

MINUTES OF THE REGULAR BOARD MEETING OF THE  
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM (ERS)  
APRIL 8, 2013  
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935  
HONOLULU, HAWAII

Trustees present: Mr. Emmit Kane, Chair  
Mr. Vincent Barfield, Vice Chair  
Ms. Piliialoha Lee Loy  
Mr. Colbert Matsumoto  
Mr. Jerome Rauckhorst  
Mr. Wayne Yamasaki  
Mr. Kalbert Young

Trustee excused: Ms. Jackie Ferguson-Miyamoto

Attorneys present: Mr. Brian Aburano, Deputy Attorney General  
Ms. Diane Kishimoto, Deputy Attorney General

Staff present: Mr. Wesley Machida, Administrator  
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

Guests present: Ms. Carmen English ) KMH, LLP  
Ms. Maria Montero

Mr. Neil Rue ) Pension Consulting Alliance, Inc.  
Mr. Colin Bebee

Mr. Pavlos Alexandrakis ) Quantitative Management Associates, LLC  
Mr. Brad Allinson

Mr. Jeff Wilson ) Research Affiliates, LLC

CALL TO ORDER/QUORUM

A quorum being present (Trustees Kane, Matsumoto, Rauckhorst, Yamasaki and Young), Mr. Emmit Kane, Chair of the Board of Trustees of the Employees' Retirement System (ERS), called the regular meeting of the Board of Trustees of the ERS (the Board) to order at 9:37 a.m.

## 2013 LEGISLATIVE PROPOSALS AFFECTING THE ERS

Mr. Wesley Machida, ERS Administrator (Administrator), reported on the status of 2013 legislative proposals affecting the ERS. Three of the four ERS proposals progressed through the Legislature:

- H.B. 805, H.D. 1, S.D. 1 - Relating to the Federal Tax Qualification of the ERS; passed with non-substantive amendments; expected to go to conference committee.
- H.B. 808, H.D. 1, S.D. 1 - Relating to the ERS Civil Unions; passed with non-substantive amendments; expected to go to conference committee.
- S.B. 1036 – Relating to ERS Personnel; passed unamended and sent to Governor.

The Administrator also reported that the Senate Judiciary and Labor Committee scheduled a hearing on April 10 to consider the confirmation of Trustee Colbert Matsumoto to a new term on the ERS Board.

## ERS BOARD OF TRUSTEES COMMITTEE ASSIGNMENTS

Chair Kane recommended that the Board's Administrative and Legislative Committees be combined and that the combined committee include the following committee members:

- Jackie Ferguson-Miyamoto, Chair
- Piliialoha Lee Loy
- Jerry Rauckhorst
- Wayne Yamasaki

On a motion made Trustee Rauckhorst, seconded by Trustee Yamasaki, and unanimously carried, the Board approved combining the Administrative and Legislative Committees and the Chair's proposed committee membership and Chair.

## HAWAII STATE TEACHERS ASSOCIATION (HSTA) RETIRED – POST RETIREMENT PROPOSAL

The Administrator reported on the status of the study prepared by the ERS's actuary, Gabriel Roeder Smith & Company (GRS) in response to a proposal the ERS received from the Hawaii State Teachers' Association (HSTA-Retired) to change the post retirement allowance for new members of the ERS to a graduated increase. The Administrator noted that at its April 5, 2013, the Administrative Committee reviewed the proposal and study and recommended that GRS expand their study to include a cost-neutral, graduated post retirement schedule based on the current life expectancy tables of the ERS population. The Administrator requested the Board's approval of this additional impact study, which will cost \$1,500.

Trustee Yamasaki moved that the Board instruct Gabriel Roeder Smith & Company to expand their post retirement allowance study to include a cost-neutral, graduated post retirement schedule based on the current life expectancy tables of the ERS population. Trustee Matsumoto

seconded the motion. The motion failed: Trustees Yamasaki and Kane voted aye; Trustees Matsumoto, Rauckhorst and Young voted nay.

(Vice Chair Vincent Barfield joined the meeting.)

Mr. Vijoy Chattergy, ERS Chief Investment Officer (CIO), prefaced the presentations by representatives of Quantitative Management Associates, LLC (QMA) and Research Affiliates, LLC (Research Affiliates) by noting that the theme of the manger presentations is emerging markets.

PRESENTATION BY  
QUANTITATIVE MANAGEMENT  
ASSOCIATES, LLC ON THE  
PERFORMANCE OF THE ERS'S  
PORTFOLIO

Mr. Pavlos Alexandrakis and Mr. Brad Allison of QMA presented QMA's review of the performance of the ERS's emerging markets core equity investments managed by QMA for the ERS. Highlights included:

- QMA's Chief Investment Officer retired; Chief Investment Officer is now Roy Henriksson.
- \$249.6 million assets under management as of 2/28/13.

There being no further questions or discussion, Mr. Alexandrakis and Mr. Allinson left the meeting.

(Trustee Lee Loy arrived at the meeting.)

PRESENTATION BY RESEARCH  
AFFILIATES, LLC ON THE  
PERFORMANCE OF THE ERS'S  
PORTFOLIO

Mr. Jeff Wilson of Research Affiliates presented Research Affiliates review of the performance of the ERS's emerging markets investments managed by Research Affiliates for the ERS. Highlights included:

- ERS funded an additional \$150 million in March 2013.
- As of 2/28/13, outperformed the benchmark since inception by 50 basis points net of fees.
- Uses fundamental based index.
- Partnered with Pacific Investment Management Company, LLC (PIMCO).

There being no further questions or discussion, Mr. Wilson left the meeting.

PRESENTATION BY PENSION  
CONSULTING ALLIANCE, INC. ON  
RISK MANAGEMENT AND  
STRATEGIC CLASSES – BROAD  
GROWTH RISK CLASS

Mr. Colin Bebee and Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's investment consultant, presented PCA's report on risk management and strategic classes for broad growth risk class.

PCA believes that the use of a risk-based framework for asset allocation, although relatively new, is not a fad and is a direction in which the ERS should be moving to meet future challenges in investment markets, such as increased volatility and more frequent bear markets. Public pension plans in other states, such as Alaska, Texas and California are moving in this direction. A risk-based approach to asset allocation has been adopted by public pension plans in Denmark, Canada and Australia.

The members of the Board indicated that they are receptive to a continued discussion of a risk allocation framework.

RECESS

Chair Kane called a recess for lunch at 12:09 p.m.

RECONVENE

A quorum being present (Trustees Kane, Barfield, Rauckhorst, Yamasaki and Young), Chair Kane reconvened the meeting at 12:42 p.m.

APPROVAL OF MINUTES  
- JANUARY 14, 2013

On a motion made by Trustee Yamasaki, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved the minutes of the January 14, 2013 Board meeting.

REPORT BY ADMINISTRATOR

The Administrator reported that, based on discussions with Bank of New York Mellon, it is in the best interests of the ERS for the change in custodian to take place at the beginning of the fiscal year. Therefore, the Northern Trust contract has been extended to June 30, 2013 and the Bank of New York Mellon contract will become effective as of July 1, 2013.

The Administrator also reported that contract negotiations with Hamilton Lane, the new private equity consultant have been completed.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Yamasaki, 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 regarding a number of member, retirant, and beneficiary requests for waiver of overpayment under HRS § 88-106; 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 of counsel for same; 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 the agency appeal, Cora L. Nitta v. Board of Trustees, Employees' Retirement System, State of Hawaii, Civil No. 12-1-2297-09 (RAN), First Circuit Court, State of Hawaii; appropriate action;
- pursuant to HRS § 92-5(a)(8), to consider a report on the status of the Royal Ka'anapali Golf Courses;
- pursuant to HRS § 92-5(a)(8), to consider the draft auditor's report and financial statements of the ERS; appropriate action;
- to consider the Executive Session Minutes of the January 14, 2013 meeting.

(Trustees Lee Loy and Matsumoto returned to the meeting.)

(Ms. English and Ms. Montero 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 NUMBER OF MEMBER, RETIRANT, AND BENEFICIARY REQUESTS FOR WAIVER OF OVERPAYMENT UNDER HRS § 88-106.

(Trustee Young 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 COUNSEL FOR SAME

(Trustee Young returned to the meeting.)

(Messrs. Rue and Bebee 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 THE AGENCY  
APPEAL, CORA L. NITTA V. BOARD  
OF TRUSTEES, EMPLOYEES'  
RETIREMENT SYSTEM, STATE OF  
HAWAII, CIVIL NO. 12-1-2297-09  
(RAN), FIRST CIRCUIT COURT,  
STATE OF HAWAII

EXECUTIVE SESSION TO  
CONSIDER A REPORT ON THE  
STATUS OF THE ROYAL  
KAANAPALI GOLF COURSES

(Mr. Aburano left the meeting.)

EXECUTIVE SESSION TO  
CONSIDER THE DRAFT AUDITOR'S  
REPORT AND FINANCIAL  
STATEMENTS OF THE ERS

APPROVAL OF EXECUTIVE  
SESSION MINUTES  
- JANUARY 14, 2013

EXIT EXECUTIVE SESSION

On a motion made by Trustee Matsumoto, seconded by Trustee Lee Loy, and unanimously carried, the Board exited from executive session.

NEXT BOARD MEETING  
- MAY 16, 2013

The Administrator announced that the next Board meeting is scheduled for May 16, 2013.

ADJOURNMENT

There being no further business, on a motion made by Trustee Lee Loy, seconded by Trustee Matsumoto and unanimously carried, the Board adjourned the meeting at 1:13 p.m.

## **REDACTED SIGNATURE**

Wesley K. Machida  
Administrator

WKM: jh