

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

**OPEN SESSION MINUTES
MEETING # 349**

Date: April 26, 2011

Place: Department of Human Resources Development
14th Floor Director's Conference Room
235 South Beretania Street
Honolulu, HI 96813

Present: Wayne Chu, Chairperson
Scott Kami, Employee Member
Michael Okumoto, Employee Member
Kalbert Young, Ex-Officio Member
Sunshine Topping, Ex-Officio Member
Sandra Yahiro, Employee Member
Wesley Machida, Employee Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi and Lily Chu, DHRD Staff
John Bothwell and Troy Saharic, Mercer Investment Consulting --
Via Conference Call
Carol Cann and Bernie Wong, Plan Administrator Staff (ING)/ Boston Office -
Via conference call
Melody Takacs, Grace Baracao, and Jeanne Kanai, Plan Administrator Staff
(ING)/Honolulu Office
Lisa (Yoshioka) Hoxha, Great West Retirement Services
Mr. Sakuma Elliott, Island Savings Plan Participant

Call to Order: There being a quorum present, Chairperson Wayne Chu called the meeting to order at 9:05 a.m.

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

Chairperson Chu acknowledged all trustees were present. Introductions of attendees participating via conference call was done, and ING Honolulu staff and other guests.

Agenda

Item # 1: Action on Unforeseeable Emergency Withdrawal Case No. RJT01

Jeanne Kanai, of ING, provided background information regarding UEW Case No. RJT01 and introduced claimant, Mr. Sakuma Elliott, who was present to appeal the Board of Trustees' rejection of his UEW claim that was denied based on the availability of other sources of income/revenue available to him. Mr. Elliott addressed the Board on his situation.

Board members inquired about Mr. Elliott's income, monthly expenses, home equity line of credit, credit card debts, and his sons' college expenses. Board members also asked how the UEW request of \$12,000 will be used and whether there will be a recurring emergency. Mr. Elliott explained that he was trying to reduce his debt ratio and wanted to pay his withholding taxes.

A motion was made by Trustee Machida and seconded by Trustee Topping to go into Executive Session at 9:20a.m. The motion passed unanimously.

All guests and ING staff, except Ms. Kanai were excused from the meeting.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Yahiro and seconded by Trustee Kami to get out of Executive Session at 9:30 a.m. The motion passed unanimously.**

Guests and ING staff rejoined the meeting.

Chairperson Chu explained to Mr. Elliott the purpose of the section 457 retirement plan and the IRS' requirements for an Unforeseen Emergency Withdrawal from the plan. Trustee Chu informed Mr. Elliott that after reviewing his application and other information he provided, the Board felt that he did not meet the requirements for a UEW and therefore, was unable to approve his request. Chairperson Chu noted, however, that if Mr. Elliott's situation changes, he may submit another request for consideration.

A motion was made by Trustee Topping and seconded by Trustee Yahiro to deny Mr. Elliott's request for an Unforeseen Emergency Withdrawal from his account in the Plan. The motion passed unanimously.

Agenda

Item # 2: Investment Management Overview by Mercer, including:

- a. Performance Overview on Funds Currently on the Watch List

Mr. Saharic presented an overview of the performance for the funds on the

watch list for the 1st Quarter ending March 31, 2011. Overall, the results were very good for all the funds. The exception was Victory and Bernstein that had lags for their underlying indexes for the period and similarly, the one year results looked the same.

Mercer recommends that Harbor, Century, and Bernstein continue to be on watch status. While Harbor and Century have rebounded for the last year, but for their 3 and 5 year period, they are still underperforming against their main benchmark. They may be taken off the watch list once they start outperforming in the long term.

Bernstein continues to remain under water. The exposure in Japan this quarter hurt them significantly and they continue to lag for the 1, 3, and 5 year periods. Thus, Bernstein will be kept on watch status for the next couple of quarters.

The Board members discussed with Mr. Saharic options regarding AllianceBernstein's underperformance. Mr. Saharic reported that AllianceBernstein was in the bottom of the quartile rankings for the peer group.

A motion was made by Trustee Machida and seconded by Trustee Young that based on their continuous underperformance, the Board terminate AllianceBernstein and start a search for a new international value fund manager. The motion passed unanimously.

b. Discussion on Addition of New Asset Classes

Mr. Saharic explained that the Fund of funds management is a trend currently seen in the private and public sector. This involves hiring multiple managers for a single asset class, and could mitigate the underlying volatility associated with those managers. It would also be a seamless way of pushing out an underperforming manager. At the Board's request, Mercer did a quick survey of all 50 states and found that 13 out of 50 states used some form of Fund of funds in different capacities. All 13 have custom stable value funds and some have custom life path funds. Only four states, California, Georgia, Oregon, and Virginia, have completely moved to a Fund of funds model for all investment options that are offered to participants. Partial Fund of funds are more prevalent for the stable value and lifecycle funds that have been utilized. In regards to the cost for managing the fund to fund option, some economies of scale could be lost if the management fee schedule is tiered and if the fees are split with another manager. But, generally, pooled investment products are used so no economies of scale would be lost. The other cost would be to pay the record keeper for striking a daily net asset value. ING

already does that for all the asset categories but, Mercer is waiting for ING to provide information to determine whether it would cost more to hire two emerging market managers and what the associated incremental cost would be. There is also the cost of \$3,000 to \$8,000 to produce a quarterly fund fact sheet. Mercer is recommending that the Board think about the concept of the Fund of funds option.

Agenda

Item # 3: Plan Administrator's Report

a. Plan Report for 1st Quarter 2011

Ms. Takacs presented the highlights of the Island Savings Plan for the 1st Quarter 2011:

Launch of the Retiree Campaign on Oahu, educational webinars created during Save for National Retirement week, Mainstay Large Cap Growth fund's expense ratio increased from 0.85% to 0.88%, and on March 31, 2011, the ISP Board decided to put Century Small/Mid Cap Growth Fund, Bernstein International Value Collective Trust, and Harbor Small Cap Value Fund on their "Watch List".

Plan administration updates as presented by Ms. Kanai include: A total of \$5,699,313.61 in rollover contributions; 51 UEWs approved and processed totaling \$866,345.24; and 33 new set-ups (totaling \$946,073.97) with TD Ameritrade.

Ms. Takacs reported that the Local Office conducted 191 educational group meetings with a total of 759 state and neighbor island attendees, sent out 150 handwritten invites to special "Retiree Workshops" (1 in Aina Haina and 1 in Kapolei) and had an 18% attendance. The Local Office had 172 walk-ins, 1,203 calls, 149 enrollments, and 1,842 total one-on-one consultations with state and county employees.

b. Status on American Funds' Revenue Sharing Allocation

Ms. Kanai reported that the information was first mentioned in the Plan's 1st Quarter 2011 Newsletter and the Board did special mailings out to affected participants regarding the allocations. The letter to participants was sent out on April 21, 2011 from the ING-Quincy Office. ING will update the Board regarding the number of inquiries they receive in response to the letter.

c. Discussion on Direct Rollover Distributions Between Institutions

Ms. Kanai reported that Rollover Transfer Forms Part A and Part B were created with instructions to make it easier for participants. The instructions also direct PTS participants to contact Comprehensive Financial Planning because ING gets a number of inquiries regarding the PTS Plan. On April 15, 2011, ING changed their process whereby anyone who takes a withdrawal or a rollover out can request that a check be expedited to them via UPS for a fee of \$25.00. The draft of the rollover out form addresses the situation in which participants want their monies sent to their financial institution. Participants are instructed to attach to their rollover out request form, a completed form indicating the name of the financial institution, routing number, contact person for the institution, etc.

c. Other Plan Issues

None.

Agenda

Item # 4: PTS Plan

a. Follow-up on Inactive Accounts

DAG Tam noted that from the last meeting the Board agreed that for the inactive accounts, the first step would be to advertise a notice to Plan participants. The Board reviewed the draft public advertisement to be placed in the local newspapers and made suggestions on the format of the draft.

A motion was made by Trustee Machida and seconded by Trustee Kami to approve the wording of the notice, with amendments, and to use PTS funds to place the advertisement in newspapers on all islands, including Hilo. The motion passed unanimously.

Agenda

Item # 5: Other Business/Announcements

a. 2011 Legislation

Ms. Akiyoshi reported on the status of H.B. No. 640 which is continuing to move through conference and applies to all Boards and clarifies on the action that the Board takes in open session after going into Executive Session.

b. New Trustees to the Board, effective July 1, 2011

Ms. Akiyoshi reported that there are three Board nominees going through the Senate confirmation and they will be effective July 1, 2011 when it passes the Senate floor

vote. The Board members with terms expiring June 30, 2011 are Wayne Chu, Sandra Yahiro, and Michael Okumoto. The nominees are Wayne Chu, Neal Miyahira of B&F, and Dennis Vanairsdale, a professor at Kapiolani Community College.

c. Scheduling of Next Board Meeting(s)

Ms. Akiyoshi noted that the next meeting is the semi-annual Board meeting on May 26, 2011 at 9:00 a.m. at the Hawaii Prince Hotel and the Benefits Fair will be held on May 27, 2011.

Motion to

Adjourn:

A motion was made by Trustee Yahiro and seconded by Trustee Machida to adjourn the meeting at 10:50 a.m. The motion passed unanimously.

(NOTE: Signed copy on file.)