

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

SEPTEMBER 11, 2023

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

Trustees present:
(by teleconference) Dr. Genevieve Ley, Chair*
Mr. Vincent Barfield*
Dr. Catherine Chan*
Mr. Lance Mizumoto*
Mr. Luis Salaveria*

Trustees absent: Mr. Bennett Yap, Vice Chair
Mr. Emmit Kane

Staff present:
(City Financial Tower
by teleconference) Ms. Kanoe Margol, Deputy Executive Director*
Mr. Bart Asato, Program Specialist*
Mr. James Greubel, Program Specialist
Ms. Shanna Sakagawa, Program Specialist
Ms. Kristin Varela, Chief Investment Officer*
Mr. Anthony Goo, Deputy Chief Investment Officer*
Mr. Aaron Au, Investment Officer – Private Equity
Ms. Christine Chang, Investment Officer – Liquid Diversifying Strategies*
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. Lori Kim, Secretary*
Ms. Andrea Gasper, Secretary*
Ms. Diana Gomes, Recording Secretary*

Attorney present:
(by teleconference) Ms. Jenny Nakamoto, Deputy Attorney General*
Ms. Lori Tanigawa, Deputy Attorney General*
Ms. Elmira Tsang, Deputy Attorney General*
Ms. Diane Wong, Deputy Attorney General*

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

Public present:
(by teleconference) Mr. Douglas Appell
Ms. Caroline Bryan
Mr. Joe Ebisa, With Intelligence
Ms. Lindsay Saienni – Financial Investment News

*Attended Executive Session.

QUORUM/CALL TO ORDER

A quorum being present (Chair Ley, Trustees Barfield, Chan, Mizumoto, and Salaveria), Chair Ley called the regular meeting of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 10:01 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.

On a motion made by Trustee Salaveria, 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 Ley called for public comment. There was no public present in person, however, four (4) members of the public were present by teleconference, but they had no public comment. Also, no written testimony was received for this meeting.

Chair Ley announced that agenda items would be taken out of order due to Quorum concerns starting with New Business Items 5 and 3, Approval of Minutes, Executive Session, Reports by Staff, then the remainder of the New Business Items 1, 2, and 4.

REPORT BY THE INVESTMENT COMMITTEE

Investment Committee (Committee) Chair Chan reported to the Board that the Committee last met on August 21, 2023, and discussed:

- Review of the Total Fund Performance for the second quarter of 2023 and Alternative Asset Class Performance for the Credit Portfolio. Brief reviews were given as a part of this report.
- Began education with the Committee on active risk budgeting.
- Completed education and annual review of the fund's Policy benchmarks. The Committee adopted the proposed benchmark changes and are recommending it for the Board's approval. A review was given as a part of this report.

REVIEW AND APPROVE ANNUAL BENCHMARKING REVIEW

Chief Investment Officer (CIO) Kristin Varela reported the remainder of the Committee items to the Board starting with the Review and Approval of the Annual Benchmarking Review. Meketa Investment Group Inc.'s (Meketa) Colin Bebee joined the meeting by teleconference and presented an oral and written report to the Board on Benchmarking and highlighted:

INTRODUCTION

Summary of Recommendation

OVERVIEW OF BENCHMARKING

Benchmark Roles

Benchmark Characteristics

Approaches to Total Plan Benchmarking

ERS BENCHMARK CHANGES

Proposed Changes

Benchmark Blends

On a motion made by Committee Chair Chan, seconded by Trustee Salaveria, and unanimously carried, the Board approved the revised Annual Benchmarking Review as presented, and as recommended and accepted by the Investment Committee.

REVIEW TOTAL FUND PERFORMANCE Q2 2023

Meketa's Colin Bebee presented an oral and written report to the Board on a Review of Total Fund Performance Q2 2023 and highlighted:

INTRODUCTION

Portfolio Valuation

Performance vs. Policy Benchmark and Median Public Fund

Asset Allocation vs. Target

Hawaii ERS vs. Public Fund Peers

Index Returns

- After a particularly difficult 2022, most public market assets are up thus far in 2023, building on gains from the fourth quarter of last year.
- Risk sentiment has been supported by expectations that policy tightening could be ending soon, as inflation continues to fall, and growth has slowed.

REVIEW TOTAL FUND
PERFORMANCE Q2
2023 (CONT'D)

ERS PORTFOLIO REVIEW

Performance Attribution v. Policy Benchmark – Quarter ending June 30, 2023
Performance Attribution v. Policy Benchmark – Trailing 1-Year ending June 30, 2023
Performance Attribution v. Policy Benchmark – Trailing 3-Year ending June 30, 2023
Performance Attribution v. Policy Benchmark – Trailing 5-Year ending June 30, 2023

REVIEW
ALTERNATIVE ASSET
CLASS
PERFORMANCE:
CREDIT Q2 2023

A written report, Private Credit Education and Annual Review, was submitted for the Review of the Alternative Asset Class Performance Credit Q2 2023, however, no oral report was given and there were no questions from the Board.

(After his presentations, Mr. Bebee left the meeting by ending his teleconference.)

CIO Varela further reported to the Board that ERS staff continue to discuss the Summit and are considering possibly moving it from July to another month in the year based on debriefs, feedback, and other factors, and are open to any suggestions from the Board.

REPORT BY THE
LEGISLATIVE
COMMITTEE

In the absence of Legislative Committee (Committee) Chair Yap, and Vice Chair Kane, Program Specialist (PS) Bart Asato reported to the Board that the Committee last met on August 28, 2023, and discussed potential legislative proposals for 2024:

- Lowering the amortization period.
- Moving the vesting period from 10 years to 5 years.

DISCUSS POTENTIAL
2024 LEGISLATIVE
PROPOSALS RELATING
TO THE EMPLOYEES'
RETIREMENT SYSTEM

Gabriel Roeder Smith & Company, the ERs actuary, Joe Newton joined the meeting by teleconference and presented the Board an oral and written report, a Mid-Year Update that included a projected 2023 actuarial valuation results for the Discussion of Potential 2024 Legislative Proposals Relating to the Employees' Retirement System and highlighted:

Projected 2023 Actuarial Valuation Results
Projection of funding Period from 2016 Legislative Impact Statement vs Actual Valuation Outcomes
Two Legislative Proposals to Discuss
Impact of Reinstating the 5-year Vesting for Members Hired on or After July 1, 2012
Amortization Strategy
Illustrative \$1B UAAL Projection: Closer Look at a 30-year Amortization
Industry Guidance on Appropriate Funding Policies
New Actuarial Standards of Practice No. 4
Illustrative UAAL Projection: Comparison of Amortization Periods
Illustrated: Annual Cost vs Total Savings
HIERS: Projection of Funding Period and Funded Ratio Sensitivity from Investment Returns
Alternatives with Lower Maximum Funding Periods
Comparison of Projected Funding Period to Alternative Strategies
Projection of Funded Ratio with 5% Actual Returns Based on Alternative Funding Strategies
Illustrated Alternatives

On a motion made by Trustee Salaveria, seconded by Trustee Mizumoto, and unanimously carried, the Board approved supporting a potential proposal to

DISCUSS POTENTIAL
2024 LEGISLATIVE
PROPOSALS RELATING
TO THE EMPLOYEES'
RETIREMENT SYSTEM
(CONT'D)

amend the amortization period for the total unfunded accrued liability of the ERS from twenty-five (25) to twenty (20) years as presented.

REVIEW PREVIOUSLY
SUBMITTED
LEGISLATION
REGARDING SERVICE-
CONNECTED
DISABILITY TO BE RE-
INTRODUCED FOR 2024
LEGISLATIVE SESSION

PS Asato also requested the Board approve the Previously Submitted Legislation Regarding Service-Connected Disability to be Re-Introduced for the 2024 Legislative Session.

On a motion made by Trustee Salaveria, seconded by Trustee Barfield, and unanimously carried, the Board approved resubmittal of a potential proposal to support the legislative intent and clarify the requirements of service-connected disability retirement and accidental death benefits of the Employees' Retirement system as presented.

APPROVAL OF MINUTES

– JULY 10, 2023
– JULY 26-28, 2023
– AUGUST 21, 2023

On a motion made by Trustee Barfield, seconded by Trustee Salaveria, and unanimously carried, the Board approved the Minutes of July 10, 2023, and July 26-28, 2023, as presented. The minutes of August 21, 2023, were deferred to the next meeting.

PUBLIC COMMENT

Chair Ley called for public comment. There were no public comments from public members attending.

Chair Ley identified all the participants in Executive Session, the Board, staff members, Deputy Attorneys general, and Guests 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)(4), and (8), to consult with the Board's attorneys for legal advice regarding extension of Special Deputy Attorney General contract for legal services related to compliance with the applicable provisions of the Internal Revenue Code of 1986, as amended; to consider 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 Ongoing Litigation and Potential Securities Litigation; and to deliberate or make a decision on the approval of Executive Session Minutes which are confidential under State law.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Chan, seconded by Trustee Salaveria, and unanimously carried, the Board entered into Executive Session at 11:01 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. Recording 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) and (8), to consult with the Board's attorneys for legal advice regarding extension of Special Deputy Attorney General contract for legal services related to compliance with the applicable provisions of the Internal Revenue Code of 1986, as amended; for appropriate action.
- Pursuant to HRS §92-5(a)(4) and (8), to consider 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 Ongoing Litigation.

- 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 Potential Securities Litigation; for appropriate action.

EXECUTIVE SESSION,
PURSUANT TO HRS §92-5(a)(4)
AND (8), TO CONSULT WITH
THE BOARD’S ATTORNEYS
FOR LEGAL ADVICE
REGARDING EXTENSION OF
SPECIAL DEPUTY ATTORNEY
GENERAL CONTRACT FOR
LEGAL SERVICES RELATED
TO COMPLIANCE WITH THE
APPLICABLE PROVISIONS OF
THE INTERNAL REVENUE
CODE OF 1986, AS AMENDED;
FOR APPROPRIATE ACTION

EXECUTIVE SESSION
PURSUANT TO HRS §92-5(a)(4)
AND (8), TO CONSIDER
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 ONGOING
LITIGATION.

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 POTENTIAL SECURITIES
LITIGATION; FOR
APPROPRIATE ACTION

APPROVAL OF EXECUTIVE
SESSION MINUTES
– JULY 10, 2023
– JULY 26-28, 2023
– AUGUST 21, 2023

APPROVAL OF CONFIDENTIAL
EXECUTIVE SESSION
MINUTES
– JULY 10, 2023

EXIT EXECUTIVE SESSION

On a motion made by Trustee Salaveria, seconded by Trustee Barfield, and unanimously carried, the Board exited Executive Session at 11:13 a.m.

Chair Ley announced that while in Executive Session, the Board discussed and approved an extension of a Special Deputy Attorney General contract for legal services; discussed an ongoing litigation regarding a pending service-connected

disability application that has been resolved and closed; discussed and approved a potential securities litigation allowing to proceed with joining in an action. The Board also approved Executive Session Minutes of July 10, and 26-28, 2023, and Confidential Executive Session Minutes of July 10, 2023.

**DEPUTY EXECUTIVE
DIRECTOR'S OPERATIONS
REPORT**

Deputy Executive Director (DED) Kanoe Margol gave updates to the Board on ERS staffing and projects of Administration, Accounting, Information Services, Retirement Benefits and Staff Support Services Branches as presented in the August 2023 Monthly Operations Report.

The Board requested DED Margol research the net loss or cost to the Employees' Retirement System as a result of not being able to fill positions of retired or resigned employees. Trustee Salaveria stated that he will work with ERS staff in securing the information.

**PROGRAM SUPPORT
STAFF REPORT**

PS Asato gave an oral and written report to the Board on the Program Support Staff and discussed: Current Major Projects - Employer Reporting Team, Act 46 (2023), Legislative Session 2024, Crisis Communications Plan; and Future Projects - Membership Customer Service Surveys, and Digitization and self-service for members, retirees, and employers.

**REPORT BY THE
GOVERNANCE POLICY
COMMITTEE**

Governance Policy Committee (Committee) Chair Ley reported to the Board that the Committee has not met and that there was nothing new to report.

**REPORT BY THE
ADMINISTRATIVE &
AUDIT COMMITTEE**

In the absence of Administrative & Audit Committee (Committee) Chair Kane, DED Margol reported to the Board that the Committee has not met, however, is scheduled to meet on October 10, 2023.

**REPORT BY THE HUMAN
RESOURCES COMMITTEE**

Human Resources Committee (Committee) Chair Ley reported to the Board that the Committee has not met, however, is scheduled to meet on September 19, 2023.

ADJOURNMENT

On a motion made by Trustee Salaveria, seconded by Trustee Chan, and unanimously carried, Chair Ley adjourned the meeting at 11:27 a.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director
TW:dkik