



GOV. MSG. NO. 1135

EXECUTIVE CHAMBERS  
HONOLULU

NEIL ABERCROMBIE  
GOVERNOR

April 23, 2014

The Honorable Donna Mercado Kim,  
President  
and Members of the Senate  
Twenty-Seventh State Legislature  
State Capitol, Room 409  
Honolulu, Hawaii 96813

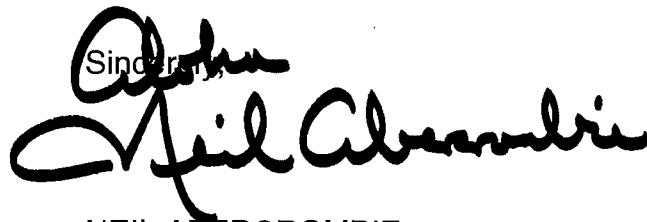
The Honorable Joseph M. Souki,  
Speaker and Members of the  
House of Representatives  
Twenty-Seventh State Legislature  
State Capitol, Room 431  
Honolulu, Hawaii 96813

Dear President Kim, Speaker Souki, and Members of the Legislature:

This is to inform you that on April 23, 2014, the following bill was signed into law:

HB2264

RELATING TO INVESTMENT AUTHORITY OF  
THE EMPLOYEES' RETIREMENT SYSTEM  
ACT 035 (14)

Signed  


NEIL ABERCROMBIE  
Governor, State of Hawaii

NEIL ABERCROMBIE

NEIL ABERCROMBIE

RECEIVED  
THE SENATE  
CLERK'S OFFICE  
STATE OF HAWAII

RECEIVED  
SENATE  
OFFICE OF THE PRESIDENT

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Approved by the Governor  
on APR 23 2014

ORIGINAL

ACT 035  
H.B. NO. 2204

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## A BILL FOR AN ACT

RELATING TO INVESTMENT AUTHORITY OF THE EMPLOYEES' RETIREMENT  
SYSTEM.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1 SECTION 1. Section 88-119, Hawaii Revised Statutes, is  
2 amended to read as follows:

3 "§88-119 Investments. Investments may be made in:

4 (1) Real estate loans and mortgages. Obligations (as  
5 defined in section 431:6-101) of any of the following  
6 classes:

7 (A) Obligations secured by mortgages of nonprofit  
8 corporations desiring to build multirental units  
9 (ten units or more) subject to control of the  
10 government for occupancy by families displaced as  
11 a result of government action;

12 (B) Obligations secured by mortgages insured by the  
13 Federal Housing Administration;

14 (C) Obligations for the repayment of home loans made  
15 under the Servicemen's Readjustment Act of 1944  
16 or under Title II of the National Housing Act;

1 (D) Other obligations secured by first mortgages on  
2 unencumbered improved real estate owned in fee  
3 simple; provided that the amount of the  
4 obligation at the time investment is made therein  
5 shall not exceed eighty per cent of the value of  
6 the real estate and improvements mortgaged to  
7 secure it, and except that the amount of the  
8 obligation at the time investment is made therein  
9 may exceed eighty per cent but no more than  
10 ninety per cent of the value of the real estate  
11 and improvements mortgaged to secure it; provided  
12 further that the obligation is insured or  
13 guaranteed against default or loss under a  
14 mortgage insurance policy issued by a casualty  
15 insurance company licensed to do business in the  
16 State. The coverage provided by the insurer  
17 shall be sufficient to reduce the system's  
18 exposure to not more than eighty per cent of the  
19 value of the real estate and improvements  
20 mortgaged to secure it. The insurance coverage  
21 shall remain in force until the principal amount  
22 of the obligation is reduced to eighty per cent  
23 of the market value of the real estate and

1 improvements mortgaged to secure it, at which  
2 time the coverage shall be subject to  
3 cancellation solely at the option of the board.  
4 Real estate shall not be deemed to be encumbered  
5 within the meaning of this subparagraph by reason  
6 of the existence of any of the restrictions,  
7 charges, or claims described in section 431:6-  
8 308;

9 (E) Other obligations secured by first mortgages of  
10 leasehold interests in improved real estate;  
11 provided that:

12 (i) Each leasehold interest at the time shall  
13 have a current term extending at least two  
14 years beyond the stated maturity of the  
15 obligation it secures; and

16 (ii) The amount of the obligation at the time  
17 investment is made therein shall not exceed  
18 eighty per cent of the value of the  
19 respective leasehold interest and  
20 improvements, and except that the amount of  
21 the obligation at the time investment is  
22 made therein may exceed eighty per cent but  
23 no more than ninety per cent of the value of

1                   the leasehold interest and improvements  
2                   mortgaged to secure it;  
3                   provided further that the obligation is insured  
4                   or guaranteed against default or loss under a  
5                   mortgage insurance policy issued by a casualty  
6                   insurance company licensed to do business in the  
7                   State. The coverage provided by the insurer  
8                   shall be sufficient to reduce the system's  
9                   exposure to not more than eighty per cent of the  
10                  value of the leasehold interest and improvements  
11                  mortgaged to secure it. The insurance coverage  
12                  shall remain in force until the principal amount  
13                  of the obligation is reduced to eighty per cent  
14                  of the market value of the leasehold interest and  
15                  improvements mortgaged to secure it, at which  
16                  time the coverage shall be subject to  
17                  cancellation solely at the option of the board;  
18                  (F) Obligations for the repayment of home loans  
19                  guaranteed by the department of Hawaiian home  
20                  lands pursuant to section 214(b) of the Hawaiian  
21                  Homes Commission Act, 1920; and  
22                  (G) Obligations secured by second mortgages on  
23                  improved real estate for which the mortgagor

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1           procures a second mortgage on the improved real  
2           estate for the purpose of acquiring the  
3           leaseholder's fee simple interest in the improved  
4           real estate; provided that any prior mortgage  
5           shall not contain provisions that might  
6           jeopardize the security position of the  
7           retirement system or the borrower's ability to  
8           repay the mortgage loan.

9           The board may retain or dispose of the real estate,  
10          including leasehold interests therein, as it may  
11          acquire by foreclosure of mortgages or in enforcement  
12          of security, or as may be conveyed to it in  
13          satisfaction of debts previously contracted [~~;~~ ~~provided~~  
14          ~~that all the real estate, other than leasehold~~  
15          ~~interests, shall be sold within five years after~~  
16          ~~acquiring the same, subject to extension by the~~  
17          ~~governor for additional periods not exceeding five~~  
18          ~~years each, and that all the leasehold interests shall~~  
19          ~~be sold within one year after acquiring the same,~~  
20          ~~subject to extension by the governor for additional~~  
21          ~~periods not exceeding one year each;]~~ in the same  
22          manner as other investments in interest in real  
23          property authorized by this section;

1           (2) Government obligations, etc. Obligations of any of  
2           the following classes:

3           (A) Obligations issued or guaranteed as to principal  
4           and interest by the United States or by any state  
5           thereof or by any municipal or political  
6           subdivision or school district of any of the  
7           foregoing; provided that principal of and  
8           interest on the obligations are payable in  
9           currency of the United States; or sovereign debt  
10          instruments issued by agencies of, or guaranteed  
11          by foreign governments;

12          (B) Revenue bonds, whether or not permitted by any  
13          other provision hereof, of the State or any  
14          municipal or political subdivision thereof,  
15          including the board of water supply of the city  
16          and county of Honolulu, and street or improvement  
17          district bonds of any district or project in the  
18          State; and

19          (C) Obligations issued or guaranteed by any federal  
20          home loan bank, including consolidated federal  
21          home loan bank obligations, the Home Owner's Loan  
22          Corporation, the Federal National Mortgage



- 1                    Association, or the Small Business
- 2                    Administration;
- 3            (3) Corporate obligations. Below investment grade or
- 4                    nonrated debt instruments, foreign or domestic, in
- 5                    accordance with investment guidelines adopted by the
- 6                    board;
- 7            (4) Preferred and common stocks. Shares of preferred or
- 8                    common stock of any corporation created or existing
- 9                    under the laws of the United States or of any state or
- 10                   district thereof or of any country;
- 11           (5) Obligations eligible by law for purchase in the open
- 12                   market by federal reserve banks;
- 13           (6) Obligations issued or guaranteed by the International
- 14                   Bank for Reconstruction and Development, the Inter-
- 15                   American Development Bank, the Asian Development Bank,
- 16                   or the African Development Bank;
- 17           (7) Obligations secured by collateral consisting of any of
- 18                   the securities or stock listed above and worth at the
- 19                   time the investment is made at least fifteen per cent
- 20                   more than the amount of the respective obligations;
- 21           (8) Insurance company obligations. Contracts and
- 22                   agreements supplemental thereto providing for
- 23                   participation in one or more accounts of a life

1 insurance company authorized to do business in Hawaii,  
2 including its separate accounts, and whether the  
3 investments allocated thereto are comprised of stocks  
4 or other securities or of real or personal property or  
5 interests therein;

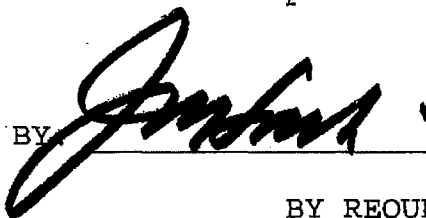
- 6 (9) Interests in real property. Interests in improved or  
7 productive real property in which, in the informed  
8 opinion of the board, it is prudent to invest funds of  
9 the system. For purposes of this paragraph, "real  
10 property" includes any property treated as real  
11 property either by local law or for federal income tax  
12 purposes. Investments in improved or productive real  
13 property may be made directly or through pooled funds,  
14 including common or collective trust funds of banks  
15 and trust companies, group or unit trusts, limited  
16 partnerships, limited liability companies, investment  
17 trusts, title-holding corporations recognized under  
18 section 501(c) of the Internal Revenue Code of 1986,  
19 as amended, similar entities that would protect the  
20 system's interest, and other pooled funds invested on  
21 behalf of the system by investment managers retained  
22 by the system;

- 1           (10) Other securities and futures contracts. Securities  
2           and futures contracts in which in the informed opinion  
3           of the board, it is prudent to invest funds of the  
4           system, including currency, interest rate, bond, and  
5           stock index futures contracts and options on the  
6           contracts to hedge against anticipated changes in  
7           currencies, interest rates, and bond and stock prices  
8           that might otherwise have an adverse effect upon the  
9           value of the system's securities portfolios; covered  
10          put and call options on securities; and stock; whether  
11          or not the securities, stock, futures contracts, or  
12          options on futures are expressly authorized by or  
13          qualify under the foregoing paragraphs, and  
14          notwithstanding any limitation of any of the foregoing  
15          paragraphs (including paragraph (4)); and
- 16          (11) Private placements. Investments in institutional  
17          blind pool limited partnerships, limited liability  
18          companies, or direct investments that make private  
19          debt and equity investments in privately held  
20          companies, including but not limited to investments in  
21          Hawaii high technology businesses or venture capital  
22          investments that, in the informed opinion of the  
23          board, are appropriate to invest funds of the system.

1 In evaluating venture capital investments, the board  
 2 shall consider, among other things, the impact an  
 3 investment may have on job creation in Hawaii and on  
 4 the state economy. The board shall report annually to  
 5 the legislature on any Hawaii venture capital  
 6 investments it has made; provided that if the board  
 7 determines it is not prudent to invest in any Hawaii  
 8 venture capital investments the board shall report the  
 9 rationale for the decision. The board, by January 1,  
 10 2008, shall develop criteria to determine the amount  
 11 of funds that may be prudently invested in Hawaii  
 12 private placement investments."

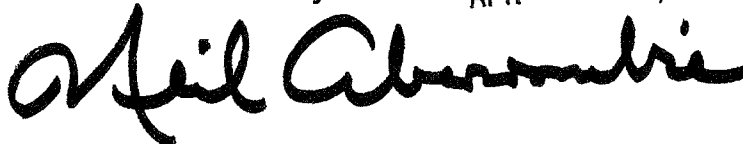
13 SECTION 2. Statutory material to be repealed is bracketed  
 14 and stricken. New statutory material is underscored.

15 SECTION 3. This Act shall take effect upon its approval.

16  
 17 INTRODUCED BY   
 18 BY REQUEST

19 JAN 21 2014

APPROVED this 23 day of APR, 2014



GOVERNOR OF THE STATE OF HAWAII