

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

**OPEN SESSION MINUTES
MEETING # 369**

Date: December 6, 2012

Place: Department of Human Resources Development
14th Floor Merit Appeals Board Conference Room
235 South Beretania Street
Honolulu, HI 96813

Present: Wayne Chu, Chairperson
Kalbert Young, Ex-Officio Member
Scott Kami, Employee Member
Neal Miyahira, Employee Member
Wesley Machida, Employee Member
Michael Okumoto, Employee Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Andrew Ness, Mercer Investment Consulting
– via conference call
Brian Merrick, ING/Boston Office – via conference
call
Melody Takacs, Grace Baracao, and Jeanne Kanai, ING Honolulu Office
Harry Mattson, ING

Absent: Barbara Krieg, Ex-Officio Member

Call to Order: There being a quorum present, 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.

Chairperson Chu welcomed Trustees and guests, and noted for the record that Trustee Krieg has been excused from today's meeting. Introductions of ING's staff, attendees on the conference phone line, and guests were made.

Agenda

Item #1: Action on unforeseeable Emergency Withdrawal Case No. RJT41

Ms. Akiyoshi requested that action on this agenda item be deferred. The participant in this UEW case is appealing the decision by ING; however, there is not sufficient information yet to proceed with decision-making.

Agenda

Item # 2: Approval of Minutes No. 364

A motion was made by Trustee Machida and seconded by Trustee Kami to approve Minutes No. 364, as is. The motion passed unanimously.

Agenda

Item # 3: Plan Administrator's Report

a. Plan Updates for 3rd Quarter 2012

Mr. Merrick opened with a follow-up response to a question that was raised at the last Board meeting related to the STIF account in the Plan's Budget Report and the reason for the overdraft charges in the account. Mr. Merrick stated that daily deposits are made into the DDA (demand deposit account) into an overnight interest bearing account. Estimation is done on how much cash is expected to be received and get that invested by the close of the market. ING keeps as much as possible in the interest bearing accounts but occasionally when there is a urgent need for cash out of those accounts (e.g., request by participants to have monies wired), State Street fronts the amount so that the participant request can be honored rather than not honoring the transactions because the monies are tied up in overnight STIF accounts. But there is a charge that is associated with that. The frequency is about once a month and is a straight charge.

Mr. Merrick provided the highlights for 3rd Quarter:

- The asset allocations for the LifeCycle Portfolios were updated to add the two (2) new funds – the JP Morgan Diversified Real Return Fund and the Schroder Global Emerging Market Equity Strategy Fund.
- Net cash flow was positive over \$1.4 million.
- The Stable Value Fund and the PIMCO fund were the two funds that saw the most net transfers in while the American Funds EuroPacific Growth Fund, MainStay Large Cap Growth, and Century SMID Growth Strategy saw net transfers out, despite the positive returns for these funds. Some reasons could be because of rebalancing in the accounts like in the managed accounts service.
- Over 80% of all participants are holding assets in the Stable Value

Fund.

- Participants called the Customer Call Center about 3,000 times each month and logged into their online accounts about 21,000 times each month during the quarter.
- Plan assets have increased over the past year, up to \$1.639 billion.
- Total rollover contributions in to the Plan totaled \$1.740 million.
- The Self Directed Brokerage Account saw 31 new set-ups. Mr. Merrick referred to the 3rd Quarter Business Report by TD Ameritrade which will be provided quarterly going forward.
- Plan Statistics and observations were highlighted:
 - Over 22,000 participants invested in the Stable Value Fund.
 - Average account balance in the Self-Directed Brokerage Account is rather high in spite of the total assets accounting for less than half a percent of the overall Plan assets.
 - Asset allocation by age group shows that Lifecycle Funds are heavily utilized by the age group of 21-30 years.

Ms. Takacs reported on the activities in the Local Office:

- Conducted 165 educational workshops with an attendance of 872 state and county employees.
- Supported 132 walk-ins and 1,110 calls.
- Enrolled 133 employees for the quarter.
- Held 1,619 one-on-one consultations.

