

MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF HAWAII  
HELD ON MONDAY, MARCH 14, 2011  
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935  
HONOLULU, HAWAII

ROLL CALL

Trustees present: Mr. Colbert Matsumoto, Chair  
Ms. Jackie Ferguson-Miyamoto  
Mr. Emmitt Kane  
Mr. Alton Kuioka  
Ms. Pihaloa Lee Loy  
Mr. Jerome Rauckhorst  
Mr. Kalbert K. Young

Trustee excused: Mr. Wayne J. Yamasaki

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

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

Guests: Mr. Neil Rue ) Pension Consulting Alliance, Inc.  
  
Mr. James Proud ) Heitman Capital Management  
Mr. Paul Rezens ) (via teleconference call)

Mr. Christopher J. Harlin ) The Northern Trust Company  
Mr. Fred Azar )

Mr. Tenari Maafala ) State of Hawaii Organization of Police  
Vladimir Devens, Esq. ) Officers

QUORUM

A quorum being present, Chair Colbert Matsumoto called the meeting to order at 9:41 a.m.

EXECUTIVE SESSION

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

- to consider and act on approval of the Executive Session minutes of the meetings of: December 20, 2010; January 10, 2011; and February 14, 2011;

- pursuant to HRS § 92-5(a)(8), to hear a report on a Hawaii real estate investment opportunity and a report on Ka'anapali Golf Resort;
- pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys on questions and issues pertaining to the constitutionality of changes to the retirement benefit structure for State and county employees;
- 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 with respect to overpayments under HRS § 88-106; and
- pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on Pension Consulting Alliance, Inc.'s reports on potential finalists for the Active Developed International Equity Manager and Active Emerging Markets Equity Manager searches.

APPROVAL OF EXECUTIVE SESSION  
 MINUTES –  
 DECEMBER 20, 2010  
 JANUARY 10, 2011  
 FEBRUARY 14, 2011

REPORT ON A HAWAII REAL ESTATE  
 INVESTMENT OPPORTUNITY AND A  
 REPORT ON KA'ANAPALI GOLF  
 RESORT

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

CONSULT WITH THE BOARD'S  
 ATTORNEYS ON QUESTIONS AND  
 ISSUES PERTAINING TO THE  
 CONSTITUTIONALITY OF CHANGES  
 TO THE RETIREMENT BENEFIT  
 STRUCTURE FOR STATE AND  
 COUNTY EMPLOYEES

CONSULT WITH THE BOARD'S  
 ATTORNEYS ON QUESTIONS AND  
 ISSUES PERTAINING TO THE BOARD'S  
 POWERS, DUTIES, PRIVILEGES,  
 IMMUNITIES AND LIABILITIES WITH  
 RESPECT TO OVERPAYMENTS UNDER  
 HRS § 88-106

(Mr. Rue returned to the meeting at this time.)

PENSION CONSULTING ALLIANCE,  
INC.'S REPORTS ON POTENTIAL  
FINALISTS FOR THE ACTIVE  
DEVELOPED INTERNATIONAL  
EQUITY MANAGER AND ACTIVE  
EMERGING MARKETS EQUITY  
MANAGER SEARCHES

(Mr. Young was excused and left the meeting at 10:25 a.m.)

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

(Mr. Kane left the meeting at 10:40 a.m.)

(Mr. Aburano left the meeting at this time.)

RESOLUTION THANKING AND  
HONORING FORMER CHAIR JACKIE  
FERGUSON-MIYAMOTO

On a motion made by Ms. Lee Loy, seconded by Mr. Kuioka, and  
unanimously carried, the Board adopted a Resolution, attached to these  
Minutes and incorporated by reference, honoring Jackie Ferguson-  
Miyamoto for her years of dedicated service to the Board and the ERS  
members and beneficiaries. The Chair presented Ms. Ferguson-  
Miyamoto with the Resolution.

(Mr. Kane returned to the meeting at 10:42 a.m.)

#### NEW BUSINESS

2011 HIERS INVESTMENT SUMMIT  
BUDGET

The CIO presented a budget for ERS attendees for the 2011 HIERS  
Investment Summit. Based on Staff's Conference budget analysis,  
the estimate for ERS Trustees and staff is \$21,707. The 2010 budget  
was \$20,000.

