

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

**OPEN SESSION MINUTES
MEETING # 351**

Date: June 27, 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
Kalbert Young, Ex-Officio Member
Sunshine Topping, Ex-Officio Member
Wesley Machida, Employee Member
Michael Okumoto, Employee Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi and Lily Chu, DHRD Staff
John Bothwell and Troy Saharic, Mercer Investment Consulting –
Via Conference Call
Carol Cann and Kristine Matthews, Plan Administrator Staff (ING)/ Boston Office -
Via conference call
Melody Takacs, Grace Baracao, and Jeanne Kanai, Plan Administrator Staff
(ING)/Honolulu Office
Dennis Vanairsdale, Guest

Absent: Sandra Yahiro, Employee Member

Call to Order: There being a quorum present, Board Chairperson Wayne Chu called the meeting to order at 9:05 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 and introduced Mr. Dennis Vanairsdale, who will be replacing Michael Okumoto as Board Trustee effective July 1, 2011.

Agenda

Item # 1: Investment Management Overview by Mercer

Mr. Saharic provided an overview of the investment funds:

a. Performance Overview on Funds Currently on the Watch List

Mr. Saharic reported that the market has been very volatile from the last week of May through the end of June 2011. Much of the gains seen earlier have been hurt by the results at the end of May through June. Harbor Funds and Century had lagged a bit this quarter but held up for the year to date results. Overall performance on a year to date basis has been positive.

b. Review and Discuss Draft Request for Proposals ("RFP") to add an Emerging Markets Equity Investment Option and Diversified Inflation Hedge Investment Option.

Mr. Saharic noted that the Board decided at its last meeting to go out to bid to add an emerging markets equity investment option and a diversified inflation hedge investment option. The Board requested to confer with legal counsel.

A motion was made by Trustee Machida and seconded by Trustee Kami to go into Executive Session at 9:15 a.m. to confer with Plan's legal counsel on the Request for Proposals process. The motion passed unanimously.

ING staff and guests were excused from the meeting.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Topping and seconded by Trustee Okumoto to get out of Executive session at 9:27 a.m. The motion passed unanimously.**

ING staff and guests rejoined the meeting.

A motion was made by Trustee Topping and seconded by Trustee Young to approve the RFP drafts. The motion passed unanimously.

c. Discussion on Fund of Funds Structure / Use of Multi-Managers

Mr. Saharic stated that there is more use of multi-manager structures and single asset classes. For instance, for the Century SMID and all the Mid Cap Small Funds and Small Cap Value Funds, there is a trend among sponsors to bind them together with multi-managers within that structure to help diversify the fund. This creates less volatility, but it gets away from the name brand recognition that some participants may like.

Mr. Bothwell presented information on Oregon State's experience with the fund of funds structure that they have had for a long time (since 1997). If this structure were adopted, the Board would need to create fund fact sheets on these funds since participants cannot check the funds' ticker symbols. According to GayLynn who manages Oregon's 457 Plan, participants had very few questions and they seemed happy with the investment options that they have with the fund of fund approach. GayLynn mentioned that they are looking at adding index funds and a brokerage window.

Mr. Saharic noted that with the State of Hawaii's strict procurement process, the fund of funds structure may provide some flexibility to move managers in and out, reduce some volatility, and get better performance in the various options. Mercer discussed the proposed structure and possible consolidation of some of the current investment options. Trustees also discussed with Mercer and ING the implementation costs of the proposed structure. Mercer will provide more information on the effort required and cost so that the Board can make a decision at the next meeting.

Agenda

Item # 2: Proposed Amendments to Mercer's Contract Agreement

Mr. Saharic conveyed that with the large number of financial reforms that are coming out of Washington, D.C., Mercer has been reviewing agreements currently in place. For the Lifecycle Portfolio, it was unclear as to what capacity Mercer was operating in. Also, the Plan's Lifecycle Portfolio has been called "funds" which implies that they are SEC registered like mutual funds. There have been regulatory issues with them being called "funds." So, Mercer would like to make two contract changes: (1) to ensure that the Lifecycle Investment Options are called "Portfolios" and not "Funds"; and (2) to ensure that there is more clarity in the responsibilities of Mercer to show that they are clearly not providing discretionary authority for the underlying portfolios. The amendments are made to address the current regulatory climate that is anticipated to become more stringent in the future.

Trustee Machida clarified that Mercer will split out the fixed services of \$95,000 per year and put \$10,000 in variable services for the Lifecycle portfolios and changing out "fund" to "portfolio" in the name.

A motion was made by Trustee Topping and seconded by Trustee Kami to accept the amendments as provided, subject to review by the Plan's legal counsel. The motion passed unanimously.

Agenda

Item # 3: Plan Administrator's Report

Ms. Kanai reported the following:

a. Plan Updates

For the American Funds' EuroPacific Growth Fund, the revenue sharing reallocation went smoothly. On April 22, 2011, a letter went out to Plan participants informing them of the EuroPacific issue. Participants were also informed in the 1st Quarter 2011 newsletter. The 12b-1 fees were allocated on April 27, 2011 and 14,438 participants were affected for a total of a little over \$1.1 million. On June 20, 2011, checks were mailed to 1,738 participants that did not have a current account, which amounted to a little over \$76,000. These checks were mailed to their last known address on file.

b. Highlights on Employees' Benefits Fair and Planning of October 2011 Semi-Annual Meeting and Fair

Ms. Takacs gave kudos to six of seven Board members who attended and assisted at the Fair. The Governor and Lt. Governor also attended. There were almost 1,000 attendees with 451 feedback surveys. Feedback on the Fair was very positive.

For the next semi-annual Board meeting in October, Ms. Akiyoshi will poll the members on the start time.

c. NAGDCA Leadership Recognition Award Nomination Submittal

Ms. Matthews reported that two nominations were submitted for the NAGDCA leadership awards. One was in the category of Plan Design Administration, which includes how the Board took a proactive approach in providing new plan services and features, and the other was for the National Save For Retirement Week campaign, which encourages employees to get back on track towards saving for retirement.

Ms. Akiyoshi added that the nomination was reviewed by Chairperson Chu because of the deadline, and he approved the submittal to NAGDCA.

A motion was made by Trustee Topping and seconded by Trustee Young to approve the decision by the Chairperson on the submission of the nominations to participate in NAGDCA's leadership recognition award. The motion passed unanimously.

d. Other Plan Issues

None.

Chairperson Chu called a 5 minute recess at 10:10 a.m. The meeting resumed at 10:15 a.m.

Agenda

Item # 4: Settlement Resolution and Reimbursement from Putnam New Opportunities Fund

DAG Tam reported that the Plan received a distribution from the Putnam Investment Distribution Fund in the amount of \$1,422.60 from the settlement of a SEC investigation regarding mutual fund market timing activity. This money is the Plan's share of the agreed amount that Putnam put into an account for the settlement. DAG Tam provided the Board with options on what to do with this settlement money. The Board discussed the options and concurred that it would be administratively burdensome to locate past participants and difficult to determine an allocation over the eight year period in question. It was noted that the fund was opened in 1997 and replaced by Wells Fargo in 2004. DAG Tam noted that the settlement monies are additional and not from losses within participants' accounts. The Board opted to accept the check on behalf of the Plan to be used for expenses to administer the Plan.

A motion was made by Trustee Topping and seconded by Trustee Machida to accept the monies on behalf of the Plan for reasonable administrative costs since it would not be administrative feasible to locate the participants during the eight year period of time. The motion passed unanimously.

Agenda

Item # 5: Discussion on Payment of Investment Advice Platform Fees for Years 4 and 5 of ING's Current Contract

A motion was made by Trustee Topping and seconded by Trustee Kami to go into Executive Session at 10:30 a.m., to confer with the Plan's legal counsel. The motion passed unanimously.

ING staff and guests were excused.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Machida and seconded by Trustee Young to**

get out of Executive session at 10:54 a.m. The motion passed unanimously.

ING staff and guests rejoined the meeting.

The Board acknowledged ING for its summary expense budget report that was provided by ING and expressed their appreciation for putting it together. Trustee Topping and the rest of the board members appreciated the expense report, stated that it was very informative and helpful to the Board to meet their fiduciary responsibilities, and asked that the reports be provided quarterly. Ms. Cann stated that the Board will receive this report 10 days after the end of each calendar quarter from now on.

DAG Tam stated that the Board's responsibility to fund the Investment Advice platform fees expires June 30, 2011; and therefore, it will be ING's responsibility to assume paying the fees of \$6 per participant for the remaining years of ING's contract.

Agenda

Item # 6: PTS Plan

a. Follow-up on Inactive Accounts

Ms. Akiyoshi reported on the status regarding the inactive accounts. It was discovered that the initial price quote from the State Procurement price list could not be used since LSW, the third party administrator, would be reimbursing the State for the public advertisement. Thus, the price quote increased from about \$4500 to \$7300. Options presented to the board for consideration were: (1) proceed with the public advertisement, (2) use a private vendor subcontracted by LSW to conduct a search of the participants, and (3) use public service announcements.

A motion was made by Trustee Machida and seconded by Trustee Okumoto to proceed with option 2 to have LSW use a subcontractor, with the provision that confidential participant information is protected, and utilize some form of public announcement service subject to DHRD checking with the Governor's Chief of Staff, and any other free service. The motion passed unanimously.

Agenda

Item # 7: Other Business/Announcements

a. Annual NAGDCA Conference for 2011

This year's NAGDCA Conference will be in Albuquerque, New Mexico from September 10 – 14, 2011.

A motion was made by Trustee Topping and seconded by Trustee Machida to authorize all trustees and staff to attend the conference. The motion passed unanimously.

All interested Trustees should email Ms. Akiyoshi by end of July on whether they will be attending.

b. Recognize Outgoing Trustees

The Board recognized and thanked Interim Trustee Michael Okumoto for his work and service to the Board.

c. Scheduling of Next Board Meeting(s)

The next board meeting is scheduled for August 10, 2011.

Motion to
Adjourn:

A motion was made by Trustee Machida and seconded by Trustee Topping to adjourn the meeting at 11:20 a.m. The motion passed unanimously.

(NOTE: Signed copy on file.)