

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

**OPEN SESSION MINUTES  
MEETING # 409**

Date: February 6, 2017

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

Present: Brian Moto, Chairperson  
James Nishimoto, Ex-Officio Member  
Wesley Machida, Ex-Officio Member  
Roderick Becker, Employee Member  
Kanoë Margol, Employee Member  
Kenneth Villabrille, Employee Member  
Kalei Rapoza, Employee Member

Others: Rodney J. Tam, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Glenn Ezard, Segal Marco Advisors  
Kevin Malmud, Plan Administrator Staff (Prudential)/Honolulu Office  
Grace Baracao, Plan Administrator Staff (Prudential)/Honolulu Office  
Jeanne Kanai, Plan Administrator Staff (Prudential)/Honolulu Office  
Julie Klassen and Carol Blumenthal, Prudential Retirement  
Deborah Baran, Prudential Retirement – via conference call

Call to Order: There being a quorum present, Chairperson Brian Moto called the meeting to order at 9:03 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.

Chairperson Moto welcomed everyone and noted that all trustees were present. He stated that there were no guests in attendance from the public.

Agenda

Item # 1: New Business

a. Approval of Minutes No. 407

Chairperson Moto stated that Minutes No. 407 was distributed in advance for the Board's review and is ready for the Board's action. There were no comments to the draft minutes.

**A motion was made by Trustee Villabrille and seconded by Trustee Rapoza to accept Minutes No. 407, as presented. The motion passed unanimously.**

Agenda

Item # 2: Ongoing Business

Chairperson Moto moved to Agenda item #2.a.

- a. Investment Fund Updates by Segal Rogerscasey, including but not limited to:
- i. Overview of Funds Currently on the Watch List: MainStay Large Cap, Victory Institutional Diversified Stock Fund, and PIMCO Total Return Fund
  - ii. Other Fund Updates

Mr. Ezard announced that Segal Rogerscasey has acquired Marco Consulting Group, and is now operating as Segal Marco Advisors as of January 1, 2017. The legal name remains as Segal Advisors. He provided comments and a brief overview and summary of the Fourth Quarter 2016 and the current quarter, First Quarter 2017:

- The highlight of the Fourth Quarter was the elections which impacted the market which saw the markets trending downward and the bond market moving up.
- With the outcome of the elections, there was expectation that taxes will be reduced and regulations will lessen across the board. These two factors combine means more revenue and higher earnings for companies.
- Observations during the current quarter with President Trump are that we're seeing the market move side wards, and that if programs by President Trump are put through there may be an expectation that the Federal Reserve will raise the interest rate because of little fiscal stimulus occurring within the economy.
- For the Plan's investment funds:
  - PIMCO continues to underperform; the Board has taken action to replace the PIMCO fund.
  - For the Victory Fund, the RFP to replace the Fund has been issued and the proposal responses are pending.
  - For the MainStay Large Cap Growth Fund, the Fund has been underperforming but the performance has been bouncing; since

inception, the Fund is in the 18% quartile of large cap growth managers and over the median for the peer group; and long-term performance is still strong. He noted that it would be difficult to find fund managers in this space with long-term track records that could perform any better. Currently, the value managers have been performing better than the growth managers. The MainStay Fund will vary more from the benchmark and will have periods of time where the fund may not be performing as well. Segal will continue to monitor their selection process and is recommending to keep the Fund on the watch list.

Mr. Ezard provided remarks on active versus passive management, and a migration towards passive management. Because active managers are having a difficult time in outperforming the benchmark, it is a key reason that indexing in equities has done well.

- For the Stable Value Fund, the Fund has about 43% of the Plan's assets.
- The index funds continue to attract a good portion of the Plan's assets.
- The fees for the LifeCycle portfolios are not considered high but the fees could be lower; will plan to have more discussions on options for the LifeCycle portfolios.

b. Plan Administrator's Report

i. Plan Highlights

Ms. Klassen provided an overview of the Plan:

- The participation rate for the Plan is at 27%, which includes DOE and UH;
- The overall participation rate without DOE and UH is about 46%;
- Contributions into the Plan shows a positive flow compared to the outflow from Plan;
- There is an increase in usage of the asset allocation tools:
  - 6.4 % of assets are in GoalMaker which is up from 4.9% in assets during First Quarter 2016;
- Plan demographics: most Plan participants are in the older age segment; will be looking at gearing more effective communication to reach the Gen X and millennial population;
- Looking at some initiatives that will focus on improving financial wellness, such as an online dashboard with digital

content to understand their overall financial wellness (e.g., budgeting tools, aggregating finances, income stream analysis, etc.);

- Changes that are being discussed on Capitol Hill; and
- For the upcoming Fiduciary Rule for ERISA plans, Prudential plans to follow by ensuring communication materials make distinctions on education and versus advice, and clearly state that Prudential cannot give advice other than Managed by Morningstar. The rule also says to act in the best interest of participants, so counselors are making an effort to educate participants on the IRAs or services marketed by financial brokers which in general tend to have higher fees/prices. Participants are discovering that they want to change but are locked in once they roll out of the Plan into such offerings.

Ms. Klassen also reported that they are in contact with the new fund manager for the Active Fixed Income option to ensure a smooth transition, and are awaiting further directions.

She also reported on the discussions with Victory regarding the payment of the retroactive revenue sharing, and that Prudential received a verbal offer to pay one-half of the retroactive amount, which is around \$75,000. Prudential believes that accepting this settlement may be the best they can do for now, as it would be costly to litigate this further and cost more than what will be collected.

DAG Tam advised that the Board take action at a subsequent meeting as this item is not listed as an agenda item. For the next meeting, he recommended that Prudential obtain a settlement offer from Victory in writing, along with Prudential's recommendation since the agreement on revenue sharing is between Prudential and Victory.

Mr. Malmud provided Local Office highlights:

- Group meetings and one-on-one meetings are on track to exceed the stated contractual goals;
- There were 1,102 enrollments at the end of December 2016, and they are looking at ways to increase:
  - Challenges: (1) they do not have contact information for the non-participant population; (2) they are seeing a reduction in new hires, especially at the hospitals.
  - They are looking at creative ways to achieve an increase to the enrollments.



Prudential that result in gains or losses. For processing errors by the State, he suggested raising the threshold amount to \$250 from \$100 because it could be labor-intensive to pursue and seek recovery from the departments, which likely could be a high number. For error amounts that exceed \$250, the Board could pursue the responsible agency to ensure that participants are not harmed by the loss. The staff also recommends that the Board would reserve the right to evaluate the facts and circumstances to determine whether the Plan would fund the loss or not; and the other recommendation is to send a memo to State and county agencies to let them know about the changes to the Board's policy because we are relying on the payroll agents to make the correct entries and the recalled amount is affected because the amount is subject to fluctuations in the market.

The Board discussed the process to adjudicate any disagreements, and the authority to reverse a contribution once it has gone over to the Plan into participants' accounts.

The Board agreed to defer action on the proposed recommendations until further information is provided, based on comments from Board members. The Board discussed the past file transmission problems with the State and Maui County payrolls that resulted in the recovery of the loss amount that was incurred to participants' accounts. The Board commented that they would like Prudential to confirm that section 457 plans have the authority to reverse contributions that have already been deposited into the Plan, a validation process to verify the change and who the responsible party is for the corrections, and an advance draft communication to State and county offices to make them aware of the current situation involving processing errors that have occurred and the changes to the Board's policy. Prudential believes that this authority is either in the IRC, Treasury regulations, or Treasury notices, and is standard practice in the industry. Prudential agreed to provide this authority by the next Board meeting.

Chairperson Moto called for a short break at 11:13 a.m. The meeting resumed at 11:20 a.m.

c. Follow-up Report by Plan Website Redesign Subcommittee

Ms. Baran reported that a meeting via conference call was held with subcommittee members Kalei Rapoza and Ken Villabrille to discuss the updates to the custom Plan website and the draft website layout to make navigation easier. The images for the website, and the layout and content

were discussed and reviewed, to include initiatives that would best reach participants. The revisions are in progress, and there is a tentative plan to have a demonstration of the website link at the next Board meeting. The goal is to have a “soft” launch before the next Benefits Fair, and a rollout of the new website to coincide with the Benefits Fair.

- Homepage layout is designed for both desk top and mobile application site which will be optimized for mobile devices.
- Trustees Villabrille and Rapoza stated that they were focusing on portraying a younger generation and families to convey a message that would encourage and attract the younger generation to consider planning early, as well as having the images be strong on Hawaii.
- Ms. Baran confirmed that the variety of images does cover all of the islands.

Agenda

Item # 3: PTS Plan Ongoing Business

- Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending September 30, 2016
- Quarterly Management Report for the Period Ending September 30, 2016

Ms. Akiyoshi presented the Plan asset report for the PTS Plan for the period ending September 30, 2016.

**A motion was made by Trustee Machida and seconded by Trustee Nishimoto to accept the Report on Funds Not Deposited in the State/County Treasuries for the period ending September 30, 2016, as presented. The motion passed unanimously.**

- Effective Interest Rate Beginning January 1, 2017

Ms. Akiyoshi reported that the effective interest rate to be credited as of January 1, 2017 is 2.65%. This rate is up from the Fourth Quarter 2016 which was 2.60%.

- Status on County of Kauai’s Transition to the PTS Plan

Trustee Villabrille commented that Kauai County is waiting for the approval by the Governor’s Office on the amendments to the administrative rules to be adopted, and the revised rollout date is changed to May 2017. Ms. Akiyoshi reported that DHRD is working on the amendments to the administrative and the required compilation of the chapters subject to the new law.

DAG Tam added that the current PTS Plan rules are limited only to eligible State employees, and the Board entered into an agreement with the Kauai County, submitted rule amendments and received the Governor's approval in December; however, there is a new LRB rule that requires the rules to be compiled when making amendments after January 1, 2017. Since we are in the new year, we are subject to the new rule. DAG Tam researched some options and reviewed HRS sections 88F-2 and 88F-12, and determined that since Kauai County has entered into an agreement, the statutory requirements for participation by a County has been satisfied, and we could add Kauai County at this time. This would not preclude the completion of the amendment and compilation of the rules. In fact, the Board would still continue the rule amendment process while simultaneously allowing Kauai County to join the Plan.

Trustee Villabrille reported that they are working on some operational processes and expects to be completed by the end of February. Ms. Akiyoshi also added that DHRD is working on the revisions to the Plan booklet with updates to reflect the counties, and plan to have the Plan booklet ready for Kauai County to distribute, as well as for redistribution to State agencies.

Agenda  
Item # 4:

Other Business/Announcements

a. Upcoming Scheduled Board Meetings

Ms. Akiyoshi provided a reminder on the upcoming meetings scheduled for May 5, 2017, May 15, 2017, and May 16, 2017 (for the Semi-Annual meeting). As such, the Benefits Fair is being planned to follow the Semi-Annual meeting. The location will be at UH West Oahu and the date will be May 17, 2017, which is being changed from May 18, 2017 due to the rescheduling of the Governor's Award ceremony.

Ms. Akiyoshi added that there is a legislative bill that Staff is monitoring which relates to public agency meetings. Among other revisions, the bill proposes to require that Board meeting minutes be posted within thirty (30) days of the meeting and if not, the Board is prohibited from meeting until the minutes are posted. The inclusion of this requirement may affect the scheduling of the Board's meetings and delay any action items.

Chairperson Moto stated that the next agenda items will be in Executive and excused and thanked everyone for participating in today's meeting.

Agenda  
Item # 5:

Status on Contract Award for RFP No. DCP-16-1, For an Active Core Fixed



Income Investment Option (in Executive Session Pursuant to HRS sections 92-5, 103D-105, and 103D-303)

Agenda

Item # 6: Discussion and Review of Draft RFP for an Active Core U.S. Large Cap Equity Investment Option (in Executive Session Pursuant to HRS sections 92-5, 103D-105, and 103D-303)

**A motion was made by Trustee Machida and seconded by Trustee Rapoza to move into Executive Session at 11:44 a.m. to confer with the Plan's legal counsel on items related to procurement. The motion passed unanimously.**

The Plan's consultant, Mr. Ezard from Segal Rogerscasey remained for the discussion. Other guests were excused from the meeting.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Machida and seconded by Trustee Nishimoto to move out of Executive Session at 11:59 a.m. The motion passed unanimously.**

Prudential team members rejoined the meeting. There were no other discussion items.

Chairperson Moto thanked everyone for attending and adjourned the meeting at 12:01 p.m.

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