

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

**OPEN SESSION MINUTES
MEETING # 331**

Date: March 13, 2009

Place: Department of Human Resources Development
14th Floor Director's Conference Room
235 S. Beretania Street
Honolulu, HI 96813

Present: Marie C. Laderta, Chairperson
Wayne Chu, Employee Member
Georgina Kawamura, Employee Member (arrived at 9:02 a.m.)
Ken Taira, Member
Ryan Ushijima, Member
Sandra Yahiro, Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi and Tracy Kiyabu, DHRD Staff
Troy Saharic, Mercer Investment Consulting (via conference call)
Carol Cann, Bernard Wong, Monica Dos Santos - ING-Boston Office
(via conference call)
Melody Takacs and Grace Baracao - ING – Honolulu Office

Call to Order: There being a quorum present, Chair Laderta called the meeting to order at 8:40a.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: Ratification of Unforeseeable Emergency Withdrawal Case Nos. 214, 215, 217, 220, 221, 225, 227, 228, 229, 230, and 231

Trustee Yahiro explained that the UEW Sub-Committee made decisions regarding most of the UEW cases; however, there are a few cases where a decision was deferred pending the receipt of additional information. For those that the UEW Sub-Committee rendered decisions, Trustee Yahiro asked if any of the Trustees

had questions. There were no questions.

A motion was made by Trustee Chu and seconded by Trustee Taira to ratify the UEW Sub-Committee's decision to approve UEW Case Nos. 215, 220, 221, 225, 227, 229, 230, and 231. The motion passed unanimously.

Trustee Yahiro asked Ms. Cann if additional information was received for UEW Case Nos. 214, 217 and 228. Ms. Cann responded that no additional information was received from the participants. Trustee Yahiro stated that consideration of the cases would continue to be deferred until receipt of the requested additional information.

Agenda

Item # 2: Approval of Minutes Nos. 279, 280, 286, and 287

A motion was made by Trustee Yahiro and seconded by Trustee Chu to approve Minutes Nos. 279, 280, 286, and 287. The motion passed unanimously.

A motion was made by Trustee Yahiro and seconded by Trustee Chu to add the approval of Minutes No. 330 to the agenda. The motion passed unanimously.

A motion was made by Trustee Chu and seconded by Trustee Taira to approve Minutes No. 330. The motion passed unanimously.

Agenda

Item # 3: Oahu Employees' Benefits Fairs and Semi-Annual Meeting Schedule for May 2009

Ms. Akiyoshi directed the Trustees to the Schedule of Benefits Fairs and Semi-Annual Board Meetings and explained that taking into consideration schedules, events, and the availability of facilities, the two Benefits Fairs and Semi-Annual Board Meeting have been scheduled for May as follows: Monday, May 11, 2009 – Benefits Fair at University of Hawaii at Manoa, Campus Center Ballroom; Thursday, May 14, 2009 – Semi-Annual Board Meeting; and Friday, May 15, 2009 – Benefits Fair at the Aloha Stadium – Hospitality Room. Ms. Akiyoshi asked the Board if there were any comments regarding the schedule. Chairperson Laderta stated that she would not be able to attend the Semi-Annual Meeting. Vice-Chairperson Chu agreed to chair the May 14, 2009 Semi-Annual Board Meeting.

Trustee Yahiro cited concerns with the Board having quorum at the Meeting and

asked the status of an appointment to replace former Trustee Raber. Chairperson Laderta responded that a candidate is in the process of being recommended to the Governor's Office for approval and submittal to the Legislature for confirmation. Ms. Akiyoshi shared that Mr. Scott Kami is being recommended to replace former Trustee Raber and Mr. Wesley Machida is being recommended to replace Trustee Chu when his term expires June 30, 2009.

Agenda

Item # 4: Plan Administrator's Report

a. Plan Reports and Announcements

Ms. Cann directed the Board to the Plan Administrator's Report. She stated that although the report states census file testing with DOE has been completed, issues have subsequently been found with the automated processing. Therefore, they will continue to work with DOE to resolve the issues.

It was reported that forty-six (46) excess contribution refunds were processed for 2008 on February 6, 2009 and fifty-seven (57) Required Minimum Distributions for 2008 were processed on March 6, 2009.

Ms. Cann then reported that for the period July 1, 2008 to March 1, 2009 the Local Office conducted 456 group meetings with a total attendance of 3,521; 1,417 one-on-one meetings were conducted; staff responded to 4,422 calls and 415 office walk-ins; and processed 548 new Plan enrollments.

It was also announced that the Local Office staff is nearing completion of their ING Advisor Service training. Once training is completed, the staff will be registered financial advisors with ability to service Plan participants regarding the ING Advisor Service.

Agenda

Item # 5: Report on 2009 Legislation Session Bills

a. H.B. No. 1104, H.D. 1/S.B. No. 922 – Automatic Enrollment in the Plan

Ms. Akiyoshi reported that S.B. No. 922 was heard on February 12, 2009 by the Senate Committee on Labor, which deferred the bill.

It was then reported that H.B. No. 1104 was reviewed by the House Committee on Labor and Public Employment on February 6, 2009 and

passed with amendments. Amendments included making the default investment option a fixed income product and revising the 'opt out' language in the bill for clarity. The bill was referred to the Finance committee and is awaiting schedule of a hearing.

The Board discussed concerns raised in testimony against the bill submitted by Lynn Krieg from Maui County. Chairperson Laderta asked Trustee Yahiro to contact Ms. Krieg to discuss and address her concerns. Chairperson Laderta asked staff to prepare a letter the Chairman of the Finance Committee requesting a meeting to discuss the bill for which she and Trustee Yahiro will attend.

- b. H.B. No. 1550, H.D. 1 – State Income Tax on Rollovers From Deferred Compensation Plans to Eligible Retirement Plans is moving through the committees.

Agenda

Item # 6: Performance Evaluation Report by Mercer for 4th Quarter 2008

Mr. Saharic directed the Trustees to the Mercer Defined Contribution Performance Evaluation Report. He commented on the negative economic environment, citing the overall decline in market activity, the rising unemployment rate, low consumer spending, the stagnant housing market and decline in the Treasury yield. There are mixed projections as to when the economy will begin to improve – some believe improvement will not start occurring until the second half of 2009, while others believe improvement will not occur until 2010 or beyond. He discussed the Equity Market Performance, stating that the stock market has declined sharply. He then discussed the Fixed Income Market Performance and noted that 2009 should be a strong year for active managers in Fixed Income Markets. The decline in International Equity Market performance was then discussed – in which it was noted that emerging market stock experienced the largest decline (53.2%) for the year.

Mr. Saharic directed the Board to page 11 of Mercer's Report and reviewed a summary of the Plan's Asset Allocations. It was noted that the Plan's assets are at \$1.3 billion. There was a \$100 million decrease in assets from last quarter; however, contributions have increased to \$21.4 million. Also, unlike other plans, Plan enrollment has increased. It was noted that the Plan is somewhat insulated from losses due to the high portion of assets in the Stable Value Fund. Approximately 62.4% of the Plan assets are in the Stable Value Fund – the largest such allocation that Mercer has seen. They are seeing a trend whereby those employees closer to retirement are moving their money to much more conservative funds. The volume of money being moved to the Stable Value Fund

is causing issues for the fund.

Trustee Ushijima questioned if he understood correctly that the Plan is growing and that participants are adding contributions. Mr. Saharic confirmed that the Plan is continuing to grow despite the current negative economic and market environments.

The Board was then directed to page 13 of Mercer's Report and Mr. Saharic provided a performance summary of the options in the Plan. It was stated that the Stable Value Fund is performing relatively well despite some of the underlying fund component's poor performance. This is due to the wrap contracts on the Stable Value Fund, which amortize the gains and losses of the underlying funds; however, it was noted that the crediting rate for the Stable Value Fund has come down. Mercer is generally feeling okay with how the Fund is positioned.

INVESCO continues to be monitored closely as they remain on probation. INVESCO had some departures recently; however, they indicated that those that departed worked indirectly on the Stable Value Fund. After reviewing the matter, Mercer found minimal impact to the Stable Value Fund due to the departures. INVESCO was reminded to report any changes on a more timely basis.

Mr. Saharic directed the Board to page 7 of the Mercer Report. He reminded the Board that the Stable Value Fund portfolio is co-managed by INVESCO and Prudential/Jennison. Under Prudential, Jennison manages the Prudential/Jennison portion of the assets in an intermediate style with a single wrap provider. Mercer has watched Prudential closely and there have not been any issues or problems with their ratings. Mercer feels good about the job they are doing. It was then explained that INVESCO has three different wrap providers they use: ING Life & Annuity, Monumental, and Pacific Life. Mr. Saharic explained that Mercer is watching that market because there is such a large volume of money going into the Stable Value Fund it is creating issues whereby people are moving away from risk causing entities to try to exit the wrap provider market. AIG is the largest wrap provider and if that company goes under, it will flood the market with additional assets that would need to be absorbed by the other wrap providers making those providers nervous. Such action will cause the market value versus the book value come down significantly and increase risk exposure for the insurance/ banking companies. As a result, Mercer is watching the Fund wrap provider contracts closely. It was noted that Monumental is raising their wrap provider fees from 8 basis points to 15 basis points effective the first quarter of 2009. It was explained that they have the right to raise the fees due to their contract expiring January 1, 2009, and the increased risk in the current market environment. It was then noted that Pacific Life is increasing their fees from 7.5 basis points to 12 basis points effective the second quarter of 2009. INVESCO is

trying to negotiate the fee increases down. ING Life & Annuity's contract is up on January 20, 2009 and INVESCO is anticipating their fees will go up to 15 basis points in the third quarter of 2009. Mr. Saharic pointed out that they have been monitoring the Stable Value Fund particularly close as it contains such a large portion of the Plan assets.

Mercer has concerns with INVESCO's wrap provider contracts expiring all at the same time. When questioned about their contingency plan should they lose any of their current wrap providers, INVESCO did not appear to have an adequate contingency plan. This caused further concern by Mercer. Therefore, Mercer is recommending INVESCO continue to be placed on probation and closely monitored.

The Trustees were then directed to page 14 of Mercer's Report where Mr. Saharic reviewed the performance of each of the investment options in the Plan and discussed the remainder of the Report.

Trustee Yahiro noted that on page 9 it states Wells Fargo Advantage Large Company Growth Fund was placed on watch on August 24, 2006 and remains on watch. She questioned when they should consider taking action on the Fund. Mr. Saharic stated that discussion on the matter will be held on the next agenda item regarding the Request for Proposals currently being conducted – one of which is to secure a replacement fund for the Wells Fargo Fund.

There was discussion regarding how Plan participants are reacting to the current market situation. Ms. Takacs stated that some Plan participant reaction is shock and panic; however, most seem to be remaining steady in their course of action/distributions. Several of the Trustees commented that they have heard of several employees reconsidering retirement plans due to the current market situation and losses they have experienced.

Mr. Saharic commented that retired participants will need to review their investment options and consider the most beneficial method in drawing down and taking distribution of their money to extend their benefits.

Agenda

Item # 7:

Discussion on Proposals Received for RFP No. DCP-FY-09-1, Large Cap Growth Equity Investment Option; and RFP No. DCP-FY-09-2, Request for Proposals for Passively Managed Investment Options (in Executive Session Pursuant to HRS sections 92-5, 103D-105, and 103D-303), Including But Not Limited to:

- a. Review and Evaluation of Proposals
- b. Scheduling of Interviews with Priority-Listed Offerors

A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to move into Executive Session at 9:43 a.m. to discuss the Proposals received in response to RFP Nos. DCP-FY-09-1 and DCP-FY-09-2. The motion passed unanimously.

ING staff was excused from the meeting. Chairperson Laderta called for a 5-minute break. The meeting resumed at 9:50 a.m.

EXECUTIVE SESSION

A motion was made by Trustee Yahiro and seconded by Trustee Kawamura to move out of Executive Session at 10:34 a.m. The motion passed unanimously.

Agenda

Item # 8: New Business and Announcements

Ms. Akiyoshi announced that ING Direct offered the use of their facilities in Waikiki for the Semi-Annual Board Meeting coming up in May. During the course of discussion on the matter, the Board cited concerns with ease of access for participants to attend the meeting if held in Waikiki and the lack of adequate parking. The Board requested that an alternative location be pursued for the meeting.

A motion was made by Trustee Yahiro and seconded by Trustee Kawamura to adjourn the meeting at 10:39 a.m. The motion passed unanimously.

(Note: Signed copy on file)