

**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 Friday, May 24, 2024, at 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)
Connie Kaneshiro (Committee Member (Active))
Michael Golojuch (Committee Member (Retiree))
- Excused: Chamara Silva (Administrative Services Officer & Committee Member designee for Managing Director Michael Formby)
John Hashimoto (Committee Member (Active))
- 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 – Senior Plan Advisor)
Gavin Gruenberg (Voya – Head of Defined Contribution Sales, Large & Government Markets)
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 10:02 a.m. and presided as chair of the meeting. Jennifer Bishop (Jennifer) acted as secretary.

II. ANNOUNCEMENTS

Chair announced the NAGDCA 2024 Annual Conference is being held at the Sheraton Phoenix Downtown from September 15 – 18, 2024.

III. MINUTES OF PREVIOUS MEETING – Action

- A. Committee members reviewed the February 23, 2024, Quarterly Meeting minutes and Chair asked for discussion.

On a motion duly made by Michael Golojuch, seconded by Reid Yamashiro, and unanimously carried, the Committee approved the Quarterly Meeting minutes from February 23, 2024.

- B. Committee members reviewed the March 20, 2024, Special Committee Meeting minutes and Chair asked for discussion.

On a motion duly made by Reid Yamashiro, seconded by Connie Kaneshiro, and unanimously carried, the Committee approved the Special Committee Meeting minutes from March 20, 2024.

IV. PUBLIC COMMENTS – Information

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

V. VOYA REPORT – Information/Action

- A. Quarterly Report – Gavin Gruenberg (Gavin) provided the following highlights from the period of January 1, 2024, through March 31, 2024:
1. Plan Statement – At the end of the quarter, there were over \$1 billion in the plan, with assets up about 15% from the first quarter of last year.
 2. Participation – The period began with 9,739 participants, had 111 accounts opened, and 103 accounts closed. There are over 3,800 participants that have left City employment who have retained assets in the plan. There are 955 accounts with under \$5,000 who were mailed a letter regarding the plan's mandatory distribution provisions. The overall participation rate at the end of the quarter was 63.8%
 3. Deferral Summary – There are over 1,000 participants who defer on a percentage basis, the average deferral rate is 9.2%, which compares favorably to both the industry benchmark at 6.8% and Voya's other government sector clients at 6.2%.
 4. Participant Engagement – The usage of the mobile application has grown over the last three years from about 33% to 39% and there were almost 200 contribution updates made from the mobile app in the first quarter. Users of the OrangeMoney tool have the highest average deferral rate of 11.8%, followed by website users at 11.7% and mobile app users at 10.2%. Those that have no engagement have an average deferral rate of 8.0%
 5. Transaction Activity – There were about 5,430 participants that contributed about \$9.6 million to the plan in the first quarter, and 498 participants that took distributions totaling about \$16 million. Distributions included 23 Death Claims, 8 Hardship Withdrawals, 57 participants that had to take a required minimum distribution, and 154 participants that had scheduled periodic payments. There were 267 lump sum withdrawals totaling \$14.6 million for either a cash distribution or rollover to an IRA or another plan. 17 of these participants rolled \$2.3 million in to LPL with other benefactors of assets being rolled over being Fidelity, Charles Schwab, Ameriprise, and Edward Jones. Historical data has shown that the first calendar quarter of the year has high distributions, possibly due to retirements, and it slows down in the second quarter. There was \$1.43 million transferred into the plan, where individuals have rolled funds from either a prior employer's plan or IRA into the City's plan.
 6. Participant Balance – The average participant balance is \$103,946, up from last year's \$86,759. Chair asked if, on average, our participants are older than the

benchmark and if that is the reason why the average participant balance is higher. Gavin stated that the City's plan is generally aligned with public sectors' demographic and there are a lot of public sector clients in a net negative cash flow position.

