

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

APRIL 14, 2014

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. Patrick Frane  
Mr. Colbert Matsumoto  
Mr. Emmit Kane  
Mr. Jerome Rauckhorst  
Mr. Kalbert Young

Staff present: Mr. Wesley Machida, Executive Director  
Ms. Kanoë Margol, Deputy Executive Director  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Aaron Au, Investment Officer  
Mr. Anthony Goo, Investment Officer  
Mr. Howard Hodel, Investment Officer  
Mr. Andrew Chen, Investment Specialist  
Mr. Ian Wetzel, Investment Specialist  
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

Attorneys present: Mr. Brian Aburano, Deputy Attorney General (Counsel for the Board)  
Ms. Elmira Tsang, Deputy Attorney General (Counsel for ERS staff)

Guests present: Ms. Kay Ceserani ) Pension Consulting Alliance, Inc.  
Mr. Neil Rue

Ms. Evangeline Bautista ) Local 5 Hawaii - Hilton

Ms. Joli Tokusato ) Local 5 Hawaii - Ilikai Hotel

Mr. Rodney Nakashima ) Local 5 Hawaii - Sheraton Waikiki

Mr. Benjamin Sadoski ) Local 5 Hawaii

QUORUM/CALL TO ORDER

A quorum being present, Chair Lee Loy, called the regular meeting of the Board of Trustees of the Employees' Retirement System (Board), to order at 11:09 a.m.

AMENDMENT OF THE AGENDA

On a motion made by Trustee Kane, seconded by Trustee Barfield, and unanimously carried, the Board amended the agenda pursuant to HRS § 92-7(d) to add a presentation by Local 5 Hawaii (Local 5).

PRESENTATION BY LOCAL 5

Mr. Brian Aburano, Deputy Attorney General assigned to the Board, advised that although the Board has amended the agenda to allow Local 5, as members of the public, to make a presentation to the Board, the Board may not discuss, deliberate, or decide on matters of reasonably major importance raised by the presentation and that the Board is not required to answer questions.

Mr. Benjamin Sadowski of Local 5 Hawaii, Ms. Evangeline Bautista (an employee at the Hilton), Mr. Rodney Nakashima (an employee at the Sheraton Waikiki), and Ms. Joli Tokusato (an employee at the Ilikai Hotel) provided the Board with written materials and spoke to the Board about issues affecting hotel workers and how Local 5 thought that local institutional investors such as the ERS could affect the employment challenges facing hotel workers in the State of Hawaii.

Upon the conclusion of their presentation, the representatives from Local 5 Hawaii left the meeting.

APPROVAL OF MINUTES

– FEBRUARY 10, 2014

– FEBRUARY 21, 2014

On a motion made by Trustee Matsumoto, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes of its February 10, 2014 and February 21, 2014 meetings.

REQUEST BY PRUDENTIAL REAL ESTATE INVESTORS FOR THE EMPLOYEES' RETIREMENT SYSTEM, AS LIMITED PARTNER, TO APPROVE "KEY MAN B" REPLACEMENT OF THE AGREEMENT OF LIMITED PARTNERSHIP OF THE SENIOR HOUSING PARTNERSHIP FUND IV, L.P.

Mr. Vijoy Chattergy, Chief Investment Officer (CIO), presented a request by Prudential Real Estate Investors to change the key man for the Senior Housing Partnership Fund IV, L.P. - to add Steve Blazejewski as the replacement for John Dark, who retired in March 2014. The CIO reported that ERS staff and Courtland Partners, Ltd. (Courtland), ERS' real estate investment consultant, have evaluated the request and note no immediate changes in fund operations due to Mr. Dark's retirement. ERS staff and Courtland recommend approval of the request.

On a motion made by Trustee Barfield, seconded by Trustee Matsumoto, and unanimously carried, the Board approved Steve Blazejewski as the replacement for John W. Dark as "Key Man B" pursuant to Section 3.12(a) of the Agreement of Limited Partnership of the Senior Housing Partnership Fund IV, L.P.

REPORT BY TRUSTEES APPOINTED PURSUANT TO HRS 92-2.5(b), TO MEET WITH REPRESENTATIVES OF INVESCO REAL ESTATE TO INVESTIGATE THE STATUS OF THE CORE SEPARATE REAL ESTATE ACCOUNT

The CIO reported for the Board's ad hoc committee of trustees who were appointed to meet with representatives of Invesco Real Estate. Invesco Real Estate is one of the two remaining core real estate separate account managers. The meeting was conducted as part of the ERS' ongoing review of its core real estate separate accounts and to possibly restructure the allocation to core separate accounts.

LEGISLATIVE PROPOSALS  
AFFECTING THE EMPLOYEES'  
RETIREMENT SYSTEM

Mr. Wesley Machida, Executive Director (Executive Director), reported on the status of the following legislative proposals that were introduced by the ERS:

- House Bill (H.B) 2264/Senate Bill (S.B) 2813 relating to the investment authority of the ERS to repeal the limitation on the holding period of real estate acquired by the ERS by foreclosure, enforcement of security, or in satisfaction of debts, has been passed by its respective subject-matter committees and has been transferred to the Governor for approval which is likely because this proposal is part of the Governor's administrative package for 2014 Legislature.
- H.B. 2263, House Draft (H.D.) 2/S.B. 2812 relating to unused sick leave for public employees who become members of the ERS after June 30, 2014 has not been heard by the Senate and has not been scheduled for hearing, so is presumed "dead" for this session.

The Executive Director also reported on the status of the following ERS-related proposals that have been introduced in the legislature:

- The Senate disagrees with the House amendments to S.B. 1038, Senate Draft (S.D.) 2, H.D. 2, authorizing the court to decree the forfeiture of ERS benefits to ERS members convicted of an employment-related felony; the Executive Director will meet with the House to request that the "date of conviction" be put back into the language of the proposal.
- The Legislature amended S.B. 2916, S.D. 2, H.D. 1 regarding requiring employers to furnish personnel and payroll information to the ERS in ERS-required format, and penalties the employers/respective agencies for non-compliance, by removing the penalty for non-compliance and instead, will have the non-compliant employers/agencies reported to the Legislature via "non-compliance hearings."

ERS staff and the trustees further discussed their concerns with the proposed removal of the penalty for non-compliance from S.B. 2916, S.D.2, H.D. 1 and that although the penalty would be a significant impact to the State Department of Budget and Finance (B&F) because various employer contributions flow through B&F, that by removing the penalty would defeat the purpose of the bill. The Executive Director will continue to meet and communicate with the legislators to follow-up on their concerns with this bill.

RESPONSES TO THE EMPLOYEES'  
RETIREMENT SYSTEM'S REQUEST  
FOR PROPOSALS FOR  
CHAIRPERSON AND MEMBERS OF  
THE MEDICAL BOARD OF THE  
EMPLOYEES' RETIREMENT SYSTEM

The Executive Director reported that there were three proposals received in response to ERS' request for proposals (RFP) for a chairperson and members of the Medical Board of the ERS (Medical Board), for a term of three years with the option to extend for an additional two years. The respondents were Patricia L. Chinn, M.D., Gerald J. McKenna, M.D., and Howman Lam, M.D., all of whom are current members of the Medical Board.

The Executive Director noted that the RFP requires identical compensation amounts for the two members of the Medical Board. However, Dr. Chinn receives a higher compensation since she, as chairperson of the Medical Board, performs all the administrative work of the Medical Board, does the bulk of the work involved in reviewing disability retirement and accidental death applications, and generally represents the Medical Board at the contested case hearings. ERS staff requested that the Board authorize the Executive Director to negotiate a single compensation amount with Drs. McKenna and Lam and a higher compensation amount with Dr. Chinn.

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved Dr. Chinn as the chairperson of the Medical Board and Drs. McKenna and Lam as members of the Medical Board, and authorized the Executive Director to negotiate a single compensation amount with Drs. McKenna and Lam and to negotiate a higher compensation amount with Dr. Chinn.

RECESS

Chair Lee Loy called a recess.

RECONVENE

Chair Lee Loy reconvened the meeting.

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)(8), to hear a report from Macquarie Funds Group (USA) Inc. on organizational changes affecting the Macquarie HiTIP Fund I, L.P. (Fund) and to consider, and if appropriate to act on, a request that the ERS, as a Limited Partner, consent to and approve the following changes to: (1) to replace the General Partner of the Fund with Stafford HiTIP GP, LLC; (2) to convert the existing General Partner's interest in the Fund into a special non-voting limited partnership interest; (3) to appoint Stafford Private Equity Inc. as investment manager to the Fund; (4) to amend the Fund's name to Stafford HiTIP Fund I, L.P.; and (5) to amend the limited partnership agreement of the Fund to reflect these and other changes.
- 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 with respect to the laws, policies, and procedures pertaining to Board meetings and the ERS Investment Program.
- Pursuant to HRS § 92-5(a)(8), to consider a report from Pension Consulting Alliance, Inc. regarding a survey and review of investment fees.
- To approve Executive Session Minutes of the February 10, 2014 and February 21, 2014 Board meetings.

EXECUTIVE SESSION TO HEAR A REPORT FROM MACQUARIE FUNDS GROUP (USA) INC. ON ORGANIZATIONAL CHANGES AFFECTING THE MACQUARIE HiTIP FUND I, L.P. (FUND) AND TO CONSIDER, AND IF APPROPRIATE TO ACT ON, A REQUEST THAT THE EMPLOYEES' RETIREMENT SYSTEM, AS A LIMITED PARTNER, CONSENT TO APPROVE THE FOLLOWING CHANGES TO THE FUND

(Trustee Matsumoto 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  
WITH RESPECT TO THE LAWS,  
POLICIES, AND PROCEDURES  
PERTAINING TO BOARD MEETINGS  
AND THE EMPLOYEES'  
RETIREMENT SYSTEM'S  
INVESTMENT PROGRAM

EXECUTIVE SESSION TO CONSIDER  
A REPORT FROM PENSION  
CONSULTING ALLIANCE, INC.  
REGARDING A SURVEY AND  
REVIEW OF INVESTMENT FEES

APPROVAL OF EXECUTIVE SESSION  
MINUTES

- FEBRUARY 10, 2014
- FEBRUARY 21, 2014

EXIT EXECUTIVE SESSION

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

OPERATIONS REPORT  
- MARCH 2014

The Executive Director presented the monthly update on ERS operations and ERS website statistics (top 10 viewed pages) for March 2014. Highlights included:

- ERS staff conducted two (2) "Brown Bag Information Sessions" at the University of Hawaii in an on-going effort to educate active employees during their lunch hour on their retirement benefits. Survey indicated positive comments on the information and the "Questions and Answers" portion.
- Update on the status of the ERS' operating expense budget as of February 28, 2014; ERS staff will continue to provide the Board with a monthly update on the operating expense budget.
- Top ten viewed web pages of the ERS' website included the benefits calculator still holding at number one since October 2013.

NEXT BOARD MEETING  
– MAY 13, 2014

Chair Lee Loy announced that the next Board meeting is scheduled for May 13, 2014.

ADJOURNMENT

On a motion made by Trustee Barfield, seconded by Trustee Kane, and unanimously carried, Chair Lee Loy adjourned the meeting at 1:54 p.m.

**REDACTED  
SIGNATURE**

Wesley K. Machida  
Executive Director

WKM: jh