

DRAFT PENDING BOARD APPROVAL
STATE OF HAWAII
DEFERRED COMPENSATION PLAN
BOARD OF TRUSTEES

OPEN SESSION MINUTES
MEETING # 424

Date: June 28, 2018

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

Present: Brian Moto, Chairperson
Ken Kitamura, Ex-Officio Member
Roderick Becker, Employee Member
Kanoë Margol, Employee Member

Others: Krishna Jayaram, 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, Carol Blumenthal, and Deborah Baran,
Prudential Retirement – via conference phone

Absent: Ryker Wada, Ex-Officio Member
Kenneth Villabrille, Employee Member
Kalei Rapoza, Employee Member

Call to Order: There being a quorum present, Chairperson Brian Moto called the meeting to order at 8:59 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 opened with introductions, including attendees participating via the conference line. He noted that Trustees Wada, Rapoza, and Villabrille are excused from today's meeting, and stated that for the record there are no guests in attendance from the public. Chairperson Moto stated that Trustee Margol is waiting to hear back on the status of her appointment for a second term on the Board, as her first term expires on June 30, 2018. Chairperson Moto acknowledged her diligent service to the Board with a lei presentation for

her fulfilling her first term.

Agenda

Item # 1: New Business

- a. Approval of Minutes No. 419-ES, Minutes No. 420-ES, Minutes No. 421-ES, Minutes Nos. 422 and 422-ES, and Minutes No. 423

Chairperson Moto stated that the Minutes Nos. 422 and 423 are for the open session minutes for the April 19, 2018 meeting and for the May 24, 2018 meeting, respectively. Minutes Nos. 419-ES, 420-ES, and 421-ES are the Executive Session minutes that were distributed separately. Trustee Becker expressed that he had edits to Minutes 419-ES for the February 15, 2018 meeting.

A motion was made by Trustee Becker and seconded by Trustee Kitamura to move into Executive Session at 9:03 a.m. to confer with the Plan’s legal counsel and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to a state or federal law, pursuant to HRS §§ 92-5(a)(8), 103D-105, and 103D-303. The motion passed unanimously.

EXECUTIVE SESSION

All guests were excused.

Meeting

Reconvened: **A motion was made by Trustee Becker and seconded by Trustee Kitamura to move out of Executive Session at 9:05 a.m. The motion passed unanimously.**

Chairperson Moto stated that a correction is needed for Minutes No. 423, on page 9. The word “Thee” should be corrected to “The”. In addition, a correction will be made to Minutes No. 419-ES, as discussed in Executive Session.

A motion was made by Trustee Kitamura and seconded by Trustee Becker to adopt Minutes Nos. 420-ES, 421-ES, 422, 422-ES, as presented, and adopt Minutes Nos. 419-ES and 423, with the corrected changes. The motion passed unanimously.

Chairperson Moto moved to Agenda Item no. 1.b., and turned the discussion over to Board staff and Mr. Ezard.

b. Discussion on Subadvisor Manager Changes by INVESCO to the Stable Value Portfolios and Potential Action Thereon

Ms. Akiyoshi reported that INVESCO notified the State that INVESCO is planning to make subadvisor manager changes within the Stable Value Fund. The change is from Goldman Sachs to Dodge & Cox. INVESCO terminated Goldman Sachs effective on May 31, 2018, and Dodge & Cox will assume oversight on June 1, 2018. Under the contract, INVESCO has the flexibility to make manager changes but there is a provision whereby the Board could deny the change. Ms. Akiyoshi stated that this was brought to Mr. Ezard's attention for review and analysis.

Mr. Ezard acknowledged that INVESCO does have discretion to make changes, and no approval is necessary. But added that the Board does have the ability to decline the change. So, if the Board declines the change to Dodge & Cox, the allocations would be split among the 3 remaining subadvisors under their Stable Value Fund pool. He stated that Segal has recommended Dodge & Cox for years as a fixed income strategy, and Dodge & Cox has a strong consistent process in the portfolio management team. Their performance has been good. He feels that although there were no performance issues with Goldman Sachs, the primary driver for INVESCO to make the change is due to the low fees offered by Dodge & Cox. Segal does not have any concerns with the change and recommends that the Board accept the change.

The Board did not have any objections and will not take any action on INVESCO's anticipated subadvisor manager change. Therefore, INVESCO is able to proceed with their changes.

Chairperson Moto stated that some of the priority agenda items that may require the Board's action will be taken first due to time limitations for today's meeting by some of the Board members. Chairperson Moto proceeded to Agenda item #4.

Agenda

Item # 4:

Ongoing Business

a. Sub-Committee Report on the Plan Budget and Expense Account and the Plan's Staffing Structure

Trustee Kitamura reported that the sub-committee met with the support of DAG Jayaram and Ms. Akiyoshi, and discussed what is in place and a general proposal for a budget process. The proposal would be to take the allocation for the fiscal year, and the Board would discuss the budget and expected allocations, and then discuss initiatives to determine the resource

allocations and/or initiatives. A draft format was developed which captured the allocations for the fiscal year.

The format that the Board accepts would be used and Board staff would track the month-to-month expenditures and monitor the resources. This would give the Board the opportunity to see the expenditures to date and how the resources are being utilized, and to talk about the progress throughout the year. The line items shown are within the contractual agreement. Trustee Kitamura noted that the Board may not want to consider including these types of items in the contract, since the Board's priorities can change. He recommends not to make the report too specific. For now, the format can be used as a starting point.

Trustee Kitamura stated that the staffing structure should be factored into the budget going forward. A request for an additional position was discussed and what types of data and metrics would be needed for authorization to establish an additional position. DAG Jayaram has been working on a survey of similar national plans to ask about their workload and internal staffing that can be used for justification for the type of workload that a typical plan puts on, as well as look at what Ms. Akiyoshi is currently doing and to quantify the work. The information would then be forwarded to DHRD, and we would need to work with DHRD on the request to the Legislature and Governor.

DAG Jayaram reported and explained that he did send out a survey to a few other plans, that are comparable in Plan asset size. He noted that he looked at the plans with section 457(b) plans but the comparisons are not apples-to-apples as many plans administer multiple plans. Mr. Ezard added that there could be different administrators for each of the plans that they administer.

Trustee Kitamura added that the timeline for budget cycles and legislative proposals would be in the fall. He also noted that a position would be more likely to get funded if the position was funded through the Plan.

There were no objections to the format of the draft budget report, and the sub-committee will continue to work and report back to the Board.

- b. Staff Administrative Report on Monthly Activities, including but not limited to:
 - i. Notification from BlackRock regarding incorrect pricing on the BlackRock Total Return Fund

Ms. Akiyoshi provided some brief highlights of the monthly activities:

- Provided requested items to N&K CPAs for the independent audit review, and completed the review of the final draft report and the management analysis section of the report. N&K CPAs will tentatively present their report at the September 2018 meeting;
- For the HI Pay Modernization project, the EAO office is currently receiving 2 payroll reports to reconcile the totals, one is generated off of the old legacy system, and the other is generated from the new payroll system. This means that the reconciliation of the payroll contributions to the Prudential are manual processes, so the Employee Assistance Office is working with ETS on having one payroll report instead of 2 reports. Also, the Employee Assistance Office is working with ETS on timing issues for the delivery of the payroll reports.
- Coordination has been completed for the May 22, 2018 Benefits Fair which was held at the Plaza Club in the downtown area, and had approximately 1,000 attendees.
- Planning is underway for the Fall Benefits Fair on Maui. Exploring sites and attempting to confirm possible dates in October 2018.
- The transition of the Large Cap Equity option to the new fund manager, Capital Group/American Funds was successfully completed as of June 14, 2018;
- Working on some required pre-contract items with the new fund manager for the Off-the-Shelf Target Date Funds before issuance of the award notifications;

Ms. Akiyoshi reported that a notification was received from BlackRock regarding incorrect pricing that occurred from January 11, 2018 to January 26, 2018. The incorrect pricing resulted in a \$453.05 loss which will be reimbursed back to the Plan. Coordinating with BlackRock and Prudential on the receipt of the payment. Prudential will follow protocols as done in the past to allocate the amount back to participants who are invested in the fund as of the date the payment is received. There were no objections.

Agenda

Item # 5:

PTS Plan

- a. Discussion on Conducting an Independent Plan Audit for the PTS Plan and Potential Action Thereon

Ms. Akiyoshi stated that the last Plan audit for the PTS Plan was for the Plan Year January 1, 2014 to December 31, 2014. Under the contract with LSW (Life Insurance Company of the Southwest), the TPA is responsible for engaging the services of an auditing company and for the costs of the audit services. The contract specifies that the audit would be performed every 3 years.

So, the timing of the next audit would be for the Plan Year January 1, 2017 to December 31, 2017. LSW has been informed and is waiting for further instructions.

A motion was made by Trustee Margol and seconded by Trustee Kitamura to instruct Life Insurance Company of the Southwest to engage the services of an independent auditing firm and perform the audit for the Plan Year January 1, 2017 to December 31, 2017. The motion passed unanimously.

- b. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending March 31, 2018
- c. Quarterly Management Reports for the Period Ending March 31, 2018, and Annual Management Report for the Calendar Year Ending December 31, 2017

Ms. Akiyoshi presented the Report on Funds Not Deposited in the State/County Treasuries for the period ending March 31, 2018 for the Board's action. The report for the Quarterly Management report for this same period has been reconciled against the Report on Funds and is presented for the Board's information.

A motion was made by Trustee Margol and seconded by Trustee Kitamura to accept the Report on Funds for the period ending March 31, 2018. The motion passed unanimously.

- d. Notification of New Interest Rate, Effective April 1, 2018

Ms. Akiyoshi reported that the interest rate effective April 1, 2018 was 2.56%. During this past week, the interest rate for July 1, 2018 was also received and was reported to be 2.58%.

However, included with the interest rate for July 1, 2018, LSW reported that the interest rate for First Quarter 2018 and the Second Quarter 2018 was erroneously credited for those quarterly periods. LSW stated that the credited rates for the First Quarter 2018 and the Second Quarter 2018 were understated by 0.02% (i.e., 2 basis points) and 0.03% (i.e., 3 basis points). So, the First Quarter 2018 rate should have been 2.62%, and the Second Quarter 2018 rate should have been 2.59%.

Chairperson Moto proceeded to Agenda item #7, and stated that the Board will move into Executive Session to confer with our Deputy Attorney General on the Board's powers, duties, privileges, immunities, and liabilities with respect to the

Board's oversight on the administration of the Plan.

Agenda

Item # 7: Review of How the Plan Procures Investment Product Options for Its Participants

A motion was made by Trustee Kitamura and seconded by Trustee Margol to move into Executive Session at 9:43 a.m. to confer with the Plan's legal counsel and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to a state or federal law, pursuant to HRS §§ 92-5(a)(8), 103D-105, and 103D-303. The motion passed unanimously.

EXECUTIVE SESSION

All guests were excused, except for Segal Marco Advisors.

Meeting

Reconvened: **A motion was made by Trustee Margol and seconded by Trustee Kitamura to move out of Executive Session at 10:09 a.m. The motion passed unanimously.**

All guests rejoined the meeting.

Chairperson Moto returned back to Agenda item #2.

Agenda

Item # 2: Report by Prudential on the Gender Demographics within the Plan

Ms. Klassen stated that a report was prepared as a follow-up to the discussion the Board had at its May 24, 2018 Semi-Annual meeting regarding the gender statistics during the presentation by Morningstar. Prudential has found that the gender statistics are consistent with Morningstar's results. However, it is not known if the statistics are consistent with the workforce population.

Ms. Klassen reported that in looking at the participation by gender within the Plan, 56% are females and 55% are males. Within the Plan demographics, the contribution rates are higher for women in comparison to males. Mr. Malmud added that there is a Plan concern that there is a top-heavy concentration.

Chairperson Moto asked whether the Plan can improve communications geared for women since it reflects a higher participation percentage of women, including such issues as women living longer and their roles as caregiver during pre- and post- retirement. Ms. Klassen indicated that Prudential is working on a digital launch on a financial wellness program that has participants looking at finances holistically. Prudential will follow-up with more information at future

discussions.

Agenda

Item # 3: Status Report by Prudential on the Transition from the Victory Institutional Diversified Stock Fund to the American Funds AMCAP Fund

Ms. Klassen reported that the transition of assets from the Victory Institutional Diversified Stock Fund transferred to the American Funds AMCAP Fund with a trade date of June 14, 2018. The AMCAP Fund became available to participants on June 15, 2018. The transfer of assets totaled about \$62 million and the transfer was successful.

Chairperson Moto proceeded to Agenda item #6.

Agenda

Item # 6: Other Business/Announcements

a. Schedule of Upcoming Board Meetings and Events

Ms. Akiyoshi stated a confirmation for the next meeting on September 7, 2018 was sent out earlier. However, the possible dates to hold the Semi-Annual meeting on Maui has not been set and confirmed yet, as the site that is being considered has not confirmed the arrangements. Planned topics for the September 7, 2018 would include legislative initiatives for consideration. Trustee Kitamura noted that discussing budget items and legislative initiatives in September may be late for consideration during the 2019 legislative session, and an earlier meeting may be needed. Ms. Akiyoshi stated that dates will be looked at for an August meeting.

Agenda

Item # 8: Status on RFP No. DCP-17-1, Request for Proposals for a Target Date Fund Investment Option

Chairperson Moto stated Agenda item #8 was discussed and completed earlier in Executive Session, and asked if there were any other announcements.

Ms. Klassen announced that Prudential is in the process of making a contribution of \$5,000.00 to assist the victims impacted by the volcanic activity through the Hawaii Community Foundation, to express and extend their appreciation to the State of Hawaii for its partnership with the State, and in support of the surrounding communities.

There was no other business. Chairperson Moto thanked everyone for attending today's meeting.

Chairperson Moto adjourned the meeting at 10:43 a.m.

Taken and recorded by:

Reviewed and approved by:

Cynthia Akiyoshi
Board Staff

Brian T. Moto
Chairperson

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