

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

**OPEN SESSION MINUTES
MEETING # 352**

Date: August 10, 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
Neal Miyahira, Employee Member
Kalbert Young, Ex-Officio Member
Wesley Machida, Employee Member
Dennis Vanairsdale, Employee Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
John Bothwell and Troy Saharic, Mercer Investment Consulting –
Via Conference Call
Kristine Matthews, Communications Manager (ING)/ Boston Office -
Via conference call
Melody Takacs, Grace Baracao, and Jeanne Kanai, Plan Administrator Staff
(ING)/Honolulu Office
Lisa Hoxha, Great-West

Absent: Sunshine Topping, Ex-Officio Member

Call to Order: There being a quorum present, Board Chairperson Wayne Chu 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.

Agenda

Item # 1: Welcome New Trustees

As a new public meeting requirement, Chairperson Wayne Chu reviewed the emergency evacuation procedures. Chairperson Wayne Chu also welcomed and

introduced new Board Trustee members Dennis Vanairsdale (who replaced Michael Okumoto) and Neal Miyahira (who replaced Sandra Yahiro), effective July 1, 2011. Each new member briefly provided some background information on themselves.

Agenda

Item # 2: Approval of Minutes No. 349

A motion was made by Trustee Machida and seconded by Trustee Kami to accept the minutes as provided. The motion passed unanimously.

Agenda

Item # 3: Investment Management Overview by Mercer, including:

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

Mr. Troy Saharic of Mercer began with providing an overview of what is occurring in the capital markets. The three central themes occurring that has impacted investment performance: 1) the US economy has softened and with the politicians politicizing the debt issue has caused the S&P to downgrade US treasuries; 2) the continued malaise of Europe's economy; and 3) the rapid growth in emerging markets, particularly in Asia and China had forced their central banks to raise rates to stave off inflation concerns.

Mr. Saharic provided an overview of the performance of Plan's funds for the second quarter:

- The Stable value fund did very well.
- The index funds also held up pretty well.
- The Lifecycle funds lagged a little bit due to the underperformance of the large cap funds and international funds, but were still pretty strong.
- For the Domestic Equity options, Victory lagged a bit this quarter because of their financial stock selection, but Mercer evaluated their manager and their long term performance continues to be positive, so they are not concerned at this time.
- Mainstay Large Cap was hurt by their IT picks, but their long term performance is very strong.
- Harbor Small Cap Value has bounced back and year to date numbers look very strong and are probably doing very well this quarter also.
- Century's performance held up during the quarter. Recommend that Century continue to be on watch because their 5 year performance is still underwater.

- Bernstein International Value Fund continued to struggle during the quarter because their overweight in banks has continued to hurt them. Also, some of the emerging markets and stock picks in Japan that they had had wavered during the period. So, there is a bid out to look at other international fund candidates.
- BlackRock Non-US Equity Fund is tracking closely, which is good.
- The EuroPacific Growth Fund stumbled during the quarter because exposure to emerging markets was down relative to the developed markets hurt performance. Also, their IT stocks and financial stocks hurt them for the period. However, their long term results in the 3 and 5 year period remain very strong.

The Board discussed with Mercer what would happen with the investment options if the market continued downwards the way it currently is going. Mercer is seeing equity managers taking a more defensive position. Mercer is also watching the wrap provider market because after the financial crisis, the wrap providers took the position of whether they wanted to take on the additional risks. Some wrap providers actually exited the market. However, Hawaii's stable value fund actually looks pretty good so far.

Mr. Bothwell recapped that Century, Bernstein, and Harbor Small Cap continue to be on watch. Mercer would like to see a couple more good quarters from Century and Harbor before taking them off watch.

Agenda

Item #4: Discussion on RFP No. DCP-11-1, Request for Proposals for an Emerging Market Equity Option and RFP No. DCP-11-1, Diversified Inflation Hedge Investment Option

Chairperson Chu asked the Board if any objections in taking item # 5 out of sequence and discussing first before moving on to item # 4. No objections noted.

Agenda

Item # 5: Discussion on Fund of Funds

Mr. Saharic reported that more plan sponsors now are moving to fund of fund structures which means multi-managers in single asset classes are hired to mitigate the volatility of some of the investment options and to also streamline lineup of some of the investment option selection for participants. Examples of the fund of fund structure are the current Stable Value Fund and the Lifecycle portfolios. Mr. Saharic discussed pros and cons and fees associated with a fund of fund structure. A review of a chart illustrating how the fees look currently and

what fees would look like if moved to a couple of models (one is a non-discretionary model where Mercer would give advice and Mercer would construct the fund of fund structure; and the other is a discretionary model where discretionary provider would control buy/sell decisions). Mercer presented the three main decision points that most Boards use to determine whether to move to a fund of fund structure. They are: 1) is this route good for participants? 2) is it cost effective? and 3) to what degree does the Board want to retain the decisions on the allocations and the hiring and firing managers versus giving that function to another entity to manage? Mercer discussed the pros and cons of moving to a fund to fund structure with the Board and provided some case scenarios of how other states made their selections.

A motion was made by Trustee Vanairsdale and seconded by Trustee Machida to go into Executive Session at 10:05 a.m., to confer with legal counsel. The motion passed unanimously.

All guests, ING staff, and Mercer were excused from the meeting.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Kami and seconded by Trustee Machida to get out of Executive session at 10:59 a.m. The motion passed unanimously.**

All guests, ING staff, and Mercer rejoined the meeting.

Chairperson Chu called a short recess. The meeting resumed at 11:04 a.m.

Chairperson Chu informed Mercer that the Board felt that they were not ready to implement a fund of funds structure at this time. The Board plans to provide information on fund of funds to participants and if there is interest, the Board will look into this issue again.

Agenda

Item # 4: Discussion on RFP No. DCP-11-1, Request for Proposals for an Emerging Market Equity Option and RFP No. DCP-11-1, Diversified Inflation Hedge Investment Option

Chairperson Chu stated that Ms. Akiyoshi drafted a written response to the questions received on the RFPs, and asked if the Board had any revisions or comments to the draft Addendum No. 1.

A motion was made by Trustee Kami and seconded by Trustee Miyahira to approve Addendum No. 1, as provided. The motion passed unanimously.

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Item # 7: Discussion on Reimbursement of Administrative Support Services Provided by DHRD and AG

Chairperson Chu asked to take item # 7 out of order for discussion.

Chairperson Chu stated that staff support from the Department of Human Resources Development has been provided over the years. DHRD provided a Memorandum of Understanding outlining the services provided and the annual fee of \$40,000 for those services provided to staff the Board. The Memorandum is provided for the Board's review and approval. DHRD prepared a detailed analysis of the amount of time spent on performing duties for the Board to justify the annual payment of \$40,000 and this analysis report will be kept on file.

A motion was made by Trustee Miyahira and seconded by Trustee Young to approve the Memorandum of Understanding as provided. The motion passed unanimously.

Agenda

Item # 6: Plan Administrator's Report

a. Plan Updates

Ms. Kanai provided highlights on the activities for the second quarter ending June 30, 2011. This included:

- i) Successfully allocated \$1.1 million from EuroPacific Growth to participants who invested in this fund between 1993 and 2010.
- ii) Over 1,000 participants attended the May 27, 2011 Benefits with 6 out of 7 Board members participating.
- iii) New rollover and transfer in forms were approved and implemented.
- iv) Total rollovers were just over \$1.2 million.

Ms. Melody Takacs provided local office activity statistics.

b. NAGDCA Leadership Recognition Award Nomination Submittal

The Plan received two awards in the Leadership category; one for plan design and administration and helping participants cope, and the other for National Save 4 Retirement Week which ING promoted saving for retirement through the benefits fair, special webinars, and marketing materials.

c. Discussion on UEW Guidelines

Ms. Kanai provided a report on the UEW application statistics.

Ms. Akiyoshi added that the UEW guidelines issued on December 2, 2009 by the Board, is provided again to the Board for their information since there are new Board members. At that time, the Board stated that the furloughs could be a qualifying events. Since the furloughs have ended, but the 5% pay reduction has been implemented, ING is requesting that the Board approve to the 5% pay decrease with 10% increase in insurance premiums as a qualifying event for UEW requests. Participants must still demonstrate that these events led to a severe financial hardship.

A motion was made by Trustee Vanairsdale and seconded by Trustee Miyahira to approve the addition of the criteria of a 5% pay decrease with a 10% increase in insurance premium as a qualifying event. The motion passed. One vote by Trustee Young to oppose the motion.

d. Other Plan Issues

Ms. Kanai noted that the Self-Directed Brokerage Account had 37 new set-ups.

Ms. Takacs provided highlights of accomplishments within the local office. Ms. Takacs welcomed assistance from Trustee Vanairsdale to increase education campaigns within the University employee population.

Trustee Young was excused from the meeting at 11:22 a.m.

Agenda

Item # 8:

PTS Plan

a. Follow-up on Inactive Accounts

DAG Tam reported that they are still in the process of negotiating a contract with LexisNexis. The State wants to make sure that the information provided by LSW to LexisNexis remains confidential. This should be resolved shortly and should be able to contract their services to locate addresses for participants with bad address file.

Agenda

Item # 9:

Other Business Announcements

a. 2012 Legislative Initiatives on Automatic Enrollment

Ms. Akiyoshi provided information on the last legislative bill regarding automatic enrollment into the Plan and asked the Board whether they would like to submit legislative proposal for this. Ms. Akiyoshi pointed out some of the legislative concerns that came out on the past bill. The Board decided to defer submitting any legislative proposals for the 2012 session.

b. Annual NAGDCA Conference for 2011

Chairperson Chu explained the purpose of the NAGDCA conference. Ms. Akiyoshi will send information to the Board regarding other conferences.

c. Scheduling of Next Board Meeting(s)

Ms. Akiyoshi reviewed responses from the Board on dates for future meetings. Meeting dates were scheduled and confirmed for October and November 2011.

Ms. Akiyoshi noted that the Boards and Commissions Office has scheduled a Commissioning Ceremony on August 24, 2011, for newly appointed Board members.

Motion to
Adjourn:

Chairperson Chu adjourned the meeting at 11:41 a.m.

(NOTE: Signed copy on file.)