

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

**OPEN SESSION MINUTES
MEETING # 408**

Date: November 29, 2016

Place: Hawaii Prince Hotel
Captain's Room
100 Holomoana Street
Honolulu, HI 96815

Present: Brian Moto, Chairperson
Kanoë Margol, Employee Member
Kenneth Villabrille, Employee Member
Kalei Rapoza, Employee Member

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

Absent: James Nishimoto, Ex-Officio Member
Wesley Machida, Ex-Officio Member
Roderick Becker, Employee Member

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 with the exception of Trustees Nishimoto, Machida, and Becker who are excused. He stated that there were no guests in attendance from the public.

Agenda

Item # 1: New Business

a. Approval of Minutes No. 404-ES, 405, 405-ES, 406, and 406-ES

Chairperson Moto stated that Minutes Nos. 405 and 406 were distributed in advance for the Board's review, and that copies of Minutes Nos. 405-ES and 406-ES have been distributed today for review. Minutes No. 404-ES is deferred.

Ms. Akiyoshi stated that a correction is need to the header to Minutes Nos. 405-ES and 406-ES to read "Executive Session Minutes" instead of "Open Session Minutes".

A motion was made by Trustee Rapoza and seconded by Trustee Villabrille to adopt Minutes Nos. 405 and 406, as presented, and Minutes Nos. 405-ES and 406-ES with the noted changes. The motion passed unanimously.

b. Prudential Report and Discussion on 2017 Plan Website Redesign and Establishment of a Website Redesign Subcommittee

Ms. Baran outlined some proposed redesign goals for the Plan's website, which would provide enhancements:

- To areas of the website where participants have frequently visited, such as the forms section;
- To allow flexibility that would assist in determining analytics for future improvements and make it accessible for persons with disabilities;
- To streamline and allow easy access for mobile devices; and
- To be able to add new components on new topics, such as videos.

Ms. Baran presented some sample home page layout options, and added that if the Board would like to provide further input on design options, Prudential could work with individual Board members through subcommittee meetings to develop and work on the ideas for the layout.

Chairperson Moto expressed his appreciation for the initiatives to refresh the Plan's website, and to be able to form a body to work with Prudential and report back on the progress of the redesign. He noted that Trustee Becker had also earlier expressed that he would also like to see some changes to the website. He asked if the Board would support the creation of a subcommittee and expressed that he would be willing to serve on this subcommittee. There were no objections from Board members. Trustees Rapoza and Villabrille also expressed their willingness to serve on the subcommittee.

DAG Tam advised that a subcommittee be limited to no more than 2 Trustees.

A motion was made by Trustee Margol and seconded by Trustee Villabrille to establish a subcommittee for the purpose of working on plans to redesign the Plan's website. The motion passed unanimously.

A motion was made by Trustee Rapoza and seconded by Trustee Margol to nominate Trustee Villabrille to serve on the Plan's Website Redesign subcommittee and work with Prudential on plans to redesign the Plan's website. The motion passed unanimously.

A motion was made by Trustee Villabrille and seconded by Trustee Margol to nominate Trustee Rapoza to serve on the Plan's Website Redesign subcommittee and work with Prudential on plans to redesign the Plan's website. The motion passed unanimously.

Chairperson Moto offered some suggestions and comments for consideration to the subcommittee members. DAG Tam suggested that Prudential consider the slogan "Enjoy your ride into Retirement", and have a picture of a surfer riding a big wave.

Agenda

Item # 2: Ongoing Business

Chairperson Moto moved to Agenda item #2.b., in the brief absence of the Plan's consultant, Mr. Ezard, with no objections from the Board.

b. Plan Administrator's Report

- i. Discussion on Policy Regarding the Handling of Gains and Losses Due to Processing Errors

DAG Tam reported that the Board's staff is working with Ms. Klassen on gathering information on Prudential's process to handle gains and losses. He requested that this item be deferred.

Chairperson Moto returned back to Agenda item #2.a., with no objections from the Board.

