

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

FEBRUARY 11, 2019

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

Trustees present: Mr. Emmit Kane, Chair
Mr. Jerome Rauckhorst, Vice Chair
Mr. Roderick Becker
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
Dr. Genevieve Ley
Mr. Wesley Machida

Trustee excused: Mr. Vincent Barfield

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 Officer
Ms. Dale Kehau Kanae, Recording Secretary
Ms. Lori Kim, Secretary
Ms. Geraldine Konishi, Member Home Loan Assistant

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

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Ms. Mary Bates, Pension Consulting Alliance, LLC
Mr. Colin Bebe, Pension Consulting Alliance, LLC
Mr. Chae Hong, Townsend Group, an Aon Company
Mr. Paul Yett, Hamilton Lane Advisors, LLC
Mr. Russell Munn, Lowe Enterprises Investment Management, LLC
Mr. Ted Lennon, Lowe Enterprises Investment Management, LLC
Mr. Vincent Hoang, Office of Enterprise Technology Services

Public present: Mr. Benjamin Sadoski, UNITE HERE Local 5

QUORUM/CALL TO ORDER	A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees, Becker, Chan, Ferguson-Miyamoto, and Ley), 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	<p>Chair Kane called for public comment and asked that each person adhere to the three-minute time limit.</p> <p>Mr. Benjamin Sadoski of UNITE HERE Local 5 gave an update on the labor dispute at the Pullman Hotel in San Francisco.</p>
RECESS	<p>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.</p> <p>(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).</p>
RECONVENE	A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Becker, Chan, Ferguson-Miyamoto, and Ley), Chair Kane reconvened the meeting at 10:09 a.m.
PENSION CONSULTING ALLIANCE, LLC – QUARTERLY PERFORMANCE REPORT	<p>Mr. Neil Rue of Pension Consulting Alliance, LLC gave an oral and written presentation on the performance of the ERS's investment portfolio for the 4th quarter of 2018. Over the recent quarter and 1-year period the ERS Total Portfolio trailed the Policy Benchmark by (0.8%) and (1.4%), respectively. For the latest 1-year period, all four of the Plan's strategic classes underperformed their respective benchmarks and negatively weighed on results. The Total Portfolio tracked or outperformed the benchmark over the extended periods reported. The ERS Total Portfolio exceeded the Median Public Fund over the quarter but underperformed over the 1-year period. Implementation decisions (i.e. manager selection) was a positive contributor to relative results over both periods, while overall asset allocation differences detracted. The Total Portfolio's longer-term results tracked or slightly trailed the Median Public Fund. With respect to the evolving policy target that took effect January 1, 2018, the Total Portfolio ended the latest quarter overweight the <i>Broad Growth</i> class, while underweight <i>Real Return</i>. All other strategic classes were near the policy target.</p>
TOWNSEND GROUP, AN AON COMPANY – THIRD QUARTER 2018 REAL ESTATE PERFORMANCE REVIEW	<p>Mr. Aaron Au, Investment Officer, and Mr. Chae Hong of Townsend Group, an Aon Company, gave an oral and written presentation on the performance of ERS's real estate portfolio for the 3rd quarter of 2018.</p> <p>Overall the portfolio is performing well, outperforming the NFI-ODCE Index on a net of fee basis over the year-to-date, one-, three-, and five-year time periods. The total portfolio has generated an 8.1% net IRR and 1.46x net equity multiple since inception.</p> <p>During Q3 2018 and subsequent to quarter end, two new commitments were made:</p> <ul style="list-style-type: none"> • Angelo Gordon Value Fund X (up to \$50 million)

- Blackstone Real Estate Partners IX (up to \$50 million)

RECESS

Chair Kane called for a recess at 10:34 a.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Becker, Chan, Ferguson-Miyamoto, and Ley), Chair Kane reconvened the meeting at 10:54 a.m.

CYBERSECURITY
ASSESSMENT ON ERS

Mr. Vincent Hoang, Chief Information Officer, Enterprise Technology Services, gave an oral and written presentation on cybersecurity including 2018 Cybersecurity Operations Service, 2018 Web Application Security Assessment and ETS/ERS Cybersecurity Collaboration.

HAMILTON LANE
ADVISORS, LLC –
PRIVATE EQUITY
PROGRAM UPDATE – FOR
PERIOD ENDING
SEPTEMBER 30, 2018

Mr. Aaron Au, Investment Officer, and Mr. Paul Yett of Hamilton Lane Advisors, LLC gave an oral and written update of ERS's private equity portfolio as of September 30, 2018. Highlights were:

Performance:

- Strong since inception performance
- Since inception IRR increased 60 bps YoY
- Generating 457 bps premium above HIERS' public benchmark (MSCI ACWI IMI + 200 bps)
- Strong one-year performance: 19.87% net IRR

Value Creation:

- Portfolio generated \$271.5M last-twelve-months (LTM) market value growth, with \$218.9M in positive net value
- Top five funds driving net value gain generated \$51.2M, or 23% of total value gains for the LTM
-

Portfolio Snapshot:

- Q3 2018: continued value creation, market value growth and meaningful liquidity
- Market value up 5% quarter over quarter (QoQ)
- Total Private Equity exposure up 4% QoQ
- Since inception IRR up 12 bps QoQ
- Portfolio generating significant cash return
- Measured growth towards 13.5% target allocation
- NAV is up 24% or \$271.5M year-over-year (YoY)
- PE allocation as of 9/30/18 is 8.4% up 139 bps from prior year

Performance Summary:

- Q3 2018 represents the 25th consecutive quarter of positive returns
- Strong value creation across portfolio – net value gains of \$218.9M for the year
 - Recent vintage years driving results:
 - 2014-2016 vintage year funds generating \$114.3M in net value increase or 52% of Portfolio's LTM total
 - Gains are broad-based across manager relationships, as no single manager accounts for more than 7.5% of gains
- Robust distribution activity - \$293.3M or 21% of 9/30/18 NAV received in LTM distributions

Upon completion of his presentation, Mr. Yett left the meeting.

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

Ms. Donna Curry, Program Specialist, presented to the Board lists of legislative proposals initiated by or relating to the ERS and the positions that the Administrative and Legislative Committee recommends that the Board take with respect to the bills. However, after the Administrative and Legislative Committee made their recommendations, SB1514 was added to monitored bills because it may affect the ERS's investment program by requiring any newly created legal entity to be legislatively approved. Any monies put into an entity that is not approved would be deemed improperly applied. Although it does not specifically include the ERS, it may have unintended consequences limiting the ability to create entities to hold investments. Also, the legislature is only in session mid-January to mid-May which would cause problems with obtaining approvals and prevent ERS from accomplishing investment goals and responsibilities.

On a motion made by Trustee Ley, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved recommendation by staff to oppose SB1514.

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Board approved the legislative bill recommendations related to the ERS for the 2019 legislative session.

RECESS

Chair Kane called for a lunch recess at 11:35 a.m. and stated that Chapter 91 would reconvene after lunch.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Becker, Chan, Ferguson-Miyamoto, Ley, and Machida), Chair Kane reconvened the meeting at 1:03 p.m.

INVESTMENT POLICY
REVISIONS: CORE REAL
ESTATE

ERS staff is recommending two investment policy statement revisions related to core real estate. The first change relates to sector and property type/subtype classifications. The National Council of Real Estate Investment Fiduciaries ("NCREIF") has recently revised property classification guidelines to move prior specialty/niche sectors into traditional property types. Medical Office is now a subtype within the Office sector and Student Housing is now a subtype within the Apartments sector.

The second change relates to ranges for geographic diversification. Proposing to reduce the lower end of the range for core real estate International Investments (Non-US and Canada) from 10% to 0%. The new range would be 0-20%, which gives a bit more flexibility and is consistent with current portfolio positioning.

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Board approved the two changes to the investment policy statement revisions related to core real estate.

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 1:09 p.m.

(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 Chief Investment Officer, Elizabeth Burton).

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 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 the Employees' Retirement System general consultant; appropriate action;
- Pursuant to HRS § 88-27.5(a)(1), and HRS § 92-5(a)(4), to conduct discussions, 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, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities related to the Employees' Retirement Systems stabilized growth-global equity low volatility mandate;
- 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 investment advised by Lowe Enterprises Inc.; 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 § 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 Crisis Risk Offset;
- Pursuant to HRS § 88-27.5(a)(1) and (3), and HRS § 92-5(a)(4), to conduct discussions relating to investments or prospective investments by the system that require the consideration of information or records that are exempt from disclosure under Chapter 92F, including without limitation information and records that are proprietary information or confidential business or personnel 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 the strategic direction of the investment portfolio, staffing, and negotiation authority.

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
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 THE
EMPLOYEES'
RETIREMENT SYSTEM
GENERAL CONSULTANT;
APPROPRIATE ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(A)(1), AND HRS § 92-
5(A)(4), TO CONDUCT
DISCUSSIONS,
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, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES RELATED TO THE EMPLOYEES' RETIREMENT SYSTEMS STABILIZED GROWTH-GLOBAL EQUITY LOW VOLATILITY MANDATE

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 § 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
INVESTMENT ADVISED
BY LOWE ENTERPRISES
INC.; 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 CRISIS RISK OFFSET

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27.5(A)(1) AND (3), AND HRS § 92-5(A)(4), TO CONDUCT DISCUSSIONS RELATING TO INVESTMENTS OR PROSPECTIVE INVESTMENTS BY THE SYSTEM THAT REQUIRE THE CONSIDERATION OF INFORMATION OR RECORDS THAT ARE EXEMPT FROM DISCLOSURE UNDER CHAPTER 92F, INCLUDING WITHOUT LIMITATION INFORMATION AND RECORDS THAT ARE PROPRIETARY

INFORMATION OR
CONFIDENTIAL BUSINESS
OR PERSONNEL
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 THE
STRATEGIC DIRECTION
OF THE INVESTMENT
PORTFOLIO, STAFFING,
AND NEGOTIATION
AUTHORITY

APPROVAL OF
EXECUTIVE SESSION
MINUTES
– AUGUST 13, 2018

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Board exited Executive Session at 2:19 p.m.

APPROVAL OF MINUTES
- AUGUST 13, 2018

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ley, and unanimously carried, the Board approved the minutes of the August 13, 2018 meeting.

EXECUTIVE DIRECTOR'S
REPORT

Deferred to the next Board meeting.

OPERATIONS REPORT

Deferred to the next Board meeting.

ADJOURNMENT

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Chan, and unanimously carried, the Board adjourned the meeting at 2:38 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:ltk