

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

JANUARY 13, 2014

CITY FINANCIAL TOWER
201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII 96813

Trustees present: Ms. Pilialoa Lee Loy, Chair
Mr. Vincent Barfield, Vice Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Patrick Frane
Mr. Emmit Kane
Mr. Colbert Matsumoto
Mr. Jerome Rauckhorst
Mr. Kalbert Young

Staff present: Mr. Wesley Machida, Executive Director
Ms. Kanoë Margol, Assistant Administrator
Mr. Vijoy Chattergy, Chief Investment Officer
Mr. Andrew Chen, Investment Specialist
Mr. Ian Wetzel, 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

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

Guests present: Mr. Kevin Higa) Bank of Hawaii
Mr. Steve Rogers

Mr. Rick Byers) Borealis Infrastructure Management,
Inc.

Mr. Clint Bidwell) C.M. Bidwell & Associates
Ms. Debra Chun
Mr. Niall Kilcommons

Mr. Michael Humphrey) Courtland Partners, Ltd.
Mr. Dan Moore

Mr. Charles Bertucio) GrandFund, LLC/McMorgan
Infrastructure Fund I, L.P.

Mr. Jonathan Floyd) Hamilton Lane Advisors, LLC
Mr. Paul Yett

Mr. Tom Wilhelm)	McMorgan Infrastructure Fund I, L.P.
Mr. Rick Miller)	Ontario Municipal Employees Retirement System
Mr. Neil Rue)	Pension Consulting Alliance, Inc.
Mr. Sean McShea)	Ryan Labs Asset Management
Mr. Allan Ettinger)	The Ettinger Group/Morgan Stanley Wealth Management

QUORUM/CALL TO ORDER

A quorum being present, Trustee Lee Loy, called the regular meeting of the Board of Trustees of the Employees' Retirement System (the Board), to order at 10:07 a.m.

ELECTION OF OFFICERS AND
COMMITTEE ASSIGNMENTS

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board elected Trustee Lee Loy as Chair of the Board and Trustee Barfield as Vice Chair of the Board effective January 13, 2014.

Chair Lee Loy recommended the following changes to the Board's committee assignments:

- Add Trustee Kane and Trustee Frane to the Investment Committee.
- Replace Trustee Lee Loy with Trustee Frane on the Audit Committee.
- Replace Trustee Rauckhorst with Trustee Kane on the Compensation Review Committee.
- No changes to the Administrative and Legislative Committee.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Kane, and unanimously carried, the Board approved the Chair's proposed changes to the Board's committee assignments, effective January 13, 2014.

The Board's new committee assignments are as follows:

Investment Committee

Vince Barfield, Chair
Piliialoha Lee Loy, Vice Chair
Jackie Ferguson-Miyamoto
Patrick Frane
Emmit Kane
Colbert Matsumoto
Jerry Rauckhorst
Kalbert Young

Administrative and Legislative Committee

Jackie Ferguson-Miyamoto, Chair
Piliialoha Lee Loy
Jerry Rauckhorst

Audit Committee

Jerry Rauckhorst, Chair
Patrick Frane (replaced Trustee Lee Loy)
Kalbert Young

Compensation Review Committee

Colbert Matsumoto, Chair
Vince Barfield
Emmit Kane (replaced Trustee Rauckhorst)
Kalbert Young

(Trustee Young joined the meeting.)

(Mr. Wesley Machida, ERS Executive Director, and Ms. Donna Curry ERS Program Specialist, left the meeting.)

PRESENTATION BY C.M. BIDWELL
& ASSOCIATES, LTD. AND BANK
OF HAWAII ON THEIR REVIEW OF
THE PERFORMANCE OF THE ERS'S
INVESTMENT PORTFOLIO

Mr. Clint Bidwell, Ms. Debra Chun, and Mr. Niall Kilcommons of C.M. Bidwell and Associates, Ltd. (CMBA), presented CMBA's report on the performance of the equity large cap equity portfolio managed by CMBA and Bank of Hawaii (BOH) for the ERS.

Highlights included:

- In March 2013, CMBA/BOH was removed from the ERS's "Watch List" status due to improved performance versus benchmark (S&P 500) on a trailing 12-month basis.
- Review of the investment strategy.

Mr. Kevin Higa and Mr. Steve Rogers of BOH arrived at the meeting and introduced themselves. They noted BOH's long standing relationship with the ERS, and its current role with the sub-advisory arrangement with CMBA.

There being no further discussion, representatives from CMBA and BOH left the meeting.

PRESENTATION BY COURTLAND
PARTNERS, LTD. AND PENSION
CONSULTING ALLIANCE, INC. ON
REAL RETURN ASSET CLASS
EDUCATION: INFRASTRUCTURE

Mr. Vijoy Chattergy, ERS Chief Investment Officer (CIO), and Mr. Neil Rue of Pension Consulting Alliance, Inc. (PCA), ERS's general investment consultant, summarized the background of the establishment of the infrastructure asset class in the ERS's investment portfolio. Mr. Rue noted that ERS has a 5% target for this asset class and that this asset class would provide protection against long-term inflation. The CIO and PCA had planned a presentation on infrastructure as part of the real return asset class at the March 2014 Board meeting; however, an infrastructure investment, which all three consultants agree is a good opportunity, has become available.

The CIO commented that all three of the ERS's consultants have expertise in this area. The consultant who will have oversight responsibility for any particular infrastructure investment depends primarily on how the investment is structured. The CIO expects that the ERS will ultimately be making two to three investments in infrastructure.

Mr. Michael Humphrey and Mr. Dan Moore of Courtland Partners, Ltd. (Courtland Partners), provided a presentation on the infrastructure asset class. Highlights included:

- Review of the types of infrastructure and its characteristics.
- Expected risks and returns.
- Correlation to other commonly held asset classes.
- Comparison of infrastructure to real estate and private equity.
- Forecast of global infrastructure investments.

ENTER EXECUTIVE SESSION

On a motion made by Trustee Rauckhorst, seconded by Trustee Ferguson-Miyamoto, and unanimously carried, the Board entered executive session:

- Pursuant to HRS § 92-5(a)(8) to consider, and if appropriate, to make a decision regarding investment in McMorgan Infrastructure Fund I, L.P.;
- To approve November 13, 2013 executive session minutes;
- Pursuant to HRS § 92-5(a)(8) to consider a report from Courtland Partners, Ltd. regarding the Royal Ka'anapali Golf Courses property;
- Pursuant to HRS § 92-5(a)(8) to consider a report from Pension Consulting Alliance, Inc. on the Growth Risk Class and the Principal Protection Risk Class;
- Pursuant to HRS § 92-5(a)(8) to consider a report from Hamilton Lane Advisors, LLC regarding the private equity program strategic plan;
- Pursuant to HRS § 92-5(a)(8) to consider a report regarding rebalancing the ERS's investment portfolio; and
- 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 regarding securities fraud lawsuits against Royal Bank of Scotland and International Business Machines Corp.

EXECUTIVE SESSION TO
CONSIDER, AND IF APPROPRIATE,
TO MAKE A DECISION
REGARDING INVESTMENT IN
MCMORGAN INFRASTRUCTURE
FUND I, L.P.

(The Executive Director and Ms. Curry returned to the meeting.)

APPROVAL OF EXECUTIVE
SESSION MINUTES
- NOVEMBER 13, 2013

EXECUTIVE SESSION TO
CONSIDER, AND IF APPROPRIATE,
TO MAKE A DECISION
REGARDING INVESTMENT IN
MCMORGAN INFRASTRUCTURE
FUND I, L.P.

EXECUTIVE SESSION TO
CONSIDER A REPORT FROM
COURTLAND PARTNERS
REGARDING ROYAL KA'ANAPALI
GOLF COURSES PROPERTY

(Mr. Humphrey and Mr. Moore left the meeting.)

(Trustee Matsumoto left the meeting.)

EXECUTIVE SESSION TO
CONSIDER A REPORT FROM
PENSION CONSULTING ALLIANCE,
INC. ON GROWTH RISK CLASS
AND PRINCIPAL PROTECTION
RISK CLASS

(Trustee Matsumoto returned to the meeting.)

EXECUTIVE SESSION TO
CONSIDER A REPORT FROM
HAMILTON LANE ADVISORS, LLC
REGARDING PRIVATE EQUITY
PROGRAM STRATEGIC PLAN

EXECUTIVE SESSION TO
CONSIDER A REPORT REGARDING
REBALANCING THE ERS'S
INVESTMENT PORTFOLIO

(The representatives of Courtland Partners, Hamilton Lane, and PCA
left the meeting.)

