

MINUTES OF THE REGULAR BOARD MEETING OF THE
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM (ERS)
MAY 16, 2013
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII

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

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

Staff present: Mr. Wesley Machida, 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

Staff excused: Ms. Kanoe Margol, Assistant Administrator

Guests present: Ms. Katie Stokel) Abbott Capital Management, LLC
Mr. Jonathan Roth

Mr. Michael Humphrey) Courtland Partners, Ltd.
Mr. Dan Moore

Mr. Paul Yett) Hamilton Lane Advisers, LLC

Mr. Jim Proud) Heitman Capital Managment

Mr. Andy Betz) Macquarie Funds Group USA
Mr. Rick Fratus

Mr. Hank Kim) National Conference on Public
Employee Retirement Systems

Ms. Yulia Oryol) Nossaman LLP

Mr. Colin Bebee) Pension Consulting Alliance, Inc.
Ms. Kay Ceserani

CALL TO ORDER/QUORUM

A quorum being present, Mr. Vince Barfield, Vice Chair of the Board of Trustees of the Employees' Retirement System (ERS), called the regular meeting of the Board of Trustees of the ERS (Board) to order at 10:00 a.m.

PRESENTATION BY YULIA ORYOL OF NOSSAMAN LLP

Ms. Yulia Oryol of Nossaman LLP, Special Deputy Attorney General for the ERS's real estate commingled funds and private equity investments gave a presentation to the Board regarding her firm, her legal background, the nature of the legal services she has been providing to the ERS, and legal considerations pertaining to real estate commingled funds and private equity investments.

PRESENTATION BY COURTLAND PARTNERS, LTD. ON THE PERFORMANCE OF THE ERS'S REAL ESTATE PORTFOLIO FOR 4TH QUARTER 2012.

Mr. Michael Humphrey and Mr. Dan Moore of Courtland Partners, Ltd. (Courtland) presented Courtland's Performance Measurement Report of the ERS's real estate portfolio for 4th quarter 2012. Highlights included:

- Portfolio market value of \$908,584,503 for period ended December 31, 2012
- Total number of current investments - 17
- 3.9% total net return for the quarter; 14.7% year to date
- 6.9% internal rate of return for total portfolio
- Sale of University Park Village for \$103 million contributed \$95 million to the portfolio for 4th quarter 2012
- 9.5% income growth
- \$146 million total distributions (does not include sale of University Park Village)

(Chair Emmitt Kane joined the meeting.)

PRESENTATION BY HANK KIM FROM THE NATIONAL CONFERENCE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS (NCPERS) ON PENSION FUND INDUSTRY NATIONAL TOPICS

Mr. Hank H. Kim, Executive Director and Counsel of the National Conference on Public Employee Retirement Systems (NCPERS) gave a presentation regarding NCPERS, NCPERS's position on protecting and promoting public pensions, and national topics pertaining to the pension fund industry. Mr. Kim also gave a brief overview of the NCPERS 2013 Annual Conference and Exhibition and NCPERS 2013 Trustee Educational Seminar scheduled for Saturday, May 18, 2013 through May 23, 2013 at the Hilton Hawaiian Village in Honolulu, Hawaii.

PRESENTATION BY PENSION CONSULTING ALLIANCE, INC. ON THE PERFORMANCE OF THE ERS'S INVESTMENT PORTFOLIO AND

Mr. Colin Beebee and Ms. Kay Ceserani of Pension Consulting Alliance, Inc. (PCA), ERS's investment consultant, presented PCA's Investment Portfolio Performance and Risk Measurement Reports for the ERS's investments for 1st quarter 2013. Highlights included:

RISK MANAGEMENT FOR 1ST
QUARTER 2013

- Aggregate value of \$12.3 billion as of March 31, 2013
- Portfolio increased by \$416.5 million during the 1st quarter, and by \$780.3 million over the last year
- Allocations to domestic and international equities increased by 2.4% and 2.2% respectively
- Allocation to total fixed income decreased by 3.1%
- 4.7% return for 1st quarter matched the ERS's Investment Policy benchmark, while underperforming the Median Public Fund return of 5.1% (40 basis points) primarily due to selection in International and Domestic Equities
- The final phase of the ERS's evolving strategic allocation policy targets, undertaken as a result of the 2009-2010 ERS Asset-Liability study, is planned to take effect July 1, 2013
- ERS policy portfolio's risk allocation is currently consistent with asset allocation
- Growth risk is 86% of the policy portfolio's explainable risk
- Total plan risk has converged with Policy risk, both of which continued on a declining trend during the 1st quarter, effectively ending at 5-year lows.

RECESS

Chair Kane called a recess for lunch at 11:48 a.m.

RECONVENE

Chair Kane reconvened the meeting at 12:10 p.m.

ENTER EXECUTIVE SESSION

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

- Pursuant to HRS § 92-5(a)(8), to hear a status report from Macquarie Funds group (USA) Inc. on HiTIP; appropriate action
- Pursuant to HRS § 92-5(a)(8), consider Abbott Capital Management, LLC's Pacing Model Study; appropriate action
- Pursuant to HRS § 92-5(a)(8), to consider a report from Hamilton Lane Advisors, LLC regarding private equity program strategy overview; appropriate action
- Pursuant to HRS § 92-5(a)(8), to consider and, if appropriate, to make a decision regarding Courtland Partners, Ltd's

recommendations regarding structure of the ERS's core real estate portfolio

- Pursuant to HRS § 92-5(a)(8), to consider a report on the status of the Royal Ka'anapali Golf Courses; appropriate action
- Approve executive session minutes of the February 11, 2013 and March 11, 2013 Board meetings

EXECUTIVE SESSION TO HEAR A STATUS REPORT FROM MACQUARIE FUNDS GROUP (USA) INC. ON HiTIP

EXECUTIVE SESSION TO CONSIDER ABBOTT CAPITAL MANAGEMENT, LLC'S PACING MODEL STUDY

EXECUTIVE SESSION TO CONSIDER A REPORT FROM HAMILTON LANE ADVISERS, LLC REGARDING PRIVATE EQUITY PROGRAM STRATEGY OVERVIEW

EXECUTIVE SESSION TO CONSIDER AND, IF APPROPRIATE, TO MAKE A DECISION REGARDING COURTLAND PARTNERS, LTD. RECOMMENDATIONS REGARDING STRUCTURE OF THE ERS'S CORE REAL ESTATE PORTFOLIO

EXECUTIVE SESSION TO CONSIDER A REPORT ON THE STATUS OF THE ROYAL KA'ANAPALI GOLF COURSES

APPROVAL OF EXECUTIVE SESSION MINUTES

- FEBRUARY 11, 2013
- MARCH 11, 2013

EXIT EXECUTIVE SESSION

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

(Trustee Matsumoto exited the meeting and did not return for the remainder of the meeting.)

APPROVAL OF MINUTES

- FEBRAURY 11, 2013
- MARCH 11, 2013

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes of the February 11, 2013 and March 11, 2013 Board meetings.

INVESTMENT MANAGER WATCH STATUS (C.S. MCKEE, L.P)

Mr. Vijoy Chattergy, ERS Chief Investment Officer (CIO) and PCA reported that as of March 31, 2013, on a rolling 12-month basis, CS McKee, L.P. (CS McKee) had underperformed its benchmark for the last three consecutive months and recommended that the CS McKee active U.S. large cap value equity portfolio account be placed on the “Watch List” beginning June 1, 2013 - triggering short-term relative to benchmark investment manager monitoring criteria in accordance with the ERS Watch List Policy.

On a motion made by Trustee Lee Loy, seconded by Trustee Barfield, and unanimously carried, the Board approved placing CS McKee on the “Watch List” due to underperformance, beginning June 1, 2013 to be closely monitored over the next 9 to 15-month period.

PROPOSED PRIVATE EQUITY REPORTING REQUIREMENTS

The CIO reported that the ERS’s internal auditor, KMH LLP (KMH), found that the actual practice of private equity portfolio reporting has not been in compliance with the policy language currently in the ERS Investment Policy, Guidelines, & Procedures Manual. KMH, PCA, and ERS staff recommended that the Board should consider policy language that is more realistic to actual practice to review and consider for inclusion as a part of the ERS Investment Policy, Guidelines, & Procedures Manual in section “E.5.a” to cover quarterly reporting requirements to 90-120 days from 45 days within quarter-end. In addition, it was recommended that the policy in section E.5.c. be changed to increase the time for delivery of the Annual Tactical Plan from 60 to 90 days of calendar year end.

On a motion made by Trustee Yamasaki, seconded by Trustee Lee Loy, and unanimously carried, the Board approved changing the reporting requirements of the private equity portfolio to 90-120 days from 45-days within quarter-end and to increase the time for delivery of the Annual Tactical Plan from 60 to 90 days of calendar year end.

2013 ERS INVESTMENT SUMMIT

Mr. Wesley Machida, ERS Administrator (Administrator) and the CIO reported on the status of travel plans, attendees and agenda for the ERS’s 2013 Investment Summit to be held in Maui.

2013 ERS REAL ESTATE SYMPOSIUM

The Administrator and the CIO reported that plans for the ERS’s 2013 Real Estate Symposium are underway and that the Kahala Hotel in Honolulu, Hawaii, has been selected as its location. The CIO plans to send out a “save the date” notice to the ERS’s real estate managers, vendors, and other prospective attendees.

ERS BENEFITS AND INVESTMENTS OPERATIONS

The Administrator reported on the status of the ERS’s contracts for benefits and investments operations:

- ERS's contract with the three members of the Medical Board will expire on June 30, 2013 (Dr. Chinn) and Drs. McKenna and Lam on July 31, 2013. The contracts will be extended for another year.
- Transition from current bank custodian, The Northern Trust Company (Northern Trust) to the new bank custodian, BNY Mellon, is currently underway
- QMA and Research Affiliates have accounts in India, Venezuela and Tajikistan that require passport information for the signatories on accounts opened on behalf of the ERS.

The Administrator also reported that the ERS's contracts with the "finals" vendors, KMH and PKF Pacific Hawaii LLC (PKF), to assist the ERS's Enrollment, Claims, and Benefits (EC&B) Branch with the finalization of retirement applications ended December 2012. The Administrator anticipated that in addition to the finals backlog, EC&B staff reassignments to V3 testing for system upgrades, Act 153/2012 pension spiking upgrade testing and re-finalization issues may cause pension finalizations to increase at a greater rate than staff is able to complete. Due to this, the Administrator requested that the Board authorize him to procure finals vendor(s) contract(s) for the 2014 fiscal year.

On a motion made by Trustee Yamasaki, seconded by Trustee Barfield, and unanimously carried, the Board authorized the Administrator to procure one or more finals vendors for the 2014 fiscal year.

ERS'S MEMORANDUM OF UNDERSTANDING WITH THE STATE OF HAWAII DEPARTMENT OF THE ATTORNEY GENERAL

Discussion on the ERS's proposed Memorandum of Understanding with the State of Hawaii Department of the Attorney General was deferred.

2013 LEGISLATIVE PROPOSALS AFFECTING THE ERS

The Administrator reported on the status of 2013 legislative proposals affecting the ERS. It was noted that the following ERS-related proposals have been approved by the Legislature:

- HB 805, HD1, SD2, CD1: Relating to the Federal Tax Qualification of the ERS; currently awaiting Governor's approval.
- HB808, HD1, SD1: Relating to the ERS civil union amendments; currently awaiting Governor's approval.
- Act 23 (SB 1036): Relating to ERS personnel; appointment of Investment Officers and changing the Administrator's title to "Executive Director" was signed by the Governor on April 18,

2013 to be effective July 1, 2013.

- HB 546, HD2, SD2, CD1: Relating to the Employer-Union Health Benefits Trust Fund (EUTF); currently awaiting Governor's approval to be effective July 1, 2013.

The Administrator also announced that Trustee Matsumoto's appointment to the ERS Board of the Trustees has been confirmed by the Governor for a new term to expire January 1, 2019.

OPERATIONS REPORT – APRIL 2013

The Administrator reported on the status of the ERS's operations for April 2013:

- The ERS's currently has 17 vacant positions that are in the recruitment process
- KMPG is currently in the office conducting the Audit and status report will be given to the Audit Committee.
- The "Access Controls Review" and "Investment Manager Selection and Evaluation Review" were completed for the internal audit; draft reports from KMH are forthcoming
- Secretary III for Assistant Administrator is expected to begin July 1, 2013.
- ERS relocation to the 12th and 2nd floors of City Financial Tower is expected to be completed the first week of June 2013; there will be an office blessing shortly after the completion of the move.

NEXT BOARD MEETING – JUNE 10, 2013

The Administrator announced that the next Board meeting is scheduled for June 10, 2013.

ADJOURNMENT

On a motion made by Trustee Lee Loy, seconded by Trustee Barfield, and unanimously carried, the Board adjourned the meeting at 3:53 p.m.

REDACTED SIGNATURE

Wesley K. Machida
Administrator

WKM: jh