

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

**OPEN SESSION MINUTES
MEETING # 333**

Date: April 27, 2009

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

Present: Marie C. Laderta, Chairperson
Wayne Chu, Employee Member
Sandi Yahiro, Employee Member
Ryan Ushijima, At-Large Member
Kenneth Taira, At-Large Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi and Tracy Kiyabu, DHRD Staff
Troy Saharic and John Bothwell, Mercer Investment Consulting – Via Conference Call
Melody Takacs, Plan Administrator Staff (ING)/Honolulu Office
Grace Baracao, Plan Administrator Staff (ING)/Honolulu Office
Carol Cann, Plan Administrator Staff (ING) – Via Conference Call
Molly Ono and Todd Egger, INVESCO – Via Conference Call
Joan Larsen, Prudential – Via Conference Call

Absent: Georgina Kawamura, Ex-Officio

Call to

Order: There being a quorum present, Chairperson Laderta called the meeting to order at 8:35 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.

Agenda

Item # 1: Status Report on INVESCO's Request to Raise its Fee Cap

Ms. Akiyoshi reported that INVESCO's letter to request to raise the fee cap up to 30 basis points was just signed by Chairperson Laderta and DAG Tam.

Agenda

Item # 2: Status Update on the Addition of a Brokerage Window

Ms. Akiyoshi reported on discussions with INVESCO and ING on how the brokerage window would work. INVESCO prepared an explanatory letter on imposing a 90-day "equity wash" on monies coming out of the Stable Value Fund and invested through the brokerage window.

Ms. Ono stated that she and Mr. Egger were available to clarify information on the "equity wash" provision and how it would work. Ms. Ono stated that everyone in the brokerage window requires an "equity wash" provision and is required by the contract wrap insurers to continue to underwrite the wrap contracts. The purpose is to prevent interest rate arbitrage or disintermediation against the Stable Value Fund. Funds coming out of the Stable Value Fund are flagged for ninety (90) days and cannot be invested in a competing fund. The entire brokerage window is considered a competing fund because there is not a way to track movement from a fund once it enters into the window.

Mr. Egger explained that insurance wrap providers take on risks in environments where market value is below the book value. When participants decide to transfer assets away from the Stable Value fund, the remaining participants bear any of the losses within the Stable Value fund.

Ms. Cann confirmed that ING can track monies into the Plan's core funds, and follow the transfer of monies wherever it moves.

Mr. Saharic added that the wrap provider market has gotten stricter and they are watching issues that could negatively impact the market to book value ratio and jeopardize wrap provider provisions. Mercer does have clients who have similar arrangements so this is not unprecedented. They have not received any negative feedback on the 90-day "equity wash" provision.

After discussion, the Board agreed with the proposed "equity wash" provision and noted that basically there is not a choice in the matter.

DAG Tam explained the Mercer's trading options handout that lists the menu options available in the brokerage window that participants would have access to.

Mr. Saharic explained the Board would indicate on Schwab's Personal Choice Retirement Account ("PCRA") application form which investment options participants would be allowed to invest in through the brokerage window. Mr. Saharic reported that there is a survey of section 457 plans that offer brokerage windows, and about one-half have a fully-open window with no restrictions on investment options. The other one-half impose restrictions and offer only mutual

funds.

If the Board has any concerns on the categories of trading options, he recommends offering only mutual funds first and phase in other options at a later date. He noted that when there are restrictions, Board will likely hear from participants about the restrictions, as some participants tend to want to push the limits.

Mr. Saharic explained the categories/types of options:

For Taxable Mutual Funds, participants can access no-load funds without sales charges, and load funds with sales charges.

Typically some plans allow and some do not allow Tax-Exempt Mutual Funds because it offers lower yields. Since the Plan is already tax-exempt, it is not necessary to invest in tax-exempt vehicles. However, because there have been dislocations in market at times, it may make sense to offer both taxable and tax-exempt mutual funds and offer a full array of mutual funds.

Most plans open up the brokerage window and say that participants use them at their own risk.

Mr. Saharic pointed out option 8 which is a new option that was added by Schwab where you can invest in individual options, and recommends limiting these to covered calls or protective puts. He noted that most 401(k) and 457 plans move in that direction anyway.

Mr. Saharic explained some of the downside risks to opening up the window (e.g., losing monies or entire account balances during a down market). Participants should sign a form saying that they understand the risks involved and fully accept them. He noted that plans say that participants have to abide by the brokerage window's minimum trading limits.

Ms. Akiyoshi added that according to ING, participants who are enrolled in the PAM program and decide to transfer monies into the brokerage window can be cancelled from the PAM program. The Plan's investment advice service only covers the core investment options in the Plan.

A motion was made by Trustee Yahiro and seconded by Trustee Taira to allow the eight (8) general categories of investment options in Schwab's brokerage window. The motion passed unanimously.

