

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

MARCH 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
Mr. Colin Bebe, Pension Consulting Alliance, LLC
Mr. Chae Hong, Townsend Group, an Aon Company
Mr. Joe Munoz, LaSalle Income & Growth Fund VIII, L.P.
Mr. Matthew Walley, LaSalle Income & Growth Fund VIII, L.P.

QUORUM/CALL TO ORDER	A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees, 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. There were no public present, therefore no public comments.
RECESS	Chair Kane called for a recess at 9:01 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 Becker, Chan, Ferguson-Miyamoto, Ley and Machida), Chair Kane reconvened the meeting at 9:43 a.m.
	(Trustee Becker left the meeting at 9:45 a.m.)
PENSION CONSULTING ALLIANCE, LLC – ASSET LIABILITY STUDY	Mr. Collin Bebee of Pension Consulting Alliance, LLC gave an oral and written presentation on the Asset Liability Study. Mr. Bebee explained the purpose and overview of the study. Mr. Bebee also gave a preliminary timeline for the 2019 Asset-Liability Study and reviewed results of the 2015 Board survey.
	Main conclusions:
	<ul style="list-style-type: none"> • Maintaining progress on the funding path while avoiding large drawdowns are the primary objectives of the Board • Achieving 100% funding was desirable, but was not in and of itself a priority • Maintaining a funding ratio >55% was important • The level of growth risk exposure of the Fund was a little high for some, a little low for others
LEGISLATIVE PROPOSALS RELATED TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2019 LEGISLATIVE SESSION	Ms. Donna Curry, Program Specialist, gave an update on the ERS bill HB981 which did crossover to the Senate and staff is also monitoring other ERS-related bills: HB1187, SB795, HB2, HB1264, SB1368, HB625, SB503, SB757, and SB1374.
2019 TRUSTEE ELECTION PROPOSED TIMETABLE	Ms. Kanoe Margol, Deputy Executive Director, presented the timeline for the upcoming trustee election. There will be two seats available, 1 for a general employee and 1 for a retirant. Notices will be in the newspapers and invitation letters will be sent to employer organizations in April. Nomination papers due to ERS on June 25, mail out ballots on September 6 and postmark deadline is October 25. Results will be presented to the Board at the December 9, 2019 meeting.

INVESTMENT POLICY
REVISIONS: STRATEGIC
TARGET PORTFOLIO
PHASE-IN

Mr. Howard Hodel, Investment Officer, presented proposed changes to the Investment Policy Manual Revisions: Strategic Target Portfolio Phase-in. This is a notification of the new phase-in as of January 1, 2019 which reduced the broad growth class by 4%, increased CRO by 3% and real return by 1%.

INVESTMENT POLICY
REVISIONS: CRISIS RISK
OFFSET

Mr. Hodel presented changes to the Investment Policy Manual Revisions: Crisis Risk Offset. There are six revisions:

- Increase Alternative Return Capture (ARC) by 10% and decrease Systematic Trend Following (STF) by 10%
- Increase number of allowable funded STF managers from four to five
- Adjust CRO benchmark index to align with the new component weights and change the ARC and STF weights so they more closely align to the investment opportunity set and expected risk levels
- Adjust the annualized volatility ranges for Treasury Duration Capture (TDC) and ARC
- Add new STF and ARC managers to manager guideline summaries
- Added credit index default swaps to the approved derivatives list to allow for this strategy

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Ley and unanimously carried, the Board approved changes to the Investment Policy Manual: Crisis Risk Offset as presented.

INVESTMENT POLICY
REVISIONS: PORTFOLIO
IMPLEMENTATION
OVERLAY POLICY

Mr. Hodel presented proposed revisions to the Investment Policy: Portfolio Implementation Overlay Policy. The Board approved Parametric as the Overlay manager. The Investment Manager Agreement has been executed, but the “FCM” (futures commissions merchant) agreement, which is necessary for Parametric to trade and settle the futures contracts, is still pending and had to go to outside counsel; the overlay therefore won’t fund in March as expected, but hopefully in April or May. The main purpose of the overlay is to securitize the un-invested cash to reduce performance drag. Staff wrote the policy and PCA and Parametric signed off on it.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved the changes to the Investment Policy Manual: Portfolio Implementation Overlay Policy as presented.

EXECUTIVE DIRECTOR’S
REPORT

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

- Mr. Williams participated in GO bond ratings agencies presentations with Fitch, Moody’s and S&P with completed sale of \$900 million.
- Actuarial sessions were held in January with the legislature, stakeholders, and employer organizations.
- ETS gave a presentation last month at the Board meeting on cybersecurity. They ran a successful test on ERS with no compromises.
- Mr. Larry Fink and Mr. Tom Donilon of BlackRock participated in a Roundtable session at ERS on February 19 with a lot of favorable comments from the attendees who suggests more of these types of opportunities. Also looking at additional educational opportunities for the trustees. Mr. Williams will be speaking to Funston Advisory

Services next week and may suggest one of the principals come to speak on roles of trustees.

- Staff is attending a number of legislative hearings during this current legislative session.
- Mr. Williams served as an expert witness during the firefighters association mediation and all parties were pleased.
- NCPERS sent ERS a certificate of transparency as it relates to the information published.
- Staff met with Speaker Saiki in an ongoing communication effort particularly during this budget process.
- Reminder, the April 8, 2019 board meeting will start at 8:00 a.m. due to trustees and staff departing for a conference in the afternoon.

OPERATIONS REPORT

Ms. Kanoë Margol presented the operations report 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 10:25 a.m.

- 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,
- 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 the Employees' Retirement System's Crisis Risk Offset – Systematic Trend Following 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 the Employees' Retirement System's Crisis Risk Offset 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 the Employees' Retirement System's Portfolio Implementation Overlay Mandate,
- 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.

(Trustee Becker returned to the meeting at 10:30 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

(Mr. Hong left the meeting after his presentation)

(Trustee Becker rejoined the meeting at 10:30 a.m.)

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
THE EMPLOYEES'
RETIREMENT SYSTEM'S
CRISIS RISK OFFSET –
SYSTEMATIC TREND
FOLLOWING 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
THE EMPLOYEES'
RETIREMENT SYSTEM'S
CRISIS RISK OFFSET
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
THE EMPLOYEES'
RETIREMENT SYSTEM'S
PORTFOLIO
IMPLEMENTATION
OVERLAY 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,

(Chair Kane left the meeting at 11:12 a.m.)

IMMUNITIES, AND
LIABILITIES RELATING TO
REAL ESTATE FUND
COMMITMENT

RECESS

Vice Chair Rauckhorst called for a lunch recess at 11:33 a.m.

RECONVENE

A quorum being present (Vice Chair Rauckhorst, and Trustees Barfield, Becker, Chan, Ferguson-Miyamoto, Ley, and Machida), Chair Kane reconvened the meeting at 12:01 p.m.

(All consultants, Investment and Administrative staff left the meeting except for the Executive Director, Deputy Executive Director, and Chief Investment Officer)

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

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Ley, and unanimously carried, the Board exited Executive Session at 1:30 p.m.

ADJOURNMENT

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Ley, and unanimously carried, the Board adjourned the meeting at 1:30 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:ltk