

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

DECEMBER 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  
Ms. Jackie Ferguson-Miyamoto  
Ms. Laurel Johnston  
Dr. Genevieve Ley  
Mr. Wesley Machida

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. Andrew Chen, Investment Specialist  
Mr. Anthony Goo, Investment Officer – Liquid Markets  
Mr. Howard Hodel, Investment Officer – Risk Management  
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. Collin Bebee, Pension Consulting Alliance, LLC

Public present: Ms. Beth Giesting, Hawaii Budget & Policy Center

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

Lei presentations to Wanda Kugiya and Trustee Laurel Johnston upon their upcoming retirement on December 31, 2018.

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

RECESS

Chair Kane called for a recess at 9:06 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, Johnston, Ley, and Machida), Chair Kane reconvened the meeting at 9:54 a.m.

Note: Agenda items for this meeting were taken out of order to accommodate presenter's schedule. New Business Item No. 1 was reported on first.

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, a re-drafted bill for submission with the Governor's administrative package, a statutory basis for the recovery of overpayments of ERS benefits. This bill declares overpaid member benefits to be a debt due and owing to the ERS and authorizes the ERS to promulgate and enforce such rules and regulations as may be necessary to recover overpaid member benefits. This draft will be submitted for consideration to the Department of Budget and Finance and then to the Governor's Office.

2019 SCHEDULE OF ERS  
BOARD OF TRUSTEES  
MEETINGS, AND  
ELECTION OF OFFICERS  
AND COMMITTEE  
ASSIGNMENTS

Chair Kane presented to the Board a draft schedule of ERS Board Meetings for 2019. Chair Kane also presented to the Board, a draft of the ERS Board Officers and Committee Assignments for 2019 and urged other Trustees to consider becoming Chair or Vice Chair of the Board or various Committees. Chair Kane mentioned that if anyone had a preference for a Committee, they should let Executive Director Williams know so that it could be approved at the next Board meeting.

RENOVATION OF CITY  
FINANCIAL TOWER, 14<sup>TH</sup>  
AND 15<sup>TH</sup> FLOORS FOR  
THE EMPLOYEES'  
RETIREMENT SYSTEM

ED Williams presented to the Board the ERS Office renovation plans for the 14<sup>th</sup> and 15<sup>th</sup> floors. ED Williams discussed the re-design/expansion of the 14<sup>th</sup> floor reception area and the 15<sup>th</sup> floor relocation of the administration and investment offices. This redesign and relocation is to reduce overcrowding in the reception area and to accommodate the space needs of each of the various branches: retirement benefits, accounting, information services, administration, and investments. Costs related to the buildout and relocation is about \$691,000, and includes all design fees, improvements, etc. and will be funded through the operating budget of the building. We are attempting to reuse all the existing furnishings.

2018 VERIFICATION OF  
INVESTMENT MANAGERS  
COMPLIANCE WITH THE  
EMPLOYEES'  
RETIREMENT SYSTEM'S  
DERIVATIVES POLICY

Chief Investment Officer (CIO), Elizabeth Burton gave an oral and written report to the Board on behalf of Pension Consulting Alliance, Inc. (PCA), regarding the 2018 Verification of Investment Manager Compliance with ERS's Derivatives Policy. ERS's investment policies and procedures require their investment manager's use of derivatives be reviewed on an annual basis. This report was submitted as a receive and file.

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 10:10 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 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), 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 an update on the Portfolio Implementation Overlay Manager Search.
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding a potential claim involving the Employees' Retirement System, 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 claim involving the Employees' Retirement System; 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), 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  
AN UPDATE ON THE  
PORTFOLIO  
IMPLEMENTATION  
OVERLAY MANAGER  
SEARCH

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 POTENTIAL  
CLAIMS RELATING TO  
THE EMPLOYEES'  
RETIREMENT SYSTEM;  
APPROPRIATE ACTION

APPROVAL OF  
EXECUTIVE SESSION

## MINUTES

- JULY 25-17, 2018 (WITH CONFIDENTIAL MINUTES)
- AUGUST 13, 2018
- SEPTEMBER 10, 2018

### EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board exited Executive Session at 10:37 a.m.

### APPROVAL OF MINUTES

- JULY 25-27, 2018
- AUGUST 13, 2018
- SEPTEMBER 10, 2018

On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved the minutes for the July 25-27, 2018, meeting, as presented.

The August 13, 2018, and September 10, 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:

- At the request of the Director of Budget and Finance, ERS staff met with legislative leaders (House Finance staff, Representative Sylvia Luke and staff, Senate Ways and Means staff, and Senator Brian Taniguchi) to discuss ERS programs and budget requests for FY 2019, specifically related to mandatory technology issues. We will also be meeting separately with Representatives Aaron Johanson, Sylvia Luke, and Senator Donovan Dela Cruz.
- The Chief Investment Officer and the Executive Director traveled to New York, NY to visit managers and participated on a panel in a private equity conference, Sahar Global Summit.
- Program Support, a new section within ERS Administration, to consist of three positions, two ERS Program Specialist positions and one Program Specialist Supervisor position, of which Ms. Donna Curry has been promoted to, effective today.
- Investment Specialist conversion from Civil Service to an Exempt position. We will be converting a vacant Civil Service position to an exempt Investment Officer position.
- We have asked the actuaries to calculate the impact of a bill introduced for judges lowering the multiplier and how it might impact future liabilities.
- Actuarial valuation will be presented in January for adoption. No significant changes are anticipated.
- A legislative orientation was given last month and was very well received.
- City Financial Tower occupancy is about 52%
- We were approached and asked to consider acquiring Alii Place and have asked Heitman to perform an analysis for ERS.
- Investment Summit venues are being reviewed by the Chief Investment Officer and staff. The Four Seasons is the site that is most likely to be selected.
- Actuarial presentation sessions have been scheduled with B&F, Senate and House of Representatives, State and County Employers, and ERS Staff.
- ERS and EUTF will also be supporting B&F with a bond presentation in January.

- A handbook, “One of a Kind! A Practical Guide for 21<sup>st</sup> Century Public Pension Trustees” by Frederick Funston has been ordered for all the trustees.

**OPERATIONS REPORT**

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

**RECESS**

Chair Kane called for a recess for lunch at 11:05 p.m.

**RECONVENE**

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Johnston, Ley. and Machida), Chair Kane reconvened the meeting at 11:32 p.m.

**HAWAII BUDGET &  
POLICY CENTER –  
INTRODUCTION**

Executive Director Williams introduced Ms. Beth Giesting of the Hawaii Budget & Policy Center. Ms. Giesting gave an oral and written presentation to the Board on the Hawaii Budget and Policy Center’s Budget Primer. The Primer focuses on the state’s executive branch budget allocating funding to all state programs and services. The Primer also provides a high-level summary of County budgets. Topics covered: Budget Lifecycle and Process, Hawaii’s Fund Categories, Revenue: Hawaii’s Taxes and Fees, How Hawaii Spends Its Money, and County Budgets at a Glance.

After her presentation, Ms. Giesting left the meeting.

**ADJOURNMENT**

On a motion made by Trustee Machida, seconded by Trustee Barfield, and unanimously carried, Chair Kane adjourned the meeting at 12:33 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:dkik