

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
HELD ON TUESDAY, NOVEMBER 8, 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
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
Mr. Karl Kaneshiro, Benefits Manager
Mr. Keith Miyamoto, Information Systems Manager
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Jaime Hirata, Recording Secretary
Ms. Wanda Kugiya, Secretary

Guests:

Mr. Craig Steinberg) Atalanta Sosnoff Capital, LLC
Mr. Kamani Kualau

Mr. Joe Newton) Gabriel Roeder Smith & Company
Mr. Lewis Ward

Mr. Lloyd McAdams) Pacific Income Advisors, Inc.
Mr. Timothy Tarpene
Mr. Bradley Schluter

Mr. Neil Rue) Pension Consulting Alliance, Inc.
Ms. Kay Ceserani

QUORUM

A quorum being present, Chair Matsumoto called the meeting to order at 9:37 a.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 item in Executive Session:

- 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, termination of State Street Bank and Trust Company (Rexiter Capital Management Limited).

APPROVAL OF MINUTES –
REGULAR MEETING, OCTOBER 11, 2011

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 held on October 11, 2011.

PRESENTATION BY PENSION
CONSULTING ALLIANCE, INC. ON THE
ERS' INVESTMENT PORTFOLIO
PERFORMANCE REPORT FOR 3RD
QUARTER 2011

Mr. Neil Rue and Ms. Kay Ceserani of Pension Consulting Alliance, Inc. (PCA), ERS' general investment consultant, presented the ERS' investment portfolio performance report for 3rd quarter 2011. Highlights of the portfolio for the 3rd quarter included:

- \$10.2 billion aggregate value as of September 30, 2011
- portfolio decreased by \$1,392 million during the quarter and \$346.1 million over the latest year
- portfolio underperformed the policy benchmark by 2.6%
- 85% of all investment managers underperformed their benchmark during the quarter; however, in October, nearly all of the managers outperformed their benchmark, some significantly
- domestic equity manager, Goldman Sachs, trailed the benchmark by 50 basis points; was placed on "watch status" at the February 2011 Board meeting due to performance concerns and is still underperforming
- private equity provided the most positive results; the real return class posted negative results

PCA noted that, during the 3rd quarter, investment market risks increased causing a harder challenge to meet policy goals. Investors struggled with the heightened market volatility from the Euro zone debt crisis.

(Mr. Emmitt Kane joined the meeting at 9:44 a.m.)

PRESENTATION BY ATALANTA SOSNOFF
CAPITAL, LLC ON THE PORTFOLIO
REVIEW OF LARGE CAP GROWTH

The CIO provided a recap of the ERS's relationship with Atalanta Sosnoff Capital, LLC (Atalanta). Atalanta is one of ERS's two large cap growth equity portfolio managers. Atalanta was placed on watch status at the November 2010 Board meeting due to underperformance. According to PCA's portfolio performance report for 3rd quarter 2011, Atalanta underperformed the Russell 1000 Growth Index and trailed 1-year period by 10.6%. Overall, Atalanta has been below ERS' short-term performance criteria – underperforming on a rolling 12-month basis by more than (3.5%) for three consecutive months.

(Mr. Craig Steinberg and Mr. Kamani Kuala'au joined the meeting.)

Mr. Craig Steinberg and Mr. Kamani Kuala'au of Atalanta presented a review of the large cap growth portfolio managed by Atalanta for the ERS. Atalanta reported on the following:

- Atalanta believes underperformance due to environmental factors and a too optimistic outlook
- short-term performance not good, but long-term performance reports show good stock selection, pragmatic approach, and implementation of sector selection
- has taken a more economic in-line position since on a day-to-day basis they are in a more volatile period
- hopes to outperform the benchmark on a short-term/quarterly basis to reinstate the Board's confidence in keeping them as a large cap growth portfolio manager
- plans to recoup portfolio losses with big match stocks with a more moderate market

Upon completion of their presentation, Mr. Steinberg and Mr. Kuala'au left the meeting.

Mr. Rue reported on the on-site meeting that PCA conducted at Atalanta on October 5, 2011. Atalanta's investment philosophy and investment team have remained unchanged. Underperformance is attributed primarily to macro-economic assessment that proved to be incorrect, which led to an inappropriately structured portfolio and security selection. PCA recommends that all assets managed within the large cap growth equity segment be placed in a passive investment portfolio that seeks to match the investment performance of the Russell 1000 Growth Index (ERS policy benchmark for this segment). Historically for the past ten years, this segment has proven challenging. PCA believes that market volatility will continue through future investment cycles. PCA recommends that ERS consider converting its active management allocation in the large cap

equity portfolio to passive management.

(Mr. Young left the meeting at 10:46 a.m.)

