

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

**OPEN SESSION MINUTES  
MEETING # 360**

Date: March 20, 2012

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

Present: Wayne Chu, Chairperson  
Scott Kami, Employee Member  
Barbara Krieg, Ex-Officio Member  
Kalbert Young, Ex-Officio Member  
Neal Miyahira, Employee Member  
Dennis Vanairsdale, Employee Member

Others: Rodney J. Tam, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Troy Saharic, David Williams, and Andrew Ness –  
Mercer Investment Consulting – Via Conference Call  
Melody Takacs, Grace Baracao, and Jeanne Kanai, Plan Administrator Staff  
(ING)/Honolulu Office  
Carol Cann, Plan Administration Manager (ING)/Boston Office – Via  
Conference Call

Absent: Wesley Machida, Employee 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 everyone and opened the meeting with introductions of Board members and ING staff present. Also introduced were attendees on the conference phone line from ING and Mercer.

Agenda

Item # 1: Approval of Minutes No. 359

Ms. Akiyoshi asked that this item be deferred since the minutes are not ready for review.

Agenda

Item # 2: Plan Administrator's Report - Report on Follow-up Activities

Ms. Kanai reported on follow-up items from the last meeting:

- a. UH Payroll Recall Issue – Ms. Kanai reported and referred to the letter from ING to the former UH participant to request the return of the excess contribution that was overpaid by the Employer, as instructed by the Board. Ms. Kanai noted that the deadline for the participant response has passed, and in the meantime ING has made the Plan whole.

The Board discussed the timeliness of the notifications and ways to address the overpayment issue. Ms. Cann reported that ING has implemented some corrective/preventive measures to ensure that distributions are monitored more carefully in these types of situations.

- b. Comparisons on UEW Distributions Among Other Similar Government Plans – Ms. Kanai stated that this report will be provided at the next meeting.
- c. Information on Estimated Audit Costs – Ms. Kanai stated that information will be provided at the next meeting.
- d. Participant Surveys – Ms. Cann informed the Board that ING has contracted with a local Honolulu firm to conduct a participant survey. Notice on the survey will be included in the newsletter and website.

Agenda

Item # 3: Performance Evaluation Report by Mercer for 4<sup>th</sup> Quarter 2011, Period Ending December 31, 2011:

Mr. Saharic referred to its Performance Evaluation report and provided an overview of the 4<sup>th</sup> quarter market environment:

- There was an overall rebound in the market during the 4<sup>th</sup> Quarter, compared to the 3<sup>rd</sup> Quarter;
- Managers did well, particularly in October 2011;
- Performance in the US equity indices went up;
- Non-US stocks were under pressure due to the European debt crisis;
- Emerging markets did outperform;

- Fixed Income rewarded opportunistic managers for the period; PIMCO did well due to the rally;
- REITs did well; price of oil skyrocketed;
- Europe is teetering on a recession;
- World economic growth is coming from emerging markets;
- Energy, industrials were the top performers;
- IT stocks were the second worst performer;
- Yield on TIPS are below 1%; best sectors were high yield and commercial MBS (mortgage backed securities);
- Bond market has been flat.

The Board discussed the current levels/tiers within the Plan's structure that allows the participants to have choices between actively managed funds and passively managed funds. Changes to this structure can be further discussed and evaluated in the future. Mr. Saharic reviewed the allocations within the Lifecycle Funds to explain the mix of active versus passive manager allocations.

Mr. Williams reported on some manager and Plan updates:

- Winslow Capital Management (MainStay Large Cap Growth Fund) has decided to soft close the fund to new investors. Current investors can continue to invest. Mercer feels that this is a good decision in its investment process.
- Winslow Capital Management has also decided to modify the guidelines to remove the 5% maximum position limitation on a stock and replace it with greater than 5% benchmark weight plus 100 basis points. This allows growth for the larger stocks like Apple.
- In the process of replacing the Bernstein International Large Cap Value Fund;
- In the process of finalizing contracts to add the Emerging Markets and Diversified Inflation Hedge managers;
- Mercer recommends continuing to keep Century SMID Growth and the Harbor Small Cap Value on the watch list;
- Plan assets are at \$1.5 billion; there has been an increase of \$68-70 million increase since the end of the 3<sup>rd</sup> quarter;
- Average account balance is at \$55-56,000;
- Fixed income performed well; Jennison's product did well;
- PIMCO had a good performance;
- Vanguard Wellington had a good performance;
- Victory rebounded in the 4<sup>th</sup> quarter due to overweight in energy;
- Harbor performed well for the past 12-18 months;
- Century performed well for the year;
- Bernstein dragged in its performance;

- EuroPacific Growth Fund performed well with steady performance; and
- Performance through March 7, 2012 shows strong performance among the managers.

Trustee Vanairsdale asked that since the Plan has a heavy equity allocation and participants are subject to behavioral rules when there is a downturn in the market, whether Mercer can include an analysis to look at whether our participants bailed as a result of the market and whether more of a stable asset allocation should be considered to give more comfort level. ING can assist and provide information.

Chairperson asked to go into Executive Session for the next agenda items on procurement related matters.

**A motion was made by Trustee Young and seconded by Trustee Miyahira to move into Executive Session at 9:47 a.m. The motion passed unanimously.**

ING staff and guests were excused from the meeting, and conference line was disconnected. A new conference line was opened to join Mercer staff into the meeting.

Agenda

Item # 4: Status Report on Contract Award for RFP No. DCP-11-1, Request For Proposals for an Emerging Market Equity Option and RFP No. DCP-11-2, Diversified Inflation Hedge Investment Option

EXECUTIVE SESSION

Agenda

Item # 5: Review and Approval of Draft RFP for Third Party Administration Services

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Vanairsdale and seconded by Trustee Kami to move out of Executive Session at 12:00 p.m. The motion passed unanimously.**

Trustee Young was excused at 11:30 a.m.

Agenda

Item # 6: PTS Plan

- a. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending December 31, 2011
- b. Quarterly Management Report for the Period Ending December 31, 2011

and Annual Management Report for 2011

Ms. Akiyoshi referred to the handout of the PTS Plan Report on Funds for Board action.

**A motion was made by Trustee Miyahira and seconded by Trustee Kami to approve the report for the quarter ending December 31, 2011, as provided. The motion passed unanimously.**

Ms. Akiyoshi also noted the PTS Plan quarter report and the annual report has been prepared and made available for information.

Ms. Akiyoshi announced that the pre-scheduled meeting dates have been established with the exception for the months of June, July and August due to scheduling conflicts. Copies have been provided and also sent to the Governor's Office.

Next meeting is scheduled for April 19, 2012.

Chairperson Chu adjourned the meeting at 12:10 p.m.

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