

**STATE OF HAWAII
DEFERRED COMPENSATION PLAN
BOARD OF TRUSTEES**

**OPEN SESSION MINUTES
MEETING # 422**

Date: April 19, 2018

Place: Department of Human Resources Development
14th Floor Merit Appeals Board Conference Room
235 South Beretania Street, State Office Tower
Honolulu, HI 96813

Present: Brian Moto, Chairperson
Ryker Wada, Ex-Officio Member
Ken Kitamura, Ex-Officio Member
Roderick Becker, Employee Member
Kenneth Villabrille, Employee Member
Kanoë Margol, Employee Member
Kalei Rapoza, Employee Member

Others: Krishna Jayaram, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Glenn Ezard, Segal Marco Advisors
Julie Klassen, Deborah Baran, Kevin Malmud, and Carol Blumenthal,
Prudential Retirement – via conference phone

Call to Order: There being a quorum present, Chairperson Brian Moto called the meeting to order at 9:02 a.m.

Agenda: The agenda for this meeting was filed with the Office of the Lieutenant Governor, as required by Hawaii Revised Statutes section 92-7.

Chairperson Moto welcomed everyone and opened with introductions, including attendees participating via the conference line. He noted that all trustees are present, and stated that for the record there are no guests in attendance from the public. Chairperson Moto congratulated Trustees Wada and Kitamura on the confirmation to their appointments.

Agenda

Item # 1: New Business

- a. Approval of Minutes No. 420 for the March 5, 2018 meeting and Minutes No. 421 for the March 20, 2018 meeting

Chairperson Moto stated that the Minutes no. 420 for the March 5, 2018 meeting and Minutes no. 421 for the March 20, 2018 meeting were distributed for advance review.

A motion was made by Trustee Villabrille and seconded by Trustee Rapoza to adopt Minutes Nos. 420 and 421, as presented. The motion passed unanimously.

Chairperson Moto moved to Agenda Item no. 2.a., and turned the discussion over to Mr. Ezard and DAG Jayaram.

Agenda
Item # 2:

Ongoing Business

a. Segal Marco Advisors Recommended Changes with respect to the Investment Policy Statement and Potential Action Thereon

Chairperson Moto stated that the draft Investment Policy Statement was presented, reviewed, and discussed at the March 5, 2018 meeting. He noted that the draft was still pending legal review before the Board's adoption.

DAG Jayaram stated that he completed his review and although additional investment options were discussed by Segal at the last meeting, they are not a part of the proposed changes in this draft version. Further education/information on the additional categories will be presented at an upcoming meeting.

Mr. Ezard stated that there were no material changes and that some of the updates were mainly to change the old names of some of the benchmarks and other changes were cosmetic in nature. The line graph of the range of asset classes was replaced with a table chart to illustrate the risk and return levels used on long term asset models. For example, geometric return is captured which shows the return of earnings over time.

In response to Trustee Wada's question on the whether there are considerations regarding the political climate on the investment structure (e.g., boycott on funds), Mr. Ezard stated that although the Investment Policy Statement does not specifically include a statement on environmental, social, and governance (ESG) policies, one way to address is turning to the UN PRI (UN Principles for Responsible Investment) to guide fiduciaries on how to make companies more aware and transparent, and there are other ways that the Board can address situations related to political issues, such as active engagement through proxy issues with

specific managers, or asking fund managers directly on specific questions on how the company is handling or addressing these ESG issues in the management of their respective funds.

A motion was made by Trustee Wada and seconded by Trustee Margol to adopt the proposed changes to the Investment Policy Statement, as amended by Segal and the Plan's legal counsel. The motion passed unanimously.

b. Staff Administrative Report on Monthly Activities

Ms. Akiyoshi provided some brief highlights of the monthly activities:

- There have been no further developments with respect to the Kauai and Maui inquiries and initiatives to explore additional deferred compensation plans;
- For the HI Pay Modernization project, Prudential has been communicating with ETS on the access set-up to the new payroll server and is ready to transmit files according to the ETS deployment schedules for the departments;
- There is no further status on the review of the Plan documents and gains and loss policy;
- The Victory retroactive revenue sharing payments have been received and allocated to Plan participants as of March 8, 2018;
- Planning is underway and in progress for the May 22, 2018 Benefits Fair at the Plaza Club in the downtown area. Announcements to the department and fund managers has been completed.
- Continuing to work on the transition of the Large Cap Equity option to the new fund manager, Capital Group/American Funds for the target date of June 14, 2018; and
- The PTS Plan Administrative Rules have been officially amended and compiled for those sections that were amended to include the counties' participation in the Plan. Staff will be working on amending and updating the entire chapter related to the PTS Plan.

Trustee Villabrille added that there have been no issues on the contributions into the PTS Plan since inception in September 2017. They are working on their first distributions out of the Plan.

Chairperson Moto stated that for Agenda items #3 and #4, the Board will need to move into Executive Session to confer with Legal Counsel regarding administration of the Plan. He asked DAG Jayaram to open with some remarks.

Agenda

Item # 3: Review of the Plan Expense Account

Agenda

Item # 4: Review of the Plan's Staffing Structure

DAG Jayaram stated that in his review of the Plan Expense Account, as presented by Prudential in their periodic reports to the Board, and the current Plan's staffing structure, he would like to offer some observations since he joined the Board about six months ago and to offer some comments on governance, along with some quasi-legal concerns.

A motion was made by Trustee Margol and seconded by Trustee Rapoza to move into Executive Session at 9:32 a.m. to confer with the Plan's legal counsel and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to a state or federal law, pursuant to HRS §§ 92-5(a)(8), 103D-105, and 103D-303. The motion passed unanimously.

