

MINUTES OF THE REGULAR BOARD MEETING OF THE
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM (ERS)

AUGUST 12, 2013

CITY FINANCIAL TOWER
201 MERCHANT STREET, SUITE 1200
HONOLULU, HAWAII 96813

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

Trustee excused: Mr. Vincent Barfield, Vice Chair

Attorney present: Ms. Diane Kishimoto, Deputy Attorney General

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

Guests present: Mr. Michael Humphrey) Courtland Partners, Ltd.
Mr. Paul Yett) Hamilton Lane Advisors, LLC
Mr. Andy Betz) Macquarie Funds Groups (USA), Inc.
Mr. Kay Ceserani) Pension Consulting Alliance, Inc.
Mr. Neil Rue
Mr. Dan Purcell) (member of the public)

QUORUM/CALL TO ORDER

A quorum being present, Trustee Lee Loy, called the regular meeting of the Board of Trustees of the Employees' Retirement System (the Board), to order at 9:21 a.m.

ELECTION OF OFFICERS

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Yamasaki, and unanimously carried, the Trustees elected Trustee Lee Loy as Chair of the Board, effective August 12, 2013.

RECESS

Chair Lee Loy called a recess at 9:24 a.m. The meeting will be reconvened following chapter 91 proceedings.

(Trustee Rauckhorst arrived during the recess.)

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 9:33 a.m.

PRESENTATION BY COURTLAND PARTNERS, LTD. ON THE ERS'S REAL ESTATE PORTFOLIO MEASUREMENT REPORT FOR 1ST QUARTER 2013

Mr. Michael Humphrey of Courtland Partners, Ltd. (Courtland), ERS's real estate investment consultant, presented Courtland's performance measurement report for the ERS's real estate portfolio for the first quarter of 2013. Highlights included:

- Portfolio market value of \$891,560,612.00 for the period ended March 31, 2013.
- Total number of current investments: 17
- 4.3% total net return for the quarter; 4.3% year to date
- 7.1% internal rate of return
- Portfolio is 7.2% of plan assets (versus 7.0% target allocation)

Mr. Humphrey also reported that:

- Courtland requested that the managers not deploy capital until further direction from the Board on commitments has been received.
- The transfer of management responsibility for the LaSalle Investment Management (LaSalle) separate account portfolio is proceeding; termination date for LaSalle is September 30, 2013.
- Courtland completed market review of marketing/incentive fees and other fees relating to investment in One Ala Moana by BlackSand Capital, LLC; clarified that ERS has review and consent prior to deals and also has the right to reject deals; will review third party providers with ERS staff to provide opinions and assist with the approval process.

(Mr. Humphrey left the meeting.)

PRESENTATION BY PENSION
CONSULTING ALLIANCE, INC. ON
THE PERFORMANCE AND RISK
MANAGEMENT REPORTS OF THE
ERS'S INVESTMENT PORTFOLIO
FOR 2ND QUARTER 2013

- Ms. Kay Ceserani and Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's investment consultant, presented PCA's Investment Portfolio Performance and Risk Management Reports for the ERS's investments for the second quarter of 2013. Highlights included:
- Aggregate portfolio value of \$12.3 billion, as of June 30, 2013.
- Portfolio increased by \$2.2 million during the second quarter and by \$1.0 billion over the latest year.
- Portfolio outperformed the Policy Benchmark for the quarter and matched the Median Public Fund return of 0.1%.
- Portfolio outperformed the Policy Benchmark over the trailing 1-year period by 40 basis points for the quarter, but lagged the Median Public Fund return by 70 basis points; active fixed income and real estate managers' combined performance exceeded their respective benchmarks and contributed to the portfolio's outperformance over the 1-year period.
- Risk allocation is currently consistent with asset allocation.
- Growth risk is 89% of the policy portfolio's explainable risk.

(Mr. Purcell left the meeting.)

GROWTH RISK CLASS GUIDELINES

Mr. Rue presented PCA's draft of amendments to the ERS's Investment Policy Statement in preparation of the further adoption of a "Risk Class Framework." The proposed amendments provide for the incorporation of a "Growth Risk Class" in the ERS's strategic allocation and replace "asset allocation" with the concept of "strategic allocation." Adoption of the amendments will be on the agenda for the October 2013 Board meeting.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto, and unanimously carried, the Board amended the agenda to add the following for consideration in "New Business":

- Procedure for filling unexpired term of Trustee Emmit Kane.

APPROVAL OF MINUTES

– APRIL 8, 2013
– JUNE 10, 2013

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst and unanimously carried, the Board approved the minutes of the April 8, 2013 and June 10, 2013 Board meetings.

RECESS

Chair Lee Loy called a recess at 11:08 a.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 11:36 a.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried (Trustee Yamasaki was not present for the vote), the Board entered into executive session:

- Pursuant to HRS § 92-5(a)(8), to consider a report from Hamilton Lane Advisors, LLC regarding private equity strategic plan; appropriate action;
- Approval of the April 8, 2013 and June 10, 2013 executive session minutes;
- Pursuant to HRS § 92-5(a)(8), to hear a status report from Macquarie Funds Group (USA) Inc. on HiTIP; appropriate action;
- Pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding a proposed securities fraud action and retention counsel for same; appropriate action; and
- Pursuant to HRS § 92-5(a)(8), to receive the Report of Presentation Made to Trustees of the Employees' Retirement System, July 15, 2013 re: Ka'anapali Golf Courses.

(Trustee Yamasaki returned to the meeting.)

EXECUTIVE SESSION TO
CONSIDER A REPORT FROM
HAMILTON LANE ADVISORS, LLC
REGARDING PRIVATE EQUITY
STRATEGIC PLAN

APPROVAL OF EXECUTIVE
SESSION MINUTES
– APRIL 8, 2013
– JUNE 10, 2013

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

(The CIO, Mr. Yett and Mr. Betz left the meeting.)

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 A PROPOSED SECURITIES FRAUD ACTION AND RETENTION OF COUNSEL FOR SAME

(The CIO returned to the meeting.)

EXECUTIVE SESSION TO RECEIVE REPORT OF PRESENTATION MADE TRUSTEES OF THE ERS, JULY 15, 2013 REGARDING KA'ANAPALI GOLF COURSES.

EXIT EXECUTIVE SESSION

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

2014 ERS INVESTMENT SUMMIT

The CIO proposed July 16-18, 2014 or July 23-25, 2014 as the dates for the ERS's annual Investment Summit. Based on the neighbor island rotation schedule used in the past, the ERS staff proposed Kauai as the site of the 2014 Investment Summit. Staff will conduct site inspections of possible host properties and will present a proposed budget of the expenses at a future Board meeting.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto, and unanimously carried, the Board approved holding the 2014 Investment Summit on Kauai on July 16-18, 2014 or July 23-25, 2014, hotel space permitting, and authorized staff to conduct site inspections of possible host properties on Kauai.

PROCEDURE FOR FILLING UNEXPIRED TERM OF TRUSTEE EMMIT KANE

Mr. Wesley Machida, ERS Executive Director (Executive Director), reported on the status of the vacant seat on the Board created by the retirement of Trustee Emmit Kane. Letters were sent to the general employee organizations (HGEA, UPW, SHOPO, HFFA) informing them of the vacancy and requesting nominations to fill the vacancy. Deadline for nominations is September 23, 2013. The Executive Director also reported that the Board needs to formally decide whether to fill the vacancy by election or by appointment.

On a motion made by Trustee Yamasaki, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board decided that the vacancy created by the retirement of Trustee Emmit Kane will be filled for the unexpired term by appointment by the Board of Trustees, as provided by HRS § 88-25, from nominations submitted by general employee organizations.

OPERATIONS REPORTS
- JULY 2013

The Executive Director reported on the status of ERS's operations for July 2013. Highlights included:

- Recruitment of two investment specialists is currently in the interview stage.
- Received list of qualified applicants from the State Human Resources Department (DHRD) for the recruitment of two accountants.
- Recruitment of information technology specialists is currently in the interview stage; these positions have been hard to fill and there have not been many applications.
- Election notice for seats on the Board was in the June 28, 2013 Sunday newspaper for the general employee and retirant seats; deadline for nominations is August 29, 2013.
- ERS's quarterly newsletter, Holomua, was mailed to retirees on July 11, 2013 and vested/active members on July 12, 2013.
- Received Governor's approval, on August 1, 2013, to hire vendors to assist the ERS's Enrollment, Claims, and Benefits Branch with the computation/finalization of retirement applications.

NEXT BOARD MEETING
- SEPTEMBER 9, 2013

Chair Lee Loy announced that the next Board meeting is scheduled for September 9, 2013.

ADJOURNMENT

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board adjourned the meeting at 1:35 p.m.

**REDACTED
SIGNATURE**

Wesley K. Machida
Executive Director

WKM: jh