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

MARCH 7, 2023

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

Trustees present: (by teleconference)	Dr. Genevieve Ley Committee Chair and Chair of the Board of Trustees and Human Resources Committee* Dr. Catherine Chan, Chair of the Investment Committee* Mr. Emmit Kane, Chair of the Administrative & Audit Committee and Vice Chair of the Legislative Committee*
Trustees absent:	Mr. Bennett Yap, Committee Vice Chair and Vice Chair of the Board of Trustees and Chair of the Legislative Committee
Staff present: (City Financial Tower by teleconference)	Ms. Kanoe Margol, Deputy Executive Director* Mr. Kona Mann, Chief Compliance Officer Ms. Kristin Varela, Chief Investment Officer* Ms. Dale Kehau Kanae, Recording Secretary* Ms. Andrea Gasper, Secretary*
Attorneys present: (by teleconference)	Ms. Lori Tanigawa, Deputy Attorney General*
Public present: (by teleconference)	Mr. Joe Ebisa, WithIntelligence
	*Attended Executive Session

QUORUM/CALL TO ORDER

A quorum being present (Committee Chair Ley, also Board and Human Resources Committee (HRC) Chair, Investment Committee (IC) Chair Chan, and Administrative & Audit Committee (AAC) Chair Kane, also Vice Chair of the Legislative Committee (LC)), Chair Ley called the meeting of the Governance Policy Committee (GPC or Committee) of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 9:15 a.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.

On a motion made by AAC Chair Kane, seconded by IC Chair Chan, and unanimously carried, the Committee voted to hold a meeting allowing Trustees and members of the public to participate by interactive conference technology, pursuant to the 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 attending in person, one (1) person attended by teleconference, however, there was no public comment. There was also no written public testimony received for this Committee meeting.

Agenda items were taken out of order, starting with New Business Items 2, 3, 4, 1, then 5.

REPORT BY THE ADMINISTRATIVE & AUDIT COMMITTEE CHAIR

AAC Chair Kane reported to the Committee that the AAC last met on February 22, 2023, discussed administrative and audit matters and reviewed, revised, and accepted the Administrative & Audit Committee, Internal Audit, and Ethics and Compliance Charters as submitted.

REVIEW AND APPROVE THE ADMINISTRATIVE & AUDIT COMMITTEE, INTERNAL AUDIT, AND ETHICS AND COMPLIANCE CHARTERS; INCLUDE COMMITTEE PERFORMANCE ASSESSMENT

AAC Chair Kane requested that the Committee accept the Administrative & Audit Committee, Internal Audit, and Ethics and Compliance Charters as presented and that, upon acceptance, the Committee submit it to the Board for final approval at its next meeting.

On a motion made by AAC Chair Kane, seconded by IC Chair Chan, and unanimously carried, the Committee accepted the Administrative & Audit Committee, Internal Audit, and Ethics and Compliance Charters as submitted and will be presenting it to the Board for final approval at its next meeting. (The edited Charters are attached to these minutes for clarification.)

AAC Chair Kane also reported on the Committee Performance Assessment stating that the Committee performed satisfactorily and that the Committee will continue to oversee the auditor's findings for 2024.

REPORT BY THE HUMAN RESOURCES COMMITTEE CHAIR

HRC Chair Ley reported to the Committee that the HRC last met on February 6, 2023, discussed human resources matters, and reviewed, revised, and accepted the Human Resources Committee Charter as submitted.

REVIEW THE HUMAN RESOURCES COMMITTEE CHARTER; INCLUDE COMMITTEE PERFORMANCE ASSESSMENT

HRC Chair Ley requested that the Committee accept the Human Resources Committee Charter as presented and that, upon acceptance, the Committee submit it to the Board for final approval at its next meeting.

On a motion made by HRC Chair Ley, seconded by AAC Chair Kane, and unanimously carried, the Committee accepted the Human Resources Committee Charter as submitted and will be presenting it to the Board for final approval at its next meeting. (The edited Charter is attached to these minutes for clarification.)

HRC Chair Ley also reported on the Committee Performance Assessment stating that the Committee performed satisfactorily and that changes and updates were made to the compensation structure for exempt staff which utilized a compensation study to further assist the Committee in making future recommendations to the Board.

REPORT BY THE INVESTMENT COMMITTEE CHAIR

IC Chair Chan reported to the Committee that the IC last met on February 21, 2023, discussed investment matters, and reviewed and revised the Investment Committee Charter.

REVIEW THE INVESTMENT COMMITTEE CHARTER, INCLUDE COMMITTEE

IC Chair Chan requested a deferral of the Investment Committee Charter due to an administrative oversight and the need for further review and revisions. IC Chan also requested that the Charter be accepted by the Committee and approved by the Board simultaneously at the next Board meeting, as the next IC meeting is scheduled for May 22, 2023.