Chairperson Laderta excused herself from the meeting at 9:15 a.m. and asked Vice-Chairperson Chu to preside over the meeting.

Ms. Ono, Mr. Egger, and Ms. Larsen were also excused from the meeting (via conference call).

Agenda

Item # 3: Legislation

Ms. Akiyoshi reported that H.B. No. 1550 went to conference committee and the measure was deferred to April 29, 2009.

Senate resolutions, SCR No. 67 and SR No. 41 went to the Senate floor and the measures were passed. The Board can expect that hearings may be scheduled by the Senate committee for SR No. 41. The other two (2) Senate resolutions went over to the House. Trustee Yahiro spoke with the House representatives and was told that the resolutions are dead for this session. Trustee Ushijima suggested that more communication should be prepared and sent over to educate the legislators on what the Plan administrator and the Board have been doing to fulfill their fiduciary responsibilities.

Agenda

Item # 4: Approval of Minutes Nos. 331 and 332

A motion was made by Trustee Yahiro and seconded by Trustee Taira to approve Minutes Nos. 331 and 332, as distributed. The motion passed unanimously.

Agenda

Item # 5: Discussion on the recent performance of the Wells Fargo Large Company Growth Fund

Mr. Saharic reported that the Wells Fargo Large Company Growth Fund has recovered a little bit as of March 31, 2009, and is up approximately 0.8%. Long-term numbers still show that the fund has been underperforming, and he feels that it is still prudent for Board to look at other large cap fund providers. During this period, Mr. Saharic noted that the other large cap fund options have also done well.

For the 3-month period ending April 24, 2009, the fund is in the top quartile of its peer group, but the 3-year numbers are still lagging. The 5 and 10-year numbers are still way under the median.

Add

Agenda Item: **A motion was made by Trustee Yahiro and seconded by Trustee Taira to add to the agenda the Report on Funds Not Deposited in the State/County Treasuries for the PTS Plan.**

The Board discussed the requirements to add an item to the agenda, which requires five (5) board members to take action to add an item. Since only four (4) trustees are present, this item will be deferred to a subsequent meeting.

Agenda

Item # 7: Other Business/Announcements

Ms. Cann announced that ING has hired a new Plan Relationship Manager to be located in Hawaii. Ms. Jeanne Kanai, a Plan consultant at the local office, was offered and has accepted the position. Ms. Cann will be working with Ms. Kanai on the transition. Ms. Kanai will be working with the Board's staff and State agencies on various matters, including Unforeseeable Emergency Withdrawal requests.

Agenda

Item # 6: Discussion on Proposals Received for RFP No. DCP-FY-09-1, RFP for Large Cap Growth Equity Investment Option for the State of Hawaii Deferred Compensation Plan, and RFP No. DCP-FY-09-2, Request for Proposals for Passively Managed Investment Options (in Executive Session Pursuant to HRS §§92-5, 103D-105, and 103D-303), Including But Not Limited to:

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

DAG Tam asked that before going into Executive Session, the Board vote to adopt the method of scoring the proposals.

A motion was made by Trustee Yahiro and seconded by Trustee Taira to adopt the median method of scoring (i.e., throwing out the high and low scores) the proposals. The motion passed unanimously.

A motion was made by Trustee Yahiro and seconded by Trustee Taira to go into Executive Session at 9:23 a.m. The motion passed unanimously.

ING staff was excused from the meeting. Vice-Chairperson Chu called for a short break. The meeting resumed at 9:32 a.m.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Yahiro and seconded by Trustee Taira to get out of Executive Session at 10:29 a.m. The motion passed unanimously.**

The Board commented that there are two (2) options that can be considered for the non-U.S. equity index: the MSCI EAFE Index and the ACWI ex-U.S. Fund

(i.e., All Country World Index). Mr. Saharic said the ACWI option includes investment opportunities in emerging markets like China and India.

A motion was made by Trustee Yahiro and seconded by Trustee Taira to select the ACWI option for the non-U.S. equity index fund. The motion passed unanimously.

A motion was made by Trustee Yahiro and seconded by Trustee Taira to go into Executive Session at 10:31 a.m. to continue scoring the proposals. The motion passed unanimously.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Yahiro and seconded by Trustee Taira to get out of Executive Session at 11:30 a.m. The motion was passed unanimously.**

Agenda

Item # 7: Other Business/Announcements

Ms. Akiyoshi reminded the Board that the Employees' Benefits Fairs are scheduled for May 11, 2009 at the UH-Manoa campus and May 15, 2009 at the Aloha Stadium. New incoming Board members will be invited to attend.

Also, since there is no quorum to add the PTS Plan report to the agenda, this item will be deferred and presented at the next Board meeting.

Motion to

Adjourn: **A motion was made by Trustee Yahiro and seconded by Trustee Taira to adjourn the meeting at 11:35 a.m. The motion passed unanimously.**

(Note: Signed copy on file)