

STATE OF HAWAII
REQUEST FOR EXEMPTION FROM CHAPTER 103D, HRS

'04 JAN -6 A9:14

STATE PROCUREMENT OFFICE
STATE OF HAWAII

TO: Chief Procurement Officer

FROM: Budget and Finance – Employees' Retirement System (ERS)
(Department/Division/Agency)

Pursuant to § 103D-102(b)(4), HRS, and Chapter 3-120, HAR, the Department requests a procurement exemption to purchase the following:

Description of goods, services, or construction:

Investment Consulting Services for the Employees' Retirement System (ERS). The Contractor reviews ERS investment policies, procedures, goals and guidelines and if necessary makes reasoned recommendations for amendment thereto. The Contractor will monitor each of the investment portfolio managers and provides performance analysis and ongoing research, advice on specific matters related to portfolio management, specific investments, pension issues, etc.

Name of Vendor:	CALLAN ASSOCIATES, INC.	Cost:
Address:	71 STEVENSON STREET, SUITE 1300 SAN FRANCISCO, CA 94105	\$1,560,000.00

Term of Contract:	From:	To:	Prior Exemption Ref. No. (if applicable)
	JANUARY 1, 2004 <i>Nov</i> UPON CPO APPROVAL	DECEMBER 31, 2006	

Explanation describing how procurement by competitive means is either not practicable or not advantageous to the State:

SEE ATTACHED EXPLANATION

Details of the process or procedure to be followed in selecting the vendor to ensure maximum fair and open competition as practicable:

A Request for Proposals (RFP) was issued by the ERS on August 27, 2003. The ERS Board of Trustees interviewed four finalists for this position and selected Callan Associates to handle the System's investment consulting services.

A description of the agency's internal controls and approval requirements for the exempted procurement:

The contract will be conducted under the supervision of the Deputy Attorney General.

A list of agency personnel, by position title, who will be involved in the approval process and administration of the contract:

David Shimabukuro, Administrator

Direct questions to:

Wesley Machida, Assistant Administrator

Phone Number:

(808) 587-5380

This exemption should be considered for list of exemptions attached to Chapter 3-120, HAR: Yes No

I CERTIFY THAT THE INFORMATION PROVIDED ABOVE IS, TO THE BEST OF MY KNOWLEDGE, TRUE AND CORRECT.

George K Kawana JAN 2 2004
Department Head or Designee Date

Title (If other than Department Head)

Chief Procurement Officer's Comments:

Approval is granted, with the understanding that the contractor will comply with section 103D-310(c) of ACT 52 DOTAX and DLIR requirements.

Please ensure adherence to applicable administrative requirements.

APPROVED

DISAPPROVED

Adam J. Fujita 1/14/09
Chief Procurement Officer Date

cc: Administrator,
State Procurement Office

Explanation describing how procurement by competitive means is either not practicable or not advantageous to the State

The Employees' Retirement System of the State of Hawaii (ERS) in July 2003 initiated the procurement of investment consulting services to assist with the oversight of the ERS investment program currently at more than \$8 billion. The ERS procured these services in accordance with Section 103D-303 of the Hawaii Revised Statutes. Several proposals were received, including national companies with branches in Hawaii. These national companies with local branches were unable to meet the requirements in the Request For Proposals #2003-01. All qualified companies remaining that submitted proposals for full investment consulting services do not have a branch or division in Hawaii.

All qualified companies have not opened a branch or division in Hawaii for various reasons. It is not feasible to do so, since these companies must deal with the various investment markets, investment managers, and bank custodians who are situated throughout the United States and the rest of the world. The time difference between Hawaii and the other states and countries are significant enough that delays on important monetary decisions could result because of the consultant's inability to obtain timely information. As a result, it should not warrant compliance with Section 6 of Act 52, SLH 2003 which requires in part, that contractors be registered to do business in Hawaii and have a division or office located in Hawaii that is capable of performing the services required by the contract. A decision to do so could be detrimental to the ERS and its members. More costs will be incurred and passed through the ERS to open a branch or division, and decisions of monetary significance impacting the ERS may be delayed. Furthermore after following the state procurement code, there was no company with a branch or division in Hawaii who could qualify for these services.

One of those companies qualifying and meeting the requirements of the RFP was Callan Associates, Inc. (Callan). Callan is a nationally recognized company providing investment consulting services to public pension plans worldwide like the Employees' Retirement System of the State of Hawaii. Mr. Ronald Peyton, through Callan Associates, Inc. has served as the lead investment consultant to the ERS for more than 20 years. The ERS is the only state public pension plan in Hawaii serving more than 97,000 members and assets in excess of \$8 billion. Mr. Peyton, through Callan Associates, Inc. is only one of two individuals who has served as the ERS' lead investment consultant in the last 30 years. There are only a few local companies that provide investment consulting services; however, none of them has ever provided these services to the ERS or similar state pension plan with the complexity, size, diversity of its investment portfolio, and State of Hawaii government issues.

While Callan could obtain a certificate of good standing and could establish a branch or division in Hawaii, the staffing of the branch or division in Hawaii would be at a significant disadvantage in performing the services required by the contract. One of the important provisions of the contract is the investment consultant's oversight of the more than thirty ERS' investment managers located throughout the world. In addition, the investment consultant is required to interface with the ERS' bank custodian, which is based in California and Massachusetts. With the significant time differences between Hawaii and the location of the investment managers' and bank custodian's offices, it would be extremely difficult for the investment consultant to fulfill the contract terms. The oversight requirement also requires having meetings at the investment managers' offices. It would be impractical to have the investment consultant travel from Hawaii to the investment managers' offices where most of them operate in the continental United States. Other managers are located in Europe, where the distance and time would make it more difficult for the branch or division. Thus, it would not be practical or advantageous to the State to have the investment consultant located in Hawaii.