PERFORMANCE ASSESSMENT

IC Chair Chan also reported on the Committee Performance Assessment stating that the Committee performed effectively for 2022 acknowledging favorable accomplishments of ongoing oversight of the ERS portfolio.

The Committee agreed with IC Chair Chan's request to defer acceptance of the Investment Committee Charter and that the Charter be simultaneously accepted by the Committee and approved by the Board at the next Board meeting.

REPORT BY THE GOVERNANCE POLICY COMMITTEE CHAIR

Chair Ley reported to the Committee that the GPC hasn't met since May 9, 2022, however, she presented for discussion the Governance Policy Committee Charter as submitted.

REVIEW THE GOVERNANCE POLICY COMMITTEE CHARTER, INCLUDE COMMITTEE PERFORMANCE ASSESSMENT

GPC Chair Ley requested that the Committee accept the Governance Policy Committee Charter as presented and that, upon acceptance, the Committee submit it to the Board for final approval at its next meeting.

On a motion made by GPC Chair Ley, seconded by AAC Chair Kane, and unanimously carried, the Committee accepted the Governance Policy Committee Charter as submitted and will be presenting it to the Board for final approval at its next meeting. (The edited Charter is attached to these minutes for clarification.)

GPC Chair Ley also reported on the Committee Performance Assessment stating that the Committee performed satisfactorily and will continue to meet as needed.

REPORT BY THE LEGISLATIVE COMMITTEE CHAIR

LC Vice Chair Kane reported to the Committee on behalf of LC Chair Yap stating that the Committee last met on January 31, 2023, and continues to meet as needed noting that Program Specialist Bart Asato has been doing a great job of monitoring and reporting any legislative updates to the ERS Board. The Committee also reviewed, revised, and accepted the Legislative Committee Charter as submitted.

REVIEW THE LEGISLATIVE COMMITTEE CHARTER, INCLUDE COMMITTEE PERFORMANCE ASSESSMENT

LC Vice Chair Kane requested that the Committee accept the Legislative Committee Charter as presented and that, upon acceptance, the Committee submit it to the Board for final approval at its next meeting.

On a motion made by LC Vice Chair Kane, seconded by IC Chair Chan, and unanimously carried, the Committee accepted the Legislative Committee Charter as submitted and will be presenting it to the Board for final approval at its next meeting. (The edited Charter is attached to these minutes for clarification.)

LC Vice Chair Kane also reported on the Committee Performance Assessment stating that the Committee performed satisfactorily and will continue to monitor legislation and meet as needed.

APPROVAL OF MINUTES – MAY 9, 2022

On a motion made by AAC Chair Kane, seconded by IC Chair Chan, and unanimously carried, the Committee approved the Minutes of the May 9, 2022, meeting as presented.

PUBLIC COMMENT

Chair Ley called for public comment. There was no public comment by those attending. There was also no written public testimony received for this Committee meeting.

	(Chair Ley identified attendees of the Executive Session, Committee members Chair Ley, Trustees Chan and Kane; ERS staff Deputy Executive Director Kanoe Margol, Chief Compliance Officer Kona Mann, Chief Investment Officer Kristin Varela, Recording Secretary Dale Kehau Kanae and Secretary Andrea Gasper; DAG Lori Tanigawa. All other attendees were excused. 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. Board Secretary 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.) Chair Ley provided the reason to enter into Executive Session: Executive Session pursuant to HRS §92F-13 (1) and (4), and HRS §92F-14 (b) (6), to make a decision on the approval of executive session minutes that must be kept confidential. (Public participation concluded by ending the teleconference link.)
ENTER EXECUTIVE SESSION	On a motion made by IC Chair Chan, seconded by AAC Chair Kane, and unanimously carried, the Committee entered into Executive Session at 9:26 a.m.
APPROVAL OF EXECUTIVE SESSION MINUTES – MARCH 28, 2022	
EXIT EXECUTIVE SESSION	On a motion made by AAC Chair Kane, seconded by IC Chair Chan, and unanimously carried the Committee exited Executive Session at 9:27 a.m.
ADJOURNMENT	On a motion made by AAC Chair Kane, seconded by IC Chair Chan, and unanimously carried, Chair Ley adjourned the meeting at 9:28 a.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik

Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
ADMINISTRATIVE & AUDIT COMMITTEE CHARTER

I. PURPOSE

The Administrative & Audit Committee ("Committee") of the Employees' Retirement System ("ERS") of the State of Hawaii is a committee of the Board of Trustees ("Board"). Its primary function is to assist the Board in fulfilling its oversight responsibilities relating to:

A. The integrity of the ERS's financial statements~~, and the~~ accounting and financial reporting processes including internal and external audits;

B. The ERS's compliance with legal and regulatory requirements;

C. The qualifications, independence and the performance of the ERS's Internal and External Auditors;

D. Monitoring the performance of the systems of internal controls established by Management and the Board;

~~E. Monitoring the performance of the ERS's Internal and External Audits;~~

~~F~~E. The business practices and ethical standards of the ERS; ~~and~~

~~G~~F. The review and monitoring of the administration of the ERS~~.~~; and

G. The review and monitoring of the Compliance Program.

The Committee provides an avenue of open and free communication between the Board, the Internal Auditors, the External Auditors, the Chief Compliance Officer, and Management of the ERS.

