

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

NOVEMBER 5, 2020

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

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

Trustee present: Mr. Vincent Barfield, Chair of the Investment Committee  
(City Financial Tower  
by teleconference)

Staff present: Mr. Thomas Williams, Executive Director  
(City Financial Tower Ms. Kanoe Margol, Deputy Executive Director  
by teleconference) Ms. Elizabeth Burton, Chief Investment Officer  
Ms. Dale Kehau Kanae, Recording Secretary  
Ms. Lori Kim, Secretary

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

Public present: Mr. Riley Fujisaki, Staff, House Finance Committee  
(by teleconference)

QUORUM/CALL TO  
ORDER

A quorum being present (Chair Kane, Investment Committee (IC) Chair Barfield, Legislative Committee (LC) Chair Chan, Administrative & Audit Committee (AAC) Chair Ley, and Compensation Review Committee (CRC) Chair Rauckhorst), 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 1:01 p.m.

On a motion made by CRC Chair Rauckhorst, seconded by Vice Chair and LC Chair 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 Fourteenth Proclamation related to the COVID-19 Emergency, dated October 13, 2020, in order to implement social distancing measures.

PUBLIC COMMENT

Chair Kane called for public comment. There was one (1) member of the public present by teleconference, however, no public comments. There was also no public testimony received for this Committee meeting.

Chair Kane announced that the meeting agenda items will be taken out of order starting with the last agenda item.

APPROVAL OF MINUTES –  
JULY 24, 2020

On a motion made by IC Chair Barfield, seconded by CRC Chair Rauckhorst, and unanimously carried, the Committee approved the Minutes of the July 24, 2020, meeting as presented.

REPORTS BY THE  
ADMINISTRATIVE &  
AUDIT COMMITTEE  
CHAIR, COMPENSATION  
REVIEW COMMITTEE  
CHAIR, GOVERNANCE  
POLICY COMMITTEE  
CHAIR, AND LEGISLATIVE  
COMMITTEE CHAIR

Chair Kane advised the Committee there were no reports to be given by Chairs from any of the other Committees and requested IC Chair Barfield proceed with the Investment Committee (IC) report.

REPORT BY THE  
INVESTMENT  
COMMITTEE AND  
KAANAPALI AD HOC  
COMMITTEE CHAIR

IC Chair Barfield shared and overviewed with the Committee that at a Permitted Interaction Group meeting on October 8, 2020, attended by IC members, ERS staff, Attorney General staff, and Meketa Investment Group, Inc. attendees discussed and reviewed the IC Charter, Investment Governance Framework, and ERS Investment Process.

INVESTMENT  
COMMITTEE CHARTER  
DEVELOPMENT AND  
DELEGATION BY  
BOARD OF LIMITED  
INVESTMENT  
DECISION-MAKING  
AUTHORITY TO A  
NEWLY  
RECONSTITUTED  
INVESTMENT  
COMMITTEE AND TO  
STAFF; APPROPRIATE  
ACTION

IC Chair Barfield discussed with the Committee changes to the IC Charter as presented.

IC Chair Barfield then discussed with the Committee the Investment Governance Framework and reviewed policy level responsibilities and implementation responsibilities as presented. IC Chair Barfield also shared that the Investment Office will be providing a report that the IC will monitor and provide to the Board to make it easier for the Trustees to understand. Categories of information included are overall portfolio strategy allocation targets with actual variances, a pipeline of investment opportunities, and actual investment activity.

CRC Chair Rauckhorst and AAC Chair Ley are both concerned with Board fiduciary responsibility regarding approval, authority, and the oversight process being given to the IC and Investment Office. Why change the process in using the Investment Policy Statement (IPS)? AAC Chair Ley is not comfortable with the Investment Office making decisions and the IC and Board rubber stamping approvals. She is also concerned with possible future potential abuses.

REVIEW AND  
DISCUSS  
INVESTMENT POLICY  
STATEMENT;  
APPROPRIATE ACTION

IC Chair Barfield stated that the Investment Office is already going through their screening and presenting it to the IC within the threshold as outlined in the Investment Governance Framework. The IC has no concerns, at the moment, with the Investment Office or the consultant's recommendations as they are monitoring the entire process. IC Chair Barfield stated that the controls and oversight will be addressed by the reporting of the Investment Office so the Board can feel comfortable with the process. IC Chair Barfield further stated that the new structure will allow for flexibility of making decisions quickly while still being able to inform the IC and Board. The IC and Board can make changes to the process at any time, depending on what they are comfortable with. IC Chair Barfield is comfortable with the concept.

Chair Kane stated that because everything is conceptual there is some apprehension and caution. Until everything is in place, the Board may feel

comfortable after going through the process, revisiting the process to include reviewing reports for visibility and transparency. Chair Kane, however, is comfortable with the concept.

Chair Kane further stated that it is the purpose of the IC to scrutinize and represent the Board ensuring the Board's interest is secured. Chair Kane explained that because of changes to the IPS and allocations, the approval, authority, and oversight went from the Investment Committee to the full Board. There were no past abuses as there was no prior Investment Office and therefore no internal control over the portfolio. There was only an over-reliance on the consultants, however, now the Investment Office has that control. Nimbleness is now needed so that the ERS can take advantage of opportunities within the guidelines of the IPS and Investment Governance Framework.

CIO Burton presented to the Committee an ERS Investment Process and discussed the Investment Office approvals determined by the Board, the processes developed by staff, reviewed by the consultants, monitored by the Board, confirmed by the auditors, and documented in the IPS with deliverables of pipeline prospects and projects, activity report, and other reports currently produced by staff and consultants.

AAC Chair Ley would like the Committee to consider adding something in the IC Charter or IPS that states when there is a major change with the CIO or Investment Officers there should be more of an oversight while the CIO is on probation.

Chair Kane stated that if there should be a change in the CIO or Investment Officers, the Board and Compensation Review Committee still has oversight. The Committees and structures in place should be consistent within the organization no matter the parties involved.

On a motion made by IC Chair Barfield, seconded by CRC Chair Rauckhorst, and unanimously carried, the Committee accepted the revised Investment Committee Charter and Investment Governance Framework as presented and will be recommending it for approval to the Board. The revised Investment Charter and Investment Governance Framework are attached to these minutes for clarification.

ADJOURNMENT

On a motion made by Vice Chair and LC Chair Chan, seconded by CRC Chair Rauckhorst, and unanimously carried, Chair Kane adjourned the meeting at 2:09 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:dkik

**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**INVESTMENT COMMITTEE CHARTER**

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**I. PURPOSE**

The purpose of the Investment Committee is to carry out the policy development and investment decision-making responsibilities delegated by the Board to include specified oversight, review and monitoring of investment decision-making, implementation, process compliance and reporting responsibilities of the Investment Office and its staff, consultants and advisors

**II. COMMITTEE MEMBERSHIP**

The Investment Committee (the "Committee") of the Board of Trustees (the "Board") of the Employees' Retirement System of the State of Hawaii (the "ERS") shall consist of no more than four (4) Board members who shall be appointed by the Chair and approved by the Board. 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 in general meet in advance of each Board meeting, except when there is a Special Board meeting, and at such other times and places as the members of the Committee deem necessary to fulfill the Committee's responsibilities. The Committee shall report regularly to the Board regarding its actions and those of the investment staff and make recommendations to the Board as appropriate. The Committee may invite such member of management 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**  
**INVESTMENT COMMITTEE CHARTER**

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**IV. AUTHORITY AND RESPONSIBILITIES**

Hawaii Revised Statutes (HRS) 88-110 vests authority for investing ERS assets with its Board. The Board, acting within its discretion, has delegated certain specified investment oversight and decision-making authority to the Investment Committee of the Board. The Board retains fiduciary responsibility for all ERS investment and non-investment decisions.

The members of the Committee shall designate from amongst its membership persons to serve as Chair and Vice-Chair.

The Committee shall have the following authority and responsibilities:

- Establish the guidelines applicable to implementation and investment decision-making delegated to investment staff.
  - While guidelines are intended to be durable, they may be revised at the Committee's discretion
- Establish and monitor investment office reporting requirements, process and policy compliance.
- To review and approve annually the ERS's goals and objectives applicable to the Investment Office.
- To review and approve ongoing activities of the Investment Office in regards to the goals and objectives and any additional tasks assigned to the Investment Office from the Board.
- To assign and provide direction to Chief Investment Officer (the "CIO") and (if applicable) the Executive Director (the "ED") on priorities and actions to successfully execute the responsibilities of the Investment Office.
- To review and make investment policies and guideline recommendations for the Board's consideration.

**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**INVESTMENT COMMITTEE CHARTER**

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The Committee shall consult with the ED on the goals and objectives applicable to the CIO and Investment Office.

**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 for the purposes of carrying out its duties related to the Investment Office and investment activities. The Committee shall have the authority, in its sole discretion, to obtain the advice and 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 and Board.

**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 and the Board deems appropriate.

- ATTACHMENT -  
HAWAII ERS PRELIMINARY INVESTMENT GOVERNANCE FRAMEWORK

| Legend |                         |
|--------|-------------------------|
| A      | Approval Authority      |
| R      | Provides Recommendation |
| O      | Provides Oversight      |
| J      | Joint                   |
| I      | Independent             |
| C      | Concurrence             |

POLICY LEVEL RESPONSIBILITIES

| Major Decision Area | Investment Responsibility                               | Board | Investment Committee | Executive Director | CIO/<br>Investment Staff | Investment Consultant/<br>Actuary |
|---------------------|---|-------|----------------------|--------------------|--------------------------|-----------------------------------|
| Policy              | Investment Policy Statement                             | O     | A                    | O                  | J R                      | J R                               |
|                     | Risk tolerance, risk level, and strategic allocation    | O     | A                    | O                  | J R                      | J R                               |
|                     | Permissible strategic classes                           | O     | A                    | O                  | J R                      | J R                               |
|                     | Strategic class structures/blueprints                   | O     | A                    | O                  | J R                      | J R                               |
|                     | Allowable strategic class allocation ranges             | O     | A                    | O                  | J R                      | J R                               |
|                     | Strategic class performance benchmarks                  | O     | A                    | O                  | J R                      | J R                               |
|                     | Active risk budget(s)                                   | O     | A                    | O                  | J R                      | J R                               |
|                     | Selection of long-term actuarial assumed rate of return | A     | O                    | O                  | J R                      | J R                               |
|                     | Proxy voting policy                                     | A     | R                    | O                  | J R                      | J R                               |
|                     | ESG policies  | A     | R                    | O                  | J R                      | J R                               |
| Resource            | Selection of investment consultant(s)                   | A     | R                    | R                  | R                        | NA                                |
|                     | Selection of custodian bank/securities lending agent    | A     | O                    | R                  | R                        | NA                                |
|                     | Retain & Review Proxy voting agent                      | A     | O                    | O                  | J R                      | J R                               |
|                     | Selection/review of CIO                                 | A     | R                    | R                  | NA                       | NA                                |
|                     | Selection/review of Diversifiers Class platform manager | O     | A                    | O                  | JR                       | JR                                |

JR - Staff and consultant(s) are working together to jointly recommend a policy-level decision for the Investment Committee.

- ATTACHMENT -  
HAWAII ERS PRELIMINARY INVESTMENT GOVERNANCE FRAMEWORK

IMPLEMENTATION RESPONSIBILITIES

| Major Decision Area  | Investment Responsibility  | Board | Investment Committee                  | Executive Director  | CIO/<br>Investment Staff | Investment Consultant/<br>Actuary/Other |
|----------------------|--|-------|---------------------------------------|---------------------|--------------------------|---|
| Implement            | Approval of external public market manager accounts/funds (incl. due diligence)        | O     | O<br>A(accounts>6%)                   | O<br>A(accounts>3%) | A<br>R(accounts>3%)      | NA*                                     |
|                      | Approval of Non-discretionary Real Estate manager accounts/funds (incl. due diligence) | O     | O<br>A(new>1%; reups>2%; all directs) | A(new<1%; reups<2%) | R                        | I R                                     |
|                      | Approval of Discretionary Private Equity funds (incl. due diligence)                   | O     | O                                     | O                   | O                        | A                                       |
|                      | Approval of Non-discretionary Private Equity funds (incl. due diligence)               | O     | O<br>A(new>1%; reups>2%; all directs) | A(new<1%; reups<2%) | R                        | I R                                     |
|                      | Approval of Private Credit managers and Other managers/funds (incl. due diligence)     | O     | O<br>A(new>1%; reups>2%; all directs) | A(new<1%; reups<2%) | R                        | I R                                     |
|                      | Rebalancing levels within policy ranges  | O     | O                                     | O                   | A                        | O                                       |
|                      | Use of overlay exposures (derivatives) to meet policy allocations                      | O     | O                                     | O                   | A                        | O                                       |
|                      | Selection of performance benchmarks for funds/managers                                 | O     | O                                     | O                   | A                        | R                                       |
|                      | Active risk budgets for funds/managers   | O     | O                                     | O                   | A                        | J R                                     |
|                      | Proxy voting   | O     | O                                     | O                   | O                        | A                                       |
|                      | Funding/defunding of manager funds and accounts  | O     | O                                     | O                   | A                        | O R                                     |
| Supervise/<br>Report | Execution of fund/account contracts  | O     | O                                     | A                   | A                        | NA                                      |
|                      | Review and assessment of public market manager accounts/funds track records            | O     | O                                     | O                   | A                        | O                                       |
|                      | Review and assessment of PE and RE manager accounts/funds track records                | O     | O                                     | O                   | A                        | A                                       |
|                      | Risk measurement and management at all levels  | O     | O                                     | O                   | A                        | O                                       |
|                      | Review and adjustment of costs and manager fees  | O     | O                                     | O                   | A                        | O R                                     |
|                      | Ongoing risk reporting   | O     | O                                     | O                   | A                        | O                                       |
|                      | Ongoing reporting of investment activities and results                                 | O     | O                                     | O                   | A                        | A                                       |

JR - Staff and consultant(s) are working together to jointly recommend/execute an implementation decision. IR - Consultant conducts independent recommendation that Staff may utilize.

\*Staff determines due diligence needs on a case-by-case basis and may utilize consultant(s) for either or both Investment Due Diligence and/or Operational Due Diligence.