

REGULAR MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
HELD ON TUESDAY, MAY 15, 2012
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII

ROLL CALL

Trustees present: Mr. Colbert Matsumoto, Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Vincent Barfield
Mr. Emmitt Kane
Ms. Pilialoa Lee Loy
Mr. Jerome Rauckhorst
Mr. Wayne Yamasaki

Trustee excused: Mr. Kalbert Young

Attorney present: Ms. Diane Kishimoto, Deputy Attorney General

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

Guests present: Mr. Pawan Chaturvedi) Altius Associates
Mr. Garth Troxell

Mr. John Linder) Pension Consulting Alliance
Mr. Neil Rue

Mr. Johnathan Aggett) Hancock Natural
Mr. Corbitt Simmons Resources Group

QUORUM/CALL TO ORDER

A quorum being present, Chair Matsumoto called the regular meeting of the Board of Trustees of the Employees' Retirement System of the State of Hawaii (the Board), to order at 11:39 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 to include the following item in Executive Session:

- pursuant to HRS § 92-5(a)(4) and (8), to consider the extension of the legal services contract of J. Thomas Maloney and to consider the retention of outside legal counsel for investments.

- Selection and contracting are scheduled for August 2012.

The CIO requested a search committee be formed to evaluate the responses to the RFI and to select finalists for recommendation to the Board for consideration and selection.

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved the creation of an ad hoc search committee to evaluate the responses to the RFI and to select finalists for recommendation to the Board for their consideration and selection of up to two managers.

Chair Matsumoto appointed the following members to serve on the ad hoc search committee:

- Vince Barfield
- Piliialoha Lee Loy
- Kalbert Young

ENTRY INTO EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session pursuant to HRS § 92-5(a)(4) and (8), to consider the extension of the legal services contract with J. Thomas Maloney and to consider the retention of outside counsel for investments.

EXECUTIVE SESSION TO CONSIDER THE EXTENSION OF THE LEGAL SERVICES CONTRACT WITH J. THOMAS MALONEY AND TO CONSIDER THE RETENTION OF OUTSIDE COUNSEL FOR INVESTMENTS

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board exited from Executive Session.

(Trustee Kane returned to the meeting.)

OVERPAYMENT POLICY AND REQUESTS FOR FORGIVENESS OF OVERPAYMENTS

The Administrator reported on the status of the requests for forgiveness of overpayments. The Board's Administrative Committee met on May 8, 2012 and recommended that the Board adopt the following, which are consistent with the procedures adopted by the Board on March 14, 2011:

- ERS staff is authorized to take all legal means to collect pension overpayments under HRS § 88-106; and
- The Board will deny all pending requests for forgiveness of pension overpayments that have been collected by the ERS

APPROVAL OF MINUTES –
REGULAR MEETING, SEPTEMBER 12,
2011

ENTRY INTO EXECUTIVE SESSION

EXECUTIVE SESSION TO CONSIDER,
DELIBERATE, AND ACT ON ACTUARIAL
FACTORS FOR DETERMINING
EMPLOYER ASSESSMENTS

APPROVAL OF EXECUTIVE SESSION
MINUTES – SEPTEMBER 12, 2011

EXECUTIVE SESSION TO CONSIDER,
DELIBERATE, AND ACT ON HANCOCK
NATURAL RESOURCES GROUP
PORTFOLIO UPDATE AND 2012
TACTICAL PLAN

EXIT EXECUTIVE SESSION

KMH LLP INTERNAL AUDIT PLAN

On a motion made by Trustee Kane, seconded by Trustee Lee Loy, and unanimously carried, the Board authorized ERS staff to take all legal means to collection pension overpayments and denied all pending requests for forgiveness of pension overpayments that have been collected by the ERS.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Lee Loy, and unanimously carried, the Board approved the minutes of the September 12, 2011 meeting of the Board.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Lee Loy, and unanimously carried, the Board entered into Executive Session:

- Pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on actuarial factors for determining employer assessments;
- To approve the Executive Session minutes of the regular Board meeting of September 12, 2011; and
- Pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on Hancock Natural Resources Group portfolio update and 2012 Tactical Plan.

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

On a motion made by Trustee Lee Loy, seconded by Trustee Kane, and unanimously carried, the Board exited from Executive Session.

The Administrator reported that the ERS' contract with KMH LLP (KMH), for internal audit services, terminates in July 2013. The Administrator presented KMH's proposed internal audit work plan schedule/timeline for July 1, 2013 through June 30, 2014 (Year 2), if the ERS were to extend KMH's contract. The Administrator reported that ERS' Audit Committee recommended an extension of KMH's contract until June 30, 2014, as well as KMH's proposed work plan.

