

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

**OPEN SESSION MINUTES
MEETING # 336**

Date: September 1, 2009

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

Present: Marie C. Laderta, Chairperson
Georgina Kawamura, Ex-Officio Member
Sandi Yahiro, Employee Member (arrived at 10:15 a.m.)
Scott Kami, Employee Member
Wesley Machida, Employee Member
Kenneth Taira, At-Large Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi and Lily Chu, DHRD Staff
Troy Saharic and John Bothwell, Mercer Investment Consulting – Via Conference Call
Melody Takacs, Plan Administrator Staff (ING)/Honolulu Office
Grace Baracao, Plan Administrator Staff (ING)/Honolulu Office
Jeanne Kanai, Plan Administrator Staff (ING)/Honolulu Office
Carol Cann, Plan Administrator Staff (ING) – Via Conference Call
Eric Bildt, Gary Major, Matthew Tanaka – TD Ameritrade – Via Conference Call

Absent: Ryan Ushijima, At-Large Member

Call to Order: There being a quorum present, Chairperson Laderta called the meeting to order at 8:35 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: Status Report on the Addition of a Brokerage Window

Chairperson Laderta stated that there will be a presentation by one of the service

providers on brokerage window services. Before hearing the presentation, DAG Tam provided some background. DAG Tam reported that:

- The Board has been looking at different brokerage window services provided by Schwab, TD Ameritrade, and StateStreet.
- The Board, ING, and Mercer have been evaluating the service providers.
- The Board decided to go with Schwab.
- Staff contacted Schwab and tried to enter into a contract with them. There were some issues regarding the indemnification provision.
- Staff proceeded to contact the number 2 provider on the list to ask their position on the indemnification, in the event that the contract issues cannot be resolved with the other service provider. The number 2 provider did not have any issues with the indemnification provision.
- Information was brought back to the Board, and the Board agreed to go to the number 2 service provider.
- Staff went back to TD Ameritrade to inform them that the Board decided to go with TD Ameritrade.
- Staff informed Schwab of the Board's decision, and Schwab asked for another opportunity to work out the indemnification provisions. To avoid closing an opportunity, the staff asked Schwab for its best and final offer.
- The Board received revised language from Schwab; however, TD Ameritrade asked for an opportunity to present some information to the Board to familiarize them with their company and services.

TD Ameritrade joined the conference call. Presenting are Gary Major, Eric Bildt, and Matthew Tanaka. Also joining the conference call is Carol Cann from ING.

Mr. Bildt acknowledged members from their company: Gary Major who is the Director of Corporate Services and Matthew Tanaka who is the local Branch Manager.

Mr. Bildt presented an overview of the company and its financial strength, and highlighted features of its services and product. He stated that TD Ameritrade has an established relationship with ING and provides nightly integration and supplies account data to ING to aid in the record-keeping of the self directed brokerage product. It is designed with an ERISA controlled mindset. Accounts are segregated so that cash movements are allowed only to and from core accounts. There are universally restricted funds like real estate and short-selling.

Some participant advantages are: welcome kit and instructions on features; dedicated service team; easy-to-use dedicated website; quality trade execution to ensure participant trades are routed efficiently; and fair and straightforward pricing. Also available is support from the local Honolulu branch office.

The local Honolulu office has qualified, licensed representatives to address inquiries and Plan-specific information will be incorporated and integrated into the Honolulu office communications. TD Ameritrade currently has about 18-20 plans in Hawaii; staffing needs will be determined accordingly.

Mr. Bildt explained the costs of the various funds and availability of various options, including more than 13,000 mutual funds, ETFs (Exchange Traded Funds), equities, and fixed income such as CDs and bonds. Also explained were the research and education tools available to participants through the TD Ameritrade website.

Trustee Machida asked for what percentage of price improvements that TD Ameritrade has gotten for its clients.

Mr. Bildt responded that there has been about one-half percent on trades that TD Ameritrade has automatically improved without being asked. For trades when asked, they have had high success in getting price improvements.

DAG Tam noted that the price comparisons were distributed again, and the Board reviewed the fee structures. Mr. Saharic provided clarifying points on the costs of the various trades and transaction fees. Mr. Saharic added that there are no changes to the comparative analysis provided by Mercer previously.

DAG Tam reviewed the indemnification language provided by TD Ameritrade to indemnify and hold harmless the State, and the language pertaining to participants in the client agreement. Chairperson raised an issue whether indemnification is "solely" limited to TD Ameritrade or if it pertains to negligence or willful misconduct. Chairperson Laderta asked if the word "solely" could be removed from the indemnification paragraph as it could be subject to interpretation and result in further confusion. Mr. Major noted that they will get clarification.

Trustee Kami raised an issue on the defense costs language related to lawsuits since it is not stated. The Board concurred that it would want the language included so that TD Ameritrade defends the State against suits. Mr. Major noted that they will get clarification.

TD Ameritrade was excused from meeting.

DAG Tam reviewed indemnification language provided by Schwab. The Board discussed both proposed indemnification provisions and agreed to accept the proposal presented by TD Ameritrade, pending the additional information pertaining to the indemnification language.

A motion was made by Trustee Kawamura and seconded by Trustee Taira to

approve entering into a contract with TD Ameritrade to open a brokerage window in the Plan; provided that the indemnification provisions can be worked out to remove the word "solely" and include defense costs. The motion passed unanimously.

Chairperson Laderta excused herself and asked Trustee Kawamura to continue the meeting.

Mercer and ING joined the conference call.

Agenda

Item # 2: Discussion on Frequency of Rebalancing the Lifecycle Funds

Mr. Saharic referred to Mercer's August 20, 2009 memo stating that each year the Lifecycle Funds are reviewed and rebalanced annually to keep the portfolio allocations close to the target allocations. Because volatility will continue, the Board should ensure that the allocations are close to the target allocations.

Mr. Saharic provided a recommendation to have monthly rebalancing done by ING, around the 15th of each month. Once a year, Mercer will continue to re-examine the allocations and move the Lifecycle funds down the glide path over time. He added that there is no cost by ING to rebalance the funds monthly.

A motion was made by Trustee Machida and seconded by Trustee Kami to move to monthly rebalancing of the Lifecycle Funds from annual rebalancing. The motion passed unanimously.

Agenda

Item # 3: Discussion on Unforeseeable Emergency Withdrawal Request Process

Ms. Akiyoshi summarized the process of handling UEWs which starts with a subcommittee established by the Board. It was raised during the subcommittee meetings on how much authority the Board wants to give ING in screening the applications. In the qualification process, ING has incomplete applications or applications with insufficient documentation, and those that do not meet the criteria. It was discussed whether ING should process all and have the subcommittee review and make the decision, or automatically return those that do not meet the criteria and not process the applications to the subcommittee. Currently, in the screening process there are some applications that are not processed through to the subcommittee due to insufficient information/documentation or do not meet the criteria.

The Board concurred that ING should continue screening applications to see if it meets the criteria, and if a participant does not agree with the decision, the

participant can appeal to the Board.

Agenda

Item # 4: September 2009 NAGDCA Annual Conference

Ms. Akiyoshi informed the Board that the conference is coming up and Trustees Kawamura and Taira are planning to attend. Legal counsel and Board staff members are planning to attend.

Agenda

Item # 5: Other Business/Announcements

Ms. Akiyoshi reported that AllianceBernstein was informed of the Board's decision to move from the H share class to the P Share class. AllianceBernstein waived the fee for the first year and the fee was coming due. The fee for the current H share class will be 1.11%. Previously, Mr. Saharic presented an analysis and options of moving to the P share class or going to the mutual fund. The Board decided to move to the P share class. The letter to AllianceBernstein was distributed.

Ms. Akiyoshi added that DAG Tam will be working on the amendment to the AllianceBernstein contract.

Ms. Akiyoshi distributed some reference materials which may be of interest to Board members going to the NAGDCA conference on information related to IRS looking at next year's contribution limits. There may be some discussion at the conference on what annual limits IRS may consider.

Trustee Kawamura called a short break.

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Trustee Kawamura resumed the meeting at 10:15 a.m. Vice-Chairperson Yahiro joined the meeting.

Vice-Chairperson Yahiro then continued the meeting.

Add

Agenda Item: **A motion was made by Trustee Kawamura and seconded by Trustee Machida to add to the agenda the ratification of two (2) UEW case numbers 262 and 266, and two (2) UEW cases for review and action, case numbers 257 Revised and 258. The motion passed unanimously.**

Trustee Kawamura was excused from the meeting.

Vice-Chairperson Yahiro summarized the UEW cases reviewed by the UEW subcommittee. The UEW subcommittee made a decision to approve UEW case nos. 262 and 266. Vice-Chairperson Yahiro commented that the UEW subcommittee had concerns on UEW case nos. 257 and 258 and decided to defer these two cases to the Board.

A motion was made by Trustee Kami and seconded by Trustee Taira to ratify UEW case numbers 262 and 266. The motion passed unanimously.

The Board discussed the method of handling cases where the decision either by the UEW subcommittee or the Board is to deny the cases. The Board concurs that the UEW subcommittee should continue to review all the cases; the cases that are approved by the subcommittee will be given to the Board for ratification and any cases that are recommended for denial will be sent to the full Board with a recommendation.

Vice-Chairperson Yahiro summarized UEW case no. 257 and noted that the subcommittee recommended denial of the request; however, if the participant can supply adequate information to make a better decision that they can do so in the future.

Ms. Kanai reported that the participant has not provided the requested information to date; however provided a narrative on why the participant could not submit the information. Vice-Chairperson Yahiro noted that although there may be triggering event, there is no demonstration that the financial hardship was a result of the triggering event.

A motion was made by Vice-Chairperson Yahiro and seconded by Trustee Machida to deny UEW case number 257. The motion passed unanimously.

Vice-Chairperson Yahiro summarized UEW case no. 258 which the subcommittee recommended denial because the triggering event occurred five years ago, and therefore, the participant could not justify the event as being "unforeseeable". The Board reviewed the definition of an "unforeseeable emergency" as defined by the IRS. The Board discussed whether the time period is a factor and determined that it should not be a consideration. Vice-Chairperson Yahiro added that the subcommittee agreed that they could not see that there was evidence of a severe financial hardship that resulted from the event.

A motion was made by Trustee Taira and seconded by Trustee Machida to deny UEW case numbers 258 because the current financial hardship is directly not attributable to the event in 2004. The motion passed unanimously.

Motion to
Adjourn:

A motion was made by Trustee Machida and seconded by Trustee Taira to adjourn the meeting at 10:45 a.m. The motion passed unanimously.

(Note: Signed copy on file)