MINUTES OF THE MEETING OF THE
ADMINISTRATIVE AND AUDIT COMMITTEE OF THE BOARD OF TRUSTEES OF THE
EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

AUGUST 21, 2025

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

Trustees present: (City Financial Tower by teleconference)	Dr. Catherine Chan, Chair* Mr. Vincent Barfield, Vice Chair* Dr. Genevieve Ley* Mr. Luis Salaveria *
Staff present: (City Financial Tower by teleconference)	Mr. Thomas Williams, Executive Director* Ms. Gail Strohl, Deputy Executive Director* Mr. Kona Mann, Chief Compliance Officer* Mr. James Greubel, Program Specialist Ms. Kristin Varela, Chief Investment Officer* Mr. Larry Wolfe, Accounting Manager Mr. Keith Miyamoto, Information Services Branch Manager* Ms. Dale Kehau Kanae, Recording Secretary/Administrative Assistant* Ms. Lori Kim, Administrative Assistant* Ms. Andrea Gasper, Administrative Assistant*
Attorneys present: (by teleconference)	Ms. Jenny Nakamoto, Deputy Attorney General* Ms. Lori Tanigawa, Deputy Attorney General* Ms. Nietzsche Tolan, Deputy Attorney General* Ms. Diane Wong, Deputy Attorney General*
Guests present: (City Financial Tower by teleconference)	Ms. Lauren Kawajiri, Hawaii State Office of the Auditor Ms. Robyn Kawamura, KKDLY LLC Ms. Yee Yan Lim, KKDLY LLC Mr. Joe Newton, Gabriel Roeder Smith & Company Mr. Lewis Ward, Gabriel Roeder Smith & Company Mr. Peter Hanashiro, KMH LLP* Mr. Alfred Ko, RSM US LLP* Ms. Alicia Preddy, RSM US LLP* Ms. Rachel Pfutzenreuter, RSM US LLP* Mr. Ty Smith, RSM US LLP*
	*Attended Executive Session

QUORUM/CALL TO ORDER

A quorum being present (Chair Chan, Vice Chair Barfield, and Trustee Ley), Chair Chan attended the meeting in person and called the meeting of the Administrative and Audit Committee (Committee) of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 2:00 p.m. and identified the Trustees present and had them confirm that they are the only ones present at their remote location and that no one else was able to listen in on their teleconference while attending the meeting. Each of the Trustees present confirmed same. Chair Chan reminded the Committee to please be sure that they are visible on their video cameras and that they remain on while the meeting is in session.

PUBLIC COMMENT	Chair Chan called for public comment. There was no public present by teleconference or in person, therefore, no public comment. There was also no written public testimony received for this Committee meeting.
THREE-YEAR ACTUARIAL EXPERIENCE STUDY RESULTS INCLUDING PRELIMINARY IMPACT ON THE 2025 ANNUAL ACTUARIAL VALUATION REPORT BY GABRIEL ROEDER SMITH & COMPANY FOR THE YEAR ENDING JUNE 30, 2024	Gabriel Roeder Smith & Company's Joe Newton and Lewis Ward attended the meeting by teleconference and presented an oral and written report to the Committee on a Three-Year Actuarial Experience Study Results Including Preliminary Impact on the 2025 Annual Actuarial Valuation Report and discussed in summary: THE ROLE OF ACTUARIAL VALUATIONS AND ASSUMPTIONS *Assumptions* *Experience Study* *Magnitude of Actuarial Assumptions*
RECESS	Chair Chan called for a recess at 2:13 p.m. due to technical difficulties during the presentation.
RECONVENE	A quorum being present (Chair Chan, Vice Chair Barfield, Trustees Ley and Salaveria) Chair Chan reconvened the meeting at 2:16 p.m. as technical difficulties were resolved.
THREE-YEAR ACTUARIAL EXPERIENCE STUDY RESULTS INCLUDING PRELIMINARY IMPACT ON THE 2025 ANNUAL ACTUARIAL VALUATION REPORT BY GABRIEL ROEDER SMITH & COMPANY FOR THE YEAR ENDING JUNE 30, 2024 (CONT'D)	*Investment Return Assumption* *Investment Return Assumption – National Trends* *GRS Survey Mapped onto ERS Target Portfolio: Distribution of Forward-Looking Returns Expectations* *Individual Salary Increases* *ERS Experience: Long Service Members by Fiscal Year* • Annual Change in Base Pay FY2015-FY2024 • Annual Change in Base Pay FY2005-FY2024-Last 20 years *Using more data to see longer cycles, the experience is closer to the assumption* *Police and Fire Recommendations: Extend the Higher Assumptions Further* *Illustrated Impact* *Projection of Funding Period from 2016 Legislative Impact Statement vs Actual Valuation Outcomes, Including Assumption Changes and FY25 Return* *Closing Comments* • Full Listing of Recommendations in Section II of Experience Study Report (includes detailed information and rationale for each assumption). • Approved assumptions to be used in the June 30, 2025, valuation. On a motion made by Vice Chair Barfield, seconded by Trustee Ley, and unanimously carried, the Committee accepted the Three-Year Actuarial Experience Study Results Including Preliminary Impact on the 2025 Annual Actuarial Valuation Report as presented and recommended it be presented to the Board for approval at the next Board meeting.
DISCUSS FUNDING POLICY INCLUDING AMORTIZATION RESERVE FUNDING BY GABRIEL ROEDER SMITH & COMPANY	Gabriel Roeder Smith & Company's Joe Newton and Lewis Ward presented an oral and written report to the Committee on a Funding Policy Including Amortization Reserve Funding and discussed in summary: *What is a Funding Policy?*

Difference in this Case
The Purpose for a Funding Policy Adopted by the ERS Board
Example of a Funding Policy for Another Plan in Similar Situation: Highlights
Other Considerations
There could be a significant decrease in the net cash flow if the contributions were lowered in one year.
Would be better to have this happen at a moderate pace, mainly for liquidity and cash flow management in the portfolio
Potential Components of Glide Path Strategies
Recommendation

- We recommend the ERS Board adopt a policy to communicate to stakeholders its goals, how it will monitor progress, and its preferred approach to unwind the high contribution rates when appropriate.
- Increases transparency to stakeholders (employers and active members) and gets everyone on the same page.

After discussion, the Committee agreed and supported this Funding Policy to be presented to the Board at its next Board meeting.

After their presentation Messrs. Newton and Ward left the meeting by ending their teleconference.

DRAFT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF THE EMPLOYEES' RETIREMENT SYSTEM BY KKDLY LLC

KKDLY LLC's Robyn Kawamura and Yee Yan Lim attended the meeting by teleconference and presented an oral and written report to the Committee on a draft Auditor's Report and Financial Statements of the Employees' Retirement System and discussed in summary:

INTRODUCTION
Audit Objectives
Scope of Audit
Organization of Report
FINANCIAL
Independent Auditors' Report
Management's Discussion and Analysis (Unaudited)

On a motion made by Trustee Ley, seconded by Trustee Salaveria, and unanimously carried, the Committee accepted the Auditor's Report and Financial Statement of the Employees' Retirement System dated June 30, 2024, as presented and recommended it be presented to the Board for approval at the next Board meeting.

After their presentation, Mses. Kawamura and Lim left the meeting by ending their teleconference.

INTERNAL AUDIT UPDATE REPORT BY KMH LLP ON THE CURRENT STATUS OF ACTIVITIES COMPLETED DURING Q1 AND Q2, 2025, AND AN UPDATE ON THE COMPLETION STATUS OF MANAGEMENT ACTION PLANS FOR PAST INTERNAL AUDIT OBSERVATIONS AND RECOMMENDATIONS

The Committee requested that while the report was being presented, especially regarding high and medium rated outstanding items, executive management responsible comment on the status of findings as it's important to make sure the Board is comfortable with the progress being made to close the gaps on the items that have been on the report.

KMH LLP's Peter Hanashiro and RSM US LLP's Alfred Ko and Ty Smith attended the meeting in person, RSM US LLP's Alicia Preddy and Rachel Pfutzenreuter also attended the meeting by teleconference and presented an oral and written report to the Committee of KMH LLP's Internal Audit Update Report on the Current Status of Activities Completed During Q1 and Q2, 2025, and an Update on the Completion

Status of Management Action Plans for Past Internal Audit Observations and Recommendations and discussed in summary:

<u>INTERNAL AUDIT UPDATE REPORT</u>
EXECUTIVE SUMMARY
Administrative and Other Matters
Status on Current Projects

- Investment Manger Selection and Evaluation Review
- Contracting & Procurement Review
- Virtual Information Security Officer (vISO) Initiative – Roadmap Implementation
- Enterprise Risk Management (ERM) Capability Roadmap and Training
- Business Continuity Plan – Tabletop Exercise
- Benefit Claims & Refund and Retiree Overpayments Processing Review; Member/Retiree Record Processing, Retention, and Storage Review

SUMMARY RESULTS OF REPORTS COMPLETED

- Investment Manager Selection & Evaluation Review

2025 INTERNAL AUDIT PLAN RESULTS SUMMARY
MANAGEMENT ACTION DASHBOARD
MANAGEMENT ACTION PLANS – COMPLETION STATUS
CUMULATIVE OBSERVATION ANALYSIS
ISSUED REPORTS FINDING STATUS

On a motion made by Vice Chair Barfield, seconded by Trustee Ley, and unanimously carried, the Committee accepted KMH LLP's Internal Audit Update Report as presented and recommended it be presented to the Board for approval at the next Board meeting.

After discussion, the Committee requested that Executive Management take responsibility of outstanding items and provide clear action plans with a status and reliable resolution dates that the Board can be assured of. It is no longer acceptable to continue to extend deadlines. The Committee further requested that regular Internal Audit Updates be on the agenda of every Committee meeting.