On a motion made by Trustee Kane, seconded by Trustee Lee Loy, and unanimously carried, the Board approved (1) the extension of KMH's contract from July 1, 2013 to June 30, 2012, and (2) the internal audit work plan through June 30, 2014.

IMPLEMENTATION OF ACT 163, SESSION LAWS OF HAWAII 2011

The Administrator reported on the status the implementation of Act 163, Session Laws of Hawaii 2011, which provides for a new ERS benefit structure for public employees who become ERS members after June 30, 2012. The ERS anticipates that employer computer systems will require testing and review of the modifications to accommodate the different requirements for current and new employees under Act 163 and legislation passed in the 2012 legislative session. The ERS has been consulting with Vitech on the possible modifications that would be needed. In addition, the ERS will hold meetings with the Department of Accounting and General Services (DAGS) and all employers to discuss the changes to payroll operations.

RELOCATION OF ERS OFFICES WITHIN CITY FINANCIAL TOWER

The Administrator informed the Board about the progress of the relocation of some of the ERS offices within City Financial Tower (CFT). The Administrator distributed a copy of the diagrams of the current space on the 9th and 16th floors, the proposed architect blueprints for the 2nd and 12th floors, and the letter the ERS sent to the Hawaii Government Employees Association (HGEA) to request consultation regarding the relocation of ERS staff on the 9th and 16th floors of CFT. The Administrator noted that the ERS has given the HGEA a response deadline of May 15, 2012 and to date, has not received a response, so the ERS will move forward with the relocation in order to maximize leasing revenue from the building to help improve the ERS's funded status.

ACTUARIAL STUDY OF THE HAWAII STATE TEACHERS ASSOCIATION – RETIRED'S POST RETIREMENT ALLOWANCE PROPOSAL

The Administrator informed the Board that the Hawaii State Teachers Association – Retired (HSTA-R) met with the Administrative Committee to discuss post retirement allowances. The Administrator distributed a copy of HSTA-R's presentation handout. The Administrative Committee recommended that the Board consider HSTA-R's proposal and have the actuary do a study on the proposal. The Administrator noted that the proposal may be considered a "benefit enhancement" and reported that the ERS's actuary would charge \$1,500 for the study.

On a motion made by Trustee Kane, seconded by Trustee Lee Loy, and unanimously carried, the Board instructed the Administrator to have the ERS's actuary do a study on HSTA-R's proposal, to determine whether the proposal can be achieved on cost neutral basis.

LEGISLATIVE PROPOSALS AFFECTING THE EMPLOYEES' RETIREMENT SYSTEM

The Administrator provided an update on the legislative proposals affecting the ERS that were considered by the Legislature during the 2012 legislative session:

- House Resolution Number 94 (H.R. 94), encouraging "Socially Responsible Investment" (SRI), was adopted by

the House of Representatives. PCA will review the ERS's Investment Policies and will provide recommendations for revisions, if necessary.

- Senate Bill 1269, amending the definition of "compensation" for ERS members who become ERS members after June 30, 2012, was passed by the legislature and is awaiting the Governor's approval.
- House Bill 2487, requiring employers to pay the costs associated with "pension spiking" and also making housekeeping amendments to the amendments made by Act 163/SLH 163, was passed by the legislature and is awaiting the Governor's approval.
- Senate Bill 2751, requiring that two members of the ERS Board of Trustees have at least three years of investment experience, was passed by the legislature and was approved by the Governor as Act 72.
- The Legislature did not pass the "judges parity" amendment, which was intended to restore the age and service requirements for retirement for current ERS members who become judges after June 30, 2012, to the same requirements of other Contributory Plan members who are currently ERS members.

EMPLOYEES' RETIREMENT SYSTEM OPERATIONS REPORT

NEXT MEETING –
JUNE 12, 2012

MEETING ADJOURNED AT 2:35 P.M.

The Administrator distributed a report of the ERS' operations for March 2012 that outlined the status of staffing, major achievements and plans, and benefits activities.

Chair Matsumoto announced that the next Board meeting is scheduled for June 12, 2012.

There being no further business, on a motion made by Trustee Lee Loy, seconded by Trustee Kane, and unanimously carried, the Board adjourned the meeting at 2:35 p.m.

REDACTED SIGNATURE

Wesley K. Machida
Administrator

WKM: jh