

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

**OPEN SESSION MINUTES  
MEETING # 372**

Date: February 25, 2013

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  
Barbara Krieg, Ex-Officio Member  
Neal Miyahira, Employee Member (arrived at 10:10 a.m.)  
Scott Kami, Employee Member  
Wesley Machida, Employee Member  
Michael Okumoto, Employee Member

Others: Rodney J. Tam, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
David Williams and Andrew Ness, Mercer Investment Consulting  
– via conference call  
Brian Merrick and Carol Cann, ING/Plan Administration Office-Boston Office – via  
conference call  
Melody Takacs, Jeanne Kanai, and Grace Baracao, ING/Honolulu Office  
Greg Hodges and Julie Klassen, Prudential Retirement  
Brian Isobe and Patrice Sumikawa, N&K CPAs

Absent: Kalbert Young, Ex-Officio Member

Call to Order: There being a quorum present, Chairperson Wayne Chu called the meeting to order  
at 9:03 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 noted Trustee Young is excused from  
today's meeting. He asked that the attendees on the conference phone line and guests  
present to introduce themselves.

Agenda

Item # 1:      Approval of Minutes Nos. 365, 366, 367, 368, and 371

Ms Akiyoshi reported that the minutes are not complete yet and asked that action on the minutes be deferred to the next meeting.

Agenda

Item # 2:      Plan Administrator's Report

a.      Plan Report for 4<sup>th</sup> Quarter 2012

Mr. Merrick reported on highlights for the 4<sup>th</sup> Quarter 2012:

- Service Level Agreement Report was completed on October 10, 2012, to review the service level standards and to report on the findings that no issues and penalties resulted;
- The Benefits Fair was held on October 16, 2012 which had approximately 450 attendees;
- The MFS International Value Equity Fund was added to the Plan on October 22, 2012;
- The Personal Evaluation Retirement campaign was successfully held and attracted 334 new participants to the advisor service and 37 new participants who signed up for the Professional Account Manager service;
- The Local Office assisted over 170 participants with their vacation payout and ERS rollovers to the Plan;
- The Plan assets reached \$1.6 billion as of December 31, 2012 which represented an increase of \$132 million;
- Took in a total of \$2 million in rollover contributions during the 4<sup>th</sup> Quarter;
- There were 4 new participants who signed up for the Self-Directed Brokerage Account service with TD Ameritrade; and
- The addition of the MFS International Value Equity Fund in the line-up which contributed \$1.9 million to the total Plan assets.

Ms. Takacs reported on the Local Office activities for the 4<sup>th</sup> Quarter 2012:

- Conducted 151 educational group meetings with an attendance of 1,087 state and neighbor island county employees;
- Enrolled 136 new employees into the Plan; and
- Conducted 1,496 total one-on-one consultations with state and neighbor island county employees.

b. Audit Report Updates by N&K CPAs

Mr. Merrick stated that last year the Board approved N&K CPAs as the auditing firm to conduct the Plan financial audit. He introduced Brian Isobe from N&K CPAs who is present to give a status report and scope of the audit they are doing and some preliminary findings. A final report is anticipated shortly.

Mr. Isobe introduced himself as the audit principal in charge of this engagement along with Patrice Sumikawa, who is the senior audit manager working with him on this engagement. He reported that they completed a substantial portion of the audit for the Fiscal Year ending June 30, 2012. The audit is performed under Government Auditing Standards and will include a report on internal controls and tests of compliance with contracts. A management discussion and analysis will also be required in this report which Mr. Merrick and his team are preparing along with the notes of the financial report. A draft will be provided to Mr. Merrick for review and comments. Mr. Isobe acknowledged ING and the employer groups for their assistance with making the audit process a smooth one. Mr. Isobe confirmed that the Plan audit is a 2-year engagement so one other audit is planned for the last year of the ING contract ending June 30, 2013.

c. Quarterly Budget Report

Mr. Merrick presented the budget report for the quarter ending December 31, 2012, and reported that there is \$1.2 million that is remaining and available to pay for Plan-related expenses.

The Board discussed the budget for the Consultant, which resulted in an under budget for the second 5-year period of the Consultant contract. Because the Consultant contracts were written prior to the fee adjustments, and the contract commitment amounts are less than the actual payments to Mercer, the Plan owes ING the outstanding amount of \$181,000 as of December 31, 2012.

d. Other Plan Issues – No other Plan issues to report.

Agenda

Item # 3: Performance Evaluation Report by Mercer for 4<sup>th</sup> Quarter 2012

Mr. Williams reported on the market environment during the quarter, and noted that if sequestration goes into effect will see a further drop in the GDP growth.

The performance results indicated that risky assets did well for the year, fixed income sector was up for the year, and REITs had good returns for the year.

Mr. Williams reviewed the investment option array, and the addition of new options that included the Diversified Inflation Hedge option and the Emerging Market option which completes the coverage of the major asset classes. Mr. Williams noted that the future line-up may be more concise with some consolidation amongst the asset classes. The participants would then have fewer choices and focus more on asset allocation as opposed to value versus growth.

Other highlights:

- 50% of the Plan assets are in the Stable Value Fund. For the same time period last year ending December 31, 2011, 54% of the Plan assets were in the Stable Value Fund. Some indicators for the change may be due to the strong performance in the equity markets;
- Plan assets are up by \$131 million with 27,000 participants. Average account balance is approximately \$60,760.
- Performance for the target date funds was held back due to the underperformance of the Bernstein International Value fund and some domestic small cap sector funds.
- Stable Value, PIMCO, and Wellington Research Value were strong performers for the year;
- Index funds are performing in line with expectations;
- Performance of the Stable Value Fund for the one year was just under 3% and had significant out performance relative to cash. Market-to-book ratio is at 109% which is very good. Individual components had good performance relative to its stated index;
- PIMCO had a good performance;
- JP Morgan Diversified Real Return Fund is slightly behind in its benchmark;
- Vanguard did well for the year and stock selection was helped as they did not own Apple holdings;
- Wellington Research Value Fund did well, stock selection was a positive;
- Victory is failing standards but had a rebound in the quarter and a strong year; monitoring to see whether to place the Fund on watch;
- MainStay had a disappointing 2012 due to poor stock selection, but long term performance is ranking above universe median; continue to have a favorable view for the long-term;
- Harbor Small Cap Value had a decent rebound during the 4<sup>th</sup> Quarter, disappointing performance for the first half of the year was a detractor, will continue to monitor watch status;
- Century SMID Growth Fund was down during the quarter due to overweight in health care, long-term performance is mixed, will continue to monitor

watch status;

- MFS International Value was slightly down for quarter
- EuroPacific Fund had a good performance for the year; and
- Schroder benefited from country and stock selection.

In summary, Mr. Williams recapped that they are closely monitoring Victory but have not placed the fund on watch; Harbor and Century continue to be on watch status but do not recommend changes to the strategies.

#### Agenda

##### Item # 4: Mercer's Review of 2013 Reallocations for Lifecycle Portfolios

Ms. Williams stated that they are in the process of reviewing the allocations for the Lifecycle portfolios and plan to report at the March meeting.

#### Agenda

##### Item # 5: Discussion on Retained Income Credit from BlackRock

Ms. Akiyoshi reported that a letter was received from BlackRock on plans to issue a credit to the State to those investors who came into the Fund after the 2008 financial crisis. The Plan joined in 2010.

Ms. Williams explained that the securities lending strategies came under pressure and many asset backed strategies became impaired. Lending income was held back as a way to cover anticipated losses. BlackRock made a decision to credit back what was held back during that initial investment period. Now that we've come off of the financial crisis and the securities moved off the books, they don't feel a need to hold back as much reserves going forward. The credit amounts to \$1214.51 across the four funds.

The options are to have ING reinvest the amount back into each of the Funds and to participant accounts; or to pay Plan expenses. Ms. Akiyoshi added that Mr. Merrick indicated that in crediting back to participants that StateStreet would unitize the values in order to pass on to participants.

**A motion was made by Trustee Krieg and seconded by Trustee Kami to invest the credit back into the Fund and credit back to participants in the Fund. The motion passed unanimously.**

#### Agenda

##### Item # 6: PTS Plan

- a. Annual Letter from Life Insurance Company of the Southwest on the Amount Available for Reimbursement

Ms. Akiyoshi provided letter from LSW to report on the amount available for reimbursement which is \$13,225 at the end of 2012.

- b. Approval of Report of Funds Not Deposited in the State/County Treasuries for the Period Ending December 31, 2012
- c. Quarterly Management Report and Annual Management Report for 2012

Ms. Akiyoshi stated that the Plan asset report, the Quarterly and Annual Management reports are provided for Board review, and asked for approval on the Plan asset report before submission to the Comptroller.

**A motion was made by Trustee Machida and seconded by Trustee Krieg to accept the PTS Plan asset report. The motion passed unanimously.**

- d. Status of Contract Amendment with LSW

Ms. Akiyoshi stated that the contract amendment is in progress and anticipate finishing the amendment soon.

Chairperson Chu stated that the Board will go into Executive Session on the next agenda item.

Agenda  
Item # 7:

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

**A motion was made by Trustee Krieg and seconded by Trustee Machida to move into Executive Session at 10:00 a.m. to confer with the Plan's legal counsel. The motion passed unanimously.**

All ING staff and guests were excused from the meeting. Mercer joined the meeting via conference call, and Mr. Hodges and Ms. Klassen from Prudential joined the meeting.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Kami and seconded by Trustee Krieg to move out of Executive Session at 10:46 a.m. The motion passed unanimously.**

ING, Mercer, and guests rejoined the meeting.

Agenda

Item # 8:      Discussion on 2013 Benefits Fairs

Ms. Akiyoshi stated that due to the upcoming changes and schedule of activities over the next few months the Board has agreed that the Fair should be pushed back to after July 1, 2013.

Agenda

Item # 9:      Staff's Administrative Report to Board

Ms. Akiyoshi reported that at the past November 2012 meeting, the Board requested staff to provide a summary overview of the monitoring of activities being done over the TPA, consultant, and investment fund managers on a monthly basis, as well as some quarterly, semi-annual, and annual activities. Highlights provided begin from December 2012 to current.

Agenda

Item #10:      Other Business/Announcements

a.      2013 Legislation

Ms. Akiyoshi informed the Board on a couple of bills that related to HHSC whereby it establishes a task force to study the merits of transitioning to non-public status; and the other bill it amends the governance structure within HHSC and proposes to create a new personnel system. Also, she is monitoring Trustee Okumoto's confirmation to the Board.

Chairperson Chu adjourned the meeting at 10:57 a.m.

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