On a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee  
Loy, and unanimously carried, the Board approved a budget for  
\$20,000 for ERS attendees at the 2011 Investment Summit.

#### PRESENTATION

NORTHERN TRUST COMPANY –  
SECURITIES LENDING PROGRAM

Chair Matsumoto welcomed Christopher J. Harlin and Fred Azar of  
The Northern Trust Company to present an update of the securities  
lending program it manages for the ERS.

After their presentation, and there being no further questions, the  
Chair thanked the gentlemen and they left the meeting.

PASSIVE GLOBAL EQUITY  
INVESTMENT POLICY

The CIO presented proposed passive global equity investment policy  
language for the approximately \$1.6 million Passive Global Equity  
(PGE) mandate created by the Board's action at its meeting on  
August 16, 2010 to restructure the international (non-US) public  
equity asset class.

On a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee

Loy, and unanimously carried, the Board adopted the proposed Passive Global Equity Investment Policy language, Watch List criteria, and the Global Equity Management Style Groups, as presented.

NON-DISCRETIONARY PRIVATE  
EQUITY CONSULTANT

The CIO reported that staff initiated the procurement exemption process to expand the scope of deliverables of the Pension Consulting Alliance, Inc. contract to include non-discretionary private equity advisory services, as directed by the Board at its September 13, 2010 meeting. The Chief Procurement Officer of the State Procurement Office (SPO) denied the exemption. In light of the response from SPO, the CIO presented several options to address the exemption denial.

After discussion, on a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee Loy, and unanimously carried, the Board approved release of an RFP for general consultant, non-discretionary private equity gatekeeper, and real estate consultant services; a contract may be awarded for all of the services or separate contracts may be awarded for one or more of the services.

The Chair called for a recess at 11:50 a.m. and the meeting reconvened at 12:22 p.m.

LEGISLATIVE COMMITTEE REPORT  
ON 2011 LEGISLATIVE BILLS  
AFFECTING THE EMPLOYEES'  
RETIREMENT SYSTEM; APPROPRIATE  
ACTION

The Administrator reported on the status of the 2011 legislative bills that affect the ERS and the Legislative Committee's recommendations to the Board with respect to the versions of the bills as of the committee's last meeting (March 9, 2011).

The Chair welcomed Tenari Maafala and Vladimir Devens of the State of Hawaii Organization of Police Officers (SHOPO) to present SHOPO's position on S.B. 1269. SHOPO opposes the bill to the extent that it applies to current employees; SHOPO does not oppose application of the bill to new hires.

After their presentation and there being no further questions, the Chair thanked Messrs. Maafala and Devens and they left the meeting.

After discussion, on a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board approved support of S.B. 1269 if it applies only to new hires.

After discussion, on a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board adopted the recommendations of the Legislative Committee on the 2011 bills affecting the ERS. The positions adopted by the Board on the bills that are still active are as follows:

- No position: HB 1092, HD1
- Oppose: HB 174, HD 1
- Support: HB 1035, HD1; HB 1036, HD1; HB 1038, HD2 (but use SB 1341 language for portions that were in HB 1037)

and HB 1142); SB 1341, SD 2 (as vehicle for benefit restructure)

- Support for new hires only: SB 1269, SD2

IMPLEMENTATION OF PENSION  
DIRECT DEPOSIT (ACT 94/SLH 2010)

The Administrator reported that at its March 9, 2011 meeting, the Administrative Committee heard staff's recommendations regarding waivers of the requirements of Act 94/SLH 2010, which authorizes the ERS to require direct deposit of the benefits of all ERS retirees and beneficiaries into a financial institution account designated by the retiree/beneficiary. ERS staff also requested an extension of the April 1, 2011 deadline to allow the ERS more time to contact retirees and beneficiaries about the need for them to sign up for the direct deposit.

The Administrative Committee recommends that the Board (1) exercise its authority to waive direct deposits to extend the deadline for retirees/beneficiaries to sign up for direct deposit to June 30, 2011, and (2) grant an exemption from the direct deposit for those retirees/beneficiaries who fall into the following categories:

- (1) Retiree/beneficiary's financial institution does not participate in the US domestic Federal Automated Clearing House (ACH) program; and
- (2) Retiree/beneficiary resides in a nursing home and the pension or benefit check is addressed to the nursing home to pay for coverage or the retiree/beneficiary's assets are under court ordered conservatorship (e.g., Office of Public Guardian) and the conservator requires checks to be able to properly account for the payments.

