

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
HELD ON TUESDAY, AUGUST 16, 2011
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII

ROLL CALL

Trustees present:

Mr. Colbert Matsumoto, Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Emmit A. Kane
Mr. Vincent Barfield
Ms. Piliialoha Lee Loy
Mr. Jerome E. Rauckhorst
Mr. Wayne J. Yamasaki

Attorneys:

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

Staff:

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

Guests:

Mr. Jeremy Thiessen) Pension Consulting Alliance, Inc.
Ms. Kay Ceserani)

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

Mr. Michael Hirai) Bishop Street Capital Management
Mr. Robert Fujioka)
Mr. Elmer Nakao)

Ms. Nanea Kalani, Reporter/Host, Civil Beat

QUORUM

A quorum being present, Chair Matsumoto called the meeting to order at 9:30 a.m.

WELCOME REMARKS FOR
MR. VINCENT BARFIELD

Chair Matsumoto introduced and welcomed newly appointed Trustee Vincent Barfield. Mr. Barfield replaced Alton Kuioka whose term expired. Chair Matsumoto requested a motion to appoint Mr. Barfield as Mr. Kuioka's replacement to the Board's Investment and Audit Committees.

APPOINTMENT OF MR. BARFIELD TO
THE INVESTMENT AND AUDIT
COMMITTEES

APPROVAL OF MINUTES –
REGULAR MEETING, MAY 10, 2011
REGULAR MEETING, JUNE 13, 2011

PENSION CONSULTING ALLIANCE, INC.
– 2ND QUARTER 2011 INVESTMENT
PORTFOLIO REPORT

COURTLAND PARTNERS, LTD.
– 1ST QUARTER 2011 PERFORMANCE
MEASUREMENT REPORT AND 2011
STRATEGIC PLAN FOR REAL ESTATE

On a motion made by Ms. Lee Loy, seconded by Mr. Kane, and unanimously carried, the Board approved the appointment of Mr. Barfield to the Board's Investment and Audit Committees.

On a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee Loy, and unanimously carried, the Board approved the Minutes of the Regular Meeting of May 10, 2011, and the Minutes of the Regular Meeting of June 13, 2011, as circulated.

PRESENTATIONS

Mr. Jeremy Thiessen and Ms. Kay Ceserani of Pension Consulting Alliance, Inc. (PCA) presented the 2nd quarter report of the Employees' Retirement System (ERS) investment portfolio as of June 30, 2011:

- 2nd Quarter Performance
 - Aggregate portfolio value: \$11.6 billion
 - Portfolio increased by \$41.8 million
 - 1.1% return, lagging the 1.5% policy benchmark
 - Underperformed Median Public Funds return of 1.3% by 20 basis points
- Yearly Performance
 - Portfolio value increased by \$1,793.9 million
 - 20.7% return, outperforming actuarial assumed rate of 8.0% by 12.7% while underperforming the policy benchmark return of 21.4% by 70 basis points
 - Absolute return of 20.7% underperformed the Median Public Fund return of 22.5% by 18 basis points

The Chief Investment Officer (CIO) introduced Michael Humphrey and Daniel Moore of Courtland Partners, Ltd. (Courtland Partners).

(Ms. Ferguson-Miyamoto left the meeting.)

Mr. Humphrey and Mr. Moore presented the 1st quarter report of the ERS's real estate portfolio as of March 31, 2011:

- Market Value: \$807,710,424
- Total Net Return: 3.2%
- Income: 1.7%
- Appreciation: 1.7%
- Total Gross Return: 3.4%
- Total Net Return: 3.2%
- Internal Rate of Return: 5.3%

(Ms. Ferguson-Miyamoto returned to the meeting.)

**BISHOP STREET CAPITAL
MANAGEMENT – FIXED INCOME
PORTFOLIO REVIEW**

Mr. Moore reported that Courtland Partners recommends that the ERS consider including more international exposure. Courtland Partners plans to present international/emerging market strategies to the Board at the ERS Real Estate Symposium in October of 2011. Courtland Partners believes that in the next two to three years, it will be important for the ERS to be fully allocated to real estate. Courtland Partners recommended that, although Core separate accounts should be maintained as the cornerstone of the real estate portfolio, the portfolio should be rebalanced to the current tactical targets (70% Core, 20% Value and 10% Opportunistic) by dedicating available investment dollars to Value and Opportunistic investments.

