

**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, August 25, 2023, in the Mayor’s Conference Room located at 530 South King Street, 3rd Floor, Honolulu, Hawaii 96813.

Present: Andrew Kawano (Department of Budget and Fiscal Services (BFS) Director & Committee Chair)
Reid Yamashiro (Deputy Corporation Counsel & Committee Member Designee for Corporation Counsel Dana Viola)
Florencio “Bugs” Baguio, Jr. (DHR Assistant Director & Committee Member Alternate for DHR Director Nola Miyasaki)
Chamara Silva (Managing Director’s Office Administrative Services Officer & Committee Member Designee for Managing Director Michael Formby)
Michael Golojuch (Committee Member (Retiree))
John Hashimoto (Committee Member (Active))

Excused: Nola Miyasaki (DHR Director & Committee Member)

Staff: Carrie Castle (BFS Deputy Director)
Lynn Wakatsuki (Deputy Corporation Counsel)
Jenny Tobin (DHR Benefits, Research, and Transactions Branch Chief)
Jennifer Bishop (BFS Administrative Services Officer & Deferred Compensation Plan Committee Administrator)

Guests: Bill Tugaw (NFP Retirement – Managing Director)
Matt Dickey (NFP Retirement – Senior Plan Advisor)
Vince Learned (NFP Retirement – Vice President, Advisory Services) (by webex)
Gavin Gruenberg (Voya – Senior Vice President, Institutional Clients)
Deirdre Jones (Voya – Vice President, Strategic Relationship Management)
Jared Nakamoto (Voya – Financial Advisor and Hawaii Case Manager)
Stacey Laxton (Voya – Communications Consultant)
Tom Boyle (Voya – Marketing Technology Consultant) (by webex)

I. CALL TO ORDER

With quorum present, Andrew Kawano (Chair) called the meeting to order at 9:59 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 26, 2023, 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 May 26, 2023, Quarterly Meeting minutes.

III. PUBLIC COMMENTS – Information

Chair asked if there was any public input. There was no one from the public in attendance.

IV. VOYA REPORT – Information/Action

- A. Dashboard Demonstration – Tom Boyle (Tom) provided a demonstration of several enhancements that Voya will be implementing to help employees save more for retirement. Tom provided an overview of the science behind the technology using behavioral finance to help employees achieve goals for all aspects of financial planning. Enhancements to the MyOrangeMoney experience include tools that consider other financial aspects outside of retirement, help with debt management, and the gap analysis tool.
- B. Quarterly Report – Deidre Jones (Deirdre) provided the following highlights for the quarter ending June 30, 2023.
 - 1. Client Health Review
 - a. Plan Statement – The quarter closed with more than \$911 million, which is up from \$812 million from the same quarter last year. While there were more distributions, there were also positive earnings for the quarter of over \$85 million.
 - b. Participation – There was a slight drop of participants at the end of 2nd quarter from 9,747 to 9,695 eligible participants, with 140 new accounts and 192 participants closing their accounts. The overall participation rate is at 65.4%.
 - c. Deferral Summary – There are 948 participants who defer on a percentage basis at a deferral rate of 9.2%, compared to the industry average of 6.8%.
 - d. Participant Engagement – Most participants are calling Jared and his team locally, others are also going onto the website or using Voya's mobile app rather than using the Call Center. Deirdre also provided information about a step-up authentication security enhancement scheduled for September and a data aggregator service enhancement, where Voya will only release certain information to third party vendors that the participant has authorized to access their information.
 - 2. Plan Activity
 - a. Transaction Activity Detail – There was over \$18 million in contributions, \$3 million in other activity, and over \$25 million in distributions at the end of the quarter resulting in a negative cash flow.
 - b. Activity Highlights – In looking at the past year, there has not been a lot of differences. Deirdre noted that the Plan has TD Ameritrade as a brokerage option for those who want to invest outside of the investment options in the Plan. TD Ameritrade was acquired by Schwab and their platforms are merging in September. She clarified that there will be no fee changes.
 - c. Current Participation and Enrollment Statistics – 16% of participants have elected a percentage deferral. New participants have an average deferral rate of 8.2%, which is higher than the industry average.
 - d. Participation Balance – The average balance is \$94,000, which is above the benchmark of \$46,000 for participants in a similar governmental sector.
 - e. Diversification – The average number of participants using asset allocation funds is about 3.3%. Deirdre suggested providing participants with education about target date funds and stable value funds as some participants may be in multiple target date funds or using conflicting strategies.

- f. Managed Accounts – For a competitive fee, participants are able to have Morningstar actively manage their account. There are currently over \$51 million, or 5.6%, of the total plan assets being managed by Morningstar. Deirdre provided an update of the transition from Morningstar to Voya Retirement Advisors (VRA) powered by Morningstar, which is targeted for December, noting the fee of 35 basis points will not change.

