

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

THURSDAY, OCTOBER 17 AND FRIDAY, OCTOBER 18, 2013

THE KAHALA HOTEL AND RESORT
MAILE BALLROOM (MAUKA)
5000 KAHALA AVENUE
HONOLULU, HAWAII 96816

ROLL CALL
FOR
OCTOBER 17,
2013

Trustees present:

Ms. Piliialoha Lee Loy, Chair
Mr. Vincent Barfield, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Colbert Matsumoto
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, Executive Director
Ms. Kanoe Margol, Assistant Administrator
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, Investment Specialist
Ms. Donna Curry, Program Specialist
Mr. Cullen Fujimoto, Accountant
Ms. Virgie Jaralba, Accountant
Ms. Christine Chu-Cheong, Accountant
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Jaime Hirata, Recording Secretary
Ms. Raechele Joyo, Secretary
Ms. Wanda Kugiya, Secretary

Guests present:

See Attachment A.

QUORUM/CALL TO ORDER

A quorum being present, Chair Lee Loy, called the special meeting of the Board of Trustees of the Employees' Retirement System (the Board), to order at 9:07 a.m.

ENTER EXECUTIVE SESSION

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

- Pursuant to HRS § 92-5(a)(8), to consider portfolio reviews and tactical plans for real estate commingled funds; and
- Pursuant to HRS § 92-5(a)(8), to consider a preliminary report regarding the Royal Ka'anapali Golf Courses.

EXECUTIVE SESSION TO
CONSIDER PORTFOLIO REVIEWS
AND TACTICAL PLANS FOR REAL
ESTATE COMMINGLED FUNDS

EXECUTIVE SESSION TO
CONSIDER A PRELIMINARY
REPORT REGARDING THE ROYAL
KA‘ANAPALI GOLF COURSES

(Trustee Young joined the meeting.)

EXIT EXECUTIVE SESSION

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

AMENDMENT OF THE AGENDA

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board amended the agenda to include the appointment of a Trustee to fill the vacancy on the Audit Committee.

AUDIT COMMITTEE ASSIGNMENT

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board appointed Chair Lee Loy as a member of the Board’s Audit Committee.

ENTER EXECUTIVE SESSION

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

- Pursuant to HRS § 92-5(a)(4) and (8), to consult with the Board’s attorneys on questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities relating to appointment of trustees; and
- To approve executive session minutes of the August 12, 2013 Board 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
RELATING TO APPOINTMENT OF
TRUSTEES

APPROVAL OF EXECUTIVE
SESSION MINUTES
– AUGUST 12, 2013

EXIT EXECUTIVE SESSION

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

INVESTMENT MANAGER ORGANIZATIONAL CHANGES

Mr. Vijoy Chatterty, ERS Chief Investment Officer (CIO), reported that there were no reported changes in organizational personnel or structure over the last period.

INVESTMENT MANAGER MEETINGS – 3RD QUARTER 2013

The CIO provided an overview of the investment meetings attended by Investment Office staff with investment managers currently under contract with the ERS and potential investment managers and other service providers in the third quarter of 2013.

CHIEF INVESTMENT OFFICER'S REPORT ON INVESTMENT OFFICE ACTIVITIES – OCTOBER 2013

The CIO reported on the activities of the Investment Office for October 2013. Highlights included:

- Introduction of Investment Specialists Andrew Chen and Ian Wetzel, who began work on October 1, 2013.
- A preliminary meeting with the executive search firm, Kumabe HR, was held to discuss the recruitment for the Investment Officer positions.
- The CIO met with BlackRock in San Francisco to discuss performance and allocation issues; formal report of due diligence site visit to be presented by the CIO at the November 2013 Board meeting.
- On-going monitoring of investment managers on the “Watch Status” list due to underperformance: CS McKee (Russell 1000 Value) and Mercator (MSCI World ex. US Net Dividend).
- The CIO and Mr. Wesley Machida, ERS Executive Director (Executive Director), attended the Omidyar Fellows Cohort II Program Kick-off Reception in Honolulu on October 6, 2013.
- The CIO is scheduled to speak at the Hawaii Kai Rotary Club on October 22, 2013.
- The CIO is scheduled to participate on a panel presentation with Mr. Hank Kim, Executive Director for the National Conference on Public Employee Retirement Systems (NCPERS).

