

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

OCTOBER 10, 2017

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

Trustees present: Mr. Jerome Rauckhorst, Vice Chair
Dr. Catherine Chan
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Wesley Machida
Mr. Colbert Matsumoto

Trustees excused: Mr. Vincent Barfield
Mr. Emmit Kane, Chair

Staff present: Ms. Kanoë Margol, Deputy Executive Director
Ms. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Retirement Benefits Manager
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Aaron Au, Investment Officer – Illiquid Markets
Mr. Howard Hodel, Investment Officer – Risk Management
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Lori Kim, Secretary
Ms. Cynthia Chen, Recording Secretary
Ms. Wanda Kugiya, Secretary

Staff excused Mr. Thomas Williams, Executive Director
Mr. Anthony Goo, Investment Officer

Attorneys present: Mr. Kyle Chang, Deputy Attorney General (Counsel for the Board)
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS Staff)

Guests present: Mr. Neil Rue, Pension Consulting Alliance, LLC
Mr. Razvan Remsing, Aspect Capital Limited
Mr. Emmet Fitzgerald, Aspect Capital Limited
Mr. Joe Kelly, Campbell & Company, L.P.

Public present: Mr. Benjamin Sadoski, UNITE HERE Local 5
Ms. Cecil Daniels, UNITE HERE Local 5
Mr. Christian Fern, University of Hawaii Professional Assembly
Mr. Robert Nishimoto, Senate Committee on Ways & Means
Mr. Janos Palko, Senate Committee on Ways & Means
Ms. Jennifer Woo, City and County of Honolulu Department of Human

Resources

QUORUM/CALL TO ORDER A quorum being present (Vice Chair Rauckhorst, and Trustees Chan, Ferguson-Miyamoto, Frane, Machida, and Matsumoto), Vice Chair Rauckhorst 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.

PUBLIC COMMENT Vice Chair Rauckhorst called for public comment. Mr. Benjamin Sadoski and Ms. Cecil Daniels of UNITE HERE Local 5 (Local 5) were present to provide comment regarding one of the ERS's investment managers, CBRE Strategic Partners U.S. Value 7, L.P (CBRE). Vice Rauckhorst asked Mr. Sadoski and Ms. Daniels to adhere to the three minute time limit.

Mr. Sadoski stated that Local 5 is part of the national UNITE HERE organization of the hospitality workers' union. Mr. Sadoski informed the Board of an ongoing campaign at the Hotel Pullman San Francisco Bay which is owned by CBRE. The workers of the Pullman have been asking CBRE to direct its management company to implement an agreement which would let hotel workers choose whether to join a union. Mr. Sadoski further stated that Local 5 is asking CBRE to allow the workers an option of an organizing agreement, so that they can decide on unionization, but that CBRE has remained unresponsive to Local 5's emails and calls.

Ms. Daniels presented an oral report on her past work history experiences of working both at hotels which had organizing agreements and hotels that did not.

Following their comments, Mr. Sadoski and Ms. Daniels left the meeting.

RECESS Vice Chair Rauckhorst called for a recess at 9:12 a.m. and announced that the meeting would reconvene following the Chapter 91 proceedings.

RECONVENE A quorum being present (Vice Chair Rauckhorst, and Trustees Chan, Ferguson-Miyamoto, Frane, Machida, and Matsumoto), Vice Chair Rauckhorst reconvened the meeting at 9:14 a.m.

APPROVAL OF MINUTES
- AUGUST 14, 2017
- SEPTEMBER 11, 2017 On a motion by Trustee Ferguson-Miyamoto, and seconded by Trustee Matsumoto, and unanimously carried, the Board approved the minutes of the August 14, 2017 and September 11, 2017 meetings, as presented.

RECESS Vice Chair Rauckhorst called for a recess at 9:15 a.m. for the Investment Committee meeting. Vice Chair Rauckhorst announced the meeting would reconvene upon conclusion of the Investment Committee meeting.

RECONVENE A quorum being present (Vice Chair Rauckhorst, and Trustees Chan, Ferguson-Miyamoto, Frane, Machida, and Matsumoto), Vice Chair Rauckhorst reconvened the meeting at 10:41 a.m.

ASPECT CAPITAL LIMITED

Mr. Razvan Remsing and Mr. Emmet Fitzgerald of Aspect Capital Limited (Aspect) gave an oral and written presentation on Aspect’s systematic alternative investment solution. The discussion covered an overview of Aspect’s program, personnel, the definition of trend following, research culture and philosophy, as well as and risk management.

Following their presentation, Mr. Remsing and Mr. Fitzgerald left the meeting.

CAMPBELL & COMPANY,
L.P.

Mr. Joe Kelly of Campbell & Company L.P. (Campbell) gave an oral and written presentation on Campbell’s systematic investment management firm. The discussion covered an overview of Campbell’s program, personnel, definition trend following, dynamic risk framework (DRT), and core trend (DRT) markets traded. The firm is based in Baltimore, Maryland specializing in absolute return for institutional clients for more than 40 years.

Following their presentation, Mr. Kelly left the meeting

RECESS

Vice Chair Rauckhorst called a 10-minute recess for lunch at 12:06 a.m.

RECONVENE

A quorum being present (Vice Chair Rauckhorst, and Trustees Chan, Ferguson-Miyamoto, Frane, Machida, and Matsumoto), Vice Chair Rauckhorst reconvened the meeting at 12:25 p.m.

