

MINUTES OF THE REGULAR MEETING OF THE BOARD
OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
HELD ON MONDAY, JANUARY 10, 2011
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII

ROLL CALL

Trustees present: Ms. Pilialoa Lee Loy
Mr. Emmit Kane
Mr. Alton Kuioka
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst
Mr. Wayne J. Yamasaki
Mr. Kalbert K. Young

Trustee excused: Ms. Jackie Ferguson-Miyamoto

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

Staff: Mr. Wesley K. Machida, Administrator
Mr. Rodney June, Chief Investment Officer
Mr. Karl Kaneshiro, Acting Assistant Administrator
Mr. Larry Wolfe, Acting Accounting Manager
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Betty Tachibana, Recording Secretary

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

Mr. Daniel Moore) Courtland Partners
Ms. Lourdes Canlas)

Mr. James Proud) Heitman Capital Management
Mr. Paul Rezens)

Mr. Lewis Ward) Gabriel Roeder & Smith
Mr. Joseph Newton) via teleconference call

QUORUM

A quorum being present, the Administrator called the Regular meeting to order at 9:35 a.m.

ELECTION OF OFFICERS AND
COMMITTEE ASSIGNMENTS FOR
2011

At this time, the Administrator announced that nominations for Chair of the ERS Board of Trustees for the year 2011 were being accepted.

Ms. Lee Loy nominated Colbert Matsumoto for the position of Chair of the Board of Trustees. Mr. Kane seconded the nomination.

There being no other nominations, Mr. Kane moved to close the nominations, and Mr. Yamasaki seconded the motion. Mr. Matsumoto was unanimously elected as the Chair of the Board of Trustees for the 2011 calendar year. The Administrator presented the gavel to Mr. Matsumoto to preside over the meeting.

Chair Matsumoto made the following nominations for officers of the Board:

Jackie Ferguson-Miyamoto	1 st Vice Chair
Emmit Kane	Vice Chair
Pilialoa Lee Loy	Vice Chair
Wayne Yamasaki	Vice Chair

Chair Matsumoto nominated the following members to the Board's committees:

Investment Committee

Pilialoa Lee Loy	Chair
Alton Kuioka	Vice Chair
All other Board Members	Members

Audit Committee

Emmit Kane	Chair
Alton Kuioka	Member
Kalbert Young	Member
Jerome Rauckhorst	Alternate

Administrative Committee

Wayne Yamasaki	Chair
Emmit Kane	Member
Jerome Rauckhorst	Member
Jackie Ferguson-Miyamoto	Alternate

Legislative Committee

Jackie Ferguson-Miyamoto	Chair
Jerome Rauckhorst	Member
Wayne Yamasaki	Member
Pilialoa Lee Loy	Alternate

A motion was made by Mr. Kane and seconded by Mr. Yamasaki, and unanimously carried, to adopt the Chair's nominations of Board officers and Committee Chairs and members.

AMENDMENT OF AGENDA

On a motion by Ms. Lee Loy, seconded by Mr. Kuioka, and unanimously carried, the Board amended the Agenda to add:

- Executive Session, pursuant to HRS § 92-5(a)(8), to consider the report of Heitman Capital Management regarding to the Ka'anapali Golf Resort.

Chair Matsumoto stated that the Agenda would be taken out of order to accommodate Mr. Young and the Administrator who must leave for a hearing at the Legislature.

NEW BUSINESS

2011 LEGISLATIVE PROPOSALS

The Administrator reported that the following legislative proposals were submitted at the ERS's request as part of the Administration's legislative package:

- Actuarial assumptions – reduces the investment return yield rate assumption for the fiscal year ending June 30, 2011, to 7 ¾% and authorizes the Board to set the investment yield rate assumption after June 30, 2011, based on the recommendations of the actuary.
- Moratorium on benefit enhancements – institutes a moratorium on the enhancement of retirement benefits until the system's funded ratio is at least 80%.
- Federal tax qualification requirements – adds a new section to chapter 88 to providing for the commencement of benefits and amends section 88-22.5 to include language required by the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act) regarding death benefits payable with respect to ERS members on qualified military service..

Copies of the three legislative proposals were distributed.

The Administrator stated that there may be other proposals submitted after the presentation from Gabriel Roeder & Smith later in the meeting.

On a motion by Ms. Lee Loy, seconded by Mr. Yamasaki, and unanimously carried, the Board authorized support of the three legislative proposals.

EXECUTIVE SESSION

On a motion made by Ms. Lee Loy, seconded by Mr. Yamasaki, and unanimously carried, the Board entered into Executive Session to:

- consider preliminary actuarial investigations and studies regarding ERS funded status and 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 ERS funded status;

- consider, deliberate, and act on BlackSand Capital Opportunity Fund I, L.P. real estate investment opportunity;
- consider, deliberate, and act on a Honolulu real estate opportunity;
- consider the report of Heitman Capital Management regarding the Ka'anapali Golf Resort; and
- consider, deliberate, and act on Pension Consulting Alliance, Inc.'s report on potential finalists in the Passive Global Equity manager search; and
- consider and act on approval of the Executive Session minutes of the October 25, 2010 meeting.

APPROVAL OF EXECUTIVE SESSION
MINUTES, OCTOBER 25, 2010

PENSION CONSULTING ALLIANCE,
INC.'S REPORT ON POTENTIAL
FINALISTS IN THE PASSIVE GLOBAL
EQUITY MANAGER SEARCH

PRELIMINARY ACTUARIAL
INVESTIGATIONS AND STUDIES
REGARDING ERS FUNDED STATUS
AND 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 ERS FUNDED
STATUS

(Mr. Rauckhorst was excused and left the meeting at 11:23 p.m.)

BLACKSAND CAPITAL
OPPORTUNITY FUND I, L.P. REAL
ESTATE INVESTMENT OPPORTUNITY

(Mr. Kaneshiro and Mr. Rue left the meeting at this time.)

HONOLULU REAL ESTATE
OPPORTUNITY

(Mr. Young and the Administrator were excused and left the meeting at 1:20 p.m.)

(Mr. Rauckhorst returned to the meeting at 1:26 p.m.)

REPORT OF HEITMAN CAPITAL
MANAGEMENT REGARDING TO THE
KA'ANAPALI GOLF RESORT.

APPROVAL OF EXECUTIVE SESSION
MINUTES, OCTOBER 25, 2010

On a motion made by Ms. Lee Loy, seconded by Mr. Yamasaki, and
unanimously carried, the Board emerged from Executive Session.

NEW BUSINESS

COURTLAND PARTNERS, LTD. – 3RD
QUARTER 2010 REAL ESTATE
PERFORMANCE MEASUREMENT
REPORT AND REAL ESTATE MARKET
CONDITIONS REPORT; APPROPRIATE
ACTION

Mr. Moore and Ms. Lourdes presented Courtland Partners, Ltd.'s
(Courtland Partners) 3rd quarter 2010 Real Estate Performance Measure
Report and Real Estate Market Conditions Report.

Courtland Partners summarized the ERS's real estate portfolio as of
September 30, 2010 as follows:

Current Market Value	\$ 760,312,550
% of Total Plan Assets	7.2%
Unfunded Investment Commitments	\$ 125,572,292
Market Value + Unfunded Investment Commitments	\$ 885,884,842
Current Capital Available for Investments	\$(145,023,319)
Target Allocation to Real Estate	\$ 740,861,523
Target % of Total Plan Assets	7.0%

After discussion and there being no further questions, Chair Matsumoto
thanked the presenters and they left the meeting.

ADOPTION OF BOARD POLICIES

On a motion by Ms. Lee Loy, seconded by Mr. Kane, and unanimously
carried, the Board ratified the Board Policies for meetings, agenda, and
meeting materials that it had previously adopted (see attachment).

There were no objections to the proposed meeting schedule for the 2011
calendar year as follows:

February 14
March 14
April 11
May 10
June 13
July 13-15 (Investment Symposium)
August 8
September 12
October 11
November 14
December 12

PENSION CONSULTING ALLIANCE,
INC. – PROPOSED PASSIVE GLOBAL
EQUITY INVESTMENT POLICY

APPROVAL OF MINUTES – REGULAR
MEETING,
OCTOBER 25, 2010

REDACTED

Wesley K. Machida
Administrator

WKM:bmt

The CIO presented a draft Passive Global Equity Investment Policy. The draft Policy will be provided to the finalist managers for their comments. A recommended final version of the Policy incorporating any comments and appropriate changes will be presented to the Board for approval at a later meeting.

On a motion by Ms. Lee Loy, seconded by Mr. Kuioka, and unanimously carried, the Board approved the Minutes of the Regular meeting held on October 25, 2010, as circulated.

REPORTS BY STAFF, CHAIR, TRUSTEE(S) AND DEPUTY
ATTORNEY GENERAL

Ms. Kishimoto gave an update on the ERS's Voluntary Correction Program application submission. Attorney J. Thomas Maloney received word from the Internal Revenue Service (IRS) that the IRS is in agreement on all issues and that the IRS has agreed to an extension of the correction period to 300 days from the date of the compliance statement.

ADJOURNMENT

There being no further business, on a motion made by Ms. Lee Loy, seconded by Mr. Yamasaki, and unanimously carried, the Chair adjourned the meeting at 2:01 p.m.

ATTACHMENT

EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES OPERATING POLICIES

POLICY NO. 1

MEETINGS:

- a. All regular meetings shall be held on the second Monday of each month unless otherwise agreed upon by the Trustees.
- b. All special meetings shall be on days agreed upon by the Trustees.

POLICY NO. 2

AGENDA:

- a. Deadline for requesting matters to be placed on the agenda for regular meetings by a Trustee, Deputy Attorney General, and/or Administrator shall be by 12:00 noon on the Monday prior to the meeting date.
- b. Deadline for requesting matters to be placed on the agenda for special meetings by a Trustee, Deputy Attorney General, and/or Administrator shall be 12:00 noon, seven (7) calendar days prior to the meeting date. Should the seventh day fall on a holiday, the last working day preceding the holiday shall be the deadline.
- c. The final composition of the agenda shall have the approval of the Chair of the Board of Trustees.
- d. A Trustee, Deputy Attorney General, and/or Administrator wishing to place matters on the agenda after the deadline has passed, must have copies of the subject material available to the Trustees when the meeting convenes with a note indicating that he or she will be requesting that this matter be placed on the agenda.

(A minimum of six (6) Trustees must vote to put matters on the agenda – section 92-7(d), HRS.)

POLICY NO. 3

MATERIAL:

- a. All regular meeting material shall be in the hands of the Trustees no later than Wednesday prior to the meeting date.
- b. All special meeting material shall be in the hands of the Trustees no later than four (4) calendar days prior to the meeting date.
- c. All Trustees who will not be on the island to receive their material will inform the Administrator as soon as possible so other arrangements can be made.

Initially adopted by the Board of Trustees at its regular meeting held on April 4, 1983 and revised on January 9, 2006.