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 joined the meeting via conference call. He stated that comments and a brief overview of the Third Quarter 2016 were presented at the Board's October 31, 2016 meeting; and provided some additional updates and comments for the Third Quarter:

- Status continues to be the same with PIMCO; the Board has taken action; and there are no further updates and the Fund continues to underperform.
- Segal continues to monitor the MainStay Large Cap Growth Fund for any further improvements but there are no further improvements to its performance. The Fund has had a difficult time due to the overall return of stocks and bonds since the elections. Segal will continue to monitor during the Fourth Quarter 2016.
- Victory's performance continues to be weak, and the Board will be addressing actions to be taken.
- For the Stable Value Fund, the crediting rate may lag with the movement on higher interest rates. The Stable Value Fund may see a lag as it will not adjust readily.
- Additionally, the BlackRock Index may be in similar situation and also lag in performance.

b. Plan Administrator's Report

- ii. Plan Highlights for Calendar Year 2016, including but not limited to the Open House Events for the 2016 National Retirement Security Week and 2016 Fall Benefits Fair

Ms. Klassen provided summary highlights for the Calendar Year 2016:

- Plan assets total over \$2 billion.
- The total number of participants is 27,600; and active participants total 17,921.
- The average participant balance compares very well against the NAGDCA survey; there is an increase in the number of participants making deferrals. The total number of participant active deferrals is 16,596.
- The participation rate of all eligible employees at year-end is 29%; without DOE and UH, the rate is near 49%.

She summarized the inflows and the outflows, the usage on the RIC, and the usage on Managed Accounts through Morningstar which represents 6.8% of Plan assets. There are 1,627 users with about \$140 million in assets utilized in Managed Accounts; Goalmaker has about 6.1% of the

Plan assets; and the LifeCycle portfolios has about 4.8% of the Plan's assets. She also reviewed the assets in the Plan's core investment options and the assets in the PIMCO Total Return Fund, of a total of \$96 million, which is anticipated to transition to the new fund manager soon. Communications on the fund changes are pending and Prudential is ready to implement.

Mr. Malmud provided highlights on the series of events that took place for the National Retirement Security Week campaign in October 2016. Events included an open house at the Honolulu office and scheduled webinars. A total of 131 employees came to the Honolulu office during the retirement campaign week, and 61 attended the webinars. Mr. Malmud covered other upcoming events that will be held such as the mini fairs at the U.H. Manoa campus tentatively in March 2017, and the DOE Teachers' Institute Day events.

Mr. Malmud reported that a total 209 attendees came to the Benefits Fair held on Kauai and noted that the workshops were well attended.

Trustee Rapoza commented that the mini Fair at U.H. Hilo this past September was well attended over the 3 to 4-hour period.

c. PTS Plan

i. Report by Kauai County on Transition to the PTS Plan

Ms. Akiyoshi reported that the amendments to the Board's administrative rules are moving along, and have been waiting for approval from the Governor's office, and reviews by B&F and DBEDT. It is possible that we may not get approval from the Governor's office in time or before the end of this year, and it may affect the rule making process. Effective December 31, 2016, the rules must be compiled under LRB's new rules when making amendments to a chapter. Thus, the timeline for the roll out may be delayed.

Trustee Villabrille provided timelines on the scheduled transition of Kauai county employees to the PTS Plan, and noted that 150 potential eligible employees were identified. Kauai County staff is working with NBS on the guidelines and development of Questions and Answers. They have also been working with ERS on changing/adding the retirement group codes. ERS has indicated that no new codes will be added and Kauai County will be using the same group codes as for State employees. On November 1, 2016, NBS and Comprehensive Financial Planning met with Kauai

County to discuss the forms, and process that is involved for enrollment and separation from service. Kauai County will be having discussions with NBS on the payroll implementation process on December 5, 2016, and preparing draft communications that would be sent out to participants on the rollout of the new plan.

Chairperson Moto asked whether the administrative rules need to be adopted before Kauai County employees can join the Plan. DAG Tam commented that the administrative rules must be amended before Kauai county rolls out the PTS Plan to its employees because the current rules limit participation to State employees. Chairperson Moto asked if there are any problems anticipated in adopting the rules. DAG Tam stated that there are no anticipated problems; however, there are multiple agencies that are involved in the review process so it is beyond our control in moving the process forward.

Chairperson Moto asked that another updated be provided at the next Board meeting.

ii. Plan Updates

a. Production of Plan Video

Ms. Akiyoshi announced that NBS has been working on a short video for the PTS Plan that will provide a general introduction and brief explanation on the Plan. It is expected that the video will bring more awareness on the Plan, and explain what to do when leaving the PTS Plan.

b. Report on Plan-to-Plan Rollover Transfers for Period 7/1/15 to 6/30/16

Ms. Akiyoshi reported that NBS has provided information on the number of PTS employees who made transfers to the regular Plan and the amount of the transfers into the Plan, as requested at the Board meeting on October 31, 2016. There were 168 PTS employees who initiated plan-to-plan transfers during the period July 1, 2015 to June 30, 2016, and the amount totaled \$559,989.98.

c. Staff Administrative Report on Monthly Activities

Ms. Akiyoshi provided an overview of the monthly activities:

- On the TPA activities:
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 - Working with Prudential on the 2017 Post Separation Vacation Payout Schedule;
 - Overseeing the communication projects for the National Retirement Security Week, open house events, and the new cultural presentation piece; and
 - Monitoring Prudential's recovery of the retroactive revenue sharing from Victory.
- Since the Schroder Proxy Vote was completed, working with Prudential on developing communication on the name change to the Hartford Schrodgers Emerging Market Equity Fund;
- The PIMCO Total Return Fund replacement change. Working on the development of the new contract with the new fund manager for the fixed income fund replacement.
- Working with Segal Rogerscasey on the draft RFP for the Active Core U.S. Large Cap Fund.
- There's an update on the INVESCO portfolio of the Stable Value Fund, whereby the ratings for one of the wrap contract providers, Pacific Life, was upgraded by S&P from A+ to AA-.
- Met with investment managers: Winslow Capital, the subadvisor for the MainStay Funds; and with Harvest Volatility Management.

Chairperson Moto stated that for the last agenda item no. 3, the Board will be discussing the RFP for an Active Core U.S. Large Cap Equity Investment Option, and the guests will be excused from the meeting.

Mr. Malmud expressed appreciation for allowing the Honolulu office team to join and attend today's meeting. He announced that Mr. Augie Urgola, who has serviced the Plan since the Plan's inception, will be retiring and his last day is December 12, 2016. Chairperson Moto asked that a resolution be prepared for Mr. Urgola to congratulate him on his retirement. There were no objections from the Board.

Chairperson Moto excused and thanked everyone on the conference line for participating in today's meeting.

Agenda

Item # 3:

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 Villabrilie and seconded by Trustee Rapoza

to move into Executive Session at 10:24 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 via conference call. Other guests were excused from the meeting.

EXECUTIVE SESSION

Meeting

Reconvened: A motion was made by Trustee Villabrille and seconded by Trustee Rapoza to move out of Executive Session at 11:04 a.m. The motion passed unanimously.

Prudential team members rejoined the meeting.

Chairperson Moto stated the Board discussed the draft RFP for the Active Core U.S. Large Cap Equity Investment Option and the method of scoring for evaluating the RFP responses.

A motion was made by Trustee Rapoza and seconded by Trustee Margol to adopt the draft RFP for the Active Core U.S. Large Cap Equity Investment Option, with noted changes, and to use the median method of scoring to evaluate the RFP responses. The motion passed unanimously.

Chairperson Moto thanked everyone for attending today's meeting and closed the meeting with best wishes for a happy holiday season. The meeting was adjourned at 11:07 a.m.

(NOTE: Signed copy on file.)