

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

**OPEN SESSION MINUTES  
MEETING # 440**

Date: June 25, 2021

Place: Department of Human Resources Development  
14<sup>th</sup> Floor Director's Conference Room  
235 S. Beretania Street, State Office Tower  
Honolulu, HI 96813

Present via

Teams Link: Brian Moto, Chairperson  
Ryker Wada, Ex-Officio Member  
Robert Yu, Ex-Officio Member  
Kalbert Young, Employee Member  
Kalei Rapoza, Employee Member  
Reiko Matsuyama, Employee Member  
Ken Kitamura, Employee Member

Others via

Teams Link: Randall Nishiyama, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Darlene Yamada, DHRD Staff  
Craig Chaikin, Segal Marco Advisors  
Wendy Carter, Segal Marco Advisors  
Kevin Malmud, Plan Administrator Staff (Prudential)/Honolulu Office  
Jeanne Kanai, Plan Administrator Staff (Prudential)/Honolulu Office  
Julie Klassen, Prudential Retirement  
Carol Blumenthal, Prudential Retirement  
Deborah Baran, Prudential Retirement  
Grace Baracao, Plan Administrator Staff (Prudential)/Honolulu Office

Call to Order: There being a quorum present, Chairperson Brian Moto called the meeting to order at 9:00 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: Welcome and Introductions

Chairperson Moto welcomed everyone and proceeded with the introductions of the Board members, Board staff, and other guest attendees. He reviewed some housekeeping items.

Agenda

Item # 2: Public Testimony Period

There was no one from the public in attendance to offer testimony. Chairperson Moto closed the public testimony period for this meeting. There were no objections.

Agenda

Item # 3: Approval of Minutes No. 439 for the May 7, 2021 meeting

Ms. Akiyoshi reported that for Agenda Item #6, in the first bullet, there is a typo in the acronym, EBCRS, and should read EPCRS for "Employee Plans Compliance Resolution System". This was the only correction.

There were no other comments or changes offered by the Board members.

**A motion was made by Trustee Matsuyama and seconded by Trustee Rapoza to approve Minutes No. 439, with the noted correction as presented. The motion passed unanimously.**

Chairperson Moto asked that Agenda item #7 be taken out of order as one Board member will need to be excused for a short period during the meeting. There were no objections from the Board.

Agenda

Item # 7: Election of New Board Chairperson and Vice Chairperson and Potential Action Thereon

Chairperson Moto stated that his term will be expiring and this is an opportunity to elect a new Chairperson and Vice Chairperson. Chairperson Moto opened up the discussion and asked for any Board members to indicate their interest in serving in these two positions.

Hearing none, Chairperson Moto asked for nominations for the two positions. He noted that since the Board has conducted various procurement searches, the Chairperson would be the delegated procurement officer. As such, there is a requirement for the Chairperson to take the necessary, mandatory training workshops from the State Procurement Office. He added that it is a time commitment but understands that some members may have undergone that training already. He asked if Trustee Kitamura would be interested. Trustee Kitamura responded that he would be interested in serving as the Vice Chairperson.

Chairperson Moto asked Trustee Rapoza if he would be interested in serving as the new Chairperson since he has seniority in serving on the Board. Trustee Rapoza responded that over the five years in serving on the Board he recognized Chairperson Moto's work and commitment to the Board to bring recognition to the Plan, and Trustee Rapoza volunteered to serve as the next Chairperson. There were no other nominations.

**A motion was made by Trustee Yu and seconded by Trustee Wada to close the nominations and elect Trustee Rapoza as the Board's Chairperson and Trustee Kitamura as the Board's Vice Chairperson. The motion passed unanimously.**

Chairperson Moto thanked the service of all the Board members. He asked to return back to the regular agenda and move to Agenda item #4.

Agenda

Item # 4: Performance Evaluation Report for the First Quarter 2021 by Segal Marco Advisors

Mr. Chaikin opened with an overview of the defined contribution market:

- There were two issues that were addressed by the Biden administration during the First Quarter 2021. One was the non-enforcement of the pecuniary rule and the other was proxy voting. The Trump administration had changed the guidelines around how plans should be evaluating funds and how plans should be voting proxies. He stated that the Biden administration has chosen not to enforce those guidelines and are revisiting both of those rules. This is less pertinent to our Plan since it is not bound by ERISA but when you look to ERISA plans for best practices, this has the implication of potentially stifling innovation especially in the Environmental, Social and Governance (ESG) space.
- Related to cybersecurity, Department of Labor (DOL) has issued guidance around cybersecurity best practices and what plans should be doing. Ms. Carter offered a quick update on this topic and said there will be a meeting with SPARK Institute (The Society of Professional Asset-Managers and Record Keepers) and the DOL on security best practices. It will not apply to our plan since we are not ERISA plans, but there will be a dialogue to make sure everyone understands the rules of the road and what the objectives are.

Mr. Chaikin stated that even though this Plan is not an ERISA Plan, our Plan has had some experience with issues on that front and noted that it is important for any plan to maintain best practices for cybersecurity, whether it be ERISA or not, especially as the transaction volume for the electronic means continues to escalate. We should be reviewing policies and procedures of our service providers, which he said is already being done in the Plan and

they will provide tips on security considerations. It is a safe harbor for ERISA Plans.

- The Secure Act 2.0, enacted at the end of 2019, has gained traction after the First Quarter. The changes made to the Required Minimum Distribution age (RMD) from age 70 ½ to 72, may be possibly pushed back further to age 75. There will be more to come on the Secure Act.
- Lawsuits, related to fees and performance, continue to surface within plans, so it is something to continue to monitor. Discussions on performance are important to monitor and watch the ups and downs of the funds, and to determine if any of the funds need to be placed on the watch list.

Mr. Chaikin remarked that this Board is doing a lot to address these areas during the evaluation of the Plan's investment line-up. He presented highlights on the marketplace, including trends that started during the Fourth Quarter 2020 through May 2021:

- Value has been starting to outperform growth through May 2021; but in June, growth has started to outperform value.
- Sectors such as financials, industrials and energy have had a significant resurgence so far in 2021.
- US equity indices continue to outperform International and Emerging markets.
- Changes in the shape of the yield curve reflected negative bond returns for the year-to-date as the interest rates go up and the bond prices go down; coming into May and June 2021, inflationary concerns have been putting pressure on bonds as well as stocks with downward pressure on bonds.
- In April and June, rates have stabilized, but fixed income returns are still challenged for this year so far.
- It is not certain whether inflation pressures are transitory or not. When Chairman Powell announced raising rates last week and would potentially raise rates twice in 2021, the market reacted negatively resulting in drops in the stock market. There was also announcement by the Biden administration on the infrastructure package which resulted in the markets taking off. Data points with respect to the market will be meaningful and which will move the market. Mr. Chaikin commented that things seem to be moving steadily in an upward direction as a whole.

In response to Chairperson Moto's question on the effect on the Stable Value Fund given the interest rate forecast and the possibility of inflation, Mr. Chaikin responded that in general Stable Value rates have gone down. In the short-term, raising rates will put pressure on bonds and those underlying holdings, but in the long term higher interest rates are a positive for Stable Value because of re-investing the proceeds and contributions in higher yielding securities. Despite the rates dropping during COVID-19, the rates for the Stable Value fund remain competitive as compared to the rates in the market.

Mr Chaikin reviewed highlights of the Plan:

- As of March 31, 2021, Plan assets totaled \$2.95 billion; assets exceeded \$3 billion as reported at the May 7, 2021 meeting.
- Largest holdings remain with the legacy assets.
- Fees are relative to the peer group universe, so across the board the numbers look good and there are no concerns. Administrative costs are in-line with the services that are provided.
- Performance has been mostly reflective of what happened in the markets, such as the dramatic shift from growth and technology and to value and speculative equities, which has benefitted some fund managers and really crushed other fund managers.
- Performance for the Harbor Small Value fund was down about 3% versus the benchmark which had to do solely with security selection.
- The MFS Fund had an overweight to consumer staples which underperformed other sectors. Over the long-term, the fund had good performance.
- The EuroPacific Growth Fund performance was down relative. Selection in financials was a headwind. This fund tends to be overweight in emerging markets and this was a detraction. Segal does not have any concerns at this time.
- For the Vanguard Target Date funds, there were no changes to the underlying holdings. Vanguard has been working to lower fees across the board in their suite of products and may affect these target date funds.

There are no recommendations for placing any funds on the watch from Segal.

Agenda

Item # 5:

Status on the Filling of the New Position to Staff the Board of Trustees

Ms. Akiyoshi reported that a list of eligibles was received and interviews have begun. Upon completion of the interviews, a selection and recommendation will be made. Offer and hire will follow shortly. Estimated timeframe for starting may be sometime in August.

There were no further questions from the Board.

Agenda

Item # 6:

PTS Deferred Compensation Retirement Plan for Part-time, Temporary and Seasonal/Casual Employees (PTS Plan)

- a. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending March 31, 2021
- b. Quarterly Management Report for Period Ending March 31, 2021

Ms. Akiyoshi reported that the combined total assets in the PTS Plan totaled

\$141,452,822.95 for the period ending March 31, 2021.

The corresponding quarterly management report for this period is also provided for the Board's review and information. She also reported that the new quarterly interest rate effective July 1, 2021 is going to be 2.11% which is slightly down from second quarter which was at 2.13%.

**A motion was made by Trustee Wada and seconded by Trustee Rapoza to accept the Report on Funds Not Deposited in the State/County Treasuries for the period ending March 31, 2021. The motion passed unanimously.**

Agenda  
Item # 8:

Other Business and Announcements

Ms. Akiyoshi remarked that over the past eight years the Plan has had many accomplishments and achievements. Chairperson Moto has served as Chairperson and has led the Board through those years. Director Wada read and presented a prepared resolution to Chairperson Moto.

Ms. Akiyoshi reminded the Board about the upcoming Virtual Benefits Fair to be held on June 29, 2021, and encouraged the members to view the Fair platform. As listed on the handout of the schedule of webinars, one of the webinars to be presented by Prudential is on "Exploring the Big Picture of Retirement Income". This is the expanded version of the topic covered at the last board meeting with ERS, who came in to explain the different retirement plan tiers that employees are placed into depending on their employment dates, and Prudential's presentation on filling the gap between working and retirement. She added that there are about seven fund managers who will have breakout sessions on various topics or just be available to answer questions.

Ms. Akiyoshi announced that there will be a change in Board members for the next meeting. Trustee Yu, who has served as an ex-officio member from the Department of Budget & Finance, will be leaving the State, so we will have another ex-officio member come on board for the next meeting. Trustee Yu provided some closing remarks.

In closing, Chairperson Moto provided some brief remarks and comments as the Board looks to shaping the Plan for the future:

- (1) Plan Staffing: As DHRD staff and legal counsel could retire at any time, one issue confronting the Plan is succession planning and staffing.
- (2) Roth Option: The law was passed by the State legislature to enable the Plan to adopt the option. Implementation and rollout remain to be accomplished.
- (3) Amendments to the Administrative Rules: Drafting of the amendments is a big job and progress is being made to complete the amendments.

- (4) ESG (Environmental, Social and Governance Issues) and Risk Assessment: ESG is a topic that is growing in importance and is shaping American business and American governance and American policy making and is expected to continue to grow in importance.
- (5) Auto Enrollment: The draft Secure Act 2.0 will require ERISA plans (401k plans) to enroll employees automatically. This requirement may put pressure on private plans, and public or government plans to do the same.
- (6) Challenges to educational outreach to all State and County employees: Currently the TPA has been challenged in reaching all employees to provide education on the Plan since they only have access to the information of employees who have opted to be in the 457(b) Plan.
- (7) UH and DOE Participation in the 457(b) Plan and the 403(b) Plan: Chairperson Moto commented that the UH and DOE employees also have the option to participate in the 403(b) Plan and these plan representatives are aggressively enrolling their own participants in the 403(b) plan. He feels that the section 457(b) Plan should similarly reach out to the UH and DOE employees to increase enrollment in the 457(b) Plan.
- (8) Lost Retirement Accounts: This is one of the great problems that plans face with groups people that have inactive accounts with balances and their accounts remain pending. We may always have to deal with this as a Plan. The Secure Act 2.0, if adopted, would create a national database of lost retirement accounts and he feels will be helpful.
- (9) Other Possible Federal Law Changes: There are proposals in the Federal legislation to refine the legislation to allow plan sponsors to use more appropriate benchmarks for investments rather than generic ones.
- (10) Post-Retirement Planning and Distribution: The objective is to provide for a comfortable retirement and avoid the risk of poverty in old age. As a Plan, the board and staff work very hard to encourage people to save and plan for retirement. He shared some factors to consider in the planning for how employees can manage those monies in their post-retirement years such as understanding your customer, the possible long life expectancy in Hawaii, a high percentage of female employees in the workforce versus male employees, the high cost of living, the high cost of assisted living, and home care or nursing services that are typically not covered by insurance. Other pending legislation that may be favorable is in regards to the raising of the RMD age to 75, and potential changes to the maximum amounts that employees would be allowed to put towards a deferred income annuity option that provides for an income stream to reduce the risk of outliving retirement savings.

Chairperson Moto expressed his appreciation and feeling proud of being a part of a Plan that has modest and reasonable administrative fees in place for the benefit of Plan participants and one that has security mechanisms and policies in place to address cybersecurity and the prevention of fraud.

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Chairperson Moto thanked everyone for their participation in today's virtual meeting. He adjourned the meeting at 10:04 a.m.

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