EXECUTIVE SESSION TO CONSULT
WITH THE BOARD'S ATTORNEYS
ON QUESTIONS AND ISSUES
PERTAINING TO THE BOARD'S
POWERS, DUTIES, PRIVILEGES,
IMMUNITIES, AND LIABILITIES
REGARDING SECURITIES FRAUD
LAWSUITS AGAINST ROYAL BANK
OF SCOTLAND AND
INTERNATIONAL BUSINESS
MACHINES CORPORATION

EXIT EXECUTIVE SESSION

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

(The representatives of Courtland Partners, Hamilton Lane, and PCA
returned to the meeting.)

PRESENTATION BY THE ETTINGER
GROUP/MORGAN STANLEY
WEALTH MANAGEMENT ON
PENSION FINANCIAL DIAGNOSTIC

The Executive Director introduced Mr. Allan Ettinger of the Ettinger Group/Morgan Stanley Wealth Management and Mr. Sean McShea of Ryan Labs Asset Management. Mr. Ettinger described himself and Mr. McShea as advocates for the defined benefit plan structure; as a second set of eyes with respect to management issues that should be addressed to create sustainability and long-term solvency of public pension plans. Mr. Shea and Mr. Ettinger presented a pension financial diagnostic of the ERS. Highlights included:

- Challenges facing public pension plans
- Evaluation of asset allocation
- Evaluation of plan members contributions
- Evaluation of the management of benefits
- Effects of accounting and regulatory changes on the financial reporting of public pension plans

There being no further discussion, Mr. Ettinger and Mr. McShea left the meeting.

(Trustee Matsumoto and the Executive Director left the meeting.)

PRESENTATION BY THE ONTARIO
MUNICIPAL EMPLOYEES'
RETIREMENT SYSTEM ON THEIR
INVESTMENT ACTIVITIES

Mr. Rick Miller of the Ontario Municipal Employees' Retirement System (OMERS), provided a presentation on OMERS and OMERS's investment activities.

(Trustee Barfield left the meeting.)

APPROVAL OF MINUTES
- NOVEMBER 13, 2013

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved the minutes of the November 13, 2013 Board meeting.

CORRECTION OF MINUTES
- SEPTEMBER 10, 2012

Proposed amended public minutes of the September 10, 2012 Board meeting were circulated for the Board's consideration. It was noted that amendment of the minutes is necessary to clarify the motion regarding Act 153 actuarial option factors for determining employer assessment and updated actuarial option factors. As amended, the record of the motion would read as follows (the addition is underscored):

On a motion made by Trustee Lee Loy, seconded by Trustee Ferguson-Miyamoto and unanimously carried, the Board approved the following:

- Use of separate actuarial factors for males and females and for teachers, general employees, and police and fire employees will be used for determining employer assessments under Act 153, Session Laws of Hawaii 2012;
- The actuarial factors for determining employer assessments under Act 153, Session Laws of Hawaii 2012, is attached to these minutes as Exhibits 1, 2 and 3; and
- Update, effective January 1, 2014, of the Option Factor Tables used to calculate ERS benefits, to reflect the revised investment return assumption rate (7.75%) and updated mortality tables; the "cost of living adjustment" assumption will be the applicable rate set by statute.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved the amendment of the minutes of the September 10, 2012 meeting, as presented.

INVESTMENT MANAGER
WATCH STATUS
- C.S. MCKEE, L.P.
- MACQUARIE FUNDS
MANAGEMENT (USA) INC.
- MERCATOR ASSET
MANAGEMENT, L.P.

The CIO and PCA recommended the following changes to the investment manager "Watch List" in accordance with the ERS Watch List Policy:

- Remove from the Watch List C.S. McKee, L.P., active US large-cap value equity manager, because of improved investment performance;
- Place Macquarie Funds Management (USA) Inc., Hawaii Targeted Investment Program (HiTIP) manager, on the Watch List due to organizational changes and plans to restructure the business model; and
- Remove from the Watch List Mercator Asset Management, L.P., non-US developed equities manager, because of improved investment performance.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board removed C.S. McKee, L.P. and Mercator Asset Management, L.P. from the Watch List.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved placing Macquarie Funds Management (USA) Inc. on the Watch List due to organizational changes.

(The Executive Director returned to the meeting.)

