

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

MAY 11, 2021

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

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

Trustees absent: Mr. Bennett Yap

Staff present:
(City Financial tower
by teleconference) Mr. Thomas Williams, Executive Director
Ms. Kanoë Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Bart Asato, Program Specialist
Ms. Shanna Sakagawa, Program Specialist
Mr. Keith Miyamoto, Information Services Manager
Ms. Sandra Straub, Information Services, Applications Supervisor
Ms. Jennifer Tanaka, Accounting Supervisor
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. Andrea Gasper, Secretary
Ms. Dale Kehau Kanae, Recording Secretary

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

Guests present:
(by teleconference) Mr. Colin Bebee, Meketa Investment Group, Inc.
Mr. Neil Rue, Meketa Investment Group, Inc.
Mr. Peter Hanashiro, KMH LLP
Mr. Tyson Suehiro, KMH LLP

Public present:
(by teleconference) Mr. John Kevin Balaod, Journalist
Mr. Riley Fujisaki, Staff House Finance Committee
1-786-263-9218

QUORUM/CALL TO ORDER

A quorum being present (Chair Kane, Vice Chair Rauckhorst, Trustees Barfield, Chan, 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 9:07 a.m.

QUORUM/CALL TO ORDER
(CONT'D)

On a motion made by Trustee Ley, seconded by Trustee Chan, 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 Nineteenth Proclamation Related to the COVID-19 Emergency, dated April 9, 2021, in order to implement social distancing measures.

PUBLIC COMMENT

Chair Kane called for public comment. There were two (2) members of the public present by teleconference, however, none of the public present had any comments. There was also 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 activities as follows:

- Update of Actuarial RFP to be discussed in detail in Executive Session.
- EUTF 2,000 sq. ft. of office space on the 17th Floor is being vacated on June 30, 2021. The vacated space has been leased for a 10-year period at a higher rent rate. Occupants will renovate and move in on January 1, of 2022.
- An ESG report required to be filed with PRI included a senior leadership statement of the plan's philosophy as it relates to ESG stewardship. As part of the Investment Summit later this year, the full ESG report summary will be presented and discussed.
- If signed by the Governor, the Legislature passed a Bill on April 21, 2021, to allow Boards and Commissions to continue with remote meeting technology after January 1, 2022.
- Received a communication from the Academy of Arts and Sciences Charter School, about a proposed deferred compensation program, "Compensation Plus." ERS was asked to comment on the impact of the lower compensation and is in discussions with Tax Counsel, Department of Human Resources Development, and the Charter School. Most elected deferrals do not reduce the compensation for ERS contribution purposes. ERS has conveyed its strong objection to any plan which lowers ERS contributions.
- Leadership is in the process of continuing staff evaluations of investment officers and branch chiefs.
- We have experienced lateness in completing the Board and Committee minutes. Civil Beat's Law Center monitors, on a regular basis, the compliance of all Boards and Commissions with posting requirements. A comprehensive plan is in place to have ERS in compliance with applicable requirements by the June meeting.
- We have identified the need for additional investment legal counsel and are working with the Attorney General's Office to procure those services. A statement of qualifications and interest were posted to the AG's website, if staff or the Board are aware of any firms that would like to apply, they should be encouraged to do so.
- The Governor signed a 20th Proclamation lifting intercounty travel quarantine requirements for those who have been fully vaccinated effective June 15.
- The budget worksheets generated from the Legislative budgets were recently published. After review, our budgets remain the same with no changes and include the investment officer and chief compliance officer positions. We will be working diligently to fill those positions.

DEPUTY EXECUTIVE
DIRECTOR'S OPERATIONS
REPORT

Deputy Executive Director (DED) Kanoe Margol gave updates to ERS staffing and projects of Administration, Accounting, Information Services, Retirement Benefits and Staff Support Services Branches as presented in the April 2021 Monthly Operations Report.

Chair Kane requested reports from the Committee Chairs and reminded Chairs to identify if they have items in Executive Session before the start of reporting.

