

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
HELD ON TUESDAY, DECEMBER 12, 2011
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. Emmit Kane
Ms. Piliialoha Lee Loy
Mr. Jerome Rauckhorst
Mr. Wayne Yamasaki

Trustee excused: Mr. Kalbert Young

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. 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

Guest: Mr. Neil Rue, Pension Consulting Alliance, Inc.

QUORUM

A quorum being present, Chair Matsumoto called the meeting of the Board of Trustees of the Employees' Retirement System of the State of Hawaii (the Board) to order at 1:20 p.m.

AMENDMENT OF AGENDA

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board amended the agenda to add the following item in Executive Session:

- pursuant to HRS § 92-5(a)(4) and (8), to hear the Administrator's report on the status of the general employee trustee election and to consult with the Board's attorney regarding the general employee trustee election

EXECUTIVE SESSION

(Mr. Kane excused himself from the room.)

ENTRY INTO EXECUTIVE SESSION

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

- pursuant to HRS § 92-5(a)(4) and (8), to hear the Administrator's report on the status of the general employee trustee election and to consult with the Board's attorney regarding the general employee trustee election
- approve Executive Session minutes of the special Board meeting of August 31, 2011

(Mr. Jerome Rauckhorst joined at the meeting.)

EXECUTIVE SESSION TO HEAR THE ADMINISTRATOR'S REPORT ON THE STATUS OF THE GENERAL EMPLOYEE TRUSTEE ELECTION AND TO CONSULT WITH THE BOARD'S ATTORNEY REGARDING THE GENERAL EMPLOYEE TRUSTEE ELECTION

APPROVAL OF EXECUTIVE SESSION MINUTES –
SPECIAL MEETING, AUGUST 31, 2011

EXIT EXECUTIVE SESSION

APPROVAL OF MINUTES –
SPECIAL MEETING, AUGUST 31, 2011

COMMISSION RECAPTURE POLICY

On a motion made by Mr. Rauckhorst, seconded by Ms. Lee Loy, and unanimously carried, the Board exited Executive Session at 1:46 p.m.

On a motion made by Ms. Lee Loy, seconded by Mr. Barfield, and unanimously carried, the Board approved the minutes of the special Board meeting of August 31, 2011.

(Mr. Kane returned to the meeting.)

ERS's Chief Investment Officer (CIO), Mr. Rod June, presented a revised version of the ERS Commission Recapture Policy (Policy) for the Board's consideration. The revisions integrate suggestions from the Board at its September 12, 2011 meeting.

PCA and the CIO recommended that the ERS update the ERS's commission recapture brokers list. The current one was last approved December 1996. ERS staff recommended that the list be created using a Request for Information (RFI) process expected to be released early 2012.

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board approved the revised Commission Recapture Policy as presented and authorized a RFI process to update the list of commission recapture brokers for the ERS.

TRUSTEE EDUCATION POLICY

The CIO presented the draft of the Trustee Education Policy for the Board's consideration for inclusion in the ERS Investment Policies and Procedures Manual. The CIO provided a background of the Trustee Education Policy:

- at its September 12, 2011 meeting, the Board directed ERS staff develop a policy to address Trustee education.
- with the assistance of the ERS's Deputy Attorneys General and PCA, ERS staff drafted a process to ensure that the Trustees are offered and received the appropriate education to help fulfill their fiduciary responsibilities to the retirement system; draft presented to the Investment Committee at its meeting of November 11, 2011

The draft of the Trustee Education Policy consists of a preface, the legal basis for education, and the framework for administering the elements of the Trustee Education Policy. The CIO and ERS staff recommended that the Board approve the proposed Trustee Education Policy.

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board approved the Trustee Education Policy as presented for inclusion to the ERS' Investment Policy and Procedures Manual.

REQUEST FOR PROPOSALS FOR INTERNAL AUDIT CONSULTANT SERVICES

The Administrator provided an update on the Request for Proposals for internal audit consultant services:

- two bids were received;
- ERS staff and the Audit Committee will meet to evaluate the responses; and
- award to be made by December 30, 2011.

Chair Matsumoto noted that the internal audit should be Board driven and not ERS staff driven.

ACTUARIAL METHODS FOR EVALUATION

The Administrator reported that the discussion on the actuarial methods for evaluation will be deferred to the January 2012 Board meeting.

2012 LEGISLATIVE PROPOSALS
AFFECTING THE ERS

The Administrator provided an update of the 2012 legislative proposals affecting the ERS:

- at its December 12, 2011 meeting, the ERS Legislative Committee approved the recommendation to the Board to consider the Administration's legislative proposals for (1) Act 163 housekeeping, and (2) trustee investment experience requirement, BUF-04 and BUF-02, respectively.
- ERS Legislative Committee recommended amendments to the retirement requirements for current members who become judges after June 30, 2012 to provide parity with other Contributory Plan members with respect to age and service requirements, which would be included in BUF-02.

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Rauckhorst, and unanimously carried, the Board voted to support the Administration's Legislative Proposal BUF-04 relating to trustee investment experience requirement.

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Barfield, and unanimously carried, the Board voted to support the Administrations' Legislative Proposal BUF-02 relating to Act 163 housekeeping and judges' parity.

EXECUTIVE SESSION

ENTRY INTO 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)(4) and (8), to consider preliminary actuarial studies regarding actuarial methods that impact the ERS's financial statements 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 actuarial methods and the ERS's funded status
- pursuant to HRS § 92-5(a)(8), to hear the Administrator's report on the status of the Request for Proposals for Investment Consultant Services

EXECUTIVE SESSION TO CONSIDER
PRELIMINARY ACTUARIAL STUDIES
REGARDING ACTUARIAL METHODS
THAT IMPACT THE ERS'S FINANCIAL
STATEMENTS 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
ACTUARIAL METHODS AND THE ERS'S
FUNDED STATUS

EXECUTIVE SESSION TO HEAR THE
ADMINISTRATOR'S REPORT ON THE
STATUS OF THE REQUEST FOR
PROPOSALS FOR INVESTMENT
CONSULTANT SERVICES

EXIT EXECUTIVE SESSION

UPDATE ON THE ERS STRATEGIC PLAN
FOR THE YEARS 2011 TO 2015

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

The Administrator provided an update on the ERS Strategic Plan for 2011 to 2015 as of December 12, 2011:

- Personnel: Two supervisors for the Enrollment, Claims, and Benefits (EC&B) branch were hired on December 1, 2011 through promotions from within ERS. One Information Technology Specialist V to retire on December 31, 2011
- Vitech Computer System (V3): Version 8.7 was implemented on December 6, 2011. ERS negotiated a discount of \$1 million to implement Act 163, SLH 2011 benefit changes for new employees hired after June 30, 2011
- Twitter: Social media Twitter account established initially for legislative updates with the first "tweet" to be sent at the same time as the quarterly newsletter – December 21, 2011
- Internal Audit Consultant Contract: Award to be made by December 30, 2011
- Self-Service: Retirement information to be made available through ERS website to Contributory Plan members – December 30, 2011. Plan to provide the Board with a preview at the next Board meeting
- General Employee Trustee Election: 113,000 trustee election ballots mailed on November 29, 2011

APPROVAL OF MINUTES –
SPECIAL MEETING, AUGUST 31, 2011

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board approved the minutes of the special Board meeting of August 31, 2011.

2012 PROPOSED BOARD MEETING DATES

A draft of the proposed Board meeting schedule for 2012 was distributed.

NEXT BOARD MEETING –
JANUARY 9, 2011

Chair Matsumoto announced the next Board meeting is scheduled for January 9, 2012.

MEETING ADJOURNED

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, Chair Matsumoto adjourned the meeting at 2:36 p.m.

REDACTED

Wesley ~~W.~~ Machida
Administrator

WKM: jh