II. COMMITTEE MEMBERSHIP

A. The membership of the Committee shall consist of at least three members of the Board.

B. The Board members of the Committee shall be appointed annually by the Board Chair. Committee appointments can be changed at the discretion of the Board Chair at any time. In the event of a vacancy (due to member resignation, removal, or death), the Board Chair will appoint a replacement to serve the remainder of the term.

C. The members of the Committee shall be responsible for electing its Chair and Vice Chair.

III. MEETINGS

A. The Committee must meet at least three (3) times per year or more frequently as circumstances require, with prior notice and publication of the agenda as provided by law.

B. The Committee may ask members, ERS Management, advisors, and others to attend Committee meetings to provide pertinent information as necessary.

IV. AUTHORITY

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. In the conduct of any investigation, the Committee shall have the authority to seek information it requires from ERS employees, Management, and external parties; and to engage advisors, or otherwise obtain independent legal, accounting, consulting, or other professional services it requires, at the expense of the ERS, with the approval of the Board.

V. RESPONSIBILITIES

The Committee provides oversight of various ERS functions: Administration, Risk Assessment, Internal Audits, External Audits, and Others. In fulfilling its oversight responsibilities, Committee members need to maintain an independent stance. Members of the Committee shall be considered independent if they have no relationship to the ERS that may interfere with the exercise of their fiduciary responsibilities.

It is the duty of the Committee to report regularly to the Board with respect to any issues that arise concerning:

A. The quality or integrity of the ERS's financial statements;

B. The ERS's compliance with legal or regulatory requirements;

C. The performance and independence of the ERS's External Auditors;

D. The performance of the internal audit function;

E. The allegations of serious suspected misconduct;

~~E~~F. Or any other matter within the scope of the Committee's function.

In carrying out its oversight responsibilities, the Committee's practices/procedures should remain flexible in order to best react to changing conditions and assure the Board that the risk assessment process, the accounting and financial reporting processes, internal controls, and internal and external auditing are in accordance with all related requirements and are of the highest quality.

Oversight Responsibilities Regarding Administration:

A. Annually review the ERS strategic goals and objectives adopted by the Board and if appropriate, recommend any changes.

B. Monitor Administration's implementation of these strategic goals and objectives.

C. Provide direction to the Executive Director (ED) and Deputy Executive Director (DED) on priorities and actions to successfully execute the responsibilities of the Administrative Branch.

D. Monitor compliance with administrative policies.

E. Review and monitor the operating budget and provide recommendations to the full Board as necessary.

Oversight Responsibilities Regarding Risk Assessment:

A. Inquire of Management, the Internal Auditors, and the External Auditors about significant risks or exposures.

B. Meet with the necessary parties to discuss the results of periodic risk assessments and obtain a clear understanding of the risk assessment process.

C. Assess the steps Management has taken to minimize significant risks or exposures to the ERS.

Oversight Responsibilities Regarding Internal Audits:

A. Where appropriate, oversee the procurement of internal auditing services and recommend to the Board:
   1. The Internal Auditor to be nominated;
   2. Approval of fees for the Internal Auditor; and
   3. The discharge of the Internal Auditor.

B. Review the adequacy and effectiveness of the ERS's accounting and financial controls (including information technology and security controls) with:
   1. Personnel (from financial, accounting, and information systems);
   2. Internal and External Auditors; and

   elicit any recommendations to improve the system of internal controls or particular areas where new or more detailed controls or procedures are desirable.

C. Obtain an understanding of any corrective actions to be taken with regard to controls and procedures.

D. Recommend to the Board any co-sourcing or outsourcing internal audit services.

E. Review the ERS Internal Audit Charter, including the independence and authority of the internal audit function, and its reporting obligations, qualifications, and staffing for the calendar year.

F. Review the annual Internal Audit Plan (and all major changes to the plan) and recommend its approval to the Board.

G. Review the reports and findings/recommendations of the Internal Auditors and the responses of the ERS Management, and monitors completion of Management's action plans.

H. Review a summary of major findings from completed internal audits and a progress report on the execution of the Internal Audit Plan and Management's implementation of action plans.

I. Meet separately with the Chief Audit Executive[1] and/or Management to discuss any matters that the Committee, or these parties, believe should be discussed privately.

J. Review the effectiveness of the internal audit functions, including compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

K. Report the results of the Internal Audit Plan to the Board. At the invitation of the Committee, the Internal Auditors will attend Board meetings to assist in reporting the results of the Internal Audit Plan and to answer questions.