REPORTS BY
ADMINISTRATIVE &
AUDIT COMMITTEE

Administrative & Audit Committee (Committee) Chair Ley reported to the Board that the Committee met on May 7, 2021, and discussed the following reports:

KMH LLP'S INTERNAL AUDIT
UPDATE REPORT

This Internal Audit Update Report is a review of the 2021 Internal Audit Plan Results Summary. This report does not need Board approval.

KMH LLP'S BENEFIT
ESTIMATES & FINAL
BENEFIT CALCULATION
PROCESSING REVIEW

Committee Chair Ley and KMH LLP's Peter Hanashiro discussed with the Board the Benefit Estimate Calculation Processing Review. The findings of that review, as presented, were: Lack of Sufficient Staff Resources on the Final Benefit Calculation Team; and Insufficiencies Due to V3 System Issues. The recommendation to address the findings are: Internally move at least one qualified staff to the finals team position; and look into filling the open positions available for hire in order to avoid a ripple/domino effect in the branch. The Committee recommends Board approval of this Benefit Estimates & Final Benefit Calculation Processing Review.

Mr. Hanashiro commended the Retirement Benefits Branch Manager Karl Kaneshiro and his staff for improvements they've made over the years, in documenting their processes, and in building policies and procedures.

The Board also shared in that commendation.

On a motion made by Committee Chair Ley, seconded by Trustee Barfield, and unanimously carried, the Board accepted the Committees recommendation and approved KMH LLP's Benefit Estimates & Final Benefit Calculation Processing Review as presented.

KMH LLP'S CLOUD RISK
AND SECURITY
ASSESSMENT – PHASE 1
REVIEW

Committee Chair Ley requested that the Cloud Risk and Security Assessment – Phase 1 Review be discussed in Executive Session.

DISCUSSION ON THE
EMPLOYER EXCESS
PENSION COSTS

DED Margol presented an oral and written report to the Board as presented at the Administrative and Audit Committee Meeting on May 7, 2021, showing the excess pension costs from FY 2013 to FY 2020, and the excess pension costs for the last three (3) fiscal years.

The Board would like this information shared with the Legislature as overtime is something that ERS does not have control over. Employers are possibly not managing overtime and are not taking into consideration the potential effect it could have on the ERS.

REPORTS BY
COMPENSATION REVIEW,
GOVERNANCE POLICY,
INVESTMENT AND
KAANAPALI AD HOC, AND

Governance Policy Committee Chair Kane stated that he did not have any report.

Legislative Committee Chair Chan reported that there was no Legislative Committee meeting held, however, the following two ERS-initiated bills are with the Governor for signature, to be effective upon approval: HB 829,

LEGISLATIVE
COMMITTEES

SD1, Amendments to Section 88-93.5, Hawaii Revised Statutes, on Hawaii Domestic Relations Orders to be effective upon approval; and HB 930, CD1, Amendments to Section 88-103.5, limiting the disclosure of certain types of alternative investment records from FOIA requests. In addition, HB 670, SD2, regarding the forfeiture of ERS benefits for felony convictions is also with the Governor for signature.

Investment and Kaanapali Ad Hoc Committees (Committee) Chair Barfield reported to the Board that on April 26, 2021, the Committee met and discussed: the standard report and Investment Office activities; and in Executive Session – covered performance of one of the existing managers, reviewed the ERS portfolio and the shifting between broad growth and diversified strategies which is on track, reviewed status of one of the local real estate transactions, took a manager off watch list, and fine tuning diversified strategies to be covered in Executive Session..

Compensation Review Committee (Committee) Chair Jerry Rauckhorst reported to the Board that the Committee met on May 4, 2021, and discussed the compensation philosophy for the exempt positions, and review of the Executive Director, Chief Investment Officer, and the Investment Officers. Committee Chair Rauckhorst requested that due to confidentiality, further discussion would be best in Executive Session.

ENTER EXECUTIVE
SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Chan, and unanimously carried, the Board entered into Executive Session at 9:58 a.m.

(Public participation was ended by closing the link to the meeting. Messrs. Bebe and Rue of Meketa Investment Group. Inc. left the meeting by ending their teleconference.)

