

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

**OPEN SESSION MINUTES
MEETING # 327**

Date: October 28, 2008

Place: Department of Human Resources Development
14th Floor Director's Conference Room
235 S. Beretania Street
Honolulu, HI 96813

Present: Marie C. Laderta, Chairperson
Wayne Chu, Employee Member
Ken Taira, Member
Ryan Ushijima, Member
Sandra Yahiro, Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi and Tracy Kiyabu, DHRD Staff
Troy Saharic, Mercer Investment Consulting (via conference call)
Carol Cann, Bernard Wong, Monica Delos Santos - ING-Boston Office
(via conference call)
Melody Takacs - ING – Honolulu Office

Absent: Georgina Kawamura, Employee Member
Carol Raber, Employee Member

Call to Order: There being a quorum present, Chairperson Laderta called meeting to order at 8:45 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.

Agenda

Item # 1: Approval of Minutes Nos. 279, 280, 306, 307, 321 and 322

Ms. Akiyoshi requested this item be deferred since the meeting minutes were not ready for review. The Board members agreed to defer action to

the next Board meeting.

Agenda
Item # 2:

Mercer's Recommendations on the Annual Reallocations of the Plan's Five (5) Lifecycle Funds Portfolios

Mr. Saharic directed the Board Members to a handout of the memo from Mercer dated October 22, 2008, regarding Mercer's Annual Lifecycle Allocation Review. Mr. Saharic noted that Mercer's recommendation is to reset the lifecycle funds to more conservative allocations. However, due to the recent down-turn in the market, it is recommended that actual implementation of the reallocations is delayed to the 1st or 2nd quarter of 2009 in anticipation of the market rebounding from the losses by that time. If the anticipated rebound occurs earlier, Mercer will approach the Board about implementation of the new allocations sooner than 1st or 2nd quarter of 2009.

A motion was made by Trustee Yahiro and seconded by Trustee Taira to accept the recommendation made by Mercer regarding the re-allocation of the lifecycle funds and the addition of a 2055 lifecycle fund.

In further discussion, Trustee Yahiro questioned how the Board is planning to pay for the addition of the 2055 lifecycle fund to the Plan, if the fees are not covered by ING.

Mr. Saharic and DAG Tam recalled that there would be a fee associated with the addition of the new 2055 fund to the Plan, as the contract with ING only requires ING to be responsible for the costs for three (3) lifecycle funds.

Mr. Saharic recommended that Board action regarding the acceptance Mercer's fund re-allocations and the addition of a 2055 fund be deferred until the next meeting so that the ING contract can be reviewed and cost information gathered and prepared for consideration by the Board at the next meeting. The Board agreed.

A motion was made by Trustee Yahiro and seconded by Trustee Taira to withdraw the previous motion to accept Mercer's recommendation regarding the re-allocation of the lifecycle funds and addition of a 2055 lifecycle fund outlined in Mercer's memo dated Oct. 22, 2008. The motion passed unanimously.

Agenda

Item # 3: Discussion on Implementing a Brokerage Window

DAG Tam shared with the Board that he conferred with the Deputy Attorney General that advises the State Procurement Office and it was determined that the Board is not required to go through a procurement process to obtain a brokerage window provider because this can be done under the Board's current contract with ING.

Ms. Cann directed the Board to a handout on the comparison report she prepared that outlines the services and fees of three major brokerage window providers with which ING is associated or has worked. The three providers are: State Street, TD Ameritrade, and Charles Schwab.

Trustee Yahiro questioned Ms. Cann if ING has experienced problems with any of the three companies or if one stands out above the others. In response, Ms. Cann said that no one company stands out. She stated that of the three companies, ING has more experience working with State Street. She informed the Board that TD Ameritrade currently has a relationship with the City and County of Honolulu, who may be open to sharing with the Board their experience with TD Ameritrade.

When questioned which company he would recommend, Mr. Saharic noted that the fees offered by Charles Schwab were comparatively different from their fee schedules in the State of California and New Mexico plans.

Trustee Yahiro questioned whether all three companies could provide brokerage windows for the Plan at the same time. Ms. Cann stated that ING is only able to accommodate one company due to interfacing and record keeping requirements. Mr. Saharic remarked, and Ms. Cann agreed, that usually only one company provides brokerage window services and that they are not aware of any other plan/client that offers more than one brokerage window at the same time.

Trustee Ushijima questioned who ING's other clients have selected. Ms. Cann responded most use State Street; however, some use Charles Schwab. Chairperson Laderta questioned why State Street was selected more often. Ms. Cann responded that State Street has been available longer; TD Ameritrade just recently began offering brokerage window services.

Trustee Ushijima asked Mr. Saharic who his clients have chosen. Mr. Saharic responded that Charles Schwab is popular due to its robust online tools; however, he has concerns with the fees listed in the comparison that Ms. Cann provided the Board.

DAG Tam indicated he will check with staff from the City and County of Honolulu regarding their experience with TD Ameritrade and compare the fees that were presented by ING for TD Ameritrade and Charles Schwab.

Mr. Saharic asked Ms. Cann if there were any type of advantages to using any of the companies. Ms. Cann responded that she was not aware of any.

Agenda
Item # 4:

Discussion on RFP No. DCP-FY-08-1, Request for Proposals for a Large Cap Growth Equity Investment Option; and RFP No. DCP-FY-08-2, Request for Proposals for Passively Managed Index Options

Since the Board will need to consult Agenda Item # 4 with DAG Tam in Executive Session, Chairperson Laderta stated that agenda item # 4 will be addressed at the end of the meeting.

A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to add to the Meeting Agenda the approval of the 3rd Quarter 2008 Report on Funds Not Deposited in the State / County Treasuries for the State of Hawai'i – PTS Deferred Compensation Retirement Plan for Part-Time, Temporary and Seasonal/Casual Employees. The motion passed unanimously.

A motion was made by Trustee Taira and seconded by Trustee Ushijima to approve the 3rd Quarter 2008 Report on Funds Not Deposited in the State / County Treasuries for the State of Hawai'i – PTS Deferred Compensation Retirement Plan for Part-Time, Temporary and Seasonal/Casual Employees. The motion passed unanimously.

Agenda
Item # 5:

Old Business

- a. Status Report on Next Semi-Annual Meeting and Benefits Fair

Ms. Akiyoshi reminded the Board of the upcoming semi-annual Board meeting and Employees' Benefits Fair that will be held in

Hilo on November 19 and 20, 2008, respectively. The meeting is planned to start at 9:00 a.m. and will be held at the Hawaii County Building. ING, LSW, and Mercer will provide their semi-annual reports. There will be two panel presentations – one presented by the large cap providers and the other by the small cap providers. The Fair will be held at the Hilo Hawaiian Hotel. Fair posters have been distributed to all departments. In addition to the usual workshops, ING Advisors will provide presentations regarding the Plan's investment advice service.

Ms. Cann provided some general ING Investment Advice statistics for the Board. So far, three hundred fifty-five (355) Plan participants have enrolled in the Professional Account Management program; which accounts for \$10.8 million in assets; 62% enrolled via enrollment form that was included with the Personal Evaluation Statements sent to Plan Participants; 30% enrolled after speaking with an Investment Advisor via phone; 8% enrolled via the Plan website. One thousand two hundred (1200) personal online advisor sessions were conducted through the end of September 2008. Based on these initial numbers, it appears there is a high level of interest in the Investment Advice service.

Trustee Yahiro asked Ms. Cann if there are a lot of Plan participants moving their money to the more secure options, like the Stable Value Fund. Ms. Cann offered to research that and report back to the Board.

Mr. Saharic stated to the Board that at the recent Pension and Investments Conference, it was noted that there is a trend where those in retirement or close to retirement are making major asset allocation shifts to more conservative investment options.

Upon Trustee Chu and Ms. Takacs receiving calls from Plan participants questioning the security of the Stable Value Plan, the Board discussed the possibility of posting information on the Plan website about the Stable Value Fund, including an explanation about the insurance wraps that protect the assets in the Fund in an attempt to provide Plan participants some level of comfort.

Mr. Saharic informed the Board that Mercer is monitoring the Stable Value Fund very closely in terms of the Fund wrap providers and exposures. To date, there are no issues with the Funds' wrap providers and, with the exception of PIMCO, the

performance of the underlying portfolios are lagging just a little.

Ms. Akiyoshi announced to the Board that Ms. Cann submitted a preliminary request to be able to have ING Advisors reposition their staff. Presently, ING Advisor representatives maintain the same hours of coverage as the Plan call center representatives – 6:00 a.m. to 5:00 p.m. (HST) Monday through Friday and on Saturday from 6:00 a.m. to 12:00 p.m. (HST). ING would like to cut back ING Advisor representative's hours to 11:00 a.m. to 5:00 p.m. (HST) – citing the very low number of calls received during the 6:00 a.m. to 11:00 a.m. (HST) period and that the representatives could be better utilized in other areas.

Trustee Yahiro noted that the Plan has paid for Investment Advice services which include representatives being available to speak with Plan participants who call between 6:00 a.m. and 5:00 p.m. (HST). She questioned what will ING give or provide to the Plan in return for the reduced call coverage.

Ms. Cann stated she would follow up on the matter with Michael Dotto, Vice President of ING Advisors. She also mentioned that Peter Winterbottom, from ING Advisors, will be attending the semi-annual Board meeting and Employees' Benefits Fair in November 2008, at which time he can discuss the matter further with the Board.

Ms. Akiyoshi announced to the Board that all the investment providers will be represented at the upcoming Employees' Benefits Fair in November. She asked the Board members who will be attending the Meeting and Fair and requested that the Board members provide her their accommodation/flight preferences for travel to Hilo.

Chairperson Laderta announced to the Board that she met with the Governor's Policy Team regarding the automatic enrollment legislation that will be re-introduced during the 2009 Legislative Session. She stated that the Policy Team requested information regarding the number of other states that have automatic enrollment in their plans and the percentage of compensation automatically deducted to assist in addressing questions that may be asked. Trustee Yahiro mentioned that she recalls NAGDCA surveys state Plans for matters like these and suggested checking with that organization for the requested information.

Agenda

Item # 4: Discussion on RFP No. DCP-FY-08-1, Request for Proposals for a Large Cap Growth Equity Investment Option; and RFP No. DCP-FY-08-2, Request for Proposals for Passively Managed Index Options

A motion was made by Trustee Yahiro and seconded by Trustee Taira to move into Executive Session at 9:43 a.m. to discuss RFP No. DCP-FY-08-1, Request for Proposals for a Large Cap Growth Equity Investment Option; and RFP No. DCP-FY-08-2, Request for Proposals for Passively Managed Index Options. The motion passed unanimously.

ING staff were excused from the meeting.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to move out of Executive Session at 9:48 a.m. The motion passed unanimously.**

A motion was made by Trustee Yahiro and seconded by Trustee Chu to accept the drafts for RFP No. DCP-FY-08-1 and RFP No. DCP-FY-08-2. The motion passed unanimously.

A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to adjourn the meeting at 9:50 a.m. The motion passed unanimously.

(Note: Signed copy on file)