Oversight Responsibilities Regarding External Audits:

A. Obtain a basic understanding of government accounting, financial reporting, auditing processes, and critical policies, and ensure that the financial leadership team is qualified and competent.

B. The State Office of the Auditor is responsible for the procurement of external auditing services and determines:

1. The External Auditor to be nominated;
2. Approval of the audit fees of the External Auditor; and
3. The discharge of the External Auditor.

C. Review prior year comments from the Government Finance Officers Association (GFOA) in its determination of the ERS's compliance with the requirements for the Certificate of Achievement in Financial Reporting, where applicable.

D. Review with Management and the External Auditor the draft financial statements to be filed with the GFOA.

E. Assess the integrity of the annual financial statements and related disclosures, including

[1] The Chief Audit Executive may be an individual employee or a firm contracted to outsource or co-source the internal audit function.

significant accounting judgements and estimates.

F. Review and examine the independence (including any potential conflict of interest) of the External Auditor, including a review of Management consulting services and related

fees provided by the External Auditor.

G. Review with the External Auditor the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

H. Review, at least annually, with Management and/or the External Auditor:

1. Scope of the proposed audit for the current fiscal year and the procedures to be utilized.
2. The ERS's annual financial statements and related footnotes.
3. The External Auditor's audit of the financial statements and audit report thereon.
4. The adequacy of the ERS's internal financial controls.
5. Any significant changes required in the External Auditor's scope and audit plan.
6. Other matters related to the conduct of the audit, which are to be communicated to the Committee under Generally Accepted Government Auditing Standards, including audit adjustments made and passed.
7. Judgments about the quality, not just the acceptability of accounting principles and the clarity of the financial disclosures.
8. Any difficulties encountered in the course of the external audits, including any disputes with Management, restrictions on the scope of their work or access to required information.

I. Consider and review with Management any significant findings during the fiscal year and recommendations of the External Auditor's and Management's responses thereto.

J. Meet separately with the External Auditor and/or Management to discuss any matters the Committee, or these parties, believe should be discussed privately with the Committee.

K. Report the results of the annual external audit to the Board. At the invitation of the Committee, the External Auditor will attend Board meetings to assist in reporting the results of the annual audit and to answer questions.

Oversight Responsibilities Regarding the Ethics and Compliance Program:

A. Annually review the goals and objectives adopted by the Board and, if appropriate, recommend any changes.

B. Periodically review the Ethics and Compliance Program Charter and make revisions, if necessary.

C. Periodically evaluate the program and exercise reasonable oversight with respect to the implementation and effectiveness of the program.

Other Oversight Responsibilities:

A. Report Committee actions, including any investigative actions, to the Board with such recommendations as the Committee may deem appropriate.

B. Monitor the implementation of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing or other matters, including mechanisms for anonymous submission of related concerns by ERS employees or the appropriate bodies.

C. Consult with the Attorney General on legal matters regarding financial transactions, fraud, or any other issue that could have a significant impact on the annual reports.

D. Obtain any information and training needed to enhance the Committee members' understanding of the role of Internal and External Auditors, the risk management process, internal controls and a certain level of familiarity in government financial reporting standards and processes.

E. Obtain the Board's approval of this Charter and, on an annual basis, evaluate the adequacy of this Charter and recommend any proposed changes to the Board for approval.

F. Confirm annually that the Committee has performed its responsibilities as outlined in this

Charter.

G. Coordinate with the Legislative Committee, Investment Committee, Governance Policy Committee, and Compensation Review Committee, as deemed necessary.

H. Perform such other functions as assigned by the Board.

VI. LIMITATIONS OF THE ADMINISTRATIVE AND AUDIT COMMITTEE'S ROLE

A. It is not the duty of the Committee to plan or conduct audits or to determine that the ERS's financial statements are complete, accurate, and in accordance with Generally Accepted Accounting Principles. This is the responsibility of Management and the External Auditors.

B. While the Committee is responsible for reviewing the ERS's policies and practices with respect to risk assessment and management, it is the responsibility of the Executive Director and Senior Management to determine the appropriate level of the ERS's exposure to risk.

Adopted and Approved by the Board of Trustees: June 12, 2012, August 10, 2020, April 11, 2022
Accepted by the Governance Policy Committee: March 28, 2022
Revised and Accepted by the Administrative & Audit Committee: July 21, 2020, February 9, 2022, February 22, 2023

Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
INTERNAL AUDIT CHARTER

I. INTRODUCTION

Internal auditing is an independent, objective assurance and consulting activity[1] designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

II. ROLE OF INTERNAL AUDIT

The Internal Audit function of the Employees' Retirement System ("ERS") is established by the ERS Board of Trustees ("Board") and its responsibilities are defined in this charter which is approved by the Board. The Chief Audit Executive ("CAE"), which may be an individual employee or a firm contracted to outsource or co-source the internal audit function, reports functionally to the ERS Administrative & Audit Committee ("Committee") and administratively to the ERS Executive Director ("ED") or designee. Approval from the Board is required for the hiring, compensation, removal, or replacement of the CAE.

