STATE OF HAWAII
DEFERRED COMPENSATION PLAN
BOARD OF TRUSTEES

OPEN SESSION MINUTES
MEETING # 334

Date:	May 14, 2009
Place:	Hawaii Prince Hotel Captain's Room 100 Holomoana Street Honolulu, HI 96815
Present:	Wayne Chu, Vice Chairperson Georgina Kawamura, Employee Member Sandi Yahiro, Employee Member Scott Kami, Employee Member Ryan Ushijima, Member Kenneth Taira, Member
Others:	Cynthia Akiyoshi, DHRD Staff Steve Kamaura, DHRD Staff Melody Takacs, Plan Administrator Staff (ING-Honolulu Office) Grace Baracao, Plan Administrator Staff (ING-Honolulu Office) Carol Cann, Plan Administrator Staff (ING-Boston Office) Kristine Matthews, Plan Administrator Staff (ING-Boston Office) Jeanne Kanai, Plan Administrator Staff (ING-Honolulu Office) Cheryl Daughenbaugh, Plan Administrator Staff (ING-Arkansas Office) Troy Saharic, Mercer Investment Consulting Wesley Machida, Guest Todd Egger, INVESCO Molly Ono, INVESCO Sue Bonfeld, Wellington Management Company Greg Grabar, PIMCO Peter Whitlock, Century Capital Management Mark Kniesche, AllianceBernstein Caroline Hovey, Jennison Associates Cheryl Lynch, Jennison Associates Frank Terpenning, Prudential Joan Larsen, Prudential Lisa Rosenthal, Victory Capital Management Paul Gurewitz, Victory Capital Management

Absent: Marie Laderta, Chairperson
Rodney J. Tam, Deputy Attorney General

Call to Order: There being a quorum present, Vice Chairperson Chu called the meeting to order at 9:11 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.

Agenda Item # 1: Welcome and Introductions

Vice Chairperson Chu officially welcomed Scott Kami, who is the new Trustee appointed to the Board, and Wes Machida, Trustee nominee.

Vice Chairperson Chu stated that he will be chairing the meeting today since Chairperson Laderta is excused due to a conflict in her schedule.

Vice Chairperson Chu asked the Board to introduced themselves and members of the audience.

ING Annual Report

The ING Semi-Annual Service Review for July 2008 – March 2009 was distributed.

Ms. Cann, Plan Administrator, along with Ms. Matthews, Communications Manager, and Ms. Takacs, Honolulu Office Plan Manager, presented ING's report. Ms. Cann reported on the overall Plan assets and participant activity during the last year. Ms. Cann stated that Plan assets as of March 31, 2008 were at $1.472 billion and as of March 31, 2009 Plan assets were $1.295 billion, a decrease of $177 million. The average balance for the Plan also decreased during this past year. In the 1st Quarter 2008, the average balance was $51,113; and the average balance in 1st Quarter 2009 was $45, 098.

The good news is that participants are still contributing at the same level even during a down economy. Total contributions into the Plan during July 1, 2007 through March 31, 2008 reached $27.62 million, and rollover contributions into the Plan were $.58 million. Total contributions into the Plan during July 1, 2008 through March 31, 2009 reached $27.85 million, and rollover contributions into the Plan were $.75 million. Contributions remain level. Distribution activity has been consistent year to year. Distributions during July 1, 2007 through March 31, 2008 totaled $46.35

million, and distributions totaled $44.50 million during the period July 1, 2008 through March 31, 2009, showing that participants are not withdrawing their monies at a significantly higher rate.

Ms. Cann reported on upcoming ING initiatives, which include a Self-Managed Brokerage Account. ING is working with Charles Schwab and the target date is July 2009; Income Solutions, which is the ING annuity product; Participant E-Statements, which is a "green"-initiated project that is being offered across all of ING clients and where quarterly statements and confirmations can be electronically sent; and Advisor Service Website Redesign that will be implemented in May 2009.

Ms. Cann provided an Advisor Service Usage report (i.e., investment advice):

During the past 8 months, usage climbed to over 11%, which is an extremely high rate. Most plans hope to reach a 10% usage rate within twelve months of implementing the service. There is definitely a desire for investment advice within the plan. As of March 31, 2009, there are over 3,000 users. The preferred method of accessing the advice service is through the Personal Online Advisor service at 85%; and 15% of users speak to an Investment Advisor. There were 796 participants enrolled in the Professional Account Manager (PAM) program with enrolled assets of $28 million. The average balance is $35,000 and the average age is 52 years old.

Advisor Service Website redesign is scheduled to go online on May 29, 2009. The PAM site changes are scheduled for the end of May. The changes are mostly look and feel changes, no functional changes. Participant will not have difficulties in continuing to process transactions. The key objectives are to upgrade, streamline navigation and make information more accessible. Additional changes to the Personal Online Advisor are anticipated in 4th Quarter 2009. Ms. Cann also reported that the local Plan consultants are now trained to deliver advice services.

Trustee Kawamura asked what the average usage rate was among states that have investment advice service. Ms. Cann noted that she will check and report back later.

Ms Takacs reported on the local office activity for the past year. The ING local office has held 605 group meetings with an attendance of 4,035 participants, and had 1,736 one-on-one consultations with participants in the field. All local office field representatives are registered investment advisors and now trained to deliver ING Advisor Services in the field.

The local office staff supported 460 walk-ins and 4,787 calls. The local office is on track to exceed the plan year goal of 630 group meetings. The local office has also enrolled 3,687 new employees into the Plan. The local office also continues to provide plan education at the State and county pre-retirement and new hire orientations, as well as visiting the various State and county offices to hold smaller meetings at the individual sites.

Ms. Matthews reported on Communications:

The Investment Advice campaign was completed with amazing results, and will be supporting the launch of the web redesign. Information regarding this will be posted on the website. The ongoing campaign will continue to promote the service and there are new and updated brochures available at this week's Benefits Fairs and a video presentation of the Advice workshop available online.

The Benefits Fairs will also have reusable shopping bags, as a part of the go Green campaign, for all attendees; new Lifecycle materials; and an Awards Display of the awards presented to the Plan.

Ms. Matthews is working on the Income Solutions campaign, which is an Annuity product that will be made available for those near retirement. She will be working on a fact sheet and a newsletter announcement. Also working on web messaging and a link to the service, which will be similar to the Investment Advice service links. Educational materials are scheduled for launch soon. This campaign will be a part of the upcoming planned retirement guide.

Agenda Item # 2: Semi-Annual Performance Evaluation Report from Mercer Investment Consulting

The Mercer presentation of its First Quarter 2009 Investment Review was distributed.

Mr. Saharic reported that economic activity through the 1st quarter remains negative due to global slowdown that is occurring. This is the first synchronized global recession since 1970s. There are government actions and central policy work being done to resurrect economies. The U.S. government committed almost $13 trillion to various stimulus programs. The general overall concern in the marketplace is if this is sustainable and what will happen to long-term interest rates. Mercer believes that the Treasuries are in a bubble and some selling pressures on Treasuries. TIPS look positive and in April, have been strong. GDP numbers came in lower than what was forecasted which is off by about 6% for the quarter. Unemployment rate is about 8.9%. GDP growth may probably be muted through remainder of 2009.

Consumer confidence continues to be low. The personal savings rate (which excludes defined contribution plans) has come down, but they are seeing evidence that the rate is coming up to show people are trying to save more.

Mr. Saharic reported on the US Equity market and trends that are occurring:

Growth is outperforming value across all market caps. Some managers got caught as the financials were performing negatively. IT and Healthcare have a lot of cash and they don't have to access the debt market if they can finance their own selves.

In the international equity market, the MSCI EAFE showed a decline of 13.9% in the first quarter.

Emerging markets were up 1% in April.

In the fixed income market, the Barclays Aggregate index was up marginally, up 12 basis points. Mortgage-back securities and asset-back securities were strong.

Industrial metals was a strong performer in the quarter, but need to monitor rebalance activity because they could see this come down again.

The Plan does not have exposure to hedge funds, but see a trend that hedge funds returns are doing well this year and may want to look at a permanent allocation, provided the funds are high quality and have properly managed cash flows.

Real Estate is a dismal market and which will continue to be weak this year.

Mr. Saharic distributed the Performance Sheet through May 8, 2009. Year-to-date numbers are positive, with exception of the Russell 1000 Value. The MSCI EAFE Value continues to struggle.

Mr. Saharic presented the Investment review:

Plan assets at 1st quarter end reached $1.295 million. Assets decreased by

$25.9 million, which is a 2% decrease from the previous quarter-end. The Hawaii Plan did not decline as much as other plans, mainly because of the high balances in the Stable Value Fund.

The Hawaii Stable Value Fund is at approximately 65% due to a positive rate of return. The trend in transfer activity is higher in older participants who are at or near retirement. Activity is at a normal level. There is not a tremendous amount of panic amongst participants.

Plan will be supplementing the investment lineup by adding another tier of index funds, which the Board is currently in the process of completing its search. There will be an addition of a Brokerage Window set for July 2009 to allow participants a portal to individual securities and mutual funds. The Plan's investment option array is competitive relative to survey of state plans that was conducted. An interesting trend is that more clients are looking at commodities, emerging markets, and high yield instruments.

In reviewing the estimate fee analysis of the underlying funds, Mr. Saharic commented that the investment options array is competitive and the Plan's investment options are below every institutional expense ratio average according to Morningstar. Mercer is continuing to shift to the lowest cost vehicle where it makes sense, and will continue to monitor fees and see where the Plan can save costs.

Mr. Saharic reported on the Investment Option Performances:

The Stable Value Fund is managed 50% by Prudential/Jennison, and the other 50% by INVESCO. It is a multi-managed portfolio with underlying fixed income portfolios and a series of wrap providers that help smooth out the returns by amortizing gains and losses in the portfolios. The current crediting rate is at 3.77%. Due to the market, wrap providers are pulling back from the market or trying to negotiate more favorable contract terms. This is evident with the Board's recent approval to increase INVESCO's fee cap resulting from its wrap provider contract negotiations. The Stable Value Fund still makes more sense than money market instruments due to the overall long-term return and risk that can be seen within the Stable Value fund versus a money market fund.

PIMCO had a good quarter, and for the one, three, and five year periods. Vanguard Wellington did underperform for the quarter but still looks strong for the three and five year periods.

The Lifecycle Portfolios did well and benefited from the quarter. Mercer is seeing more demand to these types of allocations for more diversification to be added to these portfolios in the areas of TIPS, commodities, etc. but not as core options. Mr. Saharic will review this issue with the Board to see if there is a need later.

There was a rebound in the Wellington Research Value portfolio. The Vanguard Institutional Index performed as expected. Victory had a very good quarter and has been a strong performer since being added to the Plan. Wells Fargo is in the process of being replaced and long-term returns continue to be weak. The Harbor Small Cap fund struggled during the quarter. Century had a weak quarter; it continues to lose ground and will be watched. It may be good to have Century come in and talk to the Board on its portfolio in an upcoming meeting.

The EuroPacific Growth fund continues to do very well. Alliance Bernstein struggled a little bit and Mercer is disappointed with the results; they will also be in the watch because of additional layoffs and significant client and asset losses.

Vice Chairperson Chu called a break at 10:05 a.m. The meeting resumed and called back to order at 10:28 a.m. by Trustee Kawamura.

Agenda Item # 3: Panel Presentation by Prudential/Jennison, INVESCO and PIMCO – Topic: The Credit Markets - History and Impact of the 2008 Crisis

Ms. Hovey, who is with the Jennison, is joined by Ms. Larsen and Mr. Terpenning from Prudential, and they co-manage the Stable Value Fund. Jennison manages the underlying account and Prudential provides the wrap. Ms. Lynch is also here from Jennison and Ms. Hovey announced that after working with the Hawaii Plan since 1997, she will be retiring at year-end.

Ms. Hovey presented an overview and picture of the credit market. From 2001 thru 2004, interest rates were low, which encouraged the build up of home ownership and lending for more than the value of the homes. There were loans to inappropriate credit risks. Banks and investment firms entered into financial contracts that highly leveraged the risk and return, creating a vulnerable financial system. The Feds began to raise interest rates in 2005, which affected mortgage lending. Speculative loans start to go bad. Foreclosures ballooned and financial systems were vulnerable. In 2007, investors in general were greedy for yields, which were at an all-time low, and risk was being mispriced. The cumulative effect of all stimuli from August 2007 to January 2009 has calmed things down and regularized things. Lessons learned: 1) couldn't rely on bond rating; 2) short maturity bonds do not necessarily offer protection; 3) diversification among managers; and 4) importance of having credit experience and research.

Mr. Egger, Client Portfolio Manager at INVESCO, reported that the theme is stabilization. The market is not in full recovery but things have regularized. Recovery is dependent on government support. In the GDP chart, 3 recessions happened in 1991, 2001, and 2008. Since World War I, the average recession is about 10 months long. The current recession is about 15 months long. If it continues, there is a cause for concern. Consumers keep plugging along; it is apparent that people are saving. $12.8 trillion have been committed from government to spur recovery. Key Federal programs that had an impact include Fed Funds Target (to drop rates), Open Market Operations (to make lending attractive to keep mortgage rates down), Term Asset-Backed Securities Loan Facility (to provide liquidity in the market, Making Homeownership Affordable, Financial Stability Trust, Public-Private Investment Partnership and Consumer and Business Lending Initiative. Programs have helped as mortgage spreads are coming down.

Mr. Grabar, Account Manager at PIMCO, presented the view of the past year. The world changed on September 15, which is when Lehman Brothers failed and the takeover of Merrill Lynch. Everyone was reaching for yield to garner their money for better return. Many held Lehman corporate paper. When Lehman collapsed, the value of paper went to zero and could no longer honor withdrawals, so they shut their doors and it caused a panic. That's why the FDIC had to raise its insurance level from $100,000 to $250,000. The system was breaking down.

The theme: Deleveraging, Deglobalization, Re-regulation (DDNR) that PIMCO is constructing the Total Return Fund. Deleveraging will continue which will depress asset prices. It's really a global problem. There will be more concern about protecting industries within countries (build America, buy America). Government will have more of a say. PIMCO's view on recession is a L-shaped recession, kind of bottomed but won't dramatically improve anytime soon. As part of the Total Return Fund, PIMCO is stressing banks and financials, as they will be survivors; utilities and pipelines, which are industries that are necessary for daily existence and have predictable cash flows; and telecom. In next 3 years, will not go back to boom times, growth will be subdued and will see higher rates of inflation.

Agenda Item # 4: Panel Presentation by Capital Research & Management and AllianceBernstein – Topic: International & Emerging Markets - Current

View & Outlook

Mr. Caruthers from Capital Research reported that we need to look where growth will come from and may need to look elsewhere. Some of the best opportunities come from the emerging markets. The EuroPacific Growth Fund had very little direct exposure to China; had indirect exposure through exporters like Brazil and Mexico. Now, the EuroPacific Growth Fund has a 3% allocation to China. China represents approximately 18% of the Emerging Markets benchmark. China is successfully managing its economy. There are great growth opportunities coming from Chinese companies. China is a key driver of global growth and China maybe a tailwind for the EuroPacific Growth Fund.

Mr.Kniesche from AllianceBernstein reported that they also see a lot of opportunity in Emerging Markets. Emerging market equity has been up 50%. There has been government activitiy to provide recovery. Fiscal stimulus proposals are not only in U.S., but around the world. The low interest rates have helped to make housing more affordable. This, along with a drop in energy prices, has helped to boost global economies and gain access to credit. China plays critical role in bolstering confidence in emerging markets and investor confidence. China's stimulus programs are run through the banking system and pushed through the local economy. In the area of commodities, at the center of the recovery see oil with the quickest turnaround. Metals are next to have a quick turnaround. So, there are opportunities in oil stocks; the energy sector has good valuation.

Agenda Item # 5: Panel Presentation by Vanguard – Topic: Behavior of Deferred Compensation Plan Participants During Recent Market Volatility

Mr. McGettigan from Vanguard presented outlook on the effect of what has been happening to other deferred compensation plans. Vanguard looked at 2,200 plans that are record-kept at Vanguard. They have seen movement from docile market to extreme volatility over the past 5 quarters. Towards the end of the year, they saw that the participant reaction generated a spike in call volumes and web log-ons. In 2008, 16% of participants actually traded, which is below prior years. In the first quarter of 2009, 6% of participants actually made changes, which is less than in first quarter of 2008. They also found that most traders are older, are men, have higher account balances and invest in active equity funds. Spikes are usually tied to the volatility in equity market. In reality, they saw activity both ways and movement in and out of asset classes and did not find participants acting in herd-like behavior.

The survey of plans show that participant behavior was mixed and showed diverse activity. Last year in a negative environment, Vanguard also found that participants who were auto-enrolled for target date funds were least likely to abandon equities. For those who voluntarily were in target date funds, 1.6% abandoned equities. And about 3% who actively invested (not in target date funds) were likely to abandon equities. Most participants have not experienced the losses that the media has sensationalized recently. Vanguard believes that defined contribution plans are still a valuable tool for retirement savings. There was a modest increase in participants stopping their contributions. Although the reasons are unknown, Vanguard believes that participants do so as an insurance in the event of job loss or other hardships. Vanguard has seen hardship withdrawals up significantly. Inertia plays an incredibly huge role in retirement planning/savings. Vanguard believes that if you get participants into the plan through automatic enrollment, the evidence will show that participants will stay in the plan. Equities and markets will turn around over time.

Agenda Item # 6: Other Business/Announcements

PTS Plan

The Board reviewed the PTS Plan 1st Quarter 2009 Fund Report.

A motion was made by Trustee Taira and seconded by Trustee Kawamura to accept the PTS Plan 1st Quarter 2009 Report. The motion passed unanimously.

The Board did not have any other matters to discuss. Vice Chairperson Chu thanked those who presented reports and presentations today, and for those who participated in the Benefits Fairs.

A motion was made by Trustee Kawamura and seconded by Trustee Ushijima to adjourn the meeting at 11:54 a.m. The motion passed unanimously.

(Note: Signed copy on file)