

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

**OPEN SESSION MINUTES  
MEETING # 379**

Date: January 30, 2014

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  
Kalbert Young, Ex-Officio Member (arrived at 10:28 a.m.)  
Neal Miyahira, Employee Member  
Michael Okumoto, Employee Member  
Kenneth Villabrille, Employee Member

Others: Rodney J. Tam, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Troy Saharic, David Williams, Mercer Investment Consulting - via conference call  
Tom Conlon, Andrea Cummings, Prudential/Plan Administration Office-Scranton  
Office – via conference call  
Kevin Malmud, Jeanne Kanai, and Grace Baracao, Prudential/Honolulu Office  
Julie Klassen, Deborah Baran, Prudential Retirement

Absent: Brian Moto, Employee Member

Call to Order: There being a quorum present, Chairperson Wayne Chu called the meeting to order at 9:07 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 welcomed Trustees and Prudential staff, and asked for introduction of attendees participating via the conference phone line. Chairperson Chu provided brief evacuation procedures in the event of an emergency.

Agenda

Item # 1: Approval of Minutes Nos. 365, 366, 367, 368, and 371

**A motion was made by Trustee Krieg and seconded by Trustee Miyahira to approve Minutes Nos. 365, 366, 367, 368, and 371, as drafted. The motion passed unanimously.**

Agenda

Item # 2: Review of Draft Request For Proposals for the Small/Mid Cap Growth Equity Option to Replace the Century SMID Growth Fund

**A motion was made by Trustee Krieg and seconded by Trustee Miyahira to move into Executive Session at 9:12 a.m. to discuss procurement matters and consult with legal counsel. The motion passed unanimously.**

Prudential staff was excused from the meeting. Mercer consultants joined via conference call.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Miyahira and seconded by Trustee Krieg to move out of Executive Session at 9:25 a.m. The motion passed unanimously.**

Prudential staff rejoined the meeting.

Chairperson Chu stated that the Board will be issuing the RFP for the Small/Mid Cap Growth Equity Option, using competitive sealed proposals.

**A motion was made by Trustee Miyahira and seconded by Trustee Krieg to use the median method to score the proposals received for the RFP for Small/Mid Cap Growth Equity Option. The motion passed unanimously.**

Agenda

Item # 3: Discussion on Amendments to the Plan's Investment Policy Statement

DAG Tam explained that the Investment Policy Statement was amended to include the two (2) new investment options added to the Plan as well as other housekeeping changes. In addition, Capital Group/American Funds will be submitting a request to make a change to the stated benchmark from MSCI EAFE to MSCI ACWI. Mercer does not have any objections to the changes.

**A motion was made by Trustee Chu and seconded by Trustee Krieg to approve the proposed amendments to the Investment Policy Statement as**

**reflected and authorize the staff to update the Investment Policy Statement to reflect the new change in the EuroPacific Growth Fund benchmark from MSCI EAFE to MSCI ACWI once the formal request is received from Capital Group/American Funds. The motion passed unanimously.**

Agenda

Item # 4: Plan Administrator's Report

Ms. Klassen presented Prudential's commentary for the quarter ending December 31, 2013:

- Prudential has been in discussions with DAG Tam and Board staff on the drafting of a revised Plan Document. Prudential will prepare a comparison document on current provisions and recommendations to assist in the Administrative Rules updates. A Summary Plan Description will also be drafted for use in the Plan.
- Working on preparing a participant fee disclosure.
- Working on a draft of the audit agreement.
- Working on a 2014 Strategic Business Plan for goal setting and any other initiatives. Prudential can provide fiduciary training as well.
- Demographic data, which is dependent upon eligibility workforce data, will be updated semi-annually or annually.
- Prudential Local Office will be working to establish networking with employer unions like HGEA to accomplish education outreach to employees.
- Currently, 45% of plan assets are allocated to the Stable Value Fund; average number of funds per participant within the Plan is 3.9 investment options.
- Prudential is working on asset retention efforts and will be part of education strategy.
- Prudential will be looking at looking at ways to target campaign to the younger population (e.g., Olelo television, etc.)

Trustee Miyahira asked if Prudential consider looking at the concentration of employees within the ERS' Contributory, Non-Contributory, and Hybrid Plans to determine whether deferral rates are appropriate for those in the respective plans, as pension benefit rates will vary dependent on their type of plan and dates of hire. Communication efforts are needed for employees in Non-Contributory plans in which employees do not make contributions as the benefit rate formula will be lower.

Trustee Krieg commented that DHRD is pursuing legislation to dedicate a position to staff this Plan on a full-time basis in order to increase internal

resources to help give more support to the TPA and to reach a higher level of communication and outreach to employees.

- Plan assets have increased to \$1.877 billion.
- Assets within the Stable Value Fund remain highest concentration at 45% of Plan assets; LifeCycle Portfolio assets are about 4.54% of Plan assets.
- Reports provided on UEW usage, participant transaction statistics, and managed accounts service usage.
- Reports on other activities: number of market timing restrictions, participation among employing departments and jurisdictions, and Plan expense reporting.

Ms. Klassen summarized the request to change the method on how the Mutual Fund Revenue is reallocated, which currently is reallocated back to participants who are invested in the respective Fund at the time of the allocation. Specifically for the LifeCycle Portfolios, the proposal would be to credit back at the Fund level which would increase the net asset value rather than at the participant level due to the small revenue amounts. The participants would fractionally receive more shares. The proposed change would not affect the mutual funds as these funds have a stated price.

**A motion was made by Trustee Krieg and seconded by Trustee Miyahira to add on to the agenda to discuss the distribution of revenue sharing amounts received within the LifeCycle Portfolios. The motion passed unanimously.**

Added  
Agenda  
Item:

Mutual Fund Revenue Reallocation

**A motion was made by Trustee Krieg and seconded by Trustee Miyahira to adopt the recommendations by Prudential to apply the revenue sharing amounts that are received for those invested in the LifeCycle Portfolios at the fund level which would increase the price per share, rather than at the participant account level. The motion passed unanimously.**

Mr. Malmud summarized the activities within the Prudential Honolulu Office:

- Local office representatives are continuing to meet group meeting goals.
- The local office staff will be in required training at the mainland office, so the office will be closed during the week of February 24, 2014. Plan Consultants will be available through the individual cell phone numbers. Notice will be posted on the website, and a notice will be posted on the door of the Local Office. Calls through the Call Center will be directed to

the Plan Consultants' mobile phones.

Ms. Baran provided a summary of the activity usage on the Plan website and the mailing initiatives for the Managed Account service in November and December 2013. There will be more plans to have future discussions to identify electronic mass mailing options.

Ms. Baran presented the strategic communication plans and goals identified for 2014. The Board did not have any objections.

Agenda

Item # 5: Discussion of Prudential's Proposed Plan Document and Plan Adoption Agreement

Ms. Klassen restated that a meeting was held yesterday with legal counsel and Board staff to discuss the direction on the development of a Plan Document for the Plan. Prudential will prepare a comparison document of existing Plan Document, Administrative Rules, Prudential's Plan at a Glance, and an Adoption Agreement.

**A motion was made by Trustee Miyahira and seconded by Trustee Okumoto to approve the PTS Plan Report on Funds for the period ending March 31, 2013. The motion passed unanimously.**

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Item # 6: Staff's Administrative Report to the Board

Ms. Akiyoshi reported that the continuing activities with ING and ongoing activities with Prudential. Ms. Akiyoshi noted that the Plan Service Year report and Plan Budget report was completed and reported at the last Board meeting. The report on Revenue Sharing was completed by ING and the total revenue sharing amounts have been wired over to Prudential. Other activities summarized:

- Semi-Annual meeting date is scheduled for May 21, 2014; the Governor's approval to use work time to attend the Benefits Fair has been received. Benefits Fair is planned for May 20, 2014.
- Mr. Malmud announced that Prudential will have an office blessing on May 22, 2014.
- Plan asset report for Third Quarter 2013 has been completed but is pending distribution.
- Staff is working with Mercer on the RFP draft and amendments to the Investment Policy Statement.
- Have been receiving announcements and updates from INVESCO on

amendments to its INVESCO Group Trust Declaration of Trust. Have confirmed with INVESCO that these amendments will not affect the Stable Value Fund. Announcements were received from PIMCO on its organizational changes.

- Reports on meetings with other investment fund managers.
- UIPA request related to the TPA RFP has been completed.

Ms. Akiyoshi reported on the PTS Plan activities and reporting requirements, including monitoring of the PTS Plan annual statements that negatively coincided with and impacted the State Flexible Spending Accounts open enrollment period. The PTS Plan administrator has planned to stagger this year's mass mailing.

Agenda

Item # 7:      PTS Plan

Ms. Akiyoshi reported that the new crediting rate effective January 1, 2014 is 2.84%. Plan assets as of December 31, 2013 is at \$101 million.

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Item # 8:      Other Business/Announcements

- a.      2014 Semi-Annual Board Meeting and Benefits Fair in May

Ms. Akiyoshi restated that the Semi-Annual meeting is confirmed for May 21, 2014, and the Benefits Fair is being planned for May 20, 2014. Staff will be working with Prudential on proposed locations for the Fair.

Ms. Akiyoshi mentioned that there were two response letters prepared from the Board on participant inquiries. Prudential has researched and provided its findings and resolutions in the response letters.

Trustee Miyahira suggested that the Board authorize the Chairperson to submit testimony in support of the budget request to the Legislature.

**A motion was made by Trustee Miyahira and seconded by Trustee Krieg to authorize the Chairperson to submit testimony to the Legislature in support of the budget request to establish the Plan's staff position. The motion passed unanimously.**

Chairperson Chu adjourned the meeting at 11:04 a.m.

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