EMPLOYEES' RETIREMENT
SYSTEM 2014 LEGISLATIVE
PROPOSALS

The Executive Director reported that ERS staff will be submitting the following legislative proposals as part of the Governor's administrative package for the 2014 legislative session:

- BUF-06(14): Proposal to change the formula for crediting unused sick leave to retirement benefits for public employees who become members of the ERS after June 30, 2014, to help reduce the unfunded liability of the ERS and to also help keep employer costs from escalating.
- BUF-07(14): Proposal to repeal the limitation on the holding period for real estate acquired by the ERS by foreclosure, enforcement of security, or in satisfaction of debts, to allow the Board to make long range plans for the affected property and to allow the Board to evaluate and plan for the retention or disposition of real estate without the distinction as to how the real estate was acquired.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved submission of legislative proposals BUF-06(14), relating to ERS benefits and unused sick leave credit for new employees, and BUF-07(14), relating to repeal the limitation on the holding period for real estate acquired by the ERS, as part of the Governor's administrative package for the 2014 legislative session.

TABLE FOR MORTALITY RATES
FOR ACTUARIAL EQUIVALENCE

The Executive Director presented for the Board's consideration and approval, mortality tables reflecting the mortality assumption for determining the actuarial equivalence of the various optional forms of ERS benefit payments to the maximum allowance. The mortality assumption was adopted by the Board at its September 10, 2012 meeting. The tables will be provided to the Internal Revenue Service in connection with the ERS's determination letter application and will also be available to ERS members and other interested parties.

On a motion made by Trustee Ferguson-Miyamoto, seconded by Trustee Rauckhorst, and unanimously carried, the Board approved, as presented, the mortality tables reflecting the mortality assumption for actuarial equivalence adopted by the Board at its September 10, 2012 meeting. A copy of the tables is attached to these minutes.

REPORT ON TOUR OF
SKAI VENTURES

The CIO reported on the research tour of SKAI Ventures that was conducted by SKAI Ventures founder, Dr. Hank Wuh, and coordinated by Mr. Andy Betz of Macquarie Funds Management (USA) Inc. The purpose of the tour was to allow the trustees and ERS staff to further assess the investment opportunities of SKAI Ventures and the HiTIP Program. The Board appointed trustees to attend the tour pursuant to HRS § 92-2.5(b)(1). The CIO, and Trustees Barfield (replaced Trustee Ferguson-Miyamoto), Frane, and Lee Loy and ERS staff participated in the tour of the SKAI Ventures facilities in Honolulu.

SUDAN ANNUAL REPORT

The CIO presented the ERS's 2013 annual report to the legislature regarding the ERS's direct holdings in Sudan scrutinized companies, as required by Act 192, Session Laws of Hawaii 2007.

HAWAII TARGETED INVESTMENT PROGRAM (HiTIP) ANNUAL REPORT

The CIO presented the ERS's 2013 annual report to the legislature regarding the ERS's Hawaii venture capital investments, as required by Act 260, Session Laws of Hawaii 2007.

OPERATIONS REPORT
- DECEMBER 2013

The Executive Director presented the monthly update on ERS operations for December 2013. Highlights included:

- 4th quarter/December 2013 issue of the ERS's quarterly newsletter, "Holomua", was distributed to ERS members and was made available on the ERS's website on December 27, 2013.
- Audits of fiscal years 2012 and 2013 are expected to be completed June 2014.
- Kumabe HR, executive recruiter, is working on the recruitment to fill the ERS's three investment officer positions.
- ERS's actuarial consultant, Gabriel Roeder Smith and Company (GRS), completed their annual actuarial evaluation of the ERS for the year ending June 30, 2013; GRS conducted briefings on their evaluation to the legislature, State and County Directors, Department of Budget and Finance, employee organizations, and ERS staff throughout the week of December 9, 2013.
- Top ten viewed web pages of ERS's website included the benefits calculator at number one.

NEXT BOARD MEETING
- FEBRUARY 10, 2014

Chair Lee Loy announced that the next Board meeting is scheduled for February 10, 2014.

ADJOURNMENT

On a motion made by Trustee Rauckhorst, seconded by Trustee Kane, and unanimously carried, Chair Lee Loy adjourned the meeting at 3:54 p.m.

