

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

JULY 11, 2022

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

Trustees present:
(by teleconference) Mr. Vincent Barfield, Chair*
Dr. Genevieve Ley, Vice Chair*
Dr. Catherine Chan*
Mr. Craig Hirai*
Mr. Emmitt Kane*
Mr. Bennett Yap*

Trustees absent: Mr. Lance Mizumoto

Staff present:
(City Financial Tower
by teleconference) Mr. Thomas Williams, Executive Director*
Ms. Kanoe Margol, Deputy Executive Director*
Mr. Kona Mann, Chief Compliance Officer
Mr. Bart Asato, Program Specialist
Ms. Shanna Sakagawa, Program Specialist
Mr. Keith Miyamoto, Information Systems Manager
Mr. Larry Wolfe, Accounting Manager
Mr. Howard Hodel, Deputy Chief Investment Officer
Mr. Aaron Au, Investment Officer – Private Equity
Ms. Christine Chang, Investment Officer – Operations
Mr. Anthony Goo, Investment Officer – Liquid Markets
Mr. David Okamoto, Investment Officer – Credit Markets
Mr. Ian Wetzel, Investment Officer – Real Assets
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Dale Kehau Kanae, Recording Secretary*
Ms. Lori Kim, Secretary*
Ms. Andrea Gasper, Secretary
Ms. Diana Gomes, Secretary

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

Guests present:
(by teleconference) Mr. Colin Bebee, Meketa Investment Group, Inc.
Mr. Joe Newton, Gabriel Roeder Smith
Mr. Peter Hanashiro, KMH LLP

Public present:
(by teleconference) Mr. Kevin Balaod, withIntelligence
Mr. Darren Wolf

*Attended Executive Session.

QUORUM/CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Ley, Trustees Chan, Hirai, Kane, and Yap), Chair Barfield called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 9:30 a.m. and requested each Trustee identify themselves and confirm that they are the only ones present at their remote

QUORUM/CALL TO ORDER
(CONT'D)

location while attending the meeting. Each of the Trustees present confirmed same.

On a motion made by Vice Chair Ley, seconded by Trustee Chan, and unanimously carried, to be able to hold a meeting allowing Trustees and members of the public to participate by interactive conference technology, pursuant to HRS § 92-3.7, with at least one meeting location open to the public that has audiovisual connection.

AMEND AGENDA

Chair Barfield requested an amendment to the agenda:

“Motion to Add an Agenda item that is not of reasonably major importance, and not affecting a significant number of persons, pursuant to HRS §92-7(d), as Executive Session No. 3, pursuant to HRS § 92-5(a)(4) and (8), to make a decision that requires the consideration of information that must be kept confidential pursuant to state law, and 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 updates on a Court Appeal from the Board’s Contested Case Decision relating to retirement benefits, and appropriate action.”

On a motion made by Vice Chair Ley, seconded by Trustee Chan, and unanimously carried, the Board amended the agenda as requested adding Executive Session No. 3, as stated above.

Chair Barfield announced that agenda items will be taken out of order. Chair Barfield also announced that due to new public meeting requirements regarding public comment, requests will be offered throughout the meeting.

PUBLIC COMMENT

Chair Barfield called for public comment. There were two (2) members of the public present by teleconference, however, no public comment. There was also no public written testimony received for this meeting.

Chair Barfield identified all the participants in Executive Session, the Board, ERS staff Executive Director Thomas Williams, Deputy Executive Director Kanoe Margol, Recording Secretary Dale Kehau Kanae, and Deputy Attorneys General (DAG) Lori Tanigawa, Ivan Torigoe, Elmira Tsang, and Diane Wong are noted with an asterisk on these minutes and listed on the Executive Session Minutes. All other parties were excused from the meeting.

(Public participation concluded by ending the teleconference link.)

The Board Secretary Dale Kehau Kanae confirmed that no unauthorized persons were in the conference room or able to listen in via audio or audiovisual connection while on the teleconference.

ENTER EXECUTIVE
SESSION

On a motion made by Vice Chair Ley, seconded by Trustee Mizumoto, and unanimously carried, the Board entered into Executive Session at 9:34 a.m.

EXECUTIVE SESSION

- Pursuant to HRS § 92-5(a)(4) and (8), to make a decision that requires the consideration of information that must be kept confidential pursuant to state law, and 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 updates on a Court Appeal from the Board’s Contested Case Decision relating to retirement benefits, and appropriate action.

EXECUTIVE SESSION
PURSUANT TO HRS § 92-
5(a)(4) AND (8),), TO MAKE A
DECISION THAT REQUIRES
THE CONSIDERATION OF
INFORMATION THAT MUST
BE KEPT CONFIDENTIAL
PURSUANT TO STATE LAW,
AND 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 UPDATES ON A
COURT APPEAL FROM THE
BOARD'S CONTESTED CASE
DECISION RELATING TO
RETIREMENT BENEFITS,
AND APPROPRIATE ACTION

EXIT EXECUTIVE SESSION

REPORT BY THE
ADMINISTRATIVE &
AUDIT COMMITTEE

PRELIMINARY
ANNUAL ACTUARIAL
VALUATION REPORT
BY GABRIEL ROEDER
SMITH & COMPANY
FOR THE YEAR
ENDING JUNE 30, 2022

On a motion made by Vice Chair Ley, seconded by Trustee Chan, and unanimously carried, the Board exited Executive Session at 9:54 a.m.

Administrative & Audit Committee (Committee) Chair Yap reported to the Board that the Committee met on June 29, 2022, and reviewed and accepted the following presentations:

Gabriel Roeder Smith & Company's (GRS) Joe Newton, entered the conference room and presented an oral and written report on the Preliminary Annual Actuarial Valuation Report for the Year Ending June 30, 2022, and highlighted:

The Role of Actuarial Valuations and Assumptions

- The primary purpose of each year's actuarial valuation is to assess the appropriateness of the current contribution levels.
- Over time, the true cost of benefits will be borne out in actual experience.
- The valuation process helps the ERS set expectations for stakeholders, allows a framework for decision making and budgeting, and track trends over time.
- The inputs used to derive those assessments are based on projections of future.
- These inputs are "assumptions".

Assumptions

Experience Study

Magnitude of Actuarial Assumptions

Summary of Recommendations

Investment Return Assumption: National Trends

Meketa's Forward Looking Expectations for ERS' Target Portfolio

GRS Survey: Distribution of Forward-Looking Returns Expectations

Individual Salary Increases

ERS Experience: Long Service Members by Fiscal Year

Post-Retirement Mortality

Historical and Projected Future Improvement

Life Expectancy by State (2019)

PRELIMINARY
ANNUAL ACTUARIAL
VALUATION REPORT
BY GABRIEL ROEDER
SMITH & COMPANY
FOR THE YEAR
ENDING JUNE 30, 2022
(CONT'D)

GABRIEL ROEDER
SMITH & COMPANY'S
REVIEW OF THE
THREE-YEAR
ACTUARIAL
EXPERIENCE STUDY
RESULTS, FISCAL
IMPACTS OF A FIVE-
VS. TEN-YEAR
VESTING PROVISION,
AND NEW ACTUARIAL
REPORTING
REQUIREMENTS TO
BECOME EFFECTIVE
IN 2023

REVIEW KMH LLP's
INTERNAL AUDIT
UPDATE REPORT

KMH LLP's EMPLOYER
COMMUNICATION
AND REPORTING
REVIEW

Mortality Recommendations
Life Expectancy Comparisons
Balancing Risk
Estimated Impact
Projection of Funding Period from 2016 Legislative Impact Statement vs
Actual Valuation Outcomes

On a motion made by Committee Chair Yap, seconded by Trustee Kane, and unanimously carried, the Board accepted the Preliminary Annual Actuarial Valuation Report for the Year Ending June 30, 2022, as recommended by the Administrative & Audit Committee.

GRS Mr. Newton then presented an oral and written report to the Board regarding General Requests and highlighted:

Hybrid Plan Cost Studies
ASOP 3.11 Low-Default-Risk Obligation Measure

- New: Actuaries must disclose a Low-Default-Risk Obligation Measure in funding valuations.
- “The actuary will calculate a liability using a discount rate derived from low-default risk fixed income securities whose cash flows are reasonably consistent with the pattern of benefits expected to be paid in the future”
 - Examples of discount rates would be treasury, municipal bonds, yields, or investment grade corporate bonds.
- It is meant to represent the amount of assets that a plan would need to essentially fund the benefits without the plan being exposed to investment risk.

No action was required for this agenda item.

After his presentations, Mr. Newton left the meeting.

KMH LLP's (KMH) Peter Hanashiro attended by teleconference and provided the Board an oral and written report on the update of the ERS Internal Audit Report and discussed:

Executive Summary

- Administrative and Other Matters
- Status on Current and Upcoming Projects:
 - Employer Communication & Reporting Review
 - IT Governance Content Development
 - Investment Governance and Strategy Review
 - Business Continuity & Disaster Recovery Plan – Testing
 - IA Recommendation and Implementation Assistance

KMH Mr. Hanashiro requested the Board's approval and noted that the Committee accepted both the 2022 Internal Audit Update Report with the proposed changes and the Employer Communication & Reporting Review.

On a motion made by Committee Chair Yap, seconded by Trustee Kane, and unanimously carried, the Board approved, as accepted and recommended by the Committee, the 2022 Internal Audit Update Report with the proposed changes and the Employer Communication & Reporting Review.

After his presentation, Mr. Hanashiro left the meeting by ending his teleconference.

REPORTS BY THE
GOVERNANCE POLICY,
HUMAN RESOURCES, AND
LEGISLATIVE
COMMITTEES

REPORT BY THE
INVESTMENT COMMITTEE

APPROVAL OF MINUTES
– JUNE 13, 2022

RE-ENTER EXECUTIVE
SESSION

EXECUTIVE SESSION

Governance Policy Committee (Committee) Chair Barfield reported to the Board that the Committee did not meet and there was nothing to report.

Human Resources Committee (Committee) Chair Ley, reported that her agenda item would be reported in Executive Session as No. 3.

Legislative Committee (Committee) Chair Kane, reported to the Board that the Committee did not meet and there was nothing to report.

Investment Committee (Committee) Chair Chan reported to the Board that the Committee did not meet and there was nothing to report.

On a motion made by Trustee Chan, seconded by Trustee Yap, and unanimously carried, the Board approved the Minutes of June 13, 2022, as presented.

Chair Barfield identified all the participants in Executive Session, the Board and staff members are noted with an asterisk on these minutes and listed on the Executive Session Minutes.

Chair Barfield provided the reason to enter into Executive Session:

Executive Session, pursuant to HRS § 92-5(a)(2) and (4) and (8), to review and discuss the Chief Investment Officer Transition and Search, to consider the hire or evaluation of an officer or employee; to Consult with the Board's Attorneys for Legal Advice Regarding Procurement, Extension, and Funding of Special Deputy Attorney General Contracts for Legal Services Relating to Investments in Private Equity and Real Estate Funds, Hedge Funds, Separate Accounts, Investment Service Providers and Similar Sophisticated Investment Transactions, and Tax Law; and to Consult with the Board's Attorneys with Respect to a Request to Forgive Overpayments pursuant to HRS § 88-106; and to deliberate or make a decisions upon matters that require the consideration of information that must be kept confidential pursuant to state law and to HRS § 92F-13(1) and (4), § 92F-14(b)(6), and Hawaii State Constitution, Article 1, Section 6, where matters affecting privacy will be involved, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities.

(Public participation concluded by ending the teleconference link.)

On a motion made by Trustee Chan, seconded by Vice Chair Ley, and unanimously carried, the Board re-entered into Executive Session at 10:50 a.m.

(Trustee Hirai exited the meeting at 10:50 a.m. by ending his teleconference.)

All attendees affirmed that no other persons were in their rooms or able to listen in on their audio or audiovisual connection while they were on the teleconference. The Board Secretary Dale Kehau Kanae also confirmed that no unauthorized persons were in the conference room or able to listen in via audio or audiovisual connection while on the teleconference.

- Pursuant to HRS § 92-5(a)(4) and (a)(8), to consult with the Board's attorneys for legal advice regarding procurement, extension, and funding of Special Deputy Attorney General contracts for legal services relating to investments in private equity and real estate funds, hedge funds, separate accounts, investment service providers and similar sophisticated investment transactions, and tax law, and involving consideration of information that

EXECUTIVE SESSION
(CONT'D)

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(A)(4) AND (A)(8), TO
CONSULT WITH THE
BOARD'S ATTORNEYS FOR
LEGAL ADVICE REGARDING
PROCUREMENT, EXTENSION,
AND FUNDING OF SPECIAL
DEPUTY ATTORNEY
GENERAL CONTRACTS FOR
LEGAL SERVICES RELATING
TO INVESTMENTS IN
PRIVATE EQUITY AND REAL
ESTATE FUNDS, HEDGE
FUNDS, SEPARATE
ACCOUNTS, INVESTMENT
SERVICE PROVIDERS AND
SIMILAR SOPHISTICATED
INVESTMENT
TRANSACTIONS, AND TAX
LAW, AND INVOLVING
CONSIDERATION OF
INFORMATION THAT MUST
BE KEPT CONFIDENTIAL
PURSUANT TO STATE LAW;
APPROPRIATE ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-5
(A)(4) AND (8), 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 A REQUEST TO FORGIVE
OVERPAYMENTS PURSUANT
TO HRS § 88-106; AND TO
DELIBERATE OR MAKE A
DECISION UPON A MATTER

must be kept confidential pursuant to state law; appropriate action.

- Pursuant to HRS § 92-5 (a)(4) and (8), 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 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; appropriate action.
- HRS§ 92-5(a)(2) and (4), to review and discuss the Chief Investment Officer Transition and Search, to consider the hire or evaluation of an officer or employee, where matters affecting privacy will be involved, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, including but not limited to:
 - Review and Discuss Chief Investment Officer Transition; and
 - Review and Discuss the Chief Investment Officer Search.

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; APPROPRIATE
ACTION

EXECUTIVE SESSION,
PURSUANT TO HRS § 92-
5(A)(2) AND (4), TO REVIEW
AND DISCUSS THE CHIEF
INVESTMENT OFFICER
TRANSITION AND SEARCH,
TO CONSIDER THE HIRE OR
EVALUATION OF AN
OFFICER OR EMPLOYEE,
WHERE MATTERS
AFFECTING PRIVACY WILL
BE INVOLVED, AND TO
CONSULT WITH THE
BOARD'S ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE
BOARD'S POWERS, DUTIES,
PRIVILEGES, IMMUNITIES,
AND LIABILITIES,
INCLUDING BUT NOT
LIMITED TO:

REVIEW AND DISCUSS
CHIEF INVESTMENT
OFFICER TRANSITION;
AND

REVIEW AND DISCUSS
THE CHIEF INVESTMENT
OFFICER SEARCH

APPROVAL OF EXECUTIVE
SESSION MINUTES
– JUNE 13, 2022

APPROVAL OF
CONFIDENTIAL EXECUTIVE
SESSION MINUTES
– JUNE 13, 2022

EXIT EXECUTIVE SESSION

On a motion made by Vice Chair Ley, seconded by Trustee Yap, and unanimously carried, the Board exited Executive Session at 11:59 a.m.

LOSS OF QUORUM

(Trustee Kane requested to be excused and exited the meeting at 10:59 a.m. by ending his teleconference. Quorum was lost and the remainder of the meeting was for informational purposes only.)

EXECUTIVE DIRECTOR'S
REPORT

Executive Director (ED) Williams gave an oral report to the Board as follows:

- The ERS Investment Summit will be held at the Ala Moana Hotel on July 20 and 21, 2022. An agenda will be sent out to the Board.

EXECUTIVE DIRECTOR'S
REPORT (CONT'D)

- Approved, on behalf of the Board, a liability waiver for the contract with the Ala Moana Hotel for the ERS Summit. This waiver was reviewed by the DAG Ivan Torigoe and seen as standard practice and it was suggested that the Board could delegate similar decisions to the ED.
- Following up on the oral argument process questioned by the Chair, Retirement Benefits Branch has a procedure of the process that is shared with the member, a copy was provided to the Board Chair and Vice Chair.
- Met with the Investment Officers as it relates to the Chief Investment Officer transition and any concerns. Staff members are committed and willing to continue to serve ERS.
- Received a letter from Senator Rick Scott through the National Association of State Retirement Administrators (NASRA) discouraging investment in Environmental and Social Governance matters stating these are politically motivated strategies and the result would reduce retirement security for public pension plans. NASRA will be responding.
- Presentation was made to Kauai County Council regarding the funding status of the system, their premiums and contributions, spiking charges, and the broader economy.
- Will be discussing with Dr. Keith Knapp of the RAND Corporation who is researching how public plans have fared during the recent pandemic.
- Will be meeting with KPMG LLP's Mark McComb for an audit entrance meeting to review timeline and responsibilities. Mr. McComb has taken over for Erin Takamine and Jason Porcelli who have left the organization.
- Security awareness training is being done for all State employees, to be completed within 30 days.
- The executive search firm request for proposal was issued on June 27, 2022, to be completed by July 18, 2022. The entire process should take six months and a new Chief Investment Officer should be on board by December 2022.
- A previous suggestion by the Board to reduce Board meetings every other month will start in September, then November ending the year, and then starting in January next year.

(Trustee Yap exited the meeting at 12:06 p.m. by ending his teleconference.)

DEPUTY EXECUTIVE
DIRECTOR'S OPERATIONS
REPORT

Deputy Executive Director (DED) Margol gave updates to the Board on ERS staffing and projects of Administration, Information Services, Retirement Benefits and Staff Support Services Branches as presented in the June 2022 Monthly Operations Report.

ADJOURNMENT

No motion for adjournment was necessary as Quorum was lost at 10:59 a.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik