

REGULAR MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
HELD ON MONDAY, MARCH 12, 2012
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII

ROLL CALL

Trustees present: Mr. Colbert Matsumoto, Chair
Mr. Emmit Kane
Mr. Vincent Barfield
Ms. Jackie Ferguson-Miyamoto
Ms. Pilialoa Lee Loy
Mr. Jerome Rauckhorst
Mr. Kalbert Young

Trustee excused: Mr. Wayne Yamasaki

Attorney present: Ms. Diane Kishimoto, Deputy Attorney General

Staff present: Mr. Wesley Machida, Administrator
Ms. Kanoe Margol, Assistant Administrator
Mr. Rodney June, Chief Investment Officer
Mr. Vijoy Chattergy, Investment Specialist
Ms. Donna Curry, Program Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Lori Misaki, Information System Staff
Ms. Jaime Hirata, Recording Secretary
Ms. Wanda Kugiya, Secretary

Guests present: Mr. Tracy Ban, State of Hawaii Department of Budget & Finance,
Administrative and Research Office

Mr. Tenari Ma'afala, President, State of Hawaii Organization of
Police Officers (SHOPO)

Ms. Lori Misaki, Information Technology Specialist, Employees'
Retirement System of the State of Hawaii (ERS)

Mr. Mark Nakagawa, Assistant Chief of the Administrative Bureau
of the Honolulu Police Department (HPD)

Mr. Neil Rue) Pension Consulting Alliance, Inc.
Ms. Kay Ceserani

Mr. Michael Humphrey) Courtland Partners Ltd.
Ms. Lou Canlas

Mr. Timothy Jenkins) Angelo, Gordon and Company
Mr. Reid Liffmann

Guests present:
(continued)

Ms. Katie Stokel) Abbott Capital Management
Mr. Johnathan Roth

Mr. Mark Oczkus) Prudential Real Estate Investors
Mr. Noah Levy

Mr. Andy Betz) Macquarie Funds Management Inc.
Mr. Brad Mytton

CALL TO ORDER

A quorum being present, Chair Matsumoto called the regular meeting of the Board of Trustees of the Employees' Retirement System (Board) to order at 9:25 a.m.

AMENDMENT OF THE AGENDA

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Rauckhorst, and unanimously carried, the Board amended the agenda to include the following item in Executive Session:

- pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on proposed investments in AG Core Plus Fund III, L.P. and Senior Housing Partnership Fund IV, L.P.

AMENDMENTS TO AND COMPILATION OF CHAPTER 6-28 HAWAII ADMINISTRATIVE RULES, OPERATING PROCEDURES TO ENSURE COMPLIANCE WITH CERTAIN FEDERAL TAX LAW REQUIREMENTS

Mr. Wesley Machida, Employees' Retirement System Administrator, presented proposed amendments to chapter 6-28, Hawaii Administrative Rules (HAR), Operating Procedures to Ensure Compliance with Certain Federal Tax Law Requirements. The proposed amendments include:

- (1) changes to the minimum distributions rules and direct rollover rules required by the federal Pension Protection Act of 2006, as further amended by the Worker, Retiree, and Employer Recovery Act of 2008
- (2) new subchapter with actuarial assumptions for applying the annual benefit limits under section 415(b) of the Internal Revenue Code

The Administrator and Deputy Attorney General Diane Kishimoto noted that the adoption of the proposed amendments is required to maintain the status of the ERS as a tax-qualified public pension plan. Pursuant to section 88-22.5, Hawaii Revised Statutes (HRS), the proposed amendments may be adopted by the Board without the public notice, public hearing, or gubernatorial approval required by chapter 91, HRS.

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Barfield, and unanimously carried, the Board approved the proposed amendments to chapter 6-28, HAR, as circulated.

LEGISLATIVE PROPOSALS AFFECTING THE EMPLOYEES' RETIREMENT SYSTEM

The Administrator provided an update on the 2012 legislative proposals affecting the ERS:

- SB 2749/HB 2487-- Act 163 Housekeeping
 - House Labor Committee removed the provision harmonizing the age and service requirements for current ERS members who become judges after June 30, 2012 with other current ERS members.
- SB 2750/HB 2488 -- Anti-spiking provision
 - Changed effective date to July 1, 2050
 - Ways and Means Committee discussed including a provision to have the ERS Board follow ERISA standards
 - ERS asked to the Actuary to provide a report on treating overtime as straight time and not time and a half for purposes of ERS benefits
- SB 2751/HB 2489 -- ERS Board of Trustees investment experience requirement
 - No changes

The Administrator also reported that SCR34/SR 21, requesting the auditor to conduct an audit of State departments with high rates of additional compensation paid to employees, has been introduced and is under consideration.

CASH LIMITATIONS POLICY

Mr. Rod June, ERS' Chief Investment Officer (CIO) presented for the Board's consideration a proposed Cash Limitations Policy (Policy) for inclusion in the ERS Investment Policies and Procedures Manual. The purpose of the policy is to limit the amount of cash holdings of public equity managers to ensure that the managers are fully exposed to the respective markets within their prescribed strategy. Approval of the Policy would ensure that public investment managers remain fully invested at all times so that 1) total fund remains closely aligned to total policy target and that 2) the management fees are aligned with the assigned mandates.

The proposed policy, which was recommended by Pension Consulting Alliance, Inc. (PCA), limits cash holdings by equity managers to 5% of the manager's portfolio. The Investment Committee recommends adoption of the proposed policy.

The during discussion of the proposed policy, the Trustees suggested that the Policy language be amended to provide managers with flexibility to seek exemption or variation from this guideline via prior written approval from the ERS CIO.

CASH LIMITATIONS POLICY
(CONTINUED)

On a motion made by Mr. Barfield, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board approved adoption of a policy limiting the cash holdings of public equity managers to 5% of the manager's portfolio provided that exemption or variation from the policy may be made with prior written approval from the ERS CIO; however, final action on the policy was deferred until specific language with respect to the exemption or variation is presented to the Board.

ACTUARIAL VALUATION REPORT

The Administrator presented the 86th annual actuarial valuation of the ERS as of June 30, 2011, certified by the ERS' actuary, Gabriel Roeder Smith and Company (GRS). Highlights included:

- Funding period changed from 41.3 years to 25 years
- Actuarial asset method is still deferring \$300 million in deferred investment losses
- Funded ratio based on market value of assets is still only 58%
- Low levels of employment and decreased payroll have impacted the amount of contributions into the ERS
- Unfunded actuarial accrued liability (UAAL) of \$8.154 in 2011 increased from \$7.138 billion in 2010 due to the adoption of new actuarial assumptions, including the reduction of the investment return assumption from 8.00% to 7.75%

On a motion made by Mr. Rauckhorst, seconded by Mr. Kane, and unanimously carried, the Board accepted the 86th annual actuarial evaluation report of the ERS as of June 30, 2011.

ADMINISTRATOR'S UPDATE OF THE ERS
ACTION PLAN

The Administrator and Ms. Lori Misaki, ERS Information System staff member, presented a web demonstration of the ERS' new website that is expected to go "live" by the end of the April 2012.

STATE OF HAWAII ORGANIZATION OF
POLICE OFFICERS – PRESENTATION
RE: LEGISLATION

Mr. Tenari Ma'afala, President of the State of Hawaii Organization of Police Officers (SHOPO), and Mr. Mark Nakagawa, Assistant Chief of the Administrative Bureau of the Honolulu Police Department (HPD), reported on the potential impact of the "anti-spiking" legislative proposal on police officers and police operations.

(Ms. Lee Loy arrived at the meeting at 11:06 a.m.)

Chair Matsumoto and the Administrator thanked the presenters and Mr. Ma'afala and Mr. Nakagawa left the meeting.

ENTRY INTO EXECUTIVE SESSION

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session:

- pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on Abbott Capital Management, LLC 2011 Tactical Plan;
- pursuant to HRS § 92-5(a)(8), to hear a status report from Macquarie Funds Group (USA) Inc. on HiTIP.; and
- pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on proposed investments in AG Core Plus Fund III, L.P. and Senior Housing Partnership Fund IV, L.P.

EXECUTIVE SESSION TO CONSIDER, DELIBERATE, AND ACT ON ABBOTT CAPITAL MANAGEMENT, LLC 2011 TACTICAL PLAN

EXECUTIVE SESSION TO HEAR A STATUS REPORT FROM MACQUARIE FUNDS GROUP INC. ON THE HAWAII TARGETED INVESTMENT PROGRAM (HiTIP)

EXECUTIVE SESSION TO CONSIDER, DELIBERATE, AND ACT ON PROPOSED INVESTMENTS IN AG CORE PLUS FUND III, L.P. AND SENIOR HOUSING PARTNERSHIP FUND IV, L.P.

EXIT EXECUTIVE SESSION

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Rauckhorst, and unanimously carried, the Board exited from Executive Session.

NEXT MEETING

Chair Matsumoto announced that the next Board meeting is scheduled for April 10, 2012.

MEETING ADJOURNED

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Barfield, and unanimously carried, the meeting was adjourned at 1:45 p.m.

**REDACTED
SIGNATURE**

Wesley K. Machida
Administrator

WKM: jh