KMH LLP'S CLOUD RISK
AND SECURITY
ASSESSMENT – PHASE 1
REVIEW

(Trustee Hirai entered the meeting at 10:06 a.m. by joining the teleconference. After this presentation, Messrs. Hanashiro and Suehiro of KMH LLP left the meeting by ending their teleconference. Items in Executive Session were taken out of order.)

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, and privileges, immunities, and liabilities with respect to a Request to Extend the Date for Compliance with HRS Section 88-103.7, as Amended by Act 87 (2015); for appropriate action.

(Trustee Barfield left the meeting at 10:13 a.m. by ending his teleconference.)

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,
AND PRIVILEGES,
IMMUNITIES, AND
LIABILITIES WITH RESPECT
TO A REQUEST TO EXTEND

(Trustee Barfield re-entered the meeting at 10:45 a.m. by telephone.)

THE DATE FOR COMPLIANCE WITH HRS SECTION 88-103.7, AS AMENDED BY ACT 87 (2015); FOR APPROPRIATE ACTION.

REPORTS BY COMPENSATION REVIEW, GOVERNANCE POLICY, INVESTMENT AND KAA NAPALI AD HOC, AND LEGISLATIVE COMMITTEES (CONT'D)

EXECUTIVE SESSION (CONT'D)

- Pursuant to HRS § 92-5(a)(4) and (8), to consider information that must be kept confidential pursuant to a state or federal law, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, and privileges, immunities, and liabilities with respect to a Preliminary Recommendation by the Employees' Retirement Systems Evaluation Committee of the Request for Proposals for Actuarial Services; for 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, and status with respect to Employees' Retirement System Securities Litigation; appropriate action.

(Messrs. Bebe and Rue of Meketa Investment Group. Inc. left the meeting by ending their teleconference.)

EXECUTIVE SESSION, PURSUANT TO HRS § 92-5(a)(4) AND (8), TO CONSIDER INFORMATION THAT MUST BE KEPT CONFIDENTIAL PURSUANT TO A STATE OR FEDERAL LAW, AND TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, AND PRIVILEGES, IMMUNITIES, AND LIABILITIES WITH RESPECT TO A PRELIMINARY RECOMMENDATION BY THE EMPLOYEES' RETIREMENT SYSTEMS EVALUATION COMMITTEE OF THE REQUEST FOR PROPOSALS FOR ACTUARIAL SERVICES; FOR 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, AND STATUS WITH RESPECT TO

EMPLOYEES' RETIREMENT
SYSTEM SECURITIES
LITIGATION; APPROPRIATE
ACTION.

APPROVAL OF
EXECUTIVE SESSION
CONFIDENTIAL
SUPPLEMENTAL MINUTES
– JANUARY 11, 2021

APPROVAL OF
EXECUTIVE SESSION
MINUTES
– JANUARY 11, 2021
– FEBRUARY 8, 2021
– MARCH 8, 2021
– APRIL 12, 2021

(Staff were excused from the meeting at 11:13 a.m. and only the Board, Deputy Attorney General (DAG) Ivan Torigoe, ED Williams, DED Margol, and Chief Investment Officer Elizabeth Burton remained. DAG Torigoe was the notetaker of the minutes for the remainder of the meeting.)

REPORTS BY
COMPENSATION REVIEW,
GOVERNANCE POLICY,
INVESTMENT AND
KAANAPALI AD HOC, AND
LEGISLATIVE COMMITTEES
(CONT'D)

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Rauckhorst, seconded by Trustee Machida, and unanimously carried, the Board exited Executive Session at 11:37 a.m.

APPROVAL OF MINUTES
– JANUARY 11, 2021
– FEBRUARY 8, 2021
– MARCH 8, 2021
– APRIL 12, 2021

On a motion made by Trustee Barfield, seconded by Trustee Machida, and unanimously carried, the Board approved the Minutes of January 11, 2021, as presented.

The remainder of the minutes of February 8, 2021, March 8, 2021, and April 12, 2021, were not available and were deferred to the next meeting.

ADJOURNMENT

On a motion made by Trustee Machida, seconded by Trustee Ley, and unanimously carried, Chair Kane adjourned the meeting at 11:38 a.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director
TW:dkik