

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

**OPEN SESSION MINUTES  
MEETING # 389**

Date: February 2, 2015

Place: Hawaii Prince Hotel  
Captain's Room  
100 Holomoana Street  
Honolulu, HI 96815

Present: James Nishimoto, Ex-Officio Member  
Wesley Machida, Ex-Officio Member  
Kanoë Margol, Employee Member  
Michael Okumoto, Employee Member  
Brian Moto, Employee Member  
Kenneth Villabrilie, Employee Member

Others: Randy Baldemor, DHRD Deputy Director  
Rodney J. Tam, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Troy Saharic, David Williams, Mercer Investment  
Consulting – via conference call  
Julie Klassen, Carol Blumenthal, Prudential Retirement  
Deb Baran, Prudential Retirement - via conference call  
Michael Chandra, PIMCO – via conference call  
Kevin Malmud, Jeanne Kanai, Grace Baracao, Tom Kalili, Kapena Kim,  
Peter Eddy, Al Lee, Prudential Honolulu Office

Absent: Wayne Chu, Chairperson

Call to Order: There being a quorum present, Trustee Nishimoto called the meeting to order at 9:06 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.

Trustee Nishimoto opened today's meeting in the absence of Chairperson Chu. Trustee Nishimoto introduced himself as the new ex-officio Board member, summarized his responsibilities as the Director at DHRD, and provided his brief history in the State. He introduced Mr. Randy Baldemor, who is the Deputy Director

of DHRD and who will be his designated representative on the Board during his absence from today's meeting, and Trustee Wes Machida as the second ex-officio member on the Board. Both Deputy Director Baldemor and Trustee Machida provided a brief introduction and their histories with the State.

The Prudential Honolulu Office team in attendance, the Trustees and staff, and attendees via the conference line also introduced themselves.

Trustee Nishimoto stated that Chairperson Chu is currently out on medical leave and was not able to attend today's meeting. Therefore, he asked to amend the agenda to allow the election of a temporary Chairperson to lead today's meeting.

**A motion was made by Trustee Machida and seconded by Trustee Moto to amend the agenda to add an item on the election of a temporary Acting Chairperson for today's meeting. The motion passed unanimously.**

Added

Agenda Item: Election of a Temporary Acting Chairperson

**A motion was made by Trustee Machida and seconded by Trustee Moto to appoint Trustee Okumoto to serve as the acting Chairperson for today's meeting. The motion passed unanimously.**

Agenda

Item # 2:

New Business

- a. Approval of Minutes Nos. 354, 386, 387, and 388

Acting Chairperson Okumoto asked for any discussion, questions, or comments on the Minutes Nos. 354, 386, 387, and 388 that are being presented for approval.

**A motion was made by Trustee Nishimoto and seconded by Trustee Moto to approve Minutes Nos. 354, 386, 387, and 388, as is. The motion passed unanimously.**

- b. Approval of the Change to a New R6 Share Class for the Schroder Emerging Market Equity Fund

Ms. Akiyoshi stated that Schrodgers sent a message to announce that a new R6 share class was available which offered a lower fee expense ratio of 110 basis points (1.10%). The new R6 share class does not provide revenue sharing.

The Fund's current fee expense ratio is 125 basis points (1.25%) and

provides a revenue share of 10 basis points (0.10%). The net fee expense ratio is 115 basis points (1.15%).

Ms. Akiyoshi stated that this new share class was reviewed with Mercer and after their review, Mercer recommended the move to the new R6 share class as it would provide a lower fee expense cost for participants.

Mr. Williams commented that this proposed change was reviewed and Mercer supports the move to the new R6 share class as it offers a net savings of 5 basis points for participants. The performance of the Fund is in line with the benchmark, and a move from the investor share class to the new R6 share class would be invested in the same investments currently held in the Fund.

Mr. Williams responded to Trustee Margol's question on whether the current revenue share arrangement is guaranteed by explaining that the arrangement is between the Fund manager and the record keeper, which is Prudential Retirement, and revenue share agreements can be amended from time to time with modest changes; however, it does not happen frequently.

**A motion was made by Trustee Nishimoto and seconded by Trustee Moto to approve the change to a new R6 share class for the Schroder Emerging Market Equity Fund. The motion passed unanimously.**

Agenda  
Item # 3:

Ongoing Business:

a. Update on the PIMCO Total Return Bond Fund

Mike Chandra, from PIMCO, provided an update on the Fund's performance. In January 2015, the Fund's performance was at 2.64% after fees, compared to a benchmark return of 2.10%, which reflects an outperformance of 0.54%, net of fees. The peer universe places the Fund in the 98 percentile of its peers in the intermediate bond category.

The performance for the Fourth Quarter 2014 end was 1.32% versus a benchmark return of 1.79%. The Fund trailed the benchmark by 47 basis points net of fees. Most of the underperformance was in the month of December 2014. The underperformance in December was primarily due to the significant decline in oil prices and that led to inflation expectations falling in the U.S. The performance in January 2015 made up for the underperformance in the Fourth Quarter 2014.

Mr. Chandra stated that he did not have the asset outflows for the month

of January 2015 yet but will be available in the next couple of days.

Mr. Chandra elaborated on the staff changes that occurred at the end of 2014, and commented on the two (2) new additions to PIMCO and the departure of Mr. Saumil Parikh. It is still not known where Mr. Parikh would be going to after PIMCO. He also added that he did not have information available on the amount of outflows from the governmental plans but noted that have been seeing a decline in redemptions from the Fund and pace of activity has slowed.

Acting Chairperson Okumoto reminded the Board that the Fund was placed on the watch list at the last Board meeting, and the Board is continuing to monitor the Fund's situation.

b. Plan Administrator's Report

i. Summary Highlights for 2014 and 4Q 2014 Highlights

Ms. Klassen opened with commentary on some of the highlights for 2014:

- **Contribution Monitoring Project:**  
The project started at the Board's request to reduce the over contribution situations. Steps are in place within the counties; however, Prudential does have a challenge with the State payroll, so they have increased their functional support and are reviewing processes to tighten the payroll processing timeframe. Ms. Klassen noted that the number of excess over contribution cases have decreased in calendar 2014 versus calendar year 2013.
- **2014 Overall Participation:**  
Overall Plan participation is at 26% over approximately 58,000 eligible employees. There are some departments with a higher participation rate compared to their eligible employees.
- **Local Office Staff Strategic Developments:**  
The Honolulu Office staff has been meeting its meeting goals both individually and on a group basis; education and outreach efforts have been recognized through the award presented by NAGDCA, an organization that is represented by government and industry.
- **Asset Allocation Initiatives:**  
Ms. Klassen reported that 42.9% of the Plan's assets are

concentrated in the Hawaii Stable Value Fund. The current crediting rate is at 3.02%. She pointed out that the Goalmaker service picks up the number of individual funds that are being invested in versus the Lifecycle Portfolios which picks up the investment as one (1) fund because it is a unitized fund. There are approximately 4,600 participants utilizing the Lifecycle Portfolios; approximately 1,700 participants utilizing the Goalmaker tool; and 1,848 participants utilizing the managed accounts service through the Managed by Morningstar.

- Asset Retention Efforts:  
Ms. Klassen recapped the amount of inflows and outflows occurring with the Plan over calendar 2014 and pointed out that about the same amount that is coming into the Plan is flowing out of the Plan. It is not a unique situation. However, Prudential is examining the reasons for some of the outflows.

#### Executive Summary Highlights:

- Ms. Klassen provided an analysis of the asset allocation by age and utilization by fund within the Plan's investment options, noting that about 6,200 participants are using the Stable Value Fund as their sole investment.
- Prudential is working with staff on a draft survey that will provide Prudential with feedback on the services that are being provided.
- A Plan overview was presented on utilization by participants within the Plan, including items on website statistics, investment advice, rollovers out of the Plan to independent broker-dealers, Plan asset overview by participating jurisdictions, and a report of Plan expense summary.

#### Honolulu Office Summary Highlights:

- Mr. Malmud summarized some highlights at the Honolulu Office which included: recap on the NAGDCA award for the National Save For Retirement Week campaign; participation in the HSTA Teacher Institute Day events; development of the 403b/457 plan comparison communication sheet; development of a distribution brochure that focused on asset retention; the two (2) Benefits Fair that were held on the Big Island in October 2014; participation at the HGEA stewards' meeting; the DOE New Employee orientation for teachers on Maui and Oahu; presentation to the DOE Regional Officers; and the development of an interactive workshop session introduced at the West Oahu Benefits Fair in May 2014.

Ms. Baran indicated that the stats related to enrollment counts and increased contributions from attendance at the Benefits Fair can be collected and provided going forward.

ii. Highlights of 2015

Ms. Baran reported on the:

- 2015 Strategies:
  - Working on developing a participant survey;
  - Continue to use the Benefits Fairs to engage participants through interactive formats.
- 2014 Goals and Results
  - Increase participation: Met desired goal of a 5% increase.
  - Asset Allocation focus: Increased participation in asset allocation programs.
  - Promote Rollovers-in: Decrease in the number of rollovers-in; therefore, will discuss options in 2015.
  - Increase annual contribution rate: Rate did decrease slightly but it was likely due to an aging population and reluctance to go to percent deferrals.
  - Benefits Fairs: Based on the survey, attendees had a high satisfaction rate; comments showed that they liked the one-on-one consultations.
  - Electronic website capabilities such as via emails have produced positive results in reaching participants.

Mr. Malmud reported on the Honolulu Office goals:

- The number of group meetings: held 785, exceeded goal by 155.
- The number of one-on-one meetings: held 7,178, exceeded goal by 178.
- The number of enrollments: 1,104 which exceeded their goal of 745.
- The number of Goalmaker users: 1,203 which resulted in increase to the asset allocation targets.
- The number of rollovers-in: \$7.4 million out of \$9 million were attributed to the Honolulu Office efforts.

c. Staff Administrative Report to the Board

Ms. Akiyoshi reported on:

- The highlights of the ongoing various administrative oversight that is being monitored and addressed, including the review of the Vacation Pay Deferral Program instructions and forms; working with ERS on a review of the rollovers to the Plan; review of the other forms and processes within the Plan; and the closure of a prior mutual fund account within the Plan that held a minimal residual balance upon closing of the fund.
- The RFP for Investment Consulting Services that was issued on December 22, 2014, and coordinating ongoing discussions and meetings.
- The Plan audit that was initiated by the former TPA, ING (now Voya). The audit was completed and reported at the November 7, 2014 meeting.
- The Benefits Fairs for October 2014 that were held in Kona and in Hilo. The Fairs were well attended.
- Preliminary discussions and planning are underway for the Spring 2015 Fair and Semi-Annual meeting.
- The execution of the contract for the Small Cap Growth Equity option is still pending review.
- Coordination of follow-up meetings to monitor the performance of the PIMCO Total Return Fund and to evaluate PIMCO's assets under management since the departure of its co-founder and CIO.
- Monitoring of the activities related to the Plan's investment fund managers, including the reports from INVESCO that communicates the new crediting rate of 3.02% effective January 1, 2015; and the portfolio characteristics showing the current contract provider ratings which remained unchanged over the last four (4) months and the current market-to-book value ratios.
- The ongoing activities within the PTS Plan including the new proposal obtained to conduct an audit of the Plan, and recent preliminary discussions held with the County of Kauai to join the Plan.

d. PTS Plan

Ms. Akiyoshi reported the following:

i. New Crediting Rate Effective January 1, 2015

The new crediting rate is 2.88%.

ii. Approval of the Report on Funds Not Deposited in the State/County Treasuries for the Period Ending September 30, 2014

**A motion was made by Trustee Villabrille and seconded by Trustee Moto to approve the Report on Funds for the period**

**ending September 30, 2014 for the PTS Plan. The motion passed unanimously.**

- iii. Quarterly Management Report for the Period Ending September 30, 2014

Acting Chairperson Okumoto asked for any comments on the quarterly report; otherwise, the report is presented for information only.

- iv. LSW's Annual Letter on the Reimbursable Amount Available in the PTS Plan Expense Account

Ms. Akiyoshi stated that LSW provides an annual report on the reimbursable amount that is being set aside for Plan expenses. The amount collected from the prior calendar year has been carried over and added to make the new balance that is available for 2015 in the amount of \$22,974.38. The report is for information only.

Agenda  
Item # 4:

New Business for PTS Plan:

- a. Action on Conducting a Plan Audit for the PTS Plan

Ms. Akiyoshi reported that the last audit of the Plan occurred for the period July 1, 2009 to June 30, 2010. The audit was completed in 2010. The contract requires that an audit would be done every three (3) years. A request was made to LSW to obtain a cost proposal which is presented for the Board's approval. Ms. Akiyoshi proposed that the audit be conducted for the Plan year covering January 1, 2014 to December 31, 2014.

**A motion was made by Trustee Moto and seconded by Trustee Villabrille to accept the cost proposal submitted by LSW and to conduct the Plan audit for the Plan Year period January 1, 2014 to December 31, 2014, by Traveller & Company. The motion passed unanimously.**

- b. Action on Request from the County of Kauai to Participate in the PTS Plan

Ms. Akiyoshi stated that Trustee Villabrille who represents the County of Kauai inquired about the County joining the PTS Plan. Preliminary discussions were had and information was shared with the County of Kauai. Trustee Villabrille stated that their Human Resources Department is conducting a study on the benefits of participating in the Plan and have



been inquiring to get a better understanding of the Plan. Discussions are in the initial stages and the interest is strong.

Agenda

Item # 5: Status Report on Request for Proposals for Investment Consultant Services, RFP No. DCP-FY-14-2 (in Executive Session Pursuant to HRS sections 92-5, 103D-105, and 103D-303):

Acting Chairperson Okumoto stated that the discussion on this agenda item will be held in closed session since it relates to Procurement.

**A motion was made by Trustee Margol and seconded by Trustee Villabrille to move into Executive Session at 10:37 a.m. to discuss procurement for RFP No. DCP-FY-14-2. The motion passed unanimously.**

All guests were excused. Acting Chairperson Okumoto called for a 5-minute break; the meeting resumed at 10:43 a.m.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Margol and seconded by Trustee Machida to move out of Executive Session at 11:12 a.m. The motion passed unanimously.**

Prudential representatives rejoined the meeting.

Agenda

Item # 6: Old Business/Announcements

a. Board Elections for Chairperson

Acting Chairperson Okumoto restated that Chairperson Chu is currently out on medical leave, and his return is not known at this time. Elections of a Chairperson and Vice-Chairperson are being considered. The Board expressed an agreement that in the interim, nominations for an interim Chairperson and Vice-Chairperson should be considered.

Acting Chairperson Okumoto opened the floor for nominations for both positions.

**A motion was made by Trustee Machida and seconded by Trustee Moto to nominate Trustee Okumoto to serve as the Interim Chairperson, and Trustee Nishimoto to serve as Interim Vice-Chairperson.**

The Board concurred that the Board and Plan related documents that need to be signed and executed will be done by Vice-Chairperson Nishimoto since Acting Chairperson Okumoto works on the Big Island.

**The motion passed unanimously.**

b. 2015 Legislation

Ms. Akiyoshi provided a summary of the legislation that is going through this year and is being monitored for now. Bills that were identified were related to open meetings and Board vacancies.

c. Scheduling of Meetings for 2015

Ms. Akiyoshi noted that some upcoming meetings were scheduled and confirmed; of note is the next scheduled meeting on March 2, 2015 and the other meeting is the Semi-annual meeting planned for May 20, 2015. Arrangements for the other meetings are in progress.

Acting Chairperson Okumoto adjourned the meeting at 11:25 a.m.

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