

AMENDED
MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM (ERS)
OF THE STATE OF HAWAII
MONDAY, SEPTEMBER 10, 2012
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII

ROLL CALL

Trustees present: Mr. Colbert Matsumoto, Chair
Mr. Emmet Kane, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Ms. Piliialoha Lee Loy
Mr. Wayne Yamasaki
Mr. Kalbert Young

Trustees excused: Mr. Vincent Barfield
Mr. Jerome Rauckhorst

Attorney present: 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: Mr. John McGurk) Almanac Realty
Mr. John Ryan

Mr. Pawan Chaturvedi) Altius Associates

Mr. Vance Maddocks) CB Richard Ellis Investors, LLC

Ms. Lou Canlas) Courtland Partners
Mr. Dan Moore

Mr. Lewis Ward) Gabriel Roeder Smith & Company

Mr. Mike Chandra) Pacific Investment Management Company
Mr. Rick Fulford

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

Mr. Joseph Carieri) Western Asset Management Company
Mr. Christopher Orndorff

CALL TO ORDER/QUORUM

A quorum being present, Chair Matsumoto called the regular meeting of the Board of Trustees of the Employees' Retirement System (the Board) to order at 9:31 a.m.

APPROVAL OF BOARD MEETING MINUTES

- FEBRUARY 13, 2012
- MARCH 12, 2012
- AUGUST 21-22, 2012

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes for the Board meetings of:

- February 13, 2012;
- March 12, 2012; and
- August 21-22, 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:

- To consider the approval of executive session minutes for the Board meetings of February 13, 2012, March 12, 2012, and August 21-22, 2012

EXIT EXECUTIVE SESSION

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

(Trustee Young arrived at the meeting at this time.)

PRESENTATION BY WESTERN ASSET MANAGEMENT COMPANY ON THE ERS'S CORE PLUS FIXED-INCOME PORTFOLIO

Mr. Joseph Carieri and Mr. Christopher Orndorff of Western Asset Management Company (WAMCO) reported on the performance of the ERS's core plus fixed income portfolio managed by WAMCO as of July 31, 2012.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board amended the agenda to:

- amend item 5 of New Business by deleting reference to Covered Calls and Real Return Asset Classes – the item will read “Asset Allocation Ranges”; and
- Include in New Business the following: Short-term exemption from gross foreign currency exposure limitation policy for Western Asset Management Company.

PRESENTATION BY PACIFIC INCOME MANAGEMENT COMPANY ON THE ERS'S CORE FIXED-INCOME PORTFOLIO

Mr. Michael Chandra and Mr. Richard Fulford of Pacific Income Management Company (PIMCO) reported on the performance of the ERS's core fixed income portfolio managed by PIMCO as of July 31, 2012.

SHORT-TERM EXEMPTION FROM
GROSS FOREIGN CURRENCY
EXPOSURE LIMITATION POLICY FOR
WESTERN ASSET MANAGEMENT
COMPANY

The CIO presented a request from Western Asset Management Company (WAMCO) for a temporary exemption from the investment policy that limits gross foreign currency exposure to 30% of the assets under management to allow WAMCO to lock-in profits and reduce investment risk. The gross currency exposure will be more than 30% but less than 40% and will be for fourteen days (September 7 – 20).

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board approved WAMCO's request for short-term exemption from the ERS's gross foreign currency exposure limitation policy.

ENTRY TO EXECUTIVE SESSION

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

- Pursuant to HRS § 92-5(a)(8), to hear a status report regarding the Royal Ka'anapali Golf Courses and to consider, deliberate, and act on any proposals from Heitman Capital Management;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision regarding investment in Almanac Realty Securities VI, L.P.;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision regarding investment in CB Richard Ellis Investors, LLC;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision on Consent on Ownership Structure of the Mesa West Capital Management platform;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to adopt Altius Associates private equity program policy recommendations;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to act on the selection of the Large-Cap Growth Passive manager and Large-Cap Value Passive manager; and
- 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.

(Trustee Kane left the room. Ms. Lou Canlas and Mr. Dan Moore of Courtland Partners, ERS's real estate investment consultant, entered

the room.)

EXECUTIVE SESSION TO HEAR A STATUS REPORT REGARDING THE ROYAL KA'ANAPALI GOLF COURSES AND TO CONSIDER, DELIBERATE, AND ACT ON ANY PROPOSALS FROM HEITMAN CAPITAL MANAGEMENT

(Trustee Kane returned to the meeting.)

EXECUTIVE SESSION TO CONSIDER AND, IF APPROPRIATE, TO MAKE A DECISION REGARDING INVESTMENT IN ALMANAC REALTY SECURITIES VI, L.P.

EXECUTIVE SESSION TO CONSIDER AND, IF APPROPRIATE, TO MAKE A DECISION REGARDING INVESTMENT IN CB RICHARD ELLIS INVESTORS, LLC.

EXECUTIVE SESSION TO CONSIDER AND, IF APPROPRIATE, TO MAKE A DECISION ON, MESA WEST SOLICITATION OF CONSENT ON OWNERSHIP STRUCTURE OF THE MESA WEST CAPITAL MANAGEMENT PLATFORM

EXECUTIVE SESSION TO CONSIDER AND, IF APPROPRIATE, TO ADOPT ALTIUS ASSOCIATES PRIVATE EQUITY PROGRAM POLICY RECOMMENDATIONS

EXECUTIVE SESSION TO CONSIDER AND, IF APPROPRIATE, TO ACT ON THE SELECTION OF THE LARGE-CAP GROWTH PASSIVE MANAGER AND LARGE-CAP VALUE PASSIVE MANAGER

EXECUTIVE SESSION 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.

EXIT EXECUTIVE SESSION

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

ACT 153 ACTUARIAL FACTORS FOR DETERMINING EMPLOYER ASSESSMENT AND UPDATED ACTUARIAL OPTION FACTORS

Mr. Lewis Ward of Gabriel Roeder Smith and Company (GRS) reported on Act 153 actuarial factors for determining employer assessment and the updated actuarial option factors.

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto and unanimously carried, the Board approved the following:

- Use of separate actuarial factors for males and females and for teachers, general employees, and police and fire employees will be used for determining employer assessments under Act 153, Session Laws of Hawaii 2012;
- The actuarial factors for determining employer assessments under Act 153, Session Laws of Hawaii 2012, attached to these minutes as Exhibits 1, 2 and 3; and
- Update, effective January 1, 2014, of the Option Factor Tables used to calculate ERS benefits, to reflect the revised investment return assumption rate (7.75%) and updated mortality tables; the "cost of living adjustment" assumption will be the applicable rate set by statute.

TRANSITION MANAGEMENT, REQUEST FOR INFORMATION (RFI) SELECTION PROCESS OVERVIEW

Mr. Chattergy and PCA presented the estimated timeline to refresh ERS's "bench" of transition management service providers to enable the ERS to select from a list of transition providers for a specific transition project. The "bench" alleviates the need to issue a Request for Information (RFI) for each new transition project. PCA noted that the ERS's policy and procedures for transition management have been reviewed and updated to provide flexibility in the method/approach to determine the most optimal process for each transition given the project's specific circumstances. PCA and ERS staff also presented for the Board's approval their recommendations for revision of the Asset Transition Guidelines Policy in the *ERS Investment Policies & Procedures Manual*.

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously, the Board approved the revision of the Asset Transition Guidelines Policy as presented.

ASSET ALLOCATION RANGES FOR THE COVERED CALLS AND REAL RETURNS ASSET CLASSES

Mr. Chattergy and PCA presented for the Board's approval revisions to the ERS Investment Policy Statement to widen the allocation ranges around the target allocations for each strategic class within the portfolio. New ranges will mostly allow for the more flexible management of the ERS portfolio across major asset classes. PCA and ERS staff recommended the Board should consider and approve

the proposed revisions to Strategic Class Rebalancing Ranges policy that is part of the ERS *Investment Policy Statement of the Investment Policies & Procedures Manual*.

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the proposed changes to the Strategic Class Rebalancing Ranges policy as part of the ERS *Investment Policy Statement of the Investment Policies & Procedures Manual* as follows:

Ranges and Limits:

	<u>Lower Limit</u>	<u>Strategic Allocation</u>	<u>Upper Limit</u>	<u>Range</u>
Domestic Equity	23%	30%	37%	+/-7%
International Equity	19%	26%	33%	+/-7%
Total Fixed-Income	15%	20%	25%	+/-5%
Real Estate	5%	7%	9%	+/-2%
Private Equity	4%	7%	9%	+2%/-3%
Real Return	0%	5%	10%	+/-5%
Covered Calls	0%	5%	10%	+/-5%

Source: Pension Consulting Alliance

EMPLOYEES' RETIREMENT SYSTEM
2013 LEGISLATIVE PROPOSALS

The Administrator presented drafts of the ERS's 2013 legislative proposals:

- Act 163 housekeeping for judges' service requirement for retirement eligibility
- Amendments required to maintain the ERS's status as a qualified-plan under the Internal Revenue Code
 - Compliance with pre-ERISA Vesting Rules
 - Compliance with Regulations under Section 415 of the Internal Revenue Code
- Establishment of new investment officers for the ERS's Investment Office
- Civil union housekeeping

The Administrator noted that at the Legislative Committee's meeting

on September 6, 2012, the Legislative Committee approved the proposals and recommended approval by the Board.

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the legislative proposals for 2013 presented by the Administrator.

OPERATIONS REPORT

The Administrator reported on the status of ERS operations for the month of August 2012.

NEXT MEETING – OCTOBER 11-12, 2012

Chair Matsumoto announced that the next Board meeting is scheduled for October 11-12, 2012.

ADJOURN AT 3:11 P.M.

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board adjourned its meeting at 3:11 p.m.

REDACTED SIGNATURE

Wesley K. Machida
Executive Director

WKM: jh

Amended 01/13/14