

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

DECEMBER 9, 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

Trustees absent: Mr. Neal Miyahira

Staff present: Mr. Thomas Williams, Executive Director
Ms. Kanoe Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Retirement Benefits Manager
Mr. Keith Miyamoto, Information Services Manager
Ms. Kathleen Shiroma, Information Services, System Supervisor
Ms. Sandra Straub, Information Services, Applications Supervisor
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. David Okamoto, Investment Officer – Credit Markets
Mr. Ian Wetzel, Investment Officer
Ms. Diana Gomes, Secretary
Ms. Geraldine Konishi, Member Home Loan Assistant
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. Bill Claxton, BNY Mellon
Ms. Yolanda Diaz, BNY Mellon
Mr. Colin Bebee, Meketa Investment Group, Inc.
Mr. Neil Rue, Meketa Investment Group, Inc.

Public present: Mr. Riley Fujisaki, House Finance Committee

QUORUM/CALL TO ORDER

A quorum being present (Vice Chair Rauckhorst, Trustees Barfield, Chan, Ferguson-Miyamoto, Ley, and Machida), In Chair Kane's absence, Vice Chair Rauckhorst 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. Vice Chair Rauckhorst announced that he would be presiding over the meeting until Chair Kane arrives.

PUBLIC COMMENT	Vice Chair Rauckhorst called for public comment. There were no comments from public present.
RECESS	Vice Chair Rauckhorst called for a recess at 9:00 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 (Vice Chair Rauckhorst, Trustees Barfield, Chan, Ferguson-Miyamoto, Ley, and Machida), Vice Chair Rauckhorst reconvened the meeting at 10:27 a.m.
BNY MELLON CUSTODIAL BOARD EDUCATION	Executive Director (ED) Thomas Williams gave a brief background and introduced to the Board BNY Mellon's (BNY) Bill Claxton and Yolanda Diaz that gave an oral and written presentation. Ms. Diaz discussed BNY's goals and services and how they support ERS Staff and the Board. Mr. Claxton and Ms. Diaz discussed parts of the written report and reviewed BNY's: Investment Management and Investment Services, Global Custody Services, Value-Add Services, and Team Supports. After their presentation, Mr. Claxton and Ms. Diaz left the meeting. (Chair Kane entered the meeting at 10:47 a.m., and presided over the remainder of the meeting).
RESOLUTION PRESENTED TO TRUSTEE JACKIE FERGUSON-MIYAMOTO	Executive Director (ED) Thomas Williams presented a Resolution and an Excellence in Service Award to Trustee Jackie Ferguson-Miyamoto on behalf of the ERS Board of Trustees and Staff acknowledging her 44 years of State government service and 24 years of service to the Board, upon her retirement on December 31, 2019. ED Williams also presented a Proclamation on behalf of Governor David Ige.
RECESS	Chair Kane called for a lunch recess at 11:33 a.m.
RECONVENE	Chair Kane reconvened the meeting at 12:03 p.m.
TRUSTEE ELECTION RESULTS	ED Williams gave a brief background to the Board on two-elected trustee vacancies, a general employee and a retiree, to be effective January 2, 2020, for a 6-year term ending January 1, 2026. Chair Kane ran unopposed for the retiree seat and will be reappointed. Deputy Executive Director Kanoe Margol gave details of the election stating that Mr. Bennett Yap, one of three candidates, was declared the candidate receiving the highest number of votes and noted that the results were certified by the Election Committee and KMH, LLP. On a motion made by Vice Chair Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, it was declared and accepted by the Board that Bennett Yap was the candidate receiving the highest number of votes.

CHANGE TO INVESTMENT POLICY, GUIDELINES, AND PROCEDURES, DATED AUGUST 2019 SECTION "C.13. POLICY FOR THE USE OF PLACEMENT AGENTS," AND DELEGATION OF AUTHORITY TO THE EXECUTIVE DIRECTOR AND CHIEF INVESTMENT OFFICER; APPROPRIATE ACTION

INITIAL ACTION ON THE REPORT OF THE GOVERNANCE POLICY AD HOC COMMITTEE – HRS § 92-2.5(b) PERMITTED INTERACTION GROUP. ADOPTION OF RESOLUTION FOR DEVELOPMENT OF CODE OF CONDUCT FOR TRUSTEES AND ADOPTION OF CHARTER TO ESTABLISH BOARD OF TRUSTEES' STANDING GOVERNANCE COMMITTEE; APPROPRIATE ACTION

2020 SCHEDULE OF ERS BOARD OF TRUSTEES MEETINGS, REVIEW OF COMMITTEES, ELECTION OF OFFICERS, AND COMMITTEE ASSIGNMENTS

Chair Kane announced the New Business agenda items would be taken out of order and the next items would be items numbers 6 and 5.

Investment Officer – Illiquid Markets (IO-IM), Aaron Au and Chief Investment Officer (CIO), Elizabeth Burton, presented an oral and written report to the Board on the Change to Investment Policy, Guidelines, and Procedures, dated August 2019 Section "C.13. Policy for the director Use of Placement Agents," and Delegation of Authority to the Executive Director and Chief Investment Officer.

IO-IM Au and CIO Burton discussed with the Board that ERS staff worked with its private equity consultant Hamilton Lane (HL) to update the current Placement Agent Policy section of the ERS' Investment Policy, Guidelines, and Procedures dated August 2019 (the "Overall ERS Policy"). The changes are designed to be more in-line with current industry practice. Staff, therefore, sought to obtain an indication of industry "best" practice. HL provided examples of placement agent policies from three public pensions (Fort Worth, ERS, the Commonwealth of Pennsylvania-Public Schools, and the Teachers' Retirement System of Louisiana).

ERS staff recommends delegation of authority and other changes will update an outdated policy and provide for greater efficiency in managing the ERS investment portfolio. The delegation will also allow greater ability to revise any future changes to meet the ever-changing investment environment.

The Board declined the recommendation and requested that ERS staff further revise the Policy and instead of seeking approval for deviations, in keeping with the Policy and Procedures, suggest reporting to the Board any exceptions that staff may encounter.

Trustee Machida, as Chair and on behalf of the Governance Policy Ad Hoc Committee, discussed and proposed the Board establish the Governance Policy Ad Hoc Committee as a formal standing Committee. Trustee Machida also presented for approval and acceptance, a Resolution for Development of a Code of Conduct for the Board of Trustees of the Employees' Retirement System and a Governance Committee Charter drafted by Deputy Attorney General Ivan Torigoe.

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Barfield, and unanimously carried, the Board approved establishing the Governance Policy as a Committee.

On a motion made by Trustee Barfield, seconded by Vice Chair Rauckhorst, and unanimously carried the Board approved the Governance Committee Charter as presented.

Chair Kane announced the next agenda item would be New Business Items 3 and 4.

Chair Kane announced and requested the Board review the upcoming 2020 schedule, contemplate which Committees they would like to serve on for the upcoming year, taking into consideration the selection of at least three Committees. Chair Kane will compile the requests and present the members of the Committees at the next Board meeting in January.

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 on behalf of Executive Director Williams an oral and written report to the Board on legislative proposals relating to the Employees' Retirement System that have been submitted to the Governor's office to be considered for his legislative package for the 2020 Legislative Session. Ms. Curry also mentioned, with regard to BUF-12, a public hearing on the Hawaii Domestic Relations Orders Hawaii Administrative Rules is scheduled for January 6, 2020.

Ms. Curry discussed the four proposed legislative bills

- BUF-11 – Relating to Compensation for the Purposes of the Employees' Retirement System (Base Pay and Compensation to be amended Sections 88-21, and 88-21.5 as the Base Compensation Rate designated by the employees' personnel action report in order to ensure that retirement benefits are computed fairly and equitably for all public employees and will facilitate employer reporting of compensation on a consistent and timelier basis);
- BUF-12 – Relating to Qualified Domestic Relations Orders (Amendments to Section 88-93.5 to define the benefit the member is expected to receive and is receiving, to clarify the process of obtaining ERS information, the qualification and notification process, and to further define benefits payable);
- BUF-13 – Relating to Employees' Retirement System Investments (Amends Section 88-103 to identify certain specific types of investment fund information, the disclosure of which would likely put the ERS at a competitive disadvantage, and therefore, exempts such categories from disclosure under Chapter 92F); and
- BUF-14 – Relating to Employees' Retirement System Disability Retirement (Supports the legislative intent and clarifies the requirements of service-connected disability retirement and accidental death benefits by amending Sections 88-21, 88-79, 88-82, 88-85.5, 88-261(a) and 88-336, constructively reducing unfunded increases to the ERS's liabilities).

Deputy Attorney General (DAG), Ivan Torigoe requested to discuss in Executive Session with the Board information regarding BUF-14.

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 12:46 p.m.

(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).

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 (CONT'D)

EXECUTIVE SESSION (CONT'D)

- 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

EXECUTIVE SESSION
(CONT'D)

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; 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 Special Deputy Attorneys General: Tax Counsel Contract, appropriate action.
- Pursuant to HRS § 92-5(a)(4), and (a)(6) to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to public safety or security, regarding Computer Systems Accounting and Security; report and update.
- Pursuant to HRS § 92-5(a)(4), and (a)(6) to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding Accounting Branch Update; report and update.

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,
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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
INVESTMENT; 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 SPECIAL
DEPUTY ATTORNEYS
GENERAL: TAX COUNSEL
CONTRACT, APPROPRIATE
ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(a)(4), AND (a)(6) TO

CONSIDER AND CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES, AND TO CONSIDER SENSITIVE MATTERS RELATED TO PUBLIC SAFETY OR SECURITY, REGARDING COMPUTER SYSTEMS ACCOUNTING AND SECURITY; REPORT AND UPDATE

EXECUTIVE SESSION, PURSUANT TO HRS § 92-5(a)(4), AND (a)(6) TO CONSIDER AND CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES REGARDING ACCOUNTING BRANCH UPDATE; REPORT AND UPDATE

APPROVAL OF EXECUTIVE SESSION MINUTES
- AUGUST 12, 2019
- SEPTEMBER 9, 2019

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Machida, and unanimously carried, the Board exited Executive Session at 1:41 p.m.

APPROVAL OF MINUTES
- AUGUST 12, 2019
- SEPTEMBER 9, 2019

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried, the Board approved the Minutes for August 12, 2019, and September 9, 2019, as presented.

EXECUTIVE DIRECTOR'S REPORT

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

- Shared the travel report submitted by Chair Kane relating to his attendance at Principles for Responsible Investing. The suggested report format, previously shared by Trustee Barfield, is to help assist Board members in reporting the value of and to help trustees decide on attendance at future educational opportunities.
- Nationally, the Financial Transaction Tax (FTT), fees for taxes on securities trades has three proposals: Congressional Budget Office, Senator Warren, and one co-sponsored by Senator Brian Schatz. ED Williams has been invited to be a part of a working group along with other large pension funds and associations (Calpers, NCPERS, NCTR) to determine the impacts the tax may have. CIO Burton and Investment Officers are looking into the impacts and have reported concerns with not only the taxes, but that reporting and monitoring would also be costly. ED Williams will report back with more findings and developments.

EXECUTIVE DIRECTOR'S
REPORT (CONT'D)

- City Financial Tower is LEED designated and as of August has been certified as a LEED Goal Entity, with the ability to translate energy savings into dollars.
- Disability Case, Quinones, appealed to by Hawaii Circuit Court and upheld ERS position and denied the appeal.
- Audit meeting with KPMG, State Auditor to plan the ERS Audit.
- Update on 15th Floor renovations, and completion is targeted for the new year.
- ERS Staff and AGs met with the Medical Board, Drs. Patricia Chinn, Howman Lam, and Gerald McKenna to address the process and discuss ideas to streamline and expedite the backlog cases. Board suggest having the Governance Committee follow up on possible alternatives and options to the Medical Board.
- Participating in the bond rating presentations for general obligation and revenue bonds. The State's rating has been upgraded from and AA to a AA+, due to our economic circumstances and outlook being stable. General Obligation Bonds have also been upgraded from AA to AA+.
- Announced that Budget & Finance Director, Craig Hirai will come on board effective December 16, 2020.
- Is reviewing with CIO Burton, Investment Officers, and BNY Mellon options for pre-funding of employer contributions.

OPERATIONS REPORT

Deputy Executive Director (DED) Kanoe Margol presented the written operations report and highlighted the ERS staffing vacancies. Three new supervisor positions within the Retirement Benefits Branch (RBB) should help improve customer service and succession planning. DED Margol also mentioned some suggestions from meeting with the Medical Board to improve efficiency, such as having staff follow up on pending items using a checklist. DED Margol also reviewed the RBB Activities regarding pending enrollment, refund payments, processing of disability cases, and finals report.

ADJOURNMENT

On a motion made by Trustee Machida, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, Chair Kane adjourned the meeting at 1:59 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik