

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

SEPTEMBER 30, 2013

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

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

Trustee excused: Mr. Colbert Matsumoto

Attorney present: Ms. Diane Kishimoto, Deputy Attorney General

Staff present: Ms. Kanoë Margol, Assistant Administrator
Mr. Vijoy Chattergy, Chief Investment Officer (via conference call)
Ms. Donna Curry, Program Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Jaime Hirata, Recording Secretary
Ms. Raechele Joyo, Secretary
Ms. Wanda Kugiya, Secretary

Staff excused: Mr. Wesley Machida, Executive Director

Guests present: Mr. Neil Rue, Pension Consulting Alliance, Inc.

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 9:42 a.m.

APPROVAL OF MINUTES
– JULY 16, 2013

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board approved the minutes of its July 16, 2013 meeting, as circulated.

REVISIONS TO DERIVATIVES GUIDELINES

Mr. Vijoy Chattergy (via conference call), ERS's Chief Investment Officer (CIO), and Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's investment consultant presented for the Board's approval amendments to the ERS *Investment Policy, Guidelines, & Procedures* manual to include the interest rate caps and floors as an allowed derivative type. The amendment was requested by Blackrock Investment Management, which manages a global inflation-linked strategy in the real returns asset class. The CIO and PCA recommended that the Board consider and approve the proposed amendment to the Derivatives Guidelines.

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the amendment of sections C.3.C and C.3.F of the ERS *Investment Policy, Guidelines, & Procedures* to include interest rate caps and floors as permitted derivatives.

REVISIONS TO SECURITIES LITIGATION GUIDELINES

The CIO and Mr. Rue presented for the Board's approval an amendment to the ERS *Investment Policy, Guidelines, & Procedures* manual to include a policy regarding action to be taken by the custodial bank if a securities litigation claim is rejected by the claims administrator. Current policy states that the ERS's custodian will monitor and manage the timely filing of proof of claim in class action lawsuits, but is silent with regards to rejected claims. The absence of an express provision regarding required steps if a claim is rejected could jeopardize the ERS's ability to collect on claims to which the ERS is entitled. Therefore, the CIO and PCA recommended that the Board consider and approve the proposed amendment to the ERS's Securities Litigation Guidelines.

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved amendment of the Securities Litigation Guidelines in the ERS *Investment Policy, Guidelines, & Procedures* manual to include the following:

In the event that a claim is rejected by the claims administrator, the custodial bank shall promptly notify the appropriate investment manager(s), and together they will identify the best course of action to remedy the reasons for rejection if possible.

2013 VERIFICATION OF INVESTMENT MANAGER COMPLIANCE WITH ERS' DERIVATIVES POLICY

Mr. Rue reported on PCA's annual evaluation of the use of derivatives by the ERS's investment managers for the fiscal year ending June 30, 2013. All twenty-one of the ERS's funded managers were reviewed. Eight of the managers are utilizing derivatives during this period (Mellon Capital, Research Affiliates, Bradford & Marzec, PIMCO, Western Asset, Oechsle International, BlackRock, and Gateway).

2012 COMMISSION RECAPTURE PROGRAM ACTIVITY

Mr. Rue reported on PCA's annual evaluation of the ERS's Commission Recapture Program (Program) activity for calendar year 2012. Highlights included:

- ERS's managers directed \$754,666 in brokerage commissions through the Program, producing \$531,956 in credits to the ERS.
- Majority of directed trades went through BNY ConvergeEX.
- Sands Capital, one of ERS' active large cap growth managers, was granted an exemption from participating in the Program given their very low turnover and concentrated structure, by the Board at its November 13, 2012 meeting.
- The Board completed the review process to refresh the pool of participating brokerage firms by selecting BNY ConvergeEX, CAPIS, and Russell to participate in the Program going forward; contracting with these brokerage firms is underway.

In closing, PCA recommended that the ERS continue contract negotiations with the brokers selected to participate in the 2013 Program and that the ERS provide written notification annually to each of the participating investment managers summarizing the Program requirements. PCA also recommended that the ERS provide the participants with current list of the ERS's equity and covered calls managers on an annual basis, and work with the custodian and the investment managers to determine why there are differences in the reported commissions.

INVESTMENT COMMITTEE CHARTER

The CIO and PCA presented for the Board's approval the ERS Investment Committee Charter drafted by ERS staff and reviewed by Investment Committee Chair, Trustee Barfield.

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board adopted the Investment Committee Charter, as presented. A copy of the charter is attached to these minutes.

INVESTMENT MANAGER "WATCH STATUS" (GATEWAY INVESTMENT ADVISERS, LLC)

Mr. Rue reported on the status of Gateway Investment Advisers, LLC (Gateway). Gateway was hired in August 2011 to manage a covered calls strategy with the CBOE BXM as its benchmark. Gateway was placed on the "Watch List Status" in March 2013 due to organizational changes within the firm. ERS's investments with Gateway were valued at approximately \$289 million and \$294 million in the replication and non-replication funds, respectively, as of June 30, 2013. Because of stable performance and organizational improvements in recent months, the CIO and PCA recommended that to remove Gateway from "Watch List Status."

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board removed Gateway from "Watch List Status."

