

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
HELD ON TUESDAY, MAY 10, 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. Piliialoha Lee Loy
Mr. Jerome Rauckhorst
Mr. Wayne J. Yamasaki

Trustee excused: Mr. Kalbert K. Young

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

Staff: Mr. Wesley K. 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. Wanda Kugiya, Recording Secretary

Guests: Mr. Neil Rue) Pension Consulting Alliance, Inc.
Mr. Jonathan Aggett) Hancock Timber Resource Group
Mr. Scott Estey)

QUORUM

A quorum being present, Chair Colbert Matsumoto called the meeting to order at 10:41 a.m.

AMENDMENT TO AGENDA

On a motion made by Mr. Kuioka, seconded by Ms. Lee Loy, and unanimously carried, the Board amended the agenda to include the following: Confirmation of the selection of BlackRock Financial Management, Inc. as investment manager for global inflation linked securities.

PRESENTATIONS

PENSION CONSULTING ALLIANCE,
INC. - INVESTMENT PORTFOLIO
PERFORMANCE REPORT FOR 1ST
QUARTER 2011; APPROPRIATE
ACTION

Neil Rue of Pension Consulting Alliance, Inc. (PCA) presented PCA's investment portfolio performance report for the 1st quarter of 2011. Highlights of the quarter were:

- As of March 31, 2011, the ERS portfolio had an aggregate value of \$11.5 billion. During the latest quarter, the portfolio increased by \$350.2 billion. Over the latest year, the portfolio increased by \$1,013.4 million.

- The portfolio generated a return of 3.8% during the quarter, meeting the policy benchmark.

NEW BUSINESS

(Mr. Kuioka was excused and left the meeting at 10:55 a.m.)

INVESTMENT MANAGER WATCH STATUS (BANK OF HAWAII AND CM BIDWELL)

The CIO recommended that Bank of Hawaii and CM Bidwell & Associates be removed from watch status due to improved performance.

On a motion made by Ms. Lee Loy, seconded by Mr. Kane, and unanimously carried, the Board removed Bank of Hawaii and CM Bidwell & Associates from watch status.

(Mr. Kuioka returned to the meeting at 10:56 a.m.)

BLACKROCK FINANCIAL MANAGEMENT, INC.

The CIO reported that, during the preparation of the contract, the ERS was informed by BlackRock that BlackRock Financial Management, Inc. is the entity that will actually be providing investment management services to the ERS. BlackRock Financial Management, Inc. is a second tier subsidiary of BlackRock, Inc. Ms. Kishimoto asked if the Board understood that its contractor would be a subsidiary rather than the parent. The Chair asked staff to check on what representations were made by BlackRock during the search process.

(Ms. Ferguson-Miyamoto arrived at the meeting at 11:05 a.m.)

(The CIO, Mr. Rue and Mr. Chattergy left the meeting.)

2011 LEGISLATIVE BILLS AFFECTING THE EMPLOYEES' RETIREMENT SYSTEM

The Administrator reported on the status of the 2011 legislative bills affecting the ERS. The Administrator thanked the trustees and Ms. Kishimoto for their efforts in supporting the ERS's legislative initiatives. All of the measures that were supported by the ERS passed. The Assistant Administrator is working with staff to implement the changes to the ERS benefit structure and operations resulting from the bills that passed this session.

The Chair commented on the importance of educating members of the community on public pension issues. The Administrator reported that he will be meeting with the County Council in Kauai on Friday and that he had met with Maui Council two weeks ago.

The Administrator mentioned that PCA is the investment consultant for the EUTF.

AUDIT COMMITTEE CHARTER

Mr. Kane proposed that the Audit Committee Charter be amended to require a minimum of two meetings per year or more frequently as circumstances require. The charter currently requires a minimum of four meetings per year. On a motion made by Mr. Kuioka, seconded by Mr. Rauckhorst, and unanimously carried, the Board amended the Audit Committee Charter to require a minimum of two meetings per year or more frequently as circumstances require.

APPROVAL OF MINUTES – MARCH 14, 2011

On a motion made by Ms. Lee Loy, seconded by Mr. Kuioka, and unanimously carried, the Board approved the minutes of the March 14, 2011 meeting, as circulated.

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

ACTION PLAN UPDATE

The Administrator presented his action plan as of May 1, 2011:

- 554 finals calculations remain; 100 retiring in March. Finalizing 98% within 3-4 months of retirement. December 31 retirants finalized by May. – There are 600 applications for June 1 of this year; last year, 259.
- Received list for vacant secretarial position and will begin interviews next week.
- Internal Audit RFP to be issued in May 2011.
- Financial Audit – meeting with KPMG on May 13; draft audit for 2009 to be issued in June, and draft audit for 2010 to be issued in November 2010.
- Accounting Manager – the Assistant Administrator will oversee the hiring process.

EXECUTIVE SESSION

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

- pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on Hancock Natural Resources Group portfolio update and 2011 Tactical Plan;
- to consider and act on approval of the Executive Session minutes of the meeting of March 14, 2011; and
- pursuant to HRS § 92-5(a)(8), to consider the Report of the Ad Hoc Committee to Investigate Active Developed International Equities Markets Manager Search Finalists.

APPROVAL OF EXECUTIVE SESSION MINUTES – MARCH 14, 2011

EXECUTIVE SESSION TO CONSIDER, DELIBERATE, AND ACT ON HANCOCK NATURAL RESOURCES GROUP PORTFOLIO UPDATE AND 2011 TACTICAL PLAN

(The CIO, Mr. Rue and Mr. Chattergy returned to the meeting at this time.)

EXECUTIVE SESSION TO CONSIDER THE REPORT OF THE AD HOC COMMITTEE TO INVESTIGATE ACTIVE DEVELOPED INTERNATIONAL EQUITIES MARKETS MANAGER SEARCH FINALISTS

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

BLACKROCK FINANCIAL
MANAGEMENT, INC.

The CIO reported that BlackRock's response to the Request for Information alludes to a subsidiary but not by name. Various trustees commented that they were under the impression that BlackRock, Inc. would be the contractor and that one of the reasons that BlackRock was selected was the size of the organization.

On a motion by Mr. Lee Loy, seconded by Mr. Rauckhorst, and unanimously carried, the Board confirmed its selection of BlackRock, Inc. as the investment manager for global linked securities, but approved delegation of the contractor's responsibilities to its subsidiary BlackRock Financial Management, Inc., provided that BlackRock, Inc. is not released from any liability under the contract.

ADJOURNMENT

On a motion made by Ms. Lee Loy, seconded by Mr. Rauckhorst, and unanimously carried, the Chair adjourned the meeting at 12:41 p.m.

REDACTED

Wesley K. Machida
Administrator

WKM:wsk