

MINUTES OF THE MEETING OF THE
GOVERNANCE POLICY COMMITTEE OF THE BOARD OF TRUSTEES OF THE
EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

JULY 24, 2020

CITY FINANCIAL TOWER
201 MERCHANT STREET, SUITE 1200
HONOLULU, HAWAII 96813

Trustees present: Mr. Emmit Kane, Chair; also Chair of the Board of Trustees
(by teleconference) Dr. Catherine Chan, Vice Chair; also Chair of the Legislative Committee
Dr. Genevieve Ley, Chair of the Administrative & Audit Committee

Trustees present: Mr. Vincent Barfield, Chair of the Investment Committee
(City Financial Tower Mr. Jerome Rauckhorst, Chair of the Compensation Review Committee
by teleconference)

Staff present: Mr. Thomas Williams, Executive Director
(City Financial Tower Ms. Kanoë Margol, Deputy Executive Director
by teleconference) Ms. Elizabeth Burton, Chief Investment Officer
Mr. Karl Kaneshiro, Retirement Benefits Manager
Mr. Keith Miyamoto, Information Services Manager
Ms. Donna Curry, Program Specialist
Mr. Bart Asato, Program Specialist
Ms. Shanna Sakagawa, Program Specialist
Ms. Dale Kehau Kanae, Recording Secretary

Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General
(by teleconference) Ms. Diane Wong, Deputy Attorney General

Guests present: Ms. Ilana Boivie, Funston Advisory Services LLC
(by teleconference) Mr. Rick Funston, Funston Advisory Services LLC
Mr. Randy Miller, Funston Advisory Services LLC
Mr. Ivan Sanaev, Funston Advisory Services LLC
Ms. Kelly Kenneally, Funston Advisory Services LLC
Mr. Colin Bebee, Meketa Investment Group, Inc.
Ms. Mika Malone, Meketa Investment Group, Inc.
Mr. Neil Rue, Meketa Investment Group, Inc.

QUORUM/CALL TO ORDER

A quorum being present (Acting Chair Kane, Trustees Barfield, Chan, Ley, and Rauckhorst), Acting Chair Kane called the meeting of the Governance Policy Committee (Committee) of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 9:00 a.m.

On a motion made by Trustee Barfield, seconded by Trustee Ley, and unanimously carried, to be able to hold a meeting closed to the public and allow Trustees to participate by teleconference or other remote meeting technology, pursuant to the Governor of the State of Hawaii's Ninth Supplementary Proclamation dated June 10, 2020, in order to implement social distancing measures.

PUBLIC COMMENT

Acting Chair Kane called for public comment. There were no members of the public present by teleconference, therefore no public comments. There was also no public testimony received by e-mail for this Committee meeting.

ELECTION OF GOVERNANCE
COMMITTEE CHAIR AND
VICE CHAIR

Acting Chair Kane asked for nominations for Chair of the Committee. Trustee Barfield nominated and motioned for Trustee Kane and Trustee Rauckhorst seconded the nomination and motion, unanimously carried, Acting Chair Kane was elected Chair of the Governance Policy Committee.

Chair Kane then asked for nominations for Vice Chair of the Committee. Trustee Ley nominated Trustee Barfield and Trustee Chan seconded the nomination. Trustee Rauckhorst nominated Trustee Chan and Trustee Barfield seconded the nomination. Trustee Barfield withdrew his nomination and shared with the Committee that it would be beneficial to balance leadership of the Committee by adding a newer Trustee that could bring a fresher perspective. On a motion made by Trustee Rauckhorst, seconded by Trustee Barfield, and unanimously carried, Trustee Chan was elected Vice Chair of the Governance Policy Committee.

Chair Kane also shared with the Committee that in previous years, the newer Trustees would start from Vice Chair, then Chair of a Committee and eventually Vice Chair and finally Chair of the Board, rotating Chairs annually. Chair Kane also shared that in the near future, Committees would possibly meet and review agenda items and provide approvals and recommendations to the full Board that would possibly meet quarterly.

For the record, the Governance Policy Committee was an Ad Hoc Committee prior to being established on December 9, 2019.

REVIEW AND DISCUSS
GOVERNANCE POLICY
COMMITTEE CHARTER;
APPROPRIATE ACTION

Executive Director (ED) Williams presented and discussed with the Committee a revised Governance Policy Committee Charter.

The Committee requested the following additional changes under:

Page 1, I. PURPOSE:

- Line 4, after the word **duties** add, “,” and delete the word “and”;
- Line 5, after the word **oversight** delete “, including over” and add the word “of”; after the word **guidelines** add a “,”; and after the word **and** add the word “the”;

For clarification, the end of Line 4 should read: “... duties, oversight of investment policies and guidelines, and the efficient, effective ... (“ERS”).”

Page 2, IV. AUTHORITY AND RESPONSIBILITIES:

- Delete the first paragraph.
- Third paragraph, second bullet, after the word **support** add a “,” and delete the word “or”; after the word **opposition** add “, or monitor”

For clarification, the second bullet, should read: “To recommend support, opposition, or monitor of proposed legislation relating to the ERS governance to the full Board for its consideration.”

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Committee accepted the revised Governance Policy Committee Charter with the additional changes and will be recommending it for approval by the Board.

A copy of the Governance Policy Committee Charter is attached to these minutes for clarification.

DISCUSS EMPLOYEES' RETIREMENT SYSTEM'S BOARD AND COMMITTEES' CHARTERS, PURPOSE, VISION, COMPOSITION, AND STAFFING

ED Williams discussed with the Committee the background of the Governance Policy Committee, its purpose and role. ED Williams shared with the Committee that a draft of the Governance Policy Manual is available on BoardWorks and requested it be reviewed after the presentation by Funston Advisory Services.

ED Williams also discussed and presented to the Committee the Governance recommendations by priority and also provided staff assignments for each Committee: Deputy Executive Director Kanoe Margol will be assigned to the Administrative & Audit Committee, Program Specialist Donna Curry will be assigned to the Legislative Committee, Chief Investment Officer Elizabeth Burton will be assigned to the Investment Committee, and ED Williams will be assigned to the Compensation Review and Governance Policy Committees.

ED Williams also shared that the ERS Strategic Plan is also available for the Board on BoardWorks.

Chair Kane shared six of the top priority areas from the Governance Structure and Policy Review Final Report as follows: Board Education Program, Board Oversight and Reassurance, Legal Counsel, Legal Framework, Board communications, and Board Operations.

No action was needed on this agenda item.

RECESS

Chair Kane called for recess at 9:54 a.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Chan, Trustees Barfield, Ley, and Rauckhorst), Chair Kane reconvened the meeting at 10:00 a.m.

PRESENTATION OF BOARD SMART BY FUNSTON ADVISORY SERVICES, RICK FUNSTON AND RANDY MILLER

ED Williams gave the Committee a brief background of Funston Advisory Services LLC's Board Smart program and the benefits ERS can anticipate by acquisition.

Messrs. Rick Funston, Randy Miller, and Ivan Sanaev, and Meses. Ilana Boivie and Kelly Kenneally of Funston Advisory Services LLC joined the meeting by teleconference.

Messrs. Funston and Miller presented Board Smart – A Governance eLearning Resource to the Committee. Board Smart offers an accredited, on-line, on-demand, self-paced, self-directed governance learning resource: Basic, intermediate and advanced levels of training; Full spectrum of topics relevant to a retirement system trustee. It also provides short, engaging and insightful "Talks" on multiple governance topics by recognized governance experts.

No action was taken on this agenda item. This presentation was for Committee and Board education.

After their presentation, Messrs. Funston, Miller, Sanaev, and Meses. Boivie and Kenneally of Funston Advisory Services LLC left the meeting by ending their teleconference.

PRESENTATION OF INVESTMENT DELEGATION DISCUSSED BY MEKETA

Messrs. Neil Rue, Collin Bebee, and Ms. Mika Malone of Meketa Investment Group, Inc. (Meketa) presented an oral and written report to the Committee on Investment Delegation.

INVESTMENT GROUP, INC.
AND EMPLOYEES'
RETIREMENT SYSTEM'S
CHIEF INVESTMENT
OFFICER; APPROPRIATE
ACTION

Messrs. Rue and Bebee and Ms. Malone discussed with the Committee:

Investment Delegation Discussion - Executive Summary, Background, Delegation Benefits and Challenges, Major Investment Decision Authority Areas, A Comparison of Investment Decision-Making Frameworks, Consideration of New HIERS Investment Delegation Framework, Thinking About Decision Thresholds, Thinking About a Delegated Due Diligence Process, Recommendations, and Next Steps.

Investment Delegation Survey - Executive Summary, Scope, Results and Findings, and Delegation Language.

The Committee suggested presenting the Investment Delegation concept to the Board and re-establish the Investment Committee that will revise the Charter and implement a Timeline of next steps.

No other action was taken on this agenda item.