After discussion, on a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Kane, and unanimously carried, the Board approved an extension to June 30, 2011 for the direct deposit sign up and an exemption from the direct deposit for retirees/beneficiaries who fall into the following categories:

- (1) Retiree/beneficiary's financial institution does not participate in the US domestic Federal Automated Clearing House (ACH) program; and
- (2) Retiree/beneficiary resides in a nursing home and the pension or benefit check is addressed to the nursing home to pay for nursing home coverage or the retiree/beneficiary's assets are under court ordered conservatorship (e.g., Office of Public Guardian) and the conservator requires checks to be able to properly account for the payments;

and to authorize staff to inform retiree/beneficiaries that if they do not sign up for direct deposit, their benefits will be stopped.

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

UPDATE ON ERS ACTION PLAN

The Administrator presented his action plan as of March 1, 2011.

Of note was that 852 finals calculations remain, including the 600 December 2010 retirees' initial pension payments. A Request for Proposals is planned for issuance in April 2011 for the internal audit.

REPORTS BY THE CIO

The CIO discussed the rebalancing report.

The CIO reported that the finalists presentations for the Active Developed International Equity Manager will be held during the Board's April 11, 2011 meeting. Presentations for the Active Emerging Markets Equity Manager will be held at a later meeting.

ADJOURNMENT

On a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee Loy, and unanimously carried, the Chair adjourned the meeting at 2:08 p.m.

**REDACTED**

Wesley K. Machida  
Administrator

WKM:bmt

# Resolution

**WHEREAS, JACKIE FERGUSON-MIYAMOTO** was elected to serve on the Board of Trustees of the Employees' Retirement System of the State of Hawaii by the ERS membership for terms from January 2, 1996 to January 1, 2002; January 2, 2002 to January 1, 2008; and January 2, 2009 to January 1, 2014; and

**WHEREAS, JACKIE FERGUSON-MIYAMOTO** was elected as the Chair of the Board of Trustees from July 8, 2002 and served until December 20, 2010, thereby earning the distinction of being the longest serving Chair on the Board; and providing the Board of Trustees with stability and continuity; and

**WHEREAS,** during her tenure the Employees' Retirement System's assets grew from \$6.7 billion to \$10.6 billion, its membership increased from 56,985 to 66,407, and the number of pensioners grew from 26,926 to 38,914.

**WHEREAS,** during her years of service, the Hybrid Plan was implemented on July 1, 2006 and more than 27,000 members switched to the Hybrid Plan to receive a better pension benefit while being cost neutral to the employers and the ERS received \$243.4 million in upgrade payments; and the "Pop Up" feature to the joint and survivor retirement option was implemented to allow retirees to get a higher pension should the beneficiary pass away before the retiree; and the funding methodology changed in 2005 to percentage of pay, allowing for a more consistent and steady stream of employer contributions to better fund the Employees' Retirement System.

**WHEREAS,** Trustee Ferguson-Miyamoto is a public servant in the true sense of the word, committing herself to serving the membership by listening to their concerns and reporting their concerns to the Board, and serving the people of Hawaii with dedication and unselfishness, working relentlessly and diligently to ensure that the quality of life of retired public employees was of the highest standard; and dedicating herself to improving the resources of the program which would enable the members to retire knowing that such years would be lived with dignity; and

**WHEREAS,** she has given a tremendous amount of her time in meetings with the Retirement System Administrator, staff, deputy attorneys general, investment managers, legislators, legislative hearings; and

**WHEREAS,** under her stewardship, the Employees' Retirement System continued to be nationally recognized and emulated by sister states; and

**WHEREAS,** during her tenure as a Trustee, she won the respect and admiration of her peers for her patient calm demeanor but enormous strength of character to stand up and speak up for the Board and for the membership; and

**NOW THEREFORE BE IT RESOLVED** by the Board of Trustees of the Employees' Retirement System that it commends and congratulates **JACKIE FERGUSON-MIYAMOTO** for her outstanding leadership and service to the Employees' Retirement System, Board of Trustees, and the people of Hawaii.

BOARD OF TRUSTEES:

**REDACTED**