

MINUTES OF THE REGULAR BOARD MEETING OF THE  
BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM (ERS)

NOVEMBER 13, 2013

CITY FINANCIAL TOWER  
201 MERCHANT STREET, SUITE 1200  
HONOLULU, HAWAII 96813

Trustees present: Ms. Piliialoha Lee Loy, Chair  
Mr. Vincent Barfield, Vice Chair  
Ms. Jackie Ferguson-Miyamoto  
Mr. Colbert Matsumoto  
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, Executive Director  
Ms. Kanoe Margol, Assistant Administrator  
Mr. Vijoy Chattergy, Chief Investment Officer  
Mr. Ian Wetzel, Investment Specialist  
Mr. Andrew Chen, Investment Specialist  
Ms. Donna Curry, Program Specialist  
Ms. Gerri Konishi, Member Home Loan Assistant  
Ms. Jaime Hirata, Recording Secretary  
Ms. Raechele Joyo, Secretary  
Ms. Wanda Kugiya, Secretary

Guests present: Mr. Patrick Frane ) ERS Board of Trustees Nominees  
Mr. James Wataru

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

QUORUM/CALL TO ORDER

A quorum being present, Chair Lee Loy, called the regular meeting of the Board of Trustees of the Employees' Retirement System (the Board), to order at 2:00 p.m.

AMENDMENT OF AGENDA

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board amended the agenda to add the following:

- Executive session pursuant to HRS § 92-5(a)(8) to meet with and consider the candidates for appointment by the Board of Trustees of the Employees' Retirement System to fill a vacancy on the Board of Trustees of the Employees' Retirement System.

RECESS

Chair Lee Loy called a recess at 2:01 p.m. and announced that the meeting would reconvene following the Investment Committee meeting.

RECONVENE

A quorum being present, Chair Lee Loy, reconvened the meeting at 2:27 p.m.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board entered executive session pursuant to HRS § 92-5(a)(4) and (8) to meet with and consider the candidates for appointment to fill a vacancy on the Board, and to consult with the Board's attorneys on questions issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities relating to appointment of trustees.

(ERS staff, Deputy Attorneys General Brian Aburano and Diane Kishimoto, and Mr. Colin Bebee and Mr. Neil Rue of Pension Consulting Alliance, Inc. was excused from the room. Ms. Jaime Hirata, as recording secretary, was not excused from the room.)

EXECUTIVE SESSION TO MEET WITH AND CONSIDER THE CANDIDATES FOR APPOINTMENT TO FILL A VACANCY ON THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM

(Mr. Frane and Mr. Wataru left the meeting.)

(Ms. Hirata was excused from the room during the Board's deliberation.)

EXIT EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board exited executive session.

(ERS staff, Deputy Attorneys General Aburano and Kishimoto, Mr. Bebee, and Mr. Rue returned to the meeting.)

APPOINTMENT OF TRUSTEE TO FILL VACANCY ON THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Barfield, and unanimously carried, the Board appointed Patrick Frane to fill the vacancy on the Board created by the retirement of Trustee Emmit Kane for the remainder of Trustee Kane's unexpired term.

PRESENTATION BY PENSION  
CONSULTING ALLIANCE, INC. ON  
THE ERS'S INVESTMENT  
PORTFOLIO PERFORMANCE AND  
RISK MANAGEMENT REPORTS  
FOR 3<sup>RD</sup> QUARTER 2013

Mr. Colin Bebee and Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's investment consultant, presented PCA's Portfolio Performance and Risk Management Reports for the ERS's investments for the third quarter of 2013. Highlights included:

- Aggregate portfolio value of \$12.9 billion, as of September 30, 2013.
- Portfolio increased by \$0.6 billion during the third quarter and by \$1.2 billion over the latest year.
- Portfolio outperformed the Policy Benchmark return of 5.2% and Median Public Fund return of 4.9% for the third quarter.
- Portfolio outperformed the Policy Benchmark over third quarter and 1-year period by 10 and 30 basis points, respectively. Relative outperformance over the 1-year period is largely attributable to the ERS's active Domestic Equity and Fixed Income managers' combined performance exceeding their respective benchmarks.
- Despite posting absolute returns over the 3-,5-, and 10-year periods, the total portfolio trailed the Median Public Fund on a relative basis due to the Plan's active domestic large cap equity managers' performance, primarily in the third quarter of 2011. Differences in strategic allocations also detracted from performance versus the Median Public Fund.
- Risk allocation is currently consistent with asset allocation.
- Growth risk is 67% of the policy portfolio's explainable risk.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Barfield, seconded by Trustee Rauckhorst, 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 Thomas E. Fratinardo and Joseph Self, Jr. v. The Employees' Retirement System of the State of Hawaii, Civil No. 06-1-1095-06, First Circuit Court, State of Hawaii; appropriate action.
- Pursuant to HRS § 92-5(a)(4) and (8) to consider, and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding, a preliminary report by the ad hoc committee appointed by the Board to conduct an investigation regarding the Royal Ka'anapali Golf Courses property.
- Pursuant to HRS § 92-5(a)(4) and (8) to consult with the Board's attorneys on questions and issues pertaining to two federal securities fraud class action lawsuits against Medtronic, Inc. and Intuitive Surgical, Inc., in which the ERS has applied to be appointed lead plaintiff.
- 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 member, retirant, and/or beneficiary requests for waiver of overpayment under HRS § 88-106; appropriate action.
- To consider the Executive Session Minutes for the September 30, 2013 Board meeting.

EXECUTIVE SESSION TO CONSULT  
WITH THE BOARD'S ATTORNEYS  
ON QUESTIONS AND ISSUES  
PERTAINING TO THOMAS E.  
FRATINARDO AND JOSEPH SELF,  
JR. V. THE EMPLOYEES'  
RETIREMENT SYSTEM OF THE  
STATE OF HAWAII, CIVIL NO. 06-1-  
1095-06, FIRST CIRCUIT COURT,  
STATE OF HAWAII

EXECUTIVE SESSION TO  
CONSIDER, AND TO CONSULT  
WITH THE BOARD'S ATTORNEYS  
ON QUESTIONS AND ISSUES  
PERTAINING TO THE BOARD'S  
POWERS, DUTIES, PRIVILEGES,  
IMMUNITIES, AND LIABILITIES  
REGARDING A PRELIMINARY  
REPORT BY THE AD HOC  
COMMITTEE APPOINTED BY THE  
BOARD TO CONDUCT AN  
INVESTIGATION REGARDING THE  
ROYAL KA'ANAPALI GOLF  
COURSES PROPERTY.

(Trustee Ferguson-Miyamoto left the meeting.)

EXECUTIVE SESSION TO CONSULT  
WITH THE BOARD'S ATTORNEYS  
ON QUESTIONS AND ISSUES  
PERTAINING TO TWO FEDERAL  
SECURITIES FRAUD CLASS  
ACTION LAWSUITS AGAINST  
MEDTRONIC, INC. AND INTUITIVE  
SURGICAL, INC., IN WHICH THE  
ERS HAS APPLIED TO BE  
APPOINTED LEAD PLAINTIFF

EXECUTIVE SESSION TO CONSULT  
WITH THE BOARD'S ATTORNEYS  
ON QUESTIONS AND IEES  
PERTAINING TO THE BOARD'S  
POWERS, DUTIES, PRIVILEGES,  
IMMUNITIES, AND LIABILITIES  
REGARDING MEMBER, RETIRANT,  
AND/OR BENEFICIARY REQUESTS  
FOR WAIVER OF OVERPAYMENT  
UNDER HRS § 88-106.

APPROVAL OF EXECUTIVE  
SESSION MINUTES  
– SEPTEMBER 30, 2013

EXIT EXECUTIVE SESSION

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

APPROVAL OF MINUTES  
– SEPTEMBER 30, 2013

On a motion made by Trustee Rauckhorst, seconded by Trustee Yamasaki, and unanimously carried, the Board approved the minutes of the September 30, 2013 Board meeting, as circulated.

ADMINISTRATIVE AND  
LEGISLATIVE COMMITTEE  
CHARTER

Mr. Wesley Machida, ERS Executive Director (Executive Director) presented for the Board's consideration, a draft of the Administrative and Legislative Committee Charter. The Executive Director noted that the Administrative and Legislative Committee recommended that the membership be changed to "no less than three trustees" from four trustees. Approval of the final version of the Administrative and Legislative Committee Charter will be on the agenda for the December Board meeting.

2014 ERS LEGISLATIVE  
PROPOSALS

The Executive Director reported on the status of the 2014 legislative session, and presented the following proposals for possible statutory and rule changes, as discussed with and recommended by the Board's Administrative and Legislative Committee:

- Proposal to amend sections 88-73 and 88-74, HRS, to correct errors with respect to age and service requirement disparities for retirement between current members who become judges after June 30, 2012 and other contributory plan members who became members prior to July 1, 2012. This proposal was submitted in the past two legislative sessions, but has failed to pass. The Judiciary has not supported this proposal.
- Proposal that new members with a minimum of 60 days unused sick leave at retirement would be able to increase their years of service for retirement benefit purposes by one month for every 40 days of unused sick leave (existing public employees would continue to increase their retirement benefit by one month for every 20 days of unused sick leave).
- Proposal that a retirant who returns to service may not acquire prior service credit or military service credit that the retirant was eligible to claim prior to the individual's initial retirement.
- Proposal to deny service credit for service rendered, prior to ERS membership, in positions excluded from ERS membership.

On a motion made by Trustee Barfield, seconded by Trustee Yamasaki, and unanimously carried, the Board authorized ERS staff and the Administrative and Legislative Committee to pursue the following three proposals:

- Proposal that new members with a minimum of 60 days unused sick leave at retirement would be able to increase their years of service for retirement benefit purposes by one month for every 40 days of unused sick leave (existing public employees would continue to increase their retirement benefit by one month for every 20 days of unused sick leave).
- Proposal that a retirant who returns to service may not acquire prior service credit or military service credit that the retirant was eligible to claim prior to the individual's initial retirement.

- Proposal to deny service credit for service rendered, prior to ERS membership, in positions excluded from ERS membership.

**ERS RENOVATION WITHIN CITY  
FINANCIAL TOWER**

The Executive Director and ERS Assistant Administrator Kanoe Margol, reported on the status of the budget for the ERS renovation and relocation within City Financial Tower located at 201 Merchant Street in Honolulu:

- Estimated costs associated with the reconfiguration and expansion of the Investment Office located on the 12<sup>th</sup> floor to accommodate additional investment office staff per the State's space requirements for civil service employees.
- Comparison of blueprints for existing Investment Office configuration and the proposed draft blueprints for the reconfiguration.
- Total estimated cost summary for the 2<sup>nd</sup> and 12<sup>th</sup> floors.
- Final cost increased by \$37,660 (1.93%).
- Cost variance explanations.

On a motion made by Trustee Matsumoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved renovation of the existing Investment Office space to accommodate additional Investment Office employees at the estimated cost of \$120,000 to \$140,000.

**OPERATIONS REPORT  
– OCTOBER 2013**

The Executive Director presented the monthly update on ERS operations and ERS website statistics (top 10 viewed pages) for October 2013.

**NEXT BOARD MEETING  
– DECEMBER 9, 2013**

Chair Lee Loy announced that the next Board meeting is scheduled for December 9, 2013.

**ADJOURNMENT**

On a motion made by Trustee Matsumoto, seconded by Trustee Yamasaki, and unanimously carried, Chair Lee Loy adjourned the meeting at 4:52 p.m.

**REDACTED  
SIGNATURE**

Wesley K. Machida  
Executive Director

WKM: jh