7. Diversification – There are almost 4,900 participants that have a single investment in their account, which includes 4,033 participants in target date or asset allocation funds that are diversified by the nature of that single investment choice. The average number of investment options utilized per participant without asset allocation funds or target date funds is 4.9. There are 578 individuals that have Stable Value as their sole investment, which is down from 594 at the end of 2023. Everyone that is in a single investment that is not an asset allocation fund is automatically included in the electronic communications about diversification.
8. Total Plan Assets and Contributions by Investment Option – The City is currently in the Admiral Share Class for the Vanguard FTSE Social Index Fund, and is eligible to move to the Institutional Share Class that will save participants two basis points. Similarly, the Vanguard Small Cap Growth Index Fund can also be moved to the Institutional Share Class, saving participant's one basis point.

B. Stabilizer Update

1. Fixed Income Market Review – At the end of the quarter, the 10-year yield on US Treasury was at 4.20%; today, it is at 4.467%.
2. Performance Summary – The portfolio has outperformed the benchmark for every period measured (quarter, 1-year, 3-year, 5-year, 10-year, and since inception). For the first quarter of the calendar year, there was a positive absolute return of 11 basis points, whereas the benchmark was down 42 basis points.
3. Portfolio Characteristics – The performance attribution of 53 basis points of outperformance over the benchmark consists of 4 basis points from the duration, 32 basis points are from the asset allocation, and 16 basis points are from security selection. The Effective Duration of the portfolio is at 4.41%, close to the benchmark of 4.36%. The Yield to Maturity is at 5.62%. Participants are receiving a 2.8% annualized credited rate currently.
4. Asset Allocation – Gavin highlighted the changes from the prior quarter, noting almost 2% increase in both Asset Backed Securities and Investment Grade Corporates, and a decrease of 3.8% in US Treasury and Cash.
5. Market Value to Book Value Report – As of April 30, 2024, there is a delta of about \$19.6 million, or a market to book ratio of 88.57%. Market to Book ratio is on a downward trend in recent months, but it is till up from October 2023 when the ratio was at 86%.

C. Participant Communication & Education Update

1. Overall Financial Wellness Messaging – During the first quarter, there were 6,157 messages delivered, out of which 5,238 messages were opened, with 22% of individuals clicking on a link and 15% taking action.
2. Participant Engagement – 57% of individuals have registered account online, 46% have signed up for e-Delivery.
3. Beneficiary Campaign – The letter encouraging participants to add a beneficiary to their account was sent to 438 participants, and resulted in 185 individuals adding a beneficiary (42% response rate).

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

- D. Honolulu Deferred Compensation Plan Survey – Jennifer shared the draft of the survey with the Committee and explained that the survey will be sent to plan participants and all current City employees. Questions cover topics of participants’ satisfaction with education, fund and plan options, and service. Those that complete the survey would be entered into a drawing for a prize worth no more than \$25. The survey will be emailed and hard copies will be available for those that do not have computer access. Logistics still have to be determined. Jennifer asked the Committee to review the draft and then circle back at the August meeting with any revisions needed. The target is to issue the survey after the August meeting and report stats in the November meeting.
- E. Other Issues
1. Mandatory Distributions – Jennifer reported that out of the 900 or so participants that were affected by the mandatory distribution of accounts with a balance less than \$5,000, there was one retired participant who voiced her frustration stating that had she known this would happen she would have kept her balance above \$5,000. The participant first spoke to Jared Nakamoto (Jared) and then to Jennifer. The participant was frustrated that she had no choice in the matter. Jared added that when he spoke to the participant, she was upset that she was not able to leave \$700 in the plan and asked if she could move the funds to an IRA, however she did not want to pay IRA fees. Jared added that the account had a balance of under \$1,000 for a few years. Nola Miyasaki (Nola) asked if participants are given the option to bring their balance up to \$5,000 to stay in the Plan. Gavin explained that there is a 60-day notice during which time participants can reach out to Voya for options, and that retirement assets from an outside qualified plan could roll into the plan. Gavin added that the participant has taken a number of distributions over a number of years and that the plan has worked well for her. Nola asked if it is communicated to participants that if they keep taking distributions and the balance falls under \$5,000, they may be forced to take a mandatory distribution. Jared stated that now that this provision exists in the plan, participants will be made aware, but at the time this particular participant was taking distributions, the provision did not exist and so she was not made aware. Nola stated that participants need to be made aware of the mandatory distribution provision in the plan when they are taking distributions and the balance is getting close to \$5,000 so that they can make an informed decision before withdrawing funds. Gavin added that communicating plan design changes, especially with new Secure 2.0 features, it would be best practice to push out notices on the website and to send letters and emails. Chair agreed.

VI. NFP CONSULTING REPORT – Information/Action

- A. Semi-Annual Fund Review – Vince Learned (Vince) announced that NFP has been acquired by Aon as of April 25, 2024, with NFP leadership team, account management team, and operations staying the same. Vince then provided the following highlights.
1. Market Review – As of last week Friday, U.S. Equity was up 11%, International Market was up at 8%, but bonds were down 1.4%. Vince covered the S&P 500: Index Concentration, Valuations and Earnings charts in the handout. The top 10 stocks in the S&P 500 have a P/E ratio of 28.5, without the top 10 stocks, the remaining 490 drop down to 18. The top 10 stocks also account for 34% of the weight of the S&P 500 and for about a 25% of the earnings. In 2023, the “Magnificent 7” (Mag7) returned 76% in the S&P 500 with the remaining 493 funds returning 8%. The Earnings Growth chart shows the Mag7 had 31% in 2023, while the remaining funds had -4% earnings growth. Vince highlighted the Annual Returns and Intra-year Declines chart, noting that despite the average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years. Unemployment has recovered quickly from

- COVID and is currently at 3.8% which is well below the 50-year trend line of 6.2%. Inflation peaked at around 9% in 2022, and the last few months have been disappointing as inflation was a bit higher than economists were looking for.
2. Scorecard – Vince reviewed the scores of each of the funds and highlighted the following:
 - a. Virtus Ceredex Mid-Cap Value Equity I has scored below 7 for four consecutive quarters. The peer group ranking are at a weak 84 and 85 and information ratio is at -0.20 and a modest up/down point miss. The expense ratio for this fund is on the higher side at 1.01%. A replacement candidate for this fund is the MFS Mid-Cap Value R6 fund which has scored a 10 in the past four quarters, and has very strong information ratio and peer ranking. The MFS Mid-Cap Value R6 fund also has a lower expense ratio at 0.62%
 - b. PIMCO High Yield Institutional has scored a 6 in the past quarter with a point lost for the up/down, information ratio, and peer group rankings.
 - c. Vanguard FTSE Social Index Admiral continues to score better than it did in 2023 Q3 when it scored a 6 with a score of 8 in the last quarter.
 3. Plan Allocation by Investment Type – About 47% of the plan is in U.S. Equity, 30% in Asset Allocation, 15% in Specialty which is the Stable Value, close to 4% in Fixed Income and about 3% in International/Global Equity.
- B. Watch List Update – NFP recommends to retain Vanguard FTSE Social Index and add PIMCO High Yield Institutional to the Watch List and to remove Virtus Ceredex Mid-Cap Value Equity and replace it with the MFS Mid-Cap Value R6. Chair asked whether the Virtus Ceredex Mid-Cap and the MFS Mid-Cap Value had key differences in terms of the type of investment and style and how long the MFS Mid-Cap fund has been in existence. Vince replied that the two funds are close from a style perspective and that MFS Mid-Cap is scoring better than the Virtus Ceredex Mid-Cap and that the MFS Mid-Cap fund's inception date is August 2001. Vince noted that another option for the replacement fund is the Allspring Special Mid Cap Value R6, which is similar to the MFS Mid-Cap and is also strong but that the MFS Mid-Cap has a lower expense. Chair agreed that a lower expense ratio is an important factor.

On a motion duly made by Michael Golojuch, seconded by Reid Yamashiro, and unanimously carried, the Committee approved and accepted Watch List recommendations including eliminating the Virtus Ceredex Mid-Cap Value Equity I and replacing it with the MFS Mid-Cap Value R6 fund.

- C. Legislative and Regulatory Update – Matt Dickey (Matt) provided the following information:
 1. Active Choice - Plans that are not able to implement automatic enrollment due to prohibiting legislation or collective bargaining groups that prevent it, encourage enrollment by having employees specifically state that they do not want to save for retirement.
 2. In-Plan Retirement Income Solutions – There are over 50 different vehicles currently available. These are very complex and the NFP Investment Committee is conducting due diligence of these vehicles to better understand the different intricacies related to these products. If these types of vehicles are made available in plans, a very prudent fiduciary process should be followed that includes education, suitability analyses, followed by implementation.
- D. Aon Acquisition of NFP – Bill Tugaw (Bill) reiterated NFP is not expecting any changes with the acquisition.

- E. Other Issues – Bill asked the Chair for topics that should be covered in the 457 University scheduled for August. Chair asked that mandatory changes of the Secure 2.0 Act, and any updates on the optional changes be included. Bill stated that his team will provide an agenda in advance to ensure everyone is on the same page.

VII. OTHER BUSINESS – Information/Action

- A. Secure 2.0 Working Group Update – Chair provided the Working Group Recommendation on Optional Provisions handout that details the provisions the Working Group considered. The Working Group had three meetings and discussed every optional change, including the current law, the new law, and effective dates. Voya provided input in terms of what other clients are doing and, in general, there has not been a lot of changes decided on or implemented yet. The Working Group is taking a conservative approach by only recommending to the Committee to implement the provision that eliminates the first of the month rule requirement.

On a motion duly made by Reid Yamashiro, seconded by Michael Golojuch, and unanimously carried, the Committee approved and accepted the Secure 2.0 Working Group recommendation to eliminate the first of the month rule.

- B. Resolution 2024-1 – Chair explained Resolution 2024-1 adopts the elimination of the first of the month rule, authorizes the Chair and staff to work with Voya to implement and administer the change and to amend and restate the Adoption Agreement, Plan Documents, and ByLaws, as needed, to update the provisions as reflected in the Resolution by or before December 31, 2029.

On a motion duly made by Michael Golojuch, seconded by Reid Yamashiro, and unanimously carried, the Committee adopted Resolution 2024-1.

VIII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action

Jennifer provided the administrative expenses for the period beginning February 23, 2024, with a balance of \$305,995.39 and ending May 23, 2024, with a balance of \$335,135.48. The 2024 first quarter reimbursement of \$43,750 from Voya was received. Expenses totaled \$14,609.91 and included \$12,375.00 for NFP 2024 first quarter Consulting Services, \$234.91 for the annual meeting lunch, \$600.00 2024 NAGDCA Annual Membership Dues, 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 Reid Yamashiro, seconded by Connie Kaneshiro, and unanimously carried, the Committee approved and accepted the Committee's administrative expense report as presented.

IX. EXECUTIVE SESSION (as required)

The Committee did not go into Executive Session.

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

457 University Training – FMB 10th Floor

Wednesday, August 28, 2024, 9:00 a.m. – 3:00 p.m.

Third Quarter – Mayor's Conference Room

Thursday, August 29, 2024, 8:30 a.m. – 10:30 a.m.

Fourth Quarter – Mayor’s Conference Room
Friday, November 22, 2024, 10:00 a.m. – 12:30 p.m.

XI. ADJOURNMENT

There being no further business, the meeting was adjourned at 11:31 a.m.

Respectfully submitted,

Jennifer Bishop
Secretary