**REDACTED
SIGNATURE**

Wesley K. Machida
Executive Director

WKM: jh

ATTACHMENT

State of Hawaii Employees Retirement System Mortality Rates for Actuarial Equivalence

Members				Beneficiaries			
Age	Rate (qx)	Age	Rate (qx)	Age	Rate (qx)	Age	Rate (qx)
1	0.000495	61	0.008541	1	0.000498	61	0.008678
2	0.000328	62	0.008754	2	0.000331	62	0.008921
3	0.000259	63	0.008922	3	0.000263	63	0.009097
4	0.000198	64	0.009059	4	0.000202	64	0.009228
5	0.000180	65	0.009224	5	0.000184	65	0.009386
6	0.000171	66	0.009474	6	0.000174	66	0.009639
7	0.000162	67	0.009868	7	0.000166	67	0.010060
8	0.000147	68	0.010461	8	0.000151	68	0.010711
9	0.000141	69	0.011253	9	0.000145	69	0.011585
10	0.000143	70	0.012214	10	0.000147	70	0.012639
11	0.000148	71	0.013321	11	0.000152	71	0.013838
12	0.000155	72	0.014556	12	0.000160	72	0.015150
13	0.000167	73	0.015910	13	0.000171	73	0.016560
14	0.000181	74	0.017450	14	0.000186	74	0.018138
15	0.000197	75	0.019217	15	0.000202	75	0.019936
16	0.000212	76	0.021231	16	0.000218	76	0.021977
17	0.000226	77	0.023525	17	0.000233	77	0.024306
18	0.000237	78	0.026090	18	0.000244	78	0.026911
19	0.000245	79	0.028946	19	0.000253	79	0.029809
20	0.000253	80	0.032214	20	0.000261	80	0.033124
21	0.000259	81	0.036051	21	0.000269	81	0.037018
22	0.000266	82	0.040617	22	0.000276	82	0.041659
23	0.000273	83	0.045991	23	0.000283	83	0.047134
24	0.000279	84	0.052208	24	0.000290	84	0.053477
25	0.000286	85	0.059304	25	0.000296	85	0.060698
26	0.000293	86	0.067356	26	0.000303	86	0.068841
27	0.000302	87	0.076429	27	0.000312	87	0.077937
28	0.000314	88	0.086613	28	0.000324	88	0.088049
29	0.000328	89	0.097926	29	0.000339	89	0.099198
30	0.000347	90	0.110016	30	0.000358	90	0.111062
31	0.000381	91	0.122801	31	0.000393	91	0.123730
32	0.000417	92	0.136069	32	0.000430	92	0.137032
33	0.000454	93	0.148864	33	0.000468	93	0.149971
34	0.000489	94	0.161459	34	0.000505	94	0.162823
35	0.000525	95	0.169869	35	0.000542	95	0.170699
36	0.000562	96	0.178487	36	0.000580	96	0.178819
37	0.000600	97	0.191836	37	0.000620	97	0.192629
38	0.000642	98	0.205498	38	0.000662	98	0.206912
39	0.000688	99	0.218577	39	0.000708	99	0.220759
40	0.000738	100	0.243116	40	0.000759	100	0.248560
41	0.000795	101	0.253866	41	0.000815	101	0.259613
42	0.000859	102	0.265193	42	0.000879	102	0.271069
43	0.000927	103	0.277062	43	0.000948	103	0.282874
44	0.001002	104	0.289144	44	0.001023	104	0.294683
45	0.001083	105	0.300704	45	0.001105	105	0.305750
46	0.001169	106	0.311005	46	0.001192	106	0.315327
47	0.001234	107	0.319939	47	0.001257	107	0.323418
48	0.001337	108	0.328032	48	0.001362	108	0.330683
49	0.001449	109	0.335432	49	0.001475	109	0.337289
50	0.002107	110	0.341858	50	0.002202	110	0.342982
51	0.003066	111	0.347034	51	0.003254	111	0.347511
52	0.003777	112	0.350679	52	0.004017	112	0.350626
53	0.004483	113	0.353080	53	0.004759	113	0.352626
54	0.005140	114	0.354618	54	0.005423	114	0.353908
55	0.005729	115	0.355160	55	0.005995	115	0.354360
56	0.006239	116	0.355160	56	0.006450	116	0.354360
57	0.006712	117	0.355160	57	0.006861	117	0.354360
58	0.007185	118	0.355160	58	0.007287	118	0.354360
59	0.007677	119	0.355160	59	0.007761	119	0.354360
60	0.008166	120	0.827800	60	0.008255	120	0.826200