TRUSTEE ELECTIONS
- GENERAL EMPLOYEE SEAT
- RETIRANT SEAT

Chair Lee Loy reported on the nominations received to fill the general employee and retirant seats on the ERS Board of Trustees, for terms beginning on January 2, 2014. Ms. Jacqueline Ferguson-Miyamoto was proposed by the Hawaii Government Employees Association (HGEA) for the general employee seat and Mr. Emmit Kane was proposed by the Hawaii Fire Fighters Association (HFFA) for the retirant seat. No other candidates were proposed by any other employee organizations and no candidates filed petitions for candidacy. Because Ms. Ferguson-Miyamoto and Mr. Kane are unopposed for the respective positions for which they were proposed, staff recommended that the Board declare Ms. Ferguson-Miyamoto and Mr. Kane as duly and legally elected to the ERS Board of Trustees for six-year terms beginning on January 2, 2014.

On a motion made by Trustee Yamasaki, seconded by Trustee Barfield, and unanimously carried, the Board declared Ms. Ferguson-Miyamoto as duly and legally elected to a general employee seat on the ERS Board of Trustees for a six-year term beginning on January 2, 2014.

On a motion made by Trustee Yamasaki, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board declared Mr. Emmit Kane as duly and legally elected to the retirant seat on the ERS Board of Trustees for a six-year term beginning on January 2, 2014.

APPOINTMENT OF TRUSTEE TO
FILL VACANCY

On a motion made by Trustee Yamasaki, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board decided to interview the candidates for the vacant position of general employee trustee caused by the retirement of Emmit Kane, at the November 2013 Board meeting, with selection to follow.

NEXT BOARD MEETING

The Board discussed changing the date of the Board's next meeting from November 12, 2013, to November 13, 2013 in consideration of Veteran's Day holiday on November 11, 2013 and to accommodate the trustees' scheduling conflicts.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board entered executive session to approve executive session minutes of the July 16, 2013 Board meeting.

APPROVAL EXECUTIVE SESSION
MINUTES
- JULY 16, 2013

EXIT EXECUTIVE SESSION

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

REPORT ON REQUEST FOR
PROPOSALS FOR ASSISTANCE
WITH COMPUTING PENSION
BENEFIT PAYMENTS

Ms. Kanoë Margol, ERS Assistant Administrator, reported on the status of the ERS's request for proposals for assistance with computing pension benefit payments. Three proposals were received. KMH LLP and PKF Pacific Hawaii LP were awarded contracts to commence on October 1, 2013.

OPERATIONS REPORT
- AUGUST 2013

The Assistant Administrator presented the ERS monthly operations report for August 2013. In addition to the activities described in the written report, the Assistant Administrator reported that information regarding the new option factors effective January 2014 will be in the ERS newsletter "Holomua" and that ERS staff has been conducting briefing for ERS members on the new option factors.

(Trustee Young joined the meeting.)

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board adjourned the meeting at 10:18 a.m.

**REDACTED
SIGNATURE**

Kanoë Margol
Assistant Administrator

KM: jh

Attachment



Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
INVESTMENT COMMITTEE CHARTER

I. PURPOSE

The purpose of the Committee is to carry out the responsibilities delegated by the Board relating to the review and monitoring of the activities of the Investment Office and its staff.

II. COMMITTEE MEMBERSHIP

The Investment Committee (the "Committee") of the Board of Trustees (the "Board") of the Employees' Retirement System of the State of Hawaii (the "ERS") shall consist of no less than four (4) Board members and may include as many as all current members of the Board, and shall be appointed by the Board. The members of the Committee shall be appointed for one-year terms and shall serve for such term or terms as the Board may determine or until earlier resignation. The Board may remove any member from the Committee at any time with or without cause.

III. MEETINGS

The Committee shall meet before the Board meetings, except when there is a Special Board meeting, and at such other times and places as the members of the Committee deem necessary to fulfill the Committee's responsibilities. The Committee shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. The Committee may invite such member of management to its meetings as it deems appropriate. The Committee shall review this Charter at least annually and recommend any proposed changes to the Board for approval.



Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
INVESTMENT COMMITTEE CHARTER

IV. AUTHORITY AND RESPONSIBILITIES

The Board shall designate a member of the Committee as the chairperson.

The Committee shall have the following authority and responsibilities:

- To review and approve annually the ERS's goals and objectives applicable to the Investment Office.
- To review and approve ongoing activities of the Investment Office in regards to the goals and objectives and any additional tasks assigned to the Investment Office from the Board.
- To assign and provide direction to Chief Investment Officer (the "CIO") and (if applicable) the Executive Director (the "ED") on priorities and actions to successfully execute the responsibilities of the Investment Office.
- To review and make investment policies and guidelines recommendations for the Board's consideration.

The Committee shall consult with the ED on the goals and objectives applicable to the CIO and Investment Office.



Employees' Retirement System of the State of Hawaii
BOARD OF TRUSTEES
INVESTMENT COMMITTEE CHARTER

V. OUTSIDE ADVISORS

The Committee shall have the authority, in its sole discretion, to obtain the advice of any ERS consultant or ERS service provider the purposes of carrying out its duties related to the Investment Office and investment activities. The Committee shall have the authority, in its sole discretion, to obtain the advice and assistance of ERS's legal counsel and such other advisors as it deems necessary to fulfill its duties and responsibilities under this Charter. The Committee shall not be required to implement or act consistently with the advice or recommendations of its consultant, legal counsel or other advisor to the Committee, and the authority granted in this Charter shall not affect the ability or obligation of the Committee to exercise its own judgment in fulfillment of its duties under this Charter. The consultant(s), outside counsel and any other advisors retained by, or providing advice to, the Committee (other than the ERS's in-house counsel) shall be independent as determined in the discretion of the Committee and Board.

VI. PERFORMANCE EVALUATION

The Committee shall conduct an annual evaluation of the performance of its duties under this charter and shall present the results of the evaluation to the Board. The Committee shall conduct this evaluation in such manner as it deems appropriate.