(Trustee Matsumoto exited the room.)

(Deputy Attorney General Brian Aburano left the meeting.)

INVESTMENT OFFICE MANAGER MEETING AND CONFERENCE SCHEDULE – 2014

The CIO presented a schedule of investment manager due diligence site inspections and investment conferences anticipated for 2014.

TRUSTEE VACANCY

The Executive Director announced that two nominations were submitted to fill the vacancy on the Board created by the retirement of Trustee Emmit Kane:

- Patrick D. Frane was nominated by the Hawaii Government Employees Association; and
- James S. Wataru was nominated by the United Public Workers.

The Executive Director also announced that:

- The nominees will be interviewed by the Board at the November 2013 meeting;
- The nominees will be given written questions to answer in writing prior to their interview; and
- Interviews will be scheduled for 30 minutes, of which 15 minutes will be for a presentation by the nominee and 15 minutes will be for questions and answers.

OPERATIONS REPORT – SEPTEMBER 2013

The Executive Director presented the ERS monthly operations report for September 2013. The following was covered:

- On-going briefings to the unions and ERS members regarding the new option factors effective January 2014.

(Trustee Matsumoto returned to the meeting.)

(Trustee Young exited the room.)

APPROVAL OF MINUTES – AUGUST 12, 2013

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Matsumoto, and unanimously carried, the Board approved the minutes of the August 12, 2013 meeting.

GROWTH RISK CLASS GUIDELINES

Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's investment consultant, presented for the Board's approval, the final draft of the amendments to the ERS's Investment Policy Statement for adoption of a "Risk Class Framework." The Growth Risk Class guidelines are incorporated in the ERS's strategic allocation and replace "asset allocation" with the concept of "strategic allocation."

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the amendments to the ERS's Investment Policy Statement as presented, to be effective April 1, 2014.

RECESS

Chair Lee Loy called a recess at 11:52 a.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 12:11 p.m.

(Mr. Daniel Moore of Courtland Partners, Ltd. arrived at the meeting.)

FIXED INCOME ASSET CLASS
REVIEW

Mr. Rue presented PCA's review of the ERS's fixed income structure. PCA proposed a new concept for the ERS's fixed income investments that would further establish the ERS's risk class framework. The proposed concept seeks to: align different fixed income strategies with their appropriate risk classes; reduce interest rate risk; increase income; maintain high quality; and maintain/improve risk-adjusted return profile. Mr. Rue also presented PCA's a growth risk analysis of ERS's fixed income managers, and discussed with the Board the differences between capital allocation and risk allocation.

PRIVATE EQUITY POLICY

Mr. Paul Yett of Hamilton Lane reported on the status of Hamilton Lane's transition into the role of private equity consultant for the ERS, as well as on-going activity related to transition of the management of the private equity portfolio to Hamilton Lane from Abbott Capital Management, effective January 1, 2014. The CIO and Mr. Yett presented for the Board's approval, amendments to the ERS's Private Equity Portfolio Policies and Procedures.

On a motion made by Trustee Matsumoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the amendments to the ERS's Private Equity Portfolio Policies and Procedures, subject to editing for form and style by PCA.

(Trustee Young returned to the meeting.)

RECESS

Chair Lee Loy called a recess at 1:10 p.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 1:18 p.m.

