

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

OCTOBER 15, 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
Mr. Wesley Machida
Mr. Neal Miyahira

Trustees absent: Dr. Genevieve Ley

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Bart Asato, 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 Wetzell, Investment Officer
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: Ms. Aliana Spungen, Angelo Gordon
Mr. Adam Schwartz, Angelo Gordon (telephone)
Mr. Russell Munn, Broadshore Capital Partners
Mr. Steve Harding, Funston Advisory Services LLC
Mr. Randy Miller, Funston Advisory Services LLC
Mr. Colin Bebee, Meketa Investment Group, Inc.
Mr. Neil Rue, Meketa Investment Group, Inc.
Mr. Chae Hong, Townsend Group, an Aon Company

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

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 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, Trustees Barfield, Ferguson-Miyamoto, Machida, and Miyahira), Chair Kane reconvened the meeting at 9:23 a.m..

MEKETA INVESTMENT GROUP, INC. – ASSET LIABILITY STUDY UPDATE

Investment Officer – Risk Management (IO-RM), Howard Hodel and Meketa Investment Group, Inc. (Meketa), Neil Rue and Colin Bebee presented an oral and written report to the Board on the Asset Liability Study Update.

Meketa's Mr. Bebee reviewed and discussed the Asset Liability Study Update results with the Board and covered: Executive Summary, Review of Modeling Process, Portfolios for Consideration, Next Steps.

Meketa's Mr. Bebee explained that the recommended long-term strategic allocation exhibits moderate changes relative to the current long-term policy allocation. The recommended allocation has a long-term expected return of 7% while exhibiting less downside risk than the current long-term policy allocation. While near-term returns may prove challenging, the recommended strategic allocation will allow for implementation flexibility to help ERS Staff better navigate the environment. It is expected that the new strategic allocation will help keep the ERS closer to its progress on the funding path.

Meketa's Mr. Bebee discussed and presented three options to the Board, and it was recommended by ERS Staff and Meketa that the Board select Option No. 2, which possesses the following attributes:

- 7% expected long-term return;
- Expected to improve downside risk characteristics relative to the current long-term policy;
- Incorporates additional diversifying strategies relative to the current long-term policy;
- Can feasibly be obtained within the next three-to-seven years; and
- Allows for implementation flexibility that will make the best-use of current ERS resources.

In December or January, ERS Staff and Meketa plan to present a preliminary Evolving Policy Plan for transitioning the portfolio.

On a motion made by Trustee Machida, seconded by Trustee Barfield, and unanimously carried, the Board adopted Option No. 2, as a result of the Asset Liability Study, as presented and recommended by ERS Staff and Meketa.

POTENTIAL LEGISLATIVE PROPOSALS RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM FOR THE 2020 LEGISLATIVE SESSION TO BE CONSIDERED FOR THE GOVERNOR'S ADMINISTRATIVE PACKAGE OF LEGISLATION

Program Specialist, Donna Curry, presented an oral and written report to the Board on behalf of Executive Director Williams, on the potential legislative proposals relating to the Employees' Retirement System for the 2020 Legislative Session to be considered for the Governor's administrative package.

Ms. Curry discussed four proposed legislative bills:

- BUF-11: Relating to the Definition of Compensation for the Purposes of the Employees' Retirement System;
- BUF-12: Relating to Qualified Domestic Relations Orders;
- BUF-13: Relating to Employees' Retirement System Investments; and
- BUF-14: Related to Employees' Retirement System Disability Retirement.

Ms. Curry also informed the Board that ERS staff will meet with the Governor to discuss the proposed bills prior to Session starting on January 15, 2020.

(Trustee Chan entered the meeting at 10:13 a. m.)

APPOINTMENT OF EXECUTIVE DIRECTOR TO SERVE AS A PRESIDING OFFICER AT THE PUBLIC HEARING FOR THE DRAFT HAWAII ADMINISTRATIVE RULES FOR HAWAII DOMESTIC RELATIONS ORDERS PURSUANT TO ACT 30, SESSION LAWS OF HAWAII 2018

Program Specialist, Donna Curry, presented an oral and written report to the Board on behalf of Executive Director Williams, on the appointment of the Executive Director or Deputy Executive Director to serve as a presiding officer at the public hearing for the Draft Hawaii Administrative Rules for Hawaii Domestic Relations Orders Pursuant to Act 30, Session Laws of Hawaii 2018.

On a motion made by Trustee Machida, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved the recommendation of approving the Executive Director or Deputy Executive Director to preside over the public hearing for the Draft Hawaii Administrative Rules for the Hawaii Domestic Relations Orders Pursuant to Act 30, Session Laws of Hawaii 2018.

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board entered into Executive Session at 10:27 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 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 § 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

EXECUTIVE SESSION
(Cont'd)

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 relating to a 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 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 relating to a Real Estate Fund Commitment.
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys regarding the status of ERS's securities litigation, and questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to securities litigation; 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 § 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
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CHAPTER 92F, INCLUDING
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PROPRIETARY
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INFORMATION, AND TO
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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,
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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 RELATING TO A REAL ESTATE FUND COMMITMENT

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 RELATING TO A REAL ESTATE FUND COMMITMENT

EXECUTIVE SESSION, PURSUANT TO HRS § 92-5(a)(4), TO CONSULT WITH THE BOARD'S ATTORNEYS REGARDING THE STATUS OF ERS'S SECURITIES LITIGATION, AND QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES WITH RESPECT TO SECURITIES LITIGATION; APPROPRIATE ACTION

EXIT EXECUTIVE SESSION
AND RECESS

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited Executive Session. Chair Kane called for a lunch recess at 11:39 a.m.

RECONVENE AND
CONTINUATION OF
EXECUTIVE SESSION

A quorum being present (Chair Kane, Vice Chair Rauckhorst, Trustees Barfield, Chan, Ferguson-Miyamoto, Machida, and Miyahira), Chair Kane reconvened the meeting at 11:55 a.m. Chair Kane called for the continuation of Executive Session, and on a motion made by Vice Chair Rauckhorst, seconded by Trustee Machida, and unanimously carried, the Board entered into Executive Session.

APPROVAL OF
EXECUTIVE SESSION
MINUTES

– MAY 14, 2019
– JUNE 10, 2019

(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 Chief Investment Officer, Elizabeth Burton)
(Funston Advisory Services LLC, Messrs. Steve Harding and Randy Miller entered the meeting.)

EXECUTIVE SESSION
(CONT'D)

- Pursuant to HRS § 92-5(a)(2) and HRS § 92-5(a)(4), Funston Advisory Services LLC (FAS) has undertaken a comprehensive analysis and review of the ERS Board Governance Structure and Policy and compared it to peer public pension plans using its proprietary InGov Fund Profile Analysis and 360° CE Board Self-Assessment Tool. FAS will present its findings, conclusions, recommendations, and roadmap during which the hire, evaluation, or other personnel actions will be considered, where matters affecting privacy will be involved, and to consult with the Board's attorneys on related questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities.

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(2) AND HRS § 92-5(a)(4),
FUNSTON ADVISORY
SERVICES LLC (FAS) HAS
UNDERTAKEN A
COMPREHENSIVE ANALYSIS
AND REVIEW OF THE ERS
BOARD GOVERNANCE
STRUCTURE AND POLICY
AND COMPARED IT TO PEER
PUBLIC PENSION PLANS
USING ITS PROPRIETARY
INGOV FUND PROFILE
ANALYSIS AND 360° CE
BOARD SELF-ASSESSMENT
TOOL. FAS WILL PRESENT
ITS FINDINGS,
CONCLUSIONS,

RECOMMENDATIONS, AND ROADMAP DURING WHICH THE HIRE, EVALUATION, OR OTHER PERSONNEL ACTIONS WILL BE CONSIDERED, WHERE MATTERS AFFECTING PRIVACY WILL BE INVOLVED, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON RELATED QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES

EXIT EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited Executive Session at 1:28 p.m.

EXECUTIVE DIRECTOR'S REPORT

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

- Suggested that the Board consider, by end of year, delegating to Investment Office authorization to select Managers, as suggested by Asset Liability Study and considering Portfolio modifications that require flexibility.
- Discussed improving efforts in On-Board Training and Orientation as suggested by Board members and have provided training opportunities on BoardWorks and in Investment Activities Report. Recommend attending conferences by the following organizations: National Conference on Public Employee Retirement Systems (NCPERS), National Association of State Retirement Administrators (NASRA), the National Council on Teacher Retirement (NCTR), and the International Foundation of Employee Benefit Plans (IFEBC). Trustee Barfield reported that he recently attended a NCPERS conference the Public Pension Funding Forum in New York, NY and requested a reporting format for the Board and Staff as provided with these meeting materials.
- Attended an Employer Reporting Meeting held on September 11, 2019, with Curt Otaguro, Comptroller, DAGS; Neal Miyahira, Director, B&F; and DAGS and ERS staff to discuss the employer reporting issues of incompatibility and inconsistency in reporting that is provided to the ERS. Ongoing discussion and communication on these issues continue with stakeholders and the legislature.
- Mandatory Equal Employment Opportunity Training that is required for managers and staff to complete. Information Services Branch also had training on IT Security.
- Four draft legislative bills were submitted to the Governor's Office through B&F for inclusion in the Governor's package.
- Met with KMH to discuss the move to the Cloud with Oracle Financials and for the Pension Administration System. KMH will make recommendations to the Audit Committee regarding one phase of the internal audit with PAXA, Microsoft, etc. expended hours to help with implementation.
- Revised the travel budget, as requested by the Board, and is available on

EXECUTIVE DIRECTOR'S
REPORT (Cont'd)

BoardWorks. Revisions made to categorize into: education and training, due diligence, and conferences, etc.

- Working with B&F and the Rating Agency, Investment Banking on certificate of participation to be issued for the Ala Wai Canal Reconstruction, etc. We will update statements as it relates to EUTF and ERS.
- Received a letter from the State Auditor, included in the meeting materials, summarizing the findings related to the ERS financial statements. There were no concerns noted.
- Coordinating with staff the development of the Strategic Plan, an anticipated draft is to be presented to the Board by the end of the year.
- An Office Guideline was re-issued to ERS Staff and a complaint was received requesting Union review and comment. It is still out for review by the Union.
- An appeal case relating to Catherine Castro with the intermediate court of appeals upheld the Board's decision due to the appeal not being filed in a timely fashion.
- The Compensation Consultant Procurement request is with B&F and will go to the Governor for approval.
- Compensation Review Committee has met and worked on refining the goals and objectives for 2020.
- Trustee elections are underway. Ballots were mailed and 3,900 were returned and re-mailed.
- In preparation for the HiDRO Rules, staff attended a Conference for Family Court Attorneys. Attorney, William Darrah, has agreed to help ERS develop administration forms.
- The ED, DED, and CIO have diligently worked with the Funston Advisory Services LLC staff on the Governance Structure and Policy.

OPERATIONS REPORT

Deputy Executive Director, Kanoe Margol presented the written operations report as a receive and file, however, highlighted in the report under the Retirement Benefits Branch section that changes were made to the ERS website to strengthen the disclaimer not to rely solely on service credit on the website but to formally check with the ERS first.

APPROVAL OF MINUTES

– MAY 14, 2019

– JUNE 10, 2019

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the minutes for May 14, 2019, and June 10, 2019, as presented.

ADJOURNMENT

On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Vice Chair Rauckhorst adjourned the meeting at 2:03 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik