

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

JANUARY 11, 2021

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

Trustees present: Mr. Emmit Kane, Chair  
(by teleconference) Mr. Jerome Rauckhorst, Vice Chair  
Mr. Vincent Barfield  
Dr. Catherine Chan  
Mr. Craig Hirai  
Dr. Genevieve Ley  
Mr. Wesley Machida  
Mr. Bennett Yap

Staff present: Mr. Thomas Williams, Executive Director  
(City Financial tower Ms. Kanoë Margol, Deputy Executive Director  
by teleconference) Ms. Donna Curry, Program Specialist  
Mr. Bart Asato, Program Specialist  
Ms. Shanna Sakagawa, Program Specialist  
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  
Mr. Ian Wetzel, Investment Officer  
Mr. Andrew Chen, Investment Specialist  
Ms. Gerri Konishi, Member Home Loan Assistant (audio only)  
Ms. Diana Gomes, Secretary  
Ms. Dale Kehau Kanae, Recording Secretary  
Ms. Lori Kim, Secretary

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

Guests present: Mr. Joe Newton, Gabriel Roeder Smith  
(by teleconference) Mr. Lewis Ward, Gabriel Roeder Smith  
Mr. Dan Gluck, Hawaii State Ethics Commission  
Ms. Lynn Santiago, Hawaii State Ethics Commission  
Mr. Colin Bebee, Meketa Investment Group, Inc.  
Ms. Mika Malone, Meketa Investment Group, Inc.  
Mr. Neil Rue, Meketa Investment Group, Inc.

Public present: Mr. Maja Ben Saed, Fundmap  
(by teleconference) Ms. Lindsay Saienni, Reporter, Financial Investment News  
Mr. Dane Wicker, Staff, State Senate

QUORUM/CALL TO ORDER

A quorum being present (Chair Kane, Vice Chair Rauckhorst, Trustees Barfield, Ley, Machida, and Yap), 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.

On a motion made by Trustee Machida, seconded by Vice Chair Rauckhorst, and unanimously carried, the Trustees voted to hold a meeting closed to the

QUORUM/CALL TO ORDER  
(CONT'D)

public and allow Trustees to participate by teleconference or other remote meeting technology, pursuant to the Governor of the State of Hawaii's Seventeenth Supplementary Proclamation Related to the COVID-19 Emergency, dated December 16, 2020, in order to implement social distancing measures.

PUBLIC COMMENT

Chair Kane called for public comment. There were three (3) members of the public present by teleconference, however, none had any comments. There was no public written testimony received for this meeting.

PRESENTATION ON  
ETHICS FOR STATE  
BOARDS BY HAWAII  
STATE ETHICS  
COMMISSION

Hawaii State Ethics Commission, Executive Director Dan Gluck and Secretary Lynn Santiago entered the meeting by teleconference. Mr. Gluck presented an Ethics for State Employee Refresher Course to the Board and discussed in detail: the Background of the State Ethics Commission, Gifts and Reporting, Fair Treatment, Private Business Activities, State-Sponsored Fundraising, Misappropriation of State Property, Confidential Information, Conflicts of Interests, State Contracts, Penalties for Ethics Violations, Financial Disclosure Statements, and Basic Requirements of the Lobbyists Law.

The Board had a question regarding honorariums. Mr. Gluck suggested that depending on the circumstances, it may be better to decline.

After his presentation, Mr. Gluck and Ms. Santiago left the meeting by exiting their teleconferences.

ANNUAL ACTUARIAL  
VALUATION REPORT FOR  
THE YEAR ENDING  
JUNE 30, 2020

Gabriel, Roeder, Smith and Company (GRS), Messrs. Joe Newton and Lewis Ward presented an oral and written report to the Board regarding the Annual Actuarial Valuation Report for the Year Ending June 30, 2020.

Messrs. Newton and Ward discussed with the Board:

*Purpose of the Actuarial Valuation*

- The primary purpose of the annual actuarial valuation is to either (1) set or (2) assess the adequacy of the contribution funding policy. The funding policy is the pattern of contributions, not necessarily the contributions in a given year.
- ERS's the funding policy has a fixed contribution rate from members and employers.
- Thus, the primary purpose of the annual actuarial valuation is to assess whether the current funding policy is expected to fully amortize the UAAL over a period of 30 years or less.

*Sources of Impact*

- Investments underperformed 7.00% assumption on market basis.
- Liabilities grew faster than expected.
- Contributions in dollars are expected to be modestly higher due to salary increases and head count increases for both groups.

