being recommended to the Board.

(Messrs. Peter Hanashiro, Kenny Lee, and Tyson Suehiro of KMH LLP entered the meeting at 9:15 a.m.)

Messrs. Hanashiro, Lee, and Suehiro of KMH LLP (KMH), presented to the Board the ERS Internal Audit Update Report as submitted. Mr. Hanashiro reviewed the Executive Summary (Internal Audit activity since the last

RETIREMENT SYSTEM
(Cont'd)

presentation to the Committee in June 2017) and discussed: Re-engagement of Internal Audit and Other Administrative Matters, Internal Audit Charter and Audit Committee Charter Review, and Financial Reporting Process Review. Mr. Hanashiro also reviewed the Status on Current Projects: Policy Development Assistance and Monitoring, and Investment Consultant Selection and Evaluation Review.

ENTER EXECUTIVE
SESSION

At Chair Kane's request, the Board entered into Executive Session. On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board entered into Executive Session at 9:29 a.m.

- Pursuant to HRS § 92-5(a)(4) and (8), the Board of Trustees may enter into Executive Session to consider information that must be kept confidential pursuant to a state or federal law, 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.

(Mr. Colin Bebee of Meketa Investment Group left the meeting).

DRAFT INTERNAL
AUDITOR'S REPORT,
INTERNAL AUDIT PLAN,
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REPORTING PROCESS
REVIEW OF THE
EMPLOYEES'
RETIREMENT SYSTEM
(Cont'd)

EXIT EXECUTIVE SESSION

At Chair Kane's request, the Board exited Executive Session. On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Ley, and unanimously carried, the Board exited Executive Session at 9:50 a.m.

DRAFT INTERNAL
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(Cont'd)

Trustee Ley, Chair of the Audit Committee, motioned to accept the changes of the Internal Audit Charter and the Audit Committee Charter. Chair Kane, confirmed the motion and asked for a second motion. Trustee Barfield seconded the motion, and unanimously carried, the Board accepted the Internal Audit and Audit Committee Charters.

Chair Kane then requested the Board approve, at the Audit Committee's recommendation, the revised Internal Audit Plan. On a motion made by Trustee Ley, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board accepted the revised Internal Audit Plan.

Chair Kane also requested the Board approve the Audit Committee's recommended final draft of the Internal Auditor's Report with the exception of changes as identified in the discussion. On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board accepted the final draft Internal Auditor's Report with exceptions and adopt the Financial Report Process Review.

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AUDITOR'S REPORT,
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(Cont'd)

(Messrs. Peter Hanashiro, Kenny Lee, and Tyson Suehiro of KMH LLP left the meeting after their presentation).

BOARD REVIEW OF
TRAVEL, APPROVAL, AND
POTENTIAL DELEGATION

Executive Director Williams presented to the Board, at the suggestion of the Deputy Director of Budget & Finance (B&F), that the Board review and approve ERS travel requests before submitting to B&F for final approval. The Board discussed the suggestion and felt that they should not be approving ERS travel as another step in the approval process. Executive Director Williams stated that under the Travel Policies, Departments can delegate responsibility to Agency Directors. The Board discussed and requested a structured ERS Travel Policy, a report to be submitted to the Board, and should B&F delegate the responsibility to the Board, the Board would in turn delegate the responsibility to the ERS Executive Director.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board entered into Executive Session at 10:12 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 if appropriate, to make a decision 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, 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), and HRS § 92-5(a)(4), to conduct discussions and deliberations relating to, 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, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities relating to Real Estate Fund Commitment.

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(a)(1) AND HRS § 92-
5(a)(4), TO CONDUCT
DISCUSSIONS AND
DELIBERATIONS

RELATING TO, AND IF APPROPRIATE, TO MAKE A DECISION 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, 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), AND HRS § 92-5(A)(4), TO CONDUCT DISCUSSIONS AND DELIBERATIONS RELATING TO, 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, AND TO
CONSULT WITH THE
BOARD'S ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE
BOARD'S POWERS,
DUTIES, PRIVILEGES,
IMMUNITIES, AND
LIABILITIES RELATING TO
REAL ESTATE FUND
COMMITMENT

APPROVAL OF
EXECUTIVE SESSION
MINUTES

– SEPTEMBER 10, 2018
– OCTOBER 9, 2018

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 11:10 a.m.

APPROVAL OF MINUTES

– SEPTEMBER 10, 2018
– OCTOBER 9, 2018

On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved the minutes for the September 10, 2018, meeting, as presented.

The October 9, 2018, minutes were not available and thus deferred to the next Board meeting.

EXECUTIVE DIRECTOR'S
REPORT

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

- Attended the Maui and Kauai City Council meetings presenting actuarial status and information regarding contributions, forecasting increase in new employer rates and spiking charges.
- Met with Senator Donovan Dela Cruz and his staff and Senator Brian Taniguchi for purposes of getting support of our budget. We also discussed the recovery of overpayments bill.
- Attended the Audit Committee meeting with staff and KMH regarding the Internal Audit as discussed earlier in this meeting.
- Received a consultant proposal from Funston Advisory.
- Attended numerous meetings with the Department of Accounting & General Services and Budget & Finance regarding the payroll reporting project. The employers are required to provide us with salary and payroll information in a form that is usable by our system. A project called HiPay has challenges, but we have a task force addressing that.
- As previously reported, at our last Investment Summit, a settlement was accepted regarding a dispute with one of our presenters.
- Our ERS supplemental budget of \$2.8 million is proceeding positively. Included in the budget before the Governor are: IT projects (moving to the Cloud), one Investment Officer, two Retirement Claims Examiners,

EXECUTIVE DIRECTOR'S
REPORT (Cont'd)

two temporary information technology staff, and approval of the new phone system.

- Met with the Governor regarding Securities Litigation. Also discussed compensation and staffing for the Investment Office, Accounting, and IT areas. The Governor has been working with DAGS trying to identify an organization that can serve as a pilot program to determine whether tactics can be used to help fill difficult jobs.
- An article suggesting the ERS is positioned for the next recession was communicated with the local media and we will send out a press release, add it in our Holomua, and possibly send it directly to all Legislators.
- Will be attending the Pension Bridge Conference in San Francisco with the CIO and two of our Trustees.

OPERATIONS REPORT

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

ADJOURNMENT

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, Chair Kane adjourned the meeting at 11:18 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik