

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

**OPEN SESSION MINUTES
MEETING # 384**

Date: July 30, 2014

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

Present: Wayne Chu, Chairperson (arrived at 9:05 a.m.)
Barbara Krieg, Ex-Officio Member
Kalbert Young, Ex-Officio Member
Kanoë Margol, Employee Member
Michael Okumoto, Employee Member
Brian Moto, Employee Member
Kenneth Villabrille, Employee Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Troy Saharic, David Williams, and Alex Williams, Mercer Investment
Consulting – via conference call
Julie Klassen, Bob Belanger, Jason Tuscher, Prudential Retirement
Kevin Malmud, Jeanne Kanai, Grace Baracao, Prudential Honolulu Office
Dan Purcell, public

Call to Order: There being a quorum present, Trustee Barbara Krieg called the meeting to order at 9:01 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: Recognize Incoming Trustee

Trustee Krieg opened with a welcome to Trustee Kanoë Margol as the new appointee to the Board, and presented her a lei.

Trustee Krieg continued with introductions of the Trustees and staff. One guest from the public, Mr. Dan Purcell, introduced himself. Mr. Purcell provided a

brief summary of his background, and offered comments on the structure of the meeting. He suggested that a statement be added on the agenda regarding a contact for persons who request auxiliary aids and services.

Trustee Krieg thanked Mr. Purcell for his comments and suggestions.

Chairperson Chu continued with the meeting and stated that for the discussion on Agenda item no. 2 on the Request For Proposals, he asked the Board for a motion to use the median method of scoring as the scoring method to be used in the RFP for the Small/Mid Cap Growth Equity Investment option.

A motion was made by Trustee Krieg and seconded by Trustee Young to adopt the median method of scoring for RFP No. DCP-FY-14-1, for a Small/Mid Cap Growth Equity Investment Option. The motion passed unanimously.

Agenda

Item # 2:

Discussion on Proposals Received for RFP No. DCP-14-1, Request For Proposals for a Small/Mid Cap Growth Equity Investment Option (in Executive Session Pursuant to HRS sections 92-5, 103D-105, and 103D-303)

- a. Best and Final Offers Received
- b. Scoring of Proposals and Award of Contract

A motion was made by Trustee Okumoto and seconded by Trustee Krieg to move into Executive Session at 9:10 a.m. to discuss procurement matters related to Agenda Item No. 2, and to consult with legal counsel. The motion passed unanimously.

EXECUTIVE SESSION

Consultants from Mercer Investment Consulting were in attendance via conference call.

Meeting

Reconvened:

A motion was made by Trustee Villabrille and seconded by Trustee Krieg to move out of Executive Session at 10:04 a.m. The motion passed unanimously.

Guests and the staff from Prudential joined the meeting. Ms. Klassen introduced Mr. Bob Belanger and Mr. Jason Tuscher from Prudential who were also in attendance. The consultants from Mercer Investment Consulting rejoined the meeting via conference call.

Agenda

Item # 3: Approval of Minutes Nos. 378, 380, and 383

Ms. Akiyoshi reported that the draft minutes for Minutes No. 383 is still under final review and will be ready for the next meeting. Action on Minutes no. 383 will be deferred. The Minutes nos. 378 and 380 are ready for the Board's review and action.

A motion was made by Trustee Krieg and seconded by Trustee Okumoto to approve Minutes Nos. 378 and 380, as is. The motion passed unanimously.

Agenda

Item # 4: Review and Approval of Century's Request to Amend the Range of the Century SMID Portfolio's Market Cap

Ms. Akiyoshi reported that Century has requested to amend the range of its SMID cap growth portfolio that is stated in the Investment Guidelines of their contract. The current weighted market cap for the portfolio is reaching the range stated in its Investment Guidelines. Century is asking to amend the weighted market cap for the portfolio to reflect the broader weighted average market cap range of the Russell 2500 Growth Index.

Mr. Williams added the portfolio's focus on securities between \$800 million to \$5 billion in market cap and with a weighted average market of \$2 to \$3 billion. And because the markets have increased the last five years, the weighted average market cap for the index has also increased. So as the market cap increases their weighted market cap for the portfolio increases with that. As the market stocks have done well their market cap has gone outside of the \$2 to \$3 billion range.

Mr. Williams said that Mercer has reviewed and does not object to Century's request. Mercer's recommendation is to remove the \$2 to \$3 billion range, and replace it with the range of 75% to 125% of the Russell 2500 Growth index.

A motion was made by Trustee Krieg and seconded by Trustee Young to remove the reference to \$2 to \$3 million for the SMID portfolio weighted market cap range and replace it with the range of 75% to 125% of the Russell 2500 Growth (R2500G) index.

Trustee Young pointed out another section of the Investment Guidelines that states that the portfolio is not to exceed the seven percent (7%) of the portfolio on a market value basis and asked if this provision would need to change if the Board allows the weighted average market cap to reach a range of 125% of the R2500G index. Otherwise, he feels that the managers would need to come back in to request the change. Mr. Saharic stated that he feels the provision is reasonable

and can be left unchanged. As the market moves around, Mercer would want the managers to proactively come back to the Board with proposal changes to make sure they are investing in the viable universe that they can invest in and to avoid being too concentrated.

The motion passed unanimously.

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Item # 5:

Discussion on Use of Island Savings Plan Name by Financial Investment Advisors

- a. Status Report on Revisions to Prudential's Current Trading Authorization Forms for use within the Self-Directed Brokerage Option

Ms. Klassen reported that Prudential has been able to draft a trading authorization form to include indemnification language to cover the State, the Board, and the Plan besides Prudential was forwarded for review.

DAG Tam stated that staff is looking at the draft to make the language easier for participants to understand. Comments from the Board are welcome before the form is finalized.

- b. Report and Recommendations on Additional Disclosures on Risks of Using the Self-Directed Brokerage Option (SDBO)

Ms. Klassen referred to Prudential's report and pointed out that there are disclosure statements provided in the Plan Highlights, the SDBO account application form, the FAQs related to the SDBO, and the participation agreement for this option. The documents are available on the Plan's website.

- c. Royal State Insurance's Communication to Targeted Group of Plan Participants

Ms. Klassen reported that the Board sent out a letter to participants to remind all participants that when using the SDBO they do so at your own risk.

Chairperson Chu mentioned that he received a phone call from the DCCA Securities Commissioner's Office. They stated that they received phone calls about the letter that was sent out, and they stated that they would be available for educational purposes to help educate participants/employees on selecting advisors in the SDBO, and would be able to help out at the Benefits Fairs.

Ms. Akiyoshi reported that Royal State Insurance did respond back to the Board's letter that asked them to stop using the Plan's Island Savings Plan name and to ask them to send out a letter to clarify that the Board is not affiliated with the Investment Advisors referred to by Royal State Insurance. A copy of the Royal State Insurance's letter was distributed which addresses and incorporates the points raised by the Board. The letter was mailed yesterday.

Agenda

Item # 6: Plan Administrator's Report

- a. Plan Highlights for 2nd Quarter 2014
- b. Follow-up on Plan Participant Issues

Ms. Klassen provided Plan highlights for the 2nd Quarter 2014:

- The payroll contribution monitoring project to cap deferrals in an automated method:
 - Prudential is working internally to determine ways to automate the manual practice;
 - Drafted a briefing document to work with payroll and to identify solutions, and to identify some complexities (e.g. percent and dollar deferrals, etc.).
- SDBO:
 - Revisions made to the trading authorization form;
 - Issued the letter from the Board to participants on use of registered investment advisors for the SDBO.
- Business Plan:
 - Currently there is a 27% participation rate.
 - Prudential is looking at ways to conduct outreach as there is a potential to increase the rate.
- Administration Project Plan Initiatives:
 - Weekly meetings are held to discuss ongoing tasks.
 - Establishment of a local office phone number is still in progress.
 - Prudential is working with ING, the former TPA, to get 1099 history not obtained at transition.

- Asset Allocation Initiatives:
 - 43% of participants are invested in the Hawaii Stable Value Fund; the average number of funds per participant is 4, compared to Prudential's book of business which is 5.5. Prudential is looking at additional education to explain the asset allocation tools within the Plan.
 - Contribution in-flows and out-flows are about a wash; goal is to keep the assets in the Plan. Ms. Klassen reviewed the types of distributions such as the number of rollovers and installment payments. The Board discussed the distributions by participants over age 70-1/2 years.

Ms. Klassen introduced a discussion item on a Plan feature change that was incorporated at the time of transition. When the Plan-at-a-Glance document was adopted, a change was permitted on the provision for in-service distributions to allow participants who were age 70-1/2 and still employed to take a distribution while working and which would allow more flexibility in the Plan.

Ms. Kanai added that there are over 280 participants who are age 70-1/2 or over and those who are reaching age 70-1/2 soon. These participants are still working. Previously, those participants who were age 70-1/2 and older and still working were not allowed to take a distribution while still employed.

The discussion before the Board is whether to accept the change in this provision and to continue to allow the distribution by participants who are age 70-1/2 years and older and still employed.

Trustee Young asked that Prudential confirm that IRS allows age 70-1/2 year old participants to take distributions while they are still in service.

Mr. Malmud confirmed that IRS allows 401(k) plan participants to take distributions after age 59-1/2 years while still employed, and that taking these in-service distributions for the 401(k) plans and the section 457 plans will not jeopardize the tax-deferred status of the plans.

Trustee Moto commented that it is likely will see more individuals working past age 70-1/2 if they are not forced to retire, so he would be in favor of allowing the option to take the in-service distributions.

Mr. Purcell remarked that favorable consideration to allow this option would help individuals especially those who have multiple accounts that they may be managing as well as making plans for their heirs.

DAG Tam summarized that the provision would be optional to those age 70-

1/2 and older who are still working, and allowed as long as the tax deferral status of the Plan is not jeopardized. Mr. Malmud reconfirmed that the provisions are allowable under IRS and the tax deferred status would not be jeopardized. It is a matter of whether the Board desires to allow this option.

Ms. Klassen added that the other provision for consideration is allowing in-service distribution of rollover monies. This was a Plan feature change made at the time of transition. Mr. Malmud added that this option is typically allowed in many plans because the monies are available and accessible when an individual separates from their prior employment, and would not jeopardize the tax deferred status of the Plan. The regulations on distributions follow the plan that are being rolled into the Plan. The Board did not have any other objections to the changes discussed.

A motion was made by Trustee Krieg and seconded by Trustee Margol to add to the agenda the discussion on allowing changes to the provisions made in the Plan-at-a-Glance on (1) allowing in-service distributions to age 70-1/2 participants while they are still employed with the State or participating Counties; and (2) allowing in-service distributions and rollovers out on monies that are rolled into the Plan at any time. The motion passed unanimously.

A motion was made by Trustee Krieg and seconded by Trustee Moto to reaffirm that the changes to the provisions made in the Plan-at-a-Glance would (1) permit age 70-1/2 and older participants to take in-service distributions while they are still employed with the State or participating Counties; and (2) honor the qualities and characteristics of the rollover monies into the Plan and to permit withdrawals of the rollover monies at any time, the same as it would have been allowed at the time of their eligibility under that previous plan. The motion passed unanimously.

Ms. Klassen continued with the Plan highlights and reviewed some Plan demographics, statistics, and asset allocations by age bands. Ms. Klassen noted that 83% of the Plan's assets are concentrated in the age 50 or older population.

Trustee Okumoto asked for information comparing the participation against the City and County of Honolulu. Ms. Klassen stated that this can be reported back at the next meeting.

Mr. Malmud added that the local office will be conducting more outreach by participating in the DOE's Teacher's Institute Day, and will communicate the Plan differences and expenses through additional presentations and workshops. They are working with DOE contacts and HGEA union stewards to participate in various events, as well as working with DOT/Harbors to schedule group sessions

at their sites.

Ms. Klassen continued with other activities in the Plan and Plan statistics:

- Calls are going down, but website usage is increasing;
- Many calls are regarding disbursements;
- Review of the Retirement Income calculator show that participants are benefiting from usage;
- In follow-up to the discussion at the Semi-Annual meeting, looking at use of the service for the Morningstar managed service and will be providing more information at future meetings.

Mr. Malmud covered activities within the local office. They are on track in meeting the number of group meetings.

Ms. Klassen continued that the Plan is receiving an award for the Board's submission to the NAGDCA 2014 Leadership Award in the category of the National Save For Retirement Week campaign. She noted that a reason for the award is tied to the successful results of the Benefits Fairs last Fall, as indicated by the surveys that were received.

Agenda
Item # 7:

Status on DHRD's Request to Establish a Position for the Plan

Trustee Krieg reported that the position in DHRD to staff the Board has been approved by the Legislature and a special funded position has been established. The new position description is provided, the position opening has been posted, and the opening is out for internal recruitment. DAG Tam has agreed to participate on the selection committee, and the offer to the candidate will be conditioned upon the Board's approval, likely at the next meeting.

In addition, the special account needs to be funded before the position is filled. A bill for collection will be presented for the Board's approval at the next meeting.

Agenda
Item # 8:

Staff's Administrative Report to the Board

Ms. Akiyoshi provided brief highlights on the activities that are being monitored:

- Administrative Oversight with the TPA – continuing to monitor several administrative processes; continuing to review the comparison that Prudential provided for the review of the Plan Document; and have started working on the OIMT/ERP project to map the processes for the Plan for submission to meet the ERP team's requirements. The ERP team is

working on those diagrams.

- Continuing to work with N&K CPAs on finishing the Plan Audit under ING's contract. N&K is close to finalizing its report. The report will be in two parts, one to cover the period ending June 30, 2013, and the other to cover the period through the contract year ending July 24, 2013.
- Have started preliminary planning for the upcoming Fall Semi-monthly meeting on October 27, 2014 in Hilo. Ms. Akiyoshi reported that a Benefits Fair is being scheduled for Wednesday, October 29, 2014 in Hilo.
- Continuing to review the quarterly Plan Asset reports for submission.
- Continuing to work with the Plan's consultant on the RFP for the SMID Growth equity option.
- Continuing to review the contracts with the Investment Fund managers. Have worked on the Supplemental Agreement with BlackRock to amend the language to reflect that the agreement shall automatically renew on an annual basis. The agreement was amended and executed.
- Continuing to monitor INVESCO's report of its Stable Value portfolio analysis, and an excerpt of their report provides current portfolio assets, the current wrap provider ratings and market-to-book ratio of the portfolio.
- As discussed earlier, Century's request to amend its investment guidelines was discussed with Mercer.
- Held two (2) meetings with service providers, one with ConvergeEx Execution Solutions regarding its Commission recapture service; the other with Boston Partners on its equity strategies.
- Monitoring and review of the reports for the PTS Plan.

Trustee Okumoto raised a suggestion on holding a Fair on Tuesday, the day between the Semi-Annual meeting and Wednesday's Fair. Ms. Akiyoshi explained that there were other Fair locations in Hilo explored but due to cost factors and logistical reasons, the Hilo Hawaiian hotel site was not available the day after the Board meeting so decided to hold the Fair on Wednesday at the Hilo Hawaiian hotel as done in the past. Staff will review the feasibility of other additional sites in Kona on Tuesday.

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Item # 9:

Other Business/Announcements

Ms. Akiyoshi reminded the Board that the next meeting is on September 4, 2014, followed by the Semi-Annual meeting on October 27, 2014 and the Benefits Fair on October 29, 2014.

Ms. Akiyoshi explained that two response letters were sent out in response to participant inquiries. Mr. Malmud added comments on the participant inquiry regarding over contributions that occurred in 2013, and has issued the refund

check to the participant.

Chairperson Chu adjourned the meeting at 11:33 a.m.

(NOTE: Signed copy on file.)