The objectives of Internal Audit are to assist management and employees of the ERS in the effective discharge of their responsibilities by providing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and to promote effective internal controls at a reasonable cost.

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[1] As defined by the Institute of Internal Auditors, an *assurance* activity is an examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization, while *consulting* refers to advisory and related client service activities intended to add value and improve an organization's processes.

III. AUTHORITY

The CAE and the Internal Audit staff are authorized to:

A. Review all areas of the ERS;

B. Have full, free, and unrestricted access to all of the ERS's activities, records, physical property, and personnel necessary to complete their work;

C. Have full, free, and unrestricted access to the Board, Committee, ED, Deputy ED, Chief Investment Officer, Branch Chiefs, and all members of management;

D. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and

E. Obtain the necessary assistance of personnel in units of the ERS where they perform audits, as well as other specialized services from within or outside the ERS.

The CAE and the Internal Audit staff are not authorized to:

F. Perform any operational duties for the ERS;

G. Initiate or approve accounting transactions external to the internal audit function; nor

H. Direct the activities of any ERS employee not employed by the internal audit function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

IV. INDEPENDENCE & OBJECTIVITY

Internal auditors have no direct responsibility or any authority over any of the activities or operations that they review. They should not develop and install procedures, prepare records, or engage in activities that would normally be reviewed by internal auditors.

Internal Audit's objectivity is not adversely affected, however, by recommending standards of controls to be applied in developing systems and procedures, or by evaluating existing or planned financial and operating systems and related procedures, and making recommendations for modification and improvements thereto in order to improve controls and/or enhance operational effectiveness.

V. SCOPE OF WORK

The scope of work of the Internal Audit function is to determine whether the ERS's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the ERS's control process.
- Significant legislative or regulatory issues impacting the ERS are recognized and addressed properly.

Opportunities for improving management control, process efficiency, and the ERS's image may be identified during audits. They will be communicated to the appropriate level of management.

VI. RESPONSIBILITIES

Internal Audit is responsible for the following activities:

Standards

A. The CAE is responsible for ensuring that all activities of the internal audit function are carried out in compliance with the Institute of Internal Auditors' ("IIA") mandatory guidance including the "Definition of Internal Auditing," the "Code of Ethics," and

applicable standards found in the "International Standards for the Professional Practice of Internal Auditing."

B. Conduct a periodic risk assessment for the ERS and present the results to the Committee.

C. Develop a flexible annual Internal Audit Plan using an appropriate risk-based methodology, which considers risks or control concerns identified by management, and submit the plan to the Committee and the Board for review and approval.

D. Implement the annual Internal Audit Plan, as approved, including, and as appropriate, any special tasks or projects requested by management, the Committee, and the Board.

Ethics

E. Review the adequacy of the ERS's adopted code of conduct activities, including the process to receive, retain, and treat complaints received on accounting and auditing matters.

F. Monitor management's process for ensuring compliance with Hawaii Revised Statutes – Chapter 84, Standards of Conduct ("State Ethics Code").

Monitoring & Follow-Up

G. Evaluate any plans to correct reported conditions for satisfactory improvement of the business process.

H. Provide adequate follow-up to ensure corrective action is taken and evaluate its effectiveness before recommending closure of an issue.

I. Monitor and evaluate the effectiveness of the organization's risk management processes.

Reporting

J. Prepare and issue a written report following the conclusion of each audit and follow-up audit. This report shall include significant findings, recommendations to management, and management's action plan. A copy of the report will be forwarded to the Committee, ED, Deputy ED, Chief Compliance Officer, and appropriate members of management.

K. Inform and advise management and the Committee as to significant deficiencies or other substantive issues noted in the course of its activities.

L. Provide periodic reports on Internal Audit's progress on implementing the annual Internal Audit Plan, including management's progress on addressing previously reported matters, the impact of resource limitations, and significant interim changes.

M. On a regular basis, the CAE will meet separately with the Committee to discuss any matters that is deemed necessary by the Committee or Internal Audit.

Other

N. Conduct special examinations at the request of management or the Committee.

O. Perform consulting services, beyond internal auditing assurance services, to assist management in meeting its objectives. Examples may include facilitation, consultation on internal control improvement initiatives, training, and advisory services.

P. Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Committee of the results.

~~Q. Coordinate audit efforts with those of the ERS's external auditors and other regulatory agencies.~~

~~R.~~Q. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.

~~S.~~R. Keep the Committee informed of emerging trends and successful practices in internal auditing.

~~T.~~S. Review this Internal Audit Charter on a periodic basis to ensure the purpose, authority, and responsibilities of Internal Audit continue to be adequate in accomplishing its objectives. Modify as appropriate, and submit to the Committee and ED for review and approval.

Adopted and Approved by the Board of Trustees: June 12, 2012, April 11, 2022
Accepted by the Governance Policy Committee: March 28, 2022
Revised and Accepted by the Administrative & Audit Committee: June 9, 2020, February 22, 2023

Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
ETHICS & COMPLIANCE CHARTER

I. INTRODUCTION

The Employees' Retirement System ("ERS") Ethics and Compliance function is an independent monitoring, advisory, review, and reporting activity established within ERS to assist the organization in fulfilling its mission, vision, and fiduciary responsibilities by complying with laws, regulations, and ERS policies, for which oversight has been assigned. The function strives to ensure, promote and support an organizational culture that builds ethics and compliance awareness into the daily business processes for ERS. ERS's Compliance Program will accomplish this mission by monitoring business activities, policies and procedures, and by establishing an infrastructure that provides additional assurance to management that program areas are in compliance.

The Chief Compliance Officer ("CCO") is authorized to engage in independent reviews and activities for the development and implementation of a comprehensive system of operational controls to prevent illegal, unethical, or improper conduct and to implement compliance policies and procedures relating to standards of ethics and conduct for ERS' Board, employees, and vendors.

II. ROLES & RESPONSIBILITIES

Under the direction of the Executive Director ("ED") and oversight of the Board, the CCO:

A. Pursuant to the Ethics and Compliance Program Charter, manages day-to-day operation of the compliance program;

B. Monitor and assess the Policy Management Framework and oversee the completion of the Policy Lifecycle;

C. Assesses and audits ERS' controls and compliance with all applicable laws, statutes, administrative rules, regulations and best practices outlined in policies;

D. Collaborates with other divisions to implement compliance policies and procedures and to direct compliance issues to appropriate channels for investigation and resolution;

E. Collaborates with the Information Technology Branch Chief to build a strategic security program and coordinates all phases of security projects from requirement definition to design, architecture, implementation, testing, support, and maintenance;

F. Develops and periodically reviews and updates standards of ethics and conduct to ensure that continuing effective guidance is provided to the Board, management, and employees;

G. Coordinates with the Department of the Attorney General on legal matters so that ERS may faithfully execute it's duties and responsibilities;

H. Coordinate with IA to monitor and provide independent oversight over the implementation of the approved annual Internal Audit Plan;

I. Coordinates with management, the Committee, and the Board on any special tasks or projects aligned with the long-term interests of ERS;

J. Ensures that compliance issues and concerns within the organization are being appropriately evaluated, investigated, and resolved;

K. Coordinate audit efforts with those of the ERS's external auditors and other regulatory agencies;

L. Responds to alleged violations of rules, regulations, policies, procedures, and standards of ethics and conduct by evaluating and, if necessary, recommending the initiation of investigative procedures;

M. Develops and oversees a system for uniform handling of such violations;

N. Identifies potential areas of compliance vulnerability and risk;

O. Develops/implements corrective action plans for resolution of problematic issues and provides general guidance on how to avoid or deal with similar situations in the future;

P. Works in coordination with management and the Branch Chiefs to develop, maintain, and test the disaster recovery, business continuity, risk management and access control needs of the organization;

Q. Provides reports as directed or requested to keep the Board, Administrative and Audit Committee, and management informed of the operation and progress of compliance efforts;

R. Ensures proper reporting of violations or potential violations to duly authorized enforcement agencies as appropriate and/or required; and

S. Works with the Board, Administrative and Audit Committee, Internal Auditor, Department of the Attorney General, and management to develop an effective compliance training program for Board Members, managers, and employees, including appropriate introductory training for new employees.

In carrying out these responsibilities, the CCO shall:

A. Ensure objectivity and independence;

B. Remain free of actual or perceived conflicts of interest;

C. Discharge professional responsibilities with due care, competence, and diligence;.

D. Have access to all functions, records, property, and personnel necessary to complete responsibilities; and

E. Have full and free access to the Board and the Administrative & Audit Committee.

III. <u>CHARTER REVIEW & HISTORY</u>

The Board shall review this Charter at least every three years to ensure it remains relevant and appropriate.

Adopted and Approved by the Board of Trustees:
Accepted by the Governance Policy Committee:
Accepted by the Administrative & Audit Committee: February 22, 2023

Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
HUMAN RESOURCES COMMITTEE CHARTER

I. PURPOSE

The ~~purpose of the~~ Human Resources Committee ("Committee") ~~is to carry out the responsibilities delegated to it by the Board of Trustees~~ of the Employees' Retirement System ("ERS") of the State of Hawaii is a committee of the Board of Trustees ("Board"). Its primary function is to provide oversight of Human Resources Management~~,~~ and to determine and recommend ~~executive compensation and~~ compensation for executive and exempt positions in the ~~Employees' Retirement System of the State of Hawaii ("~~ERS~~")~~ for Board approval based on annual performance assessments.