EXECUTIVE SESSION

All guests were excused.

Meeting

Reconvened: **A motion was made by Trustee Wada and seconded by Trustee Rapoza to move out of Executive Session at 10:08 a.m. The motion passed unanimously.**

All guests rejoined the meeting.

Chairperson Moto moved back to Agenda items #3 and #4, and summarized that the Board would like to explore what are the industry-wide best practices that relate to how Plan budgets are administered by third-party administrators and what processes are in place.

Mr. Ezard commented that there are different practices and there is a fair amount of discretion delegated to third-party administrators. The audit and oversight by fiduciaries are important to ensure that Plan assets are being used properly. DAG Jayaram remarked that in Prudential's administration of the budget, the amount that Prudential is required under contract to set aside and provide to the Plan are being allocated to various buckets. The dollar amounts are not shifted among the various individual accounts if the amounts paid out exceed the respective balance in the individual accounts. Ms. Klassen confirmed that Prudential holds one bucket for the Plan Expense account monies, and as long as there is a balance in the Plan Expense account, the expenses are paid out. It is not sub-accounted for by Prudential.

The Board agreed to establish a sub-committee to review whether the process and structure of the Plan Expense budget needs any changes.

A motion was made by Trustee Becker and seconded by Trustee Rapoza to nominate Trustee Kitamura to chair a sub-committee, along with Trustee Margol, to periodically meet to review the Plan Budget Expense Account and report back to the Board with any recommendations regarding any allocations and expenses. The motion passed unanimously.

A motion was made by Trustee Becker and seconded by Trustee Rapoza to refer Agenda item #4, on the evaluation of the Plan's staffing structure, to the sub-committee for further review and recommendations. The motion passed unanimously.

Agenda

Item # 5: Approval of Payment to DHRD for the Special Funded Position for FY 2019

Ms. Akiyoshi presented the Bill For Collection to request the Board's approval of the payment to DHRD. The payment request is for the funding of the administrative support services that are provided to the Board and the Plan.

The special funded position has been authorized to be funded from the Plan's assets and requires approval for the FY 2018-2019 in the amount of \$141,197.00. The funding amount includes the applicable fringe benefit assessment rate of 60%. She added that the funding is necessary prior to the commencement of the fiscal year beginning on July 1, 2018.

A motion was made by Trustee Margol and seconded by Trustee Villabrille to approve the payment to DHRD for the special funded staff position in the amount of \$141,197.00 for Fiscal Year 2019. The motion was passed, with one vote by Trustee Wada to abstain.

Agenda

Item # 6: Registration for the 2018 NAGDCA Conference Scheduled for September 23-26, 2018, and Authorization for Interested Trustees and Board Staff to Attend the Conference

Ms. Akiyoshi reported that this year's NAGDCA conference will be held on September 23-26, 2018, in Philadelphia, Pennsylvania. Travel expenses to attend the national conferences are covered under the contract with Prudential for educational and networking purposes, and Ms. Akiyoshi asked for the Board's authorization for the travel by interested Trustees and Board staff members.

A motion was made by Trustee Becker and seconded by Trustee Kitamura to authorize travel by interested Trustees and Board staff members to attend

this year's NAGDCA conference on September 23 – 26, 2018. The motion passed unanimously.

Ms. Akiyoshi added that DHRD is interested in sending an additional staff person to the conference for training and educational purposes, and would be covering the travel expenses.

Agenda

Item # 7:

Other Business/Announcements

a. Review of Bills for the 2018 Legislation Session

i. SB 2601, SD2, Completion of periodic performance evaluations of certain contractors and establishment of factors

Ms. Akiyoshi stated that she wanted to bring to the Board's attention SB 2601, SD2, which prescribes a number of compliance requirements for procurement officers and contracting officers. The current processes for procurement process and for contracting reporting to the State Procurement Office is complex, especially in the reporting of the awarded contracts. The information related to the investment product contracts does not always work or fit in the fields of the reporting system. The Board has previously discussed seeking an exemption from procurement, and is raising, for the Board's consideration, the possibility of establishing a separate process to procure investment products for the Plan. The consideration is for future investment product searches. DAG Jayaram added that he would make comments during the Executive Session portion.

b. Schedule of Upcoming Board Meetings and Events

Ms. Akiyoshi reminded the Board that the next meeting which is the Semi-Annual meeting is scheduled for May 24, 2018, to be held at the Hawaii Prince Hotel. The Benefits Fair is also coming up and scheduled for May 22, 2018, at The Plaza Club in the downtown area.

Chairperson Moto stated that for the next Agenda items #8 and #9, the Board will move into Executive Session to confer with the Plan's legal counsel on issues related to procurement.

Agenda

Item # 8:

Review of How the Plan Procures Investment Products Options for Its Participants

Agenda

Item # 9: Discussion on RFP No. DCP-17-1, Request for Proposals for a Target Date Fund Investment Option

- a. Best and Final Offers Received
- b. Scoring of Proposals and Award of Contract

A motion was made by Trustee Rapoza and seconded by Trustee Margol to move into Executive Session at 10:30 a.m. to confer with the Plan's legal counsel and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to a state or federal law, pursuant to HRS §§ 92-5(a)(8), 103D-105, and 103D-303. The motion passed unanimously.

EXECUTIVE SESSION

All guests were excused, except for Segal Marco Advisors.

Meeting

Reconvened: **A motion was made by Trustee Rapoza and seconded by Trustee Margol to move out of Executive Session at 12:45 p.m. The motion passed unanimously.**

There was no other business. Chairperson Moto thanked everyone for attending today's meeting.

Chairperson Moto adjourned the meeting at 12:46 p.m.

(NOTE: Signed copy on file.)