

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

JANUARY 9, 2023

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

Trustees present: Mr. Vincent Barfield, Chair (former)*
(by teleconference) Dr. Genevieve Ley, Vice Chair (former), Chair (elected)*
 Mr. Bennett Yap, Vice Chair (elected)*
 Dr. Catherine Chan*
 Mr. Emmit Kane*
 Mr. Lance Mizumoto*

Trustees absent: Mr. Luis Salaveria

Staff present: Mr. Thomas Williams, Executive Director*
(City Financial Tower Ms. Kanoe Margol, Deputy Executive Director*
by teleconference) Mr. Kona Mann, Chief Compliance Officer
 Mr. Bart Asato, Program Specialist
 Mr. James Greubel, Program Specialist
 Ms. Shanna Sakagawa, Program Specialist
 Mr. Larry Wolfe, Accounting Branch Manager
 Mr. Karl Kaneshiro, Retirement Benefits Branch Manager*
 Ms. Leila Akiona, Retirement Benefits Branch Benefits Section Supervisor*
 Mr. Howard Hodel, Acting Chief Investment Officer
 Mr. Aaron Au, Investment Officer – Private Equity
 Ms. Christine Chang, Investment Officer – Operations
 Mr. Ian Wetzel, Investment Officer – Real Assets
 Mr. Andrew Chen, Investment Specialist
 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: Ms. Lori Tanigawa, Deputy Attorney General*
(by teleconference) Ms. Elmira Tsang, Deputy Attorney General*
 Ms. Diane Wong, Deputy Attorney General*

Guests present: Mr. Joe Newton, Gabriel Roeder Smith
(by teleconference) Mr. Lewis Ward, Gabriel Roeder Smith
 Mr. Colin Bebee, Meketa Investment Group, Inc.

Public present: Mr. Gregg Gethard, Buyouts
(by teleconference)

*Attended Executive Session.

QUORUM/CALL TO ORDER

A quorum being present (Chair Barfield, Vice Chair Ley, Trustees Chan, Kane, Mizumoto, 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 9:00 a.m. and requested each Trustee identify themselves and confirm that they are the only ones present at their remote location while attending the meeting. Each of the Trustees present confirmed same.

QUORUM/CALL TO ORDER
(CONT'D)

On a motion made by Trustee Yap, 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.

PUBLIC COMMENT

Chair Barfield called for public comment. There was no public present in person, however, one (1) member of the public was present by teleconference, but they had no public comment. Also, no written testimony was received for this meeting.

DISCUSSION AND
ELECTION OF 2023
OFFICERS AND
COMMITTEE
ASSIGNMENTS

Chair Barfield discussed with the Board the Election of the 2023 Officers and Committee Assignments. Chair Barfield stated that the Board has had previous discussions of the Vice Chair transitioning into becoming the Chair the following calendar year and that the new Chair could also nominate a Vice Chair. Chair Barfield nominated Vice Chair Ley as Chair and stated that she has requested Trustee Yap be nominated as Vice Chair. There were no other nominations for Chair or Vice Chair.

On a motion made by Chair Barfield, seconded by Trustee Kane, and unanimously carried, the Board approved Vice Chair Ley as Chair and Trustee Yap as Vice Chair.

Newly elected Chair Ley presided over the remainder of the meeting and shared the 2023 Committee assignments as presented. The Board had no changes to the Committee assignments as presented. Chair Ley noted that Committee Chairs and Vice Chairs will be elected by each Committee and those Chairs will also comprise the Governance Policy Committee.

EXECUTIVE DIRECTOR'S
REPORT

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

- Shared his appreciation to the Board and of the former Board Chair Barfield for his leadership the past year and to the newly appointed Chair Ley and Vice Chair Yap for the coming year in 2023.
- Welcomed new Trustee, Director of Budget & Finance Luis Salaveria and shared that he met with both Director Salaveria and Deputy Director Sabrina Nasir.
- The new Chief Investment Officer Kristin Varela will start on January 17, 2023, her first Board meeting will be on March 13, 2023.
- Deputy Attorney General (DAG) Ivan Torigoe retired on December 31, 2022. DAG Patricia Ohara is in the process of selecting a replacement and all assignments have been distributed amongst the remaining DAGs.
- An ERS staff meeting was held on December 6, 2022, followed by the ERS Holiday Luncheon.
- Effective January 1, 2023, all state officials and employees are required to take ethics training every four years. A reminder to the Board that training is now offered on-line as the Hawaii Ethics Commission no longer provides in-person presentations.
- A meeting with Governor Josh Green is being arranged to discuss the vacant Trustee position.
- Trustee Barfield inquired of the ERS Cyber Security and approval of a penetration test and Microsoft security assessment will occur in the next week.
- Messrs. Joe Newton and Lewis Ward of Gabriel Roeder Smith & Co. will be conducting Actuarial Valuation Sessions during the week with the Legislature, Unions, Finance Officers, Budget & Finance, and ERS staff.

EXECUTIVE DIRECTOR'S
REPORT (CONT'D)

- At a contested case hearing, questions were raised on our Chapter 91 process, a presentation will be given in Executive Session.
- In response to an article written in the Holomua newsletter by Investment Specialist (IS) Andrew Chen, a member sent an e-mail sharing her appreciation for the newsletter and thanking IS Chen and the Investment Office for their exceptional work.

DEPUTY EXECUTIVE
DIRECTOR'S OPERATIONS
REPORT

In Deputy Executive Director (DED) Kanoe Margol's absence, ED Williams 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 December 2022 Monthly Operations Report.

ACCOUNTING BRANCH
REPORT

Accounting Manager Larry Wolfe gave an oral and written report to the Board on a brief overview of the services the Accounting Branch provides and discussed the upcoming ERS FY 2022 Audit by Eide Bailly LLP to be done in March 2023, Employer Reporting, Investment Reporting, Financial Reporting, Pension Tax Reporting, Procurements 2023, Accounting Vacancies, and Major Challenges.

PUBLIC COMMENT

Chair Ley called for public comment. There were no requests from the public for comments in person or by teleconference.

REPORT BY THE
GOVERNANCE POLICY
COMMITTEE

Governance Policy Committee (Committee) Chair Barfield reported to the Board that the Committee has not met since May 9, 2022, and that there was nothing new to report, however, it is anticipated that there will be a meeting in March to review and approve the Committee Charters.

REPORT BY THE
ADMINISTRATIVE &
AUDIT COMMITTEE

Administrative & Audit Committee (Committee) Chair Yap reported that the Committee tried to meet on January 5, 2023, however, due to loss of quorum the meeting was considered a permitted interaction for presentation purposes only. Chair Yap further reported that an item to be discussed in Executive Session, HRS §88-106.5, and two items to be discussed, Procurement of Internal Audit Services and Annual Actuarial Valuation Report for the Period Ending June 30, 2022, needing Committee acceptance, were being presented for the Board's approval.

DISCUSS
PROCUREMENT OF
INTERNAL AUDIT
SERVICES

ED Williams presented an oral and written report to the Board on the Procurement of Internal Audit Services stating that the ERS procurement staff issued a Request for Proposal (RFP) on October 31, 2022, the final date for submissions to be considered and evaluated was December 2, 2022.

ED Williams further stated that two proposals were received and ranked using the scoring methodology incorporated into the RFP. The ERs team included Deputy Executive Director Kanoe Margol, Chief Compliance Officer Kona Mann, and ED Williams. Based on the application of the evaluation criteria and objective scoring of qualifications, expertise, relevant experience, methodology, fees and references, the team selected KMH LLP to provide the requested services with a targeted contract date of February 1, 2023, for a period of three (3) years.

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, the Board accepted the recommendation to both the Committee and the Board and approved the selection of KMH LLP to provide Internal Audit Services for a period of three (3) years.

ANNUAL ACTUARIAL
VALUATION REPORT

Chair Yap introduced Gabriel Roeder Smith & Company (GRS), Messrs. Joe Newton and Lewis Ward that entered the room and presented an oral and written

FOR THE YEAR
ENDING JUNE 30, 2022

report regarding the Annual Actuarial Valuation Report for the Year Ending June 30, 2022.

Messrs. Newton and Ward presented:

Purpose of the Actuarial Valuation

- Annual Health Checkup of ERS, Primary Purpose, and Funding Period.

2022 Actuarial Valuation Results

By Employee Group

Sources of Impact

- Investments, Liabilities, Projected Contributions

History of the ERS Active Headcount and Payroll

Estimated Yields on Market Value of Assets

Market and Actuarial (Smoothed) Values of Assets

Projection of Funding Period from 2016 Legislative Impact Statement vs Actual Valuation Outcomes

Impact of New Benefit Tiers: All Other Employees: Counts by group and by age

Impact of New Benefit Tiers: All Other Employees: Liability by group and by age

History of the ERS Unfunded Actuarial Accrued Liability

Actual vs Projected UAAL

History of Funded Ratio

Projection of Funded Ratio Compared to Original Legislative Communications

Probabilities of Future Outcomes

Valuation Summary

- The disciplined commitment to follow the contribution schedule from Act 17 (SB 936) continues the process of strengthening the financial outlook for ERS.
- The scheduled employer contribution rates are expected to be adequate to satisfy Hawaii Revised Statutes §88-122(e)(1). The Statutory Stress Test shows this is true 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 sustained.

The Board discussed considering proposing legislation to support changes to the Statute regarding the industry best practices and shortening the 30-year maximum amortization period of being fully funded. ED Williams stated that as a starting point, he will share some thoughts with the legislature when this report is presented to them this week.

On a motion made by Trustee Matsumoto, seconded by Vice Chair Yap, and unanimously carried, the Board accepted the recommendation to both the Committee and the Board and approved the Annual Actuarial Valuation Report for the Year Ending June 30, 2022.

REPORT BY THE
LEGISLATIVE
COMMITTEE

Legislative Committee (Committee) Chair Kane reported to the Board that the Committee did not meet, however, will be scheduling to meet sometime later this month. Chair Kane further reported that three Annual Reports were submitted to the 2023 Legislature, Act 85/2017 Actuarial Asset and Liability Stress Test 2022, Act 192/2007 Direct Holdings in Sudan Scrutinized Companies, and Act 260/2007 Innovation Economy (Hawaii Targeted Investment Program (HiTIP)).

ANNUAL REPORT TO
THE LEGISLATURE
REQUIRED BY
ACT 85/2017

Chair Kane mentioned that GRS Messrs. Newton and Ward presented the Actuarial Valuation Report as part of the Administrative & Audit Committee Report, and Mr. Newton commented that the Stress Test showed the same type

REGARDING THE
ACTUARIAL ASSET
AND LIABILITY
STRESS TEST 2022

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

ANNUAL REPORT TO
THE LEGISLATURE
REQUIRED BY
ACT 260/2007
REGARDING THE
INNOVATION
ECONOMY (HAWAII
TARGETED
INVESTMENT
PROGRAM (HiTIP))

REPORT BY THE HUMAN
RESOURCES COMMITTEE

REPORT BY THE
INVESTMENT COMMITTEE

UPDATE OF REQUEST
FOR PROPOSALS
SELECTIONS FOR
PRIVATE EQUITY
CONSULTANT,
INVESTMENT
CONSULTANT, AND
REAL ASSETS

of results as in previous reports, nothing new or different, and that the process remains the same as required by Act 85/2017.

Chair Kane further mentioned that the three reports were submitted to the Board as a receive and file and no action was needed.

After this agenda item, GRS Messrs. Newton and Ward left the meeting.

Human Resources Committee (Committee) Chair Ley, reported to the Board that the Committee is continuing to move forward with implementing the Mercer Report.

Investment Committee (Committee) Chair Chan reported to the Board that two items would be discussed as part of her report, however, continued with her report that the Committee met on November 28, 2022, and discussed:

- Approval of the 2023 Quarterly Investment Committee meeting dates.
- Approval of the changes made to the Glass Lewis proxy voting template from the Public Plans template to a customized version of the ESG template, which incorporated some of the Public Pension Policies that are more progressive.
- Quarterly Performance Reports were presented by Meketa Investment Group, Inc. (Meketa), Townsend Group, an Aon Company (Aon), and Hamilton Lane Advisors, LLC (HL). An overview of these reports will be presented as part of this Committee Report by Meketa's Colin Bebee.
- Private Equity items were discussed and included: approval of HL's Tactical Plan for calendar year 2023, a decision by staff and HL not to present a comparison between quarterly performance versus benchmark as requested, a currency exposure update given by HL, and the annual HiTIP Report was submitted to the Legislature as also reported by the Legislative Committee Chair.
- The Request for Proposals for the Private Equity, Investment and Real Assets Consultant are proceeding on schedule and the Board will make the final selection after the finalists present to the Trustees during the first quarter of 2023.
- FRM Man's CIO Jens Foehrenbach presented their Annual and 3rd Quarter Diversifying Strategies Reviews.
- Meketa's Colin Bebee presented the results of the Trustee and Staff Risk & Implementation Survey and a Capital Market Assumptions Introduction to

INVESTMENT CONSULTANT

MEKETA INVESTMENT GROUP, INC. – PORTFOLIO QUARTERLY PERFORMANCE REPORT (INCLUDES REPORTS FROM TOWNSEND GROUP, AN AON COMPANY AND HAMILTON LANE ADVISORS, LLC)

the 2022-2023 Asset/Liability Study that Maketa and ERS Staff are working on.

- Deputy Chief Investment Officer Howard Hodel gave an overview of the markets from August to October 2022 and the forward-looking CIO Report.
- Investment Officers and Investment Specialist each gave a brief update on their activities.

Meketa Investment Group, Inc.'s Colin Bebee entered the meeting by teleconference and presented an oral and written report to the Board on the Portfolio Quarterly Performance Report that included reports from Townsend Group, an Aon Company, and Hamilton Lane Advisors, LLC. Mr. Bebee highlighted:

INTRODUCTION

Portfolio Valuation

- With the backdrop of another volatile quarter where both equities and bonds declined, the ERS's performance stood out as a proof statement for the portfolio's structure. The ERS Total Portfolio's performance places the ERS in the top percentile of peer performance for the quarter, year-to-date, and 1-year trailing periods. This is the type of market scenario that the ERS has been preparing for, and the Total Portfolio performed perfectly in-line with expectations given the market environment.
- The ERS Total Portfolio generated a (-1.6%) quarterly return, decreasing by approximately \$399.4 million during the quarter to end the period at \$21.6 billion in total assets. This includes a cumulative outflow of \$74.9 million over the quarter along with roughly \$324.5 million in investment declines.
- The ERS Total Portfolio materially outperformed the Policy Benchmark across all time periods measured.

Allocation Versus Policy Targets

- As part of the evolving policy targets that began taking effect on 7/1/2020, the current phase of policy targets started on 7/1/2022 at the beginning of the quarter (and fiscal year). In particular, the ERS is continuing to increase the allocations to Diversifying Strategies and Real Assets, with the capital coming from the Public Growth portfolio.
- As of Q3 end, the Total Portfolio had a slight underweight (-1.0%) to both Broad Growth and Diversifying Strategies. Within Broad Growth, Private Growth and Real Assets components were slightly overweight while Public Growth was slightly underweight, largely due to the volatility of the public markets. Within the Diversifying Strategies, Liquid Defensive and Liquid Diversifying components were moderately over- and underweight while Illiquid Diversifying was slightly underweight.

Hawaii ERS vs Public Fund Peers

- On a risk-unadjusted basis, the ERS Total Portfolio outperformed the Median Public Fund across all time periods measured. This outperformance is even greater in longer time periods (3+ years) once shown on a risk-adjusted basis.
- On a risk-adjusted basis, the ERS Total Portfolio has consistently, and materially, outperformed relative to the Median Public Fund over all time periods. This is indicative of a more efficient (i.e., higher return per unit of risk) portfolio that was explicitly constructed by the ERS over the last several asset-liability studies.

ERS PORTFOLIO REVIEW

Asset Allocation vs. Target

Asset Class Performance Summary

BUDGET RELATING TO
THE EMPLOYEES'
RETIREMENT SYSTEM
2023 INVESTMENT
SUMMIT

ED Williams presented an oral and written report to the Board on behalf of Deputy Chief Investment Officer Anthony Goo regarding the Budget Relating to the ERS 2023 Investment Summit.

ED Williams discussed with the Board that the ERS 2023 Investment Summit would be held from July 26-28, 2023, and the site location would be the Island of Maui. As presented, properties considered and evaluated included the Grand Wailea, Hyatt Regency Maui Resort & Spa, and The Westin Maui Resort & Spa. Using a variety of scoring criteria, the Westin Maui Resort & Spa was selected as the top candidate with an estimated budget of \$49,860.00. ED Williams requested the Board's approval of staff proceeding with program development and planning of the ERS 2023 Investment Summit by contracting with the Westin Maui Resort & Spa and approval of an estimated budget of \$49,860.00.

On a motion made by Trustee Chan, seconded by Trustee Mizumoto, and unanimously carried, the Board approved that staff proceed with program development and planning of the ERS 2023 Investment Summit by contracting with the Westin Maui Resort & Spa with an estimated budget of \$49,860.00.

APPROVAL OF MINUTES
– NOVEMBER 14, 2022
– NOVEMBER 21, 2022

On a motion made by Trustee Mizumoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the Minutes of November 14, 2022, and November 21, 2022, as presented.

RECESS

Chair Ley called for a recess at 10:40 a.m. and announced that the meeting would reconvene at 10:50 a.m.

RECONVENE

A quorum being present (Chair Ley, Vice Chair Yap, Trustees Barfield, Chan, Kane, and Mizumoto), Chair Ley reconvened the meeting at 10:52 a.m.

PUBLIC COMMENT

Chair Ley called for public comment. There were no requests from the public for comments in person or by teleconference.

Chair Ley identified all the participants in Executive Session, the Board, staff members, and Deputy Attorneys general are identified with an asterisk on these minutes and listed on the Executive Session Minutes.

Chair Ley provided the reason to enter into Executive Session:

Executive Session, pursuant to HRS §92-5(a)(2), (4), and (8), to consider information that must be kept confidential pursuant to state law, to discuss the Compensation Study of Chapter 76, HRS exempt staff for the Employees' Retirement System, and to evaluate and take action regarding such staff, as may be necessary, 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 with respect to the Trustees' Fiduciary Duties and Immunities, Appeals, and the Sunshine Law; the Processing of Disability Cases; and HRS §88-106.5; and to deliberate or make a decision on the approval of Executive Session Minutes.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Barfield, seconded by Vice Chair Yap, and unanimously carried, the Board entered into Executive Session at 10:55 a.m.

(Public participation concluded by ending the teleconference link.)

All attendees participating by teleconference affirmed that no other persons were in their rooms or able to listen in on their audio or audiovisual connection. 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.

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 the Trustees' Fiduciary Duties and Immunities, Appeals, and the Sunshine Law.
- 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 regarding the Processing of Disability Cases.
- Pursuant to HRS §92-5(a)(4) and (8), to deliberate and make a decision upon a matter which requires consultation with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, and privileges, immunities, and liabilities pursuant to HRS §88-106.5.
- Pursuant to HRS §92-5(a)(2) and (4), to discuss the Compensation Study of Chapter 76, HRS exempt staff for the Employees' Retirement System, and to evaluate and take action regarding such staff, as may be necessary, 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; 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
WITH RESPECT TO THE
TRUSTEES' FIDUCIARY DUTIES
AND IMMUNITIES, APPEALS,
AND THE 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
REGARDING THE PROCESSING
OF DISABILITY CASES

EXECUTIVE SESSION
PURSUANT TO HRS §92-5(a)(4)
AND (8), TO DELIBERATE AND
MAKE A DECISION UPON A
MATTER WHICH REQUIRES
CONSULTATION WITH THE
BOARD'S ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, AND
PRIVILEGES, IMMUNITIES, AND
LIABILITIES PURSUANT TO
HRS §88-106.5

EXECUTIVE SESSION
PURSUANT TO HRS § 92-5(a)(2)
AND (4), TO DISCUSS THE
COMPENSATION STUDY OF
CHAPTER 76, HRS EXEMPT
STAFF FOR THE EMPLOYEES'
RETIREMENT SYSTEM, AND TO
EVALUATE AND TAKE ACTION

REGARDING SUCH STAFF, AS
MAY BE NECESSARY, 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; APPROPRIATE
ACTION

APPROVAL OF EXECUTIVE
SESSION MINUTES

- NOVEMBER 14, 2022
- NOVEMBER 21, 2022

APPROVAL OF
CONFIDENTIAL EXECUTIVE
SESSION MINUTES

- NOVEMBER 14, 2022
- NOVEMBER 21, 2022

EXIT EXECUTIVE SESSION

On a motion made by Trustee Mizumoto, seconded by Vice Chair Yap, and unanimously carried, the Board exited Executive Session at 11:48 a.m.

ADJOURNMENT

On a motion made by Trustee Mizumoto, seconded by Trustee Chan, and unanimously carried, Chair Ley adjourned the meeting at 11:49 a.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik