

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

**OPEN SESSION MINUTES  
MEETING # 365**

Date: August 29, 2012

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

Present: Wayne Chu, Chairperson  
Barbara Krieg, Ex-Officio Member  
Scott Kami, Employee Member  
Kalbert Young, Ex-Officio Member  
Neal Miyahira, Employee Member (arrived at 9:20 a.m.)  
Wesley Machida, Employee Member  
Michael Okumoto, Employee Member

Others: Rodney J. Tam, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Troy Saharic and David Williams, Mercer Investment Consulting  
– via conference call  
Brian Merrick, Carol Cann, Kristine Matthews, ING/Boston Office – via conference  
call  
Melody Takacs, Grace Baracao, and Jeanne Kanai, ING Honolulu Office

Call to Order: There being a quorum present, Chairperson Wayne Chu called the meeting to order at 9:06 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 Chu asked for the Board's approval to add an item to the agenda under agenda item #7.

**A motion was made by Trustee Kami and seconded by Trustee Machida to add an item under Agenda item #7, Other Business – a discussion item to confer with the Plan's legal counsel in Executive Session on amendments to Mercer's contract. The motion passed unanimously.**

Agenda

Item # 1:     Approval of Minutes Nos. 355, 361, 362, and 363

**A motion was made by Trustee Machida and seconded by Trustee Krieg to approve Minutes Nos. 355, 361, and 363, as is, and approve no. 362 with the noted changes. The motion passed unanimously.**

Agenda

Item # 2:     Performance Evaluation Report by Mercer for 2<sup>nd</sup> Quarter 2012, Period Ending June 30, 2012

Mr. Saharic provided Mercer's report on the market environment, the volatile period during the quarter, and an update on the significant rebound after the quarter end period.

During the quarter:

- There was a slow down of U.S. economy, the European debt crisis, and China's aggressive stand on its monetary policy to boost its growth. This put pressure on the equity market.
- Investors left equity sector into fixed income securities.
- US equities declined during the 2<sup>nd</sup> quarter.
- It was a difficult period for active managers.
- Emerging markets underperformed the broader market.
- In the Fixed income sector, treasuries performed well.
- Commodities were down.

Mr. Williams provided an evaluation report on the performance of the investment options during the quarter:

- Added two (2) new investment strategies: the JP Morgan and the Schroder Emerging Market strategies.
- Scheduled to see the replacement of the Bernstein International equity fund on October 22, 2012.
- The 2012 Lifecycle Fund allocations will occur in September with the existing international value manager.
- Organizational realignment within BlackRock but no impact to portfolio managers.
- Vanguard's CIO will be retiring at the end of year, but no issues and no impact anticipated.
- Organizational changes within Wellington, but no impact to the strategies.
- Within Victory, there are succession announcements; and there are performance issues due to macro events taking place. The portfolio has

struggled but has come back.

- Trustee Kami asked about Victory's 1, 3, and 5 year underperformance track record and if there will be more scrutiny placed on the manager. Mr. Williams responded that Victory did not perform well in 2011; however, for the quarter-to-date, the Victory strategy did well and the gap is narrowing. Mercer is monitoring the strategy closely.
- No significant changes to mention to the asset allocations. Stable Value Fund continues to be the largest Fund at 52%.
- Plan assets down about \$20 million from 1<sup>st</sup> quarter end and the average account balance is about \$58,000.
- Harbor has slightly improved since quarter end.
- Bernstein International Value will be replaced in mid-October 2012.
- Recommends that both Century and Harbor fund managers present at the upcoming semi-annual Board meeting in October to discuss their respective funds' lagging performance and their current position going forward.
- For the Lifecycle Funds, performance has been slightly lagging, but absolute side is doing well.
- Index Funds are tracking its indices.
- Stable Value Fund performance has been good. Market-to-book ratio is at 109%.
- Vanguard Wellington Fund remains in the top 1<sup>st</sup> quartile relative to peers, but trailing its index slightly.
- JP Morgan Diversified Real Return Fund is slightly lagging.
- Wellington Research Value's long term performance is positive.
- MainStay Fund did lag but has improved since the quarter end.
- EuroPacific Fund demonstrated good solid numbers.
- Schroder has had solid performance.
- No significant changes to the Investment Expense analysis.

### Agenda

#### Item # 3:

#### Plan Administration Reports

##### a. Plan Report for 2<sup>nd</sup> Quarter 2012

Ms. Kanai provided a summary of the Plan highlights:

- Plan assets grew over the one year period to \$1.587 billion due to the investment earnings and dividends.
- Rollovers into the Plan included rollovers-in, ERS rollovers-in, PTS Plan transfers and vacation payout rollovers, for a total amount of a little over \$3 million.

- Unforeseeable Emergency Withdrawals totaled over \$531,000, and 13 UEW applications were denied.
- 813 Plan participants completed a satisfaction survey.
- Employees' Benefits Fair had approximately 600 attendees and generated positive feedback.
- Two new funds were added.
- Stable Value Fund distributions of \$13 million seem high but likely attributed to: (1) 50% of Plan participants are in the Fund; and (2) Plan participants, who are retiring and eligible for distributions, are those participants invested in the Stable Value Fund. This same period last year reflected the same amount of distributions.

Mr. Merrick clarified that distributions include those participants taking distributions and those who are rolling monies over to another qualified plan. (e.g., IRA), and can provide future reporting on the distributions and where the distributions are going.

Trustee Young said that a large portion of the State workforce is not subject to the 5% pay reduction as of the previous July 1. So if the entire workforce is not on the 5% pay reduction come next July 1, he wondered whether ING anticipates a reduction in the number of UEW requests. ING estimated that there could be a 30-40% decrease.

Ms. Takacs reported on the Local Office activities:

- Conducted 216 group meetings with an attendance of 1,822 State and County employees.
- Enrolled 234 employees and conducted 1,773 one-on-one consultations.
- Commented that from the consultations, noticed that participants are actively planning for retirement and considering ways to maximize their savings.
- Exceeded goal for 2011-2012 Plan year.
- Local office does conduct retiree workshops to inform them of the benefits of staying in the Plan.

Trustee Okumoto inquired about any past Board considerations on automatic enrollment. Chairperson Chu stated that legislation was submitted in the past and the Legislators felt that it was not the appropriate time. DAG Tam added that the Board did attempt to change the law two times in the past but was unsuccessful.

The Board discussed timing opportunities to reach out to the City and County on joining both DC plans. It was noted that outreach was done in

the past. The Board agreed to hold off any outreach plans at this time.

b. Update on Communication Campaign for Investment Advice

Ms. Matthews reported that the Investment Advice campaign is set to be launched during the week of September 23, 2012.

- There are three (3) phases to the campaign: awareness phase, education phase, and an action phase. The education phase is the distribution of the Retirement Evaluation statement.
- The campaign coincides with the Benefits Fair and the National Save For Retirement observance.
- Last year's campaign resulted in about a 4% response rate, so ING is hoping for about the same results of 4-5% rate.

c. Report on Follow-Up Activities

None to report.

d. Other Plan Issues

None to report.

Agenda

Item # 4: Contract Award for RFP No. DCP-11-3

DAG Tam reported that the contracts were signed and received back from MFS. The launch date is scheduled for October 22, 2012, to replace the Bernstein International Value Fund.

Chairperson Chu asked that item no. 8 be taken out of sequence and follow with item no. 7 which will be taken in Executive Session. There were no objections.

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Item # 5: Discussion on Reimbursement of Administrative Support Services Provided by DHRD and AG

Ms. Akiyoshi presented the invoices for both the DHRD and the AG legal services provided to the Plan. The payment request is for this current fiscal year 2012-2013.

The amount of fees for legal services was established previously and covered under an MOU. The amount of fees for DHRD support services was established

last year and also covered under an MOU. The Board discussed what amount would be reasonable for the Plan to cover. Trustee Krieg noted that DHRD may need to reevaluate the amount of time and amount of reasonable fees. The Board will defer action to future meeting.

Agenda

Item # 6:      PTS Plan

- a. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending June 30, 2012
- b. Quarterly Management Report for Period Ending June 30, 2012

Ms. Akiyoshi presented the Plan Asset report for the Board's review and approval, for submittal to the Comptroller. The Quarterly Management Report was also presented for review and comments.

**A motion was made by Trustee Young and seconded by Trustee Machida to accept the report for the quarter ending June 30, 2012. The motion passed unanimously.**

Agenda

Item # 7:      Other Business/Announcements

- a.      Upcoming Scheduled Board Meeting(s)

Ms. Akiyoshi provided the schedule of meetings starting with the meeting on October 12, followed by the semi-annual meeting on October 17, 2012 and another meeting on October 18, 2012.

**A motion was made by Trustee Machida and seconded by Trustee Krieg to move into Executive Session at 10:40 a.m. to confer with the Plan's legal counsel on the amendments to Mercer's contract. The motion passed unanimously.**

ING and guests were excused from the meeting.

EXECUTIVE SESSION

Added

Item # 7:      Amendments to Mercer's Contract

Meeting

Reconvened:      **A motion was made by Trustee Miyahira and seconded by Trustee Krieg to move out of Executive Session at 11:52 a.m. The motion passed unanimously.**

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Chairperson Chu adjourned the meeting at 11:53 a.m.

**(Note: Signed copy on file.)**