

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

MARCH 8, 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. Howard Hodel, Deputy Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. David Okamoto, Investment Officer – Credit Markets
Mr. Ian Wetzel, Investment Officer – Real Assets
Mr. Andrew Chen, Investment Specialist
Ms. Gerri 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
(by teleconference) Ms. Elmira Tsang, Deputy Attorney General (audio only)
Ms. Diane Wong, Deputy Attorney General

Guests present: Mr. Rick Funston, Board Smart LLC
(by teleconference) Mr. Randy Miller, Board Smart LLC
Mr. Lewis Ward, Gabriel Roeder Smith
Mr. Colin Bebee, Meketa Investment Group, Inc.

Public present: Ms. Rachel Tillman, Cool River Marketing
(by teleconference)

QUORUM/CALL TO ORDER

A quorum being present (Chair Kane, Vice Chair Rauckhorst, Trustees Barfield, Hirai, Ley, and Machida), 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, to be able to hold a meeting closed to the public and allow Trustees to participate by teleconference or other remote meeting

QUORUM/CALL TO ORDER
(CONT'D)

technology, pursuant to the Governor of the State of Hawaii's Eighteenth Proclamation Related to the COVID-19 Emergency, dated February 12, 2021, in order to implement social distancing measures.

PUBLIC COMMENT

Chair Kane called for public comment. There were no members of the public present by teleconference, therefore, no public written testimony received for this meeting.

EXECUTIVE DIRECTOR'S
REPORT

Executive Director Thomas Williams gave an oral presentation of his report to the Board for February and March activities as follows:

- Presentation of the final Actuarial Valuation Report were held with stakeholders such as the State House and Senate Legislators, various Local Unions, Finance Directors, as well as ERS and EUTF staff.
- ERS staff have been focusing on 56 legislative bills impacting ERS including our administrative bills, those related to felony forfeiture, investment records confidentiality, ESG proposals, sick leave amendments, benefit enhancements as it relates to the national guard non-members and bills related to the State budget. There was also a potential draft proposal for defined contribution alternative to the ERS.
- Met with representatives of the University of Hawaii to discuss an optional retirement program, if approved, would be available for coaching staff.
- Sent letters to union leaders of the United Public Workers, State of Hawaii Organization of Police Officers, Hawaii Fire Fighters Association, Hawaii State Teachers Association, and the University of Hawaii Professional Assembly outlining our legislative priorities and asking for their support.
- Met with Randy Perreira of the Hawaii Government Employees Association to discuss ERS proposals and gain his support and offered to meet with the other Unions regarding definitions of compensation affecting tax exemptions.
- The Governor announced that furloughs were off the table for the remainder of the fiscal year pending results of the COVID Stimulus package of which Hawaii could receive up to \$2.0 Billion to help with the budget shortfall in the upcoming fiscal year. This could impact furloughs, layoffs, and potential raises and most Unions are also negotiating contracts to expire June 30.
- In Feb, the Governor delegated to Department Directors, the authority to approve filling of vacant positions if the sourcing is non-general funds. ERS has requested the filling of 8 positions and is awaiting approval by B&F.
- On Feb 18, B&F received approval to receive COVID vaccines and most of the ERS staff have signed up to receive them.
- On Feb 22 and 23, participated in a NASRA Winter Meeting Virtual Conference as a discussion leader.
- On Feb 25, ERS provided a staff lunch recognizing 73 staff contributing to the Pension Administration System Upgrade, bringing the V3 operating system to the Cloud, and to those that supported the Oracle Financials System upgrade and Database.
- Discussed over the phone with Chair Luke the ERS budget expenditures with no reductions as of this date.
- ERS objected to at least two bills that would require unencumbered funds remaining at the end of the fiscal year to be returned to the general

EXECUTIVE DIRECTOR'S
REPORT (CONT'D)

fund, possibly a minimum of 5%. ERS staff have convinced the Committees and Chairs that this would violate our fiduciary responsibility and tax exemption, and as of the last legislative hearing ERS has been excluded from those bills.

- Renovation of the 15th floor hallway and elevator lobby are almost complete. The 12th and 14th floor renovations are being revised as the expansion of the lobby is no longer needed, as ERS will be adjusting the way counseling of members is handled.
- B&F announced accelerated payments into the pension trust, representing \$329 M to be sent to the ERS in March relating to general bond obligation certifications this has been communicated to the Investment team.

(Trustee Chan, at 9:05 a.m., and Hirai, at 9:09 a.m. entered the meeting by joining the teleconference).

DEPUTY EXECUTIVE
DIRECTOR'S OPERATIONS
REPORT

Deputy Executive Director Kano 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.

RETIREMENT BENEFITS
BRANCH CHIEF'S REPORT

Retirement Benefits Branch Manager Karl Kaneshiro, presented an oral and written report to the Board with an Update of the RBB and discussed Activities from January – March 2021, Challenges, and Upcoming Events – April to June 2021.

After his presentation, Mr. Kaneshiro left the meeting.

BOARDSMART TRUSTEE
EDUCATION PLATFORM

ED Williams discussed with the Board the BoardSmart Trustee educational platform and ways that this tool could be used effectively to better serve the Board and ERS staff.

Funston Advisory Services LLC, Rick Funston and Randy Miller entered the meeting by joining the teleconference and queried the Board on any specific topics of interest and information the Board may need or find helpful. Mr. Funston suggested exception reporting and talks surrounding topics that may be useful to the Board.

The Board asked if BoardSmart has tools for ERS staff to assist with outlining what the priorities and gaps are on the Board and tools that could help close those gaps.

Mr. Funston asked if each of the Trustees could complete a survey so that they could meet the individual needs of each of the Trustees, as well as the Committees and Board, by assisting with references that can be useful.

Messrs. Funston and Miller both left the meeting by ending their teleconference.

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

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

Mr. Ward discussed with the Board a high-level summary of the annual actuarial valuation report previously presented in January, and now in final form: The final assets were higher than the preliminary assets by \$200.0 M. The unfunded ratio is 1/10th % higher than what was reported in January.

The funded ratio is currently 55.3% which is a small increase over the 55.2% funded ratio in the previous valuation. The funding period remains at 26 years. In order to meet the 26-year funding period, we don't want to reduce the amount of contributions to the fund.

On a motion made by Trustee Machida, seconded by Trustee Barfield, and unanimously carried the Board accepted the Annual Actuarial Valuation Report for the Year Ending June 30, 2020 as presented.

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

Chair Kane requested reports from the Committee Chairs:

Administrative & Audit Committee Chair Ley did not have any report, however noted that the next meeting will be scheduled soon.

Governance Policy Committee Chair Kane did not have any report.

Legislative Committee Chair Chan reported that there were no meetings, however, updates were supplied by Program Specialist Donna Curry to the Board by e-mail. The Board had no questions regarding the updates e-mailed to them.

Compensation Review Committee Chair Rauckhorst reported that the Committee met on February 25, 2021 and revised its Charter, changed the name of the committee, and will submit the changes to the Governance Policy Committee for recommended approval to the Board.

Investment Committee Chair Barfield reported that the Committee met on February 22, 2021, and an educational session on Asia investments was conducted, performance presentations were given from Meketa Investment Group, Inc., Hamilton Lane Advisors, LLC, and Townsend Group, an Aon Company, a Summary of Investment Office Activities Report including the Quarterly Risk Report, and in Executive Session two new managers for funding were approved and an update from one of the managers that ERS invested in last year. Discussed the new management pipeline reports and the Committee was able to look at the details of the activities supporting the continued transition of the portfolio including the move to put more assets in diversified strategies. And finally, an update on the golf course on Maui.

On a motion made by Trustee Machida, seconded by Trustee Barfield, and unanimously carried, the Board entered into Executive Session at 10:23 a.m.

(Public participation was ended by closing the link to the meeting)

REPORTS BY
ADMINISTRATIVE &
AUDIT, COMPENSATION
REVIEW, GOVERNANCE
POLICY, INVESTMENT
AND KAA NAPALI AD HOC,
AND LEGISLATIVE
COMMITTEES

ENTER EXECUTIVE
SESSION

REPORTS BY
ADMINISTRATIVE & AUDIT,
COMPENSATION REVIEW,
GOVERNANCE POLICY,
INVESTMENT AND
KAA NAPALI AD HOC, AND
LEGISLATIVE COMMITTEES

EXECUTIVE SESSION

- Pursuant to HRS § 92-5(a)(4) and (8), to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, and privileges, immunities, and liabilities with respect to a request to forgive overpayments pursuant to HRS § 88-106; and to deliberate or make a decision upon a matter

that requires the consideration of information that must be kept confidential pursuant to HRS § 92F-13(1) and (4), § 92F-14(b)(6), and Hawaii State Constitution, Article 1, Section 6.

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(A)(4) AND (8), TO CONSULT
WITH THE BOARD'S
ATTORNEY ON QUESTIONS
AND ISSUES PERTAINING TO
THE BOARD'S POWERS,
DUTIES, AND PRIVILEGES,
IMMUNITIES, AND
LIABILITIES WITH RESPECT
TO A REQUEST TO FORGIVE
OVERPAYMENTS PURSUANT
TO HRS § 88-106; AND TO
DELIBERATE OR MAKE A
DECISION UPON A MATTER
THAT REQUIRES THE
CONSIDERATION OF
INFORMATION THAT MUST
BE KEPT CONFIDENTIAL
PURSUANT TO HRS § 92F-
13(1) AND (4), § 92F-14(B)(6),
AND HAWAII STATE
CONSTITUTION, ARTICLE 1,
SECTION 6.

APPROVAL OF
EXECUTIVE SESSION
MINUTES
– NOVEMBER 9, 2020

EXIT EXECUTIVE SESSION

APPROVAL OF MINUTES
– NOVEMBER 9, 2020

ADJOURNMENT

REDACTED SIGNATURE

Thomas Williams
Executive Director
TW:dkik

On a motion made by Trustee Machida, seconded by Trustee Chan, and unanimously carried, the Board exited Executive Session at 10:40 a.m.

On a motion made by Trustee Machida, seconded by Vice Chair Rauckhorst, and unanimously carried, the Board approved the Minutes of November 9, 2020, as presented.

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Machida, and unanimously carried, Chair Kane adjourned the meeting at 10:41 a.m.