

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

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

Attorneys present: Mr. Brian Aburano, Deputy Attorney General
Ms. Diane Kishimoto, Deputy Attorney General

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

Guests present: Mr. John Hess) Altius Associates
Mr. Raj Mehmi)

Mr. Clint Bidwell) C. M. Bidwell & Associates
Ms. Debbie Chun)

Ms. Liz Palmer) PM Realty Group

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

Ms. Odetta Fujimori

QUORUM/CALL TO ORDER

A quorum being present, Mr. Colbert Matsumoto, Chair of the Board of Trustees of the Employees' Retirement System (the Board), called the regular Board meeting to order at 9:10 a.m.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Lee Loy, seconded by Trustee Kane, and unanimously carried, the Board amended the agenda to add the following:

- Executive Session, pursuant to HRS § 92-5(a)(4) and (8), to consider, and to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding Altius Associates Limited contract; appropriate action.

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst and unanimously carried, the Board amended the agenda to add the following:

- Request for Proposals (RFP) for services related to the establishment of an internal audit function for the ERS.

(Trustees Yamasaki and Young arrived at the meeting.)

EXECUTIVE SESSION

ENTRY INTO EXECUTIVE SESSION

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

- Pursuant to HRS § 92-5(a)(4) and (8), to consider, and to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding, Altius Associates Limited contract; appropriate action.

EXECUTIVE SESSION TO
CONSIDER AND CONSULT WITH
THE BOARD'S ATTORNEY ON
QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, PRIVILEGES,
IMMUNITIES, AND LIABILITIES
REGARDING ALTIUS ASSOCIATES
LIMITED CONTRACT WITH THE
ERS

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.

RECESS

Chair Matsumoto called a recess at 9:36 a.m. and announced that the meeting would reconvene following the chapter 91 proceedings and the Investment Committee meeting.

RECONVENE

Chair Matsumoto reconvened the meeting at 10:52 a.m.

ENTRY TO EXECUTIVE SESSION

On a motion made by Trustee Lee Loy, seconded by Trustee Rauckhorst, and unanimously carried, the Board entered executive session to:

- Pursuant to HRS § 92-5(a)(4) and (8), to consider, and to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding, Altius Associates Limited contract; appropriate action; and
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision regarding the selection of transition managers.

EXECUTIVE SESSION TO
CONSIDER AND CONSULT WITH
THE BOARD'S ATTORNEY ON
QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, PRIVILEGES,
IMMUNITIES, AND LIABILITIES
REGARDING ALTIUS ASSOCIATES
LIMITED CONTRACT WITH THE
ERS

(Ms. Ceserani and Mr. Rue joined the meeting.)

EXECUTIVE SESSION TO
CONSIDER AND, IF APPROPRIATE,
TO MAKE A DECISION
REGARDING THE SELECTION OF
TRANSITION MANAGERS.

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.

SANDS COMMISSION RECAPTURE
EXEMPTION

Mr. Vijoy Chattergy, ERS Chief Investment Officer (CIO), reported on the request by Sands Capital for an exemption from participation in the ERS commission recapture program. Sands believes that because of the concentration, typical holding size, and low turnover of the strategy, participation by Sands in the ERS recapture program is not in the best interests of the ERS.

On a motion made by Trustee Lee Loy, seconded by Trustee Barfield and unanimously carried, the Board approved to grant Sands Capital an exemption in the participation in the ERS commission recapture program.

RECESS

Chair Matsumoto called a recess at 11:12 a.m. and announced that the meeting would reconvene after the chapter 91 proceedings.

RECONVENE

Chair Matsumoto reconvened the meeting at 11:51 a.m.

(Trustee Barfield did not return to the meeting.)

APPROVAL OF BOARD MEETING
MINUTES – JUNE 12, 2012

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the Board minutes of the June 12, 2012 Board meeting.

ACTUARIAL FACTORS FOR
DETERMINING EMPLOYER
ASSESSMENT UNDER ACT 153/SLH
2012

Mr. Wesley Machida, ERS Administrator (Administrator), reported that presentation by the ERS's actuary, Gabriel Roeder & Smith (GRS), of the proposed actuarial factors for determining employer assessment under Act 153/SLH 2012 will be made to the Administrative Committee in December 2012 and to the Board in January 2013.

2013 LEGISLATIVE PROPOSALS

The Administrator distributed drafts of the ERS's legislative proposals for the 2013 legislative session. The Legislative Committee recommended that the Board support the legislative proposals:

- BUF-05 Relating to Federal Tax Qualification of the ERS;
- BUF-06 Relating to the ERS Personnel;
- BUF-07 Relating to Retirement Benefits for Judges;
- BUF-08 Relating to the ERS; Civil Unions.

The original legislative proposals were revised as of November 1, 2012 after review by the Department of Budget and Finance and the Department of the Attorney General.

The Administrator also provided the Board with information regarding forfeiture of retirement benefit laws utilized by other state retirement systems.

REQUEST FOR PROPOSALS FOR
SERVICES RELATED TO THE
ESTABLISHMENT OF AN
INTERNAL AUDIT FUNCTION FOR
THE ERS

The Administrator informed the Board that the State Procurement Office (SPO) did not approve the ERS's request to extend the ERS's contract with the accounting firm KMH LLP (KMH) for internal audit consultant services. Therefore the ERS will need to issue a new Request for Proposals for internal audit services. KMH will be able to respond to the RFP.

On a motion made by Trustee Rauckhorst, seconded by Trustee Yamasaki and unanimously carried, the Board authorized the issuance of a RFP for services related to the establishment of an internal audit function for the ERS.

PRESENTATION BY C.M. BIDWELL
& ASSOCIATES ON THE
PERFORMANCE OF THE ERS'
INVESTMENTS IN LARGE CAP
EQUITY

Mr. Clinton Bidwell and Ms. Debra Chun of C.M. Bidwell & Associates (Bidwell) presented a performance report of the ERS's investments in the large cap equity portfolio managed by Bidwell for the ERS.

PRESENTATION BY PENSION
CONSULTING ALLIANCE ON THE
PERFORMANCE OF THE ERS'
INVESTMENT PORTFOLIO AND
RISK MANAGEMENT REPORT 3RD
QUARTER 2012

Ms. Kay Ceserani and Mr. Neil Rue of Pension Consulting Alliance (PCA), ERS's investment consultant, presented PCA's findings and recommendations on the performance of the ERS' investment portfolio for the quarter ended September 30, 2012, 3rd quarter of 2012. Highlights from the performance report included:

- Aggregate portfolio value of \$11.7 billion as of September 30, 2012.
- The portfolio increased in value by \$448.7 million during the 3rd quarter and by \$1,502.10 million over the latest year.
- The portfolio returned 4.7%, performing in-line with the Policy Benchmark return of 4.6% and the Median Public Fund return of 4.8%.

Ms. Ceserani and Mr. Rue also presented PCA's risk management report for the quarter ended September 30, 2012. They noted that the risk management indicators for the Risk Management Report are reviewed monthly. If there is change for which PCA would recommend action, PCA can report to the Board without waiting for the end of the quarter.

ENTRY TO EXECUTIVE SESSION

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

- To approve executive session Board meeting minutes of the June 12, 2012 Board meeting;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision regarding investment in Macquarie HiTIP Fund I, L.P.;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision regarding request by TCW for consent to assignment of investment management services relating to MetWest Enhanced TALF Strategy Fund, L.P.;
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision regarding amendment of the Partnership Agreement of CBRE Strategic Partners U.S. Value 6, L.P.;
- Pursuant to HRS § 92-5(a)(4) and (8), to consider the recommendations of the Board's attorney and other matters relating to Kaho'ohanohano vs. State of Hawaii;
- 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 overpayment procedures and specific overpayment cases; appropriate action; and

- Pursuant to HRS § 92-5(a)(4), to consult with the ERS's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities and liabilities relating to a *qui tam* action.

APPROVAL OF EXECUTIVE
SESSION BOARD MEETING
MINUTES – JUNE 12, 2012

EXECUTIVE SESSION TO
CONSIDER AND, IF APPROPRIATE,
TO MAKE A DECISION
REGARDING INVESTMENT IN
MACQUARIE HiTIP FUND I, L.P.

EXECUTIVE SESSION TO
CONSIDER AND, IF APPROPRIATE,
TO MAKE A DECISION
REGARDING REQUEST BY TCW
FOR CONSENT TO ASSIGNMENT
OF INVESTMENT MANAGEMENT
SERVICES RELATING TO
METWEST ENHANCED TALF
STRATEGY FUND, L.P.

EXECUTIVE SESSION TO
CONSIDER AND, IF APPROPRIATE,
TO MAKE A DECISION
REGARDING AMENDMENT OF THE
PARTNERSHIP AGREEMENT OF CB
RICHARD ELLIS (CBRE)
STRATEGIC PARTNERS U.S.
VALUE 6, L.P.

EXECUTIVE SESSION TO
CONSIDER THE
RECOMMENDATIONS OF THE
BOARD'S ATTORNEY AND OTHER
MATTERS RELATING TO
KAHO'OHANO HANO VS. STATE OF
HAWAII

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

(Ms. Ceserani and Mr. Rue left the room.)

EXECUTIVE SESSION TO CONSULT
WITH THE ERS'S ATTORNEYS ON
QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, PRIVILEGES,
IMMUNITIES AND LIABILITES
RELATING TO A *QUI TAM* ACTION

EXIT EXECUTVE SESSION

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

BUDGET FOR EMPLOYEES'
RETIREMENT SYSTEM'S OFFICE
RENOVATION AND RELOCATION
WITHIN CITY FINANCIAL TOWER

The Administrator and Ms. Liz Palmer of PM Realty Group (PMRG), City Financial Tower property manager, reported on the status of the proposed budget for the ERS renovation and relocation within City Financial Tower. Discussion included:

- Project cost summary
- Initial vs. Final Cost
 - Substantial portion of the overall increase from original bid due to additional improvements and technical upgrades for building standard compliance codes and ERS computer server room
- Variance Explanations
- Justification from PMRG on changes in Scope of Work for electrical and server room HVAC

The Administrator noted that the Administrative Committee recommended that the Board approve the increase in the budget to \$1,955,364.00 (approximate increase of \$ 677,622.00).

On a motion made by Trustee Yamasaki, seconded by Trustee Lee Loy, and unanimously carried, the Board approved the increase in the budget to \$1,955,364.00 for the ERS renovation and relocation within City Financial Tower.

OPERATIONS REPORT

The Administrator provided an update on ERS operations. Highlights included:

- Retirement applications running slightly higher than usual; and
- GRS reported that approximately 14, 207 ERS members are eligible to retire.

October and November updates on ERS operations will be provided at the December Board meeting.

NEXT BOARD MEETING
– DECEMBER 10, 2012

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

ADJOURNMENT

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the meeting was adjourned at 2:05 p.m.

**REDACTED
SIGNATURE**

Wesley K. Machida
Administrator

WKM: jh