After their presentation, Messrs. Rue and Bebee, and Ms. Malone of Meketa Investment Group, Inc. left the meeting by ending their teleconference.

RECESS

Chair Kane called for recess at 11:55 a.m.

RECONVENE

A quorum being present (Chair Kane, Vice Chair Chan, Trustees Barfield, Ley, and Rauckhorst), Chair Kane reconvened the meeting at 12:05 p.m.

REVIEW AND DISCUSS
INVESTMENT POLICY
STATEMENT; APPROPRIATE
ACTION

Chief Investment Officer (CIO) Elizabeth Burton provided an oral and written report to the Committee on the Investment Policy Statement.

CIO Burton discussed the changes to the Investment Policy Statement as presented.

On a motion made by Trustee Barfield, seconded by Vice Chair Chan, and unanimously carried, the Committee accepted and adopted the revised Investment Policy Statement as presented with the exception of the Corporate Governance Policies in all sections and will be recommending it for approval by the Board.

ADJOURNMENT

On a motion made by Trustee Ley seconded by Trustee Barfield, and unanimously carried, Chair Kane adjourned the meeting at 12:18 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik



Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
GOVERNANCE POLICY
COMMITTEE CHARTER

I. PURPOSE

The purpose of the Governance Policy Committee (“Committee”) is to carry out the responsibilities delegated to it by the Board of Trustees of the Employees’ Retirement System of the State of Hawaii (“Board”) relating to research, implementation and monitoring of best practices for governance toward fulfillment of fiduciary duties, ~~and oversight, including over~~ of investment policies and guidelines, and the efficient, effective administration of the Employees’ Retirement System of the State of Hawaii (“ERS”).

II. COMMITTEE MEMBERSHIP

The Committee shall ~~consist be composed of no more than four (4) trustee~~ the Chairpersons of the standing committees by the Board. The members of the Governance Policy Committee ~~shall be designated by the Board Chair and appointed by the Board~~ will elect its Chair and Vice Chair. The members of the Committee shall be appointed for one-year terms and shall serve for such term or terms as the Board may determine or until earlier resignation. The Board may remove any member from the Committee at any time with or without cause.

III. MEETINGS

The Committee shall meet at least three times a year at such times and places as it deems necessary to fulfill its responsibilities. The Committee shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. The Committee may invite such members of management and advisors to its meetings as it deems appropriate. The Committee shall review this Charter at least annually and recommend any proposed changes to the Board for approval.



Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
GOVERNANCE POLICY
COMMITTEE CHARTER

IV. AUTHORITY AND RESPONSIBILITIES

~~The Board through its Chair shall designate a member of the Committee to serve as its chairperson.~~

The Committee shall have the following authority and responsibilities regarding the administration of the ERS:

- To review annually the ERS's Governance Plans and Procedures.
- To assign and provide direction to the Executive Director and Deputy Executive Director on priorities and actions to successfully execute the governance responsibilities of the Administrative Branch.
- To review and draft governance policies, guidelines and recommendations for the Boards consideration.

The Committee shall have the following authority and responsibilities regarding ERS Legislation:

- To recommend and review proposed legislation relating to the ERS governance introduced by the ERS and by other parties, and to assign and provide direction for the Executive Director and Deputy Executive Director on priorities and actions to successfully support such legislative goals and responsibilities of the ERS.
- To recommend support, ~~or~~ opposition, or monitor of proposed legislation relating to the ERS governance to the full Board for its consideration.



Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
GOVERNANCE POLICY
COMMITTEE CHARTER

V. OUTSIDE ADVISORS

The Committee shall have the authority, in its sole discretion, to obtain the advice of any ERS consultant or ERS service provider as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. The Committee shall have the authority, in its sole discretion, to obtain the advice and the assistance of ERS's legal counsel and such other advisors as it deems necessary to fulfill its duties and responsibilities under this Charter. The Committee shall not be required to implement or act consistently with the advice or recommendations of its consultant, legal counsel or other advisor to the Committee, and the authority granted in this Charter shall not affect the ability or obligation of the Committee to exercise its own judgment in fulfillment of its duties under this Charter. The consultant(s), outside counsel and any other advisors retained by, or providing advice to, the Committee (other than the ERS's in-house counsel) shall be independent as determined in the discretion of the Committee.

VI. PERFORMANCE EVALUATION

The Committee shall conduct an annual evaluation of the performance of its duties under this Charter and shall present the results of the evaluation to the Board. The Committee shall conduct this evaluation in such manner as it deems appropriate.

Adopted by the Board of Trustees on December 9, 2019.

Proposed revisions July 24, 2020.