

MINUTES OF THE REGULAR BOARD MEETING OF THE  
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM (ERS)  
MARCH 11, 2013  
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935  
HONOLULU, HAWAII

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

Attorney present: Ms. Diane Kishimoto, Deputy Attorney General

Staff present: Mr. Wesley Machida, Administrator  
Ms. Kanoe Margol, Assistant Administrator  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Ajay Umananikar, 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. Jonathan Roth ) Abbott Capital Management, LLC  
Ms. Kathryn Stokel  
  
Mr. Keith Wilson ) BNY Mellon  
  
Mr. Michael Humphrey ) Courtland Partners, Ltd.  
  
Mr. Pete Fawcett ) Heitman Capital Management LLC  
Mr. Jim Proud  
Mr. Paul Rezens  
  
Mr. Rick Lauchnor ) J.P. Morgan  
Mr. Filip Skala  
  
Ms. Kay Ceserani ) Pension Consulting Alliance, Inc.  
Mr. Neil Rue

CALL TO ORDER/QUORUM

A quorum being present, Mr. Emmit Kane, Acting Chair of the Board of Trustees of the Employees' Retirement System (ERS), called the regular meeting of the Board of Trustees of the ERS (the Board) to order at 10:52 a.m.

2013 ELECTION OF OFFICERS AND  
COMMITTEE ASSIGNMENTS

On a motion made by Trustee Lee Loy, seconded by Trustee Barfield, and unanimously carried, the Trustees elected Trustee Kane as Chair of the Board effective March 11, 2013.

Chair Kane nominated Trustee Barfield as the Vice Chair of the Board.

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Trustees elected Trustee Barfield as Vice Chair of the Board effective March 11, 2013.

Chair Kane announced that there would not be any changes in the existing committee assignments and committee chairs until he has consulted with ERS staff and Trustees regarding their recommendations.

PRESENTATION BY J.P. MORGAN  
TRANSITION MANAGEMENT PLAN

Mr. Rick Lauchnor and Mr. Filip Skala of J.P. Morgan presented an overview of J.P. Morgan's transition management process and services. Following their presentation, the J.P. Morgan representatives left the meeting.

PRESENTATION BY BNY MELLON  
BETA AND TRANSITION

Mr. Keith Wilson of BNY Mellon (BNY) presented an overview of BNY's transition management process and services. Following his presentation, Mr. Wilson left the meeting.

RECESS

Chair Kane called a recess at 11:58 a.m. for lunch.

RECONVENE

Chair Kane reconvened the meeting at 12:10 p.m.

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 include the following in executive session, pursuant to HRS § 92-5(a)(8):

- Presentation by Abbott Capital Management, LLC (Abbott) -- portfolio review and tactical plan; appropriate action.

APPROVAL OF MINUTES

- OCTOBER 18, 2012
- DECEMBER 10, 2012

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Lee Loy, and unanimously carried, the Board approved the minutes of the special meeting of October 18, 2012, and the minutes of the regular meeting of December 10, 2012 as presented.

ENTER 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 minutes of the October 18, 2012 and December 10, 2012 Board meetings;
- Pursuant to HRS § 92-5(a)(8), to consider, and, if appropriate, to take action on, the presentation by Abbott Capital Management, LLC of Abbott's portfolio review and tactical plan; and

- Pursuant to § 92-5(a)(8), to consider, and, if appropriate to take action on, a report on the status of the Royal Ka'anapali Golf Courses.

EXECUTIVE SESSION TO APPROVE  
EXECUTIVE SESSION MINUTES

- OCTOBER 18, 2012
- DECEMBER 10, 2012

EXECUTIVE SESSION TO  
CONSIDER A PRESENTATION BY  
ABBOTT CAPITAL MANAGEMENT,  
LLC OF ABBOTT'S PORTFOLIO  
REVIEW AND TACTICAL PLAN

(Chair Kane recused himself from the meeting.)

EXECUTIVE SESSION TO  
CONSIDER A REPORT ON THE  
STATUS OF THE ROYAL  
KA'ANAPALI GOLF COURSES

EXIT EXECUTIVE SESSION

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

(Trustee Young exited the room and did not return for the remainder of the meeting.)

(Chair Kane returned to the meeting.)

(Trustee Barfield recused himself from the meeting.)

INVESTMENT MANAGER WATCH  
STATUS

The CIO recommended that Gateway Investment Advisers, LLC (GIA) be placed on "Watch List Status" for triggering criteria related to organizational changes in accordance with the *ERS Watch List Policy*. ERS staff and consultants were notified on February 21, 2013 that GIA's Chief Executive Officer (CEO) and Chief Operating Officer had simultaneously left the firm. There will be a new CEO and ERS's current portfolio manager will become the new Chief Investment Officer. ERS staff and consultants did not expect that these changes will impact the ERS strategy or the rest of the team managing the ERS's account, however, as a standard practice for key personnel changes, it was recommended GIA be placed on "Watch List Status" and that a due diligence site inspection be conducted in 2013. GIA has managed two covered calls equity strategies since August 2011 (80/20 replication and 50/50 non-replication), and the "Watch List Status" would apply to both strategies.

The CIO recommended that Bank of Hawaii (BoH) be removed from "Watch List Status" for improved short-term performance in the management of the ERS's active domestic large cap core portfolio (on

“Watch List Status” since February 2012). BoH portfolio was valued at approximately \$121 million as of December 31, 2012.

The CIO recommended that Quantitative Management Associates LLC (QMA) be removed from “Watch List Status” as QMA’s organization and senior staff remained stable since the organizational changes of June 2012 when QMA’s Chief Investment Officer moved into a new role and portfolio responsibilities were transitioned over to other staff. QMA manages the ERS’s active emerging markets portfolio that was valued at approximately \$246 million as of December 31, 2012.

On a motion made by Trustee Lee Loy, seconded by Trustee Rauckhorst, and unanimously carried, the Board placed GIA on “Watch List Status” due to organizational changes.

On a motion made by Trustee Matsumoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board removed Bank of Hawaii and QMA from “Watch List Status.”

(Trustee Barfield returned to the meeting.)

#### PERFORMANCE OF THE ERS’S INVESTMENT IN THE METWEST ENHANCED TALF STRATEGY FUND, LTD.

Ms. Kay Ceserani and Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS’s general investment consultant, reported on PCA’s review of the performance of the ERS’s investment in the MetWest Enhanced TALF Strategy Fund, Ltd. The investment was approved in late 2009 to take advantage of the Federal Reserve’s special Term Asset-Backed Securities Loan Facility (TALF) program. Highlights of the report included:

- ERS invested \$16.9 million in the fund.
- Final cash distribution of \$1.6 million to the ERS on February 28, 2013;
- Total cash distribution of \$19.6 million to the ERS over the life of the fund;
- The fund earned total annualized IRR of 5.7% over the 40-month investment period; and
- \$2.7 million overall realized investment gain to the ERS.

#### 2013 LEGISLATIVE PROPOSALS AFFECTING THE EMPLOYEES’ RETIREMENT SYSTEM

The Administrator reported that the following ERS legislative proposals were reviewed by the originating body (House or Senate) and crossed over to the non-originating body on March 7, 2013:

- H.B. 805, H.D. 1 – Relating to Federal Tax Qualification for the ERS; amends chapter 88, Hawaii Revised Statutes (HRS), to comply with Internal Revenue Code requirements and pre-ERISA vesting rules to maintain the ERS’s tax-qualified status;

- S.B. 1036 – Relating to ERS Personnel; allows the ERS Board of Trustees through its Administrator, to appoint one or more investment officers and changes the title of the “Administrator” to “Executive Director”;
- H.B. 807 – Relating to the Benefits for Judges; corrects anomalies of service retirement allowances for judges who became ERS members prior to July 1, 2012 and first earned service credit as a judge after June 30, 2012; and
- H.B. 808, H.D. 1 – Relating to the ERS, Civil Unions; amends chapter 88, HRS, to preserve the ERS’s tax-qualified status and to clarify the application of chapter 88 to civil unions.

The Administrator also reported that the following bills affecting the ERS that ERS staff has been tracking are still alive: H.B. 275, H.D. 1 and S.B. 946, S.D. 1. The remainder of the bills that the ERS staff had been tracking failed to cross-over from the originating body to the non-originating body.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board ratified the positions previously taken by the Board on the following measures: H.B. 805, H.D. 1; S.B. 1036; H.B. 807; H.B. 808, H.D. 1; H.B. 275, H.D. 1 and S.B. 946, S.D. 1.

OPERATIONS REPORT  
– FEBRUARY 2013

The Administrator reported on the status of the ERS’s operations for the month of February 2013. Highlights included:

- Interviews for the Retirement Claims Examiner position on Maui are currently underway.
- Sent a request to the Attorney General for assistance in completing pending enrollment, claims, and benefits issues that require legal guidance.
- The 2010 Audit is expected to be completed April 2013. The 2011 Audit is currently underway, with completion targeted for June 2013. The 2012 Audit is currently underway and is expected to be completed in December 2013.
- The Board and ERS staff met with and evaluated the priority-listed finalists for the RFP for private equity consultant services. Selection is expected in March 2013.
- The Board’s Legislative Committee continues to recommend support of ERS proposals. ERS staff continues to attend hearings and track and provide testimony on other proposals affecting the ERS.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Lee Loy, seconded by Trustee Barfield, and unanimously carried, the Board entered executive session pursuant to HRS § 92-5(a)(8), to evaluate the priority-listed finalists for the ERS's RFP for private equity consultant services and, if appropriate, to make a selection.

EXECUTIVE SESSION TO  
EVALUATE THE PRIORITY-LISTED  
FINALISTS FOR THE ERS'S  
REQUEST FOR PROPOSALS FOR  
PRIVATE EQUITY CONSULTANT  
SERVICES AND, IF APPROPRIATE,  
TO MAKE A SELECTION

(Deputy Attorney General Kishimoto, Ms. Ceserani, Mr. Rue and all other staff and guests, except for the Administrator, Ms. Konishi and Ms. Hirata, exited the room and did not return for the remainder of the meeting.)

(Trustee Rauckhorst exited the meeting and did not return for the remainder of the meeting.)

EXIT EXECUTIVE SESSION

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

NEXT BOARD MEETING  
– APRIL 8, 2013

Chair Kane announced that the next Board meeting is scheduled for April 8, 2013.

ADJOURNMENT

There being no further business, on a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto and unanimously carried, the Board adjourned the meeting at 3:08 p.m.

**REDACTED  
SIGNATURE**

Wesley K. Machida  
Administrator

WKM: jh