II. COMMITTEE MEMBERSHIP

The Committee shall consist of no more than four (4) trustees. The members of the Committee shall be appointed 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 meet at such times and places as it deems necessary to fulfill its responsibilities. After each meeting, the Committee shall report to the Board regarding its actions and recommendations. The Committee may invite ERS officers and employees to its meetings as it deems appropriate. Except as otherwise directed by the Committee, the Executive Director, Deputy Executive Director, the Chief Investment Officer, and exempt Investment Office staff shall not be present at Committee meetings at which their compensation or performance is discussed or determined.

IV. AUTHORITY AND RESPONSIBILITIES

The Committee shall elect from its members a Chairperson and Vice Chairperson. The Committee shall have the following authority and responsibilities:

- To oversee the Executive Director's execution of the human resources management function within the State's policy framework and Budget & Finance's directives and guidance.
- To review and approve the annual goals and objectives of the Executive Director, Deputy Executive Director, and Chief Investment Officer. Successful accomplishment of the goals and objectives shall be the basis of compensation recommendations for the Executive Director and the Chief Investment Officer.
- Evaluate at least annually the Executive Director's, Deputy Executive Director's, and Chief Investment Officer's performance ~~in light of~~ relative to the goals and objectives ~~applicable to~~ of their positions and those of the ERS.
- The Committee shall make recommendations to the Board regarding the compensation of the Executive Director and Chief Investment Officer.
- The Committee shall consult with the Executive Director on the goals and objectives applicable to the Deputy Executive Director, Chief Investment Officer, and exempt Investment Office staff.
- To review at least annually the Executive Director's and Chief Investment Officer's ~~evaluations of the~~ performance evaluations of exempt Investment Office staff's ~~in light of the~~ goals and objectives ~~applicable to those~~ of staff's positions and those of the ERS.
- The Committee shall consult with the Executive Director and Chief Investment Officer regarding compensation recommendations for exempt Investment Office staff. The Committee shall make recommendations to the Board regarding the compensation of exempt Investment Office staff.
- ~~In evaluating and making recommendations regarding compensation, the Committee shall consider the results of the most recent performance reports applicable to the goals~~

~~and objectives of the ERS.~~

- To review with the Executive Director the implementation of performance goals and Committee recommendations at mid-year.
- To review and make recommendations to the Board regarding the adoption, amendment, or termination of employment agreements and severance arrangements or plans, including any benefits to be provided in connection with the appointment of the Executive Director and Chief Investment Officer.To develop and recommend to the Board for approval a succession plan ("Succession Plan"), to review the Succession Plan periodically with the Executive Director, to develop and evaluate potential candidates for the Executive Director, Deputy Executive Director, and Chief Investment Officer positions, and to recommend to the Board any changes to, and any candidates for succession under, the Succession Plan.
- To review the Training and Development Plan annually with the Executive Director and report on plan implementation to the Board.

V. OUTSIDE ADVISORS

The Committee shall have the authority, in its sole discretion, to select, retain and obtain the advice of compensation consultants as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. The Committee shall set the compensation, and oversee the work, of each compensation consultant. The Committee shall have the authority, in its sole discretion, to retain and obtain the advice and assistance of legal counsel and other advisors as it deems necessary to fulfill its duties and responsibilities under this Charter. The Committee shall set the compensation, and oversee the work, of its legal counsel and other advisors. The Committee shall not be required to implement or act consistently with the advice or recommendations of its compensation consultant(s), legal counsel, or other advisors, and the authority granted in this Part V shall not affect the ability or obligation of the Committee to exercise its own judgment in fulfillment of its duties under this Charter.

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 deems appropriate.

Adopted and Approved by the Board of Trustees: April 10, 2017, August 10, 2020, April 11, 2022
Accepted by the Governance Policy Committee: March 28, 2022
Revised by the Compensation Review Committee: March 23, 2020, February 25, 2021,
February 10, 2022, February 6, 2023

Attached for Reference:
Page 2, Human Resources Personnel Development and Retention Review, Internal Audit Report, September 2020, Report No.: STA011-XX-XX

The Performance Appraisal System is the annual employee review process required by the State of Hawaii (Section 76-41, Hawaii Revised Statutes). The purpose of the system is to evaluate the performance of employees in the civil service system and to improve employee performance. The ERS' managers and supervisors are responsible for performing and completing annual reviews of their staff member. Once completed, the employee performance appraisal forms are submitted to B&F. B&F is responsible for the tracking, collection and file maintenance of the performance appraisal form. Copies of each performance appraisal are provided to the ERS and individual employees. This process is the primary performance management tool used by the ERS to provide periodic feedback to its employees.

Human Resources Role Hierarchy for the Employees' Retirement System

Department of Human Resources Development (DHRD)

- Provides leadership, resources, and services to fully support the State in the recruitment, management and retention of a high-performing workforce.
- The B&F department and its administratively attached agencies are required to use and follow DHRD's forms, policies, procedures and guidelines related to Human Resources.

