

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

AUGUST 12, 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
Mr. Neal Miyahira
- Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Ms. Lori Koabayashi, Program Specialist
Mr. Karl Kaneshiro, Retirement Benefits Manager
Ms. Elizabeth Burton, Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. Howard Hodel, Investment Officer – Risk Management
Ms. Geraldine Konishi, Member Home Loan Assistant
Ms. Diana Gomes, Secretary
Ms. Dale Kehau Kanae, Recording Secretary
Ms. Lori Kim, Secretary
- Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General
Ms. Elmira Tsang, Deputy Attorney General
Mr. Clayton Zane, Deputy Attorney General
- Guests present: Mr. Russell Munn, Broadshore Capital Partners
Ms. Elaine Philis, Broadshore Capital Partners
Mr. Joseph Newton, Gabriel Roeder Smith & Company
Mr. Paul Yett, Hamilton Lane Advisors, LLC
Mr. Neil Rue, Meketa Investment Group, Inc.
Mr. Chae Hong, Townsend Group, an Aon Company
- Public present: Mr. Riley Fujisaki, House Finance Committee
Mr. Dane Wicker, Senate Ways and Means Committee

QUORUM/CALL TO ORDER A quorum being present (Chair Kane, Vice Chair Rauckhorst, and Trustees Barfield, Chan, Ferguson-Miyamoto, Ley, Machida, and Miyahira), 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.

AMENDMENT TO AGENDA

Chair Kane requested that an amendment be made to add an additional Executive Session Item No. 4, to read as follows:

“4. 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 relating to terms and conditions of procurement of financial audit services, and, if appropriate, to make related decisions.”

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the amendment as noted.

Executive Director, Thomas Williams introduced to the Board, Dane Wicker, Committee Clerk for the Senate Ways and Means Committee who will be working with the ERS.

PUBLIC COMMENT

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

RECESS

Chair Kane called for a recess at 9:03 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 Clayton Zane; 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, Machida, and Miyahira), Chair Kane reconvened the meeting at 11:52 a.m.

ACTUARIAL EXPERIENCE STUDY FOR THE THREE-YEAR PERIOD ENDING JUNE 30, 2018, AND ACTUARIAL ISSUES AND OUTLOOK FOR THE YEAR ENDING JUNE 30, 2019

Gabriel, Roeder, Smith and Company (GRS), Joe Newton presented an oral and written report to the Board regarding the Actuarial Experience Study for the five-year period ending June 30, 2018, and Actuarial Outlook for the year ending June 30, 2019. Based on GRS’s experience study, Mr. Newton recommended a review of selected salary scales, mortality assumptions, and disability and retirement patterns, and noted that a preliminary June 30, 2019, actuarial review produced a strong outlook for the ERS based on current employer contribution rates.

On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board accepted the report with the assumptions presented by GRS.

Mr. Newton left the meeting after his presentation.

BOARD DELEGATION OF ERS TRAVEL APPROVALS

Executive Director (ED), Thomas Williams presented to the Board a Resolution accepting delegation from the Director of Budget and Finance to the ERS Board of Trustees authorizing approval of all in- and out-of-state travel by ERS employees and Trustees and further delegates that authority to the Executive Director of the ERS.

ED Williams also requested the Board ratify recent travel approvals he has tentatively authorized the CIO to take for due diligence in August and September, prior to approval of the Resolution.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board accepted the Resolution with a requirement that the travel budget should not exceed the allotted amount approved by the Legislature as submitted through the Department of Budget and Finance. If the travel budget exceeds the allotment, an allocation increase must be approved by the Board. A yearly travel plan is also required for the Board's approval, as well as, a monthly summary of travel to be reported to the Board.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board ratified travel authorized by ED Williams for the CIO for travel in August and September as discussed.

INVESTMENT POLICY REVISIONS: CRISIS RISK OFFSET

Investment Officer – Risk Management, Howard Hodel, presented an oral and written request to the Board for a revision to the Investment Policy Statement.

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved changes to exempt Treasury Duration Capture from needing to use an LLC structure and to eliminate the Ryan Labs DRP as an approved strategy.

MEKETA INVESTMENT GROUP, INC. – ASSET LIABILITY SURVEY RESULTS

Presentation No. 2, was taken out of order and presented as Presentation No. 1. Meketa Investment Group, Inc. (Meketa), Neil Rue presented an oral report to the Board on survey results previously discussed and reviewed. The Survey of the Trustees revealed a consensus to build a portfolio that strives to stay along the funding path and is positively inclined toward alternative strategies. Meketa is completing the modeling of asset class risk/return projections coupled with liability projections provided by GRS to simulate different portfolio options that will be presented to the Board in September. Although major risk classes such as Broad Growth, Principle Protection, CRO, and Real Return may have only marginal changes to their allocations, there will be new strategies introduced into CRO that align with the broader concept of a Diversifying Strategies Class, as well as adjustments to the components within the Stabilized Growth Class: Credit, Options, Low Volatility Equity Strategies, and Core Real Estate.

The Board had no questions for Mr. Rue.

MEKETA INVESTMENT GROUP, INC. – QUARTERLY PERFORMANCE REPORT

Presentation No. 1, was taken out of order and presented as Presentation No. 2. Meketa Investment Group, Inc. (Meketa). Neil Rue presented an oral and written report to the Board on the Quarterly Performance for the 2nd Quarter of 2019. The ERS Total Portfolio exceeded the Policy Benchmark across all periods except for the most recent quarter. Relative underperformance in the Broad Growth class detracted from short-term results. Note, negative relative results posted in the Broad Growth class were particularly attributable to underperformance in the Private Growth segment due to a divergence between the segment and its lagged public markets benchmark. The ERS Total Portfolio tracked or slightly trailed the Median Public Fund over each period reported, due largely to asset

allocation differences. The ERS adopted new evolving policy targets that took effect January 1, 2019. As of the latest quarter end, the Total Portfolio was overweight the Broad Growth class, while underweight Principal Protection and Real Return. All other strategic classes were near the policy target.

TOWNSEND GROUP, AN
AON COMPANY – FIRST
QUARTER 2019 REAL
ESTATE PERFORMANCE
REVIEW

Investment Officer – Illiquid Markets (IO-IM), Aaron Au, and Townsend Group, an Aon Company (Aon), Chae Hong, presented an oral and written report to the Board on the 1st Quarter 2019 Real Estate Performance Review:

EXECUTIVE SUMMARY

Real Estate Market Performance and Overview

- The NFI-ODCE trailing one-year return now stands at 6.6% net. While real estate returns are generally in line with the sector’s long-run average of 7-9% gross, continued moderation is expected with returns potentially dipping below average over the next year.
- Real Estate fundamentals remain healthy, but valuations across real estate and other asset classes are rich. Return expectations have normalized, with go forward expectations in line with historical norms. Rising interest rates have led to asset value correction fears across various asset classes; within real estate, investors can mitigate these risks by shifting preference to investments that can participate and benefit from economic growth, with downside protection offered by current income. Townsend prefers investments that offer relatively strong rental income growth, or value-add potential with near-term income generation potential.

HIERS’ Summary of Portfolio Returns (Time-Weighted)

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 1.45x net equity multiple since inception.

HIERS’ Real Estate Portfolio Highlights

During Q1 2019 and subsequent to quarter end, four new commitments were made:

- LaSalle Income & Growth Fund VIII.
- Prudential Senior Housing Partnership VI.
- Blackstone Real Estate Partners Europe VI.
- CBRE Strategic Partners U.S. Value IX.

Significant Events

- Angelo Gordon: Dana Roffman, a Managing Director on the US real estate team, is transitioning out of her role over the course of 2019.

TIMBER PORTFOLIO

Hancock Timber Separate Account

LOWE SEPARATE ACCOUNT

HAMILTON LANE
ADVISORS, LLC –
PRIVATE EQUITY
PROGRAM UPDATE – FOR

Investment Officer – Illiquid Markets (IO-IM), Aaron Au, and Hamilton Lane Advisors, LLC, (HL), Paul Yett, presented an oral and written report to the Board on the Private Equity Program Update – For Period Ending March 31, 2019. Mr. Yett discussed the Portfolio Review and Private Equity

PERIOD ENDING
MARCH 31, 2019

Market Brief:

PORTFOLIO REVIEW

PE Portfolio Highlights - March 31, 2019

- Performance
 - Strong since inception performance continues.
 - Strong one-year net IRR of 17.6%, with each quarter achieving positive results.
- Value Creation
 - Portfolio generated \$145.0M of market value growth in Q1 2019, with \$70.7M in positive net value.
 - Top five funds driving net value gain generated \$21.7M, or 29% of total value gains for the 1st quarter.

Portfolio Snapshot

- Q1 2019: Continued growth and value generation.
- Measured growth towards 13.5% target allocation.

Portfolio Summary

- Q1 2019 represents the 27th consecutive quarter of positive results.
- Strong LTM value creation and growth across the Portfolio.

Quarterly Cash Flow Summary

Foundation Manager Performance

2019 Commitment Summary

ESG

RISK ANALYSIS

MARKET BRIEF

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 1:54 p.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 HRS 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 HRS 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.
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding funding of Special Deputy Attorney General contracts for legal

services relating to investments in private equity and real estate funds, 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 matters; 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 relating to terms and conditions of procurement of financial audit services, and, if appropriate, to make related decisions.

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 HRS
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 HRS 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

EXECUTIVE SESSION, PURSUANT TO HRS § 92-5(a)(4), TO CONSULT WITH THE BOARD'S ATTORNEYS REGARDING FUNDING OF SPECIAL DEPUTY ATTORNEY GENERAL CONTRACTS FOR LEGAL SERVICES RELATING TO INVESTMENTS IN PRIVATE EQUITY AND REAL ESTATE FUNDS, 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 MATTERS; 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 RELATING TO
TERMS AND CONDITIONS
OF PROCUREMENT OF
FINANCIAL AUDIT
SERVICES, AND, IF
APPROPRIATE, TO MAKE
RELATED DECISIONS

APPROVAL OF
EXECUTIVE SESSION
MINUTES

- NOVEMBER 13, 2018
- DECEMBER 10, 2018
- JANUARY 14, 2019
- FEBRUARY 11, 2019

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 2:32 p.m.

EXECUTIVE DIRECTOR'S
REPORT

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

- Discussed the success of the ERS Investment Summit last month and thanked the Investment Office for its hard work.
- Discussed with Wayne Uchida, the Director of Finance, City & County of Honolulu, advanced contributions. ED will follow up with a recommendation on establishing how it may be invested and will report back to the Board.
- Appeal of City Financial Tower property tax assessment resulted in a further reduction of \$44,000.
- Meetings on Oahu and Outer Islands being held regarding employer payroll reporting attended by ED and DED.
- Meetings with Funston regarding the Governance Review and Survey attended by ED, DED, and staff. Funston will also be interviewing the Trustees soon. Funston is also willing to support us at any presentations to the Legislature.
- Mr. Riley Fujisaki, Legislative Analysts, attends our Board meetings and will be attending Investment Strategic Plan meetings.
- Mr. Dane Wicker, Senate Ways and Means, is interning with ERS.
- Discussed direction of assumed investment return rates, others like New York State Common and Calpers are looking at going below 7%.
- Encouraged Board members to submit agenda items they would like discussed to the ED, CIO or Board Chair.
- Sent thank you letters to Lt. Governor Josh Green, and Chief of Police Susan Ballard for participating in the Investment Summit.
- Attended NASRA Annual Conference in Williamsburg, PA, August 3-7, 2019. Met with Rick Funston, who also attended, and discussed the Governance Survey being done for ERS.
- Shared with the Board that Speaker Scott Saiki was recently elected as president elect of the National Conference of State Legislators.
- ERS staff are working on a list of proposed legislative initiatives to present to the Administrative and Legislative Committee and welcomed

EXECUTIVE DIRECTOR'S
REPORT (CONT'D)

any other suggested legislation.

- Met with Gary Kai of Hawaii Business Roundtable and discussed the Strategic Investment Initiative and would like ERS to make a presentation at one of his organization meetings. He is willing to support ERS at any presentations to the Legislature.

OPERATIONS REPORT

Deputy Executive Director, Kanoe Margol presented the written operations report as a receive and file. DED Margol, updated the Board on the backlog of the finals and also mentioned that the ERS audit was completed two months early.

APPROVAL OF MINUTES
– DECEMBER 10, 2018
– FEBRUARY 11, 2019

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Ley, and unanimously carried, the Board approved the December 10, 2018, and February 11, 2019, minutes as presented.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Kane adjourned the meeting at 2:49 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik