

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM (ERS)
OF THE STATE OF HAWAII
MONDAY, AUGUST 13, 2012
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII

ROLL CALL

Trustees present:

Mr. Colbert Matsumoto, Chair
Mr. Emmit Kane, Vice Chair
Mr. Vincent Barfield
Ms. Jackie Ferguson-Miyamoto
Ms. Piliialoha Lee Loy
Mr. Jerome Rauckhorst
Mr. Wayne Yamasaki
Mr. Kalbert Young

Attorney present:

Mr. Brian Aburano, Deputy Attorney General
Ms. Diane Kishimoto, Deputy Attorney General

Staff present:

Mr. Wesley Machida, Administrator
Ms. Kanoe Margol, Assistant Administrator
Mr. Vijoy Chattergy, Interim Chief Investment Officer
Mr. Ajay Umanikar, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Donna Curry, Program Specialist
Ms. Jaime Hirata, Recording Secretary
Ms. Wanda Kugiya, Secretary

Guests present:

Ms. Michelle Gandhi) BlackRock, Inc.
Mr. Martin Hegarty

Mr. John Linder) Pension Consulting Alliance, Inc.
Mr. Neil Rue

CALL TO ORDER/QUORUM

A quorum being present, Chair Matsumoto called the meeting of the Board of Trustees of the Employees' Retirement System of the State of Hawaii (the Board) to order at 9:41 a.m.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Yamasaki, seconded by Trustee Kane, and unanimously carried, the Board amended the agenda to add the following item in executive session:

- Pursuant to HRS § 92-5(a)(8), to consider the list of finalists for the Active U.S. Large-Cap Growth Equity manager search.

APPROVAL OF MINUTES OF THE BOARD
MEETING OF JANUARY 9, 2012 AND
JANUARY 10, 2012

On a motion made by Trustee Lee Loy, seconded by Trustee Barfield, and unanimously carried, the Board approved the minutes of the following Board meetings:

- January 9, 2012; and
- January 10, 2012.

ENTRY INTO EXECUTIVE SESSION

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered into executive session:

- Pursuant to HRS § 92-5(a)(8), to hear a status report and consider any action from Heitman Capital Management regarding the Royal Ka'anapali Golf Courses;
- Pursuant to HRS § 92-5(a)(8), to review preliminary reports and recommendations regarding actuarial assumptions;
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding specific overpayment cases;
- Pursuant to HRS § 92-5(a)(2) and (8), to consider the hire of a Chief Investment Officer;
- Pursuant to HRS § 92-5(a)(8), to approve executive session minutes of the Board meetings of January 9, 2012 and January 10, 2012; and
- Pursuant to HRS § 92-5(a)(8), to consider the list of finalists for the Active U.S. Large-Cap Growth Equity manager search.

EXECUTIVE SESSION TO APPROVE THE
EXECUTIVE SESSION MINUTES OF THE
BOARD MEETINGS OF JANUARY 9, 2012
AND JANUARY 10, 2012

(Trustee Kane left the room.)

EXECUTIVE SESSION TO HEAR A
STATUS REPORT AND CONSIDER ANY
ACTION FROM HEITMAN CAPITAL
MANAGEMENT REGARDING THE
ROYAL KA'ANAPALI GOLF COURSES

(Trustee Kane returned to the meeting.)

EXECUTIVE SESSION TO CONSIDER THE LIST OF FINALISTS FOR THE ACTIVE U.S. LARGE-CAP GROWTH EQUITY MANAGER SEARCH

EXECUTIVE SESSION TO REVIEW PRELIMINARY REPORTS AND RECOMMENDATIONS REGARDING ACTUARIAL ASSUMPTIONS

(Mr. Rue and Mr. Linder left the room.)

EXECUTIVE SESSION TO CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES REGARDING SPECIFIC OVERPAYMENT CASES

(All ERS staff except the Administrator was excused from the meeting and left the room.)

(Mr. Rue and Mr. Linder returned to the meeting.)

EXECUTIVE SESSION TO CONSIDER THE HIRE OF A CHIEF INVESTMENT OFFICER

(All ERS staff returned to the meeting.)

EXIT EXECUTIVE SESSION

On a motion made by Trustee Lee Loy, seconded by Trustee Rauckhorst, and unanimously carried, the Board exited from executive session.

RETENTION OF PENSION TAX COUNSEL

Mr. Wesley Machida, ERS Administrator, reported that the ERS was only able to obtain a six-month extension of the contract with D'Amato & Maloney LLP for tax counsel services. The contract therefore expires on December 31, 2012. The Administrator requested the Board's approval to procure a contract to retain tax counsel for three years with two one-year extensions for up to \$50,000 per year.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Lee Loy, and unanimously carried, the Board authorized the retention of a special deputy attorney general to provide tax counsel services for the ERS for 3 years with two one-year extensions for up to \$150,000 for the first three years of the contract.

PRESENTATION BY PENSION
CONSULTING ALLIANCE ON THE ERS
INVESTMENT PORTFOLIO
PERFORMANCE AND RISK
MANAGEMENT REPORTS FOR THE
QUARTERS ENDING JUNE 30, 2012

Mr. Neil Rue of Pension Consulting Alliance (PCA), ERS's general investment consultant, presented PCA's findings and recommendations on the ERS investment portfolio performance and for the quarter ending June 30, 2012. Mr. John Linder presented PCA's Risk Management Report for the quarter ended June 30, 2012. Highlights from PCA's reports included:

- Aggregate portfolio value of \$11.3 billion as of June 30, 2012.
- Portfolio decreased by \$288.4 million during the first quarter.
- Portfolio decreased by \$377.8 million over the last year.
- Return of -1.9%, trailing the policy benchmark by 30 basis points as of June 30, 2012.

(Deputy Attorney General Brian Aburano left the meeting.)

PRESENTATION BY BLACKROCK ON
THE ERS'S GLOBAL INFLATION-LINKED
BOND PORTFOLIO

Mr. Chattergy introduced Ms. Michelle Gandhi and Mr. Martin Hegarty of BlackRock, Inc. (BlackRock). BlackRock manages the ERS's global inflation-linked bond portfolio which is part of the real return asset class. Mr. Hegarty reported on the composition and performance of the portfolio.

There being no further discussion, Ms. Gandhi and Mr. Hegarty exited the room and did not return for the remainder of the meeting.

UPDATE ON THE 2012 REAL ESTATE
SYMPOSIUM

The Administrator and Mr. Chattergy reported on the status of the plans for the ERS' 2012 Real Estate Symposium, tentatively scheduled for October 11-12, 2012. They noted that a location for the event has yet to be secured and distributed a tentative agenda updated as of August 6, 2012, for the Board's information.

OPERATIONS REPORT

The Administrator reported on the status of ERS operations for June through July 2012.

NEXT BOARD MEETING
– AUGUST 21, 2012

Chair Matsumoto announced that the next Board meeting is scheduled for August 21, 2012 (expected to continue through August 22, 2012). The Administrator reminded the Board and ERS staff that this is a special Board meeting primarily to consider the due diligence site inspection reports of the finalists for the Active U.S. Large Cap Growth Equity manager search and to interview the finalists, and, if appropriate, to select up to two managers.

Chair Matsumoto also noted that, after the interviews with the finalists, the Administrator would be evaluated and requested the Administrator to provide the Board with a report of his accomplishments and future goals for their use in evaluating the Administrator.

ADJOURNMENT

On a motion made by Trustee Kane, seconded by Trustee Lee Loy, and unanimously carried, the Board adjourned the meeting at 1:26 p.m.

**REDACTED
SIGNATURE**

Wesley K. Machida
Administrator

WKM: jh