*Stress Test Summary*

- Actuarial valuation results show System is on target to be fully funded in less than 30 years; and
- Stress test shows that System is sustainable in a low return environment.

*Valuation Summary*

- While it does not show in the current UAAL and funded ratio, the current actuarial assumptions and the contribution commitment from Act 17 (SB 936) have materially strengthened the outlook for ERS.
- The scheduled employer contribution rates are expected to be adequate

- to satisfy HRS §88-122(e)(1) even with substantial adverse experience.
- However, all of the positive outlook assumes the scheduled contribution rates occur and investment income objectives are achieved. It is imperative that the currently scheduled funding strategies are implemented and sustained.
- UAAL is anticipated to grow until the funding period reaches 20 years (approximately 2026).

No action from the Board was required at this time. A final report will be accepted during the February Board meeting.

After their presentation, Mr. Newton left the meeting by exiting the teleconference.

(Trustees Chan and Hirai joined the meeting by teleconference)

ANNUAL REPORT TO THE  
LEGISLATURE REQUIRED  
BY ACT 85/2017  
REGARDING THE  
ACTUARIAL ASSET AND  
LIABILITY STRESS TEST  
2020

Gabriel, Roeder, Smith and Company (GRS), Mr. Ward presented an oral and written report to the Board on the Annual Report to the Legislature Required by Act 85/2017 Regarding the Actuarial Asset and Liability Stress Test 2020.

Mr. Ward discussed, in detail, the requirements of the Annual Stress Test Report as presented. This report was a receive and file.

After his presentation, Mr. Ward left the meeting by exiting the teleconference.

EXECUTIVE DIRECTOR'S  
REPORT

Executive Director (ED) Williams gave an oral report and discussed as follows:

- Discovered the HiPay Program was incorrectly programmed and suspended employee contributions by highly compensated employees who reached the maximum compensation limitations under IRC §401(a)(17). In 2019, seventeen employees were impacted, and were notified of their deficiencies by HiPay. ERS worked with outside counsel to confirm the implications for the plan and have notified the affected employees accordingly.
- Internal Audit Survey, in the past, had included the Board and other stakeholders. It was decided to exclude the Deputy Attorneys General from the survey, as they are not ERS employees. KMH LLP was notified and agreed with the decision.
- Received communication from the State Auditor that there were no internal deficiencies within the ERS.
- ERS Staff has met with Representative Sylvia Luke regarding legislation and budget requests regarding investment staff additions and possible reductions in operating budgets.
- Analyzed overtime of 70 individuals within the Police and Fire Departments and discussed with GRS, the impact and cost implications for ERS and employers.
- Legislature has asked all Departments to identify those eligible to retire in hope of closing the budget gap through attrition and may choose not to replace those retiring. This created additional work for ERS.
- EUTF was approved for remote work for some of their employees and have requested to reduce space in possibly April. Heitmann has been alerted.
- ED Williams and CIO Burton served as panelists at the Sahar Global Private Equity Summit. Overall, the Summit was positive.
- Furloughs have been deferred.
- Met with Legislative Labor Chair, Representative Onishi.
- Retirements for 2020 have increased by 18%, on average.
- Two Bills will be discussed by the Legislative Committee Chair regarding

EXECUTIVE DIRECTOR'S  
REPORT (CONT'D)p

- post retirement adjustments and conversion of sick leave to service.
- ED Williams was interviewed on Hawaii Public Radio.
- Trusted Insight Magazine recognized Elizabeth Burton as an All-Star Chief Investment officer and a press release was shared with the Board, national and local press.
- Budget Briefings with Senate Ways and Means held on January 4<sup>th</sup> and House Finance on January 5, 2021 lead by B&F Director.
- A new BoardSmart presentation is available to the Board regarding the Importance of Developing and Renewing Your Governance Policies.

(Chair Kane left the meeting at 10:50 a.m. and Vice Chair Rauckhorst presided over the meeting.)

DEPUTY EXECUTIVE  
DIRECTOR'S OPERATIONS  
REPORT

Deputy Executive Director (DED) Kanoë Margol presented her Operations Report and gave updates to ERS staffing and projects of Administration, Accounting, Information Services, Retirement Benefits and Staff Support Services Branches.

REPORTS BY COMMITTEE  
CHAIRS: ADMINISTRATIVE  
& AUDIT COMMITTEE,  
GOVERNANCE POLICY  
COMMITTEE, AND  
KAANAPALI AD HOC  
COMMITTEE

Vice Chair Rauckhorst requested reports from the Committee Chairs:

Administrative & Audit Committee Chair Ley did not have any report.

Governance Policy Committee did not have anything to report.

Investment and Kaaanapali AD Hoc Committees reports would be covered in the Investment Committee Meeting.

REPORT BY LEGISLATIVE  
COMMITTEE CHAIR

Legislative Committee Chair Chan and Program Specialist Donna Curry discussed with the Board two Administration bills being drafted.

- BUF 23, would change future post retirement allowances to an amount at the discretion of the ERS Board. Existing post retirement allowance for current members would remain the same, however new members after June 30, 2021, would be subject to the new post retirement allowances.
- BUF 24, would change the formula for crediting unused sick leave to a member's service credit upon retirement. Currently, 60 or more days of unused sick leave upon retirement would add 3 months of service credit and each additional 20 days will credit an additional month. The new bill would require a minimum of 120 days of unused sick leave upon retirement to be credited with 3 months of additional service credit, with 40 days to provide an additional month. The purpose of the bill is to reduce the credited unused sick leave upon retirement and will apply to new members after June 30, 2021.

These two bills are in addition to the four ERS-initiated Administration proposals, are intended to address the ERS unfunded liability, are prospective, and will apply to new ERS members.

ANNUAL REPORT TO  
THE LEGISLATURE  
REQUIRED BY ACT  
192/2007 REGARDING  
DIRECT HOLDINGS IN  
SUDAN SCRUTINIZED  
COMPANIES.

Chief Investment Officer Elizabeth Burton provided an oral and written report on the Annual Report to the Legislature Required by Act 192/2007 Regarding Direct Holdings in Sudan Scrutinized Companies. This was reported as a receive and file.

ANNUAL REPORT TO THE LEGISLATURE REQUIRED BY ACT 260/2007 REGARDING THE HAWAII TARGETED INVESTMENT PROGRAM (HITIP).

Chief Investment Officer Elizabeth Burton provided an oral and written report on the Annual Report to the Legislature Required by Act 260/2007 Regarding the Hawaii Targeted Investment Program HITIP. This was also reported as a receive and file.

REPORT BY INVESTMENT COMMITTEE CHAIR

Investment Committee Chair Barfield reported to the Board of the new Investment Committee Meeting last month. Items covered were confirmation approval of the new structure, policy changes, KaaNapali updates, and updates to the portfolio.

SCHEDULE OF INVESTMENT COMMITTEE MEETINGS

The new schedule of the Investment Committee Meetings will be held January 25, 2021, two weeks after the Board meeting. Subsequent meetings will be held two weeks after the Board Meetings.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Machida, and unanimously carried, the Board entered into Executive Session at 11:33 a.m.

(Public participation concluded by ending the teleconference link. Vice Chair Rauckhorst requested staff exit the meeting for the next agenda item and only the Board, Executive Director Thomas Williams, Deputy Executive Director Kanoë Margol, Chief Investment Officer Elizabeth Burton, and Deputy Attorney General (DAG) Ivan Torigoe remained. DAG Torigoe was the notetaker of the minutes for this agenda item.)

REPORT BY THE COMPENSATION REVIEW COMMITTEE CHAIR

(See DAG Torigoe's Confidential Supplemental Minutes for this agenda item.)

UPDATE ON CHANGE IN TITLE FOR STAFF TO DEPUTY CHIEF INVESTMENT OFFICER

COMPENSATION FOR EXEMPT INVESTMENT STAFF

(Dale Kehau Kanae re-entered the meeting at 11:33 a.m. and took notes for the remainder of the meeting.) (Chair Kane re-entered the meeting at 11:44 a.m. by joining the teleconference, however, Vice Chair Raukhorst continued to preside for the remainder of the meeting.)

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 Trustees' Fiduciary Duties and Immunities, Updates on Appeals and Sunshine Law.

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 TRUSTEES'

FIDUCIARY DUTIES AND  
IMMUNITIES, UPDATES ON  
APPEALS AND SUNSHINE  
LAW.

APPROVAL OF EXECUTIVE  
SESSION MINUTES  
– OCTOBER 13, 2020

EXIT EXECUTIVE SESSION

On a motion made by Trustee Machida, seconded by Trustee Yap, and unanimously carried, the Board exited Executive Session at 12:20 p.m.

APPROVAL OF MINUTES  
– OCTOBER 13, 2020

On a motion made by Trustee Machida, seconded by Trustee Chan, and unanimously carried, the Board approved the Minutes of October 13, 2020, as presented.

ADJOURNMENT

On a motion made by Trustee Yap, seconded by Trustee Machida, and unanimously carried, Vice Chair Rauckhorst adjourned the meeting at 12:21 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:dkik