

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

JANUARY 14, 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
Mr. Roderick Becker
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
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 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
Mr. Joe Newton, Gabriel, Roeder, Smith and Co.
Mr. Lewis Ward, Gabriel, Roeder, Smith and Co.
Mr. Mehdi Riazi, Gabriel, Roeder, Smith and Co.
Mr. Russell Munn, Lowe Enterprises Investment Management, LLC
Mr. Ted Lennon, Lower Enterprises Investment Management, LLC

Public present: Ms. Laurel Fish, Unite Here
Ms. Isabel Ponce, Unite Here
Mr. Jordan Fein, Unite Here
Mr. Zander Salas, Unite Here
Mr. Ben Sadoski, Unite Here

QUORUM/CALL TO ORDER A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Becker, 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 9:00 a.m.

PUBLIC COMMENT

Chair Kane called for public comment and asked that each person adhere to the three-minute time limit.

Isabel Ponce, works at Pullman Hotel in San Francisco for 20 years as a housekeeper. Does not feel CBRE is treating the workers well and trying to intimidate workers.

Zander Salas and Jordan Fein also spoke against CBRE's treatment of workers at the Pullman Hotel.

RECESS

Chair Kane called for a recess at 9:14 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, Becker, Chan, Ferguson-Miyamoto, Ley, and Machida), Chair Kane reconvened the meeting at 10:19 a.m.

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

Chair Kane asked the Board for nominations of officers for the 2019 Board starting with nominations for Chair. Vice Chair Rauckhorst nominated Chair Kane to continue as Chair of the Board. Chair Kane asked if there were any other nominations. No other nominations were moved.

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried the Board agreed that Trustee Kane continue as Chair of the Board for a term of one year or until a successor is elected.

Chair Kane then asked the Board for nominations for Vice Chair. Trustee Barfield nominated and requested that Vice Chair Rauckhorst also continue as Vice Chair. Chair Kane also asked if there were any other nominations. No other nominations were moved.

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board agreed that Trustee Rauckhorst continue as Vice Chair of the Board for a term of one year or until a successor is elected.

Chair Kane developed Committee Assignments with a proposed succession plan in mind due to the expected expiration of terms for Chair Kane, Trustee Rauckhorst and Trustee Ferguson-Miyamoto on January 1, 2020. Trustee Chan may also be retiring at the end of this year.

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson Miyamoto, and unanimously carried, the Board adopted the Committee

Assignments set forth in Attachment A to these minutes.

ANNUAL REPORT TO THE
LEGISLATURE REQUIRED
BY ACT 87/2015
REGARDING STATUS OF
EMPLOYER REPORTING
OF PAYROLL
INFORMATION

Ms. Donna Curry, Program Specialist, reported that the legislature in 2015 requested ERS to provide annual reports regarding the compliance of employer reporting of payroll and personnel data in the required electronic format. FY2020 is the last year of the five-year review and evaluation period. Beginning FY2021, if the employers are not in compliance, ERS may impose penalties by requiring employers to submit full contributions at the beginning of the fiscal year or be charged with interest on the unpaid portion.

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

Ms. Donna Curry, Program Specialist, presented one ERS proposal, BUF 18, regarding recovery of overpaid retirement benefits for the 2019 Legislative Session.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board accepted the Administrative and Legislative Committee's recommendation of BUF 18 for the Governor's administrative package.

ANNUAL REPORT TO THE
LEGISLATURE REQUIRED
BY ACT 260/2007
REGARDING THE HAWAII
TARGETED INVESTMENT
PROGRAM (HiTIP)

Ms. Elizabeth Burton, Chief Investment Officer, provided an annual report of the ERS in accordance with the provisions of Act 260, Session Laws of Hawaii 2007. The ERS will provide a publicly available report annually to the Legislature regarding the Hawaii Targeted Investment Program (HiTIP) related to Hawaii venture capital investments.

This report was for information only. No action was needed.

ANNUAL REPORT TO THE
LEGISLATURE REQUIRED
BY ACT 192/2007
REGARDING DIRECT
HOLDINGS IN SUDAN
SCRUTINIZED COMPANIES

Ms. Elizabeth Burton, Chief Investment Officer, provided an annual report of the ERS in accordance with the provisions under Section 4 of Act 192, Session Laws of Hawaii 2007. The ERS will provide a publicly available report annually to the Legislature regarding Direct Holdings in Sudan Scrutinized Companies.

This report was for information only. No action was needed.

ACTUARIAL VALUATION
REPORT AS OF JUNE 30,
2018

Mr. Thomas Williams, Executive Director, introduced Messrs. Joseph Newton, Senior Consultant & Actuary and Lewis Ward, Consultant of Gabriel, Roeder, Smith and Company (GRS) who presented the ERS's Valuation Results and a draft of ERS's 93rd Annual Actuarial Valuation Report for the year ending June 30, 2018.

Highlights discussed were:

Purpose of the Actuarial Valuation

- For ERS, the primary purpose of the annual actuarial valuation is to assess whether the current funding policy is expected to fully amortize the UAAL over a period of 30 years or less

2017 Valuation Highlights

- Key Changes
 - 7.9% estimated return on market value of assets for fiscal year ending June 30, 2018
 - Funded ratio increased for second year in a row
 - UAAL still anticipated to grow until contribution rates are fully phased-in and funding period reaches 20 years

- Still important that the legislation enacted in 2017 to increase employer contribution rates (4-year phase-in of increases beginning in FY2018) is fully enacted

Sources of Impact

- Investments outperformed 7.00% assumption on market basis, offsetting deferred losses from previous years
- Liabilities grew slightly faster than expected due to salary increases larger than current expectations
- Contributions in dollars are expected to be lower for Police and Fire due to head count declines from 2017 to 2018, mostly unchanged for All Other Employees

Valuation Summary

- While it does not show in the current UAAL and funded ratio, the current actuarial assumptions and the contribution commitment from Act 17 (SB 936) have materially strengthened the outlook for ERS
- The scheduled employer contribution rates are expected to be adequate to satisfy HRS §88-122(e)(1), even with substantial adverse experience
- However, all of the positive outlook assumes the scheduled increases in contribution rates occur. It is imperative that the currently scheduled funding strategies are implemented and sustained.
- New experience study planned for period ending June 30, 2018 will be presented in Summer of 2019

Stress Test Summary

- Actuarial valuation results show System is on target to be fully funded in less than 30 years
- Stress test shows that System is sustainable in a low return environment

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board accepted GRS's draft of ERS's 93rd Annual Actuarial Valuation Report for the year ending June 30, 2018.

(Unite Here Local 5 left the meeting at 11:25 a.m.)

ANNUAL REPORT TO THE
LEGISLATURE REQUIRED
BY ACT 85/2017
REGARDING THE
ACTUARIAL ASSET AND
LIABILITY STRESS TEST
2018

Mr. Williams gave a brief review of the annual report that was prepared and submitted to the legislature as required by Act 85, SLH 2017, relating to the stability of the System in the event of adverse future investment returns. Act 85 requires that the actuary of the ERS perform an annual stress test as defined by the legislation. Messrs. Newton and Ward remained for questions on the report.

The annual stress test must address the following scenarios:

- A 30-year projection of the ERS's assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio assuming the current actuarial assumptions are met.
- Two 30-year projections of the same items above assuming the actual investment performance in future years is 2% less than the assumed rate of return, but with two different contribution policies.
 - The first scenario shows the projected items assuming that the employer contribution rate in future years would increase if necessary to meet the current funding policy. In other words, if the funding period in a future year exceeds 30 years, the contribution rates would be adjusted to bring the funding period down to 30

- years.
- The second scenario shows the projected items assuming no change in the current statutory contribution rates.
- Two 30-year projections of the same items above assuming the actual investment performance in the first year is a negative 20% followed by a 20-year period where investment performance is 2% less than the assumed rate of nature, but with two different contribution policies.
 - The first scenario shows the projected items assuming that the employer contribution rate in future years would increase if necessary to meet the current funding policy of 30 years.
 - The second scenario shows the projected items assuming no change in the current statutory contribution rates.
- The estimated actuarial accrued liability, the total normal cost for each benefit tier, and the employer normal cost for each benefit tier under the current investment return assumption and using the 10-year average of the 30-year treasuries notes as of the valuation date.

Stress Test Summary Results

- Stress Test One, the ERS is expected to be fully funded (100% funded ratio) in fiscal year ending 2043. For purposes of this projection, we have assumed that the employer contribution would decrease to the employer normal cost rate once full funding is achieved.
- Stress Test Two, first and second scenarios are identical as the funding period is never expected to exceed 30 years. The impact of the underperformance is a lengthening of the period of time until the plan is fully funded, but it is never expected to be more than 30 years from a future valuation date.
- Stress Test Three, first scenario, the employer contribution rates would increase in the year following the current statutory increases to 25.25% of pay for All Other Employees and 46.00% of pay for Police and Firefighters and would increase again the following fiscal year to 25.75% of pay for All Other Employees and 47.00% of pay for Police and Firefighters and remain at those levels for the foreseeable future. Under the second scenario, the funded ratio would decline below 36% but the trust is never exhausted. The funded ratio would begin to slowly climb once the 20-year period of 5% returns ends.
- The 10-year average of the 30-year treasury notes is 3.38% as of July 1, 2018.

Based on the information reviewed for this report, the stress test shows that the System is sustainable in return environments much lower than currently assumed.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board accepted GRS's draft of ERS's Actuarial Asset and Liability Stress Test 2018.

2019 INVESTMENT
SUMMIT

Ms. Burton and Mr. Anthony Goo, Investment Officer, presented an estimated cost for the Investment Summit for Trustees and Staff which will be held at the Four Seasons Resort at Ko Olina, July 24-26, 2019.

RECESS

Chair Kane called for a lunch recess at 11:48 a.m.

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 12:15 p.m.

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 12:15 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 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, 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 related to the Employees' Retirement System U.S. Principal Protection Mandate;
- Pursuant to HRS § 88-27.5(a)(1), 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 related to the Employees' Retirement System Global Principal Protection 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 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 § 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;
- 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 against the ERS, and for appropriate action;
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding Executive Session Agenda Items, 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

HRS Chapter 92F, Uniform Information Practices Act, appropriate action;

- Pursuant to HRS § 92-5(8), to consider and evaluate the responses to, and Selection of the ERS's Request for Proposals for Internal Audit Services; appropriate action;
- Pursuant to HRS § 88-27.5(a)(1) and § 92-5(a)(2), to conduct discussions, deliberations, and to make decisions relating to the Selection of an Investment Officer of 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 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

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(A)(1), 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 RELATED
TO THE EMPLOYEES'
RETIREMENT SYSTEM U.S.
PRINCIPAL PROTECTION
MANDATE

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(A)(1), 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 RELATED
TO THE EMPLOYEES'
RETIREMENT SYSTEM
GLOBAL PRINCIPAL
PROTECTION 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 CRISIS RISK OFFSET

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

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 AGAINST THE ERS, AND FOR APPROPRIATE ACTION

EXECUTIVE SESSION, PURSUANT TO HRS § 92-5(A)(4), TO CONSULT WITH THE BOARD'S

ATTORNEYS REGARDING
EXECUTIVE SESSION
AGENDA ITEMS, 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 HRS
CHAPTER 92F, UNIFORM
INFORMATION
PRACTICES ACT,
APPROPRIATE ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(8), TO CONSIDER AND
EVALUATE THE
RESPONSES TO, AND
SELECTION OF THE ERS'S
REQUEST FOR
PROPOSALS FOR
INTERNAL AUDIT
SERVICES; APPROPRIATE
ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 88-
27.5(A)(1) AND § 92-5(A)(2),
TO CONDUCT
DISCUSSIONS,
DELIBERATIONS, AND TO
MAKE DECISIONS
RELATING TO THE
SELECTION OF AN
INVESTMENT OFFICER OF
THE EMPLOYEES'
RETIREMENT SYSTEM;
APPROPRIATE ACTION

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board exited Executive Session at 1:42 p.m.

EXECUTIVE DIRECTOR'S
REPORT

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

- Welcomed Roderick Becker as newly appointed Director of Finance.
- Met with Representative Luke and Senator Dela Cruz and their staff to give them an overview of ERS and budget and to answer questions. Rep. Luke indicated that there would be a revised budget process this year.
- Met with Governor Ige to discuss the ERS Board appointments, ERS

budget items, to look at Ali'i Place as an investment.

- Met with ARO/HR to address issues with Chief Compliance Officer and proposed reorganization of Accounting Branch.
- ERS will be using services of Bank of New York Mellon (BNY Mellon). They will be providing consulting services and their audit group will interface with our Accounting department. BNY Mellon have already done interviews with staff.
- Met with Representative Aaron Johanson regarding concerns and needs of the ERS. Representative Johanson was supportive.
- RFP for Medical Board positions was issued. Contracts for Medical Board will expire in the summer. Looking for mental health or psychiatrist and two medical doctors.
- ERS employee had a complaint regarding the second floor because it is isolated. B&F asked for a security assessment. ERS contacted Lt. Koa Dobrowolsky of the C&C of Honolulu and he also works with the Department of Homeland Security. He did an initial assessment of all ERS offices and it was very positive.
- Arbitration hearings ongoing for Firefighters Association and Mr. Williams has been asked to serve as expert witness and to speak on the impact of salary increases on our unfunded liability.
- Senator Donovan Dela Cruz emailed asking if the legislature should be concerned on the market volatility and if they need to contemplate an immediate infusion of cash into the system to offset decline. Mr. Williams responded the ERS would welcome such infusion of cash but there's no emergency that has to be addressed at this time.
- Governor Ige asked to meet with Mr. Williams and Ms. Burton to prepare for State of the State address regarding sustainable investments.
- Budget hearing at the State Capitol was held and ERS fared well.
- April board meeting 8:00am start time due to trustee and staff travel.
- Letter from Les Kondo, Auditor, favorable to ERS, clean audit.
- Mr. Williams has been participating in GO Bond presentations with Moody's, S&P and Fitch.

OPERATIONS REPORT

Ms. Kanoe Margol presented the written operations report as receive and file.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board adjourned the meeting at 2:07 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik