

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

**OPEN SESSION MINUTES  
MEETING # 394**

Date: May 4, 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  
Michael Okumoto, Employee Member  
Brian Moto, Employee Member  
Kenneth Villabrille, Employee Member

Others: Rodney J. Tam, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Jeanne Kanai, Grace Baracao, Prudential Honolulu Office  
Julie Klassen, Carol Blumenthal, Deb Baran, Prudential Retirement - via  
conference call  
David Williams, Mercer Investment Consulting – via conference call

Absent: Wayne Chu, Chairperson  
Kanoë Margol, Employee Member

Call to Order: There being a quorum present, Interim Chairperson Michael Okumoto called the meeting to order at 9:04 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 the meeting in the absence of Chairperson Chu.

Agenda

Item # 1: Ongoing Business:

- a. Performance Evaluation Report by Mercer for the 1<sup>st</sup> Quarter 2015, Period Ending March 31, 2015, including but not limited to:

- i. Performance Overview on Funds Currently on the Watch List:  
Century SMID Growth Fund, MainStay Large Cap, and PIMCO  
Total Return Fund

Mr. Williams provided an overview of the capital market environment, noting some highlights:

- Growth outperformed value; and the small cap stocks outperformed large cap stocks in the U.S.
- Saw falling interest rates in the U.S., so longer duration bonds outperformed shorter duration bonds.
- The dollar continued to appreciate; this was a contributor to the disappointing 1<sup>st</sup> quarter performance results.
- Oil reforms will drive GDP activity for the year.
- Target date funds benefited from the valuations on U.S. growth on a year to date basis.

Mr. Williams reviewed and discussed the Plan's tier structure and noted that the current structure continues to cover the majority of asset classes. He presented updates on the PIMCO Total Return Fund strategy since the departure of Bill Gross and the total asset outflows since September 2014. No major changes in personnel reported since February 2015, aside for the addition of Ben Bernanke as an advisor; however, they do not anticipate that he will have a material impact on their investment management strategies. Mercer is continuing to monitor PIMCO and will watch PIMCO over the next six (6) months or so.

Other news items, Mercer met with Winslow portfolio manager, Justin Kelly, and have high regards for him; Mercer continues to recommend the fund. Century announced a change in their ownership structure, but this will not impact the investment management team. And MFS' performance has been excellent, and they announced they will close that strategy to new investors which will preserve the strategy for Plan participants.

Mr. Williams reported that the Plan's total assets have reached \$2 billion, mainly due to the positive equity market, and also reviewed the performance of the core investment funds.

Trustee Moto pointed out that PIMCO has had negative outflows from the fund for a couple of years (since 2013), and asked whether there have been other similar situations, and wanted to confirm that there has not been any other management changes recently. Mr. Williams stated that the PIMCO's abrupt departure situation has been unique and there haven't been any other reports in recent months on management changes since

February 2015. In response to Trustee Nishimoto's question on what will happen with PIMCO's transition and stabilization in the near future, Mr. Williams stated that PIMCO is not Mercer's highest rated strategy, and the primary concern was the departure and the pressure on the team's ability to manage the fund. Going forward, the bench team continues to be strong, and PIMCO will need to go through a period of stabilization and they will see some negative cash flows although the level of cash flows has diminished. Other institutional investors who still maintain PIMCO are continuing to monitor the fund for organizational stability.

Mr. Williams recommended that the Board to place the Victory Institutional Diversified Stock Fund on the watch list due to the level of the underperformance of the fund within the last 12 to 18 months. The fund is not in compliance with the standards of the Investment Policy Statement. Mercer also recommends that the MainStay Large Cap Growth Fund continue to remain on the watch list.

**A motion was made by Trustee Machida and seconded by Trustee Moto to accept Mercer's recommendation to place the Victory Institutional Diversified Stock Fund on the watch list. The motion passed unanimously.**

Mr. Williams continued with the overview of the investment funds' performance:

- The LifeCycle portfolios had a good quarter relative to their respective benchmarks.
- The Stable Value fund did well; good returns for the First Quarter 2015 by Jennison and Invesco.
- PIMCO fund had a good quarter.
- Large cap U.S. equities had a good performance relative to the S&P 500.
- International funds did well in the First Quarter 2015.
- Index funds have tracked the benchmark; there are no areas of concerns.
- JP Morgan Diversified strategy was slightly behind its benchmark.
- Vanguard Wellington was slightly behind its benchmark; long term performance is favorable.
- Wellington Research strategy had a good First Quarter 2015 and outperformed its benchmark.
- Victory fund had underweight to momentum driven stocks and as a result the fund's performance has dragged.
- MainStay Large Cap Growth fund slightly behind its benchmark, but their processes are good; no recommendations for change and

recommend keeping the fund on the watch list.

- Harbor Small Cap Value fund had a good quarter.
- Century Small Cap Growth fund outperformed for the quarter.
- MFS International fund had a good quarter; is at the top of the universe for 1 year and longer; and has a solid performance.
- American Funds (EuroPacific Growth Fund) had a good quarter relative to its benchmark and peer group.
- Schroder fund is behind its benchmark but ahead of its peer group.

b. Plan Administrator's Report

Ms. Klassen provided some brief highlights and comments on the Plan:

- Announced that Ms. Grace Baracao, Honolulu Office Manager, was awarded the 2015 Administrative Excellence Award out of all employees in the Prudential national organization.
- Operational calls have been held on the transition of the Century SMID fund to the William Blair SMID fund within the core fund line-up, LifeCycle portfolios, Goalmaker asset allocation, and the managed accounts; target date for the transition will be at the end of June or early July 2015, and will include a 30-day participant notice.
- Plan assets have reached over \$2 billion; total number of participants is over 27,000; and over 15,000 active participant deferrals. Prudential is closely monitoring asset retention levels, as this is a primary concern seen among many plans.
- Reported that she has participated in some of the NAGDCA Industry Roundtable activities such as on the rules related to lifetime income. Noted that NAGDCA Board is looking at an RFI for benchmarking services. Often comparative data doesn't work because most comparisons are between government and corporate plans. Reported on other developments and presentations by legislative staff regarding tax reforms and lifetime income, and the possible movement toward removing the exemption of the 10% early withdrawal penalty from other qualified plans and talk of consolidation of plans.

c. Staff Administrative Report

Ms. Akiyoshi provided a summary and overview of the ongoing administrative activities, including oversight of the TPAs' program processes of which some are status quo due to other priorities; working on a memo to DLIR to seek reimbursement involving the participant issue that resulted in a loss to the participant which Prudential advanced to make the participant whole. Other Plan activities that are being worked on include the RFP for Investment Consulting services; planning and preparation for the 2015 Spring Benefits Fair and Semi-Annual meeting;

continuing to work on the preparation of the Plan asset reports; finalizing the execution of the contract for the Small-Mid Cap Growth fund and discussions on the transition to the new fund; coordination with PIMCO to provide updates at the Semi-Annual meeting; monitoring and reviewing of the INVESCO wrap providers' ratings, specifically VOYA which moved one level upward from the past few months and is seen as a positive change; meeting with one investment manager, Lord Abbett, to provide updates on the Plan; continuing review of the PTS Plan monthly distribution reports for March and April 2015; and have been assisting Traveller & Co. with the scheduling of their on-site visits at various agencies which have been completed and are now working to prepare their report.

d. PTS Plan

i. New Crediting Rate Effective April 1, 2015

Ms. Akiyoshi reported that LSW announced the new crediting rate effective April 1, 2015 which is 2.89%, up from 2.88%.

ii. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending December 31, 2014

iii. Quarterly Management Report for Period Ending December 31, 2014 and Annual Management Report for the Calendar Year Ending December 31, 2014

Ms. Akiyoshi presented the Report on Funds for the PTS Plan for the period ending December 31, 2014, for the Board's review and action, along with the Quarterly Management Report for the period ending December 31, 2014 and the Annual Management Report for the Calendar Year ending December 31, 2014.

**A motion was made by Trustee Machida and seconded by Trustee Moto to accept the PTS Plan's Report on Funds Not Deposited in the State/County Treasuries for the period ending December 31, 2014. The motion passed unanimously.**

iv. Status on Plan Audit for the PTS Plan for Plan Year 2014

Ms. Akiyoshi stated that the completion of the audit report by Traveller & Co. is progressing and completion of the report is anticipated within the next couple of months. There were no significant discoverable findings identified. The cost of the audit, estimated at about \$14,000, will be covered by LSW under its

current contract. Ms. Akiyoshi additionally stated that Mr. Carl Lutz retired in mid-April 2015, and that the leadership has been turned over to Mr. Ata Azarshahi.

Interim Chairperson Okumoto asked to move and take Agenda Item # 3 out of sequence. There were no objections.

Agenda  
Item # 3:

Other Business/Announcements

a. Status of 2015 Legislation

Ms. Akiyoshi indicated that S.B. No. 475 is being monitored as it moved to conference committee last week; GM to fill the vacancy on the Board which was confirmed by the Senate and the appointment will be effective July 1, 2015. The new Board member will be Roderick Becker who is the current deputy director of B&F.

b. 2015 NAGDCA Annual Conference

Ms. Akiyoshi stated that information has been distributed on the upcoming 2015 NAGDCA conference which will held on September 27 to 30, 2015, in Indianapolis, Indiana. If any Trustees are interested in attending, to please let her know. Trustees Okumoto and Moto indicated that they would be interested in attending.

Interim Chairperson Okumoto stated that in the past staff has been allowed to attend the conference to take advantage of the education and networking benefits the conference provides. There were no objections on authorizing the Board's staff to attend the conference.

**A motion was made by Trustee Villabrille and seconded by Trustee Moto to allow the Board's staff to additionally attend this year's NAGDCA conference. The motion passed unanimously.**

Interim Chairperson Okumoto called for a short break at 9:58 a.m. The meeting resumed at 10:02 a.m.

Agenda  
Item # 2:

New Business for PTS Plan

a. Action on Request from the County of Kauai to Join the PTS Plan

Ms. Akiyoshi reported that a written request has been from the County of Kauai to join the State PTS Plan. The State would need to enter into an

agreement with the County of Kauai, and DHRD would determine whether any applicable fees would be imposed to participate in the Plan. Staff may need to meet with the county staff to understand how their personnel and payroll processes work in order to assist in the development of the interfaces between the county and the TPA. The language in the Administrative Rules, the Plan Document, and the Plan booklet also needs to be amended to include references to the counties.

Trustee Villabrille explained the intent of the County of Kauai in pursuing the initiative of joining the Plan.

The Board discussed the roles and requirements of the Board's staff and the county staff, whether the set-up and administration of the operations could be between the county staff and the TPA, and whether a designated program coordinator within the county would develop the necessary program infrastructure. Trustee Nishimoto raised discussions to clarify the roles and services of the Board's staff and the staff responsibilities within DHRD; and determine whether other DHRD staff would need to become involved.

**A motion was made by Trustee Machida and seconded by Trustee Nishimoto to approve the request from the County of Kauai and allow the County of Kauai join the PTS Plan, subject to negotiations between the County of Kauai and the Board.**

The Board discussed the types of appointments who would be eligible, the benefits of these hires when participating in the PTS Plan versus in social security, and benefits that the Employer has in not having to match the social security contributions. Trustee Machida stated that the only issue for the Board is that the Board will now be liable and responsible to make the decisions for and on the behalf of the County participants as well.

**The motion passed unanimously.**

There being no other business, Interim Chairperson Okumoto adjourned the meeting at 10:18 a.m.

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