Mr. Lloyd McAdams, Mr. Timothy Tarpenting, and Mr. Bradley Schluter of Pacific Income Advisors (PIA) presented a review of the core fixed income portfolio managed by PIA for the ERS:

- Small-cap high yield strategy seeks to outperform the Barclays U.S. Corporate High Yield Index by 1% percent net of management fees
- Based on 20 basis points, but asking for 65 basis points
- Invested in the spread rating and treasury rating; driver of widening spread due to shorter time frame and lesser confidence
- The high yield strategy would be a supplement to existing account – no extra charge

PCA noted that the ERS may need to consider a change to the benchmark to realign the risk profile.

Upon completion of their presentation, Messers. McAdams, Tarpenting and Schluter left the meeting.

RECESS

Chair Matsumoto called a recess at 11:31 a.m.

RECONVENE

Chair Matsumoto reconvened the meeting to order at 11:50 a.m.

ENTER EXECUTIVE SESSION

EXECUTIVE SESSION

On a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee Loy, 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
- approval of Executive Session Minutes of the Regular Meeting of October 11, 2011

- 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, termination of State Street Bank and Trust Company (Rexiter Capital Management Limited)

(Mr. Young returned to the meeting at 12:31 p.m.)

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

(Mr. Newton and Mr. Ward left the meeting and did not return for the remainder of the meeting.)

APPROVAL OF EXECUTIVE SESSION MINUTES –
REGULAR MEETING, OCTOBER 11, 2011

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 TERMINATION OF STATE STREET BANK AND TRUST COMPANY (REXITER CAPITAL MANAGEMENT)

EXIT EXECUTIVE SESSION

EXIT EXECUTIVE SESSION

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Rauckhorst, and unanimously carried, the Board exited Executive Session at 1:26 p.m.

PRESENTATION BY PENSION CONSULTING ALLIANCE, INC. ON THE LARGE CAP GROWTH EQUITY REVIEW

Mr. Rue presented PCA's report on its review of the large cap growth equity segment. As of September 30, 2011, ERS large cap growth equity portfolio totaled approximately \$1.0 billion (20% of total public equity assets) and was split between Atalanta and Goldman Sachs Asset Management (GASM), making it one of the largest and, historically within the past ten years, the most challenging segment to outperform. Both managers underperformed their policy benchmark. Mr. Rue reminded the Board that GASM was terminated due to

unfavorable performance and significant organizational changes.

Mr. Rue noted that, if the ERS were to terminate Atalanta, another active manager would have to be chosen, unless the Board decides to pursue a passive strategy in this area. The major active managers in large cap growth equity are Mellon Capital Management Corporation (Mellon), State Street Global Advisers, and BlackRock, Inc. PCA and the CIO believe that, although it made sense to have active management for large cap growth equity when Atalanta was hired, times have changed.

PCA believes that, if ERS remains committed to active management in this segment, the ERS should diversify into other styles, such as more aggressive-momentum-based strategies. Based on PCA's report of large cap growth equity, PCA and ERS staff recommended the Board terminate Atalanta and transition to a passive management in this area.

Mr. Rue and the CIO confirmed that they were not seeking a decision from the Board at this meeting. The Administrator noted that if the Board decided to pursue a passive manager, a request for information (RFI) would be necessary.

AMENDMENT OF THE AGENDA

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

- Resolution honoring Donald Horner

RESOLUTION HONORING DONALD HORNER

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board adopted the resolution attached to these minutes and incorporated by reference.

ENTER EXECUTIVE SESSION

EXECUTIVE SESSION

(Mr. Keith Miyamoto joined the meeting.)

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

- pursuant to HRS § 92-5(a)(3) and (8), to discuss and make decisions on contract negotiations and contract scope for computer system upgrade
- pursuant to HRS §92-5(a)(4) and (8), to consult with the ERS's attorneys on questions and issues pertaining to ERS's powers, duties, privileges, immunities and liabilities regarding the draft of the ERS Strategic Plan 2011 – 2015

- pursuant to HRS § 92-5(a)(8), to consider, evaluate and make decisions on responses to the Request for Proposals for Investment Consultant Services

EXECUTIVE SESSION TO DISCUSS AND MAKE DECISIONS ON CONTRACT NEGOTIATIONS AND CONTRACT SCOPE FOR COMPUTER SYSTEM UPGRADE

EXECUTIVE SESSION TO CONSULT WITH THE ERS'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO ERS'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES AND LIABILITIES REGARDING THE DRAFT OF THE ERS STRATEGIC PLAN FOR 2011 - 2015

(Mr. Miyamoto left the meeting and did not return for the remainder of the meeting.)