Executive Management assured the Committee that they would take responsibility of outstanding items and provide clear action plans with a status and reliable resolution dates of outstanding items going forward. A monthly report to the Committee to show progress could be done, as well as a comprehensive report at Committee meetings.

INFORMATION AND CYBER SECURITY TRAINING PREPARED AS PART OF THE VIRTUAL INFORMATION SECURITY OFFICER (vISO) PROJECT

Due to time constraints, this agenda item was deferred to the next scheduled Committee meeting.

ENTERPRISE RISK MANAGEMENT TRAINING PREPARED AS PART OF THE ERM

Due to time constraints, this agenda item was deferred to the next scheduled Committee meeting.

CAPABILITY ROADMAP AND TRAINING PROJECT	
INVESTMENT MANAGER SELECTION AND EVALUATION REVIEW REPORT BY KMH LLP	Due to time constraints, this agenda item was presented to the Committee in summary as a part of the Internal Audit Update Report which the Committee accepted and will present it to the Board for approval at the next Board meeting.
COMPLIANCE SUPPORT STAFF REPORT AND UPDATE ON IMPLEMENTATION OF ERS' COMPLIANCE PROGRAM ON RISK ASSESSMENT, POLICIES & PROECUDURES, AND THIRD-PARTY RISK MANAGEMENT	Due to time constraints, this agenda item was deferred to the next scheduled Committee meeting.
REPORT ON LAUNCH OF VELOCITY PENSION ADMINISTRATION SYSTEM UPGRADE	Due to time constraints, this agenda item was deferred to the next scheduled Committee meeting.
APPROVAL OF MINUTES - FEBRUARY 18, 2025	On a motion made by Trustee Ley, seconded by Trustee Salaveria, and unanimously carried, the Committee approved the minutes of the February 18, 2025, meeting as presented.
PUBLIC COMMENT	Chair Chan called for public comment. There was no public present by teleconference or in person, therefore, no public comment. (Chair Chan identified all the participants in Executive Session, the Board, ERS Staff, Deputy Attorneys General, and Guests are identified with an asterisk on these minutes and listed on the Executive Session Minutes. Participants of Executive Session met virtually in a separate room while public participants remained in the main room. Chair Chan provided the reason to enter into Executive Session: Executive Session, pursuant to HRS §92-5(a)(4), (6), and (8), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to Cyber Security Updates; Conduct an Interview with Committee Members Regarding Enterprise Risk Management; and-to make a decision on the Approval of Executive Session Minutes.)
ENTER EXECUTIVE SESSION	On a motion made by Vice Chair Barfield, seconded by Trustee Ley, and unanimously carried, the Committee entered into Executive Session at 3:50 p.m. (Chair Chan requested, and all attendees confirmed, 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. Board Administrative Assistant Dale Kehau Kanae also confirmed that no unauthorized persons were in the conference room or able to listen in by audio or audiovisual connection while on the teleconference. Attendees are noted with an asterisk on these minutes and listed on the Executive Session Minutes.)

- Pursuant to HRS §92-5(a)(4) and (6), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to Cyber Security Updates.
- Pursuant to HRS §92-5(a)(4) and (6), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to Conducting an Interview with Committee Members Regarding Enterprise Risk Management.
- Pursuant to HRS §92-5 (a)(8), to review and approve Executive Session Minutes of February 18, 2025.

EXECUTIVE SESSION, PURSUANT TO HRS §92-5(a)(4) AND (6), TO CONSIDER AND CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES, AND TO CONSIDER SENSITIVE MATTERS RELATED TO CYBER SECURITY UPDATES

EXECUTIVE SESSION, PURSUANT TO HRS §92-5(a)(4) AND (6), TO CONSIDER AND CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES, AND TO CONSIDER SENSITIVE MATTERS RELATED TO CONDUCTING AN INTERVIEW WITH COMMITTEE MEMBERS REGARDING ENTERPRISE RISK MANAGEMENT

EXECUTIVE SESSION PURSUANT TO HRS §92-5(a)(8), TO REVIEW AND APPROVE EXECUTIVE SESSION MINUTES OF FEBRUARY 18, 2025

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Vice Chair Barfield, and unanimously carried, the Committee exited Executive Session at 4:14 p.m.

Chair Chan announced that while in Executive Session, the Committee discussed matters related to Cyber Security Updates, Interviews with Committee Members regarding Enterprise Risk Management would be scheduled by RSM US LLP at a later date, and approval of the Executive Session Minutes of February 18, 2025.

The Committee requested that when scheduling future meetings, sufficient time be allotted for agenda items and that documents for presentations be provided in advance of the meetings.

ADJOURNMENT	On a motion made by Trustee Ley, seconded by Vice Chair Barfield, and unanimously carried, Chair Chan adjourned the meeting at 4:16 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik