

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

**OPEN SESSION MINUTES
MEETING # 396**

Date: September 2, 2015

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

Present: Michael Okumoto, Employee Member
Roderick Becker, Employee Member
Brian Moto, Employee Member
Kenneth Villabrille, Employee Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Kevin Malmud, Jeanne Kanai, Grace Baracao, Prudential Honolulu Office
Julie Klassen, Prudential Retirement
Glenn Ezard, Segal Rogerscasey
Carol Blumenthal, Prudential Retirement; Wendy Young Carter, Segal
Rogerscasey - via conference call

Absent: James Nishimoto, Ex-Officio Member
Wesley Machida, Ex-Officio Member
Kanoë Margol, Employee Member

Call to Order: There being a quorum present, Interim Chairperson Michael Okumoto called the meeting to order at 9:08 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 with introductions of Board members, staff, and guests in attendance, followed by attendees participating via conference line.

Before starting with the agenda items, Interim Chairperson Okumoto made an announcement on DHRD's emergency evacuation procedures for the State Office Tower building in the event of an evacuation emergency during the public meeting.

Agenda

Item # 1: Welcome and Introductions of Incoming Board Trustee and the New Investment Consultant:

Interim Chairperson Okumoto announced that former Chairperson Wayne Chu's term expired on the June 30, 2015, and welcomed Roderick Becker to the Board. Trustee Becker was appointed to fill the vacancy effective July 1, 2015. A lei was presented. Trustee Becker introduced himself and provided his background.

Interim Chairperson Okumoto introduced the Plan's new Investment Consultant, Glenn Ezard from Segal Rogerscasey and Wendy Young Carter (via conference line). Segal Rogerscasey was awarded the new contract and replaces Mercer Investment Consulting, effective July 1, 2015. A lei was presented. Mr. Ezard and Ms. Carter introduced themselves and provided their backgrounds.

Agenda

Item # 2: New Business

a. Approval of Minutes Nos. 393, 394, and 395

Interim Chairperson Okumoto stated that the open session Minutes Nos. 393, 394, and 395 are presented for the Board's action, along with the Executive Session Minutes No. 393-ES.

A motion was made by Trustee Villabrille and seconded by Trustee Moto to approve Minutes Nos. 393, 393-ES, 394, and 395. The motion passed unanimously.

b. Investment Fund Update Regarding the Wellington Research Value Portfolio

Ms. Akiyoshi informed the Board that Wellington Management Company notified her that the Wellington Research Value Fund had a share split that occurred within the Collective Trust in July 2015. The effect of the stock split may see the number of shares increase but there were no changes in the valuation. There would not be an impact to participants (e.g., no noticeable changes for their holdings or on the statements); therefore, no notices were generated to participants.

c. Report on the Funds on Watch List by Segal Rogerscasey

Mr. Ezard reported on the funds that are on the watch list and concurs with Mercer's recommendations in their June 30, 2015 report to keep the three (3) funds on the watch list:

- For the MainStay Large Cap Growth Fund, performance was slightly weak on June 30, 2015 so he recommends keeping the Fund on the watch list; the organization remains stable and no issues.
 - Since the start of the Third Quarter 2015, performance is doing better.
 - The risk adjusted return for this strategy is slightly weaker than its peers (more volatile).

- PIMCO's organization has some instability, so the concern remains. As described in Mercer's report, PIMCO did receive a Wells Notice by the SEC with findings of material concerns related to the BOND fund activities. PIMCO is responding to the SEC.
 - There is no direct impact to the Plan and participants but the effects are related to the company's operations.
 - PIMCO's performance is holding up and has a deep bench; will monitor the next several weeks while the investigation progresses; maintains a concern that management will be distracted.

Trustee Moto asked about PIMCO's outflows and the assets in the Fund are shrinking. Mr. Ezard noted that the cash outflows are still continuing, but the volume is moderate. The latest incident may cause further outflows but not significantly as most of the large institutional investors have already got out of the Fund. The remaining investors are more on the retail side. He will keep a close eye on their situation and their response to the SEC.

- For the Victory Diversified Institutional, the organization remains stable and he has no real concerns; performance has improved steadily.
 - The risk adjusted return has been lower than its peers.
 - Their strategy tends to be a bit more concentrated, so own fewer positions; the top ten holdings represents 30-40% of the total portfolio.

Agenda

Item # 3: Ongoing Business

- a. Performance Evaluation Report as prepared by Mercer for the 2nd Quarter 2015, Period Ending June 30, 2015

Ms. Akiyoshi reviewed the 2nd Quarter 2015 performance evaluation

report as prepared by Mercer, and highlighted the following points:

- At June 30, 2015, the Plan's assets totaled a little more than 2 billion which saw an increase of \$1.9 million since March 31, 2015
- The Stable Value Fund still retains the majority of the assets at 42.4% of the Plan's assets.
- New allocations for the Lifecycle portfolios were approved at the March 2, 2015 Board meeting; the allocations were done on April 15, 2015 by Prudential.
- On June 30, 2015, the Century SMID Growth Fund was replaced by the William Blair Small Mid Cap Growth Equity fund; and Mercer assisted with the transition.
- The investment expense analysis is illustrated for each of the investment funds; the average fund expense ratio is at .34% (or 34 basis points).
- The new allocations for the Lifecycle portfolios for 2015 are presented in the report.

b. Plan Administrator's Report

i. Executive Summary for the Plan Year Ending June 30, 2015

Ms. Klassen reported and provided a summary overview of the Plan as of June 30, 2015:

- Plan assets totaled \$2,011,246,522 with a total of 27,552 participants and 16,743 active participants through June 30, 2015. Based on the total number of active participants, the participation rate for the Plan is at 29%, up from 26% at end of June 30, 2014, due to the great efforts of the Honolulu Office team and the communication efforts under Ms. Deborah Baran.
- The William Blair Small Mid Cap Growth Fund was added on June 30, 2015 which affected the Lifecycle, GoalMaker, and Managed Accounts, besides the core funds.
- The Plan is receiving the 2015 NAGDCA Leadership Award for the National Save For Retirement Week campaign held during October 2014. The Plan is receiving the award two (2) years in a row under Prudential Retirement. The national Resolution focuses on awareness and an emphasis on accumulation and lifetime income. The Benefits Fair has had a great impact on the campaign.
- Asset Retention Initiatives pursued include a Pre-Retirement kit that has now been made available. Ms. Klassen raised the possibility of coordinating with ERS on other awareness efforts

such as articles on deferred compensation in their newsletters, and possibly leverage more efforts. Ms. Akiyoshi noted that articles on the 457 Plan and the PTS Plan were included in the past June 30, 2015 newsletter.

- Highlights on Plan include:
 - The amount of rollovers out to broker dealers from the Plan amount to about \$55 million.
 - Over eighty (80) percent of Plan assets are with the 50+ age group.
 - The amount monies in the Stable Value assets are 42.4% of the total Plan assets.
 - Breakdown of the Plan's financials by sub-plans were reviewed.

Mr. Malmud provided an overview of the Local Office activities:

- The local office team is meeting the benchmarks. One positive tool has been through the use of the Take Action cards in the field.
- The team has seen an increase in the asset allocation tools by Plan participants.
- Some of the accomplishments included progress in the outreach efforts: (1) the lowest participation rate is within the DOE. The local office team is taking some opportunities to do more outreach within the DOE, in particular with DOE's OHR through Barbara Krieg. Prudential is creating a video for use within DOE to increase participation and awareness among the new hires; (2) outreach efforts within the University of Hawaii through special events on campuses. Trustee Nishimoto and Prudential met with Jan Gouveia at the University. The local office has plans to continue holding events at the University of Hawaii; and (3) Prudential has held meetings with HGEA union stewards to increase collaborative opportunities.

c. Staff Administrative Report

Ms. Akiyoshi provided a summary and overview of the ongoing administrative activities, including oversight of the TPAs' program processes that relate to the Vacation Pay Deferral Program, handling of beneficiary claims and payouts, and the handling of Power of Attorney requests. Regarding the status of the vacation payout deferral issues within one of the departments, a memo to DLIR was prepared to seek reimbursement that resulted in a loss to a participant. No response has been received from DLIR yet. Ms. Akiyoshi reported on the status of the planning and preparation for the 2015 Spring Benefits Fair and Semi-

Annual meeting; the preparation of the Plan asset reports; the transition for the Small-Mid Cap Growth fund and discussions on the transition to the new fund; the execution of the new consultant service contract. In addition, Ms. Akiyoshi provided updates on the monitoring of the INVESCO wrap providers' ratings; PIMCO's announcements and performance as of May 31 and June 30, 2015; the review of the PTS Plan monthly distribution reports for May, June, July and August 2015; and the completion of the PTS Plan audit report.

DAG Tam provided an update on the County of Kauai's request to join the PTS Plan. He shared a draft of the Memorandum of Understanding that would be between the State and the County of Kauai, and asked if Board members could email him with any comments.

Agenda

Item # 4: Approval of Plan Audit Report for the PTS Plan for Plan Year 2014

Ms. Akiyoshi reported that the independent the audit report prepared by Traveller & Co. has been completed. There were no significant discoverable findings identified. Ms. Akiyoshi noted that there was one compliance finding which was also noted in the past audit report. Currently, the Charter School employees are not being enrolled in the PTS Plan. It is recommended that the Board review whether the Charter School employees are considered State employees and whether Charter School employees should be enrolled in the Plan. Legal counsel will look at Charter School employees' eligibility status again.

A motion was made by Trustee Villabrille and seconded by Trustee Moto to accept the audit report for the PTS Plan for the Plan Year 2014. The motion passed unanimously.

Agenda

Item # 5: Ongoing Business for PTS Plan

a. New Crediting Rate Effective July 1, 2015

Ms. Akiyoshi reported that LSW announced the new crediting rate effective July 1, 2015 at 2.88%, down from 2.89% during the 2nd Quarter 2015.

b. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending March 31, 2015

c. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending June 30, 2015

- d. Quarterly Management Report for the Period Ending March 31, 2015
- e. Quarterly Management Report for the Period Ending June 30, 2015

Ms. Akiyoshi reported that the Reports on Funds for the periods ending March 31, 2015 and June 30, 2015 have been reviewed and are presented for the Board's action, along with the corresponding Quarterly Management Reports for Periods Ending March 31, 2015 and June 30, 2015.

A motion was made by Trustee Moto and seconded by Trustee Becker to accept both of the PTS Plan's Reports on Funds Not Deposited in the State/County Treasuries for the periods ending March 31, 2015 and June 30, 2015. The motion passed unanimously.

- f. Status of County of Kauai's Request to Join the PTS Plan

Agenda item discussed under item 3.c., Staff Administrative Report.

Agenda
Item # 6:

Other Business/Announcements

- a. Resolution for Former Board Chairperson

Interim Chairperson Okumoto announced that a resolution was planned to be presented at today's meeting for former Trustee Wayne Chu; however, we have just been informed of his unfortunate passing early this week. In light of this news, the Board agreed to have the resolution adopted and presented to his family at an appropriate time. The Board members shared fond remembrances of former Trustee Chu, and noted that he was the Plan's "Mr. Aloha" and would be greatly missed. The Board members had a moment of silence for former Trustee Chu.

- b. 2015 NAGDCA Annual Conference

Ms. Akiyoshi stated that there will be three (3) Trustees and two (2) staff members who will be attending this year's conference, and will be present to accept the 2015 NAGDCA Leadership Awards.

Ms. Akiyoshi provided reminders on the upcoming scheduled events, and briefly reviewed the other additional handouts that were distributed for information.

There being no other business, Interim Chairperson Okumoto adjourned the meeting at 10:43 a.m.

State of Hawaii Island Savings Plan
Minutes # 396
September 2, 2015
Page 8

(NOTE: Signed copy on file.)