EXECUTIVE SESSION TO CONSIDER, EVALUATE AND MAKE DECISIONS ON RESPONSES TO THE REQUEST FOR PROPOSALS FOR INVESTMENT CONSULTANT SERVICES

EXIT EXECUTIVE SESSION

EXIT EXECUTIVE SESSION

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

REQUEST FOR PROPOSALS FOR INTERNAL AUDIT CONSULTANT SERVICES

The Administrator reported on the status of the ERS' RFP for internal audit consultant services. He noted that the RFP is available on the ERS website. The Information and Communication Services Division (ICSD) of the Department of Accounting and General Services (DAGS) detected potential problems of the DAGS procurement website, so the procurement website is currently unavailable due to corrective action. Because of this, the response dates for the RFP have been extended, so there is also an anticipated delay of approximately 3 to 4 weeks to fully execute a contract.

ACTUARIAL METHODS FOR VALUATION (DEFERRED)

Consideration of Actuarial Methods for Valuation was deferred.

ADMINISTRATOR'S UPDATE ON THE ERS ACTION PLAN

The Administrator provided an update on the ERS Action Plan as of November 8, 2011:

(Mr. Kane excused himself from this portion of the meeting and exited the room.)

- There have been no responses to the ERS's invitation for bids (IFB) for election services for the Trustee Election. ERS staff is therefore working with the State Procurement Office for a small purchase via the Hawaii eProcurement System (HePS). The Administrator anticipates that ballots will be mailed out December 2011, with elections results available at the Board's January 2012 meeting.

(Mr. Kane returned to the meeting.)

SIGNATURE AUTHORITY FOR TRANSITIONS

The Administrator reported that staff is requesting the Board's authorization for execution of transition letters by only the Administrator. This will facilitate the transition of assets from one investment manager to another under contracts with the ERS's transition managers. Under general resolutions adopted by the Board for execution of documents, two (2) signatures are required (a Trustee and the Administrator or Assistant Administrator) for the execution of the transition letter. A transition letter confirms the appointment of a transition manager for a specific transition, as well as the terms of the transition.

On a motion made by Mr. Rauckhorst, seconded by Ms. Lee Loy, and unanimously carried, the Board adopted the following:

RESOLVED, that the Administrator of the Employees' Retirement System of the State of Hawaii is hereby authorized to sign and execute on behalf of the Employees' Retirement System of the State of Hawaii letter agreements or letters of appointments contemplated by, and necessary and proper for the implementation of, the contracts entered into from time to time by the System for the transition of assets of the System from one investment manager to another investment manager.

ERS STRATEGIC PLAN 2011 – 2015

On a motion made by Mr. Yamasaki, seconded by Ms. Lee Loy, and unanimously carried, the Board approved the ERS Strategic Plan 2011 – 2015, as presented by the Administrator.

NEXT BOARD MEETING –
DECEMBER 12, 2011

Chair Matsumoto announced that the next Board meeting is scheduled for December 12, 2011.

MEETING ADJOURNED AT 2:42 P.M.

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board adjourned the meeting at 2:42 p.m.

REDACTED

Wesley K. Machida
Administrator

WKM: jh

Resolution

WHEREAS, Donald Horner has been the President of First Hawaiian Bank since 2003, and

WHEREAS, Donald Horner started as a credit analyst in the Credit Department in 1978, and

WHEREAS, Donald Horner will be retiring as Chief Executive Officer on December 31, 2011, and still remains as Chairman of the Board.

WHEREAS, First Hawaiian Bank managed large cap core portfolio from April 20, 2000 to August 18, 2006, and

WHEREAS, First Hawaiian Bank merged with CIC/HCM Asset Management, Inc. to manage the Bishop Street funds and continues to manage a bond portfolio, and

WHEREAS, First Hawaiian Bank under Donald Horner's leadership has hosted the Employees' Retirement System of the State of Hawaii at the Bankers Club since 2007, and

WHEREAS the Employees' Retirement System Board of Trustees appreciates Donald Horner's gestures of aloha and support.

NOW THEREFORE BE IT RESOLVED that the Employees' Retirement System Board of Trustees congratulates Donald Horner for his outstanding service with First Hawaiian Bank and

BE IT FURTHER RESOLVED that the Employees' Retirement System Board wishes Donald Horner a long and happy retirement enabling him to be like one of the founders of First Hawaiian Bank, Charles Reed Bishop who in retirement pursued community and philanthropic endeavors and

BE IT FURTHER RESOLVED that Employees' Retirement System Board also, wishes Donald Horner continued success with his many community activities including Rail and the Hawaii Board of Education.

BE IT FURTHER RESOLVED that the Employees' Retirement System Board of Trustees extends its heartfelt aloha and mahalo and

BE IT FURTHER RESOLVED that a certified copy of this Resolution be transmitted to Donald Horner.