LEGISLATIVE PROPOSALS
RELATING TO THE
EMPLOYEES’
RETIREMENT SYSTEM
FOR THE 2018
LEGISLATIVE SESSION

Ms. Donna Curry, Program Specialist, provided an overview of the ERS legislative proposals for the 2018 legislative session. Ms. Curry noted there were very few changes to the legislative proposals that were presented at the last Board meeting.

Ms. Curry presented BUF-009 regarding a change in the definition of ‘compensation’ for all ERS members in response to the Board’s concerns about “pension spiking,” preventing unexpected increases in benefits of members of the ERS, and further adding to the unfunded liability of the ERS.

- BUF -01(18) – Separate accounts for employer contribution advance payments
- BUF -02(18) – Amendment to retain unclaimed member benefits with ERS rather than escheating to State
- BUF -03(18) – Amendment for exempt and additional investment staff
- BUF -04(18) – Amendment to delete acquisition of service by payroll deduction July 1, 2020 (tax-qualification)
- BUF -05(18) – Update real estate investment provisions
- BUF -06(18) – Amendment to delay ERS Hawaii Domestic Relations Orders (HiDRO) implementation, to add applicability of HiDRO for deferred vested members and to limit the scope of payments to alternate payees
- BUF -08(18) – Amendment to limit service-connected disability retirement and accidental death benefit provisions to cover only members for whom required contributions are made by employee and/or employer
- BUF-09 (18) – Amendment to change the Definition of ERS Compensation after June 30, 2018.

- TBD(18) – Additional Defined Contribution Plan

Due to questions and concerns raised by the Board, staff will present an updated BUF-009 proposal to the Administrative and Legislature Committee for their review and recommendation.

EMPLOYER ASSESSMENT
ACTUARIAL FACTORS
2017

Ms. Donna Curry presented for the Board’s information and review the report prepared by ERS’s actuary Gabriel, Roeder, Smith and Company (GRS), providing the information for updated actuarial factors used to determine the employer assessment for the costs associated with significant non-base pay increases.

On a motion by Trustee Machida, and seconded by Trustee Frane, and unanimously carried, the Board accepted the Employer Assessment Actuarial Factors for 2017 as presented.

2017 ANNUAL PROXY
VOTING CERTIFICATION
RESULTS

Mr. Vijoy Chattergy, Chief Investment Officer, presented “receive and file” memorandum on 2017 annual proxy voting certification results.

Mr. Neil Rue of Pension Consulting Alliance, LLC (PCA), discussed research for best practices for proxy voting and will convey it to the Board at Investment Committee meeting or Board meeting in the next several months.

ENTER EXECUTIVE
SESSION

On a motion made by Trustee Machida, seconded by Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session at 12:49p.m.

- Pursuant to HRS § 92-5(a)(8), to consider information relating to the Request for Proposals for US principal protection mandate (Bank of Hawaii)
- Pursuant to HRS § 88-27(a)(1), to conduct discussions and deliberations and, if appropriate, to make decisions relating to the Employees' Retirement System real estate investment consultant, Aon Hewitt Investment Consulting, Inc.
- Pursuant to HRS § 92-5(a)(4), to update the Board on a pending securities class action lawsuit that the ERS is involved in, 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 such litigation.
- Pursuant to HRS § 92-5(a)(4), to update the Board on a pending securities class action lawsuit that the ERS is involved in, 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 such litigation.
- Pursuant to HRS § 92-5(a)(4), to update the Board a pending securities class action suit that the ERS is involved in, 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 such litigation.

EXECUTIVE SESSION,

PURSUANT TO HRS § 92-5(a)(8), TO CONSIDER INFORMATION RELATING TO THE REQUEST FOR PROPOSALS FOR US PRINCIPAL PROTECTION MANDATE (BANK OF HAWAII)

EXECUTIVE SESSION, PURSUANT TO HRS § 88-27(a)(1), TO CONDUCT DISCUSSIONS AND DELIBERATIONS AND, IF APPROPRIATE, TO MAKE DECISIONS RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM REAL ESTATE INVESTMENT CONSULTANT, AON HEWITT INVESTMENT CONSULTING, INC.

EXECUTIVE SESSION, PURSUANT TO HRS § 92-5(a)(4), TO UPDATE THE BOARD ON A PENDING SECURITIES CLASS ACTION LAWSUIT THAT THE ERS IS INVOLVED IN, 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 SUCH LITIGATION

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APPROVAL OF
EXECUTIVE SESSION
MINUTES
– AUGUST 14, 2017
– SEPTEMBER 11, 2017

EXIT EXECUTIVE SESSION

On a motion by Trustee Ferguson-Miyamoto, seconded by Trustee Machida, and unanimously carried the Board exited Executive Session at 1:12 p.m.

OPERATIONS REPORT –
SEPTEMBER 2017

Ms. Kanoë Margol, Deputy Executive Director, presented a “receive and file” written report on ERS operations. Ms. Margol discussed the enrollment percentage of standards and why we are not meeting them. Ms. Margol explained the reasons are due to EC&B staff reassignment to address backlog in the imaging area and an increase in enrollment.

ADJOURNMENT

On a motion made by Trustee Matsumoto, seconded by Trustee Machida, and unanimously carried, the Board adjourned the meeting at 1:15 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:cc