Budget and Finance Department (B&F)

The following HR activities are maintained by B&F:

- Creation and classification of new job positions
- Staffing and recruitment
- Retention and maintenance of HR files including employee personnel files and annual performance appraisals
- Provide oversight and guidance on HR matters

Administratively Attached Agencies to B&F

Office of the Public Defender

Hawaii Employer-Union Health Benefits Trust Fund

Employees' Retirement System

The following HR activities are maintained by the ERS:

- Employee training and development
- Succession planning
- Staffing and retention, where applicable
- Administration and completion of annual performance appraisals
- Compensation for exempt employees
- Maintenance of daily office work conditions, health and safety

The updated ERS Strategic Plan includes certain strategic HR initiatives. One of the Plan's Objectives is to "Maintain Plan Sustainability" and it includes the strategic initiative to "Optimize Operational Effectiveness." The measures and targets related to this initiative include:

- Develop, implement and maintain new and ongoing comprehensive staff training plan
  - Make job appropriate training available to all staff
- Institute an annual staff resources assessment, including a succession plan to maintain operational effectiveness
  - Assess staff resources annually, including a succession plan by FY 2020, updated annually

Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
GOVERNANCE POLICY COMMITTEE CHARTER

I. PURPOSE

The purpose of the Governance Policy Committee ("Committee") is to carry out the responsibilities delegated to it by the Board of Trustees of the Employees' Retirement System of the State of Hawaii ("Board") relating to research, implementation and monitoring of best practices for governance toward fulfillment of fiduciary duties, oversight of investment policies and guidelines, and the efficient, effective administration of the Employees' Retirement System of the State of Hawaii ("ERS").

II. COMMITTEE MEMBERSHIP

The Committee shall be composed of the Chairpersons of the standing committees of the Board. The Board Chair and Board Vice Chair will be the Governance Policy Committee Chair and Vice Chair, however, if the Board Vice Chair is not a chair of a standing committee, the Governance Committee will appoint the Board Vice Chair as a member and to serve as Vice Chair of the Committee. 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 meet at least one (1) time a year at such times and places as it deems necessary to fulfill its responsibilities. The Committee shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. The Committee may invite such members of management and advisors 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.

IV. AUTHORITY AND RESPONSIBILITIES

The Committee shall have the following authority and responsibilities regarding the administration of the ERS:

- To review annually the ERS's Governance Plans and Procedures.
- To assign and provide direction to the Executive Director and Deputy Executive Director on priorities and actions to successfully execute the governance responsibilities of the Administrative Branch.
- To review and draft governance policies, guidelines and recommendations for the Boards consideration.

The Committee shall have the following authority and responsibilities regarding ERS Legislation:

- To recommend and review proposed legislation relating to the ERS governance introduced by the ERS and by other parties, and to assign and provide direction for the Executive Director and Deputy Executive Director on priorities and actions to successfully support such legislative goals and responsibilities of the ERS.
- To recommend support, opposition, or monitor of proposed legislation relating to the ERS governance to the full Board for its consideration.

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 as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. The Committee shall have the authority, in its sole discretion, to obtain the advice and the 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.

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 deems appropriate.

Adopted and Approved by the Board of Trustees: December 9, 2019, September 14, 2020, April 11, 2022
Revised and Accepted by the Governance Policy Committee: July 24, 2020, March 28, 2022

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

I. PURPOSE

The ~~purpose of the~~ Legislative Committee ("Committee") ~~is to carry out the responsibilities delegated by the Board of Trustees~~ of the Employees' Retirement System <u>("ERS")</u> of the State of Hawaii <u>is a committee of the Board of Trustees</u> ("Board"). <u>Its primary function is</u> to assist the Board in fulfilling its fiduciary oversight responsibilities by reviewing and advising on recommendations on proposed legislation.

II. COMMITTEE MEMBERSHIP

The Committee shall consist of no fewer than three (3) trustees. The members of the Committee shall be appointed by the Board. The members of the Committee shall be appointed for a one-year term 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 meet at least one (1) time a year at such times and places as it deems necessary to fulfill its responsibilities. The Committee shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. The Committee may invite such members of management and advisors 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.

IV. AUTHORITY AND RESPONSIBILITIES

The members of the Committee shall elect its Chairperson and Vice Chairperson. The Committee shall have the following authority and responsibilities regarding ERS Legislation:

- To review and approve annually the ERS's goals and objectives applicable to the legislative process.
- To review proposed legislation introduced by the ERS and by other parties, and to assign and provide direction for the Executive Director and Deputy Executive Director on priorities and actions to successfully support the legislative goals and responsibilities of the ERS.
- To recommend support or opposition of proposed legislation to the full Board for its consideration.

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 as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. 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.

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 deems appropriate.

Adopted and Approved by the Board of Trustees on February 13, 2017, August 10, 2020, April 11, 2022
Accepted by the Governance Policy Committee: March 28, 2022
Revised and Accepted by the Legislative Committee: August 10, 2020, February 7, 2022, January 31, 2023