Michael Hirai, Robert Fujioka, and Elmer Nakao of Bishop Street Capital Management (BSCM) reported on the fixed income portfolio managed by BSCM for the ERS:

- Performance
 - Portfolio value as of 06/30/11: \$217,178,258
 - Cumulative returns: 1.85% last quarter; 2.28% year-to-date; 6.87% since inception (1992).

- Second Quarter 2011 Highlights

Positive Influences

- Corporate Sector Allocation
Overweight to the corporate sector has been the leading driver of the portfolio's performance year to date. Individual security selection in "BBB" rated corporate bonds was a key contributor to the performance in corporate sector.
- Government Securities Allocation
Outperformance in the agency sector and yield curve positioning in treasuries helped to offset the underweight.
- Municipal Bond Allocation
An allocation to municipal BAB's contributed to performance with a return of 5.99% for the quarter.

Negative Influences

- Government Allocation
Underweight in treasury securities resulted in the underperformance.
- Mortgage-Backed Allocation
Shorter duration and more seasoned, higher coupon investments hindered performance as interest rates declined.

(Ms. Kalani and the representatives of PCA, Courtland Partners and BSCM left the meeting at this time.)

EXECUTIVE SESSION

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Kane, and unanimously carried, the Board entered into Executive Session at 12:15 p.m.:

- Pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on the BlackSand Capital Opportunity Fund I, L.P. real estate investment update; and
- To consider and act on approval of the Executive Session Minutes of the Regular Meeting of May 10, 2011, and the Regular Meeting of June 13, 2011.

EXECUTIVE SESSION TO ACT ON THE
BLACKSAND CAPITAL OPPORTUNITY
FUND I, L.P. REAL ESTATE INVESTMENT

EXECUTIVE SESSION TO ACT ON THE
APPROVAL OF THE EXECUTIVE SESSION
MINUTES –
REGULAR MEETING, MAY 10, 2011
REGULAR MEETING, JUNE 13, 2011

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board emerged from Executive Session at 11:14 a.m.

NEW BUSINESS

ADMINISTRATOR'S REPORT OF THE
LEGISLATIVE TIMETABLE FOR THE 2012
LEGISLATIVE SESSION

The Administrator presented an estimated internal timeline for legislative proposals through the Governor's Administrative Package for the 2012 legislative session:

- | | |
|--|--------------------|
| • Initial Legislative Committee Meeting | August 2011 |
| • Proposals to the ERS Board | September 12, 2011 |
| • Legislative Committee Meeting | September 2011 |
| • Preliminary submission of ERS initiatives | September 30, 2011 |
| • Administrative Committee Meeting | October 2011 |
| • Fiscal Year 2013 Supplemental Budget | November 2011 |
| • Submission of ERS budget and legislative initiatives | December 9, 2011 |

(Mr. Kane left the meeting.)

PROCUREMENT AND CONTRACTING
POLICIES AND PROCEDURES

The Administrator presented a brief background of the policy and procedures for procuring, awarding, and executing contracts exempt from the State procurement code and a memo describing proposed procedures and a timeframe for the contracting process. Mr. Machida noted the ERS procurements are either performed in accordance with HRS Chapter 103D and related administrative rules or they are exempt from procurement laws in accordance with HRS Section 103D(b)(2)(g).

To ensure the timeliness of procurements and contracting, the Administrator requested the Board's approval for staff to go to the next ranked firm (for those procurements exempt from the State procurement code) if contracts are not executed within the timeframe described in the memo.

(Mr. Kane returned to the meeting.)

(Mr. Rauckhorst left the meeting.)

During the discussion of the Administrator's proposal, the Trustees indicated that they concur with the proposed procedures and timeframe and that the proposed procedures and timeframe are within the Administrator's authority.

(Mr. Rauckhorst returned to the meeting.)

**APPOINTMENT, PURSUANT TO
HRS § 92-16, OF DEPARTMENT OF
COMMERCE AND CONSUMER AFFAIRS
OFFICE OF ADMINISTRATIVE HEARINGS
OFFICERS AS MASTERS FOR ERS
ADMINISTRATIVE HEARINGS**

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board adopted the following:

WHEREAS, the Board of Trustees of the Employees' Retirement System of the State of Hawaii (the Board") is a board of the State of Hawaii authorized and required to hold hearings for the purpose of receiving evidence; and

WHEREAS, the Office of Administrative Hearings of the Department of Commerce and Consumer Affairs ("OAH") was established to handle administrative hearings and appeals and has experienced hearing officers capable of hearing cases involving the matters described below; now, therefore,

BE IT RESOLVED by the Board of Trustees of the Employees' Retirement System of the State of Hawaii that, pursuant to section 92-16, Hawaii Revised Statutes, the Board appoint, and the Board hereby appoints, each of the hearing officers of OAH as a master to hold hearings with respect to:

- (1) Petitions to the Board for a declaratory ruling as to the applicability of any statutory provision administered by the Employees' Retirement System of the State of Hawaii ("ERS") or any rule or order adopted by the ERS;
- (2) Petitions to the Board for a contested case hearing to appeal a preliminary decision of the Board to deny applications for disability retirement benefits or accidental death benefits; and
- (3) Petitions to the Board for a contested case hearing to appeal an informal decision by the ERS staff regarding any benefit, service credit, or other alleged entitlement under chapter 88, Hawaii Revised Statutes;

and to take testimony upon the matters involved in the hearing and to report to the Board the master's findings and recommendations, together with a transcript of the hearing or a summary of the evidence and testimony taken thereat, such masters to have all of the powers provided by law.

MEETING IN RECESS

Chair Matsumoto called a recess at 11:50 a.m.

QUORUM

A quorum being present, Chair Matsumoto reconvened the meeting at 12:15 p.m.

AMENDMENT OF THE AGENDA

On a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee Loy, and unanimously carried, the Board amended the agenda to include the following: Executive Session, 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 HRS § 88-6.

EXECUTIVE SESSION

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

- Pursuant to HRS § 92-5(a)(8), to consider preliminary reports by the Actuary and preliminary cashflow reports regarding the ERS funded status;
- 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 appeal by Ronald Matsumura; appropriate action; and
- 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 HRS § 88-6.

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 APPEAL BY RONALD MATSUMURA

**EXECUTIVE SESSION TO CONSIDER
PRELIMINARY REPORTS BY THE
ACTUARY AND PRELIMINARY
CASHFLOW REPORTS REGARDING THE
ERS FUNDED STATUS**

**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 HRS § 88-6.**

**ADMINISTRATOR'S UPDATE ON THE
ERS ACTION PLAN –
JULY 31, 2011**

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board emerged from Executive Session at 2:10 p.m.

Mr. Machida presented the ERS action plan update as of July 31, 2011:

- Outstanding Finals Calculations -- 980 finals calculations remaining, including 229 of the July 1, 2011 retirees' initial pension payments.
- Current Finals Calculations -- About 300 payments were processed for May through July 2011.
- Outstanding Finals Processing -- 97 entered for finals payment processing in August 2011.
- Efficiency Review -- Report of the Efficiency Review to be presented at the September 12, 2011 Board meeting.
- Internal Audit -- Request for Proposals to be issued in October 2011.
- V3 upgrade -- Estimated completion in October 2011.
- Bank of Hawaii Contract Fees -- completed.
- ERS Performance Standards -- under review by management teams as part of the ERS Strategic Plan update.
- Determination Letter and Voluntary Correction Program -- Determination Letter is pending with the Employee Plans Technical Department of the Internal Revenue Service.
- Updated ERS Strategic Plan -- estimated to be completed September 2011.

- Financial Audit -- KPMG is finalizing independent investment review for the audit of 2009 Financial Statements. ERS Audit Committee meeting will be tentatively scheduled for the week of September 5, 2011. The 2010 audit has begun and is scheduled for completion by December 2011.

ADJOURNMENT

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Chair adjourned the meeting at 2:17 p.m.

REDACTED

Weslęy K. Machida
Administrator

WKM:jh