

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

**OPEN SESSION MINUTES  
MEETING # 390**

Date: March 2, 2015

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

Present: James Nishimoto, Ex-Officio Member  
Wesley Machida, Ex-Officio Member  
Kanoë Margol, Employee Member  
Michael Okumoto, Employee Member  
Brian Moto, Employee Member  
Kenneth Villabrille, 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, Prudential Retirement  
Kevin Malmud, Jeanne Kanai, Grace Baracao, Tom Kalili, Kapena Kim,  
Peter Eddy, Al Lee, Prudential Honolulu Office  
Carol Blumenthal, Deb Baran, Prudential Retirement - via conference call  
Michael Chandra, Taylor Alan-Lee, PIMCO – via conference call

Absent: Wayne Chu, Chairperson

Call to Order: There being a quorum present, Interim Chairperson Michael Okumoto called the meeting to order at 9:05 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.

Interim Chairperson Okumoto opened today's meeting in the absence of Chairperson Chu. The Prudential Retirement team in attendance and the attendees via the conference line introduced themselves.

Agenda

Item # 1:      New Business

a.      Approval of Minutes No. 389

Ms. Akiyoshi reported that the draft of Minutes No. 389 is under final review, and asked that action for approval be deferred to the next meeting.

b.      Review and Approval of Mercer's Proposed 2015 Annual Reallocations for the Lifecycle Portfolios

Mr. Williams explained that the Lifecycle Portfolios are reviewed annually and the reallocations are based on the current capital market assumptions, and that the Lifecycle Portfolios are constructed as "through design" in the glide path. Further, he explained the differences and changes in the allocations between 2014 and 2015; there was a slight reduction to the J.P. Morgan Diversified Real Return fund for the long-dated funds and reallocations back to fixed income. The result is modest changes to the proposed 2015 reallocations.

**A motion was made by Trustee Moto and seconded by Trustee Margol to approve the proposed reallocations for the Lifecycle Portfolios for 2015. The motion passed unanimously.**

Interim Chairperson Okumoto asked Prudential to do the reallocations in April or as soon as administratively feasible.

Agenda

Item # 2:      Ongoing Business:

a.      Update and Evaluation to Determine Any Further Action on the PIMCO Total Return Bond Fund

Mike Chandra, from PIMCO, provided an update on the Fund's performance at the close of January 2015, and noted that the Total Return Fund regained the 5-Star rating by Morningstar. There were no changes in the direct team of portfolio managers in the Fund.

In response to Mr. Saharic's question on the departure of Paul McCulley, Mr. Chandra commented that Mr. McCulley returned to PIMCO in 2014, after his earlier departure in 2010. Mr. McCulley's return in 2014 was on a limited role basis and did not have a direct role in the Fund.

The Board discussed the Fund's historical performance which was up

modestly for the 1-year, but had strong performance for the 3-year and 5-year periods. Mr. Williams provided additional comments after their meeting with lead members of the PIMCO team, and an overview of the performance since the departure of Bill Gross.

**A motion was made by Trustee Machida and seconded by Trustee Margol to keep the Total Return Fund on the watch list, continue to monitor the Fund; but not to initiate a search to replace the Fund at this time. The motion passed with 5 “Yes” votes and 1 “Nay” vote by Trustee Moto in objection.**

b. Performance Evaluation Report by Mercer for the 4<sup>th</sup> Quarter 2014, Period Ending December 31, 2014

Mr. Williams provided an overview of the market environment within the U.S. and abroad during the 4<sup>th</sup> Quarter of 2014, including the overall performance of U.S. and international equities; expectations by the Federal Reserve; an overview of the organizational changes that occurred during the period; and a summary review of the assets in the Plan. Mr. Williams pointed out that although the assets decreased about 2% in the Stable Value Fund, the Fund still holds the majority of the Plan’s assets at 42.9%. The average net fund fees are at 0.31%.

The Board discussed the performance of the MainStay Large Cap Growth Fund and the Harbor Small Cap Value Fund that remain on the watch list, based on Mercer’s recommendations that these Funds be removed from the watch list as they are no longer failing to meet the performance standards in the Investment Policy.

**A motion was made by Trustee Moto and seconded by Trustee Machida to remove the Harbor Small Cap Value Fund from the watch list. The motion passed unanimously.**

Mr. Williams continued the review of the performance of the Lifecycle Portfolios and the individual core funds.

c. Plan Administrator’s Report

i. Plan Highlights

Ms. Klassen summarized some highlights:

- Plan Assets:  
Plan assets exceeded the \$2 Billion level during February 2015.
- Schroder Share Class Change:

Prudential is working with Schroders to move the Schroder Emerging Market Equity Fund to the R6 share class and to be effective and available on March 13, 2015. The rebalancing changes within the Lifecycle Portfolios that were just approved by the Board will be done in April 2015.

- Net Settlement Check from Century:  
The check received from Century to distribute a pro-rata share of a Net Settlement in the Verifone Holdings securities litigation is in process.
- Vacation Payout Deferral Program:  
Ms. Klassen reported and discussed with the Board some deferral issues that arose within a department. In reviewing the event that took place with these issue, Prudential implemented some quality control measures to resolve and prevent future problems from reoccurring. Ms. Klassen noted that there were 417 vacation payout requests processed in 2014, and all these actions require a manual interface with Prudential's system. Ms. Klassen reported that there were few issues since the quality control measures were put into place.
- May 2015 Benefits Fair:  
Ms. Klassen stated that the planning for the Fair is in progress with the date and location still to be determined. A retiree packet is being developed to improve Prudential's asset retention efforts. The packet will include a booklet and checklist.
- Administrative Projects:  
Prudential is working with Board's staff on some administrative projects.
- New TPA Contract Announcement:  
Ms. Klassen announced that Prudential was awarded the TPA contract with the State of Connecticut.

d. Staff Administrative Report to the Board

Ms. Akiyoshi noted that the various administrative projects have been temporarily on hold until the major portion of the procurement project is completed. Highlights of the other activities with the TPA, the Consultant, and monitoring activities were presented.

Agenda

Item # 3:

Ongoing Business for PTS Plan:

- a. Update on Conducting a Plan Audit for the PTS Plan  
Ms. Akiyoshi reported that LSW engaged Traveller & Company to conduct the audit. Preparations to gather the requested information and to

arrange for on-site meetings in late March/early April are underway with the auditor.

Interim Chairperson Okumoto called a short break at 10:33 a.m. The meeting resumed at 10:40 a.m.

Interim Chairperson Okumoto stated that the next agenda items will be discussed in Executive Session since these are subject to procurement.

**A motion was made by Trustee Nishimoto and seconded by Trustee Machida to move into Executive Session at 10:40 a.m. to confer with legal counsel and to discuss procurement for RFP Nos. DCP-FY-14-1 and DCP-FY-14-2. The motion passed unanimously.**

All guests were excused.

#### EXECUTIVE SESSION

##### Agenda

Item # 4: Status Report on Contract Award for RFP No. DCP-FY-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):

##### 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):

##### Meeting

Reconvened: **A motion was made by Trustee Machida and seconded by Trustee Villabrille to move out of Executive Session at 11:15 a.m. The motion passed unanimously.**

##### Agenda

Item # 6: Other Business/Announcements

a. 2015 Legislation Updates

Ms. Akiyoshi provided updates on the progress of the legislative bills discussed at the February 2, 2015 Board meeting.

b. Filling of Board Vacancies

Ms. Akiyoshi reported that there will be a vacancy on the Board as one of Trustee's term will expire on June 30, 2015, and described the process that

was relayed by the Boards and Commissions for persons who are interested in serving on the Board to follow.

**A motion was made by Trustee Machida and seconded by Trustee Margol to adjourn the meeting at 11:25 a.m. The motion passed unanimously.**

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