ENTER EXECUTIVE SESSION

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

- Pursuant to HRS § 92-5(a)(8) , to hear, consider, and act upon the portfolio review and tactical plan from Heitman Capital Management, LLC; and
- Pursuant to HRS § 92-5(a)(8) , to hear, consider, and act upon the portfolio review and tactical plan from Invesco Real Estate

EXECUTIVE SESSION
TO HEAR, CONSIDER, AND ACT
UPON THE 2013 PORTFOLIO
REVIEW AND 2014 TACTICAL
PLAN FROM HEITMAN CAPITAL
MANAGEMENT, LLC

RECESS

Chair Lee Loy called a recess at 2:16 p.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 2:24 p.m.

EXECUTIVE SESSION TO HEAR,
CONSIDER, AND ACT UPON THE
2013 PORTFOLIO REVIEW AND
2014 TACTICAL PLAN FROM
INVESCO REAL ESTATE

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried (Trustee Yamasaki was not present for the vote), the Board exited executive session.

RECESS

Chair Lee Loy called a recess and announced that the meeting would reconvene at 3:15 p.m.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 3:17 p.m.

PRESENTATION BY PAUL YETT OF
HAMILTON LANE ON PRIVATE
EQUITY OVERVIEW FOR PUBLIC
PENSION PLANS

Mr. Yett presented an overview on private equity for public pension plans.

RECESS

Chair Lee Loy called a recess at 4:22 p.m. and announced that the meeting will reconvene at 8:15 a.m. on Friday, October 18, 2013 at the Maile Ballroom (Mauka) of the Kahala Hotel and Resort, Honolulu.

ROLL CALL
FOR
OCTOBER 18,
2013

Trustees present:

Ms. Pilialoa Lee Loy, Chair
Mr. Vincent Barfield, Vice Chair
Ms. Jackie Ferguson-Miyamoto
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, Executive Director
Ms. Kanoe Margol, Assistant Administrator
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, Investment Specialist
Ms. Donna Curry, Program Specialist
Mr. Karl Kaneshiro, Benefits Manager
Mr. Cullen Fujimoto, Accountant
Ms. Virgie Jaralba, Accountant
Ms. Christine Chu-Cheong, Accountant
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Jaime Hirata, Recording Secretary
Ms. Raechele Joyo, Secretary
Ms. Wanda Kugiya, Secretary

Guests present:

See Attachment B.

RECONVENE

A quorum being present, Chair Lee Loy reconvened the meeting at 8:18 a.m. on Friday, October 18, 2013 in the Maile Ballroom (Mauka) of the Kahala Hotel and Resort in Honolulu.

WELCOME REMARKS – VIJOY
CHATTERGY, ERS CHIEF
INVESTMENT OFFICER

The CIO welcomed attendees to the 2013 HIERS Private Markets Symposium and introduced ERS Trustees and staff.

PRESENTATIONS

PRIVATE MARKETS IN AN
INCREASING INTEREST RATE
ENVIRONMENT – PANEL
PRESENTATION

Mr. Michael Humphrey of Courtland Partners Ltd. (Courtland Partners), ERS's real estate investment consultant, led a panel discussion on Private Markets in an Increasing Interest Rate Environment. Panelists were: Mr. James Proud of Heitman Capital Management, LLC; Mr. Michael Sobolik of Invesco Real Estate; and Mr. Ryan Krauch of Mesa West Capital.

PRIVATE EQUITY GENERAL
PARTNERS – PANEL
PRESENTATION

Mr. Paul Yett of Hamilton Lane led a panel discussion on Private Equity General Partners. The panelists were: Ms. Maggie Littlefield Sahlman of Advent International; Mr. Jamie M. Weinstein of Kohlberg Kravis Roberts; Mr. Brian Chee of Polaris Partners; and Ms. Courtney McCarthy of Summit Partners.

REAL ESTATE NON-CORE
INVESTMENT OPPORTUNITIES –
PANEL PRESENTATION

Mr. Humphrey and Mr. Moore led a panel discussion on Real Estate Non-core Investment Opportunities. Panelists were: Mr. Bert A. Kobayashi, Jr., of BlackSand Capital; Mr. Vance Maddocks of CBRE Global Investors; Mr. Ronnie Gul of Mesa West Capital; and Ms. Francie Maletis of Oaktree Capital Management.

(Trustees Lee Loy and Young left the meeting.)

Following a brief recess, a quorum being present, Vice Chair Barfield reconvened the meeting.

ENERGY SECTOR DEVELOPMENTS
FOR PRIVATE EQUITY
INVESTMENTS – PANEL
PRESENTATION

Mr. Yett introduced Ms. Cathleen M. Ellsworth of First Reserve Corporation, who gave a presentation on Energy Sector Developments for Private Equity Investments.

PRIVATE MARKETS OUTSIDE THE
UNITED STATES – PANEL
PRESENTATION

Mr. Humphrey led a panel discussion on Private Markets Outside the United States. Panelists were: Mr. Adam Schwartz of Angelo, Gordon & Company; Mr. Thomas Pulley of Fortress Real Estate; and Ms. Karen Sprogis of Blackstone.

PRESENTATION BY PENSION
CONSULTING ALLIANCE, INC. ON
PRIVATE MARKETS IN THE
OVERALL ERS INVESTMENT
PORTFOLIO

Mr. Rue of PCA presented a summary of private markets in the overall ERS investment portfolio.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto and unanimously carried, Vice Chair Barfield adjourned the meeting at 4:00 p.m.

**REDACTED
SIGNATURE**

Wesley K. Machida
Executive Director

WKM: jh

Attachment A

LIST OF GUESTS PRESENT

THURSDAY, OCTOBER 17, 2013

Brigid Flanagan Adam Schwartz Aliana Spungen	Angelo, Gordon & Co.
Karen Sprogis	The Blackstone Group
Michael Humphrey Daniel Moore	Courtland Partners, Ltd.
Cathleen Ellsworth	First Reserve Corporation, LLC
Thomas Pulley	Fortress Investment Group
Paul Yett	Hamilton Lane Advisors, LLC
Pete Fawcett James Proud Paul Rezens Ryan Tripton	Heitman Capital Management, LLC
Jeff Cavanaugh Deirdre Perez Delia Roges	Invesco Real Estate
Andrew Betz	Macquarie Funds Management (USA), Inc.
Ronnie Gul Ryan Krauch	Mesa West Capital
Keith Gollenberg Francie Maletis	Oaktree Capital Management
Colin Bebee Neil Rue	Pension Consulting Alliance, Inc.
Noah Levy Mark Oczkus	Prudential Real Estate Investors
Courtney McCarthy	Summit Partners

Attachment B

LIST OF GUESTS PRESENT

FRIDAY, OCTOBER 18, 2013

Brigid Flanagan Adam Schwartz Aliana Spungen	Angelo, Gordon & Co.
Bert A. "BJ" Kobayashi, Jr. Ian MacNaughton	BlackSand Capital, LLC
Karen Sprogis	The Blackstone Group
Vance Maddocks	CBRE Global Investors
Michael Humphrey Daniel Moore	Courtland Partners, Ltd.
Karl Fooks	State of Hawaii Department of Business, Economic Development, and Tourism; Hawaii Strategic Development Corporation
Nandana Kalupahana	State of Hawaii House Committee on Finance
Cathleen Ellsworth	First Reserve Corporation, LLC
Thomas Pulley	Fortress Investment Group
Paul Yett	Hamilton Lane Advisors, LLC
Pete Fawcett James Proud Paul Rezens Ryan Tripton	Heitman Capital Management, LLC
Jeff Cavanaugh Deirdre Perez Delia Roges Michael Sobolik	Invesco Real Estate
Andrew Betz	Macquarie Funds Management (USA), Inc.
Ronnie Gul Ryan Krauch	Mesa West Capital
Keith Gollenberg Francie Maletis	Oaktree Capital Management
Colin Bebee Neil Rue	Pension Consulting Alliance, Inc.
Brian Chee	Polaris Partners
Noah Levy Mark Oczkus	Prudential Real Estate Investors

Courtney McCarthy	Summit Partners
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