

**CITY AND COUNTY OF HONOLULU
DEFERRED COMPENSATION PLAN COMMITTEE MEETING**

MINUTES OF THE QUARTERLY MEETING OF THE COMMITTEE

The Quarterly meeting of the City and County of Honolulu Deferred Compensation Plan Committee (“Committee”) was held on Thursday, August 29, 2024, in the Mayor’s Conference Room, 530 South King Street, 3rd Floor, City Hall, Honolulu, Hawaii.

Present: Andrew Kawano (Department of Budget and Fiscal Services (BFS) Director & Committee Chair)
Nola Miyasaki (Department of Human Resources (DHR) Director & Committee Member)
Reid Yamashiro (Deputy Corporation Counsel & Committee Member designee for Corporation Counsel Dana Viola)
Chamara Silva (Administrative Services Officer & Committee Member designee for Managing Director Michael Formby)
Connie Kaneshiro (Committee Member-Active)
John Hashimoto (Committee Member-Active)
Michael Golojuch (Committee Member-Retiree)

Staff: Carrie Castle (BFS Deputy Director & Alternate for Committee Chair Andrew Kawano)
Florencio “Bugs” Baguio, Jr. (DHR Assistant Director & Alternate for Committee Member Nola Miyasaki)
Jennifer Bishop (BFS Administrative Services Officer & Deferred Compensation Plan Administrator)
Lynn Wakatsuki (Deputy Corporation Counsel)
Jenny Tobin (DHR Benefits, Research, and Transactions Branch Chief)
Leslie Chinn (DHR Compliance Manager)

Guests: Bill Tugaw (NFP Retirement (NFP)) – Managing Director)
Vince Learned (NFP – Vice President, Advisory Services)
Matt Dickey (NFP – Managing Director of Government Plans)
Gavin Gruenberg (Voya – Head of Defined Contribution Sales, Large & Government Markets)
Deltra Hayes (Voya – Senior Vice President, Leader Government Markets)
Sharra Querner (Voya – Assistant Vice President, Strategic Relationship Manager)
Jared Nakamoto (Voya – Financial Advisor and Hawaii Case Manager)
Russell Kaya

I. CALL TO ORDER

With quorum present, Andrew Kawano (Chair) called the meeting to order at 8:34 a.m. and presided as chair of the meeting. Jennifer Bishop (Jennifer) acted as secretary.

II. MINUTES OF PREVIOUS MEETING – Action

Committee members reviewed the May 24, 2024, Quarterly Meeting minutes and Chair asked for discussion.

On a motion duly made by John Hashimoto, seconded by Michael Golojuch and unanimously carried, the Committee approved the Quarterly Meeting minutes from May 24, 2024.

III. PUBLIC COMMENTS – Information

Chair asked if there was any public input. There was none.

IV. VOYA REPORT – Information/Action

Gavin Gruenberg (Gavin) introduced Deltra Hayes (Deltra) and Sharra Querner (Sharra) from the Voya team. Deltra has been with Voya for 11 years and is the head of Government Markets. Sharra has more than 25 years of experience in the retirement industry and will be serving as the Plan's strategic relationship manager.

A. Quarterly Report –Gavin provided the following highlights from the period of January 1, 2024, through June 30, 2024:

1. Plan Statement – Assets at the beginning of the year was at \$959 million. As of June 30th, plan assets totaled \$1,024,693.989. As of August 27th, the total is now \$1.056 billion.
2. Participation – The period began with 9,739 participants, 216 accounts were opened, and 1,049 accounts were closed. The high number of closed accounts is a result of the force out of small account balances that closed out 955 accounts. Terminated individuals with \$1,000 or less were cashed out and terminated individuals with accounts between \$1,000 to \$5,000 were moved to an IRA. As of June 30th, there were 8,906 total accounts. About a third of these accounts are terminated participants that have retained their assets in the Plan. There are 195 terminated employee accounts with a balance less than \$7,000.
3. Deferral Summary – While the majority of participants still contribute via a flat dollar contribution, more and more individuals are utilizing the percentage-based contributions in lieu of the flat dollar amount. There are now 1,104 using a percentage deferral with an average deferral rate of 9.3%, which compares very favorably to the industry benchmark as well as Voya's book of business.
4. Participant Engagement – Most individuals continue to engage through the website and the mobile app. There were 391 unique engagements with 368 individuals that engaged with the MyOrangeMoney tool during the first six months of the year, 184 individuals that increased their contributions, seven enrolled in managed accounts, 39 changed their allocations, and three individuals rolled money into the plan from a previous employer. Those that engage have a higher average deferral rate, with MyOrangeMoney engagements at 11.6%, web engagements at 11.1%, and mobile app engagements at 10% compared to those that do not engage digitally at 8.1%, which is still a good contribution rate.
5. Transaction Activity – There has been about \$18.66 million in contributions and \$32.8 in distributions from 1,591 individuals that includes the individuals that were forced out. The Plan is in a negative net cash flow position, and has been so for a number of years. Distributions included 29 Death Claims, 21 Hardship Withdrawals, 104 participants that had to take a minimum distribution, and 158 participants that have set up a systematic withdrawal. There were 1,311 participants that took a lump sum withdrawal which includes the forced-out participants. There were 33 individuals that transferred assets from a previous employer. The Revenue Credit is from the three mutual funds in the lineup that provide a revenue share, which is reimbursed back to participant accounts.
6. Current Participation and Enrollment Statistics – There were about 9,500 – 9,700 participant accounts for the past few years, and with the implementation of the force-out, the number of accounts has dropped to about 8,900. There have been 208 new enrollments this year with 42 individuals that have an average deferral rate of 9.3% and 16 with an average flat-dollar deferral of \$112 per pay period.
7. Participant Balance – The average participant balance continues to grow from \$94,000 last year to \$115,000 for the current year as of 6/30/24.

8. Diversification – The average number of investment options utilized per participant without asset allocation funds or target date funds is five, which is almost double the Voya benchmark of 2.7. Most of the accounts that have a single investment are in some type of asset allocation plan or the target date funds. There are also around 500 participants in the Stable Value, which is down by 75 from the prior quarter. Everyone that is in a single investment that is not an asset allocation fund is automatically included in the electronic communications about diversification.
 9. Managed Accounts – As of June 30th, there were 441 individuals utilizing Morningstar's managed accounts, totaling about \$60 million.
 10. Total Plan Assets and Contributions by Investment Option – There is about \$250 million in asset allocation funds. For the first six months of the year, about \$8.7 million of new dollars are going to an asset allocation fund. Stable Value is about 15% of the plan, with only 7.6% of new contributions going to Stable Value. There are 30 individuals using the Charles Schwab self-directed brokerage.
- B. Stabilizer Update
1. Quarterly Market Review – S&P 500 Index rose by about 4.28% during the quarter and Nasdaq was up by about 8.26% for the quarter. Interest rates have not changed as the Federal Reserve holds steady so far this year. Bond performance was essentially flat during the second quarter, although there have been some improvements in the last 60 days. Economic growth remains strong, driven by gains in payroll and productivity.
 2. Fixed Income Market Review – The US 10 Year Treasury Yield as of quarter end was 4.40%. As of August 28th, it was down to 3.84%.
 3. Performance Analysis – Investment Grade Corporate is one of the larger holdings and was flat. High-Yield Corporate was slightly positive towards performance. Agency and Non-Agency Residential Mortgage-Backed Securities were positive contributors. Asset-Backed Securities and Commercial Mortgage-Backed Securities were also positive contributors. Duration for the portfolio had minimal impact on returns.
 4. Performance Summary – In each measured time period, the portfolio outperformed the benchmark; by 28 basis points for the quarter, 82 basis points for the year-to-date, and 145 basis points for the past year. Calendar years 2021 and 2022 were challenging. In calendar year 2022, the portfolio was down 10.23%, which did not outperform the benchmark.
 5. Portfolio Characteristics – Duration had a very modest contribution to the performance with 6 basis points over the first two quarters. Sean Banai and his team's decisions have led to the outperformance. Yield to Maturity is 5.57%, which is higher than the benchmark. The crediting rate to participants is less than that because we are moving to amortize the market value loss over the duration of the portfolio.
 6. Market Value to Book Value Report – As of June 30, 2024, \$156.1 million was the value of the bonds in the portfolio and participant balances in the plan was at \$172.8 million leading to a ratio of 90.36%. As of July 31, 2024, the ratio was 92.01%, and as of yesterday, the current ratio is 93.46%.
- C. Participant Communication & Education Update – Stacey Laxton (Stacey) provided the following update.
1. Save More Results – 458 individuals took action after receiving the email with 132 participants saving an average of 2.3% more per pay period, and 368 saving an average of \$56 more per pay period.
 2. Beneficiary Results – 27 individuals added a beneficiary.
 3. Diversification – 26 individuals diversified their account.
 4. Restart – 13 individuals resumed their contributions, with two saving an average of 7.5% and 11 saving an average of \$175 per pay period.
 5. Max Out – 69 individuals took action by increasing their contributions.

6. Financial Wellness/Education – 91 individuals took action after receiving the email.
7. Overall Financial Wellness Messaging – 71% take action after receiving after receiving a communication.
8. Participant Engagement – E-delivery has increased to 48%, which is up 2% from previous quarter, and web registration has increased to 60%, which is up by 3%.
9. MyOrangeMoney – 160 individuals took action after using the MyOrangeMoney tool.
10. Financial Wellness – 488 individuals completed the assessment and viewed the results. Participants are the least confident in the area of protection.
11. Catchup Campaign – A total of 271 individuals increased their contributions.
12. Beneficiary Campaign – 185 individuals added a beneficiary.
13. Dollar to Percent Campaign – 35 individuals changed to a percent-based contribution.
14. VRA Announcement – This campaign was sent to all participants and resulted in 227 signing up for VRA. Stacey mentioned she will confirm whether all 227 are new enrollments.
15. Diversification Campaign – 5 individuals diversified their account.

On a motion duly made by Nola Miyasaki, seconded by Michael Golojuch, and unanimously carried, the Committee approved and accepted the Voya Report.

- D. Fund Change Update – Gavin reported that the fund change was completed on August 1st. The Virtus Ceredex Mid-Cap Value was mapped to MFS Mid-Cap Value and two share class changes, Vanguard FTSE Index Fund and Vanguard Small Cap Growth both to institutional shares.
- E. First of the Month Rule Update – Jared Nakamoto reported that all of the forms have been updated. Instead of having to wait until the first of the pay period of the following month, enrollments and contribution changes will now take effect as soon as administratively possible.
- F. Honolulu Deferred Compensation Plan Survey – Jennifer shared the draft of the survey with the Committee and explained that the survey will be sent to all City employees as well as Plan participants to include retirees as well as those that have separated from the City and still have an account in the Plan. The intent of the survey is to capture overall satisfaction with the plan, including service, education and plan options and features. To encourage participation in the survey, there will be random prize drawings worth up to \$25 for those that complete the survey. The last survey was completed in 2017. Stacey commented that participants may be disengaged if the survey is rolled out later in the year as the holiday season approaches. After a short discussion, it was decided that issuing the survey in late September or early October will provide enough time for the results to be reported during the November meeting.

On a motion duly made by Michael Golojuch, seconded by John Hashimoto, and unanimously carried, the Committee approved to conduct a survey of all participants and eligible employees and to report status of the survey during the next November meeting.

G. Other Issues

1. The NAGDCA Annual Conference is coming up and Voya will be hosting a client appreciation event on Monday evening.

V. NFP CONSULTING REPORT – Information/Action

A. Watch List Update – Vince Learned (Vince) provided the following updates:

1. Market Review – U.S. Equity was up to 13.6% for the year, International Equity up to 5.7% for the year and Fixed Income up to 0.1% for the quarter. As of August 23rd, U.S. Equity is up to 17.9%, International Equity up to 10.7% and Fixed income up to

- 3.6%. The labor market continues to be strong with relatively low unemployment. There was a downward revision of 818,000 jobs going back to March 2023. Economists are looking for a 25 to 50 basis point rate cut in September.
2. U.S. Equity – Large Cap Growth led the way, up 8.3% for the quarter. Russell 3000 is up 3.2%. Large and Small Value and Small Growth are modestly negative. Growth continues to outperform Value. Information Technology is at 13.4%.
 3. International Equity – Emerging markets, which had been lagging the last couple of quarters, log the best performance in Q2, up 5%. On a rolling one-year basis, developing markets continue to outperform emerging markets, but is trending down. Domestic continues to outperform international.
 4. Fixed Income – Still not a normal yield curve, but starting to approach a more normal shape. Specifically looking at the two- and ten-year yield, as of August 29th, the spread was 2 basis points with 3.9% for the two-year vs. 3.88% for the ten-year.
 5. Chart of the Quarter – Vince explained the Interest Rate Expectation Chart. Vince also noted that Glossary of acronyms and terms are provided on page 73.
 6. Scorecard – Vince noted a very clean line up with no recommended changes and covered the missed points for each applicable fund.
 - a. PIMCO High Yield Institutional – This fund is flagged because it had dropped to a score of 6 in 2024 Q1. For Q2, the fund scored a 7.
 - b. Vanguard FTSE Social Index I – This fund is flagged because it scored a 6 in 2023 Q3. This fund has scored a 7 in the last three quarters.
 7. Plan Allocation by Asset Type – About 47% of funds are in U.S. Equity, 31% in Asset Allocation, 15.3% in Specialty which is the Stable Value, 4% in Fixed Income, and 3% in International.
 8. Summary of Considerations – NFP recommends to keep PIMCO High Yield Institutional and Vanguard FTSE Social Index I on the Watch List.

On a motion duly made by Connie Kaneshiro, seconded by Chamara Silva, and unanimously carried, the Committee approved and accepted Watch List recommendations.

- B. New Investment Policy Statement (IPS) – Bill Tugaw (Bill) briefly explained that the Plan's current IPS was designed to follow a single scorecard, except there are now three scorecards. For example, the current IPS does not address the index funds or the asset allocation funds that have separate scorecards. Bill recommended the Committee adopt the new IPS as a more accurate way of how the Committee monitors the funds. Vince stated he would provide a summary of differences to the Committee. Chair recommended the IPS be put on the next agenda to allow members time to review.
- C. Legislative and Regulatory Update – Bill announced that Matt Dickey (Matt) has been appointed as Managing Director of Government Plans. Matt reported that a team of advocates from NAGDCA asked Congress to push back the Roth Catchup Contribution beyond January 2026 and the response was a flat no. The Tax Cuts & Jobs Act of 2017 had a variety of tax reductions that were set to sunset in 2025. The corporate tax rate will increase from 21% to 28%. The personal tax rate will increase as well. NAGDCA will continue to monitor and advocate to maintain tax-favored retirement savings opportunities. MissionSquare Research Institute provides insight into younger employee recruitment and retention. The younger generation is looking to their employer to provide support around financial wellness. Making employees aware of the total compensation package, including the City's share of health care benefits costs, provides a tremendous amount of value. Matt also stated that during the NAGDCA Annual Conference, NFP will also host a client appreciation dinner Sunday Night.
- D. Other Issues
 1. Collective Investment Trusts (CITs) – Vince explained the scorecard applied to a commonly used large cap value CIT and stated that Morningstar generally issues

ratings reports on CITs including those that would be available to the Plan. There is flexibility in the language to help with any indemnification issues. Vince also reiterated that CITs may help bring down costs for participants and there is no financial benefit to NFP for the Plan's use of CITs. Chair asked Vince to provide information regarding the indemnity to be discussed at the next meeting. Lynn Wakatsuki asked about regulations regarding trusts since there is no FDIC regulation oversight for trusts. Vince stated they will look into it and report back at the next meeting. Vince stated that 11 of the 12 public-sector plans he works with already utilize CITs in some form, and across the NFP's book of public sector clients, around 90% utilize CITs.

Matt added that Blackrock has come out with a CIT for the for the target date funds which instead of the 9 basis points is at 4.5 basis points. Other investment providers like Fidelity and Principal are following suit of what Blackrock is doing. Principal is rolling out a CIT in January 2025 at 4 basis points and Fidelity will be at 4 to 4.5 basis points. Matt noted that the Vanguard funds are exceeding expectations, scoring a 10 out of 10.

Chair asked about the trust companies that generally participate in CITs. Matt stated there are a handful, including Wilmington Trust, which was the largest CIT trust provider firm, sold the CIT trust business over to Madison Dearborn Partners who created a new entity called Great Gray. Another CIT trustee is SEI, and there are a few others.

VI. OTHER BUSINESS – None.

VII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action

Jennifer provided the administrative expenses for the period beginning May 24, 2024, with a balance of \$335,135.48 and ending August 28, 2024, with a balance of \$351,360.48. The 2024 second quarter reimbursement of \$30,000 from Voya was received. Expenses totaled \$13,775.00 and included \$12,375.00 for NFP 2024 second quarter Consulting Services and \$1,400.00 for in NAGDCA 2024 Annual Conference Registration Fees for two attendees. Jennifer added that we are rebuilding our reserves for upcoming expenses scheduled in 2026.

On a motion duly made by John Hashimoto, seconded by Nola Miyasaki, and unanimously carried, the Committee approved and accepted the Committee's administrative expense report as presented.

VIII. EXECUTIVE SESSION (as required)

The Committee did not go into Executive Session.

IX. NEXT MEETING DATES – Information (subject to change)

Fourth Quarter – Mayor's Conference Room

Friday, November 22, 2024, 10:00 a.m. – 12:30 p.m.

X. ADJOURNMENT

There being no further business, the meeting was adjourned at 10:11 a.m.

Respectfully submitted,

Jennifer Bishop
Secretary