Mr. Merrick reported on the 2012 Personal Evaluation campaign for Investment Advice services. A total of 15,361 evaluations were mailed with a total campaign response rate of 3.52%.

b. TD Ameritrade's Quarterly Business Report

Mr. Merrick noted that this report will be provided going forward.

c. Other Plan Highlights

No other highlights were reported.

Agenda

Item # 4: PTS Plan

- a. Approval of Report on funds Not Deposited in the State/County Treasuries for the Period Ending September 30, 2012.

Ms. Akiyoshi presented the Plan asset report for the Board's review and approval.

A motion was made by Trustee Machida and seconded by Trustee Young to approve the PTS Plan Report of Funds for submission to the State Comptroller. The motion passed unanimously.

- b. Quarterly Management Report for Period Ending September 30, 2012

The Report was provided for the Board's review and information.

- c. Update on Status of Contract Amendment

DAG Tam reported that the amendments are still being worked.

Chairperson stated that agenda item number 5 will be discussed later in the agenda and moved to agenda item number 6 with no objections from the Board.

Agenda

Item # 6: Status on Amendments to INVESCO's Contract and Investment Guidelines

DAG Tam reported that the contract amendments are finalized and being circulated for signature. This should be completed within two (2) weeks.

Agenda

Item # 7: Other Business/Announcements

- a. Notification from Century on Converse Shares Distribution

Ms. Akiyoshi reported that a check was received from Century in the amount of \$14.26 related to the settlement action involving Converse Technology. The settlement check is for fractional shares that were redeemed as part of the corporate action in connection with the class action suit against Converse Technology. Century had filed the claim on behalf of the State and its other clients. Century was unaware of the distribution of fractional shares that were being held with the transfer agent, and Century is now working with State Street to move those shares over from the transfer agent to State Street. The check for the fractional share will be deposited into the Plan.

- b. Selection of Chairperson and Vice-Chairperson for 2013

Chairperson Chu stated that because it is anticipated that there will be two (2) new appointments to the Board, that the selection for a Chairperson

and Vice-Chairperson will be delayed until the appointments are made.
The Board had no objections.

c. Upcoming Scheduled Board Meeting(s)

Ms. Akiyoshi stated that she will be polling members for upcoming scheduled meeting dates in 2013.

Agenda

Item # 5:

Payment of Legal Fees and Discussion on DHRD Administrative Support Fees

Ms. Akiyoshi stated that at the last Board meeting, Trustee Krieg provided an explanation of the administrative support services that are being provided to the Board, and the Board agreed to a reimbursement amount that would cover 70% of salary plus fringe. The draft Supplemental Agreement to modify the current Memorandum of Understanding (MOU) that is presented for the Board's review provides for this compensation in the amount of \$66,866.00 for this current fiscal year ending June 30, 2013. The calculation is based on the same 70% of time spent as used for last fiscal year and the fringe was added. The compensation was intended for this fiscal year and will be revisited again.

DAG Tam discussed the payment of legal fees for services provided by the Department of Attorney General, and indicated that the fee amount that is proposed is based on the standard flat fee amount of \$131.15 per hour that the department charges. The amount submitted has been increased from \$20,000.00 to \$30,000.00.

A motion was made by Trustee Kami and seconded by Trustee Machida to accept and approve the DHRD Supplemental Agreement that reflects a compensation amount of staff support services to the Board in the amount of \$66,866.00 from \$40,000, based on 70% of salary plus fringe, and approve the reimbursement amount of \$30,000.00 (an increase from \$20,000.00) for services provided by the Plan's legal counsel for the Plan Year ending June 30, 2013. The motion passed unanimously.

Agenda

Item # 8:

Discussion on RFP No. DCP-12-1, For Independent Third Party Administration Services

A motion was made by Trustee Young and seconded by Trustee Miyahira to move into Executive Session at 9:42 a.m. to confer with legal counsel on procurement matters. The motion passed unanimously.

ING and all guests were excused from the meeting. Mercer joined the conference

call for the meeting.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Machida and seconded by Trustee Kami to move out of Executive Session at 11:39 a.m. The motion passed unanimously.**

Chairperson Chu adjourned the meeting at 11:30 a.m.

(Note: Signed copy on file.)