Deirdre also noted that the top three fund options in terms of percentage of assets are the Stable Value Fund at 16.3%, the American Century Ultra Fund at 13.7% and the American Funds American Mutual Fund at 9.4%.

C. Stabilizer Update – Gavin Gruenberg (Gavin) provided the following highlights for the quarter ending June 30, 2023.

1. Market Review – The market environments in fixed income continues to be difficult. Volatility in the U.S. bond market continued during the quarter. The Bloomberg U.S. Aggregate Bank Index lost -0.84% while the 10-year U.S. Treasury yield rose from 3.43% to 3.81% by quarter end, and by yesterday's close rose up to 4.23%. This increase in rates makes for a very difficult environment for a bond manager because when yields increase, then the price of the bond goes down, having an inverse relationship. Sean Banai (Sean) and his team continue to outperform the benchmark, but overall absolute returns have been negative. The only areas with positive returns were in High Yield and Emerging Markets. The Stable Value fund has small allocation in those sectors.
2. Performance Summary – The portfolio gross return at -0.42% outperformed the benchmark of -0.75%. Because of the rise in rates, Fixed Income has been really tough the last couple of years.
3. Portfolio Characteristics – The duration of the portfolio is at 4.57 years, which is about the same as the benchmark. The Average Quality of the portfolio has gone down to AA, which is still very good. Yield to Maturity has gone up since the last quarter to 5.77%. Gavin covered the Quality Comparison chart that shows an underweight in Treasuries/Cash of 16.6% versus almost 40% for the benchmark. The BBB is the higher yielding investment in the portfolio, about 15% which helped with returns in this current environment. Typically, Sean and his team will not buy anything less than BBB, but may purchase a fixed income instrument at BBB that later drifts down to BB, but if Sean still feels confident in that security we will hold onto it. Chair asked Gavin to explain what OAS is and whether the variation of 124 versus the benchmark of 41 is good or bad. Gavin stated that he would have to get back to the Committee. Matt Dickey (Matt) noted that OAS is an abbreviation for Option Adjusted Spread.

NOTE: After the meeting, Gavin provided the following update: "Sean Banai, Portfolio Manager for Stabilizer, provided the following definition and commentary to share with the Committee: Option Adjusted Spread is the spread of fixed income securities over the risk-free rate or Treasuries. The Bloomberg Intermediate Aggregate benchmark has about 40% of Treasuries. Treasuries have no spread. We are underweight Treasuries and overweight sectors that offer spread. Option Adjusted Spread and Yield to Maturity are very similar. As the portfolio increases the allocation to spread product (i.e. Corporate bonds, Asset Back securities, etc.), the OAS or spread vs. the benchmark increases. This is a good estimate of extra income the portfolio is generating vs. investing solely in Treasuries. Currently, the

portfolio has about 96 basis points of yield advantage vs. the benchmark and about 83 basis points of spread advantage (OAS) vs. the benchmark. I would also add that most of the OAS is being generated from high quality assets. We only have a 2% allocation to high yield corporate bonds.”

4. Asset Allocation - Asset allocation is pretty much in line with the benchmarks, in terms of agency mortgages with higher allocation to asset back securities. That has attributed positively to returns. Commercial mortgage backed securities are at 6.2 versus 2.1 on the benchmark. There is a higher allocation to investment grade corporates as well as non-agency mortgages. The non-agency allocation does not exist in the benchmark and it is something that Voya has done differently in the portfolio that has been helpful.

Florencio Baguio, Jr., (Bugs) asked about the difference between the US Treasury and Cash versus the benchmark. Gavin explained that the benchmark is heavily allocated to Treasuries at 40%, but that is not what Voya has done which has helped the portfolio. Yields continue to run up in Treasuries and prices comes down, creating negative absolute return for the benchmark. Our absolute return is also negative, but not as much as the benchmark because of the different allocation in this area.

Bill Tugaw (Bill) asked whether Commercial Mortgage Backed Securities (CMBS) have changed their structure with vacancies in office space and malls shutting down. Gavin noted that it is certainly a concern that they are carefully watching. The allocation in CMBS is relatively small at 6.2%, but Sean and his team are paying close attention.

Gavin noted that as of July 31, 2023, the Market Value of all underlying bonds in the portfolio was at \$157.9 million and the book value was \$176 million. The negative difference is because of the increase in yields, driving down the price of the bonds in the portfolio. The portfolio's market to book ratio has been around 89% to 91% for the last six months and is doing better than the benchmark in terms of investment return relative to the benchmark. The portfolio and the yield that is provided to participants is designed so that it takes into account the fact that the Market Value is below Book and to bring that back to par over a duration of about 4.5 years. Bill added that the other Stable Value accounts that NFP's other clients are also at around 90% market to book ratio.

- D. Participant Communication & Education Update – Stacy Laxton provided the following highlights for the quarter ending June 30, 2023.

1. Personalized Messaging

- a. Save More Results – This communication goes out every six months as a nudge to get participants to consider increasing their contribution. As a result, 14 more individuals increased their contributions. This year, there are 91 participants saving an average of 2.1% more and 280 individuals saving an average of \$40 more per pay period. 14% of the targeted audience took action after opening the email, which is better than the overall government plans average of 12%.
- b. Diversification Results – This personalized message was sent to 11 more individuals. This will be an area of focus for 2024 to educate participants about the importance of diversifying their accounts.
- c. Restart Results – There was a communication that went out in June that will be reported on in November.

- d. Financial Wellness/Education – This focuses on different content that goes out on a quarterly basis and encourages individuals to log into their account and take that financial wellness assessment.
 - e. Overall Financial Wellness Messaging – For all of the personalized messages, there is a 64% action rate of participants engaging by clicking through the emails, which exceeds the benchmark of 46%.
2. Participant Engagement
- a. Web/Mobile/Call Center – The engagement with the call center has remained the same, but all communications drive individuals to call Jared and his team, and so this is not a concern. Engagement with the mobile app, and eDelivery stayed the same as before, but web registration increased by 1% and now 55% of participants have completed the web registration.
 - b. MyOrange Money – 60% or 133 of participants utilized this tool that resulted in 43 participants changing their deferral rate by more than \$238 per pay period, and 14 participants changed a fund allocation.
 - c. Personal Financial Dashboard – 6 of 71 utilized this tool resulting in an action rate of 8%.
 - d. Financial Wellness – The assessment is based on core questions regarding protection, spending and saving, emergency fund, retirement, debt, and other goals. 9 out of 10 individuals that take the assessment have or plan to take some sort of action. 469 individuals started the Financial Wellness Assessment and 358 completed the assessment to view the dashboard after completing assessment. Across the board from all plans, protection, emergency fund and retirement tend to be the categories participants have the least confidence and this holds true for Honolulu's participants. However, both emergency fund and retirement confidence went up by 1% this past quarter.
3. 2023 Communication Strategy – There is a lot going on this year, with additional communications regarding the Health and Wealth Fair (Fair), the Secure 2.0 Roth Catchup, VRA to Morningstar transition.
4. eDelivery Campaign – This campaign was mailed to 2,452 individuals that had not signed up for eDelivery and resulted in 138 individuals signing up for eDelivery.
5. Beneficiary Campaign – This campaign was emailed to 136 participants and mailed to 175 participants that did not have a beneficiary on file, and resulted 14 individuals adding a beneficiary.

E. Other Issues – None

On a motion duly made by Michael Golojuch, seconded by Florencio Baguio Jr., and unanimously carried, the Committee accepted the Voya quarterly report.

V. NFP CONSULTING REPORT – Information / Action

- A. Watch List Updates – Vince Learned (Vince) provided the following highlights for the second quarter.
 - 1. Market Review – U.S. equity markets rallied in the second quarter, rising 8.4% on continued moderating inflation. The Consumer Price Index peaked last June and has since come down. International equities rose to a lesser extent, posting a 2.4% gain over the quarter. The broad U.S. fixed income market returned -0.8% over the quarter. The U.S. labor market remained tight during the quarter with unemployment at 3.6% in June. Large cap growth stocks had a strong quarter, with the Russell 1000

Growth up 12.8% and outperformed the Russell 1000 Value by over 8 percentage points. The Federal Reserve raised interest rates 25 basis points during the second quarter, and will continue to analyze incoming data on inflation in deciding whether to continue its interest rate hiking regime.

1. U.S. Equity – This quarter, growth outperformed value. Large cap growth was the best performer up 12.8%, large value up 4.1%, and small value up 3.2%.
2. International Equity – Large Value did the best internationally up 3.9%, comparatively to Large Cap Growth which was up 3.2%. Emerging Markets were up 0.9% International vs Domestic shifted back to Domestic Equities this quarter. International Equities had previously dominated the past 2 quarters and had outperformed to reverse the course.
3. Fixed Income – As of June 30, the yield curve continues to be inverted. The inversion narrows a bit with the rates on the long end starting to creep up. High Yield bond markets did manage a gain of 1.7%.
4. Market Review Chart of the Quarter – Vince reviewed the S&P 500 Index Concentration chart, showing that the top 10 stocks have done so well, they now account for 30% of the value of that index. These stocks have a Price/Earnings (P/E) ratio of more than of 29. If the top 10 stocks are taken out of consideration, the P/E ratio drops to 17.8
5. Scorecard Methodology – A review of the Scorecard Methodology was discussed. The scoring system includes pass/fail criteria on a scale of 0 to 10 (10 being best). Eighty percent of the fund's score is quantitative, incorporating Modern Portfolio Theory statistics and peer group rankings. The other 20 percent of the score is qualitative. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered in the qualitative review. Active and asset allocation strategies are evaluated over a five-year time period and passive strategies are evaluated over a three-year time period. The Scorecard Point System is as follows: Acceptable: 7-10 points; Watch List: 5-6 point; Review: 0-4 points.
6. Watch List - Vince provided the following update on the Watch List funds.
 - a. Virtus Ceredex Mid Cap Value Equity – This fund scored a 5 this past quarter. At the last meeting, it was discussed how this fund dropped from a score of 10 to a score of 5 in between 2022 Q4 and 2023 Q1. A few of the scoring metrics are narrowly missed, including the style drift, the up/down, and information ratio. This is the second quarter this fund has scored below the acceptable range, and NFP recommends this fund remain on the Watch List.
 - b. American Funds Euro Pacific Growth R6 (“American Funds”) - This fund continues to score a 6, and has been on the Watch List for more than 4 consecutive quarters, making it a candidate for removal. Vince recapped the discussion from the last quarterly meeting and also covered an asset class review that included two potential replacement funds: MFS International Growth R6 (“MFS Fund”) and the Fidelity International Capital Appreciation K6 (Fidelity Fund), both of which had better performance than American Funds almost across the board. The MFS Fund has a 71 basis point expense, and Fidelity Fund has a 65 basis point expense, while the American Funds is at 47 basis points; however, the performance noted is net of expenses.

Vince recommended a fund that is scoring well, has better absolute performance, and complements the international large cap value fund with a true international large cap growth fund and recommends replacing American Funds with the MFS

Funds because of score of 10 and the strong peer group rankings. Chair noted the American Funds would score an 8 if the index was modified to include similar funds with emerging markets, but even so the MFS Fund is still scoring better over the last 4 quarters. Bill noted that American Funds has been on the Watch List for 7 quarters, and Investment Policy Statement suggests funds be considered for replacement if the fund scores below a 7 for four consecutive quarters or for five out the last eight quarters.

On a motion duly made by John Hashimoto, seconded by Michael Golojuch, and unanimously carried, the Committee accepted and approved to accept NFP's watch list report and change funds from American Funds Europacific Growth Fund R6 to MFS International Growth R6 Fund.

- A. Legislative and Regulatory Updates – Matt announced that the Internal Revenue Service (IRS) sent out notification that the effective date of the Secure 2.0 Act Roth Catch-Up Provision has been pushed back to 2026. Matt recommended a development of a checklist of mandatory and optional Secure 2.0 Act provisions. Bill stated that NFP could help checklist that Lynn Wakatsuki has started for a discussion in an upcoming meeting. Chair noted the staffs' schedule with the Fair coming up and stated that the Secure 2.0 checklist and discussion will be included on the agenda in the first quarter of 2024.
- B. Other Issues – none.

VI. OTHER BUSINESS – Information / Action

- A. Health and Wealth Fair Update – Jenny Tobin provided the following updates to the Committee.
 - 1. Biometric Station – It was brought to planning team's attention that the Deferred Compensation Plan sits in a unique kind of situation, and having a biometric station and vaccines might potentially open the Plan to liability. As such the team is considering a scaled down mini-clinic with non-invasive measures of blood pressure, BMI, diabetes risk.
 - 2. Notice of the Mayor's approval of 2 hours of paid time, operations permitting, to attend the Fair will go out to all the City Departments, as well as the Save the Date flyer that Stacey Laxton created.
 - 3. Registration information will be sent out to all City employees and Plan participants sometime during the first week of September, with the deadline to register being in early October to allow for sufficient time to order mini-bentos to be distributed to Participant attendees at the Fair. All Committee members were encouraged to attend the Fair.

VII. REPORT ON ADMINISTRATIVE EXPENSES – Information / Action

Jennifer reviewed the quarterly expense report. The quarter started with a balance of \$246,806.39. Receipts included the 2nd quarter Voya reimbursement of \$43,750. Expenses totaled \$13,627.01 and included NFP Consulting Service payment for the 2nd quarter payment as well for air fare for Bugs' travel to NAGDCA Annual Conference and Mike's registration fee for the NAGDCA Conference. The quarter ends with a balance of \$276,929.38.

On a motion duly made by Chamara Silva, seconded by Reid Yamashiro, 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. ANNOUNCEMENTS

The committee did not have any announcements.

X. NEXT MEETING DATES – Information

Fourth Quarter – Mayor's Conference Room on Friday, November 17, 2023 at 9:30am – 12:00pm.

XI. ADJOURNMENT

There being no further business, the meeting was adjourned at 11:25 a.m.

